

CHALLENGES OF GROUP LENDING ON MFIs LOANS SECURITY: A CASE OF FOUR SELECTED MFIs IN ARUSHA, TANZANIA.

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Abstract: *In the evolution of global business, a number micro-financing players have faced many defies in due course of their lending-borrowing interrelations. The group lending by MFIs has been one of the model perceived to guarantee the security of loans provided by the said funding institutions. This study aimed “to determine the challenges of group lending on MFIs loans security in Tanzania”. The specific objectives of the study were: to examine the challenges of diluted group norms on MFIs loans defaulting; and, to examine the contribution of deferred group interests on MFIs loans defaulting. A research was a multiple case study in nature undertaken in four selected MFIs (FINCA, BRAC, NMB and CRDB) based in Arusha– Tanzania. The use of purposive and stratified sampling techniques enhanced the collection of data from the field by using research schedules. The collected data were analyzed and coded by using Excel. Descriptive statistics such as frequencies and percentages; as well as Proportion Chi Test, Pearson Correlation Coefficient, Regression Analysis and T-Test Inferential Models were used to determine the relevance of data, and hence drawing the conclusion. The study results meant to help in judging whether MFIs group lending is an ideal model to be solely relied on or not. The study findings revealed that, the security of MFIs loans is impaired by; diluted group norms and deferred lonee interests in groups, among other factors.*

Key words: Challenge, Group lending, MFIs, Loan Security

Background to the Problem

Group lending has been the common financing framework in a number of micro-finance institutions (MFIs) on earth; ever since it's evolvement in Asia and spreading to Latin America, and Africa (Halder, 2016). A number of depository and non-depository MFIs have considered the framework as their number one solution to overcome loans defaults that seem to endanger firms' loans security in micro financing industry. Considering the greater demand for business financing, there is no way that microenterprises can stand out without commensality business relation with MFIs; despite unjustified long term loan deliquescence and defaults intoxicating this relations.

Microfinance institutions are said to be key drivers of the global business growths in a number of ways. The steady portfolio increase of about 30 percent annual world record in Micro-financing services in between 1997 and 2007, for example, lead these financing bodies to continually diversify to commercial banks (Toussant, 2017 & Mohd, 2018). To date, small business

with over 95 percent of the total global enterprises, hiring about 70 percent of global workforce, receive about 58 percent of their net operating capital from the said MFIs (TANCAD, 2018). As per Microcredit Summit survey undertaken in 2007; with about 154.8 million business served worldwide by over 3,350 MFIs, nearly 106.6 million enterprises financed were sole proprietors classified to be at the bottom half of those living below their nation's poverty line (Bernhard, 2017).

In the developed world for example, USA, Canada, and China, where small and medium enterprises are adequately funded (Mori, 2015), small and medium enterprises (SMEs) are considered to be the innovative pools, food securers, job creators and economic shock resilient (Dumo, 2015; Standing, 2017 & Standing, 2018). Likewise, about 30-60 percent of the said business are profound novelty brand builders with marked proficiency in; demand generations, productivity triggering, sales expansions, as well as technical and technological change agents (Makorere, 2014 & Dumo, 2015). On the other hand, despite their major partaking in global economy, about 43 percent of SMEs in the developing world with 20 to 49 employees have faced difficulties in accessing finance for their operations; irrelative to 11 percent of the same business size in the developed world (Sharma, 2016; Bernhard, 2017 & Standing, 2018). The financing gap to SMEs in low income countries is as high as US\$700-850 billion (twice as much as in large firms) (Baldwin, 2015; Scott, 2017). High collateral needs due to undue loan defaults; lack of skills within financial intermediaries, and non-liquidity of the finding institution are some of common dares in most of micro-financing industries in Africa, including Tanzania (Karlan, 2011; Mader, 2016; Sharma, 2017 & TANCAD, 2018)

Despite their long term identification as the entrepreneurs financing vehicles, and economic elevators in the developing world (including Tanzania), MFIs have never been perceived to be pro-poor by the majority of economic players due to their inability to reach the most vulnerable and weak sections in the society (Ayyagari, 2012; Gbandi, 2014 & Bernhard, 2017). Moreover, besides the enjoyed financing opportunities available, MFIs suffer acute losses due to a number of loan defaulters. Loans default rates in developing world is as high as 4.5 percent while in the developed world, the said default rate is recorded to be 3 to 4 percent (Korankye, 2014 & Makorere, 2014). Since the evolvement of gremen bank by Prof. Yunus in Bangladesh, group lending model has been the common practice in overcoming loan

defaults (Khan, 2010; Mader, 2016 & TANCAD, 2018). However, the pertinent question is on whether the said model is appropriate in ensuring MFIs loan security; that all financing firms should solely rely or not.

Statement of the problem

Though group lending seem to be the most opted model in the vast of global micro-financing industries, the said framework has never ensured the best of financial security as expected by lenders due to endless loan defaulting facets. Different studies have been done on long-term relation between MFIs and its clients in Tanzania (Makorere, 2014 & Mori, 2015); however, little have been revealed on dares impairing the value of group lending on MFIs loan security. Therefore, the current study seeks to determine challenges of group lending on MFIs loan security; with specific focus to group norms and differed interest within the loan groups in relation to loans default rates in Tanzania.

The study objectives

The general objective of this study was “to determine the challenges of group lending on MFIs loans security in Tanzania. The specific objectives of the study were: to examine the challenges of deferred interests in MFIs loan groups on loans defaults; and, to examine the effect of group norms¹ on MFIs loans defaults. It was the researcher’s expectation that, if the objectives are equitably met, MFIs players will be aware of the key defies for MFIs loan security; and hence, generate the profitable strategies for apt recital of industrial loaning systems.

Literature review

The literature presents the key concepts and terms as used in the study, namely: Microfinance institutions² (MFIs); loans defaulting³; loan security⁴; and, group lending⁵. It too offers some theories governing MFIs operations to include: classic microfinance theory of change and Social-Collateral (group micro-lending theory). The group lending⁶ principles are too explained in the section.

Micro financing theories and operating principles

According to classic microfinance theory of change, a poor persons go to a microfinance provider and take a loan to start or expand a microenterprise yielding enough net revenue to repay the loan with large interest and still have sufficient profit to increase personal or household income enough to raise the person’s standard of living (Erica, 2012 & Scott, 2017). The theory adhere to three steps, namely: taking a loan from a microfinance institution; investing the money in a viable business, and; managing the business to yield more return on investment (Erica, 2012 & Standing, 2017). However, the model gives inapt details on futile trends arising out of borrowers’ bleak behavior, interests and business environmental volatility.

On the other hand, according to Social-Collateral (group micro-lending or social capital), “MFIs should lend to groups and not to specific

individuals” (Khan, 2010 & TANCAD, 2018). Borrowers should select themselves into clusters of the same risk levels and hold each other accountable (Karlan, 2011 & Sharma, 2017). Intra-group lenders become self-driven to monitor and exclude risky-borrowers who might take them into unbearable risky situations by defaulting (Gbandi, 2014 & Haldar, 2016). The theory is built on the grounds of trust, concern for one’s friendships, preparedness to live the norms of one’s group and to chastise those who do not (Khan, 2010; Erica, 2012). The question is on whether there befalls ample time for the stated groups’ common understanding.

Moreover, the group lending theory is governed by the principle of group solidarity; which holds that, the more solidary the group is, the greater the influence it casts upon its members (Khan, 2010 & Haldar, 2016). The principle measures the capacity of a group to influence member’s behavior. With normative school of thought, the group become more cohesive as its members internalize the group norms (Dumo, 2015 & TANCAD, 2018). On the other hand, with structuralism ideas, the group becomes more solidary cohesive not because of internalization, rather, because they share the common interest (Mader, 2016 & TANCAD, 2018). However, the extent to which lack of members’ internalization to norms or diverse group interests contributes to higher MFIs default rate is not clearly defined.

Nevertheless, the defaulting experience in MFIs group-lending can be explained by the concepts related to group cohesiveness (Gbandi, 2014 & Mohd, 2018). Some scholars argue that, MFIs provide loans to borrowers without considering the impacts of group cohesiveness driving factors, to include; similarity in members’ characteristics, group size; goal congruence; group interests; as well as group entry difficulty (Karlan, 2011; Erica, 2012 & Scott, 2017). When the listed are not well considered, the possibility of borrowers to repay their loans become minimal.

Micro-financing Institutions’ Focus and Lending practices

The fundamental intention of MFIs were to finance the poor communities in sustaining lives, build better houses, acquire basic education and fight against poverty (Khan, 2010 Haldar, 2016). Adhering to the said primary mission, the performance of MFIs projects have been continuously measured through their social warfare impacts to the community (Bernhard, 2017 & Mohd, 2018). Since the foundation of MFIs services in Bangladesh, a number of microfinance projects have evolved and grown to traditional commercial banks for which the major loaned clients being SMEs (Ayyagari, 2012). The 1990’s MFIs change of focus in Latin America, spread to the rest of the world, about the turn from service for poor to the multitude of business financing has shown that, MFIs can be profitable undertakings whilst keeping on track to its primary focus of service for poor (Toussant, 2017; Sharma, 2017 & Standing, 2018). However, the degree to which MFIs balance between financial and nonfinancial mission has never been explicitly recognized.

¹ Group norms are general acceptable standards of behavior shared by the group members (Mori, 2015)

² Microfinance; refers to financial services for poor and low-income clients offered by different types of service providers commonly known as MFIs (Gbandi, 2014 & Baldwin, 2015);

³ Loan defaulting refers to failure to meet legal obligation of a loans (Mori, 2015).

⁴ Loan security are pledges of assets ensuring low chances of loan defaults or deliquescent (Scott, 2017)

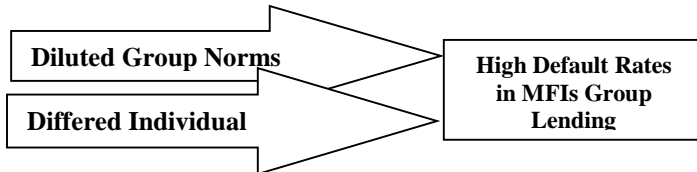
⁵ The group lending refers to the practice in which small group borrows collectively and members encourage one another to repay (Haldar, 2016).

Despite an increasing growth of micro-financing industry in Tanzania, social-economic impacts to the targets is still low (Dumo, 2015 & Mori, 2015). Like other developing countries, in Tanzania, small entrepreneurs cannot save enough resources to finance their business (Baldwin, 2015; Gibson, 2016 & Bernhard, 2017). Financial services needs are still high as the greater population is still excluded from credit facilities due to the recorded industrial loan evasion risks of about 4.5 percent; as opposed to 3 percent global accepted rate (Makorere, 2014 & Mori, 2015). Lack of collateral; lack of apt financial record; and inability to prepare the proper business plan among others are named to be major business dares (Erica, 2012 & Mader, 2016).

Literature Gap of knowledge

From *classic microfinance theory of change and Social-Collateral theory*, the literature review provides that, MFIs need to optimize financial discipline, with clear lending models. It too portrays the *principle of group solidarity* as the behavior measure in promoting group cohesiveness. The pertinent research gap rests on inapt fact to whether MFIs group lending is worth enough to eliminate defaulting risks associate to diluted group norms as provided by normative school of thought; and, on borrowers’ differed interests as stipulated in structuralism school of thought or not.

Conceptual Framework



Study hypothesis

It is all known that, loan defaulting in MFIs is attributed to a number of factors. But, group norms and individuals’ interests in lending groups were considered worth for analysis. And hence, developing two postulates as stated hereunder for the study:-

- H1: *Tanzanian MFIs experience high loans default rates as they face the competing differed individuals’ interests in their lending group.*
- H2: *Tanzanian MFIs experience high loans default rates as they are confronted by diluted group norms in their lending group*

Research Methodology

The study was both qualitative and quantitative in approach; with one main objective intended to determine the challenges of group lending on MFIs loans security in Tanzania. A multiple case study design conducted in ten loan groups from four selected MFIs based in Arusha - Tanzania (namely; CRDB; NMB; FINCA and BRAC) was deemed suitable to enhance in-depth and intensive assessment of the dares of group lending on the MFIs loans security. Multiple case is the study examining two or more related cases to gain the detailed understanding of a phenomenon by studying how and why the phenomenon occurs (Kombo, 2006). The target population included MFIs services providers and borrowers groups. Both simple random and purposive sampling techniques were used to select the study participants (Kothari, 2003). A sample of 30 operators, and 60 borrowers groups’ members was obtained from four selected MFIs services

providers. The research schedules and documentary reviews were used to gather the study data; for which frequencies and percentages were presented in tables. Using non-parametric measures, loan default rate as a dependent variable; as well as individual interests and group norms as independent variables were tested. The Proportion Chi Test, Pearson Correlation Coefficient, Regression Analysis and T-Test Inferential Models were used to assess variables’ relations for better knowing the respondents’ views (Kombo, 2006 & Kothari, 2014). Universal research principles and ethical issues were firmly adhered to (Kumar, 2011 & Kothari, 2014).

Results and Discussion

The findings and discussion on “the challenges of group lending on MFIs loans security in Tanzania” was presented by adhering to two pre-determined specific study objectives and the set hypotheses for which high level analyses of data obtained was done by the use of inferential models to testify and generalize the result’s validity and reliability.

The General MFIs and Borrowers Information

After satisfactory analysis, the study directs the researcher to generalize that, the greater proportion of MFIs borrowers are individuals aged between 21 to 60 years with cumulative percent of 85.5; and, about 55.5 percent of them are women. The active partakers in MFIs group lending are individual with primary and secondary school education; occupying about 30 and 36.7 percent respectively; whose large proportion (61.1 percent) use non-depository MFIs, relative to 38.9 percent users of depository firms with micro-financing status. About 60 percent of MFIs borrowers comprise of small business, start-up aspirants and varied firm’s employees collectively (*see table 01*)

Table 01: General MFIs and Borrowers Information

Parameters	Frequency	Percent
Age group		
01-20	05	05.6
21-40	40	44.4
41-60	37	41.1
61 +	08	08.9
Total	90	100
Sex of identified respondents		
Male	40	44.4
Female	50	55.6
Total	90	100
Education level of respondents		
Non-formal educated	10	11.1
Primary Education	27	30.0
Secondary Education	33	36.7
Post-secondary Education	20	22.2
Total	90	100
The Well Known and Ideal MFIs Operators		
Depository (NMB, CRDB, BOA, Twiga Corp, etc)	35	38.9
Non-depository (BRACK, FINCA, SEDA, HAKIKA etc)	55	61.1
Total	90	100
Nature Of Borrowers in MFIs Groups		
Start-up Aspirants	26	28.9
Small Business Owners	28	31.1
Employees from both public and private firms	20	22.2
Others	16	17.8
Total	90	100
Rated Effectiveness of MFIs lending group on loan security		
(00-25)	14	15.6
(26-50)	38	42.2
(51-75)	30	33.3
(76-100)	08	08.9
Total	80	100

Source: Survey data, 2019

The large involvement of individuals aged 21 to 60 year could be driven by two main factors. First, individual aged 21 to 40 years are said to be dynamic economic actors as though argued by Scot (2017); and secondly, those with 41 to 60 are family laboring individuals; mixed with business pursuit that compel them to find more funds in meeting their pressing onuses as though also supported by TANCAD (2018). The study results concurs with Mori's view that, women are active partakers in micro-lending than men not because they are active business machinery, but because they are heavily subjected to families bills (Mori, 2015).

The study reveals that, individuals with primary education (30 percent) and secondary educations (36.7 percent) are major users of MFIs. This may be because the said groups are largely absorbed in commercial sectors than in formal employments (Mader, 2016). While most of depository financial institutions are known to fund large and medium business, non-depository MFIs are said to be favored by majority of small business and start-up partakers (Sharma, 2016 & Bernhard, 2017). This scholars' argument is also revealed in this study as the differed non-depository MFIs absorb about 60 percent of all actors.

Moreover, as also explained by (Standing, 2017), the study finds employees included in the group of MFIs borrowers with 22.2 percent as they borrow funds to diversify their inadequate primary incomes, and adding-on their allied non-commercial staffs. Due to their empirical absence in business cycles, their ventures pay less to none. However, the group may render financial delinquency with less to non-defaults as their debts may be covered through their wages (Baldwin, 2015). The start-up aspirants with 28.9 percent in this study is perceived to be the most default riskier group as their experiential absence in business cycles leads their ventures to pay lesser than expected (Scott, 2017). As though it is for the start-up aspirants, small business with 31.1 percent in most cases suffers the effect of economies of scale in their ventures; and about 40 to 68 percent of them are prone to business failure (Gibson, 2016). This is counted as the second most default riskier group. Nerveless, about 91.1 percent of partakers in micro-financing industry view group lending to be less than 75 percent effective. This may be due to a number of dares including; improper selection of group, high interests attached to loans, dynamic business environments, and lack of loan monitoring as pointed out in some literatures (Halder, 2016 & TANCAD, 2018). However, cohesiveness deterring factors in table 02 are too significant.

Clients Factors Fueling Loans Default Rates in MFIs Loan Groups

From the study, table 02 indicates the key borrowers' factors for loans default rates in percentage to be; diluted MFIs group norms (24.4 percent), differed group goals (22.2 percent), size of MFIs Lending groups (17.8 percent), Differed interests in MFIs loan groups (26.7 percent), and MFIs Group entry (08.9 percent)

Table 02: Members Factors Fueling Loans Default Rates in MFIs Loan Groups

Ranks	Frequency	Percent
Diluted norms in MFIs lending groups	22	24.4
Differed group goals in MFIs Lending Groups	20	22.2
The Large Size of MFIs Lending Groups	16	17.8
Differed Interest in MFIs Lending Groups	24	26.7
Easy of entry into MFIs Lending Groups	08	08.9
Total	90	100.0

Source: Survey data, 2019

As it may be seen in table 2 above; and supported by some scholars (Karlan, 2011; Erica, 2012 & Scott, 2017), the diluted group norms; differed group goals; large group sizes; differed individual interest in groups; and, easiness to group entry impacts the group cohesiveness by reducing members powers to condemn deviants. When this happens, individuals in groups are likely to default their loans. Many MFIs face high loan defaults beyond the normal acceptable rate (3 percent) as they underrate the said personal and psychological factors while working on the formulaic macro-institutional and industrial challenges (Dumo, 2015 & TANCAD, 2018). Hence, for apt recital of loan security, all loans risky exposing dimensions need to be ably addressed.

The Link between Deferred Individuals Interests and MFIs Loans Defaults

The data in table 03 portrays that, about 60 cumulative percent of differed individual interest influence decisions making in MFIs groups by 41 to 80 percent (i.e. from medium to high level); while their corresponding default rate being about 56 percent cumulatively. In establishing the link between individual's interest and loan defaults, using the field data provided, rearrangement for inferential statistics in table 04 was a compelling affair.

Table 03: Rated Extents of Deferred Interests and Loan Defaults in MFIs Loan Groups

Categorical Ranking of parameters	Level at which individuals' Interests Influence MFIs Group Decisions (x)		MFIs Loan Default Rates (fy)	
	Frequency (fx)	Percentage (Px)	Frequency (fy)	Percentage (Py)
	Very Low (01 -20%)	07	08	11
Low (21 -40%)	18	20	20	22
Medium (41 -60%)	29	32	27	30
High (61 -80%)	25	28	23	26
Very high (81 -100%)	11	12	09	10
Total	Σfx = 90	Σx = 100	Σfy = 90	Σy = 100

Source: Survey data, 2019

Inferential implications on the relationship between Group Interests and MFIs Loans Defaults

The higher analysis of variables was carried by using hypothesis one (H1) stating that; "Tanzanian MFIs experience high loans default rates as they face the competing differed individuals' interests in their lending group".

The hypothesis was re-stated in both of *Null (Ho)* and *Alternative (Hi)* hypotheses thus:-

Ho: High MFIs loans defaults rates in Tanzania do not relate to differed individuals' interests.

Hi: High MFIs loans defaults rates in Tanzania relate to differed individuals' interests.

That is; *Ho: p=0; and, Hi: p≠0*

It was hypothesized that, having congruent interests among MFIs loans' group members influence greater cohesiveness in taking collective errands for deviant behaviors. MFIs face high default rates as discrete members bear differed interests on loans they acquire from what they advocate during their entry in loan groups; hence giving no apt room to ascertain its security for decision taking. The hypothesis aimed to assess the correlation between the levels at which ones "interest influence decisions making" and "loans default rates" in MFIs loan groups.

Table 04: Correlation between Individuals Interests and MFIs Loans Defaults

Categorical Ranking of parameters	Level at which individuals' Interests Influence MFIs Group Decisions (x)	MFIs Loan Default Rates (y)	x ²	y ²	xy
Very Low (01 -20%)	08	12	64	144	96
Low (21 -40%)	20	22	400	484	440
Medium (41 -60%)	32	30	1024	900	960
High (61 -80%)	28	26	784	676	728
Very high (81 -100%)	12	10	144	100	120
Total	Σx = 100	Σy = 100	Σx² = 2416	Σy² = 2304	Σxy = 2344

Source: Survey data, 2019 Degree of freedom (df) = n-2= (5-2) =3

$$r = \frac{n(\sum xy) - (\sum x)(\sum y)}{\sqrt{n(\sum x^2) - (\sum x)^2} \sqrt{n(\sum y^2) - (\sum y)^2}}$$

$$r = \frac{5(2344) - (100)(100)}{\sqrt{5(2416) - (100)^2} \sqrt{5(2304) - (100)^2}} r = \frac{1720}{\sqrt{2080} \sqrt{1520}}$$

$$r = \frac{1720}{45.61 \times 38.99} = 0.967$$

The correlation coefficient (r) = 0.967

The calculated r-value (r=0.967) suggests a strong positive linear relationship between MFIs loan defaults and individuals' interest in influencing MFIs group decisions making.

The coefficient of determination (r²) = (0.967)² = 0.935 implies that; 93.5 percent of variation in loans defaults can be explained to the relationship between high loan default rates and deferred individuals interests in MFIs loan groups. While the remaining 6.5 percent being due to other varied factors "ε". With t-test, as shown below, the calculated "r" is statistically significant, as the calculated t-value (7.85) is greater than the stated p-value at the probability p=0. That is, *Ho: p>0 = (7.85>0)*

$$t = \frac{1}{\sqrt{\frac{1-r^2}{n-1}}} = \frac{1}{\sqrt{\frac{1-(0.967)^2}{5-1}}} = 7.85$$

Considering the 95 percent critical r-values at α=0.05 and, three (3) degree of freedom (df) to be ± 0.878 (Kothari, 2003); whereas,

the calculated r-value using n=5 data points to be 0.967, at df=3; and, the calculated t-value being 7.85; the statistical evidence was significant enough to reject the null (Ho) hypothesis that; High MFIs loans defaults rates in Tanzania do not relate to differed individuals' interests as the calculated r-value was greater than the critical table r-values (beyond critical r-values limits -0.878 to +0.878). Please, see the r-value in appendix 2.

In predicting this strong positive linear relationship, the regression analysis model (y = a + bx+ ε) was employed. Whereas, y= dependent variable (MFIs loan defaults as defined in the methodology); x=independent variable (also defined in the methodology); a= an intercept; and, b=slope (variation factor)

But,

$$b = \frac{n \sum xy - \sum x \sum y}{n \sum x^2 - (\sum x)^2} = \frac{5(2344) - (100)(100)}{5(2416) - (100)(100)} = \frac{1720}{2080} = 0.827$$

And,

$$a = \frac{\sum y - b \sum x}{n} = \frac{100 - 0.827(100)}{5} = 3.460$$

From Regression equation "y=a+bx+ε",

$$\text{We have, } y = 3.460 + 0.827x + \epsilon$$

Considering "y" as a dependent variable (MFIs loan default rate), the study result predict that, the change in a unit measure of MFIs loan default rate is influenced by 0.827 changes in units degree of individual's interest. The overall result give the researcher's right to conclude that, "Tanzanian MFIs experience high loans default rates as they face the competing differed individuals' interests in their lending group".

The Effect of Diluted Group Norms on MFIs Loans Default Rates

The field result in table 05 indicates that, the average responses for AGREE; DISAGREE; and UNDECIDED were 38.9; 47.4; and 13.7 percent respectively.

Table 05: The Effect of Diluted Group Norms on MFIs Loans Defaults

Parameters	Responses From Respondents					Total		
	Agree	Percent	Disagree	Percent	Undecided	Percent	Total Frequency	Percent
(Statements)								
There is an adequate conformity of loaned members of MFIs to their group norms in overcoming loan defaulters	34	37.8	46	51.1	10	11.1	90	100
Members in MFIs loans groups are of equal status in the light of their group norms in overcoming loan defaulters.	36	40.0	46	51.1	08	08.9	90	100
Decision made by members in MFIs loans groups are free from groupthink that could influences loan defaulting	35	38.9	42	46.7	13	14.4	90	100

Decision made in MFIs loans groups are fairly free from group shift that could trigger defaulting among members	35	38.9	40	44.4	15	16.7	90	100
MFIs loans groups manage social loafing in ascertaining the security of MFIs lent money by other members	33	36.7	40	44.4	17	18.9	90	100
The defaulting rate is not fueled by production blocking tendency of some persons in MFIs Group	37	41.1	42	46.7	11	12.2	90	100
Total	21	233.4	256	284.4	74	82.2	540	600
Average score	35	38.9	42.7	47.4	12.3	13.7	90	100

Source: Survey data, 2019

The study considered measuring the effects of diluted norms in MFIs lending Groups on loans default rates by assessing such norms inducing parameters as; conformity to norms⁷, members equality in status⁸; groupthink⁹, group shift¹⁰, social loafing¹¹; and production blocking¹² aspects. The responses were scaled on “Agree”, “Disagree”, and “Undecided” (neutral state). With Agree retorts, it could mean norms inducing variables are in favor of strong group cohesiveness building; leading to less MFIs loan defaults, and the “disagree” response would mean the opposite of “agree”. Hence, the greatest scores for “disagree” retorts in this study denotes that high loans default rates in MFIs is the result of diluted norms in their lending groups.

Inferential Implications on the Relationship between Diluted Group Norms and MFIs Loans Defaults

The higher analysis of variables was carried by using hypothesis two (H2) stating that;

“Tanzanian MFIs experience high loans default rates as they are confronted by diluted group norms in their lending group”

The hypothesis was re-stated in both of Null (Ho) and Alternative (Hi) hypotheses thus:-

Ho: High loans default rate in Tanzanian MFIs is not related to dilute group norms

Hi: High loans default rate in Tanzanian MFIs is related to diluted group norms.

Since micro-landing groups are more built on norms than on governing laws, there is a likelihood that the diluted norms triggers loans defaulting among members as a result of weakened

cohesiveness in MFIs lending group. Hence, the group norm was considered the important variable for higher level analysis.

Since norms cannot be internalized alike, the magnitude of dilution was assessed by the use of three scale of responses (Agree, Undecided and Disagree) to give individuals’ freedom in assessing on whether diluted norms contributes to MFIs loans default rates or not. The “proportions Chi-square” was employed as a test statistic (see Kothari, 2003) at 95percent degree of confidence, with $Z=1.96$ and the significance level of $\alpha = 0.05$, using scores for variables influencing norms to testify the hypothesized likelihood (See results in Table 06)

Table 06: Proportion Chi square test on the likelihood that diluted group norms influence MFIs loans default rates

Parameters	The proportional scores for					Total (Σf)
	Agree Answer (X)	Plus (+) Plus (+)	Disagree Answer (Y)	Plus (+) Plus (+)	“Undecided” Answer (X)	
Observed Value (O)	35	+	42.7	+	12.3	90
Expected Value (E)	30.0	+	30.0	+	30.0	90*1
O – E	5.0	+	12.7	+	-17.7	00*
(O-E) ²	25		161.29		313.29	--
(O-E) ² / E	0.83	+	5.38	+	10.44	16.65 = X ²

Source: Survey data, 2019. Degree of freedom (df) = C-1 = (3-1) = 2

Whereas: X² = the test statistic that asymptotically approaches χ^2 distribution; o = an observed value (frequency); e = an expected theoretical value (frequency) asserted by the null hypothesis; df= degree of freedom (Number of Columns “C”- One = 3-1 =2)

The critical Chi table value (X²) for df=2 at $\alpha = 0.05$ is 5.99 (Kothari, 2014). Since the calculated Chi value (X² =16.65) was greater than critical Chi table value (X² =5.99) as read in appendix 1, the difference between the observed (O) and expected (E) values was considered significant. Then there is a statistical evidence to reject the null (Ho) hypothesis asserting that, “high loans default rate in Tanzanian MFIs is not related to diluted group norms”.

The rejection of the null (Ho) hypothesis is a statistical proof to affirm that “Tanzania MFIs face high loans default rates as they are confronted by diluted group norms in their loan groups”

⁷ Conformity to norms: the process of adhering to group norms (Dumo, 2015)

⁸ Status: a socially defined position or rank given to groups or group members by others (Mader, 2016)

⁹ Groupthink: fall of mental efficacy and moral decree due to in-group pressures (Haldar, 2016)

¹⁰ Group shift: a special case of group think in which conservatives shift to more risk taking (Haldar, 2016)

¹¹ Social loafing: group members rely on the efforts of others fail while reserving their own (Dumo, 2015)

¹² Production blocking: limiting another person's output by getting in his or her way (Haldar, 2016)

Conclusion

The purpose of this study was to examine the challenges of group lending on MFIs loan security in Tanzania. The study was undertaken in four selected MFIs operating in Arusha region of Tanzania, namely: CRDB; NMB; FINCA and BRAC. Using descriptive and inferential tests, while guided with both research questions and hypothesis, the study discloses that; *the security of MFIs loans is impaired by; diluted group norms and deferred lonee interests in groups, among other factors*. This could imply that, instead of considering group lending as an ideal mechanism for loan security, MFIs should also think of behavioral targeting in abating defaulting chances; as the observed evasion behavior is the result of individual's and group attitudes fueled by differed drives ranging from personal to psychological predispositions. Some of the said drives are beyond the control by the group members themselves. Despite being the ready source of literature for reviews, it was a belief that, the results obtained would be reflective enough to create awareness on the pertinent challenges of group lending to MFIs loans security in Tanzanian micro-financing industry; and, come up with apt strategies to overcome them. It was the researcher's suggestion that similar studies be done to establish the magnitude of impacts associated with named MFIs loans security challenges for better micro-financing industrial modeling in alleviating loan defaulting chances.

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Appendix 1: The Chi Test Table for χ^2 Values					
Degrees of Freedom	Probability, p				
	0.99	0.95	0.05	0.01	0.001
1	0.000	0.004	3.84	6.64	10.83
2	0.020	0.103	5.99	9.21	13.82
3	0.115	0.352	7.82	11.35	16.27
4	0.297	0.711	9.49	13.28	18.47
5	0.554	1.145	11.07	15.09	20.52
6	0.872	1.635	12.59	16.81	22.46
7	1.239	2.167	14.07	18.48	24.32
8	1.646	2.733	15.51	20.09	26.13
9	2.088	3.325	16.92	21.67	27.88

Source: Cohen, 1988

Appendix 2: The correlation Coefficient "r" Table Value			
Degrees of Freedom	Probability, p		
	0.05	0.01	0.001
1	0.997	1.000	1.000
2	0.950	0.990	0.999
3	0.878	0.959	0.991
4	0.811	0.917	0.974
5	0.755	0.875	0.951
6	0.707	0.834	0.925
7	0.666	0.798	0.898
8	0.632	0.765	0.872
9	0.602	0.735	0.847
10	0.576	0.708	0.823

Source: Cohen, 1988

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