Contributory Factors to Loan Default in Group Lending in Microfinance Institutions in Tanzania
The Case of FINCA Tanzania

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The purpose of this study was to analyze the contributory factors to loan default in group lending in Microfinance Institutions (MFIs) in Tanzania. Specifically, it sought to find out factors contributing to loan default in group lending, to identify and assess the role played by peer pressure and group solidarity in reducing loan default in group lending and to identify and examine strategies adopted by MFIs to overcome loan default in group lending. The study was conducted at FINCA Tanzania. It involved 103 respondents from clients, loan officers, supervisors and a branch manager. Respondents were obtained through purposive, convenience and quota sampling techniques. Data were gathered through questionnaires, observations, interviews and documentary review and were qualitatively and quantitatively analyzed. The study revealed that major contributory factors to loan default in group lending included: burden of other debts, poor business experience, poor knowledge of loan management and poor coordination. It was revealed further from the study that measures taken in groups to enforce loan repayment in group lending were rarely taken by group members. It was further found out that peer pressure such as exclusion of defaulter members from the group, charging fine to latecomer? and absentees in group meetings and application of social stigma to defaulters played role, to a large extent, in reducing loan default in group lending. Strategies applied in MFIs to overcome loan default such as pre-loan training to group members was ranked to be important, while frequent visits to group members, provision of loan insurance and continuous training to group members were ranked to be lesser important for the same. The study recommended for a review of loan repayment period, procedures for loan approval, repayment capacity analysis and interest rate charged. Also, the study calls for the government to speed up establishment of a credit reference bureau in order to reduce loan default.