THE IMPACT OF GROUP LENDING PROGRAMS ON PAYMENT OF MICRO-LOANS IN TANZANIA: A CASE OF MALAIKA FINANCIAL PROGRAM IN CRDB-MICROFINANCE AND WOMEN ENTREPRENEURS FINANCIAL PROGRAM IN NMB-MICROFINANCE

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CERTIFICATION

The undersigned certifies that he has read and hereby recommends for acceptance by The Open University of Tanzania a dissertation entitled: **"*The Impact of Group Lending Programs on Payment of Micro-Loans in Tanzania: A Case of Malaika Financial Program in CRDB-Microfinance and Women Entrepreneurs Financial Program in NMB-Microfinance*".** In partial fulfillment of the requirements for the award of degree of Master of Business Administration of The Open University of Tanzania.

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Dr. Saganga Kapaya

(Supervisor)

……………………………

Date

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DECLARATION

I, **Janeth Joshua Msangi,** declare that, the work presented in this dissertation is original. It has never been presented to any other University or Institution. Where other people's works have been used, references have been provided. It is in this regard that I declare this work as originally mine. It is hereby presented in partial fulfillment of the requirement for the Degree of Master of Business Administration of The Open University of Tanzania.

…………………………….

Signature

…………………………….

Date

DEDICATION

Foremost I dedicate this dissertation to Almighty God my creator, my source of creativeness, wisdom and good health. A special feeling of gratitude goes to my adorable husband Mr. Zacharia E. who has encouraged me all the way and whose encouragement made sure that I give all it takes to finish the mission. Lastly, I dedicate this work to my children who have been affected in every way possible by my masters program. Thank you and God bless you.

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ABSTRACT

The study focused on the women financial programs offered by CRDB-microfinance and NMB-microfinance. Specifically, the study analysed effects of group lending to non-performing loans, investigated benefits and challenges of using group lending, identified factors influencing microloans repayment in group lending programs and examined how microfinance institutions monitor and control group borrowers. The study used descriptive study design and it was both quantitative and qualitative in nature. Data was collected from the nine and 13 branches of CRDB and NMB respectively. The study founded that Group Lending Program (GLP) had low risk of non-performing loan. 90% of all group-borrowers could repay their loan successfully unlike in Individual Lending Program (ILP) where about 50% of the borrowers could default. The benefits of GLP were low cost of recover unpaid loan, low cost of provide financial training to the borrowers, low cost of monitor repayment and low default risk. The challenges of GLP were high cost of loan processing and obtaining clients. Factors that significantly predict repayment of the microloans in GLP were loan amount given and grace period. Too little and too much loan amount was very risky in repayment ability of the borrowers. The microfinance institutions could ensure proper repayment of group loans through use of debt collectors, deduction of money from groups' saving accounts, accuse delinquent group members to the law court and provision of financial trainings to the group members. The study concluded that it was hard for the group loans to face serious problem of loan default because each member in the group become the guarantor of other group members. Hence, group lending program was effective in ensure smooth repayment of the loans from the low-income earners.

Keywords: *Women financial programs, CRDB-microfinance and NMB-microfinance*

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LIST OF ABBREVIATIONS

BOT	Bank of Tanzania
CBs	Commercial Banks
CRDB	Credit for Rural Development Bank
GLP	Group Lending Program
ILP	Individual Lending Program
MFI	Microfinance Institutions
NMB	National Microfinance Bank
NPLs	Non-Performing Loans
SDGs	Sustainable Development Goals
SPSS	Statistical Package for Social Science
STD	Standard deviation
TSH	Tanzania Shillings
WEFP	Women Entrepreneurs Financial Program
WFP	Women Financial Program

CHAPTER ONE

OVERVIEW OF THE STUDY

1.1 Introduction and Background of the Study

Microfinance institutions are widely known as the financial institution that provides microfinance services to a wide range of significant number of people; conducting micro and small businesses (Ledgerwood,1999; Marconi and Mosley, 2004). Bage (2014) argued that microfinance services are the breakthrough for the poor and middle-income people to raise capital for their small and micro business activities. According to UNCDF (2014) microloans have three major benefits to the development which are to help poor individuals to meet their basic needs and protection from economic risks, improvement of households' economic welfare and empowerment of women by supporting their economy participation.

Recently, Commercial Banks (CBs) in the different countries (especially developing countries) have been organizing microcredit services to the lower income earners due to increase numbers of potential borrowers within the sphere of micro and small entrepreneurship. This is hand in hand with support of economic development in developing countries. A good example is Brac-Bank in India, Bancosol-Bank in Bolivia and Grameen-bank in Bangladesh. These commercial banks have been frequently reported to help micro and small entrepreneurs to finance their businesses (Yunus, 2018).

Microfinance programs have been promoted all over the world as a way for small businesses to gain access to additional operational funds through collateral-free procedures and low interest rates (Mahmud, A and Tulla, 2020). One of the most strategies developed by the Chinese and Japan to combat poverty includes the availability and accessibility of microfinance services to supporting the efforts of small and medium-sized enterprises. This was in the ground of addressing issues such as increasing income levels and creation of employment opportunities in their community (Zhang, Q and Posso, 2019). Similarly, Icíar, et al., (2020) stated that microfinance programs have been implemented in the Scandinavian nations (Sweden, Norway, Finland, Denmark, and Iceland) to improve household socioeconomic well-being and so contribute in the nations' overall growth.

It is estimates that microfinance programs serve about 10 to 18 million households in Southern Sahara Africa; and the number is expected to expand and reach an approximate of 50 million poor households in Southern Sahara by 2025 according to World Bank report of 2015 (World Bank, 2015). This indicates there is the need of having sustainable microfinance programs that can well support the growing population financially.

The introduction of microloan in developing countries especially African countries have been of a big help as most of its clients are living in poverty and have low incomes (Bakhtiari, 2017).These being the fast microloan have managed to change the perception that low-income earners are not credit worth. Vast economic and development literature reports that some locally oriented CBs in Africa offer microloans to lower income earners, particular to women gender (Mohindra, et al., 2018; Noreen and Saif, 2018). The risk of provide credit service to this group of people is high and carefully mechanism need to be put in place to deal with this group.

Microloan are provided by using different techniques which were adopted through various lending techniques, group lending approach/program being the most common technique (Christen, et. al, 2017). Group Lending Programs (GLPs) started in Grameen bank in the 1970’s since then majority of the Microfinance Institutions (MFIs) around the world have used applied this program to provide microloans to the low-income population (Karlan, 2007). GLPs developed due to the expected low level of defaults and successful repayment rates whereby members agree on joint liability for individual loans, dynamic incentives, regular repayment schedules and collateral substitute (Morduch, 2009).

Compared to Individual Lending Programs (ILPs) which is also used by MFIsto provide microloans to individual households based on their ability to provide assurance of repayment and some level of security; GLPs have been widely used in the developing countries where MFIs are facing many problems of imperfect information and transaction cost associate with serving poor people (Varghese, 2011). According to Ghatak (2015) and Noreen and Saif (2018) GLP addressing the problem of imperfect information, collateral and transaction costs that most MFIs in developing countries are facing.The preference of group lending by the MFIs according to Kessy and Urio (2006) based on the reliable solid repayment of microloans that extend to their borrowers in groups.

Microfinance services were introduced in Tanzania in the beginning of 1995 (BOT, 2002) and they were basically linked to women and poverty alleviation. The MFIs in Tanzania, which are mainly categorized into solidarity groups, and individual lending (BOT, 2002), have adopted different lending strategies in the provision of microloans. Most of the MFIs in Tanzania preferred group lending than individual lending approach. Apart from specialized microfinance institutions in Tanzania, CBs have also extended their credit services to the micro and small entrepreneurs. This has been so, in order to increase their market value as well as increase availability of credit services to this group. CRDB, NMB and EXIM banks are some of the banks with special microfinance programs for micro and small entrepreneurs.

Yet, according to Ishii (2017) financial institutions in many developing countries, including Tanzania are not always profit maximizing due to many unprofitable loans; the non-performing loans in these institutions. The rate of non-performing loans held by Tanzania’s financial institutions in 20016/2017 fiscal year was 16.7%, which places the country among the countries with a relatively high degree of inefficiency in the financial system. This has also been affirmed by Salia and Mbwambo (2017) who argued that Tanzanian financial institutions suffer from non-performing loans (NPLs). It was thus the essence of this study to establish the impact of the group-lending program on repayment of the microloans in Tanzania.

1.2 Problem Statement

Although GLPs have been considered as the solution to the problem of loan defaults and late loan repayment; in some circumstances, some researchers have found no relationship between GLPs and reduction of non-performing loans in the low economic setting. GLPs have been forming a substantial amount of the assets of lending financial institutions because it is the predominate source of interest income. However, when loans go bad, they tend to have some serious effects on the financial health of institutions and the country at large.

A study by Disney et. al., (2018) noted presence of non-performing loans in MFIs in Malawi and Zimbabwe even after the use of group lending approach; the loans were not repaid on time. Zeller (2018) had also highlighted that in this decade GLPs have become one of the most viable ways of helping the poor to get access to loans by both donor community and the MFIs in the developing societies but huge amount of capital in these MFIs are bad debts.

Based on the information presented in the review of the literature in this study, some of the microfinance institutions have been targeting large enterprises with individual loans and locating small amount of their lending money to micro and small entrepreneurs through GLPs. This being the fact, it seemed that GLPs might have challenges in operating or management of microfinance institution had not yet realized the value of GLPs.

Faisal et, al, (2015) highlighted that some group-borrowers in African countries do not repay the full amount of their loans or they do not repay at all the loan amount that they received from microfinance institutions. Kessy and Urio (2006) together with Ngalemwa and Urassa (2017) argued that one of the main issue facing MFIs in

Tanzania is the problem of repayment of the loan. Due to this, it was crucial for the researcher to study the impact of group lending in the repayment of microloans, especially among women.

1.3 Objective of the Study

1.3.1 General Objectives

The general objective of the study was to assess the impact of group lending programs in relation to repayment of microloans in Tanzania. The study focused on the Women Financial Programs (WFP) offered by CRDB-microfinance and Women Entrepreneurs Financial Program (WEFP) offered NMB-microfinance.

1.3.2 Specific Objectives

Specific objectives of this study were as follows: -

i) To analyse the effects of group lending programs to non-performing loans of microfinance institutions

ii) To investigate benefits and challenges of using group lending programs in processing and repayment of microloans

iii) To identify factors influencing microloans repayment in group lending programs

iv) To examine how microfinance institutions monitor and control group borrowers for the effective repayment of microloans.

1.3.3 Research Questions

Specific research questions were the following: -

i) What are the effects of group lending programs to the non performing microloans of microfinance institutions?

ii) What are the benefits and challenges of group lending programs in processing and repayment of microloans?

iii) What are the factors influencing the repayment of microloans by group lending programs?

iv) How do the microfinance institutions monitor and control group borrowers for the effective repayment of microloans?

1.4 Significance of the Study

The findings attract significant capacities on the subject by providing meaningful suggestions on possible solutions for achieving greater loan repayment rates with microfinance institutions/programs.

The study provides significant suggestions from its findings that are beneficial to different schemes within microfinance institutions to effectively deal with the issues related to GLP in microfinance institutions.

Policy makers especially the Ministry of Finance is also benefiting from the information put forward by this study since it provides deeper understanding of the problems facing microfinance institutions in recovering and managing their microloans. Thus, the study acts as the useful guide to the formulation of realistic credit policies for the development of the economy.

Furthermore, the study contributes the bases of knowledge in the field if microfinance for future studies. The study is available for referencing to other scholars who are interested in conduct studies in the same field.

1.5 Organization of the Study

The study was organized in the following format:

Chapter 1: This chapter generally included the introduction of the study; consisting the background and problem statement of the study. It also carried the general objectives, specific objectives, research questions, significance of the study and the organization of the study.

Chapter 2: In this chapter, the study covered the review of the literature work done by other researchers on the issues related to the impact of GLPs on repayment of microloan among microfinance institutions and Banks. The chapter contains theories that form the bases of this study and conceptual framework of the study.

Chapter 3: The methodology of the study was given in this chapter. This involved study strategy, design, population, sample design, methods of data collection and analysis, validity and reliability of the study.

Chapter 4: This is the main part of the study, which discussed in detail and presents the findings from collected data. The chapter provided findings for each study specific objectives.

Chapter 5: This is the final chapter of the study bearing the summary, recommendation and conclusion from the research findings. The chapter also contains room for further studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Literature review refers to the critical analysis of part of the published knowledge by summarizing, classification and comparing knowledge from previous studies. The review of literature enabled researcher to draw some conclusion that guided conduction of this study.

2.2 Theoretical Definition

Theoretical definition gives the meaning of the key words that appear most frequently in the study. The most popular terms in this research were group lending, loan and microfinance institution.

2.2.1 Group Lending

Group lending is the provision of financial assistance to a group whereby the members act as the guarantors of the provided loan for one another (Ahlin and Townsend, 2007; Marguerite, 2011). If one borrower from the group defaults, the guarantors who are other members of the group will have to contribute equally towards clearing the outstanding installments (Bazinzi, et al., 2013). The study defined group lending as a group of people who acts as the guarantors for the provided loan to the members of that particular group or as a method that used to by microfinance institutions to advance loan in the group.

2.2.2 Loan

Loan can be referred as the debt provided by lender to a borrower at an interest rate, which is evidenced by a note specifying the principal amount, interest rate, and the date of repayment (Signoriello, 2011). Loan can also be defined as the credit, which is extended to a business or borrower by the lender if after a certain period principal will be repayable with or without interest (Saulnier and Jacoby, 2012). The study defined loan as the credit, which is provided to a borrower by the lender. It has specified principal amount, interest rate and the date of repayment.

2.2.3 Microfinance Institutions

Microfinance Institutions (MFIs) can be referred to as the financial institutions that provide financial services such as loans, deposits, payment services, money transfer and insurance services to the low-income earners, poor and very poor households (Otero, 2009). Schreiner (2016) defined microfinance as the formal scheme designed to improve the well-being of poor unbanked households by providing them with access to saving services and microloans. The study adopted definition of MFIs that refers MFIs as the formal schemed developed for the purpose of provide financial services such as savings and loans to the low-income and poor unbanked people.

2.3 Theoretical Review

A theory can be referred to as the set of views of a person or a group of people that explain the situation that exist and predict about the future. According to Kerlinger (2009) theories present a systematic view of phenomenon by specifying relations about empirical reality among variables using a set of interrelated variables, definitions and propositions. The suitable theories in exploring the idea of this study were the moral hazard and the adverse selection.

2.3.1 Moral Hazard Theory

This theory explains situation whereby the behaviors of one individual tend to change to the detriment of another person after the transaction has taken place. According to Holmstrom (1979) moral hazard is what arise when people are involved in a risk-sharing situation under the condition that the privately taken actions may affect the probability distribution of the outcome. This is the situation, which is common in insurance, labor contract and delegation of decision-making. This theory based on the assumption of asymmetry of information among the members of the group because the actions of individuals cannot be observed and thus results to contradictions.

Moral hazard can be categorized into two types when involved in asymmetric information, which are ex-ante moral hazard and ex-post moral hazard. Ex-ante moral hazard can be known as the change in the behavior of a person prior to outcome of the random effect and the ex-post moral hazard can be referred to as the condition, which involves behavior after the outcome. Holmstrom (ibid) suggested the use if this information in the contract and investment of resources into monitoring of actions as the way of overcoming the problem. In this case, the first best solution in the process of monitoring can be achieved through application of forcing contract that penalizes the dysfunctional behavior.

Krugman (2009) also defined moral hazard as the situation in which one individual makes decision concerning how much risk is going to be incurred while another person bears the risk if things go badly. He based on the assumption that individuals will take more risks under the situation when their behavior is altered. This can occur under the circumstance that there is information asymmetry and the contract affects the behavior of two different agents. Krugman (ibid) noted a build in incentives and penalize of bad behavior as the ways in which moral hazard can be remedy.

According to this theory the researcher was able to understand the situations in which behavior of individuals tend to change after the transaction have been done or when they have already been given a loan. It arises when individuals are involved in a risk-sharing situation such as group lending situation. In other words, it can be noted that moral hazard can happen when members change their behaviour and do not repay the loan thus result to a default risk. The hypothesis assumed under this theory was the following: -

Hypothesis H1: Significant number of group borrowers tends to change behavior and result to the loan repayment problems.

2.3.2 Adverse Selection Theory

The adverse selection theory of credit markets originates with the paper by Stiglitz and Weiss (1981) as cited by Whincop (2011) in which they explained why some loan applications are accepted and others are rejected. As discussed by Stiglitz and Weiss (*ibid*), borrowers have inside information about the nature of the project they want to finance and may reap substantial rewards from talking up their projects.

Moreover, while the lender gains if the loan is repaid with interest, it is not a beneficiary of any upside gain in the firm's performance; it is, however, a victim of any downside losses in the case of default.

Lenders like MFIs face difficulties in discriminating between good and bad credit risks and simply exclude certain group of borrowers irrespective of being some potential borrower within the excluded group or lender can raise interest rate to the group they think is not potential borrower. This exclusion and increasing the credit's price to some group of borrowers lead to adverse selection; rather than driving potential non payers out of the market, there may be systematic reasons why some of the highest risk firms are those willing to pay high interest rates (Festo, 2009).

This theory enabled the researcher to study the criteria used by microfinance institutions in the selection of clients (whether individual client or group of clients) in order to minimize risk. In addition, the theory motivate researcher to study how the borrowing groups are screened and supervised by MFIs. The hypothesis for this theory was the following: -

Hypothesis H2: Group lending program helped to lower adverse selection and integrate previously excluded low-income individuals in the credit market.

2.4 Empirical Review

There are a number of researches, surveys and papers conducted in this topic. They have been conducted in varied dimensions and across various sectors of learning.

This section provided a general review of the empirical evidence regarding GLP performed by microfinance institutions and commercial banks.

2.4.1 Benefits and Challenges of GLP

Coleman (2009) investigated the impacts of group lending in Northeast Thailand. The researcher used survey sample from village bank members from eight treatment villages with bank support, village bank members from six controlled villages without bank support and non-members from both types of villages in the collection of data. The study found that loan programs have little problems although they have naive impact of estimate that fails to account for self-selection and endogenous program placement that was significantly overestimate. The researcher suggested on more research to be undertaken to determine whether access to village bank credit allows households to smooth consumption across seasons despite large seasonal fluctuation in income. The study concluded that the impacts of group lending are significantly on physical assets, savings, productions, sales, labor time and measures of expenditures on health care and education.

Nawai and shariff (2013) conducted a study on loan repayment problems in microfinance program that use group lending approach in Malaysia. They reported that group borrowers face difficulties in repayment of the microfinance loans because of competition among group members, low product price, decrease of customer, unpredictable prices such as crises, illness or death of a member.

Ghatak (2015) analyzed how group lending programs use joint liability to utilize local information that borrowers among the members of the group have through self-selection of group members in a group formation process. The researcher collected his data through group formation game under group lending by considering the groups with two members along with the literature review. The study found that group lending makes the effective cost of borrowing become lower to safer borrowers with safer partners. The study recommended on the improvement of the pool of borrowers in group lending which is shown to increase repayment rates and welfare. The study concluded on the theory which explains how joint-liability credit contracts that are used by group lending system can achieve high repayment rates even when borrowers have no conventional collateral to offer. It was concluded by Qureshi (2009) that the group-based lending by microfinance institutions is the important object in which individuals could obtain loan without collateral or security.

Noreen and Saif (2018) conducted a study on group loans repayment problems of women borrowers to examine the repayment problems of women borrowers of microfinance in Pakistan. The researchers collected their primary data through face-to-face interview methodology on a sample of 100 correspondents comprising of 20 groups. The study found that the groups which were formed by borrowers themselves had less repayment problems compare to the groups formed by lenders. On the other hand, the groups with members of different levels of education and income had lesser repayment problems compare to the groups with member of equal education and income level. Faisal, et al (2015) found that group with different genders were able to repay the loan compare with group of single gender. Noreen and Saif (2018) recommended for the extension of higher credit limits to socially heterogeneous groups. According to (Basil and Ngwu, 2005) the level of trust-worthiness among group members, their social ties and formation of groups plays a major role in applying for microfinance loans.

2.4.2 Factors Influencing Loan Repayment

Researchers have noted various factors, which affect loan repayments among the group members. Nawai and sheriff (2013) found that the factors that are affecting the ability of borrowers to repay their loans are business factors, borrower’s attitude on loans, other debt burden, and amount of loan received, business experience, business formality and the family background. Besley and Coates (2015) conducted a study on group lending, repayment incentives and social collateral to investigate the impacts of repayment rate of lending to groups which are made jointly liable for repayment in Bangladesh. The study found that there is a positive and negative aspect in group lending. The study emphasized on the harness of social collateral, which can serve to mitigate the negative effects of group lending. It also concluded that group borrower should fear the penalties imposed by bank on defaults therefore, group members should incur the wrath of other group members.

Namuyaga (2009) investigated the client perception of loan default management in group lending by examining credit methodologies, group guarantee system on loan default and administrative structure in the groups in Uganda Villages. The researcher used cross sectional and descriptive research design with qualitative and quantitative methods where he surveyed 113 clients and 12 executives of FINCA and MIDCs Microfinance institutions. The study found that group guarantee is effective to discourage loan defaults in both formal and informal credit institutions. The study recommended for they use of the group guarantee system as the one of the methods to prevent default risk in formal and informal MFIs operating in villages.

Rodriguez (2017) conducted a study on group and individual microcredit contract with dynamic numerical analysis to examine how terms and conditions of credit contracts with major characteristic found in MFI systems can influence the investment and repayment decisions. The study found that microfinance institutions have developed dynamic programming models for individual and group loan contracts, which generate repayment frontiers for specific lending methodologies. It was reported that loan repayment by both individual and group borrowers were influenced duration of the loan, interest rate, association of incentive, impose of strictly repayment discipline, termination of credit relationship or seizing of assets as well as holding of collateral. Namuyaga (2009) demonstrated that if member loan sizes are not a function derived from individual member's wealth, then repayment performance may be better with individuals rather than when it is with group loans.

Paxton (2016) conducted a study on determinants of successful group loan repayment for the purpose of determining the successful group loan repayment system. The researcher surveyed 140 groups in Burkina Faso and used mean and covariance structural model to analyze the determinants of repayment problems along with the literature review. The study found that there is the highest possibility of loan repayment in urban homogeneous groups with good leadership and training prior to history of working in groups. The study concluded that it is possible to provide a large number of low-income individuals with financial services using a group lending method. The researcher also suggested that there should be an inherent stability in the financial technology in peer pressure and group solidarity as an instrument for attaining favorable repayment rates.

2.4.3 Monitoring and Control of GLP

Qureshi (2009) conducted a study on managing non-repayment risk through group-based lending in microfinance institution for the aim of analyzing how microfinance institutions are managing their non-repayment risk by using group-based lending approach in Pakistan. The researcher used case study and deductive approach methods to collect data. The study found that the microfinance institutions could be able to minimize their non-repayment risk by combining the diversified members in a group under group-based lending approach. The study recommended on the diversification on the occupation of groups of borrowers to lead microfinance institutions in the safer side.

Hermes et al. (2015) conducted a study on the monitoring of peer groups, social ties and moral hazard of group lending in Eritrea where he used extensive questionnaires in collecting data from 120 group participants. The study found that the use of peer monitoring by creditor and social ties of group leaders tend to support in reducing moral hazard of group borrowers. The study suggested on the knowing the group members and their group leaders by MFIs for the purpose of making the process of peer monitoring easier. The study recommended that the existence of regular distance and short distance between group members, peer monitoring and MFIs can reduce the misuse of loans by group members. Also, the study by Nawai and shariff

(2013) recommended on the increase of the monitoring of loans by microfinance institutions though peer monitoring especially the in the of group lending approach in order to reduce borrowers' attitude on not paying back their loans.

After identify credit risk being the major risk that is facing most of the financial institutions in Europe. Zhao (2017) investigated the credit risk management techniques used by major MFIs and Banks in Britain. He used quantitative research with quantitative analysis techniques for the data collected from a sample of four MFIs and four Banks in Britain. The study found that the institution, which had good credit risk management practices, had a lower rate of borrower default risks. The study recommended on the use of risk mitigation techniques, segment exposure information, the use of credit scoring and the use of portfolio credit risk measurement models as the techniques of controlling credit risk. The study concluded on the credit risk being the major risk that is facing most of the financial institutions including microfinance institutions.

Takang (2008) conducted a study for investigating the performance of the financial institutions and the credit risk management. The researcher used a time series analysis of five year financial data of Qatar central bank used. The study found that better financial institution performance can reduce credit risks. The study suggested on the participation of portfolio planning and management, working close to borrowers, approving major clients, granting approval authority to qualified and experienced borrowers, reviving adequacy of credit training, setting system to identify significant portfolio indicators and credit problems and establishment of credit policies and standards that conform to regulatory requirements as the ways of managing credit risks. The study concluded that the use of good credit risk management policies could result to the relatively higher interest income and lower loan default rate.

2.5 Conceptual Framework

The conceptual framework in an approach showing in graphical or in narrative forms the main points studied in a research (Sekaran, 2003). In previous sections, a number of theories and empirical studies related to the GLP were revealed. The researcher used knowledge given with those theories and empirical studies to formulate a conceptual framework that guided analysis of the study findings. Figure 2.1 illustrate conceptual framework of this study.

The conceptual framework/model drawn had two types of variables. These were independent variables and dependent variables. Independent variables are the variables that a researcher has control over them. They are what a researcher can choose and/or manipulate in the study in order to investigate their effect in the dependent variables (Saunders et al, 2009). In this study, researcher developed some of the independent variables and some were adopted from other previous researchers to address the study topic. Independent variables involved costs, benefits and challenges of using group lending approach to the MFIs. Whereby, the researcher compared GLP and ILP in terms of cost of loan processing, cost of obtain clientele, cost of recover unpaid loan, cost of provide financial training to the borrowers, cost of monitor loan repayment and default risk. The conceptual-framework assumed that microfinance institutions have to incur costs in provides financial training to their clients prior to the approval of the loan as well as use their limited time in the training process.

Another group of independent variables were factors influencing repayment of loan in GLP, whereby, researcher looked on the issues like size of the group, type of the business performed by the group members, level of education of group members, leadership in the group, amount of the loan given, repayment period, grace period given, the use of collateral in the lending process, and interest rate charged by the lending institutions.

The conceptual model assumed that loan secured by physical collateral influences group members to repay their loan so that they can be able to retain their properties back. It continued to assume that when group borrowers are given reasonable amount of interest, they could afford to repay the loan. Wenner (1995) noted that the easier way in which low-income earners can get access to finance in favorable repayment rates is in group lending compared to individual lending. The microfinance institutions can influence more repayment of loan by extending the deadline and removing penalty in their clients within specific grace period. Group borrowers will be influenced more to repay their loans if they are given a reasonable amount of loan according to their business.

Another group of independent variables concerned with monitoring and control of group lending for better repayment rate. The variables under this group were the use of debt collectors, use money from groups' saving accounts, provide financial trainings to the group members, impose threat to the group members, selling collaterals pledged by group members, visit businesses/projects performed by group members, and accuse delinquent group members to the law court.

The model assumed that for easily collection of debt from clients (group borrowers), MFIs have to conduct meetings weekly or monthly with debtors that will address debtors' problems in repayment process. However, MFIs should make thorough follow-up of the business/projects performed by their borrowers. This will help the MFIs to determine development of their client projects and it will provide them with assurance of the repayment of the loan due to the continuation of the business in the successful way. MFIs should also provide advice to group borrowers on the options on which they can use to repay the loan. Also, they can give them advice and skills on how to operate their business activities as well as the development of financial plan so that they can be financial healthy and be able to repay the loan.

Dependent variable was performance of GLP in repayment of the loan. The researcher related what had been known to be independent variables with the performance of GLP in repayment of the loan within studied microfinance programs conducted with CRDB and NMB.

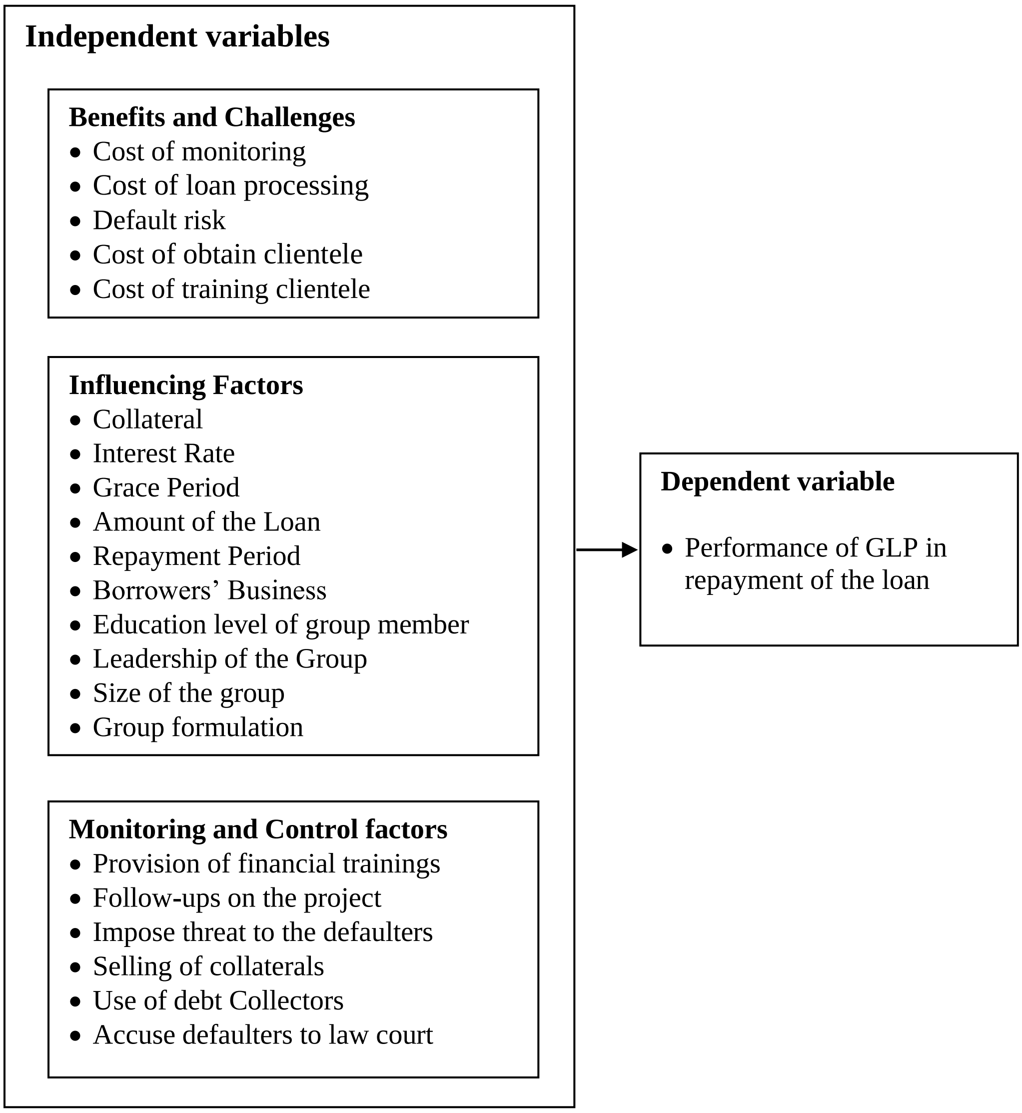

Figure 2.1: Conceptual framework of the study

Source: Researcher own development model (2021)

CHAPTER THREE

STUDY METHODOLOGY

3.1 Introduction

Research methodology is the systematic way that the researcher can adopt in solving research problems. Leedy and Ormond (2001) noted that research methodology is a guide to control the entire study that dictates the acquisition of data and arranges them in logical relationship. It set a means of refining the data to come up with a conclusion that leads to expansion of knowledge. In this chapter, the researcher presented methodology that was used in this study. Accordingly, the chapter illustrated research design and strategy, study area, study population, sampling design, data collection and analysis techniques as well as validity and reliability of the study.

3.2 Research Paradigm

The philosophy or paradigm of research is how researchers perceive the phenomenon under study (Kothari (2006). The four main research paradigms are the interpretive or constructivist paradigm, which allows a close interaction between the interviewee and the researcher; the positivist / postpositivist paradigm that separates the researcher from the interviewee; the critical / transformative paradigm; the pragmatism that provides researchers with a variety of perspectives when answering research questions (Fellows and Liu, 2003). Researcher of this study wanted to remain detached from the respondents in collection of data. Specific research paradigm suitable for this study was positivist pragmatism.

3.3 Research Strategy

According to William (2004) research strategy is defined as the structure of research that holds all the elements in research project together. Furthermore, Naoum (1997) defined research strategy as the way in which the research objectives can be questioned. There are two types of research strategies, which are the qualitative research and quantitative research. Qualitative research seeks to gain insight and to understand people's perception of the world, whether as individuals or group (Fellows and Liu, 2003). Qualitative research approach takes place in natural settings; it requires the researcher to go to the area of the respondents and gather detailed information about actual experience. Whereby quantitative research seeks to gather factual data and to study the relationship between facts and how such facts and relationships accord with theories and the findings of any research executed previously (Fellows and Liu, 2003).

Because this study wanted to show relationship between GLP and the payment of loan in microfinance institutions as well as collect qualitative information concerning suitability of using GLP; the researcher opted to use both qualitative and quantitative research strategies. Quantities part of the study helped researcher to obtain objective information that gave researcher chance of relate study findings with information obtained from existing theory. Meanwhile, qualitative information helped researcher to obtain subjective information that was used in validating information obtained through quantities approaches.

3.4 Research Design

Research design structures the research by showing how the major parts of the research project work together in addressing research questions. The researcher used descriptive research design since it is suitable design for the study, which uses both qualitative and quantitative approaches. This design allows researcher to measurement relationship between independent and dependent variables. Through this design researcher was able to test study hypotheses. However, the researcher was able to find out detail information about factors that affect performance of GLP.

3.5 Study Area

The study was conducted in all five districts of Dar es Salaam. The reason to conduct this study in Dar es Salaam was that, the region is the Capital City of Tanzania and all most all Commercial Banks and MFIs had their headquarters in it. Dar es Salaam hosted large number of bank and MFI branches compare to the rest of regions in the country. CRDB-microfinance and NMB-microfinance headquarter were also situated in this Dar es Salaam. Dar es Salaam is located at $6^0$48’ South and $39^0$17’ East in Tanzania and covers approximately 1,590.5 sq kilometers, it is surrounded by coastal region in North, Western and Southern parts, and bordered by the Indian Ocean in the East. The five districts of Dar es Salaam are Kinondoni, Ilala, Ubungo, Temeke and Kigamboni.

3.6 Study Population

Sekaran (2003) described study population as an entire group of people, event or objects of interest that the researcher wished to investigate. The study population included loan officers and branch managers of the mentioned commercial banks. The loan officers or creditors and branch managers were targeted population of the study because of the reason behind the aim of this study. They are the one who directly deal with borrowers' loan applications and repayments (both group borrowers and individual borrowers). Branch managers were included because of their important task of approve loan applications processed by credit officers. Therefore, both creditors and branch managers were suitable personnel in provide accurate information on the impact of GLP on loan repayment within their branches. The respondents were interviewed and filled the questionnaires.

3.6.1 Sample Design

Sample according to Kothari (2006) can be defined as a collection of some parts of the population on the bases of which judgment is made. A sample should be small enough to make data collection convenient and should be large enough to be true representative of the selected population. In selection of study sample, the study involved only creditors and branch managers who were found in their branches on the day researcher visited the branch. Moreover, only those who accepted to take part in the study were selected.

3.6.2 Sample Procedure

According to Kothari (2006), sample procedure is defined as the process of selecting some part of the aggregate of the totality based on which a judgment or inference about the aggregate or totality is made. There are two types of sampling procedures namely probability sampling and non-probability sampling. William (2002) defined probability sampling as that type of sampling which includes all types of elements of the population. In probability sampling, each element has an equal and independent chance of being selected; while non-probability sampling does not based on the theory of probability. If sample frame is available, the researcher is advices to use probability-sampling techniques such as simple, stratified and cluster random sampling techniques. If it is not available, the researcher has to use non-probability sampling techniques such as purposive, convenience and snow ball sampling techniques.

For the case of this present study, non-probability sampling specifically purposive and convenience sampling techniques were used to obtain creditors and branch managers of CRDB-Bank and NMB Bank. The used of these two techniques based on the merits that these types of non-probability sampling techniques are simplicity and the low cost of using them. The researcher visited headquarters of the two banks and asked for permission to carry out this study in their branches in Dar es Salaam. Introduction letter and questionnaires were submitted to the management of the two banks for ethical approval, and approval to conduct this study was granted.

3.6.3 Sample Size

According to Charles (1995) a sample is a small group of respondents drawn from the population, in which the researcher is interested in gaining information and draw conclusion. Newman (2000) defined sample size as the smaller set of cases a researcher selects from a larger population and generalizes it. The sample size of this study included 50 employees of CRDB and 50 employees of NMB. Altogether, the study had 100 individuals who were selected across the five districts of Dar es Salaam. Table 3.1 bellow shown distribution of study sample

Table 3.1: Sample size of the study

SN	RESPONDENTS	CRDB	NMB	SAMPLE
1	Branch managers	9	13	22
2	Credit officers	41	37	78
3	**TOTAL**	**50**	**50**	**100**

Source: Researcher plan (2021)

3.7 Methods of Data Collection

Based on the work of Van-Zyl (2005) data collection method is described as the specific approach used to gather information, and the choice of methodology depends on research objectives and questions to be addressed. The study collected only primary data. Lancaster (2005) described primary data, as the data that do not actually exist until and unless it is generated through the research process. The primary data for this study was collected using structured questionnaire and interview methods.

3.7.1 Questionnaire

Questionnaire is the best technique of primary data collection for its ability to provide multi-information at the same time from different respondents without presence of the researcher. It can be referred to as the set of questions that are usually sent to the selected respondents to be answered at their own convenient time and return the filled questionnaire to the researcher (Kothari, 2006). Questionnaire was used in the study to obtain data from respondents concerning the impact of group lending in loan payment in MFIs, benefits and costs of using group lending and the challenges faced by MFI in using group lending. Close-ended questionnaires were employed because they are easier and convenient to fill by respondent.

3.7.2 Interview

According to Kothari (2006) an interview can be viewed as a set of questions administered through oral or verbal communication. Face to face discussion between the researcher and the respondent was used in this study. Interview was used to supplement data after collection of filled questionnaires. Interview was used to collect qualitative data from some few selected respondents concerning the impact of group lending in payment of loan as well as their opinion on what could be done to improve credit services to the low-income earners.

3.8 Methods of Data Analysis

According to Zikmund (2003) data analysis is the application of reasoning to understand and interpret collected data. From this study the process of data analysis depended on the nature of the data whether it was qualitative or quantitative.

3.8.1 Qualitative Data Analysis

In analyzing qualitative data, the thematic analysis of the collected data was undertaken in order to understand the common pattern in the data. Therefore, the validated interviews collected from respondents in the study area were analyzed using the methodology described by Leedy and Ormond (2001) as follows: -

- *Identified statement that related to the topic*: Information from the interviews was broken up to reflect single, specific thoughts.
- *Grouped statement into meaningful units*: The single specific thoughts were clustered into similar categories that reflect various perspectives of the respondents.
- *Sought divergent perspectives*: Conflicting and similar perspectives were considered.
- *Constructed composite*: Various meanings identified were used to develop an overall description of the impact of group lending in payment of loan.

3.8.2 Quantitative Data Analysis

In analyzing the quantitative data, the focus was on analyzing numerical information. The statistical procedures in the research were conducted using Statistical Package for Social Science (SPSS) version 20. The quantitative data collected from the study was subjected descriptive statistics analysis, comparing mean analysis (the t-test) and regression analysis. Descriptive data was used in the study to describe the characteristics of the observed data. Descriptive data was presented in Tables and graphs in terms of frequency, mean, and standard deviation. Multiple linear regressions were used to find factors that significantly affect repayment ability of group-borrowers in the Group Lending Program (GLP).

3.9 Reliability of the Study

When the units being measured does not change, a research instrument are called considered reliable since regularly produces the same results. The basic goal of reliability analysis is to decrease study errors and biases (Lancaster (2005). Zikmund (2003) claims that reliability can be tested in a variety of ways, including Cronbach's alpha, test-retest, and parallel forms. Cronbach's alpha, on the other hand, was utilized to measure reliability in this investigation. The “alpha values” usually range from 0 to 1, with a coefficient of 0.7 and above indicating that the instrument has a high level of internal consistency and consequently reliability. On the other hand, if the Cronbach’s alpha coefficient result is found to contain a reliability value less than 0.7, the value is considered poor and becomes problematic. Table 3.2 show results of reliability analysis in this study.

Table 3.2: Reliability of the study

Variables	Number of items	Cronbach’s alpha
Benefits and challenges of using group lending program	6	0.81
Factors influence microloan repayment in group lending program	11	0.84
Methods for monitor and control microloan repayment in GLP	7	0.83
Reliability of questionnaire	25	0.84

Source: Field data (2021)

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CHAPTER FOUR

STUDY FINDINGS AND DISCUSSION

4.1 Introduction

The previous chapter three explained the designed methodology for this research, plus key elements in data collection and analysis. This chapter presented the results of the study based on the completed questionnaires, interviews with staffs of selected Commercial Bank (CB) and documentary review. The study selected credit officers and branch managers from the branches of CRDB and NMB within Dar es Salaam. This chapter had two sections, in which section one presented demographic characteristics of the respondents and section two presented results of the study findings.

4.2 Demographic Characteristics of Respondents

The results that follow show characteristics of the sampled credit officers from the selected CB. Bar charts were used to present demographic characteristics of respondents. The demographic characteristics include age, level of education and working experience (in term of years) in the selected CB. The results were presented as follows: -

4.2.1 Age

The results shown in the graph 4.1 represents age distribution of the respondents. The study assessed age distribution in order to understand the age group (s) which is highly employed as the credit officers in the CBs.

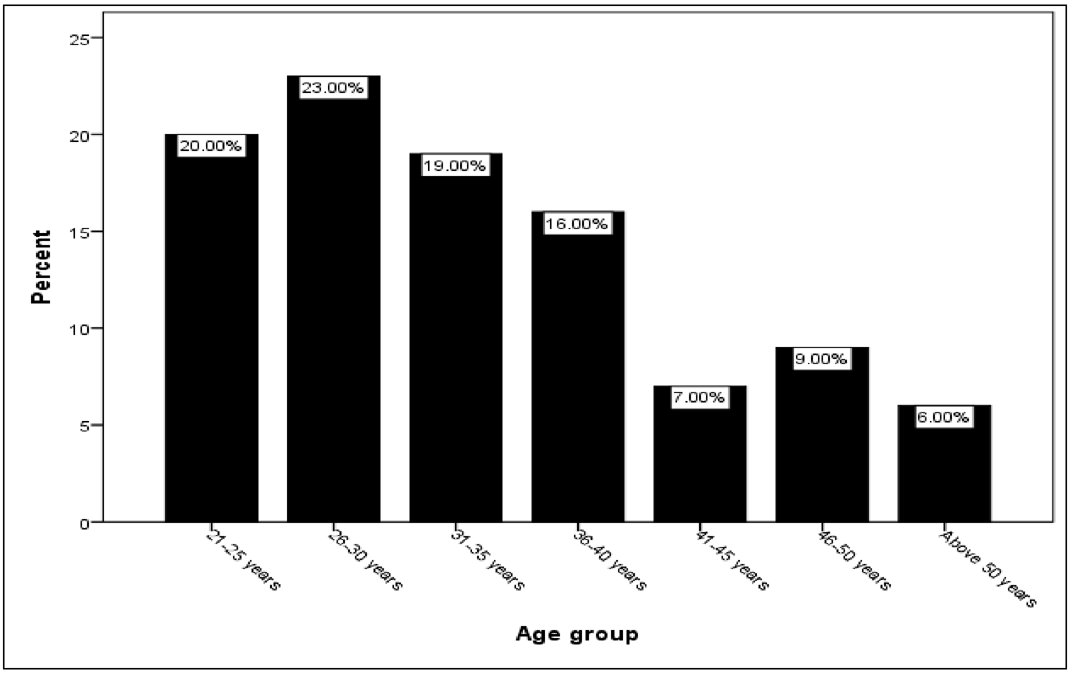

Figure 4.1: Age groups of the respondents

Source: Field data (2021)

From the Figure 4.1 it can be seen that majority (23%) of the respondents were between 26 and 30 years old; followed by those who were between 21 and 25 years old as well as 31 and 35 years old. These statistics project that commercial banks tend to employ more youth in the credit department; as credit officers. People who were 36-40 years old represented 16% of respondents, 41-45 years old represented 7%, 46-50 years old represented 9% and those who were above 50 years represented 6%. Most of those who were above 36 years were credit supervisors and branch managers.

4.2.2 Level of Education

The study assessed level of education of the respondents in order to narrate their level of understanding which relate to the level of education. The results that show level of education of respondents have been given in the Figure 4.2.

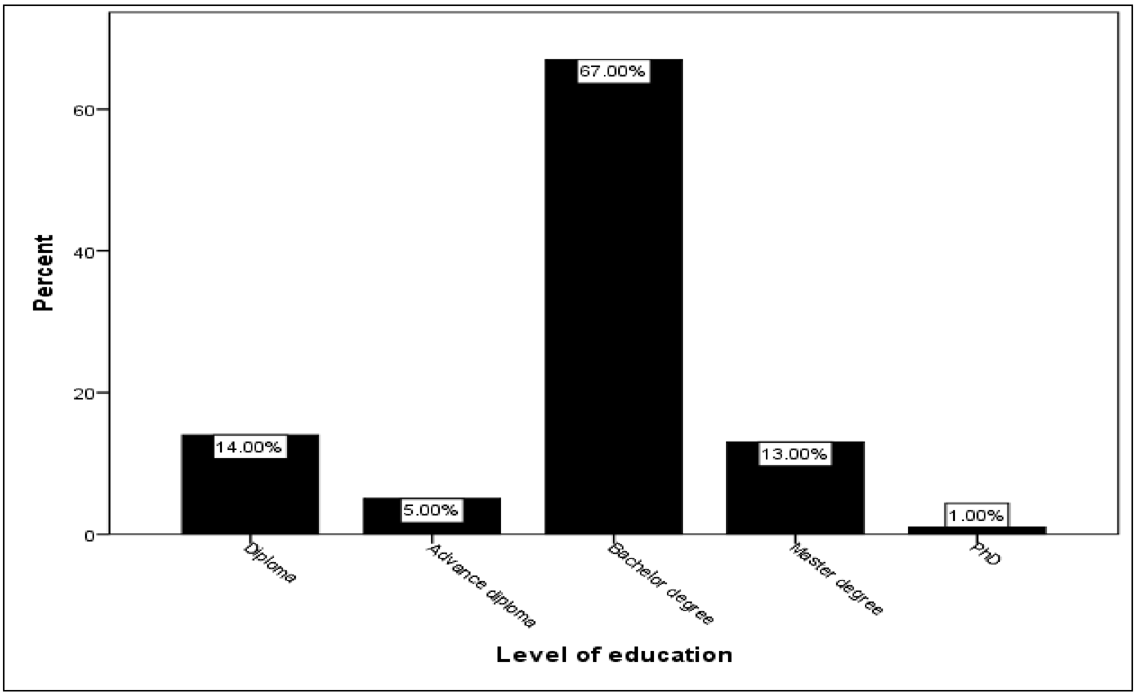

Figure 4.2: Level of education of respondents

Source: Field data (2021)

It was found that more than two third (67%) of respondents were holding Bachelor degree, 14% were Diploma holders, 5% were holding Advanced diploma, 13% had Master's degree and 1% were holding PhD qualification. The results indicate that the study collected information from educated and knowledgeable people who were able to think and give reasonable answer.

4.2.3 Working experience

The working experience of the selected officers was assessed; whereby, respondents were asked to indicate for how long they had worked in the CRDB or NMB. The working duration reflect their experience at work and especially in dealing with credit business. The results show that one quarter (25%) of respondents had worked in their respective CBs for the period of 7-9 years, 22% for the period of 4.6 years, 20% for more than 12 year, 18% for the period of 10-12 years and 15% had work for less than 3 years. These show that the study collected information from people with enough experience in these banks.

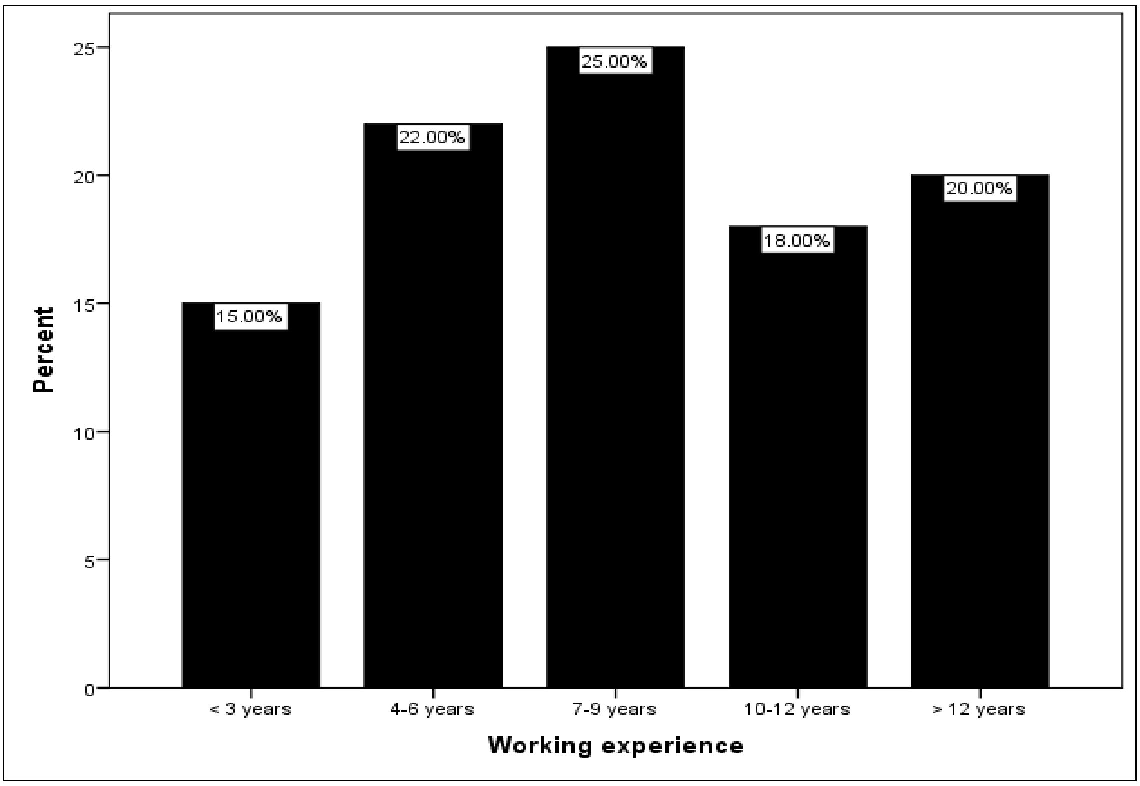

Figure 4.3: Working experience of respondent
Source: Field data (2021)

4.3 Empirical data analysis

In this, section the research present findings for the study specific objectives. Descriptive analysis was mainly used to understand the results of the study; whereby, the researcher based on the mean and standard deviation to give interpretation of the findings. Other types of analyses performed were t-test with the aim of identify level of significance of the variables and regression analysis that aimed at identifies predictor factors.

The study used Likert scale response model to collect data for the study questions; therefore, it can be noted that the mean score was the average value of response for each item on the Likert scale. This is simply the sum of the values divided by the number of values. The implication is that the item with the highest mean is the one that most respondents chose or rated highly and vice versa.

Standard deviation (STD) is however a measure of variation. This uses all the observations, and is defined in terms of the deviation of the observations from the mean. The variation is small if the observations are bunched closely about their mean, and large if they are scattered over considerable distances. It should be noted that a standard deviation of >1.5 implies a significant difference on the impact of the variable among respondents.

4.3.1 Effects of Group Lending to Non-Performing Loans

The first objective of this study was to analyse the effects of group lending to non-performing loans of microfinance institutions. Therefore, the study analysed respondents' opinions on effectiveness of group Lending Program (GLP) in repayment of the loan. Whereby, the study asked respondents to give their opinions on the question that asked, "How would you rate effectiveness of group lending program (group borrowers) compare to the individual lending program (individual borrowers) in repayment of the microloan?" The question had Likert scale response mode that ranged from 1=very effective, 2= ineffective, 3= moderate, 4= effective and 5= very effective. The results have been given in the Figure 4.4.

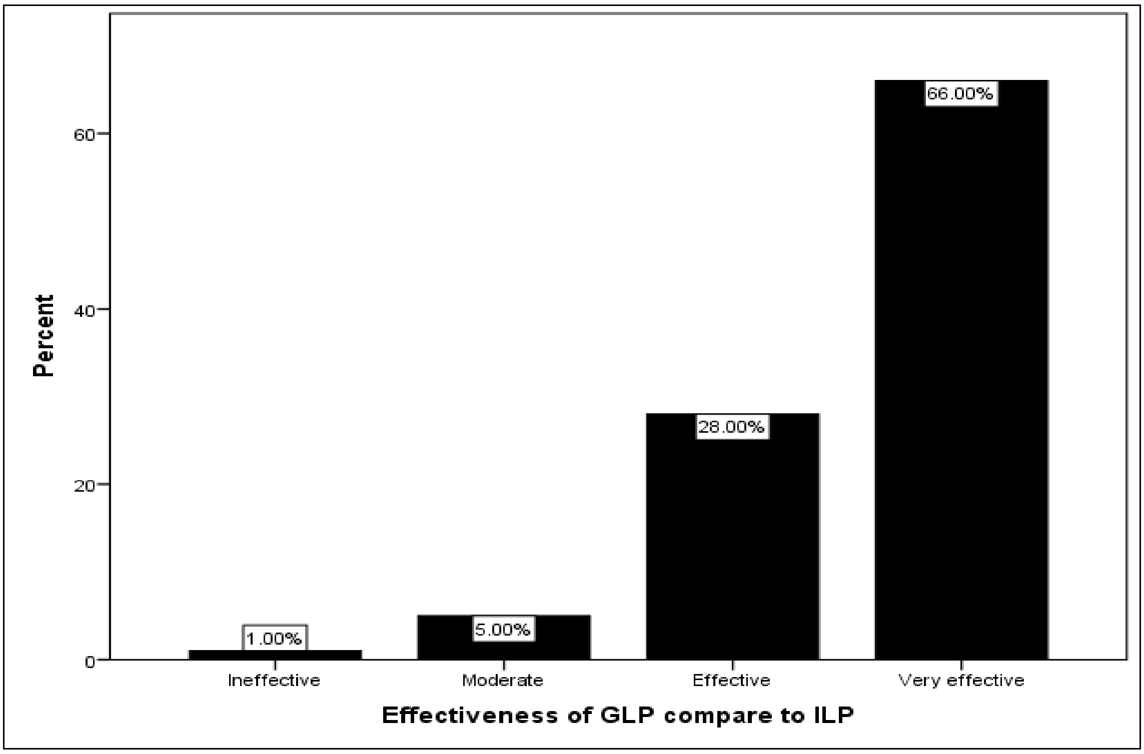

Figure 4.4: Effectiveness of GLP on repayment of the microloans
Source: Field data (2021)

The results show that majority (94%) of respondents were in the suggestion that GLP was more effective in term of loan repayment compare to the ILP. 5% shown that both GLP and ILP has no significant different in repayment while 1% shown that GLP was ineffective compare to ILP in the repayment process. With these findings, the study accepted that GLP was very effective in influence repayment of the loan. This reflected the assumption that group lending associated with very loan level or negligible amount of non-performing loan.

It was discussed that there is little chance of moral hazard in GLP compare to ILP. It is hard for the group loans to face serious problem of loan default because each member in the group is the guarantor of other group members. Therefore, group members are reliable on the failure of their fellow members. Stephanie and Rahman (2016) argued that individual loans or Individual Lending Programs (ILPs) tend to have higher risks when compared to Group Lending Program. Thus, there is remarkable successful experience of GLPs in terms of loan recovery rates as it is the case in this present study.

4.3.2 Benefits and Challenges of Using Group Lending Program

The second specific objective of the study was to investigate benefits and challenges of using group lending in processing and repayment of microloan. The study compared cost of obtain client in Group Lending Program GLP) and in Individual Lending Program (ILP), cost of process loan in GLP and in ILP, cost of provide training to the borrowers under GLP and in ILP, cost of monitor repayment in GLP and in ILP, cost of recover unpaid loan in GLP and in LP and also assessed default risk in GLP and in ILP. The Likert scale that ranged from 1= very low to 5= very large was used to collect respondents' opinions concerning GLP and ILP on the aforementioned matters. Table 4.1 presents the results of this objective together with interpretation.

The results show that respondents were in the opinions that GLP was associated with high cost of processing (mean 3.91) and obtain clients (mean 3.42) compare to the ILP. This indicated challenge that faced GLP were mainly high cost of obtain and process loan to the group members. Further, the study noted that cost of recover unpaid loan from GLP and in ILP was almost the same (mean 2.44). The cost of provide training to the group borrowers was reported to be lower compare to the cost of provide such training to the individual borrowers (mean 1.97). The cost was also very low in terms of monitor repayment (mean 1.69) and default risk (mean 1.38). The weighted mean was 2.46, which indicated that GLP is beneficial compare with ILP in processing and repayment of the loan.

Table 4.1: Descriptive results of the benefits and challenges of using GLP

VARIABLES	**SCALE**					**N**	**MEAN**	**STD.**
	1	**2**	**3**	**4**	**5**			
Cost of loan processing in GLP compare to ILP	2	7	24	32	35	100	3.91	1.03
Cost of obtain clientele in GLP compare to ILP	5	20	19	38	17	99	3.42	1.14
Cost of recover unpaid loan from GLP compare to ILP	23	29	31	15	2	100	2.44	1.07
Cost of provide training to borrowers in GLP compare to ILP	38	31	24	4	1	98	1.97	0.95
Cost of monitor repayment in GLP compare to ILP	52	30	16	1	1	100	1.69	0.85
Risk of default in GLP compare to ILP	74	17	7	1	1	100	1.38	0.75
WEIGHTED MEAN	**2.46**							
Interpretation of the mean 4.21-5.00 = Very high (great challenging factor of GLP) 3.41- 4.20 = High (fair challenging factor of GLP) 2.61 -3.40 = Equal (no different between GLP and ILP) 1.81 - 2.60= Low (fair beneficial factor of GLP) 1.00 - 1.80= Very low (great beneficial factor of GLP)								

Source: Field data (2021)

The research went ahead and performed t-test in order to find out whether the results obtained in the descriptive analysis above (in table 4.2) were statistically significant or were just by chance. One sample t-test was performed; whereby, the mean of each of the mentioned variables was measured against weighted mean. The results were given in the table 4.2.

The results (in table 4.2) give explanation that it is significantly true the cost of obtain clients in GLP was higher compare in ILP ($p < 0.0001$; 95% CI 0.74 to 1.19), and cost of loan processing in GLP is higher compare in ILP ($p < 0.0001$; 95% CI

1.25 to 1.65). Also, it was significantly true that cost of provide financial training in GLP is lower than in ILP ($p < 0.0001$; 95% CI -0.68 to -0.3), cost of monitor repayment in GLP is lower compare to ILP ($p < 0.0001$; 95% CI -0.94 to -0.6) and the risk of default repayment in GLP is lower than in ILP ($p < 0.0001$; 95% CI -1.23 to -0.93). Descriptive statistics revealed that cost of recover unpaid loan was equal to both GLP and ILP, but with the results of t-test it can be noted that such results was just by chance ($p= 0.852$). Hence, there is possibility of find cost of recover unpaid loan in GLP is either higher or lower compare to that of ILP.

Table 4.2: T-test results of the benefits and challenges of using GLP

	Test Value = 2.46					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Cost of obtain clientele in GLP compare to ILP	8.39	98	.000	.964	.74	1.19
Cost of loan processing in GLP compare to ILP	14.13	99	.000	1.450	1.25	1.65
Cost of provide training to borrowers in GLP compare to ILP	-5.13	97	.000	-.491	-.68	-.30
Cost of monitor repayment in GLP compare to ILP	-9.07	99	.000	-.770	-.94	-.60
Risk of default in GLP compare to ILP	-14.42	99	.000	-1.080	-1.23	-.93
Cost of recover unpaid loan from GLP compare to ILP	-.19	99	.852	-.020	-.23	.19

Source: Field data (2021)

Cost of loan processing in GLP compare to ILP: The study noted that cost of loan processing is higher in Group Lending Program (GLP) compare to cost of loan processing in ILP. It was discussed that when individual apply for the loan he/she has to provide a lot of information in written and unwritten forms. Information submitted in the process of loan application is financial statement, business plan, accounts payables, residential documents, application form and legal documents pertaining to borrower's business. For the case of GLP, credit officer has to collect such information from all members within the group and compile in one package. Logically, creditor performed a lot of work to screen credit worthiness of individuals in the GLP compare to the ILP where creditor deals with only single person. There was respondent who mentioned that

> *It is really a hard work to assess and verify that the information provided by all members in the group is true and all required forms/documents are completed. Actually, group lending is the risk business to creditor and institution if creditor does not perform risk assessment of all group members thoroughly.*

Considered high cost of loan processing in GLP; it was argued that financial institutions have introduced higher loan processing fee in GLP compare to the ILP. The study noted that CRDB-microfinance charged 15% of the entire loan given as the loan-processing fee in MFP; where microloans were given to the group of five women or more. On the other hand, NMB-microfinance charged 17% of the entire loan given as the processing loan under WEFP. This fee was charged to counterbalance the expenses incurred by the bank and any other miscellaneous costs that would involve in underwriting process. Applicants did not pay the fee as cash money; rather it was deducted from the principle given or distributed within the interest once the loan was approved. Part of the fee was given to the creditor or marketer who brought clientele (group members) to make business with the bank.

Cost of obtain clients in GLP compare to ILP: Just like cost of loan processing, the study noted that cost of obtain clients in GLP was higher compare to the corresponding ILP. Since the banks could give group loan to the group of not less than five women, it was hard work for the creditors and marketers to mobilize women to form voluntary groups with required number of individuals. It could take long time to form and solidify a group (with matching partners) for credit service.

In doing so, it was argued that group members were supposed to be homogeneously matching in order to form strong sense of joint liabilities. A good group is the one whose members share some common features with similar riskiness or exposed to the related types of risks. Gine *et al*(2010) held the view that microcredit group formation was the challenging work because it involved comparison of unobserved and observed factors in order to make a group with matching partners.

Although it was not the main work of the creditors to select whom to be included or removed from the group; but they were focusing on ensuring group members had some features in common in order to bring trustfulness in joint liability. Trust among group members is the fundamental building block of better GLP operations. Nevertheless, it was important to reiterate that individuals with related levels of risk aversion were the one who could accept to group together to apply for the microloan. In the light of this, the hardship of group formation limits the effectiveness of GLP. Jayati (2019) underscored that hardship faced by borrowers in forming joint liability groups has made Microfinance Institutions (MFIs) to shift from joint lending to individual lending.

Cost of recover unpaid loan from GLP compare to ILP: It was said that there is no significant different in mechanism used to recover unpaid microloan from individual and group borrowers. Both individual and group borrowers were told to open bank accounts and compulsory make monthly saving in those accounts. However, they were supposed to present collaterals that included land titles, vehicles and motorcycles as well as domestic properties. Once the borrower failed to repay the loan according to the repayment schedule, the bank could deduct money from their saving accounts. If the amounts deducted were not enough, the bank could sell their collaterals through properties agents or debt collectors.

However, individuals (whether in GLP or ILP) who could pay back their loan smoothly without cause dispute with the bank could be awarded chance to borrow higher amount of loan in the next application. Sometime, they were awarded lower interest rates in the next loan application. They were termed as safer borrowers or safer partners in case of borrowing group. The same argument was reported by Bakhtiari (2017) who mentioned that the price of recover loan from the defaulters is qualitatively similar in both GLP and ILP.

Cost of provide training to borrowers in GLP compare to ILP: It was reported that the visited banks were offering financial education to all group members before and after approval of the loan. The training offered before approval of the loan was to make borrower to be aware of issues relating to credit services; including identification of adequate amount they can borrow, awareness of repayment mode, and understanding available credit packages. Training offered after approval of the loan was aiming at proper ways of control and manage amount of the loan given, and strengthen the sense of joint liability so that everyone become a watch dog of her fellow. There was respondent who reported that

> *"We teach our microcredit clientele the skills, knowledge and attitude required for good management of money. Particularly we teach them how to use money to get more money, disbursement of earnings from the business, proper ways of spending, saving and investing.*

Further, it was discussed that credit management for low-income earners is a constant challenge, due to their high level of riskiness. The low-income earners lack business opportunities and enough resources to sustain their businesses; hence, they associate with high level of credit default. Financial educations given to microcredit borrowers by creditors help to improve financial creativity of borrowers as well as simply institutional strategies for manage repayment. Aliya (2020) opined that financial training play a role in attract more clients to the financial institution, since better informed individuals (individual who are clearly understand about financial services) become more likely to consume financial services offered by the institution. There was respondent who mentioned that

> *"Financial training offered in our bank to the group-borrowers helps group members to become aware of the mechanisms of financial management, to make better financial decisions that can enhance their business operations and remain economically secured after repay the loan."*He added that"….w*e gain more customer loyalty and information about services offered by our competitors through conduction of financial training. This is the reason we are continuing to stay at the top of financial market in the country."*

To a certain extent, there have been misunderstandings between scholars on how financial trainings offered by microfinance institutions have influenced microcredit repayment. Swain and Wallentin (2017) postulated lack of significant difference between borrowers who received financial education (offered by MFIs) and those who did not. They argued that MFIs did not provide designed proactive financial educations to their clientele rather they provide education through trial and error and tend to be reactive. A research by Christensson 2019) comprehend with the research of Swain and Wallentin (ibid) as it concluded that financial training given by MFIs at the time of receiving microloan can be favorable only within short term. Therefore, MFIs should constantly provide such education to their clientele throughout the loan-term, and not only at the time of receiving loan. Bage (2014) dubbed financial training a win-win connection for both microfinance institutions and borrowers.

Cost of monitor repayment in GLP compare to ILP: Group borrowers were allowed to start making payment installments of their microloans at any month from the day they received the loan. Nevertheless, compulsory payment installments were starting in the sixth month from the time they received microloans (for all banks).In each month, from the sixth month of receiving microcredit, they were supposed to pay certain percent/amount of the principle and interest. The maximum repayment period was one year from the time microloans were issued to the group members. There was also a grace period of one to three months before a creditor declared that the group had defaulted.

It was put out that completion of loan repayment of group loan was easy because everyone in the group was obligated to ensure her fellow members adhered to the terms and condition of the loan; particularly repayment. Borrowing group that could repay all the dues (principal and interest) on time, it was given more amount of loan in subsequent borrowing. On the other hand, group that default or hardly repay the loan was possibly denied next loan. Unlike individual loans where credit officers are fully responsible to ensure borrower has made repayment as agreed; in GLP, this task is highly handled by borrowers themselves.

Risk of default in GLP compare to ILP: It was reported that repayment rate of the GLP was often higher compare to the ILG; of which about 90% of the group borrowers were able to successful repay their microloans without much challenges. Concerning ILP, it was highlighted that about 50% of the individual borrowers could repay their loans without problems. Some of the remaining 50% could repay very late after cause several disagreements with the credit officers and some could completely fail to pay back their microloans and affect image of the bank through seizing and selling of the defaulters' collaterals.

The main reason to why GLP has comparatively high repayment performance was mentioned to be the fact that group borrower was injecting all their received money in the intended business operations. Meanwhile, individual borrowers were likely to divert credit received to other non-profitable activities. The researcher argued that in a borrowing group there is group pressure that caused by peer monitoring; the pressure assists in reduce delinquency and improve repayment behavior of the group members. One of the respondents said that

> *"The social ties on borrowing groups assist to ensure group members utilize the loan, once made, productively. Also, assist to remind reluctant members to stick on repayment argument."*

With this finding, the study rejected the first hypothesis (H1) which stated that "significant number of group borrowers tend to change behavior and result to the loan repayment problems." Therefore, the hypothesis that could be assumed was that "significant number of group borrowers tends not to change their behaviors to cause loan repayment problems."

4.3.3 Factors Influence Microloan Repayment in Group Lending Program

The third specific objective of the study was to identify factors influence microloan repayment by group borrowers. Questionnaires were used to collect data that helped to identify main factors that associate with proper repayment of the loan within GLP. Structured questions were designed to collect respondents' suggestion concerning influence of various factors in repayment of the microloans in GLP. The factors included both loan characteristics and group characteristics. Questions had Likert scale response mode; in which, 1 indicated very influential factor, 2 indicated low influential factor, 3 indicated factor with moderate influence, 4 indicated high influential factor and 5 indicated very high influential factor.

Descriptive analysis was performed and descriptive results were presented in the table 4.3. Descriptive analysis helped to rank identified factors according to their level of influence that based on the mean scores. Descriptive analysis was followed by multiple linear regression analysis that helped to identify factors with significant power in predict repayment of microloan in the GLP.

The results (in table 4.3) indicated factors with 'very high influence' in repayment of the loan among group borrowers were presence of only one gender in the group (mean 4.55), size of the group (mean 4.29), nature of the business performed by group members (mean 4.26), and amount of interest charged by the microfinance institutions (mean 4.23). Factors that were noted to have ‘high influence’ in repayment of loan in GLP were nature of group leadership (mean 4.13), amount of loan given to the group (mean 3.89), grace period offered (mean 3.88), level of education of group members (mean 3.68), group with both male and female (mean 3.52) and the use of collateral to secure loan (mean 3.48). Repayment period given to the group borrower was reported to have ‘moderate influence’ in encourage loan repayment (mean 2.91).

Table 4.3: Descriptive results of the factors influence microloan repayment in GLP

VARIABLE	**SCALE**					**N**	**Mean**	**Std.**
	1	**2**	**3**	**4**	**5**			
Group with only one gender	0	1	4	34	61	100	4.55	.626
Size of the group	0	1	13	42	44	100	4.29	.729
Nature of the business performed by group members	1	5	12	31	51	100	4.26	.928
Amount of interest charged	1	5	17	23	53	99	4.23	.978
Leadership of the group	1	3	16	42	38	100	4.13	.861
Amount of loan given	2	8	23	33	34	100	3.89	1.034
Grace period given	0	8	21	46	25	100	3.88	.879
Level of education of group members	2	7	27	49	15	100	3.68	.886
Group with both male and female	2	9	33	41	11	96	3.52	.894
The use of collateral	4	19	20	39	18	100	3.48	1.114
Repayment period given	11	36	15	23	13	98	2.91	1.261
WEIGHTED MEAN					**3.89**			
Interpretation of the mean 4.21-5.00 = Very high influence 3.41- 4.20 = High influence 2.61 -3.40 = Moderate influence 1.81 - 2.60= Low influence 1.00 - 1.80= Very low influence								

Source: Field data (2021)

Next was multi linear regression analysis with the aim of understood repayment factors with significant power in predict effectiveness of loan repayment in GLP. Table 4.4 shows the results of multi linear regression analysis. It should be noted that since data was not econometric data interpretation of the findings did not consider negative signs; hence, absolute values were considered.

Table 4.4: Regression results of the factors influence microloan repayment in GLP

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.636	.655		2.498	.014
The use of collateral	.016	.057	.027	.273	.785
Amount of loan given	.027	.054	.045	.507	.614
Amount of interest charged	.138	.067	.201	2.049	.044
Repayment period given	-.061	.045	-.123	-1.357	.179
Grace period given	.385	.069	.520	5.571	.000
Nature of the business performed by group members	.048	.077	.067	.624	.535
Level of education of group members	.078	.078	.109	.996	.322
Group with male and female	.021	.075	.028	.281	.779
Group with only one gender	.003	.066	.004	.044	.965
Size of the group	.085	.078	.099	1.101	.274
Leadership of the group	.033	.091	.032	.365	.716
R= 0.790 R Squire = 0.672 Adj R Squire = 0.647					

a. Dependent Variable: Effectiveness of microloan repayment in GLP

Source: Field data (2021)

The results of the Table 4.4 shown correlation coefficient (R-Square) was 0.672 that predicted existence of strong correlation between analyzed variables and effectiveness of loan repayment by group borrowers. Coefficient of determinant (Adj R-Square) was 0.647; indicating 64.7% of the microloan repayment in GLP was attributed by the studied eleven variables. The remaining percent (which is 35.3%) was attributed by other factors that were not included in the regression model; these may be factors such as lending policies and related financial policies of the country, as well as macro and micro economic situation of the country (inflation rate, momentary depth etc).

Specific results show that grace period was the first factor with strong power to predict repayment of microloan among group borrowers ($p < 0.0001$). Another factor, which was noted to have significant ability to predict repayment of microloan, was amount of interest charged/ interest rate ($p= 0.44$). The remaining factors were noted to have no significant influence in predict repayment of the loan in GLP since their level of probability was greater than recommended minimum of 0.05 at 95% level of significance. Those factors were:- the use of collateral to secure loan repayment ($p = 0.785$), amount of the loan given ($p = 0.614$), repayment period given ($p = 0.179$), nature of the business performed by the group members ($p = 0.535$), level of education of the group members ($p = 0.322$), leadership of the group ($p = 0.779$), group with only one gender ($p = 0.716$), size of the group ($p = 0.274$) and presence of all genders (male and female) in the group ($p = 0.965$).

Amount of interest charged: Interest was one of the significant factors that were found to influence repayment of loans in joint liability. The study discussion argued that women received microloan through women financial programs in CRDB-microfinance and NMB-microfinance were potential borrowers who had been removed from the credit market by high interest rates charged under individual liability. In most cases, high interest rates charged in microcredit in individual lending program in order to cover risks associate with lending to low-income earners.

Discussion continued that many potential borrowers within lower income earners who wish to get microloan for improvement of their micro-businesses have been forced out by high amount charged as interest in the ILP. It is from this ground, GLP was accepted to have been playing the vital role of screening borrowers in microloan service. Normally, safe borrowers tend to group together and choose group credit at low price. Unfortunately, it is rare for the risky borrowers to group together; and when happening, creditors can easily identify risky groups and increase interest rate to them. Therefore, few borrowing groups (those identified to be risky) were given high interest rates but majority of them were enjoying low interest rate that inspired better repayment behaviour among group members. As a result, GLP become efficiency with high repayment rates.

Noreen and Saif (2018) reported that MFIs use many factors (supply and demand, government policies, inflation, characteristics of borrower) to determine repayment amount in the ILP compare to the GLP. This is because group borrowers have low rate of default than individual borrowers. There is no doubt that amount of interest charged is a source of most of problem between MFIs and borrowers under ILP. Borrowers tend to compare the repayment amount and harshness of penalties introduced by MFI and figuring out whether to pay microloan or not. Borrower can choose not to pay if repayment amount is higher compare to the severity of the penalties.

With this explanation, the study accepted the second **hypothesis (H2)** which stated that “group lending program helped to lower adverse selection and integrate previously excluded low-income individuals in the credit market.”

Grace period given: In the credit service, grace period is the additional time given to the borrower immediate after the end of repayment obligation. Grace period is the period between the end of loan cycle and the time (in days, weeks or months) when repayment is due (Banerjee, et al., 2015). Usually there is no interest rate or late repayment fee charged during grace period. But some lenders tend to impose small charges during grace period. However, some lenders do include grace period fee within the term of loan under the concepts called ‘the whole premium’ and/or ‘the exit fee’ (Imhanlahimi and Idolor, 2017).This is equivalent to prepayment penalty for any extra time added (grace period) after deadline of loan cycle.

The study noted that grace period given to the borrowers to complete repayment of their loan was another significant factor that influenced repayment of the microcredit. The visited MFIs could not charge any interest during this grace period and borrowers were told to repay only what they were indebted to the institutions. The visited MFIs could provide grace period of one to three months depend on the amount borrowers were indebted. Such grace period was mentioned to give more chance to the borrowers to circulate the money in their business and make business improvement they wanted because there was no interest charged during that period. One of the responded managers said that

> *“We don’t take any action for late payment during grace period. However, the grace period we offer in women credit program is very*

> *long and very satisfactory to the lower income earners. It's very rare to find a bank offers a grace period of more than one month in any microcredit package."*

Gender of group members: Although it was not significant factor but it was believed that group with only one gender; particularly female gender, had higher repayment rate than group with both male and female. The reason behind was the homogeneous nature of the group. Several previous authors had confirmed homogenous matching groups to have good repayment behaviors compare to non-homogenous matching groups. There was respondent who argued that members of the same gender tend to have similar social class domain that create strong social cohesion that weaken moral hazard. Since the present study was conducted on the special women financial program offered by CRDB-microfinance and NMB-microfinance; loan repayment comparison between male and female groups was not performed. Therefore, the research wants future researcher to focus on assessing existing difference between male and female groups in repayment of the microcredit.

In the discussion, it was said that it is easily for the person to identify credit worthiness of another person of the same gender. This leads to the formation of groups with safe borrowers because safe borrowers (credit worth borrowers) would team together to form a borrowing group. The discussion went ahead and demonstrated that the factor of one gender does not necessarily lead to homogeneous matching. There other several factors need to be considered in order for the group to be true homogenously matching with efficiency and accountable joint liability contract among the members. Apart from gender similarity, a study conducted by Ahlin (2015) challenged that factors that could make each borrower liable for loan repayment obligation is similarity in level of education, age, social status, and similarity in business operations.

Other factors found to improve homogeneity and thus increase credit repayment in the GLP are friendship and kinship, neighborhood and ethnicity (Pande, et al, 2012). Theoretically speaking, similarity among borrowing groups help to remove unnecessary competition within group members. When group members share several common features, it can be referred as the homogeneous matching group with members who are exposed to the related risks (business risks, political risks and social risks). They can share experiences to overcome those risks.

Discussion about similarity of the group members went far and included issue of cultural factors (like religion, tribalism and marital status). Respondents mentioned that cultural intensities across group members were not considered in determine credit worthiness of the group. Now, impact of cultural factors in repayment of microcredit is another gap that needs further investigation in the future.

Size of the group: It was argued that size of the borrowing group could have impact on the repayment of the microloan, whereby, group with very small number of members was comparatively assumed to associate with lower rate of timely repayment. The women financial program of CRDB-microfinance could accept groups of women with minimum of five members. There was no fixed maximum number of members in a single group. However, in the first low application, a group could receive between TSH 100,000/- and TSH 300,000/- per members. In WEFP of

NMB-microfinance, minimum and maximum number of members in a single group was five and twenty respectively.

It was discussed that repayment risk was low since chance for loan to be repaid was very widely. In case one or two members in the large groups could face repayment challenges, her/their fellow group members could simply contribute/repay for her/them unlike in the small groups. Schuler, et al., (2018) indicated that effectiveness of group lending program was directly relating to the size of the groups. There was one respondent who mentioned that large group size allows MFI to collect its money from several number of people and this allowed the MFI to minimize risk of having nonperforming loan.

Apart from group size, the issue of group age were also discussed to have important impact on the repayment of the microloan in the GLP. Respondents mentioned that the number of years since the group was formulated and applied for the first loan was important factor observed in screening and rationing microloan to the group borrowers. There was respondent who stated that

> *"We also observe repayment performance of the groups that have previous applied for the group loan. Groups with successfully repayment in each loan cycle are recorded as the safe groups. Group's age act as the sign of experience whereby groups with longer history of borrowing hand in hand with better repayment records in this lending program are expected to have improved repayment performance in the later loan cycle. Hence, we can give them up to TSH 3,000,000/ to each group member."*

Nature of the business performed by group members: It was accepted that nature of the business performed by the borrowers could determine when the loan could be paid off. Sales and service business could associate with bi-weekly or weekly, or monthly payments. Hence, sales and service borrowers could pay off their loans early. Late repayment was noted among members who do small manufacturing business. Similarly, Debrah (2017) noted that agricultural borrowers needed long repayment period compare to non-agricultural borrowers.

In order to promote risk diversification, credit officers of CRDB-microfinance could intervene business conducted by borrowers to have different businesses-but only if such diversification would not affect their economic performances. A long-time study conducted by Rutherford (1997) in Dhaka posited that grouped formed homogenously in term of business occupation was assumed by credit officer to be less effective compare to the group formed endogenously. The study modeled that repayment rates could increase with increase occupation diversification of the group members. However, high degree of occupation/business diversification could associate with high cost of monitoring on creditors side.

It was also reported that approval of the group loan in CRDB-microfinance required majority of members to have business operated within the district where the responsible bank branch is designated. Approval of the loan was associated with assessment of collateral and business operated by each member. The loans were made available for start-up business but high priority was given to members with business experience of at least five years.

Repayment period given: Repayment period was reported to have moderate influence in the repayment of the loan. This was due to the fact that, there was significant number of the groups that could not fully pay off their loans before their loan terms reached to full maturity. A good number of group borrowers could complete repayment in the grace period. In a related study, Giné and Karlan (2010) in Philippines reported that shortening or rising term of the loan could not affect repayment rates. This conclusion was reached after investigate repayment rates of the different borrowing groups; with loan duration of one year, two years and three years, and found no significant different among them. Similarly, Giné and Karlan (ibid) found grace period significantly improves loan repayment rates.

Amount of loan given: Amount of loan given or size of the loan was one of the factors with very high influence in repayment performance. The study argued that very low amount could associate with high risk of default similarly to the very huge amount. The effect of low amount is failure to reach the desired level of development that inspires repayment of the loan. Meanwhile, large amount of loan influence borrowers to engage in the risky businesses that bring deprived returns and lower repayment performance of the privilege given. A study carried out by Ghatak (2015) affirmed that increase size of the loan could increase incentive to engage in the risky project. On other side, monitoring obligation of credit officers tend to increase with increase loan size (Pande, et al., 2012).

Proper determination of the amount to lend is the important work of the credit officers in order to guarantee payment will be effective. Signoriello (2011) in his research indicated that amount given as the principle has large impact on the repayment than amount charge as the interest rate. CRBD-microfinance could provide microloan range from TSH 100,000/- to 4,000,000 per person in the microcredit program known as Malkia Financial Program (MFP). Business sizes of individual members in the group determine size of the first loan. Subsequent amount could be established based on the repayment record of the previous loan cycle, amount of saving put in the group saving account and attendance in the financial education programs offered by the bank to its clients.

Although such amount seemed to be relatively small, respondents confidently reported that such amount was attractive to those who wanted to start or to improve their micro or small businesses. They also accepted amount given (loan size) encouraged repayment under joint liability.

> *"We give a little small amount of group loans to the micro and small female entrepreneurs because we have investigated and noted such amount has positive impact on development of their businesses and repayment…… Successful loan repayment gives a group access to large amount in the next loan cycle with relative cheap charges. This is the case to other microcredit program across the world."*

Leadership of the group: Leadership affect everything in economic, social and political domains. Behaviour of the group members towards adherence to the group obligations is also affected by the leadership ability of the group leader(s). The study argued that the use of group leaders provides more monitoring effort in any system/program. In the credit program, group leader is the intermediary between the group and financial institution.

In the GLP offered by CRDB-microfinance and NMB microfinance, group members were responsible to propose their group leaders. The banks could frequently communicate with those group leaders on the matters relate to their group's repayment performance. The use of group leader seemed to help credit officers to receive clear information concerning progress of each group members since group leaders could provide symmetric data on how each group member used her loan. An empirical study conducted in Eritrea by Seth and Bradford (2018) noted that groups with members-appointed leaders had high chance of awarded future loan than groups without recognized leaders. This is because the group leaders did large part of credit monitoring. There was respondent who mentioned that

> *"Before approve microcredit to the group borrowers, we advise group members to appoint a group leader among them. We also told them that such position is voluntary position; hence, the leader will not be paid for her supervision work. Appointed group leader is informed about her tasks about supervision of the credit utilization and repayment of the group loan for the better performance and sustainability of the group…. Credit officers first communicate with group leaders before communicate with entire groups once repayment problem appear."*

This study tried to find out what could be leadership strategies that could inspire repayment behaviour among group members. It was put out that effective leaders were those who carried regular meetings of the group members and discuss existing business problems among group members, carried out weekly and monthly assessment of the profit earned by their members, collected and submitted to the credit officers the monthly installment payments, and regularly communicated with credit officers over the matters pertain to the repayment of their group.

The use of collateral: Noreen and Saif (2018) reported that credit rationing and the use of collateral had been primary tools for MFI to exclude very poor people (with limited tangible assets) in the credit market. The very poor do not have collateral required by the bank to secure individual loans. MFI had been asking for highly valuable assets in the ILP; in which, loan-to-value ratio (amount borrowed and appraised value of the collaterals) had been considered to determine amount that can be given to the microcredit-borrowers. Generally, speak; MFIs had been lending microcredit to the clients whose loan-to-value ratios (LTVR) were 50% or more. Therefore, if someone wanted to borrow 50,000/- shilling had to present collateral that worth 100,000/- shilling or more.

Group borrowing approach has been reported by previous researcher and scholars to be proper way of deliver credit service to individual with no assets to use as the collateral to secure individual loans (Hermes, et al., 2015). They added group landing had replaced physical collateral with social collateral; therefore, reduce the risk of lending to the poor individuals. This present study noted that group-lending was not collateral free per se; borrowers were told to list their domestic properties and their business operational equipments in the loan application form. The listed properties and/or equipments (movable assets) were used as the collateral to secure the applied loan.

The Banks could liquidate those properties and equipments incase borrowers' default to pay off their loans. In summary, CRBD-microfinance and NMB-microfinance considered collateral in GLP so that once borrowers stop to continue with repayment obligations; the banks could have something to collect in order to reduce the loss. There was respondent who mentioned that:

> *"In order to stimulate repayment among group borrowers; each member has to present ownership of certain properties (they usually present domestic properties) and they will be told that those properties will be sold in case they will* fail *to pay back principal and interest of the loan on time…. Moreover, interest rate is very low for the groups whose members have presented highly valuable properties. If one of the group members*

> *presents ownership of the land, the bank will not care much about property values of other group members."*

It was further stated that completely unsecured microloans were rarely given to groups with longer credit history with good repayment records. Sometime, borrowers with good repayment record could just offer their business products/inventories as the collateral in microcredit programs. However, moral hazard issues were noted in some groups with no collateral even after having long borrowing history. Hence monitoring and evaluation of business performed/carried out by group members were often carried out in the groups with no collateral secured loan.

Level of education of group members: The great important of education in the contract agreement is that it lowers chance of asymmetric information among members in the contract. In borrowing groups, asymmetric information between group members and between group and creditors can be avoided if borrowers have satisfactory level of education. Discussion continued to argue that credit officers could use low efforts to monitor progress and repayment of educated group members. Hence, monitoring efficiency increase with increase education qualification of the borrowers and that increase probability that the loan will be repaid on time.

Several theoretical models on GLP have reported significant relationship between loan repayment and education qualification of the group members. There is evidence in the literature to substantiate the suggestion that educated members monitor each other in the GLPs and that improve repayment efforts of each member. More ultimately, educated borrowers could have comprehensive knowledge on loan use and business operations. Such knowledge increased the likely hood of proper loan utilization, conducting sustainable and profitable projects that guaranteed repayment of the loan.

4.3.4 Methods For Monitor and Control Microloan Repayment in GLP

The last specific objective was to examine how microfinance institutions monitor and control group-lending program for the repayment of microloans. Seven methods for monitor and control microloans repayment were structured and presented to the respondents; so that, they would rate the extent to which those methods have been applied in their institution.

Table 4.5: Descriptive results of monitoring and control microloan repayment in GLP

VARIABLES	SCALE					N	Mean	Std.
	1	**2**	**3**	**4**	**5**			
Use service of debt collectors	0	3	17	47	33	100	4.10	.79
Visit businesses/projects performed by group members	3	5	23	39	30	100	3.88	1.00
Use money from groups' saving accounts.	3	3	29	37	28	100	3.84	0.97
Accuse delinquent group members to the law court	2	15	20	40	23	100	3.67	1.10
Provide financial trainings to the group members	3	22	29	40	17	100	3.57	1.00
Selling collaterals pledged by group members	8	22	32	29	9	100	3.09	1.09
Impose threat to the group members	8	26	37	15	14	100	3.01	1.14
WEIGHTED MEAN					**4.59**			
Interpretation of the mean scores 4.21-5.00 = Very highly applied method 3.41- 4.20 = Highly applied method 2.61 -3.40 = Moderate applied method 1.81 - 2.60= Low applied method 1.00 - 1.80= Very low applied method								

Source: Field data (2021)

The response mode ranged from 1-very low applied method, 2-low applied method, 3-moderate applied method, 4-highly applied method and 5-very highly applied method. The findings were subjected to the descriptive analysis in order to rank the methods according to their extent of applicability; as shown in the Table 4.5 above.

The results (presented in the Table 4.5) shown that the methods highly used by microfinance institutions to control and monitor microloans in GLP were the use of debt collectors (mean 4.10), visit businesses/projects performed by group members (mean 3.88), use money from the groups' saving accounts (mean 3.84), accuse delinquent group members to the law court (mean 3.67) and provision of financial trainings to the group members before and after receive microloans (mean 3.57). Other factors that were sometime applied (applied at moderate level) to monitor and control repayment were seizing and selling collaterals pledged by group members (mean 3.09) and the use of threat influence repayment of microloan among group members who seem to default (mean 3.01). The weighted mean was 3.59; indicating that generally the analysed methods were highly applied in the course of monitoring and control of microloan repayment in the visited institution.

After descriptive analysis, the researcher performed multiple linear regression analysis to find out methods with significant power to predict effectiveness of microloan repayment in GLP. The regression results were given in the table 4.6.

Table 4.6: Regression results of monitoring and control microloan repayment in GLP

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.091	.280		7.469	.000
Provide financial trainings to the group members	.352	.047	.545	7.427	.000
Visit businesses/projects performed by group members	-.039	.036	-.061	-1.100	.274
Impose threat to the group members	.131	.038	.233	3.478	.001
Selling collaterals pledged by group members	.054	.036	.092	1.514	.133
Accuse delinquent group member to the court	-.021	.036	-.034	-.572	.568
Use service of debt collectors	.113	.052	.138	2.198	.030
Use money from groups' saving accounts.	.090	.042	.136	2.133	.036
R= 0.877 R Squire = 0.769 Adj R Squire = 0.751					

a. Dependent Variable: Effectiveness of microloan repayment in GLP
Source: Field data (2021)

The results in the table 4.6 revealed that there was strong correlation between the methods analysed and effectiveness of microloan repayment in GLP (R Squire = 0.769). Altogether, the aforementioned methods could contribute up to 75.1% of the effectiveness of microloan repayment in GLP (Adj R Squire = 0.751). Regression table continued to show that provision off inancial trainings to the group members both before and after receive the loan ($p < 0.001$) as well as the use of threat to influence repayment of loan to the group members who seem to default (P= 0.001) had great power to predict effectiveness of microloan repayment in GLP. Other factors that could significantly predict repayment of the microloans were the use of debt collectors to collect bad debts (p= 0.030) and the use of money from groups' saving accounts. (p=0.036). The remaining methods were revealed not to have significant power to predict effectiveness of microloan repayment in GLP. This was because, they calculated p-values were greater than 0.05. The methods were visiting businesses/projects performed by group members ($p = 2.74$), selling collaterals used by group members to secure loan ($p = 0.133$) and accuse delinquent group members to the court ($p = 0.568$).

4.3.4.1 The Use of Debt Collectors to Collect Bad Debts

One of the significant methods that were rated to be used highly in monitoring and control repayment was the use of debt collectors. It was reported that majority of the group borrowers could pay off their dues within the loan period and grace period. But, when it happened that certain group(s) has not complete repayment even after the end of grace period; a debt collector was hired to collect the remaining amount from the group members. The use of debt collectors helped to lower collection cost of bad debts and less affect image of the bank to the society. In that respect, debt collectors increase collection efficiency of group loan in microfinance institutions.

However, before hire debt collector, the banks would try to negotiate with the debtors to lessen the payment amount owed. If negotiation technique worked out, then the banks would accept to receive principle and part of the interest without charge any penalty within an agreed period. The consequence was that, responsible group members were blacklisted and denied any future credit privileges in CRDB even in NMB. Debt collection agents were consulted and collection task passed to them incase negotiation failed and situation become difficult for the banks to collect the loan amount from the debtors. In responding to this matter, there was respondent who mentioned that

> *NMB has specialized debt collectors who are also attorneys. The bank uses them to collect delinquent debts from those who do not respect credit contact. The debt collectors are the middle men between the bank and bad debtors who do not want to pay off their credit dues voluntarily. Since, NMB's debt collector are also attorneys, they can also file the lawsuits/court case against debtors who continue to refuse to pay the debt. The bank pays debt collectors up to 25% of the money collected; such money has to come from the debtor as the debt collection fee or penalty.*

4.3.4.2 Visiting Businesses/Projects Performed by Borrowers

Credit officers could also frequently visit projects or businesses performed by their clients; particularly those in GLP. They were able to provide further education on the loan issues, business operations, project and business plans, and at the same time monitor monthly repayment of the loan. Such visiting could ensure borrowers were operating safer businesses/projects and lower chances of credit default among them. The discussion argued that visiting borrowers' business could increase social contact between borrowers and credit officers and that increase symmetric information. It was also mentioned that credit officers could visit borrowers as the business consultant and not as credit monitors in order not to embarrass or harass borrowers.

4.3.4.3 Use Money from Groups Compulsory Saving Accounts

Almost all microfinance programs in Tanzania request borrowers to have compulsory saving accounts. In Millennium Development Goals (MDGs), micro-loans and micro-savings were considered as the important tools to improve living conditions of the lower income earners in the developing countries. Important of microfinance in economic development of developing countries is also reflected in the new Sustainable Development Goals (SDGs). Accordingly, each micro-loan recipient is subjected to compulsory saving in order to improve her/his financial security and to increase availability of financial resource in the financial market.

It was reported that, compulsory savings (it is also called forced or mandatory savings) stimulate the manner of financial and nonfinancial savings among micro-entrepreneurs. Swain and Wallentin (2017) reported that compulsory savings improve saving habits of the savers. The money saved in compulsory accounts is also used as the additional or substitute for collateral and can be seized by the MFIs in the event of loan delinquency.

In CRDB, borrowing groups were required to have compulsory saving account where by every member was required to make monthly contribution that was equivalent to or more than 5% of her monthly loan repayment. The monthly compulsory saving could start in the sixth month of the loan period. No group member was allowed to withdraw any amount in the compulsory saving account before termination of the loan cycle (before repay the entire group loan). However, the banks could not offer any interest on the compulsory savings. Apart from compulsory saving, NMB-microfinance was also advice group members to have their own voluntary saving with NMB. Such voluntary saving could act as the complementary means to payoffs the loan and increase their financial muscles.

4.3.4.4 Seize and Sell Collaterals Pledged by Group Members

Collateral seizure and sale was used at moderate extent (meaning that it was the method used some times) to recover loan from the borrowers who failed to payoffs their loans. At the beginning of credit business relationship (loan application period), group members were informed about credit business policies, fines for late payment and collateral seizure. Therefore, the credit officers were supposed to make sure each borrower was aware of the consequence of default and that her properties (normally household stuffs and business equipment) would be subject to seizure and sale.

After the end of grace period, in NMB, the borrowing-group was given more time of up to three months to complete any remaining payments. This is sensitive period of default; however, credit officers could continue to treat borrowers fairly and with respect in order not to worsen the condition to affect loan recovery and institutional image. There was respondent who mentioned that:

> *"Normally, period of our group loans (under WEFP) is one year. We also have a grace period of up to three months and we do not charge any extra amount during that grace period. But if group have not completed repayment within grace period; extra three months will be added with late payment penalty. And if the late payment period ends without complete repayment together with the penalty, then we consider the group as delinquent group, of which, extra efforts need to be taken against group members. Most of time we use debt collectors who seize and sell clients' collaterals on behalf of the bank"*

The study wanted to know procedures taken when the bank wants to seize collaterals in order to recover the loan. It was noted that once the situation warrants seizure and sale of collateral, the Banks could give group members chance to sale their properties pledged as the collateral at the time of loan application and clear their debts. Sometimes, group members could seize and sell properties of their fellow member(s) in the group who failed to clear her debt and cause the entire group to default. Another respondent from CRDB stated that

> *"We rarely swoop in to collateral seizure. We first give chance to the members themselves to sell their properties and bring back our money. But if they don't do so we seize and sell their collaterals* through public *auction agent who is also a debt collector."*

4.3.4.5 Accuse Delinquent Group Members to The Law Court

The study asked what happen when borrowers default while the loan was not secured with collaterals. It was reported that when such circumstance happen, group members would be taken to law court. The study noted that even before seizure and sale of collateral the banks could involve legal authority (the law court) to receive approval of seizure and sale of the borrowers' properties.

It was said, in Tanzania, the process of seize client collateral was guided by the legal framework although some MFIs tend to use their own procedures and tricks to avoid the long legal procedures that involve court of law. It was claimed most of MFIs in Tanzania and in Africa at large demand borrowers to sign the promissory notes that could give power to the MFIs to sell collaterals without involve the court. They can just involve law enforcement agencies such as polices and soldiers to show the art is legal while they do not have legal permission. Maybe, they bribe the magistrate and so they jump in to seizure and sale of collaterals; since court's procedures and decisions take long and public notary are expensive.

All in all, this present study discovered that CRDB-microfinance and NMB-microfinance used law court to get legal authorization to take possession of the collaterals once borrowers failed to payoffs debt as agreed in the lending agreement. The researcher of this present study saw the need of conduct further study on procedures used by MFIs to seize client collaterals versus procedures stipulated in the legal framework.

4.3.4.6 Impose Threat to The Group Members

It was noted that at some low degree credit officers in MFIs could use threat of collateral loss as the loan repayment tactic to the group members who were about to default. Sometime the visited banks could make note of radio and newspaper regarding public auction of certain properties/collaterals of the loan-defaulters to make them believed that the bank would soon seize and sell their properties. One of the credit officers admitted that:

> *"Some time the our bank just make public note about selling of certain collateral, without even initiate legal proceedings, in order to stimulate collection of debt from the owners of those properties... defaulters have also been told that they will be denied future loan if any of their group members fail to payoffs. Therefore, they should have spirit of joint liability all the time and ensure they help each other to clear the entire group debt"*

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this chapter, the researcher has given summary of the main study findings as per specific objectives. The summary helped to illustrate answers to the specific research question and to the general research questions. The chapter also provide conclusion of the study that gave answer to the research problem at large. Recommendation and room for further study were also given in this chapter.

5.2 Summary of the study

The study was taking the path of qualitative and quantitative, whereby, descriptive research design was employed since it suits in both qualitative and quantitative amount of study. Data was collected from the branch managers and credit officers of CRDB-microfinance and NMB-microfinance.

5.2.1 Effects Of Group Lending to Non-Performing Loans

It was accepted that GLP was associating with low risk of non-performing loan. This was due to the fact that more than 90% of all group borrowers could repay their loan successfully unlike in ILP were about 50% of the borrowers could default repayment of their dues. The study accepted that there was little chance of moral hazard in GLP compare to ILP. It is hard for the group loans to face serious problem of loan default because each member in the group is the guarantor of other group members.

5.2.2 Benefits and Challenges of Using Group Lending Program

Concerning benefit of using GLP against ILP, the study noted the benefit were using GLP to the MFIs were low cost of recover unpaid loan, low cost of provide financial training to the borrowers, low cost of monitor repayment of the loan and low default risk associated with GLP. To the micro and small entrepreneurs, it was noted that GLP helped to integrate them to the financial market since they were excluded base on the suggestion that they were risky borrowers. On the other hand, the challenge of using GLP was mentioned to be high cost of loan processing and obtaining clients for GLP. It was mentioned that getting people grouped together (minimum of five members) for loan purpose was hard. However, loan processing could take long time following hardest work of screen all loan application forms of group members.

5.2.3 Factors Influence Microloan Repayment

All studied factors were noted to have great influence on repayment of microloans. According to the order of priorities, such factors were the following:- a group with only one gender (female gender was mentioned to have high repayment potency compare to male gender),size of the group (group with large number of members was active than group with few members), nature of the business performed by group members (sales and service businesses were associated with high repayment rate), amount of interest charged (repayment ability was inverse proportional to the interest rate), leadership of the group, amount of loan given (too little and too much money were all dangerous), grace period given, level of education of group members, group with both male and female and the use of collateral to secure loan.

However, the study noted that grace period and amount of the loan given where the two factors that could significantly determine repayment rate in GLP. This implied that MFIs were supposed to carefully pay adequacy of the loan amount given to the borrowers as well as friendliness of the grace period.

5.2.4 Methods for Monitor and Control Microloan Repayment in GLP

There were different methods applied by the MFIs to ensure high rate of loan repayment in the GLP. The methods which were highly applied were mentioned to be the use of debt collectors who could use their skills to collect outstanding debts from borrowers, visit businesses/projects performed by group members in order to ensure their viability as well as giving them business ideas, the use of money from groups' saving accounts, accuse delinquent group members to the law court and provision of financial trainings to the group members. Sometime the MFIs could seize and sale collaterals pledged by group members at the time of loan application.

5.3 Implications of the Results

In this section, the researcher has given implication of the study findings/results for policy makers, microfinance institutions and the entire financial market as well as implication for academics in terms of theory and conceptual development.

- **To policy maker:** the policy making sector has understand more about important of GLPs in serving poor population and protect themselves from the risk of poor loan repayment. As a result, the national policies on financial market can be reviewed and amended as needed to boost the use of group lending approach to bring low-income earners in the financial market.

- **To the financial institutions, particularly microfinance institutions:** the results of the study have helped to reveal to these institutions the important of apply group lending in dealing with micro and small entrepreneurs.

- **To academicians:** this study results can be used in modeling a program or framework that can be utilized in predicting financial performance of the financial institutions when group lending approach is used.

5.4 Conclusion

The study concluded that GLP was effective in ensure smooth repayment of the loans from the low-income earners. Such lending program helped to bring poor people in the credit market because it does not much relay on the physical collaterals like individual lending programs. Hence, MFIs should increase the use of group lending approach to serve poor population and protect themselves from the risk of poor loan repayment.

5.5 Recommendation

In this section, the researcher provided recommendations/suggestions that can help to improve utilization of group financing approach in the MFIs.

- The study recommended that GLP is the effective means of provide credit services to the low-income earners. The method should be adopted by all commercial banks with microfinance programs and specialized microfinance institutions in dealing with low-income earners; since it helps to ensure effective repayment of the loan.

- However, financial policy makers and credit officers should focus on simplify procedures for loan processing in GLP. Cost effective procedures will help to bring more credit worth low-income earners in the financial market.

- Amount of the loan given was noted to be one of the powerful factors that determine repayment of the microloan. Therefore, microfinance institutions should be very intense in assess and establish reasonable amount that will not be too little too much for the micro and small entrepreneurs' borrowers.

- However, the study wanted MFIs to have attractive grace period for the borrowers how who would fail to make full payment of their debts within the agreed period of the loan. This is due to the fact that reasonable grace period gives additional time for the borrowers to collect more profit from their business and repay the loan. It was mentioned that borrowers who could fail to pay their dues off until the date of full maturity; they could do so before the deadline of grace period.

- Lastly, MFIs should provide financial education to the microloan borrowers before and after approval of their loan application. Financial training equips them with the necessary skills for better management of their financial resources.

5.6 Limitation of the Study

In conducting this study, the researcher faced the following limitations that may affect effectiveness of the study:

- **Time constraint:** the study was carried out for a short period to follow the deadline of the academic calendar. Time constraints may affect both, the quality and quantity of the study because the researcher had to collect information from fewer respondents.

- **Financial limitation:** lack of adequate finances may affect the quality and quantity of data collected during the study. This hampered the researcher to conduct the study effectively. Due to financial constraints, the researcher was not able to interview many respondents as she wanted to do.

- **Lack of local empirical literature:** local empirical literature on the impact of group lending and loan repayment was very lacking, as a result, the researcher had to rely mostly on literature from developed countries. This may not give a true picture because challenges in one country may differ from challenges in another country.

5.7 Room for Further Studies

The research wanted future researcher to focus on assessing existing difference between male and female borrowing-groups in repayment of the microcredit.

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APPENDIX

QUESTIONNAIRE TO THE CREDIT OFFICERS OF THE BANK

THE IMPACT OF GROUP LENDING ON PAYMENT OF MICRO-LOANS IN TANZANIA

Dear respondent

Kindly find attached questionnaire relating to the above topic. In order to meet this objective, you have been duly selected as a member of the sample to provide relevant and objective data needed to satisfy the quest for this knowledge. I wish to appeal to you to assist by kindly sparing a few minutes to complete this questionnaire. You may either disclose your identity or not. I also wish to assure you that your answers will be treated in strict confidence and used for academic purpose only.

When completed please return to the researcher. Your co-operation in completing the questionnaire is greatly appreciated.

Yours sincerely.

SECTION A: Respondent Profile

1. Data ________________ Time ____________
2. Phone number: _______________
3. Name of the Organization ________________________
4. Gender of respondent:

M	F
1	2

5. Your age group:

21-25years	26-30 years	31-35 years	36-40 years	41-45years
1	2	3	4	5

6. Your level of education

Secondary education/Certificate	Diploma	Advance Diploma	Degree	Master
2	3	4	5	6

7. Your experience banking sector

<3 years	4-6 years	7-9 years	10-12 years	>12 years
1	2	3	4	5

SECTION B: Study Results

8. How would you rate effectiveness of group lending program (group borrowers) compare to the individual lending program (individual borrower) in repayment of the loan?

Very ineffective (1)	Ineffective (2)	Moderate (3)	Effective (4)	Very effective(5)

9. The study wants to understand the benefits and challenges of using group lending program. The following are the possible facts involve lending business. Try to compare those facts in the group lending business and in the individual lending business and show how you would rate them as they applied in Group Lending (GL) over Individual Lending (IL). Please show how you would rate them in the given scale of "very low" to "very high"

s/n	Variables	Very low (1)	Low (2)	Equal (3)	High (4)	Very high (5)
i	Cost of obtain client in GLP compare to ILP					
ii	Cost of processing loan in GLP compare to ILP					
iii	Cost of provide trainings to borrowers in GLP compare to ILP					
iv	Cost of monitoring repayment in GLP compare to ILP					
v	Risk of default in GLP compare to ILP					

vi	Cost of recover unpaid loan from GLP compare to ILP					
vii						

10. Mention any possible risks associate with group lending program __________

____

____

11. The study wants to know factors that mostly like to influence repayment of the loan in the group lending program. Therefore, you have been given different factors for you to show how you would agree/accept their influence in making group borrowers not to default the loan.

S/N	variables	Very low influence (1)	Low influence (2)	Moderate influence (3)	High influence (4)	Very high influence (5)
i	The use of collateral					
ii	Amount of loan given					
iii	Amount of interest charged					
iv	Repayment period given					
v	Grace period given					
vi	Nature of the business performed by group members					
vii	Level of education of group members					
viii	Leadership of the group					
ix	Group with only male					
x	Group with only female					
xi	Group with male and female					

12. What are the other factors which might have influence in repayment of the loan by group borrowers?

____

____

13. The study wants to know mechanisms you have been employed to ensure group borrowers repay the loan. You have been given the following variables (factors

which might be useful in ensure borrowed money is fully repaid) to rate the extent you have been applied to the group borrowers to ensure the loan is repaid.

S/N	Variables	Very low applied (1)	Low applied (2)	Moderate applied (3)	Highly applied (4)	Very highly applied (5)
i	Provide financial training to the group members					
ii	Visit businesses/projects performed by group members					
iii	Impose threat to the group members who seem to default					
iv	Selling collaterals given by group members					
v	Accuse group member to the court once default					
vi	Use service of debt collectors					
vii	Use money from group saving account.					

14. What other factors do you apply or use to ensure group borrowers repay the loan?

____

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Thanks for your time