

# Microfinance in Tanzania: The VICOBA of Mount Meru

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In Tanzania, a new way for doing microfinance developed quickly from 2002 onwards. The model was first fostered by the international NGO Care in Niger in 1991 and afterwards spread to several countries, including Tanzania. There, it took the form of *Village Community Banks* and was named as such: VICOBA. Personal fieldwork in Tanzania, among the Rwa of Mount Meru, gave us the opportunity to observe these VICOBA in 2014 at the local level. By taking an empirical perspective, this article documents the effects of this new form of microfinance at the local level, while at the same time analyzing its strengths and weaknesses. After a brief description of the social structures of Rwa society (clan organisation, central chieftainship and age groups), we will present the other forms of microfinance available locally. We will then describe the *modus operandi* of the VICOBA while trying to extract their conditions of success or failure.

## Introduction

Microfinance is a much talked about subject that has taken many different forms. A multitude of operators are now involved, from local banks to NGOs, community associations and private companies. Its extraordinary growth, especially after the worldwide success of the Grameen Bank launched in 1976 in Bangladesh by Muhammad Yunus, earned him the Nobel Peace Prize in 2006. However, the field of microfinance is not without its critics and various authors have highlighted its limitations (Baumann and Servet, 2007; Servet, 2006, 2009; Guérin, 2015).

In this article we focus on *Village Community Banks* in Tanzania, also known as VICOBA. These "community-based village banks" are a relatively new form of local microfinance that has grown significantly since 2002. This paper describes the microfinance practices of VICOBA, as observed among the Rwa of Mount

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Meru in Northern Tanzania in 2014, based on our survey data. We aim to empirically document the effects of VICOBA at the local level while analysing its strengths and weaknesses. The VICOBA system was new for the Rwa and it is particularly among women that this mode of access to credit seems to have developed the most, probably because such a system allows them to invest themselves outside the domestic sphere where Rwa society tends to confine them. We begin by putting the VICOBA system into historical perspective, by presenting the initial form of microfinance experimented with in Niger in 1991 by the NGO Care before it spread well beyond Niger's borders. We then present our fieldwork among the Rwa of Mount Meru by describing the main characteristics of Rwa society (patrilineal clan organisation, centralised chieftaincy and age system). We then describe the other forms of microfinance available locally before detailing the specific functioning of VICOBA. Finally, we attempt to identify the conditions for their success or failure.

### **Setting the context for VICOBA**

In African societies, informal financial assistance mechanisms are widespread to finance social events (funerals, medical expenses, children's education). Various operators may be involved and this support may take several forms (tontine, lottery, etc.). Such mechanisms are not intrinsically African, since L. Fontaine points out, for example, that tontine systems were at work in Paris as early as the 18th century (Fontaine, 2008: 156).

The novelty and interest of VICOBA lies in their operating mode, which combines savings and credit in a very flexible way, within a small group of associates who manage their own assets (Grant and Allen, 2002). Some consider this form of microcredit to be a form of 'bottom-up development' and local authorities have widely encouraged its spread. In Tanzania, where several forms of access to microcredit coexist, VICOBA has had the advantage of being fairly inclusive by opening up to a wide clientele from the start.

The VICOBA model, developed by the international NGO Care in Niger, later spread on a large scale in Tanzania. This form of microfinance was piloted in Niger in 1991 by this NGO, under the name *Masa masu dabaru*, which means 'women on the move' in Hausa (Grant and Allen, 2002). The effects of this initiative were deemed positive and the model was adapted to other contexts and disseminated in a large number of countries: in Zimbabwe, Mozambique, Uganda, Eritrea, but also in Asia and Latin America, where various development

agencies have taken up the concept under the name of *Village Savings and Loan Associations* (VSLA)<sup>2</sup>. In French-speaking Africa, it is known as *Associations villageoises d'épargne et de crédit* (International Rescue Committee, 2012).

How does such a scheme work? Each time, it is an association of villagers that manages, on the one hand, the savings regularly contributed by its members, in accordance with the terms of a contract agreed in advance, and, on the other hand, the loans and the interest on the loans granted to the members of the group from this kitty. The interest on the loans is collected by the group and then redistributed to each member in proportion to their stake. Placing money in a VICOBA therefore allows its members to obtain a loan on an *ad hoc* basis and on demand, and to receive interest on the money invested. On these two points, their operation is therefore radically different from that of tontines, in which each member receives the entire stake in turn, and in which the money invested does not earn any interest. The VICOBA system is a banking system, although the form is much more flexible.

Each VICOBA (more precisely the board it appoints within it) manages the system itself, free of charge, and its members are not remunerated for their services. The office registers contributions, grants and loans (without asking for justification) and collects the interest before redistributing it in proportion to each person's stake. There are therefore almost no external costs (apart from the cost of purchasing registers), which is one of the advantages of the system compared to other forms of microfinance run by formal banks. External banks sometimes intervene in VICOBA's but, when they do, it is only to receive the group's available funds on deposit or to release collective funds.

The possibility of borrowing offered by VICOBA is therefore a unique opportunity for its members, as banks often require collateral that is out of reach for most households seeking a loan. In the VICOBA system, a group of people are formed locally to manage their savings autonomously at regular weekly meetings and remain their own guarantors. The interest on the loan granted to one member of the group is shared among all in proportion to the contribution of each, and this voluntary saving is a source of profit for all members of the VICOBA. It is interesting to note that a solidarity fund system exists in parallel. In

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<sup>2</sup> See:

<http://www.vsla.net/aboutus/globalworkexperience;jsessionid=em4loqv3hofptc8bqi6m3s2w> (accessed 5 October 2018).

addition to the deposit and loan operations, an independent kitty is set up and acts as a solidarity fund, fed by a separate source of contributions. It is therefore a form of informal social security that the VICOBA system promotes while guaranteeing the refinancing of the scheme. However, the specific management methods vary from one VICOBA to another, depending on the profiles of the group members and their interactions.

The NGO Care introduced the VICOBA model in Tanzania in 2000. At first, it took the form of a pilot project that was tested in the Zanzibar region (Jozani-Chwaka Bay conservation project, of the Zanzibar Area Office). The system was then adapted by the Social and economic development initiation of Tanzania<sup>3</sup> and disseminated throughout the country under the name of Village community banks. The development of this system was then meteoric in Tanzania. In 2009, there were a total of 1,876 VICOBA in the country, of which 55 were in Arumeru district, our survey area, which brings together the Arusha<sup>4</sup> and Rwa (this is relatively few, as in the same year several other districts in the country had 70 or more, the most developed being Marangu at the foot of Mount Kilimanjaro, with 102 VICOBA). Five years later, in 2014, the number of VICOBA had increased from 55 to 632 in Arumeru district and in Rwa country specifically the first VICOBA was established in 2008 in Poli village<sup>5</sup>. In order to understand the context in which VICOBA have inserted themselves into Rwa country and what impact they may have had on this society, we briefly present below the main characteristics of Rwa society.

### **The Rwa Society of Mount Meru<sup>6</sup>**

The Rwa, who number about 250,000 according to the latest census data (2014), are Bantu-speaking farmers settled on the south-eastern slopes of Mount Meru (4,585 metres), facing Mount Kilimanjaro in northern Tanzania. They are known locally as Meru (plural Wameru) but in their language, Ki-Rwa, they are called

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<sup>3</sup> See: <http://www.seditvicoba.or.tz> (accessed 25 March 2019).

<sup>4</sup> On the Arusha, Maasai crop farmers, see P. Gulliver (1963).

<sup>5</sup> According to J. M., agriculture extension worker of Poli ward and advisor for 65 VICOBA (interview in Nkoaranga, 28 January 2014).

<sup>6</sup> Surveys among the Rwa took place from 1992 to 2014, over a total of 18 months covering all annual seasons. VICOBA data were collected from January to March 2014.

Rwa (plural Varwa). We retain their ethnonym here to avoid any confusion with the Meru of Mount Kenya, with whom they are not related. (The Rwa are culturally and linguistically close to their much more numerous neighbours, the Chaga of Mount Kilimanjaro). The Rwa practice intensive agriculture, dominated by coffee and banana cultivation, on very fertile volcanic soils with two rainy seasons per year. Demographic pressure is high and settlement is very dense. It is made up of contiguous farms, the "villages" being in the end only administrative districts. The land belongs to the men and a wife comes to live on her husband's farm. The sale of coffee, a cash crop, was the source of a considerable economic boom during the colonial period, with very high profits, but the fall in coffee prices at the end of the last century<sup>7</sup> led the Rwa to diversify their agriculture (Baroin, 1998, 2007). However, socio-economic inequalities remain very high and the economic context is marked by growing uncertainty, partly due to demographic pressure and the readjustments that were necessary after the coffee crisis.

The money from the sale of coffee goes to the men, and their budget, as in many societies, is separate from that of the wife. In principle, it is the husband who pays for the children's schooling - this is generally a high-cost item - and it is the wife who provides food for the household from a smaller budget. Her budget is mainly derived from the sale of bananas (which brings in little income), as well as from the sale of milk if the household is rich enough to keep one or two cows in stalls. The proximity of the town of Arusha, about 12 km to the west, ensures that these agricultural products can be sold relatively easily.

The Rwa have strong social structures. There are 17 patrilineal clans that manage all land-related issues. In this context of intensive agriculture, this is a particularly conflict-producing area. The clan chiefs meet in council, and this council has a supreme chief. This centralised chieftaincy, which is alive and effective, bases its judgements on a written constitution drawn up by the Rwa themselves (Baroin, 2003). This is exceptional enough to be mentioned. Finally, a system of ages and generations<sup>8</sup> completes the picture (Baroin, 2015). This system induces transversal solidarities within male groups called *rika* (plural *marika*). A new group is formed every 15 years or so during an initiation, with the aim of edu-

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<sup>7</sup> The price of coffee on the world market is subject to strong variations. For example, the French newspaper *Les Echos*, on 5 September 2018, headlined: "Coffee price plunges to lowest level in 12 years".

<sup>8</sup> There are many versions of age systems, mainly in East African polities.

cating young men to respect the elders and (in the past) to train warriors. This second function is no longer on the agenda, but the system continues to reinforce social cohesion, disciplinary control of the young, demographic regulation (due to certain age-group-related prohibitions on marriage and procreation) and a sense of group identity.

In this highly structured and hierarchical society, each married man, under the control of his clan, is master of his family and his farm. His wife does not intervene in public affairs and the only women who gain some autonomy are those who have a salaried job, usually a modest one, such as a teacher or nurse. A woman who conceives outside of marriage is very much frowned upon in this very puritanical Lutheran society, but her father grants her a small plot of land near his home to ensure her subsistence. This gift is not without arousing strong jealousy from her brothers, who consider themselves the only legitimate heirs to their father's land. It is therefore understandable that, in this very marked patriarchal system, the VICOBAs may have been an opportunity for emancipation for some women. However, we must be careful not to overestimate the effects of this.

### **Other forms of local microfinance**

Before detailing specifically the functioning of VICOBAs, this section describes other forms of microfinance that are available locally and that we were able to observe. Microfinance in Tanzania is a vast and constantly evolving field and, in this vast field on which in-depth research should be carried out, we have chosen to document a few experiences noted in the field in order to illustrate the diversity of forms of access to informal credit.

The first example is given by Ms Pallangyo. She told us that she was initially a member of a tontine of ten women (*kibati* in Swahili)<sup>9</sup> who each contributed Tsh 2,000 (0.75 €)<sup>10</sup> per week. This tontine stopped in 2012 (we do not know why) and Ms Pallangyo joined a new group of 13 participants called *Usongori*, which means 'holy spirit' in Rwa language. At the beginning, each participant contributed Tsh 10,000 (3.77 €) per month, and the money collected enabled them to buy collective equipment for rent: 100 plastic chairs, six large pressure cookers, six large pots and plates. This project was not without relevance, as there are many occasions for renting equipment in Rwa country, for all kinds of large meetings (family ceremonies, clan or age group meetings, political meetings,

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<sup>9</sup> Swahili and English are the two national languages of Tanzania.

<sup>10</sup> Tanzanian shillings are denoted as Tsh. In 2019, Tsh10, 000 is equivalent to 3,77 €.

etc.). The women rented the equipment at the following daily rates: Tsh 30,000 for one hundred chairs; Tsh 5,000 for a pressure cooker; Tsh 2,000 for a cooking pot and Tsh 100 for a plate. With the profits, they planned to buy more equipment to rent. Without changing the monthly contribution rate, they decided to turn their micro-enterprise into a tontine, giving the money to one of them in turn. When her turn comes, Mrs. Pallangyo plans to use this capital to start a chicken farm.

Another form of locally available microfinance that takes a more elaborate form is linked to churches. In 2014, we were able to observe a group operating informally within the Evangelical Lutheran Church of Tanzania (ELCT), a very powerful church in Rwa country. This group had been set up three years earlier and involved 46 employees from six neighbouring congregations (including eight pastors, evangelists and secretaries). This microfinance system remained informal, but its members had their own rules and loans could be made internally. Annual contributions from each member were initially Tsh 18,000, then Tsh 30,000, and in 2014, at the time of our data collection, the annual contribution was Tsh 40,000 (i.e. 15 €)<sup>11</sup>. The group was headed by a chairperson and the board consisted of the chairperson, his or her assistant, a secretary and an adviser, elected for two years, with the possibility of re-election. The chairman of the board was an evangelist (the position of an evangelist is indeed geographically more stable than that of a pastor who can be transferred elsewhere). The advisor was a pastor. Together this group had bought 200 plastic chairs to rent and planned to buy a corn mill. Each member (or their spouse) could borrow money, without interest, to pay school fees, to invest in their business, or to finance social ceremonies (weddings, baptisms, funerals). If there was a lot of money on hand, it was put in the parish account and not in a bank, because when it remained in the parish, withdrawals could be made more easily. In addition to personal contributions, the group's fund received occasional donations, such as a donation of Tsh 100,000 (37.70 €) from the Pastoral District, mentioned during our survey.

SACCOs (Savings and Credit Cooperative Societies), another local microfinance scheme, is closer to the formal banking system. This other system available locally among the Rwa usually gathers a larger number of participants. SACCOs are cooperatives formally created in Tanzania in 2003 by the *Cooperative societies act*. They have been operational since 2004 and are subject to state control (Kihongo, 2005: 31). The SACCO observed in Kikatiti during the 2014 data collection period had 800 members. Another, the Tengeru Market SACCO, established in 2006 with 50 initial members, had 968 shareholders in 2014, 75%

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<sup>11</sup> According to J. E. Mungure, pastor of this church (interview on 24 January 2014).

of whom were women. This SACCO managed an annual budget of Tsh 342, 670 million and employed four staff and a night watchman. In 2014, it had a nine-person steering committee and an annual general meeting, documented by the regional and district cooperative officers who were accountable for its balance sheet<sup>12</sup>. In terms of operating procedures, loans granted to the shareholders of this SACCO could not exceed three times their stake (as in the case of VICOBAs, whose operating procedures we will describe below) and had to be approved by the steering committee. The types of loans granted were decided at the general meeting. In 2014, seven loans were involved: one for leasing (equipment loan) at 3% per month with repayment at the end of three months; financing for a social project (improvement of a house, hospital, etc.) at 3% per month; agricultural investments at 4% per month; support for educational expenses at 5% per month; biogas financing at 2% per month. If the borrower fails to meet the repayment deadline, he or she must pay a 10% penalty.

These three examples show the diversity of access to microfinance solutions at the local level. Other schemes exist that add to this diversity. One example is the independent NGO, Wekeza, whose name means "to invest" in Swahili, and which aims to promote investment in Africa through egalitarian participatory financing<sup>13</sup>. All of these schemes have in common an implicit contract between group members and a system of strict control over the inflow and outflow of money. Loan applications can finance a wide range of needs and are unconditional, except in the case of SACCOs where they must be approved by a steering committee.

Among the many microfinance possibilities available, VICOBAs are a kind of intermediate formula. They are much smaller in size than SACCOs or inter-church arrangements and bring together people who know each other. The social anchoring of the group in its immediate environment is therefore important. In addition, the VICOBA system is encouraged by the Tanzanian state. The following section details the specific functioning of VICOBAs and their effects on the people who use them, and attempts to identify the conditions for their success or failure.

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<sup>12</sup> According to an official of this cooperative (interview on 15 February 2014 in Tengeru).

<sup>13</sup> See: <https://wekezaapp.com> (accessed 22 March 2019).



## **How VICOBA works**

Compared to the many forms of microfinance available locally, the rapid spread of VICOBA in Tanzania is primarily due to the way it operates, which is perceived positively by a majority of people. In Rwa society, VICOBA's are an innovation introduced from outside (initially by an international NGO), but which was then adapted and promoted by the Tanzanian government. Here we describe the functioning of some of the groups we observed in 2014.

## **Constitution and operating rules of a VICOBA**

VICOBA's are autonomous. Each VICOBA manages its own finances (collection of money and loans) and its solidarity fund. Each VICOBA is fed, on the one hand, by the compulsory weekly contribution of each member, which allows it to have funds that it lends on request to its members for their individual projects; and, on the other hand, by fixed monthly contributions that allow it, if necessary, to help a member in difficulty (mainly illness or death). The latter contribution feeds the solidarity fund. The two contributions finance separate budgets.

At the beginning, the group is formed by spontaneous co-optation on the initiative of about thirty interested men and/or women. Most of them are women. Indeed, we noted the local perception of men being stigmatised (poor) if they participate. For example, in 2014, the local VICOBA in Rwa country that had the most men included only seven, that is less than a quarter of its members (the group had about 30 people at the time)<sup>14</sup>. In order to function well, groups are generally small (between 25 and 35 people) and at a similar economic level (to have a similar capacity to save). As a result, the poorest are excluded.

The group then gives itself a proper name that distinguishes it from any other. For example, one VICOBA in the village of Ndatu has given itself the name Nsalalo, a term in Ki-Rwa that can be translated as 'we assert our views' (*msimamo* in Swahili). According to the model promoted by the Tanzanian state, each VICOBA is divided into sub-groups of five people who will stand together if one of them borrows. The place and time of meetings are freely defined for each VICOBA. For example, once a week, every Tuesday afternoon at 4 p.m., at such and such a person's home (I have not observed that the meeting place can change). The group also sets the minimum amount of compulsory weekly sav-

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<sup>14</sup> According to J. M., Poli ward councillor for 65 VICOBA (interview in Nkoaranga on 28 January 2014).

ings for each person, e.g. Tsh. 2000 (i.e. 0.94 €).

The smooth running of VICOBA's operations relies on efficient management by a team of five people: a president, a secretary, a treasurer, a master of discipline and a fifth person responsible for counting the money.

They are elected for one year and may not serve more than three successive terms. The Master of Discipline is responsible for collecting fines from those who arrive late or talk amongst themselves during the meeting. His function, as we have seen, ensures that the meetings start on time and run smoothly.

## **Fundraising**

The main purpose of VICOBA meetings is to collect money from members on a regular basis. These transactions, including all contributions, are recorded in collective registers and individual notebooks. A stamp and a metal box with three padlocks complete the equipment (photo).

The minimum amount of compulsory weekly savings for each member is agreed upon when the group is created. The maximum amount that each member can contribute at any one meeting should not exceed three times the minimum amount, the purpose of this limit being to avoid too great an imbalance within the group. The capitalisation of each consists of the purchase of shares (*hisa* in Swahili). The amount of the share is usually small (e.g. Tsh 2000, Tsh 3000 or Tsh 5000). Each member must therefore buy at least one share per week, and a maximum of three shares. If they fail to do so, they will have to pay a fine of Tsh 1000. If he is prevented from attending the meeting, his presence is not necessary but his stake, on the other hand, remains indispensable. In this case, it is sufficient for him to entrust this money to another member of the group who will hand it over on his behalf at the meeting. The money is collected and recorded in each person's personal notebook and in two collective registers, a table and a notebook.

Example: The Nsalalo group in the village of Ndatu, which consists of 33 members (28 women and 5 men), set the amount of the share at 2000 Tsh. At its meeting on 28 January 2014, it recorded the purchase of 77 shares, corresponding to a receipt of Tsh 154,000 (72 €). (Personal observation)

All money deposits and loans are made at meetings, in the presence of all, which ensures their complete transparency. They are all recorded in writing in individual booklets and collective registers, duly stamped with the group's specific stamp as a signature.

For security reasons, all these documents and the stamp are kept in VICOBA's metal box with three padlocks. The three locks are entrusted to three different members of the group, and incompatibilities are foreseen: these members must not be related to each other, and must not be in a leadership position. In this way, influences, connivances and possible misappropriations that family or hierarchical relationships could cause are avoided. This triple lock is not an empty precaution, given the omnipresence of corruption in Tanzania. It prevents any transactions outside the weekly group meetings. The triple-locked box therefore contains the group's documents, while the money is usually taken to the bank by collective decision. At the beginning of each meeting, the box is opened to record new contributions, and triple-locked at the end of the meeting.

Each VICOBA is set up for a renewable period of one year. At the end of the year, it is closed: the accounts are drawn up and the profits are distributed in proportion to each member's contribution. After that, each member is free to continue his or her participation for another year.

The very strict operation of VICOBA meetings is in sharp contrast to local habits. The first requirement is to arrive on time, otherwise the latecomer must immediately pay a fine. The respect for punctuality is all the more remarkable as in Rwa country the usual meetings (family, clan or other) never start at the scheduled time. Being an hour or two late for a meeting<sup>15</sup> is more often the rule than the exception. The second requirement, to refrain from chatting during meetings, is also rather unusual. Finally, compliance with the third requirement, to buy at least one share, is reinforced by the dissuasive nature of the fine of Tsh 1,000 charged to the offender. These three rules ensure the regularity of the group's functioning, while other rules specify the conditions of the loan that each person can apply for.

### **Rules on borrowing**

Under the solidarity of the members of his or her sub-group of five people within VICOBA, each member can borrow a maximum of three times the amount of his or her stake. This maximum is a precaution to limit the risk of non-repayment. In the event of a default, the four people in solidarity with the bor-

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<sup>15</sup> This time is specified, for example for a wedding or a generational ceremony, on invitation cards given to the guests.

rower deduct the amount not repaid from the borrower's shares<sup>16</sup>.

Compared to the credit conditions offered by other local microfinance systems, it is clear that the main advantage of this scheme is its flexibility and accessibility. Indeed, tontines are widespread locally, but they are less flexible than VICOBAs since each member has to wait for his or her turn to recover the collective stake. As for the large credit cooperatives, the SACCOs, they are much more formal and cumbersome than the VICOBAs. They involve a much larger number of participants and the granting of a loan is subject to specific objectives and the prior approval of a steering committee. In VICOBAs, by contrast, the borrower is not required to present a project. Nor is the borrower required to justify its viability. This freedom to use the loan is highly valued by VICOBA participants. The other members have no say in how the borrowed money is used and it is on this fundamental point that VICOBA's operation differs from other forms of microfinance where the viability of a project is first examined before a loan is granted.

However, although the VICOBA borrower does not have to justify the use of the money borrowed, this freedom is not without risks. Even if the amount that can be borrowed is limited by law, some borrowers (and especially female borrowers) misjudge this risk and go into debt beyond their capacity to repay. This can lead to real tragedies, as we shall see, because the obligation to repay the loan on time is very strict.

While the terms of the loan are very accessible, the loan rates charged vary according to the duration of the loans: 5% for a three-month loan; 10% for a six-month loan; 12% for a nine-month loan (with repayments staggered on a monthly basis). These rates, which may seem high, apply to limited amounts and offer a borrowing opportunity to people who would not normally have access to it. This is the whole point of VICOBAs.

Bank loans are out of reach for most villagers. They are only granted to individuals who present solid guarantees, and they require the opening of a bank account, the operating costs of which are not negligible.

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<sup>16</sup> According to J. M., Poli ward advisor for 65 VICOBA (interview in Nkoaranga on 28 January 2014).

As of 2014, there was only one locally based bank at the foot of Mount Meru, the Meru Community Bank. It had been founded two years earlier, in October 2012, in Usa River. According to information provided by one of its former managers<sup>17</sup>, this bank provided loans to various entities, particularly VICOBA, at an annual rate of 20%, or 1.67% per month. It boasted that it was offering a much lower rate than other banks, which were approaching 30% per annum. As of December 2013, the Meru Community Bank held deposits from 416 local VICOBA, paying 3% interest, totalling Tsh 481 067 000 (225 405 €). All the VICOBA that managed their deposits in the formal banking sector represented 66% of all the 632 VICOBA listed in Rwa country. The remuneration of their deposits, as well as their capacity to borrow collectively, were clearly attractive.

Unfortunately, the Meru Community Bank had to close its doors in January 2018 after the Bank of Tanzania revoked its operating licence. The bank only had a capital of Tsh 400 million, whereas the Bank of Tanzania required a minimum capital of Tsh 2 billion (about US \$ 2 million) to protect the country's financial stability<sup>18</sup>. The closure came as a shock to the bank's depositors and shareholders, as the return of their assets became uncertain. In Rwa country, this affected many VICOBA, SACCOs and associations, as well as the Meru diocese of the Lutheran Church (ELCT), which was a 10% shareholder in the bank. However, the economic vitality generated by VICOBA was not affected in the long term and VICOBA turned to other banks, particularly the Community Rural Development Bank and the National Microfinance Bank, to secure and earn interest on their funds and to obtain group loans.

### **The solidarity fund**

As mentioned, a solidarity fund system exists in principle<sup>19</sup> in each VICOBA, in parallel to the loan system, with the funding lines remaining completely separate. This solidarity fund is fed by a compulsory monthly contribution from each member, up to Tsh 3,000 per month, and the payments are recorded. Thus, in the event of the death of a member, Tsh 150,000 may be paid as aid to the bereaved

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<sup>17</sup> Interview with L. U. at the bank's Usa River office, 20 February 2014.

<sup>18</sup> The same was true for four other small banks, see:  
<https://af.reuters.com/article/africaTech/idAFKBN1ET147-OZABS> (accessed 20 March 2019).

<sup>19</sup> It is the very scheme of VICOBA, developed nationwide, that provides for this solidarity fund.

family<sup>20</sup>, or Tsh 30,000 to 50,000 in the event of hospitalisation, depending on the rules each group sets at the outset. However, solidarity in Rwa country is played out through many other channels, whether it is the family, the clan, the parish or the neighbourhood. This is probably the reason why these solidarity funds attract less interest and comment from those involved than the credit that can be accessed through VICOBAAs.

### **What conditions for success or failure?**

In 2014, during the survey fieldwork, the general local perception in Rwa country was on the whole quite favourable to VICOBA. The women, in particular, saw them as a new source of economic opportunities, and even of enrichment. Some, however, preferred not to get involved in such groups, criticising the length of the meetings and the time 'wasted' to the detriment of other productive activities.

At the state level, the stated objective of the VICOBA system was to offer those excluded from the formal banking system the possibility of borrowing to start or develop an economic activity that would generate income, the belief being that the effects of such a scheme would be mostly positive. However, since those excluded from the formal banking system constitute the vast majority of the Tanzanian population, VICOBAAs were aimed at a large clientele. Nevertheless, the poorest people remained excluded: participating meant contributing to a collective kitty by making a regular financial contribution<sup>21</sup>. Not everyone was able to commit. VICOBAAs, like other forms of microfinance, are therefore not an effective means of combating poverty and may even contribute to the growth of social inequalities, as some authors have pointed out in other situations (Morduch, 1999; Servet, 2009). But, in any case, it is not on this criterion that they are popular at the local level. Among the Rwa, wealth inequalities are long-standing and strong, both from one family to another and between a man and his wife (Larsson, 2001). As a result, the possible enrichment of a few women through VICOBAAs is only a one-off situation that has little effect on the wider society. Economic disparity between spouses remains the rule, dominated by men.

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<sup>20</sup> Funerals are expensive in Rwa country, as they bring together a large number of people to whom a meal is offered. They are the matter of the clan of the deceased, each member of which must contribute to the expenses according to a specific scale.

<sup>21</sup> The former is always a weekly contribution; the latter is only a monthly contribution.

As the system is supported at the national level, VICOBAs are supported and promoted by the local government, the Meru district council, and several official bodies. In 2014, several actors were encouraging the creation of new groups while providing logistical support and advice. Several operators were involved in this dynamic: the Agricultural Executive Officers (state agricultural officers), several NGOs<sup>22</sup>, the Evangelical Lutheran Church of Tanzania (ELCT) and even the Meru Community Bank before it closed. This extract from our notes is particularly illustrative:

On 1st February 2014, an information meeting on VICOBAs was held at the ELCT premises in Maji ya Chai, to which we were invited. Eight women leaders from local parishes were invited, as well as a young employee of the Meru Community Bank. The meeting was very convivial and was preceded by tea for all, religious songs and a prayer. For three hours afterwards, the young banker didactically became the apostle of VICOBAs, explaining their functioning and encouraging their creation. He offered the assistance of his bank in drawing up the statutes of any new VICOBA and explained the various banking services offered: the security of funds deposited in the bank, their rate of return, that of loans, etc. After he had answered the questions of the assistants, a common meal was served, preceded again by a prayer.

This meeting, organised by the ELCT in partnership with the Meru Community Bank, was an example of the joint efforts of the two entities to encourage the growth of VICOBAs in Rwa country. The bank explicitly encouraged the creation of new groups, and these new groups were invited to open a formal bank account to safely deposit their assets, which would earn interest while offering loans (this service was charged at Tsh 20,000). Since two-thirds of the VICOBAs identified locally had already opened an account with the bank, its leaders were all the more enthusiastic about promoting this activity.

Regardless of the funds they provide access to, some VICOBAs seek to encourage the agricultural productivity of their members through the diffusion of advice. VICOBA Nsalalo in Ndatu village, for example, took the collective decision to purchase a solar panel radio to enable the group to listen to agricultural advice broadcast on Radio 5 every Friday at 6 pm.

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<sup>22</sup> Such as the Catholic relief service, or the Foundation for the Flourishing and Renewal of the Earth, which had an office in Usa River (interview with an official of this organisation, 24 January 2014).

As for the use of the loans taken out under the VICOBAAs, a broad survey would have to be carried out on this subject, which we were unable to do in 2014. We will therefore give some indications on this subject but with certain reservations due to the lack of data. The uses we noted in 2014 were regularly linked to the social profile of the borrower. Kitomari and Abwe, authors of a 2016 article on local VICOBAAs, provide some clarification on this. They base their discussion on data collected from 110 members of ten VICOBAAs located at the foot of Mount Meru, on the road from Arusha to Moshi. It is on this main road that most businesses are located for accessibility reasons. If this choice of data is readily questionable, it probably explains why these authors have a higher percentage of men in the survey locations - Usa River, Maji ya Chai and Kikatiti - (34% men for 66% women) than we ourselves noted in 2014, in areas that are less accessible but much more characteristic of Rwa country. Their sample is mostly married people (54.5 per cent), with the remainder coming from single-parent families (45.4 per cent) and including singles, widows/widowers and separated people (Kitomari and Abwe, 2016: 10-11). These authors do not specify the number of women raising children alone. This is important, however, because the most frequent use of borrowed funds that we found in 2014 was to pay school fees. This is a big expense for Tanzanian families, and a recurring concern. For example, in 2014, schooling cost 1 415 000 Tsh (663 €) per child at Nkoaranga secondary school (half the cost paid for a private primary school). Before the coffee crisis, the earnings of which went to the father of the family, he alone covered this expense. But many fathers nowadays fail to do so, or the mother is left to cope alone. Loans from VICOBA are therefore often used as a cash advance.

Other uses of the funds mentioned by the interviewees were for home improvement, starting or developing a small business, and in particular selling food at the market. With the borrowed capital, the sale of bananas, for example, could be carried out on a larger scale, as the woman was in a position to buy the crop from several banana plantations and then transport and sell it at the market, in addition to her own crop, for a greater profit. Another example of the use of VICOBA funding is given by Gladness. She borrowed Tshs 200,000 (95 €) through VICOBA Nsalalo to pay for her children's schooling and has since been paying it back gradually through the sale of bananas, eggs, milk from her farm and rent on a house.

The main contribution of VICOBAAs has been to relieve families by making their daily lives easier, and there have been few major economic successes. There are also several difficulties. Within the couple, existing imbalances have sometimes been exacerbated by the use of the VICOBA system. In a very specific way, this



may have had an impact on gender relations within certain households. This is the case when the wife, thanks to her loan, embarks on an activity outside the home that proves to be flourishing and that increasingly takes up her time. She then leaves her husband alone at home to look after the children, and this reversal of traditional roles can cause problems. Among the Chaga of Mount Kilimanjaro, neighbours of the Rwa, this critical situation has taken worrying proportions. For many reasons, the Chaga are considered one of the most 'advanced' populations in Tanzania<sup>23</sup>, and the growth of VICOBA among them has been very rapid<sup>24</sup>. Chaga women have developed their economic activities to such an extent that some husbands are now financially dependent on their wives (Njama, 2006)<sup>25</sup>. But a Rwa husband can also take advantage of his wife's VICOBA to borrow through her, and thus also benefit directly from the scheme.

The issue of loan repayment is sometimes a thorny one. Some people participate in several VICOBA's at the same time in order to borrow more or to repay the loan of one by borrowing from another VICOBA. Such practices carry obvious risks. To manage a VICOBA well, to start a business or repay a loan, one needs good management skills and the ability to measure risks, which is not available to everyone.

Managing a VICOBA also requires knowing how to establish the amount of interest to be paid to each participant, according to his or her monthly stake, which is variable, and the calculations to be made are much more complex than for the operation of tontines - which is very simple since a single member recovers the stake in turn and at a defined frequency. Although specific management training

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<sup>23</sup> This advantage stems from an earlier insertion in long-distance markets, from the beginning of the 19th century (Iliffe, 1979: 59). It is also the result of a strong entrepreneurial spirit and involvement in trade and business, supported by good schooling.

<sup>24</sup> In 2009, there were already 102 VICOBA's in Marangu, in Chaga country, while the Arumeru district, which brings together Rwa and Arusha, had only 55.

<sup>25</sup> According to this author: 'Nowadays family economy is in the hands of women' (Njama, 2006: 16); 'The decline of coffee production in Hai has weakened the economic power of men. Nowadays many wives have higher income than their husbands, mainly because they do petty business like selling of bananas, milk, vegetables and clothes. Markets have mushroomed at various places with women traders who are always moving from one market to the other. Spending most of the time outside their homes and coming home late...' (Njama, 2006: 22).

courses are offered by the state to support the system, in reality they benefit only a very small number of people. It is true that the good general level of schooling in Tanzania is rather favourable to the development of VICOBA: compulsory primary schooling introduced by the country's first president, Julius Nyerere<sup>26</sup>, was generalised to the whole country in 1980 (Bonini, 2003); and in their survey at the foot of Mount Meru, Kitomari and Abwe (2016) indicate that the level of education of the VICOBA members in their sample was generally satisfactory. For example, 52% had primary education and 31% also had secondary education, making a total of 83% of the sample. However, they also point to the lack of entrepreneurial skills of many VICOBA leaders, which leads to many difficulties in day-to-day operations. Poor choices in group composition lead to delays in loan repayment, mistrust, and mismanagement of funds. Kitomari and Abwe also point out the problems of joining several VICOBA or other financial institutions at the same time to take out multiple loans, one of which may be used to pay back the other. Large families with high school fees face the greatest difficulties, and the interest rates charged by VICOBA are considered very high in relation to the amount of the loans granted. Too many failures in the operation of VICOBA can lead to their abrupt termination, before scheduled annual maturity. As we were not able to carry out an in-depth investigation on these subjects ourselves, we can only quote here the difficulties mentioned by these authors.

This being said, there are many positive aspects, which explain why VICOBA continue to spread in Rwa country. In addition to the stimulation, however modest, of the local economy, the VICOBA have a fundamental educational value. They are perceived locally as a school of rigour and discipline: meetings must be attended on time and financial management is subject to strict rules. VICOBA encourage responsibility, especially for the constitution of the bureau, and corruption is minimised by the strict rules of operation and the system of fines - which require the presence of all at meetings - the systematic recording of payments in individual and collective registers, and the triple locking of the cash box by means of padlocks entrusted to three different unrelated persons.

The main criticism of VICOBA by the Rwa is that they create stress because of the threat to the person who cannot repay the loan. This is because the property of the individual is at risk of being seized and auctioned off in a formal regulato-

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<sup>26</sup> Julius Nyerere (1922-1999) remains a revered political figure in Tanzania, where he is affectionately known as Mwalimu, 'the teacher' (because he was originally a schoolteacher), or Baba wa Taifa, 'father of the nation'.

ry process that is in the public domain, not under the authority of traditional leaders. A major problem is the insolvency of members. Many women are insolvent, particularly because they do not own the land. Indeed, land, the most precious asset in peasant societies, generally belongs to men. When a woman has no property to sell to repay her debt, her husband's property is seized and sold, even though he is often unaware that his wife has taken out a loan. He is then forced to sell a piece of land, which is always a painful sale, and the couple's relationship suffers the consequences. Several examples of this type were reported to us. These situations are a source of great shame for the women involved.

One example was given to us where the insolvent wife returned to her parents. The two families met to resolve the problem, and it was decided that the husband should pay. The husband sold a piece of land (a quarter of an acre) to pay off his wife's loan.

In another case, the insolvent wife was taken away by the police. Her husband, to avoid the jailing of his wife, had to agree to repay the loan, which forced him to sell a cow.

Other tragedies were cited: that of a woman who committed suicide because she could not repay her loan (in the village of Njani), and that of another who hanged herself for the same reason in Ndatu. In the same village, another woman ran away out of shame, leaving her husband alone with the children. A month later, in March 2014, she had still not returned.

These few personal tragedies are not ignored by the public and the assessment of the impact of VICOBA on Rwa society is therefore mixed, despite a rather favourable general opinion.

## **Conclusion**

In terms of local microfinance, Tanzania is a very rich field of investigation with a diversity of schemes that are more or less embedded in the formal system, of which VICOBA's are only one component. VICOBA's are the result of individual initiatives that agree to pool savings for a fixed period of one year, which remain absolutely autonomous in their operation throughout this period and which are managed collectively by an elected board, with strict rules since related mem-

bers cannot sit on it. This system is flexible and is encouraged by the government and local banks, the latter intervening only in a limited way, and only on the decision of the group.

The economic opportunities provided by VICOBA are welcome in the context of the Rwa society of Mount Meru, where many families are facing significant economic difficulties: loss of coffee income, demographic pressure leading to increasing land fragmentation (paternal land inheritance being shared between sons). Our data show that the VICOBA system is mainly invested in by women and offers them the possibility of carrying out extra-familial activities independently of the husband, who manages his own activities and income. If a wife defaults on her debts, it is not only a personal tragedy for the insolvent woman, but also a marital tragedy, as the husband's assets are seized. But conversely, it sometimes happens that the wife, thanks to her business, becomes the main provider of resources for the family, as is already the case among the Chaga of Kilimanjaro, whereas this role is traditionally a male one. Among the Rwa, however, female activity within the framework of the VICOBA only marginally disrupts the traditional family balance (the image of the nuclear family being already shaken by the growing number of births outside marriage and the multiplication of single-parent households). Whether or not they are members of a VICOBA, Rwa women remain excluded from the socio-political bodies specific to their society.

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