GENERAL EDUCATION JOURNAL; Vol. 6; 1ssue 1; Pages 46-67; June 2016; Published By Mount Meru University Research Unit

Article Title: Failure and Collapse of Village Community Banks in Tanzania: Some Findings from Meru District in Arusha Region

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Date Received: 12/10/2015

Date Published: 01/06/2016

Journal Name: General Education Journal, Vol. 6 Issue 1

e-ISSN: 2507-7791

Publisher: Mount Meru University

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Country: Tanzania

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This paper was initially presented at the 2nd International Scientific Conference on:*"The Advancement of Geography for the People, Natural Resources and Development "*Organised by the Department of Geography at the University of Dodoma (UDOM) in collaboration with National Geographical Association of Tanzania (GAT). The Conference was held from 28th – 30thMarch, 2016.

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GENERAL EDUCATION JOURNAL; Vol. 6; 1ssue 1; Pages 49-63; June 2016; Published By Mount Meru University Research Unit

ABSTRACT

The growth of microfinance, as one of the livelihood strategies adopted by many urban and rural entrepreneurs in the global South has been widely acknowledged. A number of studies have been undertaken to investigate on the drivers and factors that lead these microcredit institutions (MFIs) including Village Community Banks (VICOBA) into success. Many studies praise MFIs as best practices in improving livelihood activities of urban and rural poor entrepreneurs. However, there is a dearth of literature on what could be the leading factors of failure and collapse of VICOBA and many other MFIs. Therefore, this paper attempts to explore the factors that lead to the failure and collapse of VICOBA in Meru district council by adopting a Case Study strategy, while key informant interviews, questionnaires were used as methods to collate primary data from the snowballed and purposively selected respondents. The paper pinpoints that the following factors are the basis of failure and collapse of case studies: group members' status of income poverty, late repayments and loan default, lack of business education and entrepreneurship skills both for group leadership and group members, wrong start by choosing or selecting wrong or uncommitted members, mistrust and mismanagement of funds, multiple group membership, Loan repayment failures, which result in, members running away or migrating to other places or areas due to the burden of loans. The paper concludes that some of the VICOBA may not be considered as sustainable source of livelihood strategies due to their failure to empower beneficiaries to cope with and recover from stresses and shocks.

Key words: Failure, Collapse, Microfinance, Village Community Banks, livelihood strategies.

Paper type: Research paper.

1. Introduction and Background

1.1. Introduction

The growth of microfinance, as one of the livelihood strategies of urban and rural poor in the global South, has been widely acknowledged since its inception four decades ago (Kyessi & Furaha 2010). A number of studies have been undertaken to investigate on the drivers and factors which lead these microcredit institutions into a success. Many studies praise most microfinance institutions (MFIs) as best practices in improving livelihood outcomes of urban and rural poor households (Dorfleitner et al. 2013). However, little is known on what could be considered as factors leading to the failure and collapse of the same (Siwale & Ritchie 2011;2013).

Microfinance institutions, which include Savings and Credit Cooperative Societies (SACCOS) and Village Community Banks (VICOBA), are organizations established initially to reach the 'un-bankable' low income segment with the aim of supporting their livelihood strategies through small scale micro-enterprises and local economic activities (Siwale & Ritchie, 2011; Ahlen 2012).Large banking and financial institutions in the global South including Tanzania often marginalize the urban and rural poor in various credit initiatives. This fact has prompted the mushrooming of VICOBA in cities and rural areas of the global South (Kyessi & Furaha 2010; Bakari et al. 2014). Microfinance services offer financial services which include small loans, savings and insurance (Armendáriz & Morduch 2010:15 in Ahlen 2012).

Conventional financial institutions exclude the urban and rural poor through their administrative procedures, terms and conditions. Due to their low affordability levels, the urban and rural poor cannot meet the set stringent conditions. It is reported that around 56% of the population in Tanzania is lacking access to financial services. Alternatively, the poor has now been reached by the microfinance institutions including Village Community Banks to improve their livelihood outcomes(Marr &Tubaro 2011:1 cited in Ahlen 2012; Kyessi & Furaha 2010).

1.2. Background information

The Central Bank of Tanzania (BOT) refers to microfinance as those microcredit institutions which are involved in activities directed at providing access to financial services for working poor or small and micro-enterprises. Micro-financial services comprise of micro credit, savings, micro leasing, micro insurance and other forms of financial services. The microfinance market consists of the poor who are essentially involved in some form of economic activities (Bank of Tanzania, 2005). In Africa, Microfinance Institutions emerged as a result of financial sector reforms, which took place in 1990's aiming at developing sustainable, efficient and effective financial systems through strengthening monetary control, boosting deposit mobilization, stimulating competition in financial markets, enhancing the efficiency in financial services provision and financial resources allocation, structuring insolvent banks and promoting the diversification of financial services hence lead to formation of informal financial institution (Kibirango et al, 1992). It is revealed that in Africa 27.9% of the low income communities who were previously un-served by formal financial institutions are now served by informal financial institutions such as Rotating Savings and Credit Association (ROSCAs), Village Savings and Loan Associations (VSLAs), and Village Community Banking (VICOBA) (FIN Scope survey 2011).

VICOBA has proved to be the most effective lending model in Niger where it was found in 1991 under the name of MMD model (*Mata Masu Dubara*) which roughly translates as ‘women on the move’ found by CARE International in Niger, then Zimbabwe, Mozambique, West Nile Uganda, and Eritrea (Wentling 2001in Ngalema 2013). This lending model was firstly introduced in Zanzibar through CARE Tanzania, in year 2000 and later adopted by other conservation and community livelihood support projects in Pemba Island and Tanzania mainland.

The VICOBA model was formed specifically to economically empower women to enhance their livelihood strategies (Bakari et al. 2014). Members decide themselves who is to join them in the five units groups (collateral or pressure groups) and which unit group should join each other to make a VICOBA group of 30 members. The members come together and register, set days, place and time for meetings. The groups also establish group rules and regulations, agree on the amount of money or resources to be contributed as savings/shares and seek support form MFIs which has limited coverage and planned on how they can go about the problems they are facing (Duursma, 2007; SEDIT, 2008).

Members of VICOBA command all group operations in their own way. They contribute their shares and social protection amounts on weekly basis. After 14 to 16 weeks of training, they take loans to support already identified relevant and realistic projects. For the first few months they take short term loans of three months. Later when they have gained competency in entrepreneurship skills they take long term loans of six months. Each loan is returned to the group basket with added value. This kind of operations, as it is in many other microfinance institutions, is highly praised to reach many unreached poor and facilitate their access to financial services, and hence improves livelihood activities of millions of urban and rural households. Despite this, still most of VICOBA fail and collapse at the infant stage while they have same goals and objectives.

The paper attempts to analyses how the failure and collapse of VICOBA as a financial asset of many urban and rural poor affect their livelihood strategies. A livelihood refers to the ‘capabilities, assets (stores, resources, claims, and access), and activities required for a means of living’ (Makupa, 2013 citing Chambers & Conway,1992, p. 6). Ellis (2000) in Makupa (2013) adds that a livelihood include natural, physical, human, financial and social capital assets, the activities, and the access to the aforementioned assets through institutions such as VICOBA and social relations of people from the same area or working place that together determine the living gained by the individual or household.

Makupa argues that livelihood strategies are a function of the status of livelihood assets and the transforming processes. Thus, changes in assets status may further or hinder other strategies, depending on the policies and institutions at work (Makupa 2013 citing Kollmair & Juli, 2002). Livelihood outcomes are the achievement of the livelihood strategies, such as increase of income, access to services, and increase of general well-being, as well as sustainable use of natural resources. Thus, the livelihood outcome is directly influenced by the dynamic changes of policies and institutions governing various livelihood strategies of a particular community or area (Makupa 2013).

This paper aims at contributing knowledge on the factors contributing to the ultimate failure and collapse of VICOBA and proposes mechanisms and mitigating factors that can be employed to reduce and eventually eradicate failure by enhancing the success of VICOBA in Tanzania, by answering the following research questions:

- What is the performance of the selected VICOBA in providing loan and controlling loan repayment from its members?
- What are the reasons for the failure and collapse of VICOBA?

2. Methodology

Data and information used in this paper were collected in Meru district one of the districts of Arusha region, in Tanzania which covers an area of 1,268.2 Km^2. The District Council lies on the slopes of Mount Meru which is the second highest mountain in Tanzania after Kilimanjaro. The study focused mainly at Usa River, Maji ya Chai and Kikatiti wards. The process involved reviewing related and relevant literature searched through google search engine and google scholar, carrying out interviews with key informants from 10 selected VICOBA and 5 District Community Development Officers in-charge of microcredit, interviewing 110 members of various groups. In exploring and determining the factors leading to failure and collapse of VICOBA, the case study method was employed.

3. Tracing the development of VICOBA in Tanzania

3.1. Origin and geographic coverage

SEDIT, CARE and WCRP can be referred to as the pioneers that introduced the VICOBA concept and its acronym in September 2002 and borrowed from the experience of CARE international in Niger, West Africa in 1991. The model is popularly known as "*Mata Masu Dubara"*(MMD) and is based on the Hausa dialect or vernacular for women in a course to emancipate themselves from poverty. In Mozambique it is known as OPHIVELLA, in Uganda JENGA and Zanzibar JOSACA all of which are

CARE international found acronyms with modifications suiting local demands (Kihongo 2005; URT, 2009; Ngalema 2013). There is evidence that VICOBA concept was firstly introduced in Zanzibar before spread to other parts of the United Republic of Tanzania (Ahlen, 2012). VICOBA is a grassroots based lending model, which focuses on fostering a participant's ability to innovate and manage viable income generating activities. The adoption of VICOBA is based on its suitability and effectiveness in catalyzing developmental initiatives (Ngalema 2013).

The VICOBA model starts at the bottom with collateral groups of five members getting together by forces of social economic discipline and acceptability to form a large group of 30 people. The groups formed are then registered and facilitated to make their own bank and training activities schedule. Intensive training lasting for up to sixteen weeks is conducted. Skills in inter and intrapersonal discipline in production, saving, spending and behavioral transformation is provided in a proper way (URT, 2009). Based in the mode of operation, the micro-finance policy and poverty, VICOBA Scheme has proved to be a very effective to the low income communities where it operates with very little cost and can easily be integrated to other development initiatives and give better results within a short period(Ngalema 2013).

Since its inception, VICOBA concept is now adopted in every corner of the country, and it is reported that there are more than 1876 groups operating with 56, 280 members (URT, 2009). Data shows that since 2006 approximately Tshs30 billion has been collected from their own income as revolving fund for the groups (URT, 2009; Ngalema 2013). The model is based on elements that promote creativity; ownership and sustainability of community invented income gaining activities that are also gender sensitive. A projection by SEDIT (2010) shows that it is 100% cost effective to launch VICOBA project in Tanzania. However, only 0.4% of people surviving below poverty line have accessed the VICOBA facilities and as pointed earlier almost a negligible proportion of Tanzanians are served by the facility. Based on the above observation the micro-finance industry in Tanzania is still evolving and generally, there has been on increasing trend in performance of the MFIs in Tanzania for both outreach and financial indicators since 2002(Ngalema 2013).

3.2. Organisation foundation

The internal group structure of the groups is made of 30 members each, including the chairperson, secretary, treasurer, money counters, key holders and discipline master. Jointly, they ensure groups survival and attainment of the goal. They carry out the overall supervision of the group in view of the procedures guiding management of shares, loan management, and discipline. The chairperson's responsibility is to ensure

joint of the group while the supervision of the group's bank is responsibility of the secretary. Collection of the shares, custody of the credit kits and overseeing the functions of the group's bank account, the treasury and money counters they count money after collection from different contributions.
The key holders are responsible for ensuring the safety of the keys of the credit kits and opening and closing the kits during and after contribution exercise. The locked credit kit has three padlocks and three members are entrusted as key holders. It is done in this way to reduce the risk of one person opening the box without the permission of others (SEDIT, 2010; Ngalema 2013). Lastly, the discipline master role is that of overseeing adherence to the rules of the groups. In addition to the above official, group trainers provide overall guidance to the group, and, in collaboration with the chairperson, ensure group cohesion which is important for the group's survival. Group members are required to attend weekly meetings as decided by the group. Moreover, every group has the cycle decided by the group of about 12-18 months. After a certain period funds accumulated are pooled together for few individuals to get loans equivalent to the total contribution made. At the end of the circle dividends are shared among group members, this is usually after twelve or fourteen months and the whole process of saving and borrowing starts again (SEDIT, 2010; Ngalema 2013). Therefore, the group leadership team in VICOBA is democratically elected from among the group members and serves voluntarily; this makes the leaders win the members' trust, respect and commitment to obeying their instructions. Moreover, what they plough back to the group remains own (group) members money.

3.3. Differentiating VICOBA from SACCOS and other microfinance institutions

There are different types or forms of microfinance suppliers and their main dissimilarity lays in the legal structure. All microfinance institutions can be divided into *formal, semi-formal and informal categories*. Both formal and semi-formal institutions are registered and subject to banking laws, regulations and procedures, unlike the informal institutions which are not under any law at all and not registered. Among semi-formal MFIs are credit unions and cooperative banks, savings and credit cooperatives, i.e. SACCOS, and sometimes NGOs, while self-help groups, local moneylenders, NGOs and rotating savings and credit associations (ROSCAS) are informal MFIs (Ahlen, 2012 citing Ledgerwood 1999:12-13; CGAP 2012e).

Kihongo (2005) underlines that; the vital dissimilarity between VICOBA and SACCOS or other forms of microfinance is mainly around beneficiaries of the interest charged (returns on investment or capital booster). VICOBA charges low interest rates of 5-10% and this is normally decided by the members, while traditional micro-finance institutions (MFIs) are commercially oriented charging high interest rates (17-25%) for their credit, hence unaffordable by the poor (SEDIT, 2010; Ahlen 2012; Ngalema 2013). In the other forms as in all profit motivated financial institutions the interest is derived from the borrower and flows to the lender to meet operation costs such as salaries, cost of utilities and also investment returns. In this view, it reduces the capacity of the micro-finance schemes to meet the social objective of poverty alleviation as it extracts resources from the poor which would have otherwise been utilized to improve their welfare. Ahlen(2012)citing Begasha (2011:23) adds that the main difference between the VICOBA model and the well-known Grameen model is how they use the interest rate. In Grameen model the interest rate goes to the lender to cover operational costs while in VICOBA the interest rate is to increase the capital to be able to provide bigger loans and at the end of the circle the interest rate is usually divided between the members together with savings and give the members a profit. Kihongo (2005)observe that VICOBA model as compared to other MFIs, recycles this investment returns to enable participants take bigger loans in the future. At the end of each cycle the total returns in investments is distributed to each member as dividends according to each person's current share capital investment.

Therefore, against this above background, members of VICOBA stand to benefit more as compared to accessing loans from formal financial institution which charge high interest rate. The interest rate to the loan, are set at a lower rate, improving the capacity of the members to remain in the groups, and enable them to retain portion of earned incomes good enough to improve not only their life circumstances, but also (individual) savings and investments. VICOBAs are groups of maximum 30 people that meet regularly, usually once per week, to save shares in the VICOBA and give loans to the members. Among the 30 people there is one chairperson, one secretary and one accountant. The members within the group are divided into sub-groups of five people to work as each other referees when someone wants to take a loan, which together with the savings works as a collateral instead of other assets. VICOBAs are, as mentioned above, informal and not regulated or controlled in any governmental act or policy and the VICOBAs form their own rules and regulations.

3.4. Strength of VICOBA

- VICOBA is a project which is fully owned by the target communities. The management costs are all taken care of by group members alone under voluntary basis. It is less cost in its management activities.
- VICOBA is a scheme that can easily be accessed by all the poor at the grassroots. Unlike SACCOS in which some of those below poverty line fails to qualify as shareholders. In VICOBA it is different because share values are planned by group members themselves.

- VICOBA scheme can be used to address other social evils such as Diseases and environmental destruction.
- VICOBA scheme is fully down-top (or bottom-up) in terms of decision making, planning, implementation and ownership. This guarantees sustained economic evolution in line with MKUKUTA strategy.

4. Results and Discussions

4.1. Demographic Characteristics of Respondents

4.1.1. Gender of respondents

In 110 respondents, the composition was male 34% and female 66% of the total respondents. The number of female respondents accounted for greater percentage than male, as in most cases the performance of income generating activities is dominated by women.

4.1.2. Age of respondents

The results show that most of VICOBA members are young. At least 44.2% of all respondents were in age category of 25-34 years, followed by 22.7% of the age category 18-24 years. While those in their late 50's, i.e. between 55-64 years represented 7.3%). This implies that majority of respondents in the study areas were matured people within the active working age group. The distribution of age can be summarized in Table 1:

Table 1: Age of respondents

Age group	Frequency	Percent
18-24 years	25	22.7
25-34 years	53	48.2
35- 44 years	10	9.1
45-54 years	11	10
55-64 years	8	7.3
65+ years	3	2.7
Total	110	100

Source; Fieldwork, 2015

4.1.3. Respondents Marital status

The importance of marital status was to identify which groups in the study area are mostly engaged into VICOBA groups by performing different income generating activities compared to the other. The respondent marital status analysis distribution shows married people were 54.5% of all population. See Table 2:

Table 2: Respondents Marital status

Marital status	Frequency	Percent
Single	20	18.2
Married	60	54.5
Separated	4	3.6
Divorced	10	9.1
Widowed	16	14.5
Total	110	100

Source: Fieldwork, 2015

4.1.4. Respondents level of education

Education is the most important tool for developing human skills, knowledge and liberating from poverty (URT 1999).The study found that 51.8% of the respondents attained primary education and 30.9% either attended or completed Secondary Education up to form four level.

4.2. Performance of VICOBA to provide loan and control loan repayment from its members

4.2.1. Loan repayment period

One of the most challenging periods of VACOBA is time of loan payment compare to other microfinance institutions such as banks, SACCOS and other institutions. Most of respondents complained on repayment time that is too short for a borrower to pay on time hence they follow into default so easily. More than 70% of respondents say that they only take one (1) month to return the loan, therefore most of VICOBA payment time is 1-3 months in some cases on few VICOBA in Meru DC. One VICOBA chairperson said:

> *"Most of problems that we are facing is payment period that we decide for our borrowers to follow, they take loans but they complain during repayment. They claim time is very short compare to other microfinance institutions, that members do not manage to make return from their investment and fail to repay their obligation hence create conflict with management of the group",* said one of the VICOBA leaders in Kikatiti ward.

It should be noted that VICOBA members formulate their constitution, rules and regulations approved in the general meetings. Most of them state that loan payment period should be within 1-3 months. 75% of members interviewed owned small business with capital of TShs 50,000 to 500,000/=; therefore they expect to boost their business for one (1) month or having short term loans (emergencies loan) that's business profit had to compensate the loan after one month. Failure to service loans, mostly lead to termination of membership.

4.2.2. Factors affecting loan repayment in VICOBA

Information extracted from other stakeholders of VICOBA in Meru DC through checklist survey to VICOBA members shows that in VICOBA groups there are several social and economic factors which hinder or affect loan repayment to the group that create difficulties in the managing group and fail to increase capital, hence leading to poor performance of the group. These factors have been grouped as follows:

Size of the family which is the main reason for failure to pay back loan in VICOBA has been mentioned by most of respondents in this study. It shows that many VICOBA members having a lot of dependents in their family. This implies that large number of members in the family cannot be able to engaged in economic activities, so the loan which is obtained from VICOBA acts as the only source of income in the family to solve different issues rather than channeling in income generation so that they cannot be able to repay loan on time. Further, respondents mentioned family problem as other social factor affect in loan repayment, These findings indicate that large number of dependents within the family lead to the problem in repayment of loan due to the fact that loan given is acting as the only source of income to solve and help in the family rather than basing in economic generation as the result they fail to pay loan on time.

Family conflicts that lead to misunderstandings among the family members on the other hand a factor that contributes to loan defaulting among the VICOBA clients in the study areas. When the families are in conflicts no economic activities can be undertaken, this leads to poor performance of the business, hence leads to low loan repayment rate. The findings show that most of respondents claimed that extended family is the source of conflict in the family. Further, another problem is the nature of economic activities. From the findings, it has been observed that majority of members engaged into business activities which are very small in capital and small return with very high risk.

Interest rate charged is another problem in VICOBA methodology in Tanzania especially in study area. The interest rate which is paid by most of VICOBA members in Meru DC did not encourage members to apply for loan, because during the data collection almost 55.5% of respondents were interviewed said that interest rate is high and 44.5% said interest rate is moderate. This implies that the majority of the VICOBA members are not comfortable with interest rate charged as they consider it to be high compared to the loan given. This could not influence members to perform well in economic activities as they fear paying high interest rates.

Lack of Training in economic activities performed also mentioned as barrier in loan repayment in study area. The findings show that all 28.6 % of respondents said that they were not given any training on the activities performed and 56.4% of respondent receive very little training concerning business management, cooperation or entrepreneurship skill. The remaining 15% confirmed that they had attended several training programmes. This indicates that the VICOBA members when performing their activities, they do not have the necessary skills due to the fact that they lack training, so the production obvious will become low, and this will automatically affect loan repayment.

Lastly are multiple loans from other financial institutions and multiple memberships in other VICOBA, SACCOS, VSLA, PRIDE and BRAC. During the fieldwork, most of VICOBA leaders and other stakeholders complained that members join different VICOBA to boost their capital and secure their default when they fail to pay back loan. Multiple memberships affect loan repayment because most of members fail to balance their requirements.

4.3. Factors leading to the failure and collapse of VICOBA

During the key informant interviews, one of the DCOs said that:

> *"Lack of will and readiness are the main barriers. When we started VICOBA majority of the people was doubtful to join the groups and adopt the model because they lack of appropriate education and proper knowledge on VICOBA operational model, but they have to form VICOBA because they do not have choice in poverty eradication…"*

35.4% of respondents mentioned income poverty of majority of group members to buy shares to boost group capital as the major obstacle to growth; 32.5% said late repayments and loan default lead the group to be financially weak. Other 19.1% have blamed lack of business education and entrepreneurship skills both for group leadership and group members as a main problem to the sustainability of the group. When asked on the same, 8% of respondents accused wrong choice of members as source of the problem; while the remaining 5% blamed mistrust and mismanagement of funds.

The interview with key informants from the District Office explains that:

> *The most of the group members who are farmers and who highly depend on agricultural activities find it difficult for them to repay their loans on time because of poor harvests due to climate challenges and shortage of rainfall. This is especially when they take a loan for agricultural activities. In turn, the late repayment status also creates other problems such as lack of capital in the group account resulting in other members not being able to take loans.*

One of the group leaders said that, the other problem in VICOBA is dominance by many poor people with unstable sources of income. The poor members take loans and pay back with a monthly interest rate, often of 10%. At the end of the year when the group usually divides the interest rate according to how much savings you have this result in the people with a lot of savings getting more.

Another Chairperson of a failed group said:

"Many group members dream of becoming successful business people just in one night. Therefore end up by joining more than one group, hence having multiple memberships. Others move from group to another after failing to repay their loan or migrating to another residence or village or even region to avoid shame of default".

Key informant interviews with District Community Development Officers and Cooperative Officersreveal that some problems or challenges that vicoba groups are facing are similar to other microfinance institutinssuch as banks, SACCOS, VSLA and other local methedology like UPATU. Therefore its responsibility of authority and leadership in VICOBA to make sure that they corporate with members inorder to solve and overcome the identified challenges by increasing the commitment to member, training and seminars by consulting banks and relevant office in the Local Government Authority for support.

5. Conclusion and further research

The paper shows a number of factors are behind the failure and collapse of VICOBA which for many poor households in urban and rural areas constitute their main livelihood assets for improving their livelihood strategies, i.e. increase of income, access to services, and increase of well-being, reduced vulnerability, improved food security. These factors include the following:

- Group members' status of income poverty
- Late repayments and loan default which leads lead the group to be financially weak.
- Lack of business education and entrepreneurship skills both for group leadership and group members,
- Wrong starting by choosing or selecting wrong or uncommitted members
- Mistrust and mismanagement of funds.

Other identified factors include:

- Multiple group membership
- Loan repayment failures, which result in
- Members running away or migrating to other places or areas due to the burden of loans

We conclude that some of the VICOBA may not be considered as sustainable source of livelihoods due to their failure to empower their members to cope with and recover from stresses and shocks and maintain or enhance its capabilities and assets, can provide sustainable livelihood opportunities for the next generation, and contributes net benefits to other livelihoods at the local and global levels and in the short- and long-term.

It would be interesting if further studies could be undertaken on the following areas:

- Conduct a comprehensive study on several failed groups and do a comparative study in more than one district to expand on the factors, hence come up with some policy implications and lessons.
- Since this paper dwells on failure and collapse of VICOBA, it would be interesting to carry out an in-depth of consequences of the failed groups to the members and examine their coping strategies after the failure the group.
- Many studies have praised MFIs as being effective in alleviating income poverty of its beneficiaries; however, there is a scant literature on consequences to the

loan beneficiaries after failing to repay the loan, or simply after being seized properties for failing to repay the loan and their coping strategies thereafter. This can be termed as the other side of microfinance institutions in Tanzania.

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