

Mushrooming Village Community Banks in Tanzania: Is it really making a difference?

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ABSTRACT: Village Community banks have been reported to benefit the poorer men and women in developing countries since their establishment. In Tanzania, VICOBA and other informal financial institutions have reached 27.9% of rural communities who were initially unserved. Much as the grassroots communities have been served by VICOBA few studies have been conducted in Arumeru District to evaluate how VICOBA have benefited the poor. It was from this concern that this study was conducted in June 2012 to assess the services, achievements and challenges pertaining to VICOBA in Arumeru District. A sample of 96 respondents was selected for the study. From the study it was found that Village Community Bank members of Muhorere, Mchele mchele and Mwangaza groups have benefited as members and sole owners of the banks. Members have been empowered in different skills and received different services such as soft loans, savings, shares, trainings and social or emergency loans. The banks on the other hand have achieved a lot since their commencement. There has been an expansion of their member base, their stakeholder base and even their capital base. Nevertheless there have been some hurdles encountered such as illiteracy for some members, inadequate capital and lack of bank offices among others.

KEYWORDS: Credit, Poor, Loan, Saving, Shares, Village Community Banks, Women.

1 INTRODUCTION

1.1 BACKGROUND INFORMATION

Since its inception, Village Community Banks (VICOBA) has benefited the poorer group of people in developing countries who were initially termed as the “unbankables” by the formal microfinance setting. Through VICOBA, poor rural women and men have been able to save or obtain loans to help them set up or improve business, invest in long term life needs such as health, education or deal with emergencies (ILO, 2008). Also, VICOBA have empowered its members who are the sole owners in different skills such as governance, accountability, business management and have enhanced women’s confidence and improved their status in the community.

In Tanzania, Village Community Banks were originally adopted from Niger, in West Africa, where they were popularly known as “Mata Maso Dubara” (MMD). The model was initiated in Tanzania in 2000 with the aim of empowering less privileged people in both urban and rural settings. VICOBA in Tanzania has reached the grassroots communities as from the FINScope survey done in 2011; it was revealed that 27.9% of the rural communities who were initially un-served are now served by informal financial institutions such as VICOBA, Rotating Savings and Credit Association (ROSCAs), and Village Savings and Loan Associations (VSLAs).

Though VICOBA has been very valuable to its members, different studies have revealed various problems they encounter the same way as members of other financial institutions. In a study done by Kihulya (2007) it was reported that the members of formal and semi formal financial institutions in Tanzania encounter multiple challenges including lack of collateral, high interest rate ranging from 20% to 40%, short term repayment and rudimentary repayment schedule. On another hand those who are members of informal financial institutions such as ROSCAs, VICOBA and VSLAs complained of small amount of credit, lack of shares, and sometimes lack of business management trainings.

While members of VICOBA face some hardships, the bank as a local unregistered institution also faces a lot of adversity in its different operations. In a study done in South Africa in 2002 by Cotzee and Cross, it was revealed that village banks encounter problems from the initial stages to maturity due to weak group structures; high proportion of illiterate group members; weak or ineffective leadership leading to unresolved grievances and disputes; absence of mechanism for equitable division of interest revenue and lack of transparency and access to records. In Tanzania, few studies have been conducted to assess the performance of different VICOBA operating in different parts of the country. In a study done by Kihongo (2005) in Ukonga Dar es Salaam, it was revealed that the institution was faced by inadequate capital for credit, and members were unsatisfied with the interest rate, unavailability of credit and procedures for credit acquisition. In another study by Lema (2011) in Njombe district it was learnt that Inadequate entrepreneurship skills was mentioned by many respondents being the main problem they faced followed by inadequate capital, Local Authority Taxes and lack of permanent office.

In Arusha and especially in Arumeru district, with more than 30 VICOBA groups, it was discovered that few researches have been done on how different VICOBA groups operate and analysis on individual group is inadequate. It is from this juncture that this study intended to assess Mwangaza, Mchele mchele and Muhorere VICOBA groups operating in Arumeru District.

1.2 OBJECTIVES OF THE RESEARCH

The main objective of the study was to assess the operations, achievements and challenges of the three VICOBA groups in providing services to the members. Specifically the research intended to study services, achievements and identify different challenges facing Mwangaza, Mchele mchele and Muhorere VICOBA groups in their daily routine as savings and credit groups.

2 REVIEW OF LITERATURE

2.1 THEORETICAL BACKGROUND

According to the World Bank, poverty is said to exist when people lack the means to satisfy their basic needs (World Bank 1998). Income poverty is a state where one lacks a usual or socially acceptable amount of money or material possessions. Income poverty is a major cause of other types of poverty like food poverty, basic needs poverty, ill health and handicap poverty. Because of lack or low income people fail to utilize other forces of production that is land, entrepreneurial, and labour. Although the Human Development Index for Tanzania rose from 0.458 in 2000 to 0.530 in 2007, poverty in the country is still widespread and acute (UNDP, 2009). Poverty is a predominantly rural phenomenon; more than 80% of Tanzania's poor live in rural areas (NBS, 2009). As a response towards poverty reduction, the Government of the United Republic of Tanzania has been battling against poverty since the early days of independence, and such efforts have been reinforced in many times through various policies.

2.2 POLICY REVIEW

In order to get out of poverty trap, the country developed the Tanzanian Development Vision 2025. The Development Vision was later translated by Poverty Reduction Strategy of 2000-2003 which was succeeded by the current, National Strategy for Growth and Reduction of Poverty (NSGRP) or commonly known in Kiswahili as 'MKUKUTA' of 2005-2010. The NSGRP is country policy towards reduction of poverty thus all development agents (State organizations and non-state organizations) are tied to implement poverty reduction initiatives under the guidance of NSGRP (URT, 2005).

Among the strategies, all the policies sought to enable the poor people come out of poverty by providing them with means and capacity so that they can invest into income generating activities and get income. One of the means is capital, but, given the fact that they don't meet conditions (mostly collateral), which have been put by financial institutions, the poor people fail to access capital. Thus establishment of microfinance institutions was important as they can provide loans to the active poor people with soft conditions that take into consideration the need and capacity of the poor. As part of the solution, different organization has assisted the people in formation of informal/formal groups and associations like SACCOS and Village Community Banks (VICOBA) program.

2.3 STRUCTURE OF VICOBA

Village Community Banks program was established in order to overcome capital shortcomings and empower the poor to have their own MFIs, which meet their needs and can, reduce income poverty. Village Community Banks are informal, village

based savings and credit groups being promoted in various parts of Tanzania (Duursma, 2007). VICOBA is structured in such a way that poor people, especially those in the rural areas, are organized in groups and trained in various skills so as to build up their capacity to fight against poverty. VICOBA holds a strong belief that even poor people have skills, capabilities and abilities which when unleashed and utilized effectively can help them to attain and improve their economic development and social welfare. By 2009 VICOBA has spread in 19 out of 25 regions in Tanzania with approximately 56,280 members (MoFEA/PED, 2009).

2.4 EMPIRICAL REVIEW

The study by Mike FitzGibbon (1999) in microfinance services offered through SACCOS found that half of the institutions, do not offer credits and those offering credits, condition require that the loan seeker has some form of fixed assets as collateral. Corruption, and especially embezzlement, was a common problem. There are huge gaps still to be filled at institute on level. The Tanzanian economy in general and the financial sector in particular, still lack sufficient base capacity in terms of human resources and effective and efficient organisations. This lack of 'absorption' capacity at institutional level is considered the major bottleneck in developing the microfinance market in Tanzania (Duursma, 2007). This justifies VICOBA to be far beneficial to the poor Tanzanians as compared to SACCOS.

VICOBA lending scheme has already proved to be one of the better tools for community emancipation socially and economically in Tanzania. This is evident in the people benefiting from the scheme. There are a lot of testimonies and recorded facts from the VICOBA practitioners as derived from the Documentation Report by the Ministry of Finance and Economic Affairs/Poverty eradication Department (2009). Jerome Adamu Lupila of Ujenzi group in Masasi says VICOBA is a place where members become courageous and are built in mutual support habit. 'Mama wa Joji' from Nanyore group in Minjingu village Nkaiti ward Babati District Manyara call it a place where a poor is transformed from "Hali choka" - Doldrums to "vifijo" – jovial life. For Mr. Abdi Magoda of zingatia group in Kabuku Handeni, VICOBA is a place where individual livelihood and interpersonal relationship are bettered. According to Mr. Yusuph of Somanga Village in Kilwa District Says VICOBA is a place in which those used to one meal a day are lifted to two, three and even more meals per day. He adds that those who couldn't afford education cost become education tycoons.

In the mid-1990s, the International Food Policy Research Institute (IFPRI) made a strong case for the connections between rural finance and food security. The study found that financial services that respond to the food security needs of rural households can lead to more successful outreach and have a greater impact on the poor (Sharma, 2000). Agricultural loans are often used to purchase seed inputs (both improved and local) and tools as well as to hire labor. It is expected that the net effect of these loans is an increase in the production of crops (including key household staple crops.) An increase in food production can lead to an increase in food availability and also to an increase in access to income if more crops are being sold for profit. An increase in food production can also contribute to year-long household food stability.

The study conducted by Kihongo (2005) revealed that there was effectiveness in the capacity building through various skills by provision of training ranging from simple accounting procedure, business management and some entrepreneur skills as part of VICOBA project operation. The trainings have been not only useful in successful operation of VICOBA but also growth of their economic activities.

On the other hand, though there is progress in microfinance sector in Tanzania in terms of number and products they offer, still there are some limitations, which are a hindrance to income poverty reduction. Further, sustainability of VICOBA members' projects is not assured as with the small size of capital in business, it is difficult for them to compete with new entrants in the same business with large capital (Kihongo, 2005).

3 RESEARCH METHODOLOGY

3.1 AREA OF THE STUDY

The study was conducted in Meru District Council in Arusha Region, most focused at Usa River ward. Meru district council is among the two councils that form Arumeru district. Administratively, the District is divided into 3 divisions, 17 wards, 69 villages, 275 hamlets and 48,768 households. The district has a total population of 268,144 people according to 2012 population census, among which 131,264 (49%) are males and 136,880 (51%) are females. Meru district council covers an area of 1268.2 Km². The District Council lies on the slopes of Mount Meru which is the second highest mountain in Tanzania after Kilimanjaro.

3.2 RESEARCH DESIGN

The study used a descriptive cross-sectional survey designed to facilitate collection of information about VICOBA in a uniform and reliable manner. The findings will thus apply to the sampled VICOBA at that particular time it was undertaken.

3.3 SAMPLE SIZE AND SAMPLING PROCEDURE

The sample size under this study was 96 respondents. This included members of the bank selected equally from all members of VICOBA. Similarly the sample included bank trainers, DCDO, DCO and non bank members.

Table 1: Sample Size

Categories	Population Sample
District Community Development Officer	2
District Cooperative Officer	2
VICOBA Members	80
VICOBA Non Members	7
Trainers and VICOBA Leaders	5
Total	96

Source: Field findings, 2012

3.4 SAMPLING PROCEDURES

The research team employed different sampling techniques to capture enough information whereby both probability and non probability sampling was employed in selecting respondents. Under probability sampling the researchers used simple random sampling techniques to ensure that all VICOBA members and non members as well as trainers and leaders had the same chance of being included in the study. On another hand in non probability sampling the purposive sampling technique was employed to select the staff from Community Development and Cooperative Offices.

3.5 METHODS OF DATA COLLECTION

Due to complexity of the study in question, the research used various methods including focus group discussions, interviews, observations and documentation. The researchers considered different characteristics of the respondents before determining the proper method for data collection.

3.6 DATA ANALYSIS PROCEDURES

The data gathered from the respondents were coded, tabulated and analyzed by using the Statistical Package for Social Science (SPSS). Descriptive statistics helped to answer research questions by establishing percentages, frequencies, means and standard deviations of different categories of responses obtained through the questionnaires. For qualitative data, content analysis was used in which interpretations was made based on patterns and trends of information gathered.

4 FINDINGS

4.1 OCCUPATION OF VICOBA MEMBERS

Each VICOBA visited (Mwangaza, Mchele mchele and Muhorere) had a total of thirty (30) members who were all women. Table 2 indicates that more than half of the members (51.1%) were entrepreneurs. The remaining 12.5% were teachers, 12.5% farmers, 10% housewives, 12.5% food vendors and 1.2% nurses.

Table 2 Occupation of VICOBA members

Stakeholders of VICOBA	Frequency	Percentage
Teachers	10	12.5
Entrepreneurs	41	51.1
Farmers	10	12.5
Housewives	8	10.0
Food vendors	10	12.5
Nurse	1	1.2
Total	80	100.0

Source: Meru District research findings 2012

4.2 SERVICES PROVIDED BY VICOBA

The Village Community Banks visited provided several services just like other banks or financial institutions using a distinctive unique procedure which is very useful to low income earners. Respondents from all three VICOBA groups visited mentioned that since they joined the savings and credit groups they have been benefited from soft loans, savings, trainings and social or emergency funds as discussed below:

4.2.1 SOFT LOANS

VICOBA provides soft loans to almost all its members. This was reported by 96% of the respondents. The first loan to members is provided three months after the member deposits savings. That loan has to be repaid after three months for the first loan and six months for the second loan. During first cycle, the bank offers a loan amounting three times of what a member has saved. This situation was the same to all banks visited. For example a member with savings of one hundred thousand shillings (100,000) is provided a loan worth three hundred thousand (300,000) in the first cycle and from there the bank can offer any amount requested by a member which is to be repaid within six months. Nevertheless the amount disbursed during the weekly meetings depends on different factors such as the shares collected on that particular meeting, and the repayment trend of the member applying for the loan.

Though termed as soft loans which intended to mean that the conditions for acquiring the loan are also soft, it was also noticed that the members complained of the 5% interest rate charged on the loans. In all groups visited it was revealed that the interest rate was the same and the members are the ones who decided upon this rate. This becomes strange as some members were complaining while they were involved in decision making.

4.2.2 SHARES AND SAVINGS

Capital for running of the group is mobilized through loans from other financial institutions and shares from its members. Also interests from loans given to members tend to contribute to increasing capital of the particular group. It was learnt that VICOBA members meet once per week to deposit their money by buying shares. It is a prerequisite to buy shares whenever they meet, the maximum shares to be bought per day is five (5) shares while the minimum is one (1) share. Each share has the value of two thousand (2000) Shillings. If each member managed to buy five shares then they collect three hundred thousand (300,000) Shillings per week. This is the same for all three groups. If a member fails to buy the shares other members are obliged to make contributions so as to enable the failed member to purchase the lowest amount of share which is one.

4.2.3 SOCIAL OR EMERGENCY LOAN

Muhorere and Mchele mchele VICOBA groups termed this type of loan as social loan while Mwangaza group preferred to call it emergence loan. About 59% of VICOBA members reported to have benefited from this type of loan. It is a loan which

helps in solving social problems arising among members. It covers things such as funeral services and health expenses. A member passing through these difficulties at a certain point during his/her membership can take a loan and pay within three months. If it happens that a member needs this loan and the bank is not in position to offer the loan due to financial hardships, then it is the duty of the bank to borrow the money elsewhere on behalf of the member.

Funds for the social or emergency loan are mainly not from the shares and savings but rather they are from fines which are collected whenever a member misbehaves or fails to attend the weekly meetings on time. According to the members of the three groups, it became clear that they always agree synonymously on the time they meet. Muhorere meets on Friday at 4.00 p.m., Mchele mchele meets every Thursday at 4.00 p.m. while Mwangaza meet on Sunday at 2.00 p.m. The members are only allowed to be late by five minutes, beyond that they are fined an amount of 500 Tanzanian Shillings. Also fine of the same amount is charged to members who fail to attend the meeting without informing the group leaders. For cases where a member fails to show up in three consecutive meetings without a genuine reason she/he is obliged to pay 5000 Tanzanian Shillings.

4.2.4 TRAININGS

During the interviews it was revealed that 82% of the respondents have benefited a lot with different trainings provided. The trainings varied from record keeping skills, good governance, entrepreneurship and business establishment skills.

Business establishment training:

The findings show that through VICOBA, members are provided with free training on how to establish a business, in this type of training they are taught how to select prime business place, type of business and customer care. The management of business skills provided help members manage their business. This kind of training is provided to members even before having loan, and hence when they are provided with loans majority of them will run their firms in a sustainable manner.

Good Governance

VICOBA is the only bank which has the system of making its members learn and practice good governance. The bank provides training to members concerning good governance and also let the members practice it. Through good governance training the bank provides its members with skills on how to participate actively in decision making on different matters in their group. An example of good governance practice is when the group is selecting its management, when they are deciding on the interest rates and fines. Further each member participates on deciding the amount of shares they should buy on a weekly basis. These are all documented in the constitution put forward by the group. All the 3 groups visited revealed that they are guided by regulations, procedures and by laws which explains and takes them through their daily operations.

Entrepreneurship

The bank has succeeded to provide trainings concerning entrepreneurship. The bank provides training on how to save, to start a business and how to manage a business. The trainings are also provided on how and when to use the loan in a useful manner, but also taught on where to invest and at what time. The research found that Mchele mchele work together as a group in the business of cleaning the market place and selling rice. This is the great achievement because the members work communally. In Muhorere, the researcher found out that bank members were trained on how to engage on entrepreneurship. Through focus group discussions it was learnt that they have build a habit of keeping savings and also are running their businesses without loss. In Mwangaza, the bank members had the same opinion as the other two bank groups, that is, some of members were not good in business but due to training provided by the bank are now good entrepreneurs

4.3 ACHIEVEMENTS REACHED BY VICOBA

All the three VICOBA groups visited reported to be successful in different aspects as it is discussed here under:

4.3.1 MEMBERS EXPANSION

All the groups visited alleged to have increased their members' base since they started their operations. Muhorere which was established in September 2010, with only seventeen (17) members had now reached a saturation point of thirty (30) members as stipulated by the VICOBA constitution. The same situation above was observed in Mchele mchele which started with twenty three (23) members in May 2009. Mwangaza which was established on February, 2012 started with only nineteen (19) members but now has reached thirty members. The groups can only add another member if a current members drops out due to different reason such as death, prolonged illness, loan defaulting or voluntary exit.

4.3.2 CAPITAL EXPANSION

The capital base was very low when the three VICOBA groups started their operations but now it has increased. From the research it was found out that the capital base of any VICOBA group is built through shares bought by members on a weekly basis. With few members at the start that meant a meager amount of capital but with the increased member base that implies an increase in capital. Apart from the member base the value of the shares also contributed much to the capital expansion. At the start Muhorere sold its share at a value of only one thousand 1000 Tanzanian shillings, but now the value of one share has increased to 2000 Tanzanian shillings and they are now planning to increase the value of one share up to 3000 Tanzanian shillings. Muhorere has increased the capital up to 8,000,000 million Tanzanian shillings while it started with a capital of 600,000 Tanzanian shillings only.

With Mchele mchele, the situation is the same as Muhorere, as it started selling one share at a value of only 500 Tanzanian shillings but now the value of one share is 1,000 Tanzanian shillings. They started with the capital base of 300,000 Tanzanian shillings only but now the capital has increased to 4,000,000 Tanzanian Shillings. The same applied to Mwangaza which started with only 500,000 Tanzanian Shillings but now the capital has increased up to 8,000,000 Tanzanian Shillings.

Another reason which led to the increase of capital of the bank is the fact that the interest accrued by the bank is added to the capital. The bank is operated without any costs such as salaries because there is no employee from outside the bank, members alone work for the bank. Further the bank has no expenses such as rent because operations are conducted at one of the members building. At the end of the year (one cycle), they share the dividends and start another cycle. An exception is the Mchele mchele group which has the bank account in Meru Community Bank.

4.3.3 STAKEHOLDERS EXPANSION

During their establishment, all banks had only farmers as members but currently the three VICOBA have opened way to people of different occupations including public servants, private sector workers and entrepreneurs. The only condition the banks give to this new type of stakeholders is that they should adhere to the bank's constitution. With varied members in the banks it was appreciated by Mwangaza group since in the start majority of them had poor educational background but now they have teachers, nurses and even accountants who can help them in record keeping and other activities requiring educated people.

4.4 CHALLENGES FACING VICOBA IN PROVIDING SERVICES TO THE COMMUNITY

VICOBA groups face different challenges in their daily procedures in serving their members. This was deduced during interviews and focus groups discussions with the members, non members, trainers as well as the DCDO and DCO.

4.4.1 ILLITERACY

Majority of VICOBA members are not well educated and therefore it becomes difficult to understand when given trainings and even when running their businesses. From the research conducted it was learnt that 20% of the respondents have no formal education, 55.6% have attained primary education, while the remaining 24.4% have attained secondary education. With this intellectual capacity it becomes clear that, when trained it takes long for them to understand different matters and even sometimes they fail to even grasp simple concepts.

4.4.2 INADEQUATE CAPITAL

During focus group discussions with the VICOBA groups, it was found out that Village Community Banks group members mobilize resources through buying of shares, monthly fees and fines. The shares which contribute to 90% of the bank capital are pegged at Tshs. 2,000/= per week, amounting to approximately Tshs 60,000/= per meeting if each member buys only one share. Another source of money includes Monthly fees and fines. The fines are paid for breach of group rules and regulations e.g. delay in meetings or delay in payment of shares.

With this small amount collected during a meeting, it becomes clear that it will not be enough if a member even wants a 100,000 TShs loan, with that, it means the bank have to look for other sources to fulfill their customers' requirements. When asked what they do during situations like this the banks responded that it is during this time that they have to take loans from other commercial banks likes Cooperative and Rural Development Bank, Meru Community Bank and even National Microfinance Bank.

4.4.3 LACK OF VICOBA OFFICE

All VICOBA visited operated at the place which is not conducive as they do not have their own building to meet so they have to meet at the house of one of the members. Sometimes the area is small to accommodate all of them, but also it is risky for the owner of the house to accommodate all of the members since people may think that the money collected are kept there and so the house owner being in the fear of being attacked by people who want to steal the money. Apart from that it is very inconvenient to the house owner since she has to sacrifice all other activities to accommodate her peers.

On the other side the banks lack land for constructing their own buildings. The situation necessitates the bank to use safe metal box for money keeping collected every week they met. Other money is kept in circulation by being borrowed to members. That box which is locked with three locks has to stay with accountant of the group. Different three members stay with the keys and it is not supposed to be opened unless it is in the meeting. This challenge makes an accountant to stay with the money but having fear of being attacked by thieves.

4.4.4 INADEQUATE KNOWLEDGE ON RECORD KEEPING

The research observed that VICOBA are operated with the people who have little knowledge concerning how to keep records. The situation might be caused by the fact that most members have low education level hence becomes difficult to adhere with this. It has also been observed that members of VICOBA are the ones who serve the bank. That is to say there is no other employee outside the members unless they recruit one on temporary basis who can help them with the repayment records and even calculation of dividends and interest.

4.4.5 LOAN DEFAULT AND FAILURE TO REPAY

During the interviews and focus group discussions, it was mentioned that the repayment rate was above 90% in all the banks visited. When probed on the excellent repayment rate they simply mentioned that is because women are more responsible than men. However in Mwangaza group it was mentioned that few group members have failed to repay the loan. This situation forced other group members (guarantors) to repay the loan on behalf of the defaulted member.

5 CONCLUSION

In general the study found out that Village Community Bank members of Muhorere, Mchele mchele and Mwangaza groups have benefited much as members and sole owners of the banks. It was clearly deduced that the sole owners of the bank visited are women. To this the study concludes that the banks in rural areas as Arumeru have helped in empowering women who are members and owners of the banks. Further from the findings it was revealed that the women have benefited from different services provided such as soft loans, savings, shares, trainings and social or emergency loans provided.

The banks as other financial institutions on another hand have achieved a lot since they started their operations. They reported to have expanded their member base, their stakeholder base and even their capital base. Much as the banks reported great achievements attained, they also complained of some hurdles faced in their growth. They mentioned illiteracy, inadequate capital and lack of bank offices as among the major hurdles slowing their growth.

6 RECOMMENDATIONS

In view of the research findings of the study and the above conclusion, the following are the recommendations drawn to the government and members of Village Community Banks.

To the Government

- The Government through Social and Economic Development Initiatives of Tanzania (SEDI) and Meru District Council should make sure that they provide the banks with required infrastructure and trainings so that they operate smoothly and sustainably.
- The Government also, should enact different policies which favor the informal financial settings such as VICOBA, as the banks visited felt that the current microfinance policy in use favours the formal and semi formal financial institutions which are legally registered by the Bank of Tanzania.

To the members

- Since the groups are formed based on mutual trust, it is advised that members of the banks recruited should be familiar with the risk involved in case their peer member defaults. Adding to this, the banks should introduce new conditions such as presentation of business plan for new loans applied and visit of the group to the member applying for new loan to check on the viability of the business.

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