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THE ASSESSMENT OF CHALLENGES FACING THE GROWTH OF INFORMAL LENDING GROUPS IN TANZANIA. THE CASE OF VICOBA.

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Abstract.
Purpose: The study aims at the assessment of challenges facing the growth of informal lending groups in Tanzania. To meet this goal three specific objectives were involved: indicators of informal lending performance, the challenges facing informal lending practices, and the procedures to foster the performance of informal lending.
Design/Methodology/Approach: The study was qualitative and applied a case study approach. A case study enables the researcher to maintain holistic and meaningful features of respondents. Village Community Bank (VICOBA) was selected as a case as it represents the basic future of micro-lending in Tanzania. Purposive sampling was employed to select VICOBA groups. The study was conducted in the Coastal region at Boko Mnemela and Kilimanjaro region at Moshi rural which is familiar to the researcher and consists of many informal lending groups with different intercultural aspects. Seven groups consisting of 40 members were interviewed. An average of two members from each group were interviewed to collect qualitative data. The instrument used include interviews, focus group discussion (FGD), and observation. Content analysis and coding approaches were used to analyze the data and interpret the findings
Findings: the findings observed that lack of capital, late repayment, absenteeism, lack of financial information, dropouts, group preconceptions, and business failure are the challenges facing informal lending growth.
Practical implications: Micro-lending institutions should ensure proper information sharing, ability to pay, willingness, group registration, and proper assessment procedures to foster the performance of informal lending. These results will enable policymakers and Government authorities how to improve the performance of micro-lending for an effective theory of financial inclusion in creating government revenue.
***Keywords**: Informal; lending; microfinance; VICOBA, Tanzania.*

INTRODUCTION.

Informal lending groups have shown significant contribution to sustainable contribution in individual income growth. Moreover, has created self-discipline in acceptable business innovation and product development for households(Gomera & Oreku, 2020; Pamuk, Asseldonk, Tumainiely, Ruben, & Wattel, 2020). This includes but is not limited to savings clubs that people run themselves, savings clubs that are managed by other people, rural social groups, street food vendors, religious or welfare organizations or paid commercial managers, and informal providers such as money lenders, pawnbrokers, or deposit takers(Hunt & Hayward, 2018).

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Several features of moneylending distinguish it from other informal borrowing options, such as subprime lending, microfinance, and chit funds, available to micro-entrepreneurs in different markets. Informal lending in emerging markets is usually not registered and therefore does not enjoy the legal protection that subprime lenders and microfinance firms do. This lack of legal protection puts moneylenders at a high risk of facing default(Charles & Mori, 2016). Interestingly, however, informal banking, including informal moneylending, has been growing in most emerging economies, and default rates are comparable to those of informal lending or even better.

Furthermore, microfinance firms and chit funds operate by organizing groups of borrowers to induce payments by peer pressure, the contract between the informal lending and the entrepreneur aims to sustain a long-term lender-borrower relationship in the absence of legal protection and without the use of collateral or peer pressure(Emekter, Tu, Jirasakuldech, & Lu, 2015). Another causal of informal lending in developing markets is that they ordinarily gather expansive wholes of undeclared cash, which they do not save in banks or devote to formal venture alternatives. The mechanism of how this informal group operates is much more complex as the needs are short-term and immediate(Charles & Mori, 2017).

Tanzania has an extensive history of policy and institutional interference to confine the size and impact of informal lending, but informal borrowing remains stubbornly elevated. In the past decade, Tanzania regulators encouraged design experimentation in products, contracts, and institutions and encouraged credit complements such as savings, remittances, and payments (BoT, 2018). Consequently, the regulators have also reinforced steps to assist inclusive formal lending infrastructures, such as international identification to help in legal reform, credit scoring, land titling, substantial lending, and internet connectivity (Charles & Mori, 2017; Hunt & Hayward, 2018). Yet for a long time now, cross-cutting efforts designed to enlighten the breadth and depth of informal rural lending in Tanzania remain at its highest level even though the practice is being viewed differently.

The practices of micro-lending have created diversity and heterogeneity of informal products and have often stymied attempts by regulators and providers to discharge the drivers of aggregate sectoral trends (Magali, 2021). Informal product innovation and a clear framing of financial inclusion strategies and policy analysis are hampered. Aside from the contradictory findings, previous research has not paid enough attention to recent challenges affecting microlending performance in recent years. For example, the literature lacks convincing results demonstrating whether challenges facing informal lending have been analyzed to honour their performance rather than using traditional ways. Consequently, this study aims at examining challenges facing informal lending in improving the performance of informal lending groups.

This study ascribes the broad collection of solutions in financial inclusion in microbusiness lending to foster proper performance. The establishment of the current solution and the identification of challenges impeding micro-credit performance will pave the way for future studies and practitioners to find practical solutions.

LITERATURE REVIEW

Microfinance Theories

The theory of microfinance can be traced back to the 1800s when Lysander Spooner, a theorist wrote about the benefit of small credit to farmers and entrepreneurship as a means to remove poverty in society. This concept was then pioneered by Muhammad Yunus when he started the Grameen bank project whereby they provided a non-collateral loan to finance the poor(Scott, 2006). The concept evolved when the banks in Bangladesh were gender-biased. Moreover, rich women were oppressed by banks as they could not offer loans to them without discussing them with their husbands. However, Grameen Company's studies on how male borrowers use their loans versus female borrowers consistently confirmed that women are the best borrowers, so they began to focus on women. An intensive view of microfinance is obtained from the financial diaries of the poor houses hold in developing countries(Islam, Nguyen, & Smyth, 2015).

The society formulated Rotating Saving and Credit Associations (ROSCAs), cooperative societies, and saving clubs intending to enable the poorest of the poor to access funds. Moreover, both ROSCAs and credit cooperatives involve the formulation of groups where it depends on informal understanding among friends and networks(Scott, 2006). ROSCAs are simpler because are informal formulated rather than cooperatives which are legally formulated and it has a degree of legal status.

ROSCAs and credit cooperatives are commonly seen as the way to solve financial constraints for those impaired poor groups in society through group formulation. ROSCAs and credit cooperatives are ordinarily seen as the shade of saving and compensation for credit anomalies(Chipindula & Mwanga, 2015). Consequently, ROSCAs and credit cooperatives provide a holistic way to save that is typically available to low-income societies.

ROSCAs are the art of informal lending. Once the money is collected from one person is moved to another person resulting in no savings or idle cash. Collections or repayments are done weekly or monthly during the meeting (Scott, 2006). The meeting is scheduled per week, after two weeks or monthly depending on the economic activities of every member. On the day of every meeting, each member adds the shares as agreed by the group and disburses the funds to the members who requested the loan with very low interest (Dasgupta & Gupta, 2021).

Group lending

Group lending was mainly initiated in Bangladesh whereby a group of forty villagers met together for half an hour and meet a loan officer from Grameen bank. The group could be subdivided into 8 groups consisting of five members each (Scott, 2006). Each transaction is recorded in financial diaries called passbooks which will then be used by the officer to create a ledger. The operations are transparent to each other to enable them to understand

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the saving and repayment status of each one. Group lending is gaining status. A new version was created by Grameen-style replicators. They create an arrangement whereby individuals get together and create groups to acquire loans from the moneylender (Dasgupta & Gupta, 2021). Consequently, groups operate under the ultimate idea of joint liability coupled with systemic group meetings.

The practices of informal lending in Tanzania

Financial inclusion is one of the most significant challenges that many households in Sub-Saharan Africa face. As a result of the low cost of the financial system, very few people have access to it. Furthermore, households lack collateral to secure borrowed funds, preventing them from accessing formal services (Islam et al., 2015). This means that, while using land as collateral is advantageous because it cannot be removed and does not lose value easily, many borrowers face credit barriers due to a lack of formally documented ownership rights. (Charles & Mori, 2016).

Village Community Bank and Loan Group (LG) originated from India a long time ago. The combination of two main issues then formulated VICOBA. These were, Accumulating Saving and Credit Association (ASCA) and Rotating Saving and Credit Association (VIBATI). VICOBA was adopted by developing countries as the mechanism for eradicating poverty, especially in rural areas (Weber & Musshoff, 2012). In Africa, it was first implemented by CARE International in the 1990s in Niger. Tanzania was also initiated by CARE in the 2000s specifically located at Zanzibar for the pilot test.

According to the National Bureau of Statistics NBS (2017), Tanzania has a population of 52 million people, with more than 80 percent of Tanzanians still living in rural areas with limited financial services. Consequently, VICOBA is regarded as one of the most informal institutions, serving the majority of rural residents. A study conducted by Magali, (2021) also revealed that most participants are women who realized the livelihood improvement rather than men as it includes several gatherings to serve each other.

According to Gomera & Oreku, 2020, participants are from the entire population ranging from unemployed to employed where the study showed only 4% are having degree level. Subsequently, members are those societies which are cannot access or are excluded from formal financial institutions (Bao, Ni, & Singh, 2018). This includes but is not limited to farmers, food vendors, saloons, street vendors, vegetable vendors, and tailors. Thus, these groups are formed based on the location or members who share the common interest which they want to achieve.

Challenges facing informal lending in Tanzania.

A study conducted by Pamuk et al., 2020 in Iringa Tanzania revealed that 45 percent of loans were distributed for agricultural investment activities and that the main impediment was low savings and participation rates, as well as loan late repayment or defaults as well as poor record-keeping among members. The income level among members is also not exactly known and depends mostly on the seasonal harvest of crops (Anuradha, 2020). Consequently, the prices of the crops are also uncertain which attracts major unintentional

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default to members. Moreover, Low saving prohibits loan loss coverage in case any member defaults.

Tollano, 2019, observed that Poor credit assessment and dishonest borrowers were cited as one of the factors affecting microfinance organizational performance by 44 percent of management personnel. Loans are disseminated by intentionally violating the lending procedures in either case such as loaning low or high with an intention of a bribe (Emekter et al., 2015; Islam et al., 2015). Moreover, low loan disbursement resulted in low capital among members due to poor assessment and hence VICOBA members failed to perform well (Magali, 2021). Consequently, dissatisfaction of VICOBA members concerning the loan being disbursed is one of the reasons which make the borrower dishonest by delaying loan repayment in partial or full.

Educational level may be one of the bottlenecks of village and community bank (VICOBA) as dealing with financial issues by analyzing and keeping records is considered substantial. A study conducted by Gomera & Oreku, 2020; Magali, 2021; Tollano, 2019 revealed that more than 60% acquired only primary education (standard seven). Consequently, education is considered one of the critical factors for predicting future performance and risk detection analysis in making decisions(Ogouvide, Adegbola, Zossou, Zannou, & Biaou, 2020).

Conceptual framework

The study aimed at assessing the challenges facing the growth of Informal lending groups in Tanzania and propose suitable procedures for improving the performance of these groups. Microlending has spread all over the world as it provides the development of poor societies by providing small credit s among members as the mode of financial inclusions to stream financial performance (Possner, Bruns, & Musshoff, 2022). Moreover, clients are both located in rural and urban areas acquire funds from microcredit and invest in various informal activities to gain from those opportunities and if possible be able to transfer from the informal sector to the formal sector (Allison, Davis, Short, & Webb, 2015).

Consequently, activities involved but are not limited are farming, small food vendors, car wash, boda-boda, tailors, vegetable sellers, carpenters, food stores, and street vendors. The existing literature shows that despite stringent conditions and having group-joint liability as collateral, micro-lending performance is not substantial. Consequently, the improved performance of informal lending could be achieved as shown in the conceptual framework in figure 1.

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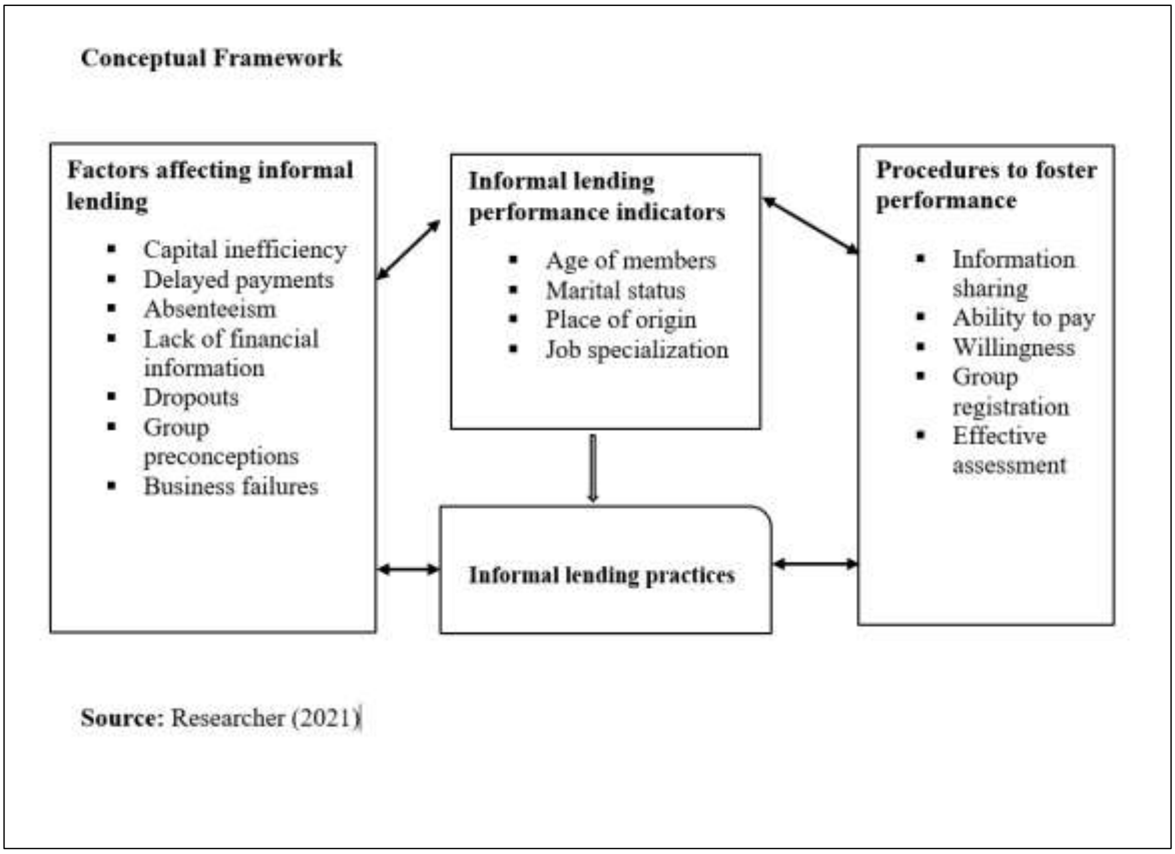

Source: Researcher (2021)

Figure 1: Performance of informal lending framework

Consequently, the framework concept in figure 1 above addresses three characteristics that are related to the research question addressed in this study, namely performance indicators, challenges, and recommended procedures for improving the performance of informal lending.

In Tanzania, informal lending is a great stand-up process for including the rejection from financial intermediaries to participate in creating a national economy and alleviating family poverty(Weber & Musshoff, 2012). Despite their great importance-performance micro-loans are still lagging. This motivated the contemporary study in the assessment of challenges facing the growth of informal lending groups.

Informal lending is facing drawbacks as members try to obtain capital to sustain their business. As observed by Charles & Mori (2016), Sub-Saharan African countries operate in the informal sector, and they own informal collateral that is not used to secure loans. Consequently, the businesses in the informal sector are not grown as they lack adequate information as do not keep records (Ojwang & Shau, 2021).

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The performance of informal lending depends on group formation as it creates joint liability as to the collateral. There was also observed by Mou et al., (2020) who revealed that geographical location has an impact on the performance of microloans. Consequently, group members with different locations will have different characteristics which include age, job specifications, place of origin, and marital status. These features cement joint liability as they improve the performance of informal lending.

Informal lending practices are inspired by proper loan assessment procedures whereby money lenders witness the willingness of each individual by searching for the right information. Consequently, effective assessment through verification of member properties through observation or use of specified tools tend to foster the performance of microlending

METHODOLOGY

Research design

A qualitative research design was used in the study. (Cresswell, 2014), in assessing lending performance in the informal sector. The case study is used as it enables the researcher to maintain a holistic phenomenon. The case study was used because data collection were used through interview, observation, and focus group discussions respectively to generate results related to research questions

Participants and the Study area

The study was conducted in the Coastal region at Boko Mnemela and Kilimanjaro region at Moshi rural which is familiar to the researcher and consists of many informal lending groups with different intercultural aspects. Seven groups consisting of 40 members were interviewed. An average of two members from each were interviewed to collect qualitative data. These groups were earmarked based on friendship, neighbouring, and the presence of many groups in one location. As a result, all 14 participants in the study came from various business sectors and genders.

Methods of data collection

To collect qualitative data, interviews, focus group discussions, and observation was used. These questions were based on the indicator of microlending performance, challenges to microlending, and recommended procedures to improve microlending performance in Tanzania. These themes were created in response to research questions. The interviews were intended to be natural dialogues centered on the identified themes. The interview lasted between 10 and 20 minutes. The researcher took extensive notes on the previously prepared form in each theme in Kiswahili. The responses, however, were then translated into English for reporting purposes. The data was analyzed and the findings were interpreted using content analysis and coding techniques

RESULTS AND DISCUSSION

The study involved three variables, performance indicators, challenges, and recommendations for improving the performance of informal lending. The study revealed that recommended procedure will enable VICOBA members to meet the objective of shifting from VICOBA to formal financial inclusion and improving member's life.

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A potential indicator of VICOBA performance on micro-lending in Tanzania.

The study revealed that for those succeeding VICOBA groups there is a great look at various performing indicators during the selection of members when they want creating groups. Moreover, we found that among factors were the age of members, marital status, place of origin, and job specialization.

Age of members

The study revealed that members of the same age respect each other and can do the same activity. Consequently, members of the same age have the same behaviour as they all have the same situation in their daily life.

"*Our age is between 35 to 40 years; we are mature enough as we all have the same behaviour and status. We are all working not retired and hence we can repay our dues on time without delay…"*

Field 2021

This is proven by members as they said having the same age leads the group to have one character with the same capacity. Additionally, members of different ages, for example, retired would not be able to make on-time payments the same as a group having 35 to 40 years.

Marital status

During the study, it was revealed that members who are married perform better than those who are single. Consequently, those who are married work together to accomplish the family goal of poverty alleviation and fostering development, and when the problem arises partners support each other.

"In our group, we did not involve unmarried members because they are not serious in attending meetings and on-time payment of their dues because they are not settled in one issue or place……."

Field 2021

The researcher observed that members with the same status understand each other well believing that no one will misbehave with their financial affairs as they are having the same goal to accomplish. Moreover, the formation of VICOBA is not only on micro-lending rather members expect to benefit more from the group on the issues concerning family matters including wedding gifts, funeral costs, and, the graduation of their beloved family members.

Homeland

The study revealed that, members who have the same place of birth or tribe, respect and understand each other. Members with the same native language love each other and are willing to meet every meeting hence misunderstanding within the group is relatively very low.

"*This group was mainly established involving Chagga people from Moshi Rural village of Kilimanjaro to help each other on difficulties and happy moments (Shida na Raha kwa wazawa wa Uru- PASHIRA) and we managed to do as our vision directs …."*

Field 2021

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The researcher observed that members from the same homeland have the same passion and are keen to serve each other especially when one among members faces difficulties and the group still performs well for the entire period provided that information is the key to any performing VICOBA group. Providing a loan to the member, repayment is obligatory driven by the team spirit of building our home. Once the problem arises among members it is easier to deal with at the early stage before it becomes difficult or permanent to recover

Job specialization.
The study revealed that members with the same specialization perform better than those with mixed job categories as members lack experience in someone's business. Members with the same work specialization understand each other and when it comes to doing credit analysis it became better for proper disbursement with low or limited over and or underfinancing. Moreover, members with the same work specialization meet each other more often than those with different job specifications because time constraint for the meeting is eliminated. The study agrees with a study conducted by Mou et al., (2020) where loan performance depends on landmarks and job specifications of customers as it is easy to share information.

Challenges facing VICOBA micro-lending in Tanzania.
A researcher found that major challenges facing the VICOBA micro-lending environment from all causes are: lack of capital, late repayment, absenteeism, lack of financial information, dropouts, group preconceptions, and business failure.

For capital inefficiency, it was observed that groups lack enough capital to lend to each other which will be adequate for their business. Consequently, groups depend on weekly or monthly contributions as the only capital available. However, local authorities like Small Industries Development Organization (SIDO) are providing loans to small business groups under the scheme of NEDF and RRF but still many groups do not meet the minimum requirement. The provision of capital is considered of utmost importance for members' business succession.

For the late repayment, we observed that customers' willingness to repay borrowed amount is compromised. Consequently, untrustworthiness members believe that it is only them who should benefit from the group and not the whole group. Late repayment is the heritage behaviour as punishment for members with previous late repayment which is considered a group killer. Shema, (2021) in the study concerning effects of the increased credit limit in digital microlending found the same results that, assessment of willingness to repay the loan is important before increasing credit limit. Moreover, the collateral pledged is the group itself therefore recoveries may become impractical. The findings are the same as the study conducted by Charles & Mori, (2017) on clients of informal lending institutions' loan repayment performance.

The researcher observed that members are absent during the meeting or the meeting is cancelled as the group quorum is not met. Moreover, it was found that members were late

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without comprehensive reasons though they were liable for the penalty which they were not reluctant to pay.

Lack or inadequate business information was observed by a researcher as one of the major challenges facing micro-lending institutions which VICOBA is among them. VICOBA members do not attend seminars or training concerning their business on a routine basis or at all. Consequently, the absence of business information leads to poor forecasting of financial business performance then in the end business fails. Disclosure of information through the provision of education will enable members to access resources that will support their business(Ojwang & Shau, 2021). It was revealed that only a few groups were registered by municipal authorities to benefit from NEDF and RRF.

The researcher observed that some members quit the group voluntarily or involuntarily for known or unknown reasons. Members may quit because they do not agree with the other members' decisions or there is a mistake that led to disciplinary action like delayed payments. Member dropouts impair the succession of the group as there should be a substation for the lost member to make sure the group is prospecting something is very difficult to find the right one. Consequently, the group may liquidate with unmet objectives and hence group failure as members fear welcoming new members believing that they will pose the same bad character.

Members' preconception was observed in many groups as one of the challenges impeding group succession. Members with financial capacity tend to make decisions and those with no capacity follow. Moreover, members with low capacity tend to be inferior and feel are worthless thus creating extra groups. Consequently, members who have the same capacity avoid members who are not in their capacity though are in the same groups resulting in group failure.

Members’ business failure is the major problem facing VICOBA. Failure of business affects savings and repayments of loans. Most VICOBA members work in the informal sector as street vendors then their business income is uncertain or not predictable for the entire period. For instance, most street vendors who were forcibly evacuated from the urban street made them close their businesses and thus are unable to meet their dues. The results are consistent with Anuradha, (2020) as it was revealed that business operation activities are such as business failure is one of the factors contributing to non-performing loans in microlending.

Procedures to foster the performance of informal lending

The study revealed that information sharing, ability to pay, willingness, group registration, and proper assessment are major procedures to foster the performance of informal lending.

Information sharing to the members tends to improve the performance of informal lending through the provision of education and training. Consequently, information sharing through digital technology like short messages, WhatsApp, Facebook, Twitter, and the internet is considered best for removing this bottleneck. This finding matches with a study conducted

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by Ojwang &Shau (2021) on the challenges of financial communication on the growth of SMEs. Information sharing creates joint-liability very strongly as all members will be participating in all matters relating to the group without missing. Moreover, members may review any information through mobile technology when needed. Information could be stored on special devices for future reference and use(Gomera & Oreku, 2020).

The ability to pay is one of the important factors in micro-lending. Moreover, payment ability determines how borrowers will be able to pay by identifying their sources of income and expenditure. Most groups lend by depending on the members' monthly savings which do not indicate an ability as well as willingness to pay.

The study revealed that most group members are willing to pay if entered the group in utmost good faith. However, members who were being unwilling to pay showed this hatred behaviour from the beginning of the group. Willingness to pay creates a core of the very foundation of a succession of micro-lending businesses. Also, unwillingness to pay creates dropout which in turn creates losses to existing members which makes the group insolvent. Registration of groups to local authorities like residential districts and municipals enables microfinance institutions to access capital and power to recover bad loans from untrustworthy customers. Registration includes a well-established group policy that incorporates group members, rights, and duties of each member. Moreover, registration of a group creates trust among members believing that they do not lose focus.

Proper assessment is the foremost for the succession of micro-lending practices. An assessment for the loan must reflect the real financial status of borrowing members at present and not in the past or future before loan disbursement (Anuradha, 2020). Deprived assessment leads to underfinancing or overfinancing which one factor is leading to poor loan repayments. An assessment should be done to verify the business status and customer behaviours to remove any possible prominence obstructing the performance of loans before disbursing to customers.

CONCLUSION

Micro-lending has a great role in the performance of microfinancing institutions through financial inclusion of the underprivileged without or movable collaterals. Mou et al., (2020) also revealed that microlending has grown up to 250 million customers all over the world as it serves the poor and can also be used on social platforms to make it easier. Moreover, micro-lending is the carving succession for the VICOBA business members. The study discloses that micro-lending is still a challenge for the performance of microfinancing institutions and small businesses. Therefore, poor financial information dissemination, capital inefficiency, late repayments, absenteeism, intentional dropouts, and group preconception are found to be the main bottleneck for micro-lending businesses. However, to improve the performance of micro-lending financial institutions must improve or introduce information sharing, ability to pay, willingness, group registration, and proper assessment. These practices also have been explained by Gomera & Oreku, (2020); Gomera, Oreku, & Shau, (2021).

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Government and other authorities play an important part in the registration of micro-lending institutions which then creates a friendly financial inclusion environment whereby every business person can access venture capital. Also, registration of groups such as VICOBA will enable them to access capital from formal sectors like Commercial banks and grow which in the future they will meet the transformation objectives of business growth and wealth maximization. This replicates the suggestion made by Magali, (2021) that government should establish mechanisms for providing capital to the informal sector to support their business. Moreover, the provision of non-costly financial education could eradicate the dilemma of non-performing micro-loans as customers will understand the way to deal with business and therefore ensure proper loan repayments.

Improving the performance of microlending will enable customers to formalize their business, reducing the level of dependency and poverty from family to the national level. Graduating members from the credit reference bureau will now enter into a tax bracket base and begin to pay taxes to the government. Therefore, the government should establish better ways in promoting informal lending as its citizen will benefit and be able to pay taxes. Moreover, the finding contributes to the policymakers by suggesting proper procedures to apply in improving informal lending, especially for those working in the agricultural sector. Most of its members are engaged in agricultural production which is the backbone of the very nation to success (Weber & Musshoff, 2012). Therefore, enhancing informal groups means effective agricultural business enactment.

To focus on findings, the study purposes the researcher to apply procedures for proper assessment before disbursement will minimize non-performing loans in microfinance institutions. This study suggests future studies to consider how human behaviour can improve the performance of micro-lending and what are enabling situations that can transform the informal business into a formal business.

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