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Accessibility of Women Group Lending and Repayment Performance in Council's Women Development Fund of Lushoto District Council in Tanzania

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Abstract

The access to microcredit for women in local government authorities is an essential financial service to ensure empowerment of poor women and their families in alleviating poverty in Tanzania. This study was carried out to assess loan accessibility and women repayment performance in Council's Women Development Fund of local governments in Tanzania particularly for Lushoto District Council. The study used secondary data of five financial years from 2015/2016 to 2019/2020 collected from council's progress reports and women's loan repayment records available in loan management unit. Simple random sampling was used to select 54 women group loans provided by Lushoto District Council through contractual repayment agreement signed between the district council (lender) and individual women entrepreneurial groups (borrower). SPSS computer software version 16 was used for data analysis to reveal descriptive statistics and ran binary logistic regression. Results show that there was an increase in accessibility of women microcredit provided by Lushoto District Council since the amount of money allocated for women microcredit has increased parallel with increase in number of borrowers in the past five years. More results revealed that there is a decline in loan repayment among women groups in the last two financial years of 2017/2018 (68.4%) and 2018/2019 (67.2%). Binary logistic regression revealed that loan size disbursed to a women group has significant influence and positive relation with loan repayment defaulter ($\beta 1=0.001$, $p=0.038$). The study recommends to the Lushoto District Council and other local government authorities that they should regularly review their loan appraisal systems so as to enhance effectiveness in scrutinization of women loan applications. In so doing, councils can make proper decisions about size of loan to be provided to borrower in order to avoid occurrence of non-performing loans.

Keywords: Borrower, Lender, Loan Repayment, Microfinance Institution, Microcredit

1. Introduction

National and international development institutions have been supporting the promotion of microfinance to the poor for alleviation of poverty (Matin et al., 2002; Armendariz & Morduch, 2010; Armendáriz & Labie, 2011). Microfinance programmes implemented by the governmental and non-governmental institutions aim at providing access to credit and other financial services to communities constrained by capital for establishment and expansion of their small businesses. Usually, poor people left away by many financial institutions because they lack assets to submit as collateral and failure to afford the costs of transaction; Armendariz & Morduch, 2010; Armendáriz & Labie, 2011).

In the world, women constitute a high proportional of poor people in many communities particularly in developing countries and sub-Saharan Africa (Fletschner, 2009). This is due to the fact that women are constrained by financial, social and economic inequalities in the formal markets (Meyer, 2013). In spite of such inequalities facing women, they demonstrated leading role that ensures wellbeing of their families. They significantly participate in social networking such as care giving and communal works as well as in reproduction and economic development (Momsen, 2004; Niehof, 2004a; Niehof, 2015). Women always struggle to seek opportunities for personal and family welfare improvement. In order to realize personal and family welfare improvement, many women establish micro-enterprises with limited financing to diversify their livelihoods (Schreiner & Woller, 2003).

Using microcredit programmes, some few microfinance institutions provide financial support to the poor micro-entrepreneur including women found in rural areas. They provide micro-loans to enhance productive enterprises and thereafter repaid with interests. Loans enable borrowers to implement strategies and decisions to ensure that their business achieve (Matin et al., 2002; Guiso et al., 2004). Small loans provided to micro-entrepreneurs are expected to increase income generated from businesses which thereafter contribute in poverty alleviation (Matin et al., 2002). In India, microfinance group in the form of self-help groups or Grameen groups is one of successful strategies through which the poor people are reached with financial services. These were informal groups formulated by the poor women who live in rural or urban areas. The group members organize, own, operate and control themselves based on unification, reciprocity, shared interest and resource ownership. Microfinance groups are homogeneous which share common social background or traditional occupation and united together for the purpose of raising and managing their collective savings in order to benefit all group members. These groups are socially designed to make members participate in business so that each one is socially and economically accountable. In particular, a group-based lending contract effectively makes each group member obliged to the loan contract, participate in monitoring and adhere repayment of loan (Namayengo et al., 2016).

The Government of Tanzania embarked on financial sector reforms in 1991 for the aim of establishing an effective and efficient financial system (Kyungay, 2007). In order to put a clear guideline to the functioning of financial services to ensure that men and women have equal access to credit, the National Microfinance Policy (2000) provided guidelines on how to achieve gender equity in accessing financial services as well as promote empowerment of women economically. The policy directs special effort to incorporate mechanisms to make sure that credit and other financial services are equally accessible to both women and men. It provides flexibility for regulation of financial institutions so as to effectively contribute to poverty alleviation especially to the enhancement of women empowerment in Tanzania. The policy realized that still there are few financial institutions which provide credit with terms and conditions that can be fulfilled by poor women. Moreover, the policy directs women from small and medium enterprises to access credit, participate in training regarding entrepreneurship and business management, and involve in marketing (URT, 2005). According to the National Microfinance Policy 2017, government and non-government institutions are making efforts to support women to meet standard certification of their products and access markets. In Tanzania, there are various established credit facilities which target women. Among others, there is Women Development Fund (WDF) which implemented by Local Councils under National Gender Machinery while supported by the government of Tanzania. The fund provides credit to poor women in all Local Councils in the United Republic of Tanzania. Apart from WDF, there are other private funds which target poor women. These include, among others, CREW Tanzania, FINCA, PRIDE, SELF and Gatsby Trust. Also, efforts have been undertaken in community sensitization so that many people particularly poor women from rural areas can join Savings and Credit Cooperative Societies (SACCOS) and Community Banks in order they can have access to microcredit (URT, 2017).

Many women entrepreneurs in Tanzania united in informal groups so as to enhance their chances of getting microcredit. The report on human development released by the United Republic of Tanzania indicated that women in Tanzania constituted only 15% of members in formal rural savings and credit associations (Kyungay, 2007). However, local government microcredit schemes provide the voluntary formulated groups of women entrepreneur opportunities to loans through council's women development fund. Between 2015/2016 and 2019/2020, Lushoto District Council's microcredit scheme provided small loans which in most cases ranged from Tanzania shillings (TZS) 2,000,000 to TZS 5,000,000. The loans are provided to women who joined in business groups in order to help them obtain capital because they often lack assets which are demanded by financial institutions as collateral. Also, many women left behind economically because of deep-rooted customs which deny women from owning productive assets such as land and livestock. It is expected that through micro-loans provided by local governments, women can participate effectively in generating income so as to support their families. When women establish business, the income generated can improve family access to basic needs such as health insurance, education, food and proper housing conditions. Lushoto District Council is providing small loans to women groups as a portion of revenue collections. Hence, it is very important to have recent information regarding women access to council's microcredit and repayment performance of women groups. Such recent information may help the council to review its loan appraisal mechanisms and loan management where appropriate. The review may come up with effective mechanisms which the council can use in the allocation of reasonable size of loans to applicants and appropriate loan management mechanisms so as to avoid loan repayment default and enhance women economic empowerment and their families in Lushoto District Council.

Much has been done by authors to study group lending mechanisms applied by microfinance institutions for women entrepreneurs who are applying loans in Tanzania. Some of the studies include; assessing factors constraining individual women accessibility to credits in financial institutions in Morogoro District (Kyungay, 2007); a study on loan repayment performance of clients of informal lending institutions (Charles & Mori, 2017); effectiveness of women group lending in PRIDE Tanzania (Morogoro branch) financial institution; and examining effects of microcredit on performance of women owned entrepreneurs and household welfare in Arusha, Mwanza and Dar es Salaam Cities in Tanzania. Despite having these studies, still, there is lack of knowledge regarding group lending scheme implemented by local government councils in Tanzania through utilization of councils' women development funds. In order to address the knowledge gap, this study assessed accessibility of women group lending and repayment performance in women development fund for Lushoto District Council in Tanzania.

2. Literature review

2.1 Theoretical literature review

This study used Grameen Micro-credit Model to explain loan accessibility and repayment performance among women groups in Tanzania using Lushoto District Council's women micro-credit scheme as case study. The model is used because it explains incentives of group lending especially to poor women from rural areas and landless women who traditionally do not easily have access to credit from commercial banks. In the past, it was believed that providing credit by financial institution to the poor is a laughable concept. However, it is evident that proving small loans to the poor people may help them to establish their businesses for poverty alleviation especially in rural areas. Microcredit can be provided to the poor to help them run income generating projects. When financial institutions adjust their loan interest rates to the poor like women, they can afford the costs of transactions because there will be many applications which eventually can help the bank to compensate the processing costs (Hassan, 2002). In recognizing the needs of credit to the poor people despite the fact that they lack collateral required by many of microfinance institutions, Grameen Bank in Bangladesh developed a model to help the poor to have access to small loans by joining in voluntary groups. The model is known as Grameen model which was emerged in 1976 through effort of Prof. Mohammed Yunus from Bangladesh. The Grameen model aimed at supporting livelihood by providing the poor with microcredit for running business (Hassan, 2002; Haldar & Stiglitz, 2016; Barua, 2006).

In most cases, most of poor people in rural areas lack economic resources such as arable agricultural land and livestock. Hence, women's denial of microcredit provided by commercial banks is contributed by lack of assets such as land, quality house and livestock (Barua, 2006). However, the Grameen Bank motivated the poor to participate in a free market and fostering their income generating activities (Hassan, 2002). Professor Muhammad Yunus who is economist from Chittagong University used the Grameen Bank in Bangladesh to carry out an action research program in 1976. The specific objectives of the research were; i) to spread access of banking service to the poor people regardless their gender. ii) to abolish the exploitation from moneylenders. iii) to promote self-employment for untapped manpower. iv) to provide mutual support to disadvantaged people in order to enhance their social, political and economic participation. v) to reverse an existed notion of "low income, low savings, low investment, low income" directed to the poor, and becomes "low income, credit, investment, more income, more credit, more investment, more income" (Barua, 2006).The Grameen Bank established a group lending scheme to facilitate small loans to the poor. Group lending system used by Grameen Bank had effect on the behaviour of the poor particularly rural women through provision of credit and inputs to improve their livelihoods. In fact, group lending builds confidence to the poor due to the fact that little support can improve their living conditions and welfare of their children. Moreover, through group lending, the poor can improve their lives using their own labour (Hassan, 2002). Providing microcredit to voluntary groups formulated from people of similar social and economic background in the village has advantage in understanding members, simplifies monitoring and hence, reduces the possibility of loan repayment defaults.

In group lending of five (5) members used by Grameen micro-credit model members share almost similar socio-economic characteristics so as to avoid one member to dominate other group members. Groups must have centres where they can be found by loan managers who are Grameen employees for ongoing interaction (Barua, 2006; Hassan, 2002). Five to ten group members provides an opportunity for each member to implement the group action plan. Group members were closely related socially and economically, and benefit is easily shared with high possibility of achieving impacts among members. In the time before Grameen model, lending women groups was globally regarded by microfinance institutions as trial and error. However, the Grameen Bank in the first 10 years of its operation provided loans to both men and women. The shift of credit provision to more women was resulted to highest repayment rates in Grameen Bank. The main target group of Grameen Bank group lending system is the family through women who traditionally serve best the welfare of family members such as children, people with disabilities and elderly. Even though her daily wage is low, woman usually makes arguments for welfare of the family based on such insufficient earning (Haldar & Stiglitz, 2016). The Grameen Bank's credit scheme demonstrated impacts to the poor by increasing income, creating employment opportunities, alleviating poverty and empowerment of women especially those in rural areas and women who are landless (Barua, 2006). Therefore, Grameen Microcredit Model was used in this study to explain women access to group lending scheme and repayment performance using evidence from Lushoto District Council's women development fund in Tanzania.

2.2 Empirical literature review

Masimba (2015) studied the effectiveness of women group landing in PRIDE Tanzania. A sample of 120 respondents comprising of credit officers, managers and women entrepreneurs was used to carry out the study. The instruments of data collection were questionnaire, interview guides and documentary review. The study revealed that PRIDE has been assisting women for loans to expand their businesses. Furthermore, the results showed that the size of loans increased for groups which successfully repaid their previous loans. The study identified several challenges facing women groups including lack of trust, low education among group members, family problems, use of poor technology and competitions from other entrepreneurs.

Nawai & Shariff (2012) assessed factors affecting loan repayment performance in microfinance institutions in Malaysia. The survey used a sample of 309 respondents of TEKUN National borrowers. The data was analysed by using multinomial logit regression. The study revealed that distance to the lender office, business formality, gender, total sales per month, formal religious education, loan monitoring, total loan received and disbursement lag have significant effects on borrowers repayment performance. Moreover, the study found that microfinance institutions delay the loan disbursement which causes delays in loan repayment. On the other hand, 11% of respondents were not fully utilized the loan provided in business and hence, contributed to repayment default.

Noglo & Androuais (2015) assessed repayment performance of credit groups in Togo. The study used primary data collected in 2008 from a sample of 36 credit groups gathered from 258 clients of the Maritime region from rural and semi-urban areas. The study revealed that there was high performance of repayment of about 75%. Data analysis of determinants of loan repayment was done by using logit regression model. The results show that social capital (same sex, same ethnic group and same occupation), peer monitoring (visits between members), and informal sources of credit had positive effects on loan repayment performance of group of borrowers.

Zohair (2013) conducted a study to identify factors affecting micro-loan repayment in Tunisia. In specific, the study examined socio-economic and demographic factors influencing loan repayment. The study revealed that loan amount, visits to micro-projects, distance between the borrower and institution and borrower's credit history were significant factors influencing loan repayment default.

Munene & Guyo (2013) examined factors influencing loan repayment default in Microfinance Institutions (MFIs) in Imenti North Kenya. A sample comprised of both MFIs and borrowers. The study revealed that age of business, number of employees, type of business and profit had significant influence on loan default. Other factors such as distance from borrower to MFIs and borrowing history did not explained by Munene & Guyo.

Sungwacha et al. (2014) examined factors influencing loan repayment performance by group borrowers in Bungoma West District in Kenya. The survey used questionnaire to collect data from 20 randomly selected groups. Data was analysed by using Tobit model. The findings show that proximity (near to MFIs) had significant influence on probability that borrower will repay the loan. Other factors including gender, frequency of loan repayment, politics and participation in credit meetings had no significant effect on loan repayment performance.

3. Materials and methods

The study area was Lusthoto District council in Tanzania. Source of data were women group borrowers which provide loans from Lushoto District Council using Women Development Fund between 2015/2016 financial year and 2018/2019. The study used secondary data collected from loan application documents, records of loan repayment and progress reports of five consecutive financial years from 2015/2016 to 2019/2020 of council's loan section of Lushoto District Council. The data helped to assess the accessibility and repayment performance of loan among women group lenders. The population of the study comprised of 64 loans provided by Lushoto District Council to the groups of women entrepreneurs from women development fund during the period of five years (from 2015/2016 to 2019/2020). The sample size was calculated by using Slovin's formula shown below.

$$n = \frac{N}{1 + Ne^2} = \frac{64}{1 + 64(0.05)^2} = 56$$

Whereby; n stands for minimum sample size, N is survey population, e is standard error at 95% confidence level. Hence, 56 loans from the total number of loans which was provided to women groups during that period of five years were used as sample size of the study. The sample size was selected by using simple random sampling. Data was analysed by using Statistical Package for Social Science (SPSS) to generate descriptive statistics. Also, SPSS was used to run binary logistic regression analysis in examining determinants of loan repayment among women groups. The logistic regression model is shown below.

$$\frac{P1}{1 - P1} = \frac{exp(\beta)}{1 - exp(\beta)} = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \varepsilon i$$

Whereby;

- $P_1 = exp\ (\beta)$ stands for chance of women group to be a loan repayment defaulter.
- $\beta 1, \beta 2, \beta 3, \beta 4$ and $\beta 5$ means coefficient of $X1, X2, X3, X4$ and $X5$.
- X1=Loan size (in Tanzania shillings (TZS)), X2 = Proximity (1 if short distance between borrower and district council, 0 otherwise), X3 = Non-farm business (1 if non-farm business, 0 otherwise), X4 = Loan frequency (1 if provided loans by district council in the past, 0 otherwise).
- β0 means constant term;
- εi stands for error term.

4. Results and discussion

4.1 Accessibility of microcredit from Lushoto District Council's women development fund

The study determined the accessibility of microcredit provided by Lushoto District Council to women groups through council's women development fund. The accessibility of loans was determined by the amount money provided as loans and number of women groups benefited in the past five years from 2015/2026 to 2019/2020.

The results show that amount of money provided to women groups as loans has increased in the past five financial years as shown in Figure 1. In particular, funds provided to women groups as loans have increased from Tanzanian shillings (TZS) 10,000,000 in 2015/2016 to TZS 129,500,000 in 2019/2020. The findings demonstrate that there has been an increase in access to loans for women groups engaging in businesses. The loans allocated to businesses by women help them and their families to alleviate poverty through improvement of their living standards and enhancement in food security.

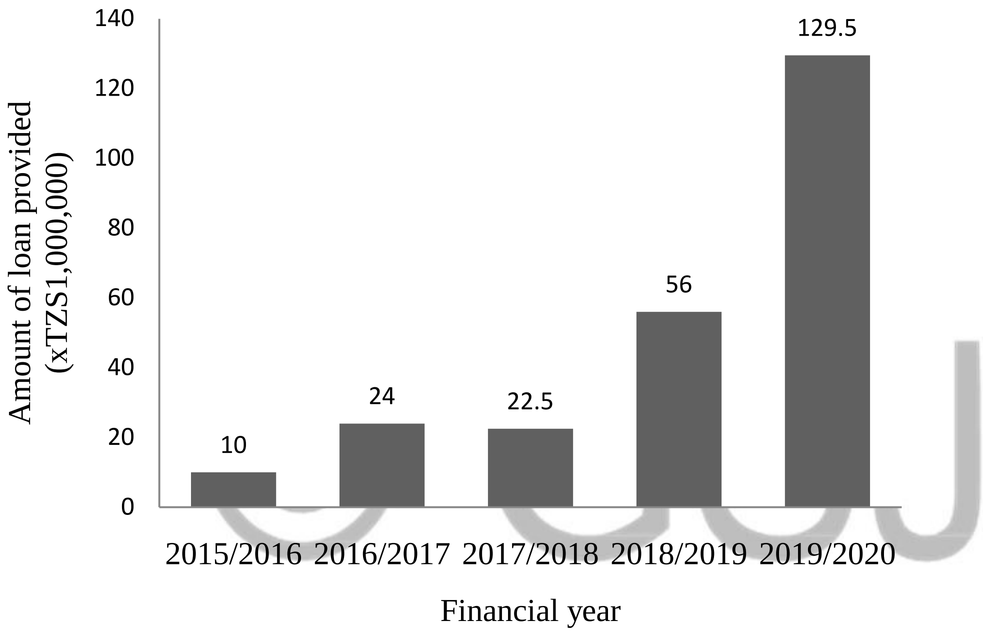

Figure 1: Amount of loan provided to women groups in different financial years

Moreover, the study revealed that from financial year of 2015/2016 to 2019/2020 the number of women groups provided loans through council's women development fund has increased tremendously (Figure 2). Before the financial years of 2019/2020 the district council was providing loans to women groups each one of 5 members. From 2019/2020, the district council directed women to apply for loans when they are in a voluntary group of 10 members. In addition to that each group must have established business and must present a business plan for the amount of loan they intend to apply as among the supporting documents. Indeed, no collateral is required for women group to qualify for loan provided by district council. Also, the district council since 2018/2019 does not charge loan interest to borrowers. Loans provided aim at promoting strategies of women economic empowerment so as to alleviating poverty in the society.

In particular, the study found that there were five (5) women groups provided loans by the district council in the financial year of 2015/2016. However, during financial year of 2019/2020, the number of women groups provided loans increased to 35 groups (Figure 2).

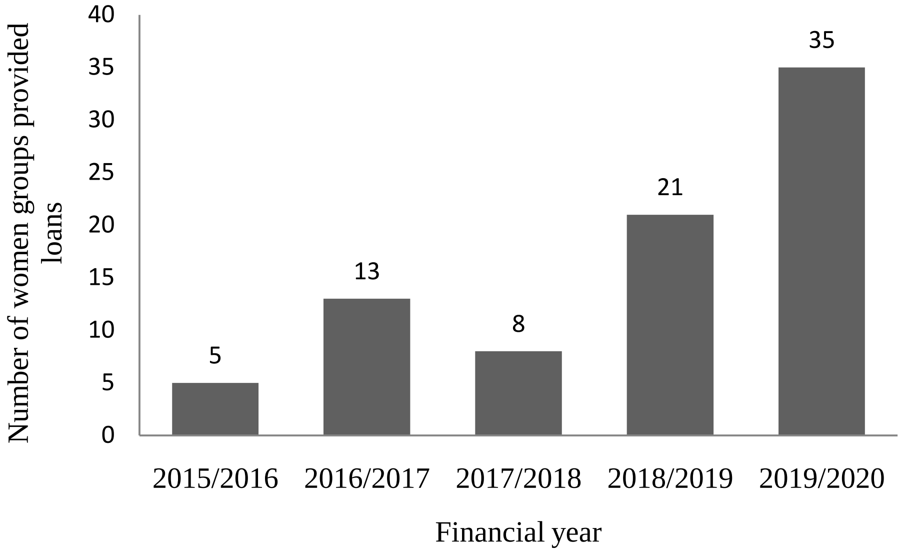

Figure 2: Number of women groups provided loans by Lushoto District Council from financial year of 2015/2016 to 2019/2020

Such an increase of borrowers is justified that there has been an increase in accessibility of loans to women groups which makes more women benefit from council's women development fund for poverty alleviation by establishing small businesses such as retail shops; fish farming; buying and selling crops; processing and selling fruit products; engaging in horticulture; and practicing animal keeping. In examining the relationship between amount of money allocated for loans and number of women groups provided loans, the study revealed that there is correlation between amount of loan provided by Lushoto District Council in consecutive five years (from financial year of 2015/2016 to 2019/2020) and number of groups provided loans during that period ($r=0.979$, $p=0.004$) at 5% level of significance.

4.2 Loan repayment performance in district council's women development fund

The loan repayment to women development fund of Lushoto District Council's women loan scheme was determined from loans provided to women entrepreneurs in the financial year of 2015/2016 to 2018/2019. The findings show that there was 100% repayment rate in 2015/2016 and 2016/2017 as shown in Figure 3. However, the repayment rate was dropped to 68.4% in 2017/2018 and 67.2% in 2018/2019. Decrease in loan repayment rate can be poor business performance among borrowers and Lushoto District Council's inefficiency in conducting loan appraisal and weakness in loan management. In specific, low repayment rate can be an outcome of inefficiency of council's loan management unit in selecting proper loan applicants, inappropriate decision making regarding the size of loan allocation to applicants, poor monitoring of disbursed loans and poor law enforcement to defaulters.

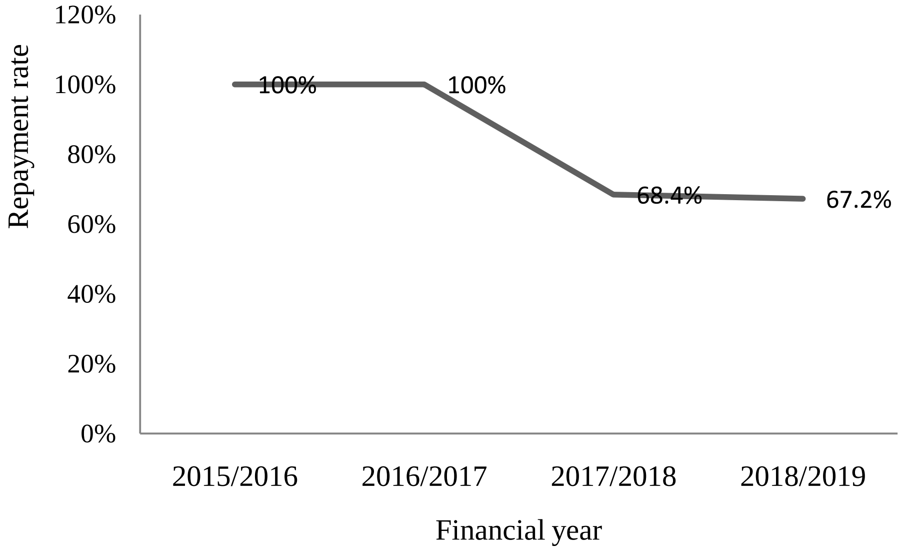

Figure 3: Loan repayment rate by women groups

4.3 Factors affecting council's women loan repayment performance

Factors affecting loan repayment performance among women groups provided loans from Lushoto District Council's women development fund were examined by using binary logistic regression. The dependent variable used in the regression model was loan repayment which measured by using binary indicators; 1 if a women group is loan repayment default and 0 otherwise (i.e. loan repayment non-default). The study examined four factors including loan size (in Tanzania shillings), proximity (1 if short distance between borrower and district council, 0 otherwise), non-farm business (if non-farm business, 0 otherwise) and Frequency of loan (1 if provided loan(s) by the district council in the past, 0 otherwise). The outputs of the logistic regression analysis have been presented in Table 1.

Table 1: Logistic regression analysis of factors affecting council's women loan repayment

Variable	β	S.E.	Wald	p value	exp(β)	95% C.I. for exp(β)	
						Lower	Upper
Constant	-2.060	1.223	2.834	0.092	0.127		
Loan size	0.001*	0.000	4.327	0.038	1.000	1.000	1.000
Proximity	0.312	0.682	0.209	0.648	1.366	0.359	5.203
Non-farm business	-0.063	0.928	0.005	0.946	0.939	0.152	5.788
Frequency of loan	-0.110	0.816	0.018	0.893	0.896	0.181	4.432

*Significant at $p<0.05$

The findings show that among the factors examined, loan size was significant and positively related to loan repayment default among women groups provided loans by the Lushoto District Council through women development fund ($\beta 1=0.001$, $p=0.038$) at 5% significance level. Moreover, the Wald statistic of 4.327 revealed a strong relationship between loan size and repayment default. The findings justify that there is high possibility of occurrence of loan repayment default among women groups when the district council provides large size of loan which exceeds the ability of such groups to afford paying back as per contractual agreement signed between the borrower and Lushoto District Council (lender). Providing large size of loan which women group can't afford to pay back is contributed by ineffectiveness of district council's appraisal system used for evaluating loan applications. In specific, there might be inefficiency in scrutinizing applicants' business plans as well as poor assessment of borrowers' production strategies, marketing strategies and business management skills which in most cases results to improper decision making regarding loan allocation to applicants. Moreover, market fluctuation can make business to perform below the expectations of women groups (borrowers) which resulted to poor repayment performance of loans. Based on findings, if the district council continues providing loans which many women groups cannot afford to pay back on time or not complete paying back, women development fund will not be sustainable. The fund may not benefit more other women groups in the coming days if there will be inadequate revolving fund to be allocated by the district council as loans following poor repayment performance.

5. Conclusion

The poor particularly women in Lushoto District are supposed to be empowered to participate effectively in social and economic development in their families and community as a whole. This is only possible when women are given access to microcredit which can help them establish and expand their businesses. Through loans provided by Lushoto District Council using women development fund, women can generate income from running businesses such as retail shops, selling crops. Also through microcredit, women can participate in food processing and marketing, vegetable farming and marketing and keeping chickens. In recent years, there has been an improvement in access to women group loans in Lushoto District Council. The council keeps on increasing the amount of money it allocates as loans for women groups parallel to an increase in number of women groups which are provided loans for running businesses. The loans are provided to women groups without stringent conditions that may enforce a borrower to submit assets as collateral. In spite of ever increasing loan accessibility for women group lending, Lushoto District Council in the two previous financial years of 2017/2018 and 2018/2019 has experienced a continuous decline in loan repayment performance. This study realized that loan size provided by the district council to women groups has positive influence on loan repayment default. The increasing rate of default loans justifies that providing amount of loan which the group can't afford to pay back can be an outcome of inefficient council's appraisal system and unfriendly business environment such as lack of market, high cost of production and price fluctuation for goods produced and sold by women borrowers. The study recommends that Lushoto District Council should keep on increasing the amount of money allocated to its women group lending scheme while reviewing its loan appraisal mechanism in order to enhance access to council's microcredit and improve mechanisms assisting decision making of loan management team regarding to loan allocation for women groups. The effective loan appraisal system can help the district council avoid high rate of loan repayment default.

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