



Repayment Performance in Group Lending: The Case of BRAC in Tanzania

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Abstract Tanzania is a low-income country, with a high proportion of its population below the poverty line. Like most developing countries, access to financial services from formal microfinance institutions (MFIs) is limited. Recently, however, access to financial services in both rural and urban areas has increased, with group lending programs playing a significant role in this transformation. To assess the repayment performance of group lending programs, this study highlights the case of BRAC Tanzania, a leading non-governmental organization. Primary data were collected through questionnaires administered to 177 members of ten randomly selected groups and interviews with BRAC Tanzania officials, whereas secondary data were obtained from BRAC Tanzania reports and other documents. Repayment performance is measured by the proportion of the portfolio that is overdue (arrears), the proportion of the portfolio that is overdue by 30 days or more (portfolio at risk), and the percentage of the loan portfolio that is written off. The results indicate remarkably low levels of arrears, portfolio at risk, and write-offs, implying high repayment performance. This success reflects good institutional design, such as frequent client visits, frequent repayment schedules, and a strict loan approval process. In addition, from the member side, this success is owing to several factors such as sanctions, contributions by other group members, and the protection of future access to credit.

Keywords repayment performance, group lending, Tanzania, BRAC Tanzania

INTRODUCTION

The lack of access to credit from formal microfinance institutions (MFIs), is one of the major obstacles faced by developing countries such as Tanzania (World Bank, 2014). However, semi-formal MFIs, including non-governmental organizations (NGOs), significantly contribute to the microfinance sector in the country. They offer small, collateral-free loans with group lending. Group lending generally refers to arrangements made by individuals without collateral, who get together and form groups to obtain loans from the lender (Armendariz and Morduch, 2010). It is cited as an innovation to overcome imperfect information in financial markets by addressing four main problems: adverse selection, moral hazard, monitoring, and enforcement (Besley and Coate, 1995; Ghatak and Guinnane, 1999).

One of the issues extensively discussed in group lending programs is repayment performance (Sharma and Zeller, 1997; Wenner 1995; Hill and Sarangi, 2012). Repayment of loans is an important measure for the success and sustainability of these programs. Some group lending programs, such as those of Grameen Bank and BancoSol, have shown great success, achieving high repayment rates. However, this does not imply that repayment rates are uniformly high for all

institutions. Yang (2012) pointed out that in some areas of China, default rates of group loans has reached 50%. This study analyzes the repayment performance of group loans, referring to the case of BRAC Tanzania, one of the largest microfinance NGOs operating since 2006. It is a replica of BRAC, one of the world's largest NGOs, which originated in Bangladesh. The contents of the group lending programs in both countries are similar. For example, both programs target rural women and provide small loans (under 120 USD). They have weekly meetings, and weekly payments are made in groups. A big difference between the two lending programs is that BRAC Bangladesh offers saving services, unlike BRAC Tanzania. This is because NGO MFIs in Tanzania are not allowed to accept saving deposits.

OBJECTIVE

This study focuses on BRAC Tanzania's Microfinance Program (MF), the most important and oldest among the organization's programs. The objectives are to understand the functions of the group and assess the repayment performance of the microfinance program.

METHODOLOGY

A field survey was conducted from December 2017 to April 2018 in the Arusha region (shown in Fig. 1). It is one of the 30 administrative regions located in the northeastern part of the country. According to the 2012 census data, the region had a population of 1.7 million people, with 67% living in rural areas, and 33% in urban areas. The majority of residents work in farming (38%), and raising livestock comes in second place (16%) (NBS, 2016). The region is economically important to the nation in terms of GDP per capita. Its contribution to the country's GDP in 2012 was 4.8%, the seventh-largest contributor (UNDP, 2015). It is also a well-known hotspot for NGOs that operate in various fields, including microfinance. At the time of the survey, there were fifteen BRAC Tanzania branches in the region. The number of groups and members was 992 and 19,109, respectively (Survey, 2018).



Fig. 1 Location of Arusha Region in Tanzania

This study uses both primary and secondary data. The primary data were obtained through interviews with key informants of BRAC Tanzania, including a microfinance program manager, the Arusha regional manager, branch managers, and community organizers (commonly known as credit officers). The group member survey questionnaires were administered to 177 members of ten randomly selected groups. Several questions were asked regarding socioeconomic characteristics,

loan amounts, loan purposes, and repayment performance. Secondary data were obtained from BRAC Tanzania's headquarters, regional, and branch offices. These include trend reports and group members' general information.

In this study, the data were analyzed descriptively, and financial ratios were applied for the evaluation of repayment performance. These ratios include the arrears rate, portfolio at risk, and the write-off ratio.

RESULTS AND DISCUSSION

BRAC Tanzania Group Lending Programs

At the time of the survey, five group lending programs were operating in BRAC Tanzania: Microfinance Program (MF), Empowerment and Livelihood for Adolescents (ELA), Adolescents Development Program (ADP), Agrifinance, and *Pembejeo* (agriculture inputs). Most programs target women in rural areas and have common features regarding the lack of need for collateral, interest rate setting, frequency of repayments, and the length of the loan. The three programs namely, MF, ELA, and ADP, target women from two age groups. MF targets women aged 18-65, while ELA and ADP target younger women aged 18-25. The remaining two programs target farmers. Agrifinance targets maize and poultry farmers, and *Pembejeo* targets maize farmers. Table 1 shows the characteristics of these group lending programs.

Table 1 Characteristics of BRAC Tanzania group lending programs

	MF	ELA	ADP	Agrifinance	<i>Pembejeo</i>
Year started	2006	2012	2012	2014	2016
Collateral needed?	no	no	no	no	no
Target clients	women	women	women	farmers	farmers
Repayment schedule	weekly	weekly	weekly	monthly	monthly
Number of branches	138	8	22	43	2
Total number of members	193,648	2,646	6,590	23,016	160
Rural Borrowers	130,207	1,190	4,193	15,944	113
Urban Borrowers	20,679	764	624	2,982	0
Total number of borrowers	150,886	1,954	4,817	18,926	113
Minimum loan size (Tshs)	250,000	200,000	200,000	200,000	200,000
Maximum loan size (Tshs)	5,000,000	2,500,000	2,500,000	2,500,000	2,500,000

Source: Field survey in 2018

Notes. (1) 1USD was equivalent 2240 Tanzania shillings (Tshs) at the time of the survey. (2) *Pembejeo* is a Swahili word which means agriculture inputs. This is a pilot program which is planned to be implemented after it is successful. (3) All the data on the number of branches, members and borrowers are as of January 2018.

Group Formation and Peer Selection

Groups are formed after research is conducted by community organizers in the targeted area. The research aims to identify eligible community members. Interested individuals are instructed to form groups according to geographical location (i.e., neighbors or people who live in the same community). The eligibility criteria are as follows: (i) must be female, (ii) in rural areas, the applicant has to remain a permanent resident while in urban areas and have had residency in the area for at least three years, and (iii) willing to be committed to BRAC Tanzania's principles, such as attending weekly meetings, on-time repayment, admission fees payment, etc. Groups start with 20–30 members when they are formed. However, some grow in size when new members are admitted. Others shrink due to dropouts. For example, the minimum and maximum for the surveyed groups were 8 and 38 members, respectively. Based on observations during the survey, there were several groups with over 40 members.

Most members of the surveyed groups were absent during the initial group formation. The current members joined after the formation of the group, and most of the initial members left the

program. New members can join the group through a recommendation or introduction from a current member. The most important criteria for selecting new members is simply whether current members know the person well. If a woman lives in the same place, works in the same place, conducts the same business, or has a close relationship with current members, then there probably is no obstacle to joining the group. Of course, there are some people wanting to join the group that get rejected. The survey indicates that all groups revealed cases of peer screening. On average, about three individuals per group were rejected for various reasons, such as they were not well-known by other members, did not conduct any business that could guarantee repayment, or had a record of not paying debts in the village.

Characteristics of the Group Members and Loans Based on Field Survey

According to the group members survey, the member's average age was 40 years old and had completed primary education. Members reported an average household size of four, with two working household members. Business (68.5%) and agriculture (13.5%) were the main occupations. The businesses conducted by most members involved selling banana (plantain), fruits, and vegetables. Half of the respondents (50.8%) had multiple occupations.

The maximum loan size obtained by members of surveyed groups was 982 USD, with an average of 375 USD. 10% of the loan is usually deducted during disbursement as a loan security deposit; however, this is refundable after the full repayment of the loan. These loans are progressive, meaning successful loan repayment gives access to another loan. Furthermore, BRAC Tanzania provides individual loans through its small enterprise program (SEP) for members who need bigger loans for their businesses.

All loans are short-term and repaid on a weekly basis. As shown in Table, 2 most members had 40 week loans (83.6%). The lending interest rate for 20 and 40 week loans is 13% and 25%, respectively. Members reported various purposes for the loans, including purchasing stocks for retail businesses, such as vegetables, fruits, grains, and so on (38.5%), education expenditure (20.6%), and construction (17.9%).

Table 2 Loan term and purpose

	Frequency	Percent
<i>Loan term</i>		
20 weeks	54	16.4
40 weeks	276	83.6
Total	330	100.0
<i>Loan use (Loans from BRAC Tanzania only)</i>		
Purchasing stocks for retailing businesses	127	38.5
Purchasing livestock	16	4.9
Purchasing land	16	4.9
Purchasing motorcycle	4	1.2
Crop production	15	4.6
Construction	59	17.9
Education expenditure (school fees)	68	20.6
Others	25	7.6
Total	330	100.0

Source: Field survey in 2018, Note: Group members were asked information of the two latest loans.

Repayment Performance of BRAC Tanzania's Microfinance Program

Before discussing repayment performance, it is important to understand the loan classifications since the definitions differ from one institution to another. According to BRAC Tanzania, loans are classified as either current or overdue. Current loans are those paid on maturity due dates or not yet due. Loans are overdue when one or more installments (i.e., both principal and interest) have not been paid on time. "On time" in this context refers to the exact date as stipulated in the loan

agreement given to the member at the time of disbursement. Overdue loans are classified as current payment missed, late loans, and non-interest-bearing loans (NIBL). Late loans are further classified as “late one” and “late two.” Loans will be considered as late one after remaining unpaid for six months. After that, it will be considered as late two for the next period of six months. A penalty of 3% of the unpaid amount (principal and interest) is charged monthly for late loans. After late two, overdue loans are considered as NIBL, and no interest is charged on these loans. After being NIBL, the loan can be submitted for write-off. Apart from that, any loan can be written-off due to death or any other disaster affecting the livelihood of the member.

Repayment performance, in this study, is measured by the proportion of the portfolio that is overdue (arrears), the proportion of the portfolio that is overdue by over 30 days (portfolio at risk), and the percentage of the loan portfolio that is written-off. For the group members, repayment performance is measured as the percentage of members with any repayment delays or defaults. It is important to mention that in 2016, BRAC Tanzania followed the lead of many microlenders, such as BancoSol and Grameen Bank, by converting to individual liability. By removing group liability, no member is held liable for another member’s repayment. According to interviews with BRAC Tanzania officials, the reason for this change is to avoid the dropout of good clients.

The average of all three ratios used in the analysis of repayment performance as shown in Table 3 were less than 5%. In the case of group members, there was a delay in only three loans, which represents 0.9% of the total loans, and no defaults. Even though the average repayment performance of the Arusha region is lower compared to the national average, it is still regarded as good. According to Stauffenberg and Jansson (2003), any portfolio at risk (PAR30) figure exceeding 10% should be cause for concern, and in this case, all PAR30 are below 10%.

Table 3 Repayment performance

	2010	2011	2012	2013	2014	2015	2016	2017
<i>BRAC Tanzania (all regions)</i>								
Arrear rate (%)	3.5	0.9	1.6	1.5	0.4	0.2	0.6	1.2
PAR30 (%)	3.3	1.0	1.9	1.4	0.4	0.2	0.7	1.2
Write-off ratio (%)	2.0	2.0	1.5	1.7	1.3	0.5	0.3	0.5
<i>Arusha region</i>								
Arrear rate (%)	N.A.	3.7	4.7	9.1	5.3	0.6	0.3	2.8
PAR30 (%)	N.A.	4.8	4.9	9.6	4.9	0.5	0.4	3.2
Write-off ratio (%)	N.A.	1.5	2.2	0	4.3	0.3	0.2	0.4
<i>Group members(177members)</i>								
	frequency	percentage						
Any delay in repayment	3	0.9						
No delay in repayment	327	99.1						
Default	0	0						
Total	330	100						

Source: Author computation based on secondary and field survey data in 2018

Notes (1) Arrear rate is the ratio of overdue loan to the total outstanding (2) Portfolio at risk refers to outstanding balance of all loans that have an amount overdue in this case the amount overdue over 30 days is used (3) Write off ratio represents the loans that the institution has removed from its books because of a substantial doubt that they will be recovered and is computed as amount written off over outstanding loan. (4) N.A. means data were not available.

Factors that Determine Repayment Performance

According to findings of this study, repayment performance is determined by both institutional and group-based factors. For institutional side, repayment performance depends on following three factors.

(i) Frequent client visit: BRAC Tanzania staff visit clients once a week to ensure on-time weekly collections; in case of any problems related to repayment, they are to be resolved as soon as possible. In their study of group lending programs in Eritrea, Hermes et al. (2005) found that regular visits by the group leader reduced the probability of moral hazard. Despite the fact that in their study the frequency of visits was tested for the group leader and not the microfinance staff, it still showed the role of frequent client visits. In contrast, Wenner (1995), in a study of FINCA’s group credit program in Costa Rica, found that the number of FINCA extension visits was

positively correlated with delinquency, indicating that FINCA may sense that a group is in trouble and attempt to visit more often.

(ii) Weekly repayment: The weekly repayment schedule implemented by BRAC Tanzania makes it easier for group members to repay in small installments. Weekly collection of repayment installments by bank personnel is one of the key features of microfinance that is believed to reduce default risk in the absence of collateral and make lending to the poor viable (Field and Pande, 2008). When BRAC in Bangladesh experimented with moving from weekly repayments to biweekly repayments, delinquencies rose, and BRAC quickly retreated to its weekly scheme (Armendariz and Morduch, 2010). In the interviews with BRAC Tanzania officials during the survey, the officials reported that BRAC Tanzania also implemented the biweekly repayment schedule in some of its branches, but the results were not impressive.

(iii) Strict loan approval process: BRAC Tanzania staff approves new loans by visiting the business or home to confirm the presence of income-generating activities. The staff visit prior to loan approval ensures the borrower's creditworthiness. For example, one microlender in Russia relies heavily on staff visits to applicant homes and businesses, rather than just on business documents (Zeitinger, 1996). In addition, for BRAC Tanzania, larger loans, from 760 USD to 2,231 USD, are approved by top management, such as regional managers and senior regional managers.

On the group side, there are three approaches used by group members to ensure high repayment performance.

(i) Sanctions: This approach includes the exclusion of defaulters. Although the results from the group members' survey show no defaults, this does not imply that default does not occur. Defaults happen, but the defaulting members are always excluded. This exclusion of defaulting members was observed in six groups. In addition to exclusion, there are cases where members sold the defaulter's physical assets to get money to repay the amount. During the survey, one group reported selling the defaulter's mattress to repay the unpaid amount. Field studies in Burkina Faso indicate that repayment rates are high because peer pressure is carried to extremes and has even resulted in the forced sales of household items in order to recover the loan amount (World Bank, 1997). Similar results were found by Ahlin and Townsend (2007) and Hill and Sarangi (2012), which show that greater pressure among group members reduces the number of days for late payments.

(ii) Members' contributions: Joint liability is officially not used in BRAC Tanzania anymore, but some form of joint liability still exists in groups. Members still have to contribute to the repayments of other members. In some cases, contributions are voluntary, where members help other members repay hoping they will be helped in turn when in need. In some cases, BRAC Tanzania staff forces members to contribute for those who have delayed or defaulted. During the survey, it was common to hear the community organizers saying that a meeting cannot end until all the money is paid, or they could not take merely half the money to the office. Such statements force members to contribute for others to finish the meetings and go on with their activities. There was also a case where a member took out a loan to repay for a member who had defaulted and run away. The question of joint liability or individual liability still has mixed results in the empirical research. Giné and Karlan (2014), through two experiments in the Philippines, found that removing group liability did not affect repayment rates. Utilizing the exogenous shift from individual to joint liability lending by a microfinance organization in Pakistan, Mahmud (2015) found a significant improvement in borrower discipline.

(iii) Protection of future access to credit: In order to get access to loans in the future, members must maintain a good repayment record. Group members cannot obtain a new loan if there is any default in a previous loan. As MFI loans are not backed by collateral, the client's main motivation for repaying is their expectation of future loans from the MFI if they repay promptly (Field and Pande, 2008). When members were asked if they want access to loans in the future, all members responded that they wished to borrow in the future. Loss of future access to credit is often cited as an explanation for high rates of loan repayment (Churchill, 1999).

CONCLUSION

This study uses primary and secondary data to discuss the repayment performance of the BRAC Tanzania group lending program, one of the largest group lending programs in the country. High repayment performance is important for the sustainability of group lending programs. A variety of measures like arrears, portfolio at risk, and write-offs were used for the analysis. Results show a low level of arrears, low portfolio at risk, and fewer write-offs, implying high repayment performance. The members of the surveyed groups represent the best-performing groups in the study area with no defaults and very few delays.

From the institutional side, this success reflects elements of good institutional design such as frequent client visits, a frequent repayment schedule, and strict loan approval processes. On the member side, this success is because of sanctions by other group members, contributions by other group members, and the protection of future access to credit. However, group members face challenges despite the good loan recovery. In some cases, they are forced to contribute for other members in cases of delays or defaults. If this continues, it can lead to a drop-off of the good members. The factors for good repayment performance of BRAC Tanzania described here cannot be directly replicated in other areas. What works for BRAC Tanzania might not work in other areas. For that reason, this study recommends that institutions wanting to replicate these factors should conduct research or trial experiments before applying them in their local contexts.

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