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UNIVERSITY OF THE WITWATERSRAND

PERCEPTIONS OF RURAL MICROFINANCE BENEFICIARIES IN MALAWI ON JOINT LENDING LIABILITY AND LOAN REPAYMENTS

By

LIMBANI MWAYIWAO PHIRI

A research report submitted to the faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Management (in the field of Public and Development Management)

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ABSTRACT

The Malawi government adopted microfinance with Joint Lending Liability (JLL) as an instrument of poverty alleviation especially in the rural areas where poverty is rampant. However, the government's microfinance schemes are faced with the problem of high default rates despite incorporating JLL which seems to have enhanced repayment performance in other countries.

The purpose of the study was to explore the perceptions of rural microfinance beneficiaries regarding the concept of JLL and how this affects loan repayment performance. The researcher undertook an exploratory qualitative research through in-depth interviews on a purposively selected sample of eight beneficiaries from Malawi Rural Development Fund (MARDEF) in Bvumbwe area of Thyolo district in Malawi.

The study revealed that, rural microfinance beneficiaries in Malawi lack a proper understanding of the peer mechanism in JLL and this distorts their perception and behaviour as regards loan repayments. This stems from lack of proper education and training to the beneficiaries prior to loan disbursements. There is need for microfinance institutions to train and educate beneficiaries on the basic principles of JJL and how they relate to loan repayment performance in microfinance.

DECLARATION

I declare that this research report is my own unaided work. It is submitted in partial fulfilment of the requirements of the Degree of Master of Management (in the field of public and Development Management) at the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination at any other university.

Name : LIMBANI MWAYIWAO PHIRI

SIGNED : ……

On this ……..day of……2013

DEDICATION

I dedicate this research to my only child, **WIZA MARY-JANE PHIRI**.

Wiza, everything I do, I do it for you.

ACKNOWLEDGEMENTS

I would like to express my sincere gratitude to the following people for the support rendered during the period of this study;

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Beneficiaries from MARDEF microfinance scheme who agreed to be part of the study as respondents, this study would not have been possible without you.

Above all, I would like to thank the **LORD GOD ALMIGHTY**. Your Grace is indeed sufficient, without it this could have remained what it was, just a dream. May your name be glorified now and forever more, **AMEN.**

LIST OF ABBREVIATIONS

AMAP	-	Accelerated Microenterprise Advancement Project
APIP	-	Agricultural Productivity Investment Program
CPRC	-	Chronic Poverty Research Centre
CUMO	-	Concern Universal Microfinance Operations
DEMATT	-	Development of Malawi Traders Trust
ECLOF	-	Ecumenical Church Loan Fund
FINCA	-	Finance for International Community Assistance
IMF	-	International Monetary Fund
JCE	-	Junior Certificate of Education
JLL	-	Joint Lending Liability
MAMN	-	Malawi Microfinance Network
MARDEF	-	Malawi Rural Development Fund
MDGs	-	Millennium Development Goals
MFI	-	Microfinance Institution
MGDS	-	Malawi Growth and Development Strategy
MMF	-	Malawi Mudzi Fund
MoGYCS	-	Ministry of Gender Youth and Community Services
MPRS	-	Malawi Poverty reduction Strategy
MRFC	-	Malawi Rural Finance Company
MSB	-	Malawi Savings Bank
MSCE	-	Malawi School Certificate of Education
NABW	-	National Association of Business Women
NGO	-	Non-Governmental Organisation

PRIDE	-	Promotion of Rural Initiatives and Development Enterprises
RBM	-	Reserve Bank of Malawi
SACA	-	Small Holder Agricultural Credit Administration
SAP	-	Structural Adjustment Program
SEDOM	-	Small Enterprise Development of Malawi
UN	-	United Nations
UNECA	-	United Nations Economic Commission for Africa
USAID	-	United States Agency for International Development
YEDEF	-	Youth Enterprise Development Fund

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CHAPTER ONE

INTRODUCTION AND BACKGROUND

1.1 Introduction

Poverty and poverty reduction have taken centre stage in the debate on policy issues worldwide. The Millennium Development Goals (MDGs) signed in September 2000 by the United Nations assembly for Heads of states and governments set poverty reduction as the first of its eight goals. Based on the MDGs, a Malawi Poverty Reduction Strategy (MPRS) was developed in 2002 which was later revised into Malawi Growth and Development Strategy (MGDS) in 2006. The first of eight goals of the MGDS is to halve poverty to eight per cent by 2015 signifying the importance of poverty reduction on the nation's economic growth and development agenda (Malawi MDGs report, 2009). Malawi, ranked as the 6th poorest nation in the world has eighty five per cent of the population living in rural areas of the country (World Bank, 2002) and over forty per cent of the people in Malawi live on less than 1 US$ per person per day (Malawi MDGs report, 2009).

Malawi as a developing country also uses microfinance as an intervention for poverty reduction and sustainable rural development. The microfinance sector in Malawi comprises of various private, government and non-governmental organizations that offer loans to individuals for small business ventures. The ultimate objective is to assist poor people, especially in the rural areas to acquire financial independence towards poverty reduction and social development. The success of the government in alleviating mass poverty rests on the ability to successfully implement and sustain rural microfinance interventions (Khandker, 2005).

The repayment rate for rural microfinance loans in Malawi especially those administered by the government and its related institutions is low (Kalanda, 2006). Chirwa, Mvula, Namata and Zgovu (1999) state that the default rate for government credit programs since 1996 has averaged below 57% causing sustainability challenges, especially for microfinance schemes administered on a revolving basis. Although Joint Liability Lending (JLL) has been adopted in most of the rural microfinance initiatives by the government (the most recent being the Malawi Rural

Development Fund, MARDEF), repayment rates still fall below satisfactory levels in most cases (Gomez and Santor, 2008).

This research explores the perceptions of rural microfinance beneficiaries in Malawi as regards JLL and how these affect loan repayment performance. Further, the study also investigates the basic challenges in the day to day social lives of the beneficiaries and how these affect both individual and group loan repayment under JLL. The research focuses on beneficiaries from the recent government rural microfinance intervention, MARDEF. The emphasis on this research is on rural (other than urban) microfinance which is defined as the provision of financial services to poor and undeserving communities that are usually found outside city or town boundaries (Parikh, 2006).

1.2 Background

1.2.1 Microfinance: A poverty alleviation tool in Malawi

Malawi's economy is dependent on agriculture and the majority of the population engages in subsistence farming for survival. More than 85% of the population in Malawi is found in the rural areas where poverty is rampant and people lack even the most basic requirements of life (World Bank, 2002). At least 68% of the people in Malawi live below the poverty line (Ellis, Kutengule and Nyasulu, 2003).

Emphasis on microfinance as a poverty reduction intervention took centre stage after the coming in of multiparty democracy in 1994 with the aim of economically empowering rural poor people for sustainable development (Ellis, *et al*., 2003). Initially rural people were disadvantaged as they could not participate in economic activities as equally as their urban counterparts in the formal sector of the nation. The formal lending institutions required collateral or surety against any loan facilities extended to borrowers which poor rural people could not afford.

After democratic independence in 1994, various government microfinance implementing agents were formulated some of which include the Malawi Rural Finance Company (MRFC), the Small Enterprise Development of Malawi (SEDOM), and the Development of Malawi's Traders Trust (DEMATT). Donors and other Non-Governmental Organisations also came up with their own rural microfinance schemes through organizations such as Concern Universal Microfinance Organisation (CUMO), National

Association of Business Women (NABW) and Usiwa Watha credit trust. Further, private organizations such as PRIDE Malawi and FINCA (Malawi) joined in as microfinance institutions. This microfinance boom was a result of the environment set by the first democratic President of the Nation, Dr Bakili Muluzi who encouraged small business ventures for the poor to fight poverty and excite economic growth (Perret and Chirwa, 2002).

The succeeding Bingu wa Mutharika government which came into power in 2004 continued to advocate microfinance for rural development and poverty reduction (Kambewa and Utila, 2008). To show dedication towards rural microfinance, in 2005 the government formed a rural microfinance institution called MARDEF to assist the nation in achieving the first goal of the eight MGDS which is mass poverty alleviation especially in rural Malawi.

1.2.2 Microfinance loan repayment problems in Malawi

Most microfinance organizations in Malawi operate either on government or donor aid funding which is managed on a revolving basis. This means that recoveries from existing borrowers are ploughed back into the fund and disbursed as new loans to new beneficiaries. Revolving microfinance basically means that as beneficiaries pay back their loans, they increase the chances for other people to access the credit facility in a virtuous circle of sustainable rural development (Hussein, Khuruna and Talbayeya, 2005). Sustainability of revolving microfinance credit schemes therefore depends to a large extent on how successfully borrowers repay their loans (Painter and Tang, 2001).

Most of the government initiated microfinance schemes in Malawi face repayment problems resulting in high default rates (Kalanda, 2006). This puts a strain on the efforts of the government to fight poverty and ensure that less privileged individuals in the rural areas are empowered financially to contribute meaningfully to the country's economic development. The low repayment rates have in some cases resulted in severe negative consequences where some government microfinance schemes have had to suspend lending and in worst cases have been totally run down (Perret and Chirwa, 2002). APIP and SACA are very good examples of government initiated rural microfinance programs which died down in the face of persistently high default rates (Burritt, 2006).

The entrenched history of defaulting on loan repayments has been largely attributed to the inherent bad loan repayment culture in Malawi (Diagne

and Zeller, 2001). A study on determinants of moral hazards in microfinance indicated that high default rates in microfinance initiatives in Malawi result from a lack of proper mechanisms to enhance individual borrowers' commitment to repay their loans (Simtowe and Zeller, 2006). To rectify this loophole, group lending or JLL was advocated as a mechanism of ensuring repayment success in microfinance. This mechanism uses peer pressure and social ties to monitor individual loan repayments and defaulters are liable to sanctions as imposed by the group members (Simtowe and Zeller, 2006). JLL was first adopted in Malawi in the early 1990s by Malawi Mudzi Fund in order to improve the rate of repayment in microfinance loans (Chirwa, *et al*., 1999). The pioneer of group lending with joint liability is Muhammad Yunus who started the Grameen Bank of Bangladesh in the early 1980s to break the barriers that prohibited poor people to access credit finance (Dowla, 2006). Since its establishment, Grameen Bank has managed to maintain a repayment rate averaging 98% in microfinance loans and this is attributed to the use of JLL (Dowla, 2006). Hussain, *et al*., (2005) acknowledge the significant role that JLL and peer mechanism have played in enhancing high repayment rates contributing to Grameen Bank's success in microfinance.

The adoption of JLL has however helped very little in reducing default rates in the microfinance industry in Malawi. Studies indicate that peer pressure from JLL account for only 37% success rate in inducing defaulters to repay microfinance loans in the country (Simtowe and Zeller, 2006). Thus generally, even after adopting JLL in microfinance initiatives in Malawi, the problem of high default rates still persists especially for government initiated loan schemes. Reports indicate that even MARDEF, the latest government initiated microfinance scheme (based solely on JLL) is already facing problems in loan recoveries with repayment rates dipping as low as 20% in April, 2008 (Simtowe, 2008).

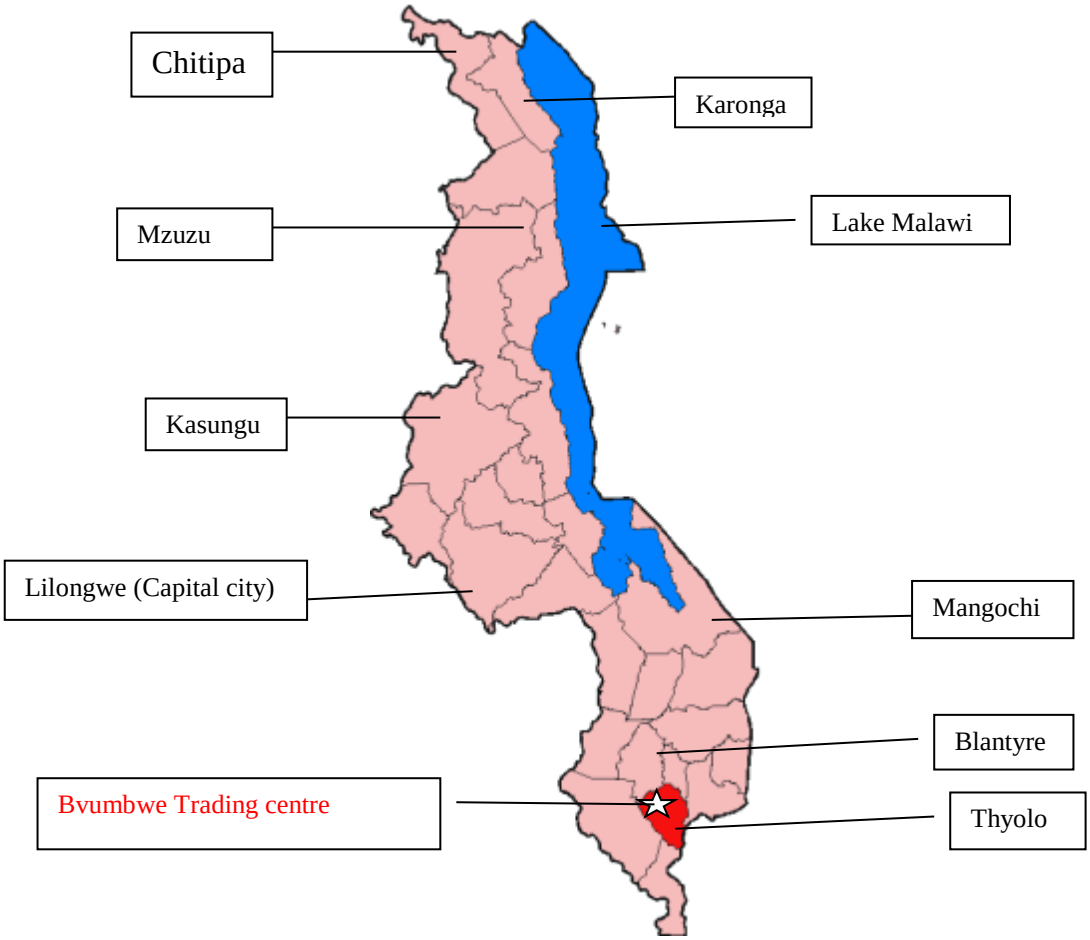
1.2.3 The scope and context of the study

This study is based on understanding the perception of rural microfinance beneficiaries towards JLL and how effective the mechanism is in enhancing both individual and group loan repayments. The study is centred on beneficiaries of MARDEF from Bvumbwe area of Thyolo district of Malawi. Bvumbwe is a rural trading centre in the outskirts of Blantyre city (which is the country's commercial city) within the district of Thyolo in the southern region of Malawi. The location is 30 kilometres from Blantyre City and covers an area of approximately 300 square kilometres with a

population of about 92,444 (GeoHive, 2011). Bvumbwe is one of the most populous areas of Thyolo district with a population density of 343 people per square kilometre against the national population density of 139 people per square kilometre (NSO, 2004). Because of rampant poverty and poor health conditions of the people of Bvumbwe and other surrounding areas of Thyolo district, the inhabitants of this widely populated sub district have a low life expectancy of 37 years (NSO, 2004). Compounding to this is the high prevalence of HIV/AIDS infections in the area. National health statistics indicate that 21% of people in Thyolo district are infected with HIV as compared 12% nationally (UNICEF, 2006). As a result of the high HIV/AIDS prevalence in the area, a lot of children become orphaned at an early age such that their chances of continuing with education are minimal and they end up doing piece jobs and small businesses to earn a living.

Almost 43% of people in the area are illiterate and less than 12% are formally employed, leaving a lot of people to revert to small businesses for income (World Bank, 2009). Illiteracy prevalence at Bvumbwe is higher in women as compared to men. This is because women receive less education than men to the extent that almost 40% of women in the area cannot read at all as compared to 20% of men (UNICEF, 2006). It is therefore more difficult for women in the area to get formal employment such that they resort to small businesses to generate income. It is therefore not surprising that small holder farming, the main income generating activity in Bvumbwe is regarded more as a feminine that masculine type of work (UNICEF, 2006). Bvumbwe has a trading centre which boasts a very big farm produce market feeding a large population of Blantyre city and this creates a high level of trading activity in the area. The sandy-loam soils in the area favour the production of a lot of fruits and vegetables which further contributes to the high levels of trading in farm produce and other commodities. Figure 1 shows a map of Malawi showing the location of Bvumbwe area in the district of Thyolo.

Figure 1: Map of Malawi showing the study area



Source: http/www.goggle.com, 2012

A lot of people in the villages around the trading centre have accessed microfinance loans to engage in various income generating activities within and around the trading centre taking advantage of the highly active Bvumbwe market. The trading centre thus presents a favourable target for microfinance loans as evidenced by almost ten institutions (including MARDEF) that are currently providing the service to people around the area (Hauya, 2011). The study is targeting both men and women (between the ages of 18 to 65years) people from Bvumbwe area, that have accessed (and still owing) loans from MARDERF under JLL. The people must therefore belong to a specific group under which they accessed their individual loans with which they started an income generating activity of some sort. The people who engage in small business activities in Bvumbwe fall within the category of poor people living below the poverty

line and surviving on less than 1US$ a day (Hauya, 2011). These people lack adequate access to basic requirements of life like decent shelter, clothing, food and other necessities. Such people generally access microfinance to be financially independent and be able to provide for themselves the basic necessities of life.

The most common income generating activities that are found in Bvumbwe area consist of farm produce trading (vegetables, grains, fruits), small grocery hawkers, second hand clothes trading, poultry farming, butcheries and selling home-made snacks like banana flitters and doughnuts just to mention a few. Both the area and the people therefore provide a suitable environment for the study in as much as exploring the perceptions of rural microfinance beneficiaries in Malawi on group lending.

The scope of the study spans from early 1980s to 2011, covering the dynamics of the microfinance industry in Malawi as regards JLL and loan repayments throughout the period over which microfinance has formally existed in Malawi as a poverty alleviation tool. The study therefore expounds on the issues related to JLL and loan repayment in microfinance in Malawi from when SACA, the first government MFI was established in Malawi to the existence of MARDEF, the recent government MFI.

1.3 Problem statement

Despite adoption of JLL mechanism, most government owned rural microfinance initiatives in Malawi are generally facing low repayment rates (Simtowe and Zeller, 2006). A study on the role of groups and credit cooperatives in rural lending outlines the values and benefits of JLL in enhancing repayment performance for rural microfinance schemes in Malawi (Huppi and Fedder, 1990). However the current low levels of repayment in microfinance market in the country fail to reflect these benefits**.** The problems in loan recovery are blocking the government's effort to effectively revolve the credit mechanism and reach out to as many beneficiaries as possible. This consequently undermines the sustainability of government initiated microfinance schemes as effective tools for rural poverty reduction and overall economic development.

A lot of research has been undertaken to understand the persistent repayment problems in rural microfinance in Malawi in the face of JLL. Snow and Buss in their research on the role of microcredit in development, indicate that the low repayment rates in rural microfinance in Malawi are largely attributed to lack of proper loan monitoring structures in the MFIs

themselves (Snow and Buss, 2001). Further Simtowe and Zeller also point out lack of business management skills in most rural microfinance beneficiaries as a large factor contributing to the persistent low recovery rates (Simtowe and Zeller, 2006). However, there is little understanding of the perceptions of rural microfinance beneficiaries on JLL as a lending mechanism and how these affect both individual and/or the group's loan repayment performance. This lack of understanding requires an investigation as proposed in this research which will focus on the period spanning from early 1980s to 2011.

1.4 Research purpose

The purpose of this research is to explore the perceptions of beneficiaries of government initiated rural microfinance loan schemes in Malawi, towards the JLL mechanism and how it affects individual and overall group loan repayments. The research will be carried out on beneficiaries of MARDEF in Bvumbwe area of Thyolo district of Malawi. Understanding how the actual borrowers view JLL and its role in microfinance will provide an insight on whether or not the concept has been effective in enhancing borrowers' commitment to repay their loans.

Information gathered from this research will assist in understanding some of the reasons why loan repayment problems still persist in rural microfinance in Malawi despite using JLL. Consequently, the research will provide an insight on how JLL can be adapted to the social cultural environment in Malawi to ensure its effectiveness in enhancing repayment levels (from the perspective of the actual borrowers) rather than adopting the concept as a wholesale.

1.5 Research questions

The research was guided by the following questions;

- How do rural microfinance beneficiaries in Malawi perceive the concept of JLL and its purpose in microfinance especially in repayments?
- How do beneficiaries in Malawi perceive the rewards and sanctions imposed by their respective groups and also the MFI as regards loan repayments and defaults respectively, and how does this affect overall repayment performance?

- What are the perceptions of rural microfinance beneficiaries in Malawi on problems resulting from group dynamics and how do these affect individual and/or group loan repayments?

1.6 Significance of research

The rationale of this research is to explore how rural microfinance beneficiaries (especially those benefiting from government microfinance interventions) perceive the concept of JLL and its effects on loan repayment performance. The findings of this research will provide information and knowledge on how beneficiaries of rural microfinance schemes, especially those managed by the government, perceive the concept of JLL and its significance in enhancing individual and group loan repayment performance.

Understanding end users' perception of JLL will give an insight on why the concept has not been efficient in enhancing repayment performance in Malawi. The government and other rural microfinance providers can utilize the information from the research to come up with strategies on how they can incorporate the research findings and adapt the JLL concept to the social context of Malawian people to ensure it works as well as in other countries like Bangladesh. The aim is to propose ideas that can be considered by stakeholders to improve and maintain high repayment rates for sustainability of microfinance as a tool for poverty reduction and development.

1.7 Structure of report

Chapter 1: Introduction and background

This chapter introduces the background and the context within which the research topic is set, the problem statement that warrants the investigation and the purpose and significance of the study. The research questions that the study aims to answer have also been discussed briefly in the chapter.

Chapter 2: Literature review

This chapter reviews and analyses existing literature on microfinance and related challenges in repayment both at a national and international perspective as they apply to the area of study.

Chapter 3: Research methodology

This chapter outlines issues of research approach, research design, data collection and sampling procedures. Issues of validity and reliability, research ethics and the limitations of the study are also presented in this chapter.

Chapter 4: Presentation of findings

This chapter presents the data and results from the research which is basically presentation of evidence that the stated problem actually exists. Tables and figures have been used to present the data.

Chapter 5: Analysis of findings

This chapter provides an analysis of the presented data, providing interpretation and meaning of the results and findings as they relate to the research question and the study as a whole.

Chapter 6: Conclusion and recommendations

This last chapter of the study summarizes the main issues discussed in the study particularly relating the research questions to the interpretation of the results and how it all informs the research topic. The researcher also outlines some recommendations as regards challenges faced by rural people in microfinance loan repayments based on the interpretation of the results from the study. The chapter also discusses and recommends areas that require further studies and research within the context of the research topic.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Literature review aims at contributing towards a clearer understanding of the nature and meaning of the problem that has been identified and articulated (De Vos, Strydom, Fouche and Delport, 2005). This section reviews literature on the relationship between microfinance, poverty reduction and sustainable development. The literature discusses how microfinance has been accepted as a global poverty alleviation tool by both the developing and developed nations, making it instrumental in achieving the targets of the global MDGs. Further, the review also analyses the issue of JLL and how it has helped in extending financial services to poor people in the absence of physical collateral without compromising on repayment performance. The microfinance industry in Malawi is also discussed in relation to JLL and the repayment challenges faced mostly by government interventions citing the example of the most recently established MARDEF. Lastly, issues of socio-cultural orientation and how this may affect repayment performance under JLL in any society or community are also outlined.

2.2 Definition of terms and concepts

Hussein, *et al*., (2005) define rural microfinance as a program that extends small loans to very poor people in rural areas for income generating activities that allow them to care for themselves and their families. On the other hand, MFIs are referred to as all formal and quasi formal lending institutions that extend loans to rural households directly or through groups (Perret and Chirwa, 2002).

Group lending or joint liability lending refers to a contract where two or more people are liable for repayment of a debt which can be compensated from them either individually or jointly (Simtowe and Zeller, 2006). Revolving credit fund is a lending mechanism popular in microfinance where loan repayments are ploughed back into the loan fund and issued out to new beneficiaries as new disbursements (Hussein, *et al*., 2005). Default in microfinance is explained as the failure to pay all or part of the

amount that has fallen due for payment by the agreed date on which it falls due (Armendariz de Aghion and Murduch, 2000).

2.3 Microfinance: A global perspective

2.3.1 A global overview of microfinance

Microfinance has widely been accepted by the global nation as a tool for poverty alleviation especially in developing countries. The term “microfinance” is used in different contexts and has been defined differently by various scholars. Magner (2007) defines microfinance as an innovative segment of the banking sector which provides financial products, mainly credit, to bridge the gap that commercial banks have not been able to fulfil. In simpler terms, microfinance defines the act of providing small loans to the poor who were otherwise ignored by commercial banks as ‘not credit worthy’ (Sengupta and Aubuchon, 2008). However the underlying factor in defining microfinance lies in the concept of reaching out to the poor people to assist them take charge of their financial independence and move out of the poverty zone.

The concept of microfinance stems back to the mid 1970’s with Muhammad Yunus as the pioneer of the credit mechanism in an effort to reduce poverty in Bangladesh (Magner, 2007). Since then, the concept has received worldwide recognition and has been copied in most developing countries as well as international development partners as a tool of fighting against poverty. The United Nations (UN) to show its recognition of the impact of microfinance on poverty alleviation declared 2005 to be the international year of microcredit (Hermes and Lensink, 2007). According to the UN, microfinance can contribute significantly to the achievement of the UN MDGs agreed upon by world leaders at the UN summit in 2000 (Hermes and Lensink, 2007). The Nobel Peace Prize awarded to Muhammad Yunus in recognition of his role in founding microfinance has further contributed in putting microfinance on the world map in debates relating to poverty alleviation and development (Hermes and Lensink, 2007).

Thus microfinance, founded on the basis of a minimalist approach is now recognized globally as a crucial intervention not only for extending financial markets to the poor but also to fight poverty and foster social change towards world-wide development. The credit mechanism is now at

the core of the struggle to achieve the MDGs which aim at halving extreme poverty in the world by 2015.

2.3.2 Origin of microfinance

Microfinance originated in Bangladesh in the 1970's in a village called Jobra when the 2006 Nobel Peace Prize awardee Muhammad Yunus of Grameen Bank experimented on how to use finance to empower the poor and reduce poverty (Magner, 2007). The objective was to reach out to the extremely poor people and offer them a chance to become small business entrepreneurs and ultimately break free from the vicious cycle of poverty. Since inception, the bank grew by not less than 40% per annum and by 1991 it boasted a customer base of 1 million people which rose to 2.4 million in 2002 (Armandariz and Morduch, 2007). From these humble beginnings, microfinance has rapidly gained global recognition over the years to become a tremendously successful poverty alleviation tool for developing countries (Khandker, 2005).

The microfinance paradigm received increased attention in the mid 1990's after the world Summit for social development in Copenhagen in 1995. The Summit emphasized the importance of improving access to credit for low income individuals particularly women and other disadvantaged groups (Nair, 2001). This was further enhanced by the declaration of 1996 as the International year of Eradication of Poverty and 1997 to 2006 as the first international decade for poverty eradication by the United Nations (Nair, 2001). Thus since its inception, microfinance has continually excited the development world generating an international wave of interest in advocating the credit mechanism as a poverty alleviation intervention. Further, in 1997 the World Microcredit Summit at Washington DC announced a global target of reaching 100 million of the world's poorest families, especially women with microcredit for self-employment and other financial and business services by the year 2005 (Develtere and Huybrechts, 2005).

The Grameen model has since been replicated in over 30 developing countries around the world leading to numerous microfinance institutions joining in to extend small business loans to the poor (Lafourcade, Isern, Mwangi and Brown, 2005). This has resulted in a lot of poor families accessing microcredit through various microfinance schemes from various institutions. Between 1997 and 2005, the number of microfinance institutions around the world increased from 618 to 3133 (Daley-Harris, 2006). Within the same period, the number of people who had accessed

credit from these microfinance institutions also rose from 13.5 million to 113.3 million, 84% of which were women and more than 82 million were among the poorest people in the world (earning less than 1USD a day) (Daley-Harris, 2006). The target of reaching out to 100 million poor people by 2005 through microfinance set by the Microcredit Summit Global Campaign was thus achieved.

Reports further indicate that Grameen Bank alone now has 7 million microfinance borrowers in Bangladesh and in India, about 1,000 microcredit organisations and 300 commercial banks lent USD1.3 billion to 17.5 million people in 2006 (Daley-Harris, 2006). Overall, estimates indicate that there are currently about 7,000 microfinance institutions around the developing world (Nair, 2001). The increase in outreach correlates with the international recognition that microfinance has received since the mid 1990's. This is evidence that microfinance is rapidly becoming the becoming the silver bullet for alleviating poverty both at national and global level.

2.3.3 Microfinance, poverty reduction and sustainable development

Poverty is one of the biggest challenges facing developing economies making it the centre of world-wide policy debate on the agenda for development. The World Bank (2001) in its development report themed *'attacking poverty'* estimated that of the world's 6 billion people, 1.2 billion live on less than 1US$ a day in the 21st century. Statistics show that 50.54% of the population in Sub Saharan Africa lives below the poverty line and that poverty concentration is high in rural areas as compared to urban areas (UNECA, 1999). According to the United Nations, almost 20% of the world's population, about 1.3 billion people were living in absolute poverty as of 2002 (Hermes and Lensink, 2007). It is therefore not surprising that issues concerning poverty alleviation have been given priority by both developing and developed nations and also the entire international community.

The term 'poverty' has an extensive meaning and a wide range of situations can be described as 'living in poverty'. The chronic Poverty Research Centre (CPRC, 2006) however defines chronic poverty as characterized not only by low income and lack of assets but also other diverse situations like hunger, malnutrition, illiteracy, social isolation and exploitation and also lack of access to basic necessities such as safe drinking water and health services. Such a wide definition therefore makes it difficult for the development community to identify a one universally

applicable solution to eradicate poverty. Westover (2008) concurs that the wide and diverse array of potential causes of poverty has led to an equally diverse and large number of proposed policy interventions and solutions to poverty alleviation.

The introduction of microfinance by Grameen Bank in the 1970's provided a much needed unique solution to poverty. Microfinance empowers poor people economically so that they gain the much needed financial independence to enable them address the perils of poverty from whichever angle applies to them, offering a universal solution in poverty alleviation.

Microfinance is positively and directly linked to poverty eradication and sustainable development. Magner (2007) agrees that it is apparent that microfinance is an important catalyst for poverty alleviation. Grameen Bank has since inception set a platform and a good model on how microfinance can significantly contribute to poverty alleviation strategies. For more than three decades, Grameen Bank in India has been extending microfinance loans to poor households for various income generating activities in the fight against poverty. Various studies on the dynamics of Grameen Bank and its lending mechanism have attested to the success of microfinance in fighting against poverty. A study by Khandker and Chowdhury (1996) found a lower rate of poverty in participants with continued access to microfinance (57%) than those without access (76%). Another study by Khandker (2005) indicated a more than 20% decrease in poverty (within six consecutive years) in villages with microfinance programs which was more than that measured for those villages without access to microfinance. Khandker estimated that about 40% of the entire reduction of moderate poverty in rural Bangladesh can be attributed to microfinance (Khandker, 2005). Further a seminal study in 1998 showed that 5% of Grameen Bank's clients graduated from out of poverty every year by participating in microfinance programs (Khandker, 1998). Following Grameen's success, the microfinance revolution has stormed the developing countries today turning the intervention into a new model for eradicating poverty and promoting sustainable and equitable development (Chirwa, *et al*., 1999).With such overwhelming evidence, it is not surprising that the development world eagerly and keenly adopted and advocated microfinance as the new universal tool for fighting against poverty.

Although there is evidence to support the role of microfinance in poverty eradication, critics present a different view to the picture. Studies on evolution, sustainability and management of microfinance institutions in

Senegal indicate that although microfinance created some positive change in people's lives, there was no clear marked evidence of poverty reduction attributable to the lending programs (Kah, Olds and Kah, 2005). Further, the research done by Morris and Barnes (2005) also presents no evidence that microfinance programs help to alleviate poverty. Another study indicates that microloans are beneficial to borrowers living above the poverty line and not those in dire poverty (Karnani, 2007).

Thus there is a mixed school of thought as to how much (if at all) microfinance contributes directly or indirectly to poverty alleviation and eradication. Nevertheless, both developed and developing countries, together with the international community at large have come to a common understanding to advocate and adopt microfinance in fighting against the world-wide pandemic which is poverty. The State of the Microcredit Summit Campaign Report in 2006 states that microcredit is one of the most powerful tools to address global poverty (Karnani, 2007).

Microfinance is also directly and indirectly linked to the achievement of the MDGs set by the United Nations assembly for Heads of states and governments in 2000. The Secretary General of the United Nations, Kofi Annan underscored the importance of microfinance as an integral part of the collective effort to meet the MDGs targeted for 2015 (Wright, 2005). Empowering the poor masses financially through small business loans will directly address four of the set eight MDGs indicators of poverty, education, health and empowerment. Wright (2005) states that access to financial services forms a fundamental basis on which many of the other essential interventions depend thus reducing poverty and its effects in multiple ways. The debate for microfinance as an effective poverty alleviation tool cannot be discarded despite the opposing school of thought as there is overwhelming evidence to support its viability.

2.3.4 Microfinance and Joint Lending Liability (JLL)

Joint Liability Lending (JLL) refers to a lending mechanism popular in microfinance where borrowers come together to form a group through which they access loans from MFIs. Sengupta and Aubuchon (2008) define the JLL as a mechanism where individuals organize themselves into groups in order to access microfinance loans without having to present physical collateral to the MFI.

The concept of JLL originated in the 1970s with Grameen Bank as the pioneer of the mechanism (Dowla, 2006). Initially, extending credit

facilities to poor people involved a significantly high credit risk springing from the general perception that this market comprised of people who are termed as 'not creditworthy' (Sengupta and Aubuchon, 2008). Poor people were considered as lacking skills or expertise needed to efficiently utilize borrowed funds to generate enough income to pay back their loans. This, coupled with their lack of assets that could be pledged as collateral to cover the loans put poor people at a disadvantage with financial institutions when it comes to lending decisions. Through JLL, Grameen Bank found an innovative way of breaking the barriers that excluded poor people from actively participating in the financial market as credit worthy borrowers making the concept the most celebrated lending innovation by the Bank (Ghatak and Guinnane, 1999).

JLL (or group lending) is based on the premise that all members of the group are jointly liable for the payment of any of the members' borrowings (Hermes and Lensink, 2007). In JLL people form groups through which they access microfinance loans usually as individuals. However, although the loans are extended to individuals, each group member is equally responsible for repayment of the loan. Usually the required instalment for the agreed repayment period is calculated as a group payment comprising of all individual instalments for the group members. Hussein, *et al*., (2005) state that group lending with joint liability is based on the premise that if one borrower fails to repay the loan then the other members of the group are obliged to do so. Failure to meet the required group instalment for a given period, even because of one member's default means that all group members will be denied future access to loans from the microfinance program (Hermes and Lensink, 2007). Thus as long as all members honour their loan repayments, the promise of future credit and repeat borrowing to the group members is extended.

The strength of JLL as a popular lending mechanism in microfinance is drawn from the use of peer pressure to enforce loan repayment. In the absence of physical assets to be pledged as collateral, JLL relies on peer group screening, selection and monitoring to ensure that none of the members default on their instalments reducing the risk of having to contribute for the repayment of the defaulted amount or consequently forfeit access to future loans (Sharma and Zeller, 1997). Armendariz and Morduch (2000) further state that group lending stimulates screening, monitoring and enforcement of contracts among borrowers reducing or even mitigating the agency costs of the lender. Sengupta and Aubuchon (2008) concur that through peer mechanism, JLL transfers the obvious agency costs from the lending institution onto the community of borrowers who are rather more efficient in providing the same services. JLL has

therefore enabled extension of credit to previously marginalized poor borrowers through the use of peer mechanism. By creating social collateral to replace the physical collateral required by formal lending institutions, JLL has been successful in removing the barrier that stood between the poor people and access to credit on the lending markets (Conning, 2000). The popularity of JLL in microfinance is based on the assumption that peer selection, peer monitoring and peer pressure enhance repayment and reduce the cost of monitoring by lending institutions (Hermes and Lensink, 2007).

Grameen Bank is celebrated as the first MFI to show outstanding performance in repayment through the use JLL having started using the mechanism in the early 1970s (Dowla, 2006). Through JLL Grameen managed to eliminate the high risks of default associated with microfinance lending to achieve high repayment rates of above 98% (Dowla, 2006). Studies indicate that the success for Grameen in using JLL is partly attributed to the basic cultural orientation in Bangladesh where people value social affiliation and the need to be respected and accepted in the society (Rai and Sjostrom, 2004). Thus people ensure they repay their instalments for fear of being ostracized from the group and their society as well. Pitt and Khandker (1998) also allude that in rural Bangladesh, any borrower who defaults on loan repayments imposes a sense of shame on himself and his entire family and this is a strong dis-incentive to default. Another aspect that has led to the success of JLL at Grameen Bank relates to peer-selection whether borrowers choose their own groups without interference from the Bank. This is based on the fact that group members live close to each other in their communities and are therefore better informed about each other's activity which helps when forming groups. Consequently, safe customers will more likely group with other safe customers leaving the risky types out of the circle which improves effectiveness of JLL to enhance repayments (Sengupta and Aubuchon, 2008). Overall, Grameen has demonstrated how JLL can be incorporated into microfinance to ensure reasonably high repayment performance when lending to the poor.

Following Grameen's success, JLL has been adopted as part of the microfinance package all over the world especially when lending to poor people in rural areas. However, research outlines that JLL works only in the existence of other variables in the whole lending system. Wenner (1995) provides evidence that repayment performance of groups in JLL improves when the groups have formal written rules on how the group members should behave in relation to loan repayments and other aspects. Wenner (1995) further indicates that JLL is effective in remote areas

where possibility of access to alternative sources of credit is greatly reduced. This stimulates group members to ensure repayment as much as possible in order to preserve their future access to credit from the MFI. On the other hand, studies indicate that groups which comprise of members that are related face more repayment problems that those whose members are not close relations (Sharma and Zeller, 1997). This collaborates with the need for peer screening, monitoring and enforcement, thus where group members are closely related, peer pressure may be less effective in enhancing repayments. Paxton, Graham and Thraen (2000) state that distance between group members also affects loan repayments. Thus where members are far apart, it is difficult to co-ordinate repayments as a group. Finally, Hermes, Lensink and Mehrteab (2005) list trust among group members and quality of leadership as some of the factors that also affect the effectiveness of JLL as a microfinance lending mechanism to enhance repayment performance.

Overall, JLL has been instrumental in breaking the barriers that restricted financial institutions to penetrate the borrowing market comprising of poor people in terms of extending credit facilities. Thus through JLL poor people can access credit facilities under microfinance even without the traditional collateral initially required of them. This is obviously why JLL has been accepted as the epicentre of microfinance making it a valuable instrument for poverty alleviation and development.

2.4 Microfinance: A Malawian perspective

2.4.1 Microfinance revolution in Malawi

Malawi has embraced and adopted microfinance as an instrument of poverty alleviation through extending small business credit facilities to the poor especially in the rural areas. Initially, just like in other economies, poor rural Malawians were excluded from participating on the formal financial market platform because of lack of collateral among other factors (Whitby, 2012). Further, Whitby (2012) indicates that only 18% of local Malawians are currently exposed to formal banking. Following the famous success of Grameen Bank, Malawi adopted microfinance to break the barriers that prohibited poor people to access credit and embark on poverty alleviating income generating activities.

Formal microfinance lending in Malawi dates back to around the eighties with the establishment of Smallholder Agricultural Credit Administration (SACA), a government initiative which extended credit facilities to members of farmer's clubs (Chirwa, *et al*., 1999). SACA loans were mainly extended to individuals and did not necessarily adopt JLL. For more than a decade, SACA managed to maintain impressive repayment rates of between 79 to 96 % up to 1992/93 (Buckley, 1996). However in 1993, the transition of Malawi's politics from single party to multiparty democracy caused political instability which affected the financial industry as well. This, coupled with the national drought around the same time upset the repayment trend of SACA, consequently leading to its collapse in 1993 (Buckley, 1996).

In 1990, a few years before the collapse of SACA, another government initiated MFI called Malawi Mudzi Fund (MMF) was established to cater for rural poor people's credit needs (Buckley, 1996). Whilst SACA concentrated on extending credit facilities to farmers to boost agricultural production, MMF incorporated poor people who wanted to start various small income generating activities without restricting them to agricultural production. MMF was in many ways a replica of Grameen Bank's microfinance credit scheme in that it adopted the JLL mechanism to enhance repayment performance (Chirwa, *et al*., 1999). In 1994, another MFI called Malawi Rural Finance Company (MRFC) was formed by the government with a similar mandate to that of MMF and eventually the latter was incorporated and integrated into the new institution, MRFC (Chirwa, *et al*., 1999). The new institution, MRFC incorporated the target markets of both SACA and MMF and extended loans to farmers clubs as well as people who wanted to embark into diverse other income generating activities (Whitby, 2012). MRFC also incorporated the principles of group lending with joint liability adopted from Grameen Bank.

In the early 1990s, Malawi like a lot of other developing countries adopted a national Structural Adjustment Program (SAP), following directives from the World Bank. The program allowed World Bank to direct and influence the government's policy formulation process with an objective of aiding dependent economies to accelerate their transition towards economic growth and development (Harrigan, 2003). The SAP focused on poverty alleviation as a developmental goal and this stimulated a boom in microfinance as a lot of institutions joined the industry and started extending microcredit to the poor for various income generating activities (MCI, 2001). Since 1992, there has been a substantial growth in MFIs in Malawi offering financial services to the poor following the nation's efforts to aggressively fight poverty and achieve sustainable development

(Chirwa, 2002). As such the number of MFIs increased from 2 in 1990, to 16 in 2001and this incorporated not only those by the government but also private and non-governmental organisations (NGOs) (MCI, 2001). FINCA and PRIDE were among the first private MFIs to join the microfinance industry in the late 1990s while on the NGOs front, CUMO and ECLOF spearheaded entry into microfinance in Malawi (Chirwa, 2002).Table 1 shows the MFIs that were operating in Malawi in 2001.

Table 1: Microfinance institutions operating in Malawi in 2001

NGOs	State Owned MFIs	Private MFIs
World Vision	MRFC	PRIDE Malawi
CARE International	DEMATT	FINCA
NABW	SEDOM	INDE FUND
ECLOF	USIWA WATHA	
Project Hope	MSB	
Concern Universal	MoGYCS credit scheme	
CUMO		

Source: Chirwa, 2002

Currently, the microfinance industry in Malawi is dominated by FINCA and PRIDE Africa on the private institutions front, MARDEF and MRFC on government funded interventions and CUMO and ECLOF on the NGOs front (Burrit, 2006). The total exposure for the whole MF industry in Malawi as regards outstanding loan values was more than MK59 billion as at January 2012 (Mix Market, 2012) with MRFC currently dominating the industry claiming 50% of all disbursements followed by MSB with 30% (Kalanda, 2006). Ideally, rural microfinance has had the larger share of the total industry's value with 83% of the total disbursed value as compared to urban microfinance which claims the remaining 17% (Kalanda, 2006).

2.4.2 Microfinance regulation in Malawi

Microfinance relates to the primary provision of small loans to individuals or households who are perceived to be too poor to otherwise qualify for loans from formal financial institutions (Kiiru, 2007). This collaborates with the definition in the Microfinance Act of Malawi which defines microfinance as the provision of small loans to small or micro enterprises and low income customers that may be termed as financially undeserving (RBM, 2010). The microfinance industry in Malawi comprises of about 20 players

from various sectors consisting of private companies, statutory companies, NGOs, savings and cooperatives and projects of international development agencies and donors (Mkulichi, 2005). Previously, the financial sector in Malawi did not have clear regulations until early 1980s when the Reserve Bank of Malawi (RBM) and Finance Acts were reviewed to deepen regulation of the financial services environment (Mkulichi, 2005). The Acts gave powers to RBM to regulate all financial services providers in the industry. However, these regulations failed to properly cover the microfinance sector which comprised of a wide array of organisations most of which did not fall under the financial services provider category. Thus most MFIs (except Banks and savings and cooperatives) were not allowed by the nature of their formation to mobilise savings for on-lending hence were not considered as financial services providers under the Act (Kalanda, 2006). These institutions then fell out of the jurisdiction of the RBM which is the appointed regulatory body of the financial sector. Further there were no clear restrictions that guided entry of financial institutions into the industry such that characteristics of microfinance providers and the service itself could not be defined (Kalanda, 2006). For semi-formal MFIs, registration as legal entities was quite simple while supervision and enforcement mechanisms were unstructured and essentially non-existent according (USAID, 2004). There was therefore an outcry from different stakeholder entities in the industry for the government to develop and formalise a policy to guide operations of microfinance in Malawi.

In the early 2000 the government through its letter of intent and memo on economic and financial policies to the International Monetary Fund (IMF) was committed to liberalize the financial services sector (AMAP, 2004). The objective was to develop a proper regulatory framework for the microfinance industry to increase access to credit by the poor and to ensure that all MFIs are controlled by the same regulations. Consequently in 2002, a microfinance policy and action plan was approved by the cabinet as a primary document defining the broad framework for the sector and also forming the basis of formulating the Microfinance Bill (AMAP, 2004).

In 2010, the parliament of the Malawi government voted the Microfinance Bill which took effect from 1st September, 2010 becoming the major and first legal instrument regulating the microfinance sector in the country (Kuwomu, 2010). The Bill empowers the RBM to hold the key role in supervising all microfinance institutions to ensure that they comply with the provisions of the Act and its regulations (MAMN, 2010). This resolves the problem of different MFIs falling under the jurisdiction of different Acts and

provides the sector with a uniform set of rules and regulations to guide its operations. Previously, private organisations were controlled by the Banking Act and the Companies Act; statutory bodies were controlled by the Specific Act and NGOs by the Trustees and Incorporations Act (AMAP, 2004). The Microfinance Bill therefore aimed at restoring order in the industry to ensure efficiency and effectiveness of microfinance as a tool of poverty reduction and rural development through increasing access to credit by the poor and the less disadvantaged communities.

2.4.3 JLL and the microfinance industry in Malawi

2.4.3.1 The adaption of the Grameen model to the microfinance industry in Malawi

Following Grameen Bank's success, the concept of JLL was adopted (more or less on wholesale) into the microfinance sector in Malawi with MMF being the first MFI to use the mechanism in the early 1990s (Chirwa, *et al*., 1999). Under MMF, borrowers were advised to form groups comprising of five to ten members and present themselves with their individual business plans to the MFI to access loans (Burrit, 2006). The loans were then availed to the members as individuals according to how they each qualify and the required instalment was calculated and communicated to the group. The instalment was usually calculated on a fortnight basis and was based on the collective amount borrowed by all group members (Burrit, 2006). Thus all members were collectively liable to ensure that the required instalment for each given period has been submitted to the bank as loan repayment. MMF managed to reach a repayment rate of more than 70% during its existence before being incorporated into MRFC (Chirwa, *et al*., 1999). There is however no clear evidence as to whether the repayment success can solely be attributed to the adoption of JLL.

The use of JLL as a microfinance lending mechanism was extrapolated after integration of MMF into MRFC. However, although MRFC extended loans for various other small businesses, its main market was directed in promoting agricultural production especially tobacco farming (Chirwa, *et al*., 1999). Reports by USAID indicate that 85% of MRFC customer base are tobacco farmers who access the loans as individuals within respective farmer's clubs on the principle of JLL (USAID, 2009). However, MRFC embraces a different lending structure (from other government initiated

microfinance schemes) which is an adaptation of JLL to its inherent lending policies. Most of MRFC's loans are extended to tobacco farmers and repayments are deducted directly from tobacco sales at auction floors through prior arrangements with relevant authorities, eliminating risks of default (USAID, 2009). Thus MRFC, although lending to groups, does not necessarily rely on peer mechanism to ensure loan repayment since recovery is made at base. With this arrangement in place, MRFC has managed to comfortably maintain consistently high repayment levels of above 75% (Simtowe and Zeller, 2006). Under MRFC Grameen's JLL mechanism was thus enhanced by other repayment arrangements that could as well replace physical collateral for the loans.

Since the microfinance boom in Malawi in the early 1990s, all government and most private and non-governmental MFIs that were joining the industry adopted JLL either wholesale, or adapted in some way to fit the organisation's objectives and policies. The most recognized government MFIs practicing JLL can be noted as MRFC, SEDOM, Usiwa Watha credit Trust, MoGYCS credit scheme and MARDEF (Simtowe and Zeller, 2006). Thus JLL has become a landmark of microfinance interventions especially in the government arena. USAID (2009) indicate that group lending is currently an important aspect of microfinance structures on the Malawian scenery especially in the face of revolving fund credit schemes.

2.4.3.2 JLL and microfinance loan repayment performance in Malawi

Most rural microfinance institutions in Malawi rely on donor funds, grants or government subsidies to finance their credit operations. Sustainability of such microfinance schemes, usually managed as revolving funds depends on the levels of repayment of initial borrowers. Hussein, *et al*., (2005) concurs that there is need to maintain high levels of repayment rate in microfinance to ensure sustainability of credit operations and wide outreach of the scheme.

Grameen has demonstrated outstanding success in microfinance with repayment rates averaging 98% from a customer base of about 2 million people contributing significantly to poverty reduction in Bangladesh (Morduch, 1999). Studies attribute the repayment success of most MFIs like Grameen, in the absence of physical collateral and other repayment enhancers to JLL. Sharma and Zeller (1997) state that group lending has assisted Grameen Bank attain and more importantly maintain high repayment rates without requesting physical collateral like other financial

institutions in the formal banking sector of Bangladesh. Further, Jahangir and Zeller (1995) concur, that loan recovery rates for group based MFIs are more impressive and reasonably higher when compared to those of MFIs lending on individual basis. Some MFIs that have achieved high repayment rates in the face of JLL in Bangladesh apart from Grameen can be cited as Association for Social Advancement (100%), Bangladesh rural Advancement Committee (98%) and Rangpur Dinajpur Rural Service with 93% (Jahangir and Zeller, 1995). Bhole and Ogden (2009) further outline Cameroon and Malaysia as some developing countries, apart from Bangladesh, that have managed to successfully achieve remarkable repayment rates in their microfinance schemes by using JLL. Overall, JLL with peer mechanism has demonstrated, with the examples of Grameen Bank and other microfinance initiatives all over developing countries, its effectiveness in ensuring high loan recovery levels in microfinance.

The effect of JLL in enhancing microfinance repayments in Malawi is somewhat mixed. Most private and NGO MFIs like FINCA, PRIDE, CUMO and ECLOF present average repayment rates of more than 75% through the adoption of JLL (Chirwa, *et al*., 1999). Statistics indicate that the repayment rate for FINCA averages 85% while both Pride Africa and CUMO have, since inception managed to maintain a repayment rate above 90%, almost matching that of Grameen Bank (Burrit, 2006). However most government funded MFIs are still struggling with repayments even after using JLL. SEDOM, MMF and SACA are some of the government MFIs that have faced detrimental repayment problems in their life span whilst using JLL (Ghatak and Guinnane, 1999). Burrit (2006) on the other hand alludes that most government funded MFIs like SEDOM, DEMATT and MARDEF have struggled with recovery rates which basically makes long term sustainability a great challenge even under the use of JLL.

Further, reports indicate that the recent government microfinance program, MARDEF, which adopted JLL mechanisms on a wholesale from Grameen Bank is nonetheless struggling with repayment rates dipping as low as 20% at times (Simtowe, 2008). MRFC is indicated to be the only government initiated MFI in Malawi which has managed to consistently maintain impressive repayment levels in the face of JLL probably because of its unique lending mechanism where repayment deductions are made at source (Simtowe and Zeller, 2006).

The loan repayment trend in rural microfinance in Malawi is therefore not consistent and generic across the microfinance sector. While some MFIs have managed to achieve and maintain high repayment rates, others have

struggled with low levels of repayments with the same adoption of JLL. Ironically, most of the MFIs that have displayed outstanding performance in repayment are either private MFIs or NGOs but nevertheless using JLL mechanism.

In general, there is relatively high loan delinquency in government rural microfinance in Malawi which is blocking government efforts at poverty reduction and rural development. Even after adopting JLL mechanism, most government owned microfinance schemes still face repayment problems leading to sustainability challenges (Burrit, 2006). Most studies done to understand the dynamics of JLL on microfinance loan repayments in Malawi dwell on analysing the lending structure of concerned MFIs and the dynamics in group formation. A research in microfinance outlines lack of proper business training, advisory and monitoring structures (to the beneficiaries of government owned microfinance schemes) as the salient issues contributing to low repayment levels even after using JLL (Snow and Bussi, 2001). Further, Snow and Bussi (2001) indicate that the interference by MFIs in group formation processes also attribute to the low success levels for JLL to enhance repayment performance for government initiated microfinance. Buckley (1996) in his study on microfinance in Malawi attributes low repayment rates in rural microfinance to failure of MFIs in denying access to further credit, to members of groups that have defaulted, thus failing to enforce basic lending policies that guide JLL.

2.4.3.3 JLL – The social-cultural perspective

The effectiveness of JLL on repayment performance has been a subject of debate as far as microfinance is concerned. Literature indicates mixed reactions on the importance of JLL in increasing repayment rates in microfinance (Bhole and Ogden, 2010). However, the evidence displayed by Grameen Bank and other MFIs around the world in supporting JLL as a lending mechanism that enhances repayment performance in microfinance cannot be disputed. Ghatak and Guinnane (1999), Bhole and Ogden (2010) and Sharma and Zeller (1997) all agree that JLL has become the most important innovation in microfinance that has helped ensure reasonably high repayment performance levels to through peer mechanism. There is therefore no doubt that JLL has assisted the microfinance industry by providing a means of extending financial access to the poor without requiring physical collateral at the same time ensuring that acceptable repayment levels are achieved.

Although Grameen Bank and other MFIs have demonstrated significantly high repayment levels in the face of JLL, replication of the same lending mechanism by other MFIs in various geographical areas has not been as effective as regards loan repayments. Bhole and Ogden (2010) state that although JLL led to successful repayment results for Grameen Bank in Bangladesh, adoption of the lending scheme has been faced with massive repayment problems in India, Egypt, Venezuela, Kenya and Lesotho. JLL has also not displayed an impressive effect on repayment performance on The Good Faith Fund, a rural microfinance loan scheme in Arkansas, America which was also formed in the eighties (Ghatak and Guinnane, 1999). Similarly, evidence indicates that in Malawi some microfinance institutions like FINCA, PRIDE and MRFC enjoy a reasonably high repayment rate while others like SEDOM and MARDEF face problems through using the similar JLL mechanism (Simtowe and Zeller, 2006).

One of the factors highlighted in various studies as underlying this discrepancy in effectiveness of JLL in different geographical areas is the difference in socio-cultural orientations in the different regions or countries. One of the reasons that JLL is not successfully implemented to boost repayment levels in Arkansas as well as it does in Bangladesh is the significant social and cultural differences in the two regions (Ghatak and Guinnane, 1999). Further, Guinnane (1994) agrees that although failure to successfully replicate Grameen's JLL model in Germany can be attributed to a lot of factors, differences in basic norms and societal orientations can be cited as the underlying factor. Thus generally socio-cultural orientations of a particular community constitute an important factor to be considered in adopting JLL schemes that have demonstrated successful results elsewhere.

By definition socio-cultural factors relate to the values, norms, standards, attitudes and orientations that inform the perceptions of both individuals within, a society or a community at large (Van Bastelaer and Leathers, 2006). The socio-cultural orientation of a particular community will determine the expected and acceptable behavioural aspects of people and will shape the general perception of how members of the community relate to various issues in life (Van Bastelaer and Leathers, 2006). Similarly, people's perceptions as regards JLL are therefore generally informed by the values, standards and norms that guide the society in which they exist. Thus the difference in socio-cultural perspectives of people lead to a difference in how they perceive the role of JLL and eventually inform group behaviour when it comes to both individual and group loan repayment (Grootaert and Van Bastelaer, 2002). This is closely linked to the aspect of social capital in JLL. Thus the socio cultural attributes and perceptions of a

community will in return inform the relative formation of social capital for that particular society. Social capital relates to the institutions, relationships, values and attitudes governing interactions of among people to contribute towards economic and social development (Grootaert and Van Bastelaer, 2002).

Understanding the socio-cultural values of a community or society will provide some enlightenment on why JLL displays successful repayment levels in some societies while it completely fails in others. The issue of social cultural values is closely linked to the aspect of social ties in a community or a society. Social ties refer to how closely knit the community is as regards people's unity, relationships, interdependencies and their togetherness as a society (Van Bastelaer and Leathers, 2006). Evidence indicates that social capital is stronger in a community where there are strong ties, which eventually leads to peer-mechanism working better in enhancing microfinance loan repayment (Ghatak and Guinnane, 1999). When social ties among the community are weak, it presents an obstacle for JLL to work effectively as a lending mechanism. Ghatak and Guinnane (1999) further sites weak societal ties as the reason why transplanting the Grameen-style lending scheme from Bangladesh to wealthier regions like Arkansas in America has failed mostly because of their individualism life style which undermines 'togetherness' in a society. In Malawi, generally, JLL is said to have been easily adapted in rural areas where people live in close societies than in urban areas where people generally live as individuals, despite repayment problems in both set ups (Manda, Nkhoma and Mitlin, 2011).

The discussion above indicates that although JLL as a lending mechanism has demonstrated success in enhancing loan repayment in most MFIs, it need not be adopted as a wholesale. Incorporation of JLL into any microfinance scheme in any geographical location needs to consider the socio-cultural orientation of people towards which the program is targeted among other issues. This is where the issue of perceptions comes in. The socio-cultural orientations of the rural people at which a group based microfinance scheme is targeted inform their perceptions on JLL and its dynamics in using peer mechanism to ensure high repayment performance without physical collateral (Grootaert and Van Bastelaer, 2002).

Over the years since the adoption of JLL in the microfinance industry in Malawi, beneficiaries especially in rural areas have developed various perceptions about the whole group lending concept and its dynamics in repayments. In his study on rural microfinance, Chirwa, *et al*., (1999)

indicate that the famous reward of ‘repeat borrowing’ in JLL that is meant to entice individuals and groups to avoid default is not effective in Malawi as a result of people’s perceptions that MFIs, especially government initiated schemes as not sustainable. The future existence of such MFIs is questioned in the views of the beneficiaries and as such the promise of repeat borrowing is not considered valuable, hence ‘repeat borrowing’ plays a very insignificant role as a reward to enhance loan repayment. This perception could spring from the entrenched history and experience where government initiated microfinance schemes (like SACA, MoGYCS and MMF) have failed to sustain their existence consequently dying along the way disappointing people who repaid their loans faithfully in order to enjoy the reward of ‘repeat borrowing’.

Another general perception that can be pointed out in rural microfinance in Malawi and JLL refers to the issue of punitive sanctions that that the group members impose on the people who fail to honour their agreed instalments for a specific period. According to Hussein, *et al*., (2005) the most common sanction that groups impose on defaulting members is seizure of property which usually comprise of household furniture like radios, chairs, kitchen utensils and also livestock like goats and chickens. The study by Burrit (2006) on microfinance and group lending in Malawi reveals that these sanctions are not very effective in enhancing repayments as they are rarely enforced by most groups. As such, people are not scared to default as they have this perception that the sanctions will not be enforced anyway.

Finally, Simtowe and Zeller (2006) points out the general perception that people especially in the rural areas of Malawi have relating to the concept of government microfinance as a whole. Simtowe and Zeller (2006) relate that a lot of rural microfinance beneficiaries default on their loans not because they cannot repay, but because they perceive the loan as a grant from the government. Thus people do not understand the idea of borrowing money from the government (which they consider as their own money) and being pressurized to pay back. This is evident in the recent saga where 10 people were taken to court for failing to repay MK1.6 million loan they took from MARDEF who in defence boldly indicated that they see no reason to pay back the money which nevertheless belongs to the government (Face of Malawi, 2012).

Understanding the perceptions and socio-cultural orientations of rural microfinance beneficiaries will therefore assist in understanding how JLL can be remodelled and adapted to the retrospectives of the end users. This will eventually assist MFIs to administer tailor-made JLL loan

schemes with relevant lending and repayment policies to ensure maximum desired effects in enhancing loan repayments.

2.5 MARDEF: The revolving fund

Microfinance has been adopted by the Malawi government as the most effective intervention to spearhead fight against poverty especially in rural areas. Thus the government's agenda in implementing the MGDS towards achieving the set MDGs is based on implementing effective microfinance schemes especially targeting the rural impoverished masses (Malawi MDGs report, 2009). Since early 1990s, Malawi government has implemented a lot of microfinance loan schemes targeting people in various sectors of the economy with a common underlying objective being poverty alleviation and development.

A more recent addition to the list of government initiated MFIs is MARDEF. MARDEF was established in 2005 with credit fund support commitment from the government for 5-7 years after which it is expected to be self-sustaining (Meagher, 2010). Thus the government pledged to inject initial funds into the program (to the tune of MK5 billion) and support it up to seven years up to 2012 and thereafter, MARDEF is supposed to graduate into a full blown self-sustained MFI. The objective of the rural development fund (MARDEF) is to extend loan facilities to poor rural people to enhance their income generating capacity and reduce poverty in the pursuit of the MGDS and the MDGs.

MARDEF was established in 2005 by the Act of Parliament through the Ministry of finance as rural microfinance intervention solely owned and funded by the government (Malawi MDGs report, 2009). Thus the mandate to operate the loan scheme descended from the government which appointed a board of directors to oversee policy issues of the entity as guided by the set vision and overall objectives. The board of directors in turn appoints a secretariat to overlook the day to day operations of the organization to ensure that targets, goals and objectives are all aligned towards the vision as regards the loan scheme (MARDEF, 2012). Currently the secretariat is headed by Mr Joseph Mononga who holds the position of Managing Director (MARDEF, 2012).

MARDEF, like most other rural microfinance schemes that rely on government funding or donor aid is run as a revolving fund. Revolving credit is another aspect that regularly features in designing microfinance programs along with JLL mechanism. In revolving credit, the initial funding

is revolved to cater for the needs of subsequent borrowers and expand coverage of the micro credit scheme (Hussein, *et al*., 2005). Sustainability of microfinance revolving fund schemes depend to a large extent on how the borrowers perform in their income generating activities and debt repayments (Hussein, *et al*., 2005). In the case where JLL is used, repayment success depends on how the group members manage to adhere to their respective instalments which are pooled together to meet the required periodical repayment for the group. As such, MARDEF needed to, from inception, maintain high repayment levels to sustain the credit facility for continuity of the scheme. MARDEF is administered solely based on JLL credit mechanism such that all beneficiaries are affiliated to groups before accessing credit.

Immediately after inception in 2005, MARDEF received an initial injection of MK1 billion from the government of Malawi as part of the pledged MK5 billion to commence its operations (Sonani, 2008). However, reports indicate that even at the time the funds were received, MARDEF was in possession of loan applications worth MK10 billion from more than 82,000 groups with more than 1,200,000 aspiring entrepreneurs (Sonani, 2008). Clearly, the demand for the credit fund was overly underestimated such that the pledged MK5 billion was not enough to cater for even half of the applications. One of the reasons cited for the increased demand for MARDEF credit is that the scheme was over-politicized and used as a manifesto for President Bingu Wa Muntharika's government elections in 2004 (Simtowe, 2008).

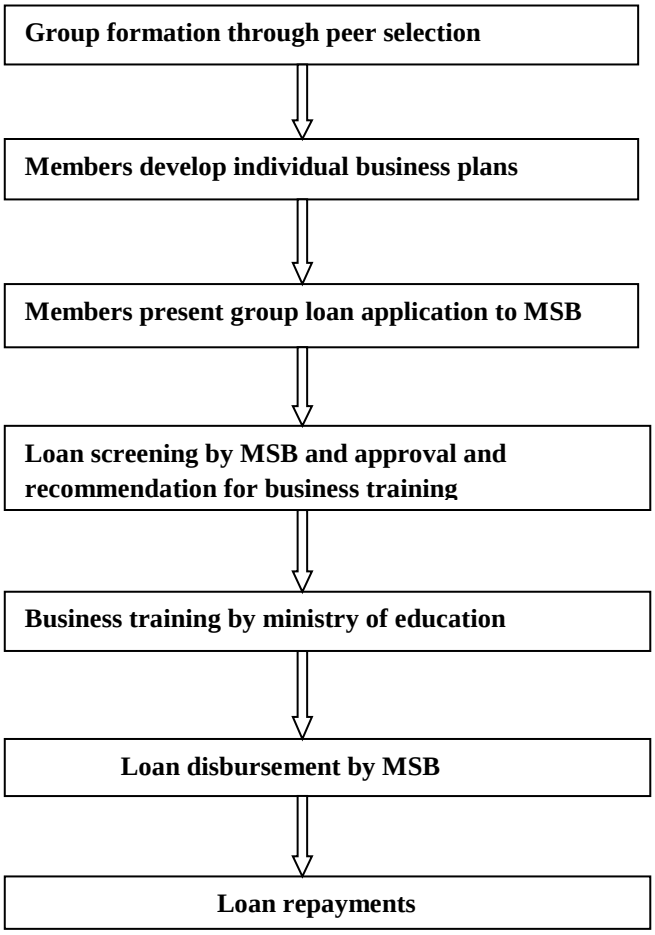
After Bingu Wa Muntharika was voted into power, rural people and the youth were hyped up and all ready to benefit from the credit scheme as promised by the government leading to the massive demand. By December 2007, the MK1 billion initial funding had been exhausted although only about 113,000 people had benefited representing about 8% of the individuals that had applied through different groups (Sonani, 2008). MARDEF expressed the urgent need for further capital injection from the MK5 billion fund as the pressure from applicants was mounting up as a result of the delays from the government to release more funding (Sonani, 2008). Although the rest of the pledged MK5 billion was eventually released in 2008, the fund was still not enough to ease the demand of application. This prompted the government to establish a parallel fund called Youth Enterprise Development Fund (YEDEF) in 2009 to be administered under the umbrella of MARDEF. YEDEF was established with a similar mandate to that of MARDEF but was targeted towards the youth from the ages of 18 to 35 years (MARDEF, 2012). By October 2011,

YEDEF had disbursed a total of MK2.8 billion to various individuals from different groups all over the country (Maganga, 2012).

As indicated, both MARDEF and YEDEF are run as JLL schemes on a revolving basis through three regional offices that assist in reaching out to people in rural areas all over the nation. Both loan schemes are guided by similar disbursement and recovery policies. Basically, individuals are supposed to form self-selected groups with a minimum of 6 members and a maximum of 10 and present their application forms and business plans for approval to MSB, a financial institution approved by MARDEF (MARDEF, 2012). After their application as a group has been approved, they undergo business training by MARDEF's training consultants from the ministry of education to ensure that they have enough knowledge and skills to run their various businesses (MARDEF, 2012). Thereafter the loans are disbursed to the group as a collective sum within which each member has an allocation according to his initial application. Repayment is over a maximum period of 12 months (with 3 months grace period) and the standard repayment frequency is monthly (MARDEF, 2012). The minimum loan amount that one can access is MK10, 000 and the maximum is MK100,000 with an interest rate of 15% or prime less 5% (whichever is lower) (MARDEF, 2012).

Figure 2 illustrates a flow diagram of MARDEF's initial lending cycle which is a replication of Grameen's JLL basic lending framework as described by Ghatak and Guinnane (1999).

Figure 2: A flow diagram of MARDEF'S initial lending cycle



Source : MARDEF, 2012

Sustainability of revolving microfinance credit schemes is based on the ability to achieve and sustain a reasonably high repayment rate. Hulme (1990) indicates that a repayment rate of at least 90% is essential to ensure sustainability of any microfinance scheme operated on a revolving basis. MARDEF is one of the MFIs in Malawi operating on 100% government subsidy on a revolving basis and basically no further lending can be done by the organisation if there are no repayments coming in (Meagher, 2010). Further, Meagher (2010) indicate that even MARDEF's operational costs come from loan repayments and this highlights the importance of maintaining reasonably high rates of repayment as this relates to sustainability of the respective microfinance intervention.

However, reports indicate that both MARDEF and its sister scheme YEDEF have experienced significant repayment problems over their life span so far. Simtowe (2008) states that, the repayment rate for MARDEF

dipped to as low as 20% in 2007. Sonani (2008) agrees to this point by indicating that by 2008, MARDEF had recovered only MK404,217,762 from the disbursed amount of MK1,064,906,800 leaving MK501,170,876 as the outstanding balance representing a recovery rate of about 38% which too low for a revolving credit fund. On the other hand, a report on the national dialogue on the effectiveness of YEDEF outlines loan recovery as one of the challenges for the youth fund, with current repayment rate as low as 23% (Banda, 2012). Further, Face of Malawi (2012) reports that 16 young people in Nkhatabay district of the northern part of Malawi were jailed for failing to pay any part of MK13 million loan they obtained from YEDEF claiming that it was government money and they were not under any obligation to repay. This illustrates the serious problems that both MARDEF and YEDEF are facing in recovering the disbursed loans and therefore threatening both growth and sustainability of the credit schemes.

The JLL model adopted by MARDEF as explained through the loan disbursement steps above, replicates Grameen's microfinance model which is founded on the principles of 'peer selection' group formation, adequate business training and peer monitoring and pressure to ensure repayment (Ghatak and Guinnane, 1999). Thus theoretically JLL as adopted from Grameen Bank is supposed to likewise enhance loan repayments in the microfinance sector in Malawi as well. Although there are other factors that may negatively affect repayment of loans in the lending cycle above, this research zones in towards understanding the final step of the cycle, thus loan repayment. The study assumes that the social cultural perspectives inherent in the people of rural Malawi have a bearing on dynamics of JLL lending and loan repayment and this link can be identified by exploring the perceptions of the people regarding the whole concept. However, the existence of other compelling aspects that have a significant bearing on loan repayments of rural microfinance may be unveiled as the study unfolds and as the researcher attempts to explore the perceptions of the beneficiaries towards JLL and its effects on repayment.

2.6 Summary of literature review

The discussion in chapter two was based on reviewing literature on various issues around microfinance both on a global and zoning in on a Malawian perspective. Salient in the discussion is how microfinance has been accepted by both developed and developing nations and also

international organisations like the United Nations as the current most effective poverty alleviation tool for developing countries. Development of the Millennium development goals further assisted in bringing out the importance of microfinance in alleviating poverty towards achieving the national and global targets as outlined by the MDGs.

Another issue that stands out in the review is the role that Grameen Bank and its founder, Muhammad Yunus have played in the microfinance industry. Grameen Bank's lending model has demonstrated to the whole world how microfinance can be used as an effective poverty alleviation tool for development. Further, Grameen Bank has been on the forefront in establishing JLL as the most important innovation in microfinance as regards enhancing loan repayment performance even in the absence of physical collateral. JLL (through peer mechanism) has therefore helped break the barriers that prohibited poor people from accessing finance through formal financial institutions because of lack of physical collateral.

The literature also looks at the origin and the revolution of microfinance in Malawi and the current status in linkage with JLL and government interventions. Further, the rules and authorities regulating the microfinance industry in Malawi are briefly analysed to understand the policies that guide MFIs on the local scenario. The discussion also analyses how JLL has been incorporated in microfinance in Malawi pointing out how it has helped mostly private MFIs achieve high repayment levels while government microfinance initiatives are mostly struggling with low repayment levels even after adopting JLL. On this point, the literature discusses MARDEF, the recent government microfinance intervention and how, together with its sister program YEDEF it is struggling with loan repayments in the face of JLL.

The issue of socio-cultural orientations of a particular region, community and/or society and how this affects repayment performance is also tackled. This alludes to the fact that JLL should not be adopted as a wholesale but should consider the societal and cultural orientations that inform the perceptions of people in the target community and hence the strength of social capital on which JLL is based.

The bottom line is that adopting JLL as a wholesale or replication of the model on 'as is' basis by Malawi government microfinance interventions is not helping in achieving and maintaining high repayment levels. As a result most microfinance initiatives by the government, which are usually run as revolving funds, face sustainability challenges that threaten growth and continuity of the programs. This defeats the efforts of the government

towards poverty alleviation and sustainable development. There is therefore need to adapt the JLL concept which has demonstrated to have worked effectively elsewhere to the Malawian environment. Exploring the perceptions of the targeted rural beneficiaries will provide a step towards understanding the social and cultural issues that need to be considered in administering government JLL loan schemes to help achieve consistently high loan repayment levels.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides an outline of the methodology used in the research, the data collection process undertaken and the subsequent process of analysing data for the study. De Vos, *et al*., (2005) describe research design as a plan to select subjects, research sites and data collection procedures in order to answer research questions. This study will use qualitative research methods and principals to explore perceptions of rural microfinance beneficiaries as regards JLL and loan repayments.

The chapter is partitioned into various sub-sections which address different aspects under research methodology. The first sub-section discusses issues relating to research approach, which in this case is qualitative. The second section deals with the methods and techniques that were used to collect data for the study. Thirdly, the section discusses data analysis and the approaches and methods used. The fourth sub-section tackles issues of validity and reliability in the research and thereafter the research limitations and how ethical considerations were incorporated in the whole study. The last section summarizes the discussion in the whole chapter in as it relates generally to research methodology.

3.2 Research Approach

The two main approaches to any research or study, as described by Des Vos, *et al.*, (2005) are qualitative and quantitative methods. These are not just two different ways of approaching the same study but rather possess different strengths that are useful in different ways in addressing different research objectives. Maxwell and Loomis (2003) agree that qualitative and quantitative research methods display different strengths and logic and are best used to address different research questions, objectives and goals. Johnson, Onwuegbuzie and Turner (2007) emphasize the importance of choosing the right research approach as the basis of a successful study. Thus the decision to choose the approach to be applied to a particular study should be considered with utmost care.

This study has been undertaken using the qualitative research approach. The decision to use qualitative approach was informed on the basis of the exploratory nature of the research which aims to understand perceptions of people regarding JLL and repayments in rural microfinance. A qualitative research helps solicit perceptions, meaning and experience of participants in the study as they relate to the research question (Des Vos, *et al*., 2005). Neuman (1997) explains qualitative research as an effort to understand the uniqueness of a situation in its context and also its interactions with the existing environment. In using qualitative research, the researcher aims to discover the logic that will help in understanding and explaining a unique situation through interactive research methods. Thus by its nature, qualitative research is descriptive and hence well suited for the particular research objectives intended in this study. Leedy and Ormrod (2001) concur that qualitative studies serve a descriptive purpose by revealing the nature of certain situations, processes, settings, relationships, systems or people, thereby giving the researcher an insight into a phenomenon and problems that may exist within it.

A qualitative study derives its strengths primarily from its inductive nature and its primary focus on specific situations and people, putting emphasis on descriptions of events rather than numbers as opposed to a quantitative approach (Maxwell and Loomis, 2003). This puts the researcher in a very crucial position as a primary instrument for data collection and analysis in order to build hypotheses, concepts and theories. However, qualitative research is undertaken in a pretty unstable environment which cannot be controlled by the researcher and as such, theories derived are subject to change (Neuman, 1997). The challenge therefore lies with the researcher to ensure that the research is undertaken in a systematic manner to ensure objectivity.

As indicated, this research ventures into an area where very little information has been researched and documented on microfinance in Malawi. Most of the studies on JLL in Malawi are in context of understanding the value of JLL in enhancing repayment performance and the monitoring structures developed by the MFIs as regards JLL loan repayments (Huppi and Fedder, 1990). The qualitative approach adopted in this study will assist in exploring how rural microfinance beneficiaries understand the JLL concept and its relationship to loan repayment performance. In qualitative research, the researcher assumes the responsibility of interpreting data by analysing how the subjects being studied perceive the world around them as regards the issue under study. Geertz (1979:228) concurs that the trick behind qualitative research is in

figuring out ‘what the devil the people being interviewed think they are up to’.

3.3 Research design

Research design refers to a plan or protocol for accomplishing a research comprising of a series of stages or tasks in planning and conducting the actual study (Maxwell, 2005). It is important to carefully consider the design relevant to your study as you are developing the research concept. In qualitative research, choosing the proper design helps you understand the actual structure of your study as well as to plan and carry it out in an effective and efficient way possible (Maxwell and Loomis, 2002).

The researcher undertook a field study in a descriptive form. A field study is an inquiry that attempts to explore and interpret people’s views from interviews and observations to provide answers to the research question (Rossman and Rallis, 2011). This collaborates with the purpose of this particular research which aims to explore the perceptions of rural microfinance beneficiaries towards JLL and its dynamics. On the other hand, a descriptive field study seeks deep insight and enlightenment on complex social understanding and perceptions to interpret feelings and views of people regarding a specific phenomenon (Rossman and Rallis, 2011). Just like any qualitative research, a descriptive field study starts with questions and results into learning through transformation of data into information that can be used.

A field study enables the researcher to extract complex perceptions of rural microfinance beneficiaries and interpret them into meaningful information to give more insight on the effects of JLL on the microfinance industry in Malawi. According to Creswell (2009), understanding genuine perceptions of people in social studies requires the researcher take the research to the people to study them in their environment or respective communities.

3.4 Data collection Methods

The researcher used multiple data collection resources for the study organized mainly into two different categories of primary and secondary data. All data collected was carefully organized into a database to ensure systematic record keeping for the purposes of data analysis in line with the argument by Leedy and Ormrod (2001) that it is the researcher’s duty to

ensure that any potentially useful data is recorded thoroughly, accurately and systematically.

3.4.1 Primary data

Primary data in qualitative research enables the researcher to obtain first-hand information that will assist in understanding subjective behavioural conceptions on the study topic (Heaton, 1998). Primary data is important especially in qualitative studies as it helps the researcher obtain first hand valid and illuminating information (Leedy and Ormrod, 2001).

3.4.1.1 Interviews

In this study, the researcher used one on one, (face-to-face) interviews with open ended questions to collect primary data from the subjects being studied. An interview can be defined as a short social interaction between two people with the explicit purpose by one person to obtain pre-determined information from the other (Neuman, 2006).

The interviews were carried out on a carefully selected sample of beneficiaries from MARDEF in Bvumbwe area of Thyolo district. This assisted the researcher to obtain first hand, detailed and meaningful information relating to the perceptions of rural microfinance beneficiaries as regards JLL and loan repayments. A one on one interview involves “a conversation and discussion that captures the attitude and interaction between the researcher and the participant” (Lee, Ostroky, Bennet and Fowler, 2003:281). The interviews were mainly comprised of open ended questions to capture people’s perceptions and views in an unbiased manner and to avoid the error of leading the interviewee’s response. Open ended questions were found to be useful to capture people’s intrinsic perceptions as they permit an unlimited number of possible answers allowing respondents to qualify and clarify their responses (Lee, *et al*., 2003). The researcher was therefore able to follow up interesting answers with probing questions to obtain an accurate understanding of how the respondent feels as regards the issue under study. One on one intensive interviews further enable the researcher to collect data that is rich, detailed and varied enough to provide a full and revealing picture of what is going on (Maxwell, 2005). The researcher was therefore able, through guidance of an interview schedule and a carefully articulated questionnaire to solicit the required information from the respondents through open ended interviews.

3.4.2 Secondary data

Secondary data in research alludes to the use of existing data collected for the purposes of prior study in order to pursue a research concept which may not be similar to the original work (Heaton, 1998). Leedy and Ormrod (2001) concur that secondary data refers to information that can be derived from primary data collected by someone else for other purposes. The use of secondary data does not preclude the importance of collecting primary data but rather complements it. Secondary data has been referred to as a more convenient approach for most researchers especially students, as it maximizes the use of data already existing thereby reducing research costs (Szabo and Strang, 1997). Further, secondary data provides historical and comprehensive information about the study topic thereby providing a basis for the researcher to compare and validate the primary data collected (Szabo and Strang, 1997). The main instrument of secondary data collection used in this study was document analysis mainly through literature review on existing information from previous studies on the research topic.

3.4.2.1 Document analysis

Document analysis is defined as the detailed examination of documented evidence covering a wide range of topics in a variety of forms from written articles to visual images (Silverman, 2004). In document analysis, it is imperative that the researcher embraces a clear understanding of how the documents are produced, circulated and used for different purposes in order to be able to extract the important data for the study (Silverman, 2004). McMillan and Schumacher (1993) state that the significance of documents is located in the historical circumstances of their production, circulation, interpretation, effects and uses that may be associated with them. Rossi, Lipsey and Freeman (2004) further emphasize the importance of collecting relevant information on reports and records in investigating the quality of a program. The advantage of using document analysis is that documents are non-reactive and do not change the nature of the data being collected unlike in interviews where respondents may influence and twist facts due to various reasons like memory failure, hesitancy or pure resistance to cooperate (Bailey, 1987). Thus document analysis eliminates some chances of error and inaccuracy and misinformation that may be inherent in interviews.

In this study, the researcher analysed different written documents in form of journals, articles, books and other forms of literature from the university libraries and also from the internet. Government, NGO and international organisation's research and workshop reports, policies and conference papers were also used to present a wider understanding of the research topic. This helped the researcher to obtain a clear understanding of existing facts on the subject matter in order to approach the study with an open and informed mind about issues surrounding the study.

3.5 Sampling

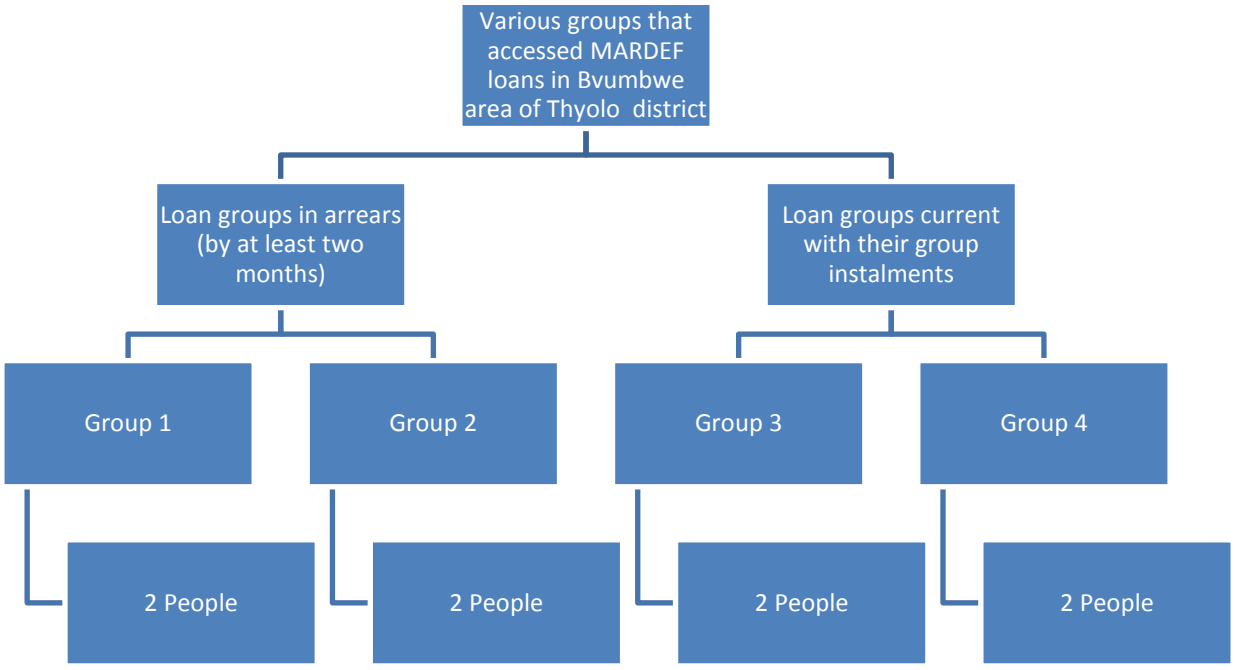
Sampling is a process of selecting units of a population of interest so that by studying these units, results may be generalized back to the population from which the sample was chosen (Maxwell, 1998). A sampling decision arises in research whenever one wants to define issues about who to contact for information, how and where. The ability to obtain valuable information that answers the issues raised in the research questions depends on the researcher's ability to clearly identify and formulate the criteria for selection of respondents (Sandelowski, 2000). Thus the accuracy, relevance and significance of data collected will to a large extent depend on whether the sample selected was quite relevant for the particular study. A well-organized study targeting irrelevant respondents may defeat its own purpose in as much the study objectives are concerned.

The researcher undertook a purposive sampling and this represents a very important decision in the study. Purposive sampling is a sampling strategy where particular settings, people and events are deliberately selected for the important information they provide which cannot be obtained as clearly from other choices (Maxwell, 1998). This sampling method is based on the assumption that "a researcher's knowledge about the population can be used to handpick the cases to be included in the sample" (Hasson, Keeney and McKenna, 2000:1011). The use of purposive sampling was informed by the need to select respondents with a specific purpose in mind in order to obtain relevant information to answer the study questions at hand. Neuman (1997) agrees that purposive sampling best addresses the needs of a qualitative exploratory study where there is a need to select respondents with specific characteristics as outlined in the research design. Merriam (1998) further compliments this argument and observes that purposeful sampling is based on the assumption that the researcher wants to explore, understand and gain insight of a specific subject matter

and therefore must select a sample from which he can learn most. Thus the logic behind purposeful sampling lies in selecting information rich respondents for in-depth study (Neuman, 1997).

The researcher conducted one on one in depth interviews on the pre-selected sample. The research sample comprised of 8 beneficiaries from MARDEF in Bvumbwe area of Thyolo district in Malawi. The beneficiaries were purposively selected form four different borrowing groups (two in each group) to provide diversity of perceptions in JLL and experiences in group dynamics. At the point of selection, the groups had accessed a group loan from MARDEF which has ran for at least six months to the date of the interview to capture experiences of the respondents over a longer loan period. Two of the groups were those struggling with their repayments (with at least two months arrears) and the other two were up to date with all the loan instalments that had fallen due. This helped to capture perceptions of JLL from beneficiaries whose groups are defaulting on repayments and those that are successfully paying back the loans. Figure 3 illustrates how purposive sampling was done to come up with the sample of 8 microfinance beneficiaries to be included as respondents.

Figure 3: Illustrating the sampling process used in the research



Source : Own, 2012

3.6 Data analysis

According to Mouton (2001), data analysis refers to breaking the subject or topic into parts for individual study and evaluating the relationship thereof. Further, data analysis can be looked at as the process of studying the data, organizing it and categorizing it as necessary in order to address the main purpose of the study (Leedy and Ormond, 2001). Data analysis actually requires the researcher as a principal element of the process, to make sense of what the collected data says about the issue being studied. Creswell (2003) adds that analysing data involves making sense out of text and image data through systematically applying different methods to condense, evaluate, illustrate and recap the data into meaningful information that relates to the research.

While data presentation is important in research, data analysis and interpretation thereof form the epitome of the study as it assigns understanding to the findings relating them to problem statement to bring out intrinsic meaning addressing the study topic. Huberman and Miles (2002) emphasize on the need to carefully analyse and code qualitative data to avoid distorting the meaning of data which may compromise its validity. Data analysis is important in research as it helps understand the various constitutive elements of the data to see whether there are patterns or trends that can be identified or isolated to establish themes in the area being studied (Mouton, 2001)

The data in this study was analysed by adopting a data analysis process from Leedy and Ormrod (2001). The process indicates that in data analysis, the researcher should study the data by perusing through it several times to identify patterns and isolations. Thereafter, the data should be classified by grouping it into categories of themes and then synthesized through construction of tables, diagrams and hierarchies.

Information and data collected through the interview questionnaires and document analysis was organized and grouped into data sets according to similarities in the pattern of response. The data was then organized and presented using tables and diagrams and also in text form in a way that allows meaningful analysis to be conducted. Research requires that data should be collected, organized, divided into headings and codes, analysed and reported into meaningful information (Mouton, 2001).

The researcher then studied and analysed the qualitative data to extract behavioural patterns of rural microfinance beneficiaries in line with the research question. According to Huberman and Miles (2002), a researcher has to contribute some elements of his own judgment to the data in order

to generate a meaningful or insightful pattern of behaviour. The researcher married the information from the data with theory using 'grounded theory' process to generate a meaningful or insightful pattern. Grounded theory of data analysis produces from qualitative data a theoretical account which summarises our understanding of possible regularities associated with research questions (Eisenhardt, 1989). Lee and Smagorinsky (2000) further indicate that in order to put meaning and structure to perceptions researchers have to typify without which perceptions are chaotic. The interpretation of the data was thus based on what the literature says on JLL and repayment in rural microfinance.

3.7 Validity and reliability

Validity and reliability of data in research is of utmost importance and trustworthiness of the information collected must be guaranteed at all costs (Morse, 2002). A researcher should therefore not consider the study complete without outlining to what extent the research is valid and reliable. According to Merriam (1998) validity generally refers to the trustworthiness of the data collected. Leedy and Ormrod (2001) however separate issues of external and internal validity. Thus external validity looks at the extent to which the results of the research study can be generalized and applied to situations beyond the study itself or to other contexts (Leedy and Ormrod, 2001). On the other hand, internal validity looks at the extent to which the design and the data of the research allow the researcher to draw the accurate conclusions about the cause and effect relationships within the data (Leedy and Ormrod 2001). Reliability relates to the issue of dependability and ethics in the way the data was collected (Merriam, 1998). Reliability deals with the extent to which the research instrument yields consistent results if the factor being studied remains constant (Leedy and Ormrod, 2010). Reliability therefore answers the question 'to what extent would another researcher undertaking the same study in the same environment draw similar conclusions?'

The intention of conducting validity and reliability exercises is to establish the truthfulness and credibility of the findings from the study as portrayed by the researcher. Golasfshan (2003) advocates the use other concepts like consistency, credibility and applicability to enhance validity and reliability especially in qualitative research.

The researcher used one on one interviews (guided by a questionnaire) coupled with analysis of records and documents from MARDEF to ensure validity and reliability of data through triangulation. Triangulation is a

technique that uses multiple independent methods like observation, documents and interviews in an attempt to arrive at the same or similar findings (McMillan and Schumacher, 2001). Further, Bailey-Beckett and Turner (2009) observe that triangulation is the application of more than one research perspective in the same study. Thus by using multiple data collection and analysis methods, the researcher ensured that data incorporated into the study is reliable and valid. Data collected through the open ended interview questions and document analysis was compared to see if there is cohesion and thus can be judged as valid and reliable. The researcher also ensured accuracy, consistency and credibility by recording and including the raw data collected on the basis of which findings were deduced to enhance reliability and validity of the study.

Further, validity and reliability of the data from the study was enhanced through a strategy that Merriam (1998) describes as the researcher's position or reflexivity. This entails critical self-reflection by the researcher on theoretical orientations, assumptions and a general world view relating to the study that may possibly affect the investigation (Merriam, 1998). The researcher took extra care to ensure that his predisposition and understanding of the rural microfinance industry in Malawi does not in any way affect the investigation. The researcher therefore cautiously took a neutral stance in the investigation to ensure that the data collected is valid and reliable as a true reflection of the respondent's perceptions and not the researcher's imposed reflections of his pre-existing knowledge about the study topic.

3.8 Limitations of the study

Identifying potential limitations of a study is a very crucial aspect of any research as this gives an insight of the extent to which the research findings can be used. Limitations of any study need to be indicated as they outline potential weaknesses of the research giving the researcher and other end users an opportunity to understand the scope of the research in advance (Creswell, 2003).

Although the researcher did not have any problems in obtaining the names of beneficiaries from MARDEF, locating them for interviews in their respective villages was a challenge as there are no formal residential addresses in the area. The researcher failed to reach out to some of the initially selected respondents and consequently had to go back to the drawing board to select replacements in order to comply with the original sample size.

Rural people tend to respond to interviews with answers that they think the interviewer wants to hear and this may impact on the reliability of the information. Further, as participation is voluntary, some people may choose not to answer some questions which may appear personal, invasive or threatening to them and this will also have a negative bearing on the reliability of data. Some of the respondents approached were in default with their repayments in some way, they therefore avoided opening up to some questions probably scared to disclose information that would expose their status thereby compromising their positions both to the group and to MARDEF. However, the researcher explained to them about ethical considerations regarding confidentiality and anonymity to which the researcher is bound under the study and assured them that their names will not be used anywhere in the research. This eased the respondents that were reluctant to provide some information and the researcher was able to obtain the necessary data from them.

Further, since this is a qualitative study, the researcher understood the possibilities of biasness in data collection and interpretation in his capacity as the principle instrument of the study. This awareness made the researcher to take precautions to limit any possibility of natural biasness bound to affect the outcome of the study. Bias in research refers to any influence, condition or set of conditions, that singularly or together distort data (Leedy and Ormrord, 2001). It is therefore important to understand the risk of biasness the researcher imposes on the study to ensure that this is at least minimized.

Lastly, the sample is not representative of the whole population of poor rural microfinance beneficiaries in Malawi. This is because not all rural microfinance beneficiaries in Malawi were given an equal probability of being randomly selected into the sample as it was based on purposive sampling method. The results of the study may therefore not be generalised to the whole population of rural microfinance beneficiaries in Malawi. This is consistent with qualitative research under which results are neither representative nor can they be generalised to the whole population.

3.9 Ethical considerations

The concept of ethics is understood as referring to the body of principles and standards that guide and govern the behaviour of individuals and/or groups (Oldman, 2004). Ethics form an important part of research especially where the study involves human beings either as subjects or

informants, as they ensure that the rights of the individuals involved are respected and are not infringed in any way. The researcher in this study approached the issue of ethics from two different perspectives.

3.9.1 Anonymity and information

Research ethical guidelines require that research participants be protected from unwilling disclosure of their identities and also that participants should be well informed of what the research is about and their role in the whole study (Wiles, Crow, Heath and Vikki, 2006). This requires that the researcher deliberately incorporates into the study processes of ensuring that participants are informed of their right to demand anonymity in the study. Further the researcher should ensure that all people involved understand the objective of the research and how the information they give will be used in the study.

The researcher ensured that respondents and participants are informed beforehand of the purpose, intentions of the study and that their participation is voluntary. Further, participants were also made to understand that they are not being forced to disclose any information by responding to the questions they feel uncomfortable with. The respondents were also assured that information from the interviews will not be used for other purposes apart from this particular research without their prior consent.

On the issue of anonymity, the respondents were assured that their names will not be disclosed anywhere in the research. Rather, alphabetical codes were used to ensure that their identities are concealed in adherence to research ethics pertaining to anonymity. This was done to protect the respondents' identities since some of the information requested could possibly antagonise their chances of benefitting further from MARDEF. The researcher took deliberate steps to explain to each individual respondent before each interview the issues of anonymity explained above to make sure that participants are aware of the implications of their involvement in the study way before the interview has commenced. This helped ease the participants such that they were able to open up and respond to the questions in the interviews without prohibitions.

3.9.2 Confidentiality

Confidentiality is commonly referred to as being synonymous to the principle of privacy especially in the theory regarding research ethics (Gregory, 2003). Bulmer (2001) states that the principle of privacy is integral to the beliefs of most societies and requires that, individuals retain the right to privacy for some intrinsic and sensitive information about themselves. This calls for the researcher to take deliberate steps to ensure that personal information about the respondents is kept confidential.

In this study, the researcher assured respondents in advance that their information will be handled confidentially and will not be disclosed outside the research environment. This ensures that the participants are put at ease to respond to probing questions without restrictions. Further, all data collection instruments used to record raw data were destroyed after the study was completed to ensure that no information intended or unintended is leaked outside the research realm. Wiles, *et al*., (2006) concurs that it may be necessary in some cases for the researcher to make a decision as to whether it is appropriate or necessary to even record certain kind of sensitive information in research.

CHAPTER FOUR

PRESENTATION OF FINDINGS

4.1 Introduction

This chapter presents the findings of the study on perceptions of rural microfinance beneficiaries on Joint Lending Liability (JLL) in Bvumbwe area of Thyolo district in Malawi, focusing on the recent government microfinance initiative MARDEF. The presentation will be based on findings from interviews that were guided by specific research questions in line with the main themes identified through the interviews.

During a period of one week, the researcher conducted one on one interviews using open ended probing questions to explore perceptions of rural microfinance beneficiaries on issues relating to JLL and loan repayment. Two participants were randomly selected using purposive sampling from each of the four pre-identified borrowing groups from MARDEF to come up with a sample comprising of 8 respondents. The groups were randomly selected from a pool of various groups that have existing loans with MARDEF whose members reside within Bvumbwe area. Four respondents were from groups that are up to date with their instalments and the other four were from groups that are in arrears by more than two instalments. The main research questions that guided the open ended interviews were;

- How do beneficiaries in Malawi perceive the concept of JLL and its purpose in microfinance especially in repayments?
- How do beneficiaries in Malawi perceive the rewards and sanctions imposed by their respective groups and also the MFI as regards loan repayments and defaults respectively, and how does this affect overall repayment performance?
- What are the perceptions of beneficiaries in Malawi on problems resulting from group dynamics and how do these affect individual and/or group loan repayments?

Each question was designed to explore from a different angle how rural microfinance beneficiaries understand and perceive the importance of JLL in enhancing loan repayments and the dynamics of group lending. For the

sake of confidentiality, the researcher assigned alphabet codes to each of the participants and these were used throughout the research to protect the respondents' identities.

4.2 Demographic profile

This section presents the demographics of the respondents who participated in the research to enable a better understanding of the study sample. The profiles of the respondents have been summarized in the table 2 as guided by section A of the questionnaire attached as **Appendix 1.**

Table 2: Demographic profile of MARDEF beneficiaries who participated in the study

Variable	Category/Description	Number
Sex	Male	3
	Female	5
Age	<25 years	1
	25 to 35 years	4
	35 to 45 years	2
	>45 years	1
Education level	Standard 8	3
	JCE	4
	MSCE	1
	Tertiary education	0
IGA category	Farm produce	4
	Hawker (spaza)	1
	Second hand clothes	1
	Home-made snacks	2
Average monthly profit	<MK5,000	2
	MK5 000 to MK10 000	5
	MK10 000 to MK20 000	1
	>MK20 000	0

Source: Own, 2012

4.3 Data presentation themes

The presentation of the research findings has been orchestrated around three main themes that are drawn from the main research questions. The themes are designed to elaborate findings from the interviews presenting the respondents perceptions on various aspects of JLL in microfinance as guided by sub-questions under each category. The sub-sections that follow will present the findings of the research under the identified themes.

4.3.1 The purpose of Joint Lending Liability in microfinance

This theme was used to direct the researcher's exploration on how rural microfinance beneficiaries understand the concept of JLL and its purpose in microfinance especially in enhancing loan repayments. The information collected was grouped and presented under different categories in line with sub questions that guided the data collection process under the theme.

4.3.1.1 What is JLL

Out of the eight respondents interviewed, five indicated that JLL is a mechanism for MARDEF to easily track borrowers in case they decide to abandon their loans. One of the respondents, respondent A, actually said "MARDEF requires us to be in groups to make sure that if one abandons his loan and runs away, the others will easily find him as they know his particulars as a group member" (A, Interview, 4 June, 2012). Another participant, respondent B stated that "JLL is when you form a group and go to MARDEF to get loans and keep track of each other to make sure no one disappears without paying it off. This is because we know each other well and MARDEF knows they can use us to track each other's where about in case of default" (B, Interview, 4 June, 2012).

Two respondents understood JLL to be MARDEF's way of ensuring that group members help each other with loan repayments where other people within the group are struggling, to make sure that every borrower manages to pay off their loans. One of the respondents did not understand the reasoning behind JLL as a lending concept. The respondent stated that "it is just a requirement for one to belong to a group if you want to access MARDEF loans. I do not understand why but if you do not find a group you will not be given any loan" (F, Interview, 6 June, 2012).

4.3.1.2 The importance and value of JLL in microfinance.

The respondents displayed two different views on this issue. Three respondents indicated that they perceive JLL as an important aspect of microfinance while the other five did not agree to this sentiment albeit with varying reasons. All three respondents who viewed JLL as important in microfinance gave the same reason that with JLL, if you do not have money to pay for your instalment, the other members pay on your behalf and you can refund them later when you find the money. Thus JLL takes

away the stress of being put under pressure by MARDEF in case you fail to honour an instalment. For example, respondent E was quoted to have said “To me JLL is very important because I do not have to worry about being visited by MARDEF if I do not honour my instalment. When I do not have money to pay, the other group members pay for me,” (E, Interview, 6 June, 2012).

However, the other five respondents did not see the importance or value of JLL in microfinance. Three of these respondents attributed this to the negative consequences of the sanctions that follow when you fail to honour your instalment to the group. The three respondents implied that in JLL if you fail to pay your instalments, other group members take advantage of your situation to seize your property without even understanding the underlying problems. One of the three respondents, respondent G said “JLL is cruel. Even when you have valid problems that make you fail to pay your instalment, other people just take advantage of the so called group regulations to seize your personal belongings and this makes you even poorer. Imagine they even take away the materials that you use for business, how are you expected to generate income to redeem your tools or even to honour the next instalment?” (G, Interview, 7 June, 2012).

One respondent did not value the importance of JLL in microfinance citing that the whole concept makes simple borrowing complicated. The respondent indicated that the process of group formation to access loans is too long. Further when effecting repayments, you have to wait for all group members to pool their instalments together before the payment is submitted to MARDEF which makes everything complicated and long.

The last respondent who did not see the importance of JLL indicated that the whole concept is unfair when it comes to repayments. The respondent stated that “even when you diligently honour your instalments to the group, if some members are defaulting then it means to MARDEF the whole group is under default which is not fair to those that are faithful in meeting repayments” (H, Interview, 7 June, 2012).

4.3.1.3 Loan repayments under JLL as compared to individual lending

Out of the eight respondents, four stated that they would still be committed to repay their loans if they borrowed as individuals while the other four were not as sure. All the four respondents that answered positively to the

question attached commitment to repay microfinance loans to business performance. For example, respondent C said “As long as you make profit in your business for that period then loan repayment is guaranteed and it does not matter whether you borrowed as an individual or as a group.” (C, Interview, 5 June, 2012).

Out of the four people that were not sure if they would still be committed to repay under individual lending scheme, three attributed the lack of commitment to the fact that there are no sanctions imposed in case of default when you borrow as an individual. For instance, respondent D stated that “There are chances that I may default if I borrowed as an individual because I will not be put under pressure to repay in fear of my property being seized. Without fearing for my property, I may be tempted to default,” (D, Interview, 5 June, 2012). The other respondent attributed his lack of commitment to repay under individual borrowing to the fact that MARDEF would not be able to track him down if he disappeared with the funds. The respondent (respondent A, 4 June, 2012) insisted that JLL ties him down to the loan as he knows that the group members will always find him wherever he goes if he decides to abandon the loan.

4.3.1.4 Peer monitoring in JLL

All eight respondents indicated that there is no much business support given to members that are struggling with their businesses even when it is obvious that they may not meet their instalments. The consensus was that people are left to manage their businesses the way they want as long as they bring their contribution of the group instalment as agreed. Two of the respondents (respondent C and H) emphasized this point and stated that the only help that may be offered is to lend the struggling member some money to ensure that he revives his business but this arrangement is usually done outside the group regulations. Otherwise the group will enforce the agreed sanctions if the said member fails to meet his instalment (C, Interview, 5 June, 2012; H, Interview, 7 June, 2012).

4.3.1.5 Suggestions on how to structure JLL schemes to improve repayment performance.

Table 3 outlines the suggestions made by the respondents on what changes can be effected on the structure of JLL to enhance repayments.

Table 3: Respondents suggestions on how to structure JLL schemes to enhance repayments

No of respondents	Suggestion
1 (H)	Each person should make his loan repayment straight to MARDEF as an individual and not collectively as a group. This will reduce 'free riders' who always relax and know that even if they do not pay their instalment, the other group members will pay on their behalf (H, Interview, 7 June, 2012)
1 (G)	To stop group members from enforcing the sanction of seizing defaulters property. It just makes people poorer than before and defeats the purpose of the loan altogether (G, Interview, 7 June, 2012).
1 (A)	To make sure that people that have outstanding loans with other MFIs are not allowed to join any group. These are usually perpetual defaulters who want to take advantage of the funds with no intention to pay (A, Interview, 4 June, 2012).
1 (C)	MARDEF should help in enforcing sanctions on defaulters especially for those people that have political connections which make them too powerful and above group regulations (C, Interview, 5 June, 2012).
2 (B & D)	People with political affiliations should not be allowed to join groups. They take advantage of their political power to default deliberately knowing that people will be scared to impose group sanctions on them. They eventually lead the group to default and cause problems for other members (B, Interview, 4 June, 2012; D, Interview, 5 June, 2012).
2 (E & F)	There should be a way of ensuring that people who take loans use them for the purpose they stated. Some access the loans and use them to buy personal property like furniture, bicycles, radios and in the end they are the first ones to default as they have no income generating activity from which to repay the loan (E, Interview, 6 June, 2012; F, Interview, 6 June, 2012).

Source: Own, 2012

4.3.2 Rewards and sanctions on repayment performance in JLL

Under this theme, the researcher explored how rural microfinance beneficiaries perceive the rewards and sanctions that are imposed by either MFIs on the group, or the group members on individuals in line with respective repayment performance. The aim was to find out how beneficiaries view the role of rewards and sanctions under JLL in enhancing loan repayments.

4.3.2.1 Sanctions imposed on default

Out of the eight respondents, five stated that that the only sanction that MARDEF imposes on the group when there is repayment default is to deny the members from repeat borrowing. That is the members will not be allowed to access further loans from MARDEF as repeat borrowers if the group has not performed very well in repayments in the first round of borrowing. The remaining three respondents however did not know of any existing sanctions that MARDEF may probably impose in case of default. To them MARDEF is not concerned with putting pressure on the group to repay, that responsibility remains in the hands of the group members themselves and MARDEF's job is just to receive the payments and calculate the balance and interest. For example, respondent H stated that "it is not MARDEF's job to impose sanctions when there is default, that job is done by the group members amongst themselves to ensure payments are made to MARDEF" (H, Interview, 7 June, 2012).

On the sanctions that the group imposes on members that default, six respondents cited property seizure as the most common sanction. Thus the group may seize property belonging to the defaulting member and they either sell it to recover the defaulted amount or they hold it to be released only when the defaulter brings in the required sum. Two respondents stated that the other members may gossip about you to other people in the community regarding your status as a loan defaulter which brings shame to you and your whole family as well.

4.3.2.2 Rewards offered for outstanding repayment performance

On rewards offered by MARDEF for outstanding repayment performance for the group, five respondents mentioned access to further loans (repeat borrowing) and three respondents mentioned bigger loan amounts on repeat borrowing. However all eight respondents stated that there are no rewards that the group offer to individuals who display outstanding repayment performance on their loans.

4.3.2.3 Suggestions of effective rewards and sanctions in JLL

Table 4 summarizes the respondents' suggestions on effective rewards and sanctions that may encourage repayments and discourage default respectively.

Table 4: Respondents suggestions of effective rewards and sanctions that may enhance repayments

	From MARDEF to the groups	From the group to individuals
Rewards	Lower interest rates (C, Interview, 5 June, 2012; D, Interview, 5 June, 2012; G, Interview, 7 June, 2012). Longer repayment period (B, Interview, 4 June, 2012; F, Interview, 6 June, 2012)	To reward outstanding performers with a party or a similar function in their honour (A, Interview, 4 June, 2012). The group should buy outstanding performers presents like kitchen items, chitenje, goats, chickens to encourage repayment (D, Interview, 5 June, 2012; E, Interview, 6 June, 2012).
Sanctions	MARDEF to assist in seizing property especially from people with political power (H, Interview, 7 June, 2012; C, Interview, 5 June, 2012; F, Interview, 6 June, 2012; E, Interview, 6 June, 2012). To share defaulters' list with other MFIs so ensure defaulters are denied access to loans from other MFIs (B, Interview, 4 June, 2012; G, Interview, 7 June, 2012; H, Interview, 7 June, 2012). To liase with ministry of agriculture to ensure that defaulters do not get fertilizer and seed subsidy (A, Interview, 4 June, 2012).	The group should take the case to the village headman who should exercise his authority to fine the defaulter. This will cause embarrassment as well since the whole village will know (B, Interview, 4 June, 2012; H, Interview, 7 June, 2012). If members paid the instalments on your behalf, you should be charged interest when refunding the required amount. This will probably deter defaults (A, Interview, 4 June, 2012; F, Interview, 6 June, 2012; G, Interview, 7 June, 2012).

Source: Own, 2012

4.3.2.4 The efficiency of existing sanctions in enhancing repayments.

In response to this question, all respondents gave an indication that most beneficiaries still default on their repayments despite facing possible sanctions because they face a lot of social problems in their daily lives that demand their financial input. The problems that were referred to the most were illness of family members, funerals, school fees for children and in some cases basic needs for their homes like food which their families cannot do without. These problems force them to dig into the savings that were reserved for loan repayment even when they know this exposes them to group sanctions if they eventually default.

Another issue that came out of the interviews was the failure of the group members to impose agreed sanctions where one of them defaults on payments. Four respondents stated that most of the people who default on loan payments have political connections that make them powerful both within and outside the group. These people default deliberately knowing that the other group members will not have the courage to confront them and impose the applicable sanctions. Thus their political power puts them above the group's rules and regulations when it comes to enforcing group sanctions.

The four respondents also hinted that it is difficult to impose sanctions on people that have defaulted as most of the group members are usually related. On this note, respondent E said "A lot of the people in the group are related so when some-one defaults, the other members fail to stand up and enforce the sanctions as they probably have close relations with the defaulter" (E, Interview, 6 June, 2012). Five of the respondents also stated that it is difficult to impose sanctions even where people are not related as it brings tension and confrontations within the group which in some situations trickles down to the community in which these people live. One of the five respondents, respondent B said "Just imagine you go and seize your neighbour's chairs, pots and chickens because he had a funeral in the family and he failed to pay his instalment. Do you expect him to understand that this is business and continue being friends with you? Or do you expect your children to be welcome at his house to play with his children?" (B, Interview, 4 June, 2012). Thus the various reasons above prevent effective enforcement of sanctions and people know that the chances for the sanctions to be imposed on them are very minimal hence they are compelled to default even where they could have managed to repay. On the sanction of 'no repeat borrowing' the respondents stated that this does not play any role in enhancing repayments. For example,

respondent D said “We all know that government MFIs do not last long and MARDEF will probably end any time now that another president has come in. So people do not take the sanction of no repeat borrowing seriously, because even when you repay faithfully you will not be able to borrow again as MARDEF will probably not be there” (D, Interview, 5 June, 2012).

To explain their personal experiences with default, five respondents stated that they have defaulted on instalments at one point while the other three said they have never defaulted on any loan payment as individuals. The respondents who confessed having defaulted before explained how the other group members reacted to their default and what course of action was taken. The explanations have been tabulated in table 5 to follow.

Table 5: Respondents experience of group reaction in case of default

Sanctions imposed by the group?	Respondents explanation
Yes	• **Respondent A:** They seized my chickens and goats and this made me angry because there are people in other groups that default but they never face these consequences. People in my group are just jealous of me because my business was going well. Now I am struggling to restart my business to sustain repayments (A, Interview, 4 June, 2012). • **Respondent D:** They never seized my property when I defaulted, my friends in the group paid for me and I am still paying back to them. However people gossip about me both within the group and also in the community. Even when I go draw water from the public bore-hole, people make fun of me and I feel castigated (D, Interview, 5 June, 2012).
No	• **Respondent F:** No sanctions were imposed on me. I am not the first one to default, people in the group have defaulted before and no one seized their property. We are currently in arrears with MARDEF as a group and we will settle the balance whenever we can (F, Interview, 6 June, 2012). • **Respondent C:** No, it is not anyone's money, the money belongs to the government so they cannot get my property because I had problems and I failed to pay. They know I would not allow that to happen. They do not invite me to meetings anymore and I think they want to chase me out of the group but I do not care (C, Interview, 5 June, 2012). • **Respondent H:** The chairlady of the group is my aunt and the treasurer is my cousin so no one can bother me to come and seize my property. After all other people in the group are also defaulting so why bother only me (H, Interview, 7 June, 2012).

Source: Own, 2012

In response to whether beneficiaries would still be committed to repay their loans in the absence of sanctions and rewards under JLL, three respondents indicated that they would still honour their payments in the absence of group sanctions. One of the three, respondent B said "If you are straight forward and honest you will still make sure that you repay whatever loans you have even when there are no sanctions that may be imposed on you when you default. Whether one pays or not depends on the person's integrity, and has nothing to do with sanctions," (B, Interview, 4 June, 2012). Five of the respondents gave an indication that without sanctions in place, everyone would probably default. For example, respondent D said "Why would you struggle to pay off government's money when you know that no one will bother you even when you default?

People would definitely rather use the money to solve other problems in their daily lives" (D, Interview, 5 June, 2012).

4.3.3 Group dynamics and JLL loan repayments

Under this theme, the researcher explored how rural microfinance beneficiaries perceive the dynamics that occur in a group causing disputes and conflicts among group members and how all this may affect both individual and group loan repayments. The findings have been presented in the sub categories to follow.

4.3.3.1 Common issues that cause disputes among group members

The issue that was mentioned by all respondents as causing disputes among group members relates to repayments. The respondents indicated that when one person fails to pay his instalments on time, some members in the group take it personal and want to immediately enforce sanctions without clearly understanding the defaulter's problems or without following the right procedures. This usually brings disagreements among group members as some take this as an opportunity for revenging personal disputes.

Another issue that came up from the interviews was that sometimes members lend each other money outside the group's jurisdiction in their capacity not as group members but as friends. However when the debt goes sour and the two parties disagree on repayments, their conflicts sometimes affect the group. They start confronting each other at group meetings and they usually do not want to work together any more. Sometimes the other group members are forced to intervene and help them resolve their issues and this may bring more divisions and disagreements as people may take sides, worsening the situation. One of the members who presented this view, Respondent F stated that "lending each other money outside the group is inevitable as people face a lot of problems and need financial help from friends and usually rely on each other as members of the same community," (F, Interview, 6 June 2012).

Another issue relates to disputes in the community that happen outside the group as affecting the dynamics of members within the group. To clarify this point, respondent E said "People in the group live together in the community and the disagreements between them and their families

sometimes filter into the group to cause disputes among the members. For example if members' children fight on other issues whether at school or at the market, the parents may intervene and this may affect the relations in the group" (E, Interview, 6 June 2012).

Gossiping among members of the group is also another issue that respondents outlined as a common cause for disagreements in the group. Five of the respondents stated that group members, especially women like to gossip and talk bad things about other members behind their backs and this causes divisions and conflicts among the group members.

On how the groups resolve the conflicts that arise from these disputes, three respondents stated that the issues are referred to the group's executive (the chairman, secretary and treasurer) who mediate between the concerned parties to resolve the conflict. Four respondents indicated that if the disputes are on issues that do not concern the group directly, then normal route of resolving conflict within the community is followed and that is usually through the traditional leaders and elders within the society. However respondent A alluded that there is no proper structure of handling disputes among group members and each case is treated differently. "Sometimes the members in dispute are left to resolve their problems and sometimes fellow members intervene to mediate but it depends on what the issue is and who the concerned parties are" (A, Interview, 4 June, 2012).

4.3.3.2 How disputes among members affect loan repayments

All respondents responded positively to this question to say that disagreements among group members in whatever way negatively affect both individual and group loan repayments. The respondents implied that whenever people fight, regardless of whether the issue in dispute directly concerns the group or not, repayments are negatively affected. In his explanation, respondent G said "When group members disagree, one of them may decide to be defiant and not pay the required instalment for that period as a way of getting back to the other member/s in the group and that means the group as a whole will have problems with repayments to MARDEF" (G, Interview, 7 June, 2012). Respondent C further clarified to say "Sometimes members may be supporting each other in their businesses for example managing sales when the other person is busy) and when they quarrel, they stop working together and as such their businesses suffer which means they struggle to repay their loans and consequently the group as a whole suffers in meeting instalments," (C,

Interview, 5 June, 2012). Respondent B further implied that even disputes between members that happen outside the group's jurisdiction may affect loan repayments in the long run. "Sometimes when people fight they go to traditional leaders to settle their disputes and when found guilty they may be fined by the traditional court. Thus members may find themselves in financial problems as they struggle to pay the fine to the traditional leaders and this may compel them to default on their instalments to the group," (B, Interview, 4 June, 2012).

4.3.3.3 Effective measures of resolving disputes to avoid negative effects on loan repayments

On measures that the group should put in place to ensure that the disagreements explained above are altogether avoided or resolved amicably so as not to have negative effects on repayments performance, all respondents stated that it is difficult to avoid disagreements between members completely. Where more than two people are put together to work as a group and especially where matters of finances are concerned, such disagreements are bound to happen. Thus all respondents implied that conflicts among group members will always be there but it is how the members handle these disputes that decides whether loan repayments are affected or not. Three respondents suggested that there should be a tribunal comprising of one member from each of the groups that benefitted from MARDEF loans in the community which should mediate and help resolve conflicts between members from these groups. In this way, there will be no bias in resolving disputes and as such further resentments will be avoided as both parties will probably be satisfied with the verdict hence repayments will probably not be negatively affected.

Respondent B suggested that religious and church leaders should be involved in resolving group conflicts as a lot of people in the area have respect to these community figures. The respondent explained that "With such an arrangement, whenever people quarrel the dispute will be resolved amicably and each party will be satisfied with the outcome and probably this will restore peace within the group and avoid affecting loan repayments negatively" (B, Interview, 4 June, 2012). Four respondents further suggested that MARDEF should be involved in resolving disputes within the group. One of the four respondents, respondent E said "People respect the authority that MARDEF officials have as they lenders and decision makers on whether to approve or reject loan applications such that their intervention in resolving group disputes may bring order in a way

that does not affect loan repayments negatively" (E, Interview, 6 June, 2012).

4.3.3.4 Composition of group members, group formation and loan repayment.

All respondents answered positively to this question to say that group members would disagree less if some people were not part of the group. Respondent B elaborated that most of these troublesome members causing disputes in the group are usually politically affiliated and impose themselves on whichever group they want to join and because of their political positions the other group members cannot say no. These are the people who take themselves to be above the group regulations and it is almost impossible to enforce laws on them especially when they default and this causes conflicts in the group (B, Interview, 4 June, 2012).

Another issue that came out of the interviews is that most conflicts within the group are caused by the pioneers of that group. These are people who started the group and invited other members to join. As such they feel they own the group and can do whatever they want and the other group members do not have the power to discipline them as they usually hold executive positions within the group. The respondents also stated that people who are related to the group leadership (like the chairman, treasurer and secretary) also cause most disagreements in the group because they feel protected by the leadership and behave the way they want regardless of group regulations.

On whether the group members have the authority to remove troublesome people from the group, the respondents indicated that it is usually difficult to do so as these are the people who either started the group or are related to people who started the group. The other members do not have much to say in confronting these people even when they seem to cause conflicts among group members. In his clarification, respondent D said "It is impossible to remove these members from the group because they are practically above the law and usually hold political authority which is infused into the group dynamics. However, even if you wanted to remove them, of what benefit will that be to the group? They still owe MARDEF and the group is liable for payment which means the remaining members will have to inherit the loan and take over payments for the balance and no one is ready to do that." (D, Interview, 5 June, 2012).

4.3.3.5 Suggestions of effective group formation criteria

The respondents suggested the following criteria to be considered in group formation to ensure that there are less disputes in the groups and that where these are inevitable, they are resolved amicably so as not to negatively affect loan repayments;

- Avoid incorporating people with political affiliations in the group. Where possible, these people should form their own groups where there will be equal authority and power, balancing the dynamics in the group.
- Each group should not have more than two people that are related.
- People that are known as village gossipers should not be allowed into the group as they will probably cause havoc and bring conflicts among group members which will be detrimental to repayment performance.
- People that are known as bad debtors in the society should not be allowed into the groups as they will probably bring in their culture of defaulting on payments.
- Only people who know each other personally (behaviour wise) should come together to form a group and they should resist accepting anybody they barely know just to satisfy the numbers required by MARDEF to qualify for a loan.
- Members forming a group should be involved in different income generating activities to avoid jealous and envy when other people's businesses are doing well while others are struggling. This brews resentments and negative feelings among group members which may be disastrous to group dynamics.

4.4 Summary of data presentation

This chapter presents findings from open ended interviews the researcher carried out on a sample of 8 respondents from Bvumbwe area of Thyolo district in Malawi. The interviews were structured to explore the perceptions of rural microfinance beneficiaries on JLL and loan repayment performance in Malawi. From the interviews, the importance of JLL was perceived as to enable group members to help each other in loan repayment where one member faces financial problems. Further,

respondents indicated that JLL was also important to ensure that no individual disappears with an outstanding balance as the other members can easily track them down. Peer monitoring among members in respect of individual businesses ventures was indicated as non-existent in most groups.

The interviews also enabled the respondents to present suggestions on how group loans can be structured to improve repayment performance and these have been presented in the chapter. One of the suggestions presented was that people with strong political affiliations should not be allowed to join groups and borrow under JLL as they usually cause repayment problems. Among other issues, respondents also suggested that each group should not have more than two people that are related to ensure that group regulations and policies are applied to all with fairness and justice. This was based on the premises that members that are related to the leaders of the group usually default on repayments deliberately as they feel protected from whatever disciplinary measures are put in place by the group.

Seizing property is the most significant sanction in the view of the respondents that is imposed by most groups in cases of default by a group member. On the other hand, MARDEF offers rewards of repeat borrowing to outstanding group repayment performance although most respondents indicated that this is not valued as much. The respondents suggested that MFIs should exchange credit histories of potential borrowers to prohibit defaulters from abandoning their arrears and simply jumping to another MFI to access yet another microfinance loan.

Another aspect discussed in the interviews concerns issues that cause disputes and conflicts among group members that eventually may impact on loan repayment performance. Respondents agreed that even when members disagree on issues that are not within the group's jurisdiction, it still affects individual and group loan repayments. The respondents further suggested that one of the ways to resolve such disputes amicably would be to involve community leaders to mediate between involved parties. Amicable settlement of disputes among members would lessen the negative impact this may have on repayment performance.

CHAPTER FIVE

ANALYSIS OF FINDINGS

5.1 Introduction

This chapter presents the researcher's analysis of the data presented in chapter four regarding the perceptions of rural microfinance beneficiaries on Joint Lending Liability (JLL) and loan repayments. Through this chapter, the researcher seeks to translate the findings from the study into meaningful information that aims to answer the main research questions. The analysis follows the three linked sub processes of data reduction, data display and drawing of conclusions as prescribed by Miles and Huberman (1984). The researcher isolates relevant information from the data collected, identifies significant patterns and groups it into themes and categories that aim to provide meaning to the respondents' perceptions on the relevant topic. The researcher also applies the descriptive analysis method to interpret contradictions on the data from respondents and attach meaning to it according to Neuendorf (2002). Evidence from previous research and existing literature will also be examined in the analysis and will be compared to the findings in this study to assist the researcher in interpreting the information.

5.2 Discussion of results

The sections that follow analyse the findings of the research categorised under three key themes in correspondence to the three main research questions. Under each theme, data will further be analysed and discussed in line with sub categories that provide detailed analysis of the information. The first section however discusses issues relating to the demographic profile of the respondents to provide an understanding of the composition of the study sample and its characteristics.

5.2.1 Demographic profile

From the study sample, five respondents were female while the remaining three were male microfinance beneficiaries. This indicates that the ratio of

female to male rural microfinance beneficiaries in Malawi is high. The statistics presented in table 2 agree with what Kalanda (2006) says that the microfinance market in Malawi is dominated by female borrowers. This could be a result of the unemployment pattern in Malawi where 21.9% of women with at least secondary education is unemployed as compared to only 9.7% of men in the same education category both in the formal and informal sectors (Van Klaveren, Tijdens, Hughie-Williams and Martin, 2009). As such, most women resort to microfinance loans to engage in small businesses for income. Further, 97% of the borrowers from Grameen Bank, a pioneer MFI are women emphasizing the dominance of females in microfinance not only in Malawi but in other countries as well (Karnani, 2007). The dominance of women in microfinance worldwide could be a result of the global campaign by the Microcredit movement in 1997 whose goal was to reach out to 100 million of the world's poorest families, especially the women of these families with microcredit (Develtere and Huybrechts, 2005). Most of the respondents were between the ages of 25-35 years. This is probably the prime age where most people are actively searching for ways to generate income to map their futures.

The demographic profile of the study sample further reveals that seven out of the eight respondents did not finish formal education with most of them ending with mid-level secondary education qualification which is Junior Certificate of Education (JCE). These people have problems breaking into the job market as they are not qualified enough and are a general target for rural microfinance initiatives to help them engage in income generating activities and become self-employed. Rural microfinance targets the poor and unemployed who have no hope for meaningful employment and do not have access to business capital (Bhole and Ogden, 2010).

Half of the respondents stated that they are in the business of selling farm produce within and around Bvumbwe trading centre. This is probably because the area has favourable soils for fruits and vegetables and other crops which make it easier for people to engage in trading of farm produce. Bvumbwe area's climate favours the growth of various fruits and vegetables and this makes it a busy trading area for farm produce supplying the major part of Blantyre city and areas around (GeoHive, 2011). Further the area is near Bvumbwe research station which promotes agricultural production and this could be the reason for the popularity of engaging in farm produce trading as an income generating activity for microfinance beneficiaries.

More than half of the respondents indicated that they make monthly profits between MK5, 000 to MK10,000 (between R170 to R340) from their income generating activities and no one indicated to be earning more than MK20,000 (R700) per month as profits. This emphasizes how small the income generating activities engaged with rural microfinance loans really are. Most of the businesses financed under rural microfinance initiatives are quite small and this corresponds to the size of loans offered especially to first time borrowers (Ghatak and Guinnane, 1999).

5.2.2 JLL as a lending concept in microfinance

This section relates the researcher's analysis of rural microfinance beneficiaries' perceptions on the purpose and value of JLL in microfinance lending. The underlying purpose is to understand the beneficiaries' view of what JLL is and its role in microfinance lending in relation to loan repayments as interpreted from the findings.

5.2.2.1 The purpose and value of JLL in microfinance

Five of the eight respondents understand JLL as a system through which members are given the responsibility to track each other and ensure that nobody disappears with an outstanding loan balance. This implies that a lot of rural microfinance beneficiaries perceive JLL as a mechanism used by MFIs to ensure that bad debtors are easily located through fellow group members who are also from the same community. Another perception that came out from the findings is that JLL is a mechanism where members assist each other by lending each other money in cases where some of the members are struggling with repayments, to ensure that everyone manages to pay off their loans. However Develtere and Huybrechts (2005) define JLL as a lending mechanism where individual loans are extended to beneficiaries in groups whose members are held jointly liable for repayment. Thus the main component on which JLL is founded is the peer mechanism which draws on the social capital of the society to ensure the group members work together to repay the loans (Develtere and Huybrechts, 2005).

The perception of JLL in rural microfinance in Malawi is therefore narrow and portrays JLL as merely advocating support groups to facilitate access to individual loans or a mechanism used by MFIs to track bad debtors. This implies that the majority of beneficiaries in rural microfinance in Malawi do not have a clear and holistic understanding of the concept of

JLL and how it works in microfinance. One of the participants from the study clearly stated that he does not understand the reasoning behind group lending and that people are told to join any groups they want if they desire to access a loan since MARDEF does not lend to individuals. It is imperative that beneficiaries understand the concept of JLL and the basic principles underlying group lending before they access the loans. People should know that JLL starts from the group selection process and members are supposed to offer each other support through peer monitoring and where necessary apply peer pressure to ensure each member adheres to the repayment structure (Van Bastelaer and Leathers, 2006). Magner (2007) stresses on the importance of borrowers to understand the reasoning behind the basic principles of JLL which are peer selection peer monitoring and peer pressure, for the concept to effectively enhance repayment performance.

MFIs should ensure that the business management training which beneficiaries go through before they access the loans should incorporate education on JLL and the underlying principles behind group lending. However, the high rate of illiteracy existing in rural areas of Malawi present a challenge for most MFIs that would want to educate beneficiaries of the concept of JLL and its underlying principles. National statistics indicate that 44% of the female population in rural areas is illiterate and cannot read and write (NSO, 2012).

On the value of JLL in microfinance, five of the eight respondents did not see the actual importance of the lending concept and how it helps in microfinance loan acquisition and repayment processes. This was mostly attributed to the negative implications of the sanctions imposed in cases of default the common of which is property seizure. From the study, it is obvious that most rural microfinance beneficiaries perceive property seizure as a most cruel sanction for default in JLL and this completely overshadows the value and other important features of the concept as a whole. The importance of peer pressure in JLL does not lie in enforcing sanctions in case of default but rather in capitalising on social capital of the community to ensure that people are able to positively influence each other to honour their loan repayments (Bhole and Ogden, 2010). Amandriz de Aghion (1999) further concurs that focusing on enforcing sanctions may defeat the whole purpose of JLL which is to uplift the livelihood of beneficiaries and this may result in a general negative perception of group lending in microfinance.

Another issue that came out of the study is that beneficiaries look at JLL as a complicated concept which unnecessarily lengthens the process of

both loan disbursement and repayment. Thus all dynamics that take place in group formation and in collecting individual instalments (to be remitted to MARDEF as one group instalment) are regarded as unnecessary bureaucracy where individual lending would have been straight forward. Helping people understand the concept behind group formation and loan repayment processes will ensure that beneficiaries understand JLL principles better which will consequently improve collaboration in loan repayments.

Overall, rural microfinance beneficiaries in Malawi do not understand the purpose, and value of the concept of JLL and its principles in microfinance lending. This probably also stems from lack of a clear understanding of what JLL is and its importance in microfinance lending as a tool of ensuring that even poor people have access to capital finance without in the absence of physical capital. MFIs should ensure that all beneficiaries understand the concept of JLL and its relevance in microfinance before disbursing the loans as this is crucial in enhancing repayments.

5.2.2.2 Microfinance loan repayments: JLL versus individual lending

Half of the respondents indicated that they would similarly be committed to repay their loans under individual borrowing as they would under JLL. The reasoning behind the response was that loan repayment performance is not a function of the lending mechanism under which the loan is accessed but rather the performance of the business the individual is engaged in. This means that almost half of rural microfinance beneficiaries would continue repaying their loans faithfully as long as their businesses are performing well regardless of the lending mechanism. Hussein, *et al*., (2005) concurs that in microfinance, repayment is more a function of business performance than rewards or sanctions put in place by the groups or MFIs. However, there is also a factor of 'bad loan repayment culture' that has been associated with the microfinance sector in Malawi for a long time, alluding that most beneficiaries would choose to default even when they are capable to repay their loans (Diagne and Zeller, 2001). The findings clearly indicate that for half of the beneficiaries, JLL does not necessarily enhance loan repayments but rather it is the performance of the respective income generating activity that determines whether one defaults or not whether the loan was accessed through individual lending or under JLL.

The other half of the respondents was not sure if they would still be committed to repay their loans if they borrowed as individuals. The outstanding reason for this was that under individual ending there would be no threat of sanctions in case of default which would compel people to default. Similarly half of rural microfinance beneficiaries repay their loans for fear of sanctions that may be imposed on them in case of default. Bhole and Ogden (2010) state the sanctions that groups impose on defaulting members play a significant role in enhancing repayments. One of the attributes associated with group lending is that group members will use peer pressure to coerce individuals who would have defaulted under individual lending to pay (Paxton, *et al*., 2000).

Clearly the findings present two different schools of thought. On one side, loan repayment is portrayed as a function of business performance regardless of whether JLL is used or not. On the other hand, JLL principle of peer pressure through imposing sanctions on defaulters is perceived as a crucial push factor for repayments in the absence of which people would not be equally committed to repayment. There is need to understand how MFIs can capitalise on both schools of thought so that sanctions positively influence repayments without creating negativity towards JLL at the same time strengthening the groups' peer monitoring strategies to ensure increased performance of income generating activities to enhance repayment performance. Peer monitoring and peer pressure are functions that need to complement each other in group lending with joint liability to ensure that loan repayment performance is sustained at a high level (Kritikos, 2008).

5.2.2.3 The concept of peer monitoring in JLL

All respondents in the study stated that there is no significant peer monitoring in their groups in terms of members getting involved in understanding their colleagues' business performance. Peer monitoring is defined as a JLL mechanism where borrowers make sure that each beneficiary undertakes prudent investments and business practices leading to income streams which enable loan repayments with maximum probability (Kritikos, 2008). Under, peer monitoring, group members are supposed to help each other in whatever way they can to ensure that all members' income generating activities are performing well enough to enable them meet their respective instalments (Hermes and Lensink, 2007). From the study, it is evident that the importance of peer monitoring in JLL is not clearly understood or it is under rated by the beneficiaries in

rural microfinance in Malawi. The respondents indicated that there are no strategies put in place by the groups for peer monitoring of each other's business performance. The group's responsibility is therefore seen as solely to collect the required instalment for the period regardless of what is happening to the members' income generating activities even when it is evident that they are struggling and may fall into arrears.

From the findings presented, rural microfinance beneficiaries understand the link between business performance and loan repayment. Thus people will be committed to repay their loans when their businesses are performing well. MFIs should therefore ensure that beneficiaries understand the value peer monitoring has to business performance in JLL. Group members should understand that through peer monitoring, members would work as a collective to ensure that all income generating activities within the group are performing well enough for each member to meet their respective instalment. In thus way the group would avoid defaults and all negative consequences that may follow. Effective peer monitoring is the basis of a successful JLL framework (Kritikos, 2008). MFIs should put measures within their organisations to periodically monitor the effectiveness of the groups' peer monitoring strategies to ensure improved repayment performance.

5.2.2.4 Suggestions on improving JLL repayment performance

This section analyses the perceptions and suggestions of the respondents (tabulated in table 3) on how JLL can be restructured to improve repayment performance. Firstly, beneficiaries indicated that repayments under JLL should be scheduled as individual instalments and each member should be required to effect his/her payment directly to the MFI. Although the loans are accessed under groups, each member should be responsible for her own loan repayment to reduce the chances of 'free riding' where members may deliberately default knowing that their colleagues will probably pay on their behalf. This however defeats the whole purpose of joint liability on which group lending is founded. The innovation of group lending lies in making the members jointly liable for the repayment of the loan to tap on the existing social capital of the community and use it as collateral for the loans (Kritikos, 2008). Group lending without joint responsibility for loan repayment therefore changes the whole concept of JLL.

Secondly the beneficiaries suggested that the sanction of property seizure in case of default should be stopped. The reason behind the suggestion

was that group members usually target property that the defaulter uses in his/her business venture such that seizing it takes him out of business and this accelerates his poverty further hence he fails to meet succeeding instalments. MFIs should put measures to help groups structure their sanctions strategically in a way that does do not handicap the defaulter's ability to continue with his business. If the group chooses to enforce property seizure as a sanction for default, it should be done in a way to ensure that the defaulting member will still be able to continue his business and generate income to pay off the arrears and also meet the succeeding instalments otherwise sanctions deter repayment performance instead of enhancing it (Ghatak and Guinnane, 1999). Ghatak and Guinnane (1999) further state that aggressive action in form of enforcing sanctions on default may rapture other social ties resulting in negative implications on repayment performance for the group.

The other suggestion is to ensure that people that defaulted and never finished repaying their loans from other MFIs should not be allowed into any group. The argument was that these perpetual defaulters will bring this attitude into the group and antagonise the commitment of other group members towards repayments. These people normally lead the group into default. Under JLL default by one group member provides an incentive for the other members to default even when they are capable and have always paid their instalments promptly (Paxton, *et al.*, 2000). Ghatak and Guinnane (1999) agree with this observation to say that an individual's credit history will probably indicate how he is going to behave in future borrowings as regards commitment to repayments. There is need for a coordinated communication system between MFIs in Malawi to be able to share information on the credit history of individuals to help in assessing people's creditworthiness before they are allowed to borrow under microfinance. This is however a national challenge in Malawi and also a concern even in the formal lending sector where lack of a structured credit bureau has extrapolated the already existing bad loan repayment culture in the country (Gardeva and Rhyne, 2011).

The beneficiaries further suggested that MFIs should help groups to enforce agreed sanctions or discipline members with political affiliations who take themselves to be above the laws of their groups in case of default. This is because group members do not have the authority (although they may have the mandate) to impose the necessary sanctions for fear of being prosecuted by the defaulters through their political connections and power. This antagonises the repayment system and throws the whole group into default unnecessarily. The observation is in line with the study by Wandonda consulting on microfinance and poverty

reduction in Malawi which states that politicising government microfinance interventions is one of the factors that have attributed to persisting high default rates in such lending schemes (Chirwa, 2002). MFIs should take serious steps to detach themselves from any political affiliations right from the conception stage. The government should not politicise such interventions and beneficiaries should have the same authority within their groups and nobody should be treated as above the law because of political affiliations. However, this can only be possible with the coordination of the ruling party, the government as an instrument of policy implementation and the MFI from the conception stage.

Finally beneficiaries suggested that borrowers should be monitored to ensure that they use the fund they borrowed from the MFI for the intended purpose indicated in their business plans. This was in reaction to the observation that a lot of people do not engage in the income generating activities they indicated but rather they use the money for other purposes like buying property and furniture. This obviously means they will struggle to repay their loans as they have no means of generating income. One of the reasons of high rates of default in microfinance in Malawi is that borrowers usually divert their loans to other purposes contrary to the business plans submitted to the MFI (Chiwa, 2002). This is where the importance of peer monitoring cannot be over emphasized. Through effective peer monitoring, members will be able to monitor business ventures of their fellows there by holding each other accountable for the loan to ensure that they operate their business ventures in a way that guarantees repayment (Kritikos, 2008).

5.2.2.5 Rewards and sanctions on repayment performance under JLL

Under this section the researcher analyses findings on the respondent's perceptions on the rewards and sanctions that exist under JLL as regards respective repayment performance. The analysis aims to help in understanding how rural microfinance beneficiaries view the importance of existing rewards and sanctions imposed by both the group and the MFI in enhancing repayment performance.

On sanctions imposed on default, the respondents indicated that the only sanction imposed by the MFI in case of the group's failure to honour repayments is to deny the whole group the privilege of repeat borrowing. Thus the group will not be allowed to borrow again from the MFI if their repayment performance was not satisfactory in the first session. The

general view from the respondents was that MARDEF is not concerned with exerting pressure on the group to ensure that loans are repaid but rather that responsibility is left to the group members in form of peer pressure. This is actually the basic framework of JLL in microfinance where the responsibility of the MFI is to oversee the functions of peer selection, peer monitoring and peer-pressure to ensure that the whole framework is efficient as regards repayments and desist from exerting pressure on the groups to honour repayments (Kritikos, 2008). An efficient JLL mechanism therefore does not require the MFI to chase for repayments from the group as it is a self-sustaining loan disbursement and repayment model (Paxton, *et al*., 2000).

Six of the respondents stated that property seizure is the only sanction that most groups impose on the defaulting members within the group. Only two of the respondents indicated that defaulters are subjected to village gossip which brings shame and embarrassment to the whole family as bad debtors. Chirwa (2002) agrees to this observation to say that property seizure is the most common discipline used by most groups in JLL in rural microfinance in Malawi to pressurize defaulters to honour their instalments. Ghatak and Guinnane (1999) explain this as an adaptation from earlier microfinance initiatives that have now been adopted as a norm in the rural microfinance sector where property seizure is seen as the best way to exercise peer pressure under JLL initiatives. However there is need for the beneficiaries to understand that sanctions in JLL are not imposed to punish defaulters per se but rather to positively pressurize them to honour their agreed instalments (Paxton, *et al.,* 2000). Property seizure should therefore be used with caution as a sanction for non-repayment as it may hinder progress in the defaulting member's business which defeats the whole purpose of sanctions on peer pressure under JLL. Beneficiaries should also be encouraged to be innovative and come up with different other suitable sanctions that may be used to positively pressurize defaulters to repay and not just to rely on property seizure without understanding the negative consequences on repayment performance.

The beneficiaries identified two principal rewards that are offered by MARDEF to members of the groups that have displayed a satisfactory performance in repaying their loans. Thus the group members can enjoy the benefits of repeat borrowing and increased loan amount on repeat borrowing. The promise of future credit is the most common reward that most microfinance initiatives operating on JLL offer to the beneficiaries to enhance repayment performance (Sengupta and Aubuchon, 2008). On the other hand, all respondents indicated that there are no clear benefits

offered by the group to members displaying outstanding repayment performance on their individual loans.

The study also reveals situations in which beneficiaries are compelled to default despite facing possible sanctions from their groups. The first issue that came out of the study on this theme is the persistence of social problems in beneficiaries' everyday lives. The respondents referred to problems like illnesses and funerals of family members, school fees and other requirements for school going children, food and other immediate needs that cannot be put on hold. Thus beneficiaries would rather use the income they get from their businesses to solve these immediate problems and default on their loan instalments even when they face possible sanctions in whatever form. Most rural small business men operate from hand to mouth such that they do not have savings set aside for eventualities and any problem that surfaces in their social lives demanding money will put a strain on their cash flow (Magner, 2007). MFIs should take steps to encourage beneficiaries to save part of the income from their businesses to ensure that social problems do not put a strain on loan repayments as they can be resolved by falling back on the savings accumulated. This follows the concept behind village banks which encourage the culture of saving for rural people to ensure a safety net in case of eventualities (Develtere and Huybrechts, 2005).

The second issue outstanding from the study refers to the failure by the group members to impose the necessary sanctions on defaulting members. The respondents indicated that some members have political affiliations and as such they are perceived as untouchables in as much as group rules and regulations are concerned. They use their political authority to instil fear in other group members and they know that sanctions would never be imposed on them even if they default. Politicising government microfinance interventions has harmed the industry in as much as repayments are concerned (Simtowe, 2008). Further, most group members are closely related such that it becomes difficult to fairly impose sanctions when they default. These people also take advantage of this knowing that they will get away with default and no sanctions will be imposed on them. Van Bastelaer and Leathers (2006) and Ghatak and Guinnane (1999) agree that although close relations in members of the same group under JLL ensure strong ties and social cohesion among group members, there is a risk of being too soft on each other when it comes to enforcing discipline and this may negatively impact repayment performance.

Ideally the sanctions are there on paper and default still persists because people know they can get away with it for the reasons alluded above. That is why default still persists even when people know well that they face possible sanctions. This questions the efficiency of existing sanctions in enhancing repayment performance in JLL rural microfinance in Malawi. MFIs should assist beneficiaries to strengthen their authority and be able to discipline whoever has defaulted regardless of their position outside the group or their relations within the group. This is where the question of strong leadership in group lending becomes important. Hermes and Lensink (2007) state that strong group leadership is pertinent in JLL to ensure that discipline is instilled in the group and that the group works as a team towards repaying their loans and uplifting their lives.

The other issue worth pointing out is about the sanction from the MFI to the group regarding no access to repeat borrowing. The respondents indicated that this does not encourage repayment at all because it is largely perceived as surreal by most beneficiaries. Thus beneficiaries are not confident of the sustainability of MARDEF as a microfinance intervention and are therefore not enticed by the aspect of repeat borrowing which in their views may not be available anyway. This is a persisting problem in rural microfinance in Malawi where government interventions are perceived as unsustainable and can be stopped anytime due to changes in the political arena affecting policy prioritisation (Chirwa, 2002). This relates to the problems of politicising government microfinance interventions discussed herein such that the intervention is now perceived as belonging to a particular political party. There is need for serious strategies to be developed on how to detach politics from government microfinance and also change the existing perception in rural beneficiaries on the distinction of the entities for the rewards and sanctions to be meaningful in enhancing repayment performance.

5.2.2.6 Existing sanctions and suggestions of effective sanctions in JLL

Under this section the researcher analyses personal experiences of the respondents who have at some point defaulted on their individual instalments and how the other group members handled the issue as regards enforcing group sanctions. This will help in understanding whether group sanctions are really enforced and how the process was effective (if at all) in ensuring that defaulters become committed to pay off the arrears and also future instalments. The analysis further looks at the suggestions

that were made by respondents on the effective sanctions that can be incorporated in JLL in microfinance to enhance loan repayments.

One of the respondents indicated that when he defaulted, the other group members seized his livestock like chickens and goats which were sold to cover his arrears. This left the defaulting member angry at the leaders of the group and he described this as unfair since in other groups people can default but they do not face similar treatment. This is evidence that some groups are really enforcing sanctions when there is a case of default, whether there is consistency in enforcing the sanctions to all members within the group is another question. However beneficiaries should understand that each group creates its own rules and regulations that guide the group's functions which may be different from how other groups manage their activities. In JLL groups are left to create their own constitutions which guide the management of the group's functions and this may be different from how other groups are managed (Sharma and Zeller, 1997). This will ensure that defaulting members understand the fairness of the sanctions imposed on them and prevents the negative perceptions that generate from this experience which may otherwise deter further repayments. Needless to say, the revelation exposes the negative implications of seizing property on default in JLL which is emphasized by Paxton, *et al.,* (2000) in their literature on modelling group loan repayment behaviour.

Another respondent indicated that after default, the group members did not enforce the sanction of property seizure although it is in the group's constitution. Rather, the members agreed to pay on behalf of the defaulter and he is slowly paying back the arrears. However, he expressed worry in that the whole community knows about the default and people gossip about it even at community gatherings and this disturbs him. This experience indicates that some groups do not follow the constitution in enforcing discipline on defaulting members resorting to other means of handling the issue on case to case basis (Paxton, *et al.,* 2000). Hermes and Lensink (2007) in their study on group lending found that most groups that displayed consistently high repayment rates had strong leaders that ensured that the constitution of the group is followed and applied where necessary without bias. Further, rural microfinance beneficiaries value their dignity in the society and would not want people to gossip about them as defaulters as this is perceived as embarrassing. In Bangladesh, one of the aspects that enhance repayments in JLL is the existence of strong societal ties and the value placed on status in the society which makes them perceive bad debtors as outcasts (Sengupta and Aubuchon, 2008). Although the findings of this study indicate a similar situation in Malawi,

the reality on the ground is different. The bad loan repayment culture in rural microfinance indicates that people are not at all embarrassed to be labelled as bad debtors in the society as it is a common behaviour in most microfinance beneficiaries (Manda, *et al*., 2011).

Three other respondents indicated that there were no sanctions imposed on them when they defaulted with various perceptions on why it was like that and how they felt about it. The first one indicated that other people in the group default but no sanctions are imposed on them so his case is not different. The group is consequently in arrears with MARDEF which will be settled whenever the members can. This is a typical case where JLL has failed in rural microfinance in Malawi as a result of mere lack of commitment by the beneficiaries to repay their loans. MAMN (2012) states that people in Malawi have a general attitude of not being responsible to repay what they owe which may be a result of heavy reliance on hand outs especially in the rural communities.

This is connected to the response from the other respondent who stated that the group had no authority to enforce sanctions on him after default because the money he borrowed belongs to the government and not to any one of the members. He would therefore not allow anyone to take his property for failing to pay government's money after all most people in the group are defaulting as well. This emphasizes the perception that beneficiaries have towards government microfinance interventions as donations or hand outs that are to be repaid if you can and not as a requirement (Kalanda, 2006). This is more reason for MFIs and the government to collaborate and put strategies in place to change people's perception towards government microfinance and ensure that these MFIs are viewed as independent of the government just like private MFIs.

Another respondent indicated that the chairlady and treasurer of the group are his close relations such that they cannot initiate any sanctions on him for default. Although relations strengthen group cohesion, they may be detrimental when it comes to enforcing disciplinary measures especially in case of default (Van Bastelaer and Leathers, 2006). Close relationships among group members destroy seriousness in JLL groups when enforcing necessary sanctions and this may have a negative impact on the group's repayment performance (Kritikos, 2008).There is need to regulate the number of people related in one group during group formation to ensure a systematic balance of group members that will work closely as a team but at the same time ensure efficiency and effectiveness in applying the group's constitution.

To reward outstanding repayment performance for the group, the respondents suggested that MFIs should offer lower interest rates and longer repayment periods on repeat borrowing. The rationale is to reduce the instalment payable for the loan repayment period in order to ease the beneficiaries' cash flow and stress accompanying the benefit of increased loan amounts on repeat borrowing. Offering borrowers the benefit of reduced interest rates on repeat borrowing upon successful repayment of initial loan encourages group members to be committed to loan repayments (Sengupta and Aubuchon, 2008).

The other suggestion was that the groups should consider recognising individuals who have shown outstanding repayment performance on their loans by throwing a party or a similar function in their honour. Another suggestion was that group members should contribute money and buy a present for the individuals that are consistent in paying their instalments. This indicates that societies in the rural areas value recognition as a reward for outstanding repayment performance. Van Bastelaer and Leathers (2006), state that societal values inform perceptions and behaviour of people in a community as regards group lending. Thus MFIs can capitalise on the value that rural microfinance beneficiaries place on mere recognition for their repayment performance to encourage or enhance loan repayment in general. Rural MFIs should assist groups develop strategies of recognising individual repayment performance in line with the standards and norms valued by people in the community or society.

On sanctions that MFIs should impose on the group in case of default, the respondents suggested that the names of the members of the defaulting group should be communicated to other MFIs operating in the area. The defaulters would therefore have problems to leave their outstanding loans and jump onto another microfinance institution as their bad credit history would follow them. Lack of shared information on beneficiaries' credit history has accelerated the bad loan repayment culture in rural microfinance in Malawi (Gardeva and Rhyne, 2011).

Another sanction suggested by respondents is for MFIs to liase with the ministry of agriculture and responsible authorities to deny defaulters from access to fertilizer and seed subsidy for the year. The respondents indicated that this will definitely push beneficiaries to put more efforts to repay their loans as almost everyone in the community value the subsidies for food security. Although the feasibility and logistics of implementing the suggested sanctions may be complicated, there is need to understand the issues that are valued by the people and how these can be incorporated in

structuring microfinance initiatives to come up with rewards and sanctions to enhance repayments.

On sanctions that may be imposed by the group to defaulting individuals, respondents suggested that the defaulters should be referred to the village headman and should appear at the traditional court to answer the charges. This will definitely embarrass the defaulters and their families and would deter any potential defaulters. This shows that people in these rural communities value their dignity and would not want to be embarrassed in their societies for loan default. This agrees with the observation by Ghatak and Guinnane (1999) that the peer mechanism in JLL is efficient in strong societies where people live as a unit and social ties are valued. MFIs should therefore capitalise on this value of social ties and research on strategies through which this can be incorporated in the reward and sanction mechanism of JLL to enhance repayment.

Further the respondents indicated that if other group members paid the period's instalments on behalf of the defaulter, interest should be charged and be incorporated in the amount that the defaulter needs to pay back. Respondents insisted that the increased amount that the defaulter will need to pay back to the members who paid on his behalf will definitely deter potential defaulters. However, the legality of such a mechanism allowing beneficiaries to charge interest on each other should be scrutinized before the suggestion can be incorporated in rural microfinance, in line with the microfinance policy of Malawi.

5.2.3 Group dynamics under JLL

Under this theme the researcher discusses the findings on respondents' perceptions on group dynamics and the effects they have on loan repayment performance in JLL. The discussion focuses on common issues that cause disputes among group members, how the issues are resolved in most cases, dynamics in group formation and how all this affects individual and group loan repayment performance. Further, the researcher analyses the respondents' suggestions on effective group formation criteria that may be considered to ensure less disputes among members and hence more co-operation towards loan repayments.

5.2.3.1 Dispute management and repayment performance

The first issue that the respondents referred to as causing disputes among group members was in connection with loan repayments. Default by an individual usually causes divisions among group members as some people would like to enforce the relevant sanctions without following proper procedures while others would want to slacken the rules and exempt the defaulting member from the sanctions. As a result there are divisions and conflicts as members are forced to take sides on what course of action to take. This is usually because procedures of enforcing discipline are not consistently followed and each case is handled differently. There is need for strong leadership in the groups to ensure consistent adherence to group procedures to avoid these conflicts that usually affect loan repayments negatively. Strong leadership is an important attribute in groups under JLL to ensure that people understand the group rules and how they apply in different circumstances (Hermes and Lensink, 2007).

The second scenario which culminates to disputes in the group is where members lend each other money or other items outside the jurisdiction of the group in their capacity as friends. When they fail to honour their agreements there are usually disputes which then filter into the group calling for intervention and this causes conflicts among the other group members as well. If members are fighting even on issues that do not concern the group, it affects the operations of the group regarding the peer mechanism and this may affect repayment performance (Kritikos, 2008).

There is need for group leaders to be trained in team leadership skills to ensure that they are better equipped to handle these disputes so as not to affect the operations of the group and hence repayments. Leaders should be able to understand that group members also interact with each other in their daily lives as members of the community and conflicts outside the group need to be handled professionally as they have a great bearing on the group's operations. MFIs should incorporate leadership skills development into the training programmes offered to beneficiaries. Gossiping among group members is also another issue that respondents alluded to as generally causing disputes among group members. This relates to the issue above where conflicts among members in their daily lives affect operations of the group.

On the channels of resolving the conflicts, three respondents indicated that the group executive (the chairman, secretary and treasurer) intervene to mediate between the concerned parties. Four respondents indicated

that sometimes conflicts are channelled through the community leadership thus traditional courts and family elders depending on the issue. However one respondent stated that there are no clear channels followed and issues are handled on 'as is' basis on how or who is to be involved in resolving the conflict. This indicates that there are no proper procedures on channels to be followed to resolve conflicts and cases are treated differently and this may be a source of impartiality and presumed unfairness. MFIs should realise the important part community leadership plays in resolving conflicts among group members. Community leaders are an integral part of JLL as they are figures of authority and influence decisions of people in their community (Van Bastelaer and Leathers, 2006). MFIs should therefore work towards sensitising community leaders on functions of the group so that they are able to make informed and fair decisions when resolving conflicts among group members.

All respondents agreed that disputes among group members, whether concerning the group directly or indirectly negatively affect both individual and group repayment performance. If some members of the group are in conflict, they will not be able to work together and operations of the group generally suffer. The concept of peer mechanism draws on the close social ties of people to strengthen the social capital on which it is founded to ensure its effectiveness in JLL (Ghatak and Guinnane, 1999). Disputes among group members weaken these social ties and this disrupts operations of the group and may have a negative effect on overall group performance. Team work is therefore an important aspect in JLL groups to enhance loan repayment performance. MFIs should assist groups to have strategies for building strong teams that will be able to work through conflicts and disputes and still manage to focus on the common objectives of the group. Sharma and Zeller (1997) agree that team work forms a basis of effective coordination which is essential in guiding the group's efforts towards set goals and objectives.

The analysis also looks at the suggestions made by the respondents on effective measures of resolving disputes among members to reduce the negative impact on repayment performance. The first suggestion that that came out from the respondents regarding effective measures of handling disputes effectively so as not to affect repayment performance is the formation of a dispute settling tribunal. The tribunal would comprise one member from each of the groups benefitting from the same MFI and it would mediate over all disputes between group members that are not directly concerning the respective group. This would ensure fairness and impartiality in resolving disputes and will avoid members of the same group taking sides in resolving conflicts which accelerates disagreements.

The rationale is that members of the tribunal will be able to understand and relate to the disputes presented to them and will therefore ensure that the conflicts are resolved so as not to negatively affect group objectives under JLL. This is relates to the study of Karnani (2007) which allude that under JLL, groups should not work in isolation but rather should coordinate with other groups to work together and share ideas on best practices to ensure smooth operations.

The other suggestion was that groups should involve religious and church leaders in resolving disputes among members since these are respected figures in the community with authority and hence people would respect their judgment. MFIs should therefore recognise the role of community leaders and take deliberate steps to capitalise on this social attribute and incorporate community leaders into the conflict management structure of the groups under JLL.

5.2.3.2 JLL group formation and loan repayments

Under this section the researcher analyses the respondent's perceptions on whether the group formation process and the composition of group members have a bearing on the disputes and conflicts occurring in a particular group. The discussion will help in understanding whether beneficiaries think there are specific group members who perpetually cause disagreements among group members and how these were allowed into the group during group formation and whether there would be more coordination if these people were not part of the group.

All members agreed that some group members are notorious of causing conflicts in their groups and without them there would be lesser disagreements among the other group members. People with political affiliations were the most referred to as causing disputes in their respective groups. The respondents indicated that these politicians regard themselves above the law and it is difficult to subject them to any discipline measures where applicable and this attitude disrupts the operations of the group. This probably stems from the underlying problem referred to earlier on of politicizing government's microfinance interventions to the extent that people cannot separate the MFI from the ruling political party (MAMN, 2012). There is need to sensitize all beneficiaries and the whole community of the demarcation between the government, the political party and the MFI being the instrument used to implement microfinance initiatives. The respondents further stated that these politicians are not necessarily incorporated into the group through

peer selection but rather they use their political authority to impose themselves on whichever group they want. This clearly indicates that the aspect of peer selection under JLL is defective in rural microfinance in Malawi. In peer selection, people select each other to form a group and all members must have cordially agreed on the composition of the group membership (Kritikos, 2008).

The pioneers of the group were also mentioned as causing most disputes among group members. These are people who initiated group formation and went on a campaign to recruit fellow members and they usually hold leadership positions like chairman, treasurer and secretary. They have a sense of ownership for the group and feel like they can do as they please without being disciplined and this normally causes conflicts. On a similar note, those members related to these pioneers also feel immune to discipline by virtue of their relationships to the group leaders and this is also a source of conflicts in the group. There is need to revisit group formation structures that are in place as they do not clearly conform to the concept of peer selection. Beneficiaries should also understand that in JLL all members are jointly and severally liable for loan repayment (Magner, 2007). All members should therefore participate equally in all group decisions to ensure that the loan is paid off as required and this includes decisions on group formation and discipline procedures.

From the findings presented, the respondents further suggested group selection criteria that may be considered when forming JLL groups to ensure strong cohesion among group members and hence less conflicts. The first suggestion was that group members should avoid incorporating people with strong political affiliations into their groups. If possible, these people should form their own groups where they will have equal authority and no one will feel above the law. This attribute in the members indicate people's concern to strengthen the peer selection aspect in JLL to ensure groups that are able to work together effectively to enhance loan repayment performance.

The respondents also suggested that each group should not have more than two people that are closely related to any of the group leaders. Although relations among group members strengthen social ties and group cohesion, literature indicates that this is sometimes disastrous to group operations especially when it comes to enforcing discipline measures related to default (Van Bastelaer and Leathers, 2006). There is need to balance the need for relations among members in a way that does not compromise the effectiveness of the group in enforcing discipline measures where necessary.

The other suggestion was that village gossipers and people who are known to be bad debtors should not be allowed into any group. These people infiltrate the group with their bad behaviour and may cause various conflicts and disputes among group members which may negatively affect repayment performance. This also emphasizes the need for strong peer selection structures to be put in place to ensure that only those people that can comfortably work together are in the same group. There is need to sensitize potential beneficiaries on the implication of group formation and peer selection measures on the operations of the formed group and equally on loan repayment performance.

Lastly respondents suggested that each member in the group should be involved in a different income generating activity. This is to avoid feelings of jealousy and envy which normally exist when people have similar businesses and one is doing very well while the others are struggling, and this may bring resentments which may brew conflicts in the group. This suggestion agrees with what Sharma and Zeller (1997) say that a diverse spread of income generating activities within a group helps mitigate risks that may exist in the environment relating to one particular type of business, for example price fluctuations relating to the existence of a substitute commodity. On the other hand, Kritikos (2008) indicates that group members that engage in the same type of business under JLL are able to assist each other with best practices to ensure that each of them is progressing well in the business to boost the group's repayment performance.

The researcher understands the merit in the different schools of thought presented above on the spread of income generating activities in JLL groups and repayment performance. A 50-50 balance of income generating activities within any group may therefore be advisable to improve the efficiency of group operations and consequently enhance both individual and group repayment performance.

5.3 Summary of analysis of findings

This section analyses data collected from the study regarding the perceptions of rural microfinance beneficiaries on JLL and loan repayments. The discussion was based on two main themes which were further divided into sub categories according to how beneficiaries view different aspect of JLL and loan repayments.

Firstly the researcher analyses the demographic profiles of the respondents to enable a better understanding of the attributes characterizing the study sample. From the findings, more rural microfinance beneficiaries are found to be female as opposed to male and the concentration is within the ages between 25 to 35 years old. The analysis further outlines the beneficiaries' lack of understanding of the basic principles underlying the concept of JLL and its peer mechanism. Thus the beneficiaries' understanding of JLL is narrow and solely focused on peer pressure in loan repayments ignoring the other principles of peer selection and monitoring.

Another issue highlighted in the analysis is most beneficiaries do not understand the link between JLL, peer mechanism and repayment performance. Rather, the perception is that performance in loan repayment is a factor of business performance regardless of whether the loan was accessed under JLL or not. The chapter also discusses the beneficiaries' suggestions on how JLL can be structured in rural microfinance in Malawi to effectively enhance repayment performance in the absence of physical security from the borrowers.

Property seizure comes out from the findings as the most common sanction imposed by the group members in cases of individual instalment default. However, most beneficiaries do not regard this sanction as effective in ensuring that people honour their scheduled instalments, rather it is perceived negatively as unfair and detrimental towards the overall performance of the group.

From the analysis, disputes among members within and across groups have a negative impact on overall individual and group repayment performance. Emphasis was therefore placed on the need for effective dispute management processes that will enable conflicts to be resolved amicably without negatively affecting loan repayments. Another outstanding issue under this section was how the process of peer selection in group formation under JLL in rural microfinance in Malawi has a lot of loopholes resulting in groups. The analysis therefore emphasizes on the need for MFIs to ensure that peer selection is understood and followed to breed strong cohesion and team work among members to work together towards enhancing loan repayment performance.

CHAPTER SIX

CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

Malawi is a developing country with high levels of poverty especially in the rural areas. The government of Malawi adopted the concept of rural microfinance as a tool of eradicating poverty to economically empower the rural impoverished masses by facilitating income generating activities. Further, the government incorporated the Grameen's JLL microfinance model into its microfinance initiatives to ensure that rural microfinance beneficiaries repay their loans efficiently even in the absence of physical collateral. However, JLL has done little to enhance repayment performance in government rural microfinance schemes in Malawi and most such schemes are faced by low repayment levels that actually threaten their existence as revolving funds. Overall, JLL which has been adopted as a wholesale into government rural microfinance in Malawi has not presented significant results in enhancing repayment performance as it has in other countries like Bangladesh.

The purpose of this research was to explore the perceptions of rural microfinance beneficiaries in Malawi as regards JLL and individual as well as group loan repayment performance. The study was designed to find out how beneficiaries (especially those benefiting from government microfinance interventions) view JLL as a lending mechanism, its value and significance in enhancing overall repayment performance in rural microfinance. The study aimed at understanding the end users' perception of JLL to get an insight on why the concept may not have been as efficient in enhancing repayment performance in Malawi as it has in other developing countries with similar lending mechanisms. The government and other rural microfinance providers can utilize findings from the research to come up with strategies on how they can incorporate and adapt this information in structuring JLL microfinance initiatives in line with the social context of rural Malawian communities. The research was a qualitative study designed in an exploratory manner and was carried out in Bvumbwe area of Thyolo district in Malawi on a carefully selected purposive sample from a pool of MARDEF beneficiaries.

Apart from concluding the research, this chapter will further outline the researcher's recommendations on the factors that can be incorporated in rural microfinance initiatives by the government and other institutions. The objective is to suggest how JLL may be utilised effectively to enhance repayment performance for both individuals and their respective groups in rural microfinance. The recommendations will be based on the analysis of the findings on the three main themes and research questions that guided the study.

6.2 Conclusions

This chapter presents overall conclusions drawn from the study based on the research findings and also capitalising on the researcher's analysis of the data as presented in chapters four and five.

6.2.1 The value of JLL in microfinance loan repayments

From the findings, it is noted that rural microfinance beneficiaries in Malawi do not have a clear understanding of JLL as a lending concept and the peer mechanism on which it is founded. Most beneficiaries perceive JLL as a mere mechanism for MFIs to easily track bad debtors using the relationships existing among group members who are also members of the same community. Thus the significance of the three principles of peer selection, peer monitoring and peer pressure on the basis of which JLL is founded is lost in the perceptions of these rural microfinance beneficiaries. If beneficiaries do not understand the concept of JLL and its purpose in microfinance, it will be difficult for them to properly enforce its basic principles (under peer mechanism) in their respective groups which are incorporated under JLL to enhance loan repayment performance.

Further, most rural microfinance beneficiaries do not appreciate the significance of JLL as a lending mechanism and its role in enhancing microfinance loan repayments. From the findings, JLL is generally perceived as an illogical bureaucratic system that complicates the loan disbursement and repayment procedures in microfinance. Further beneficiaries view JLL as an 'inhumane' lending system which is cruel. This is based on how most groups react to default by a group member by imposing the most popular sanction which is property seizure. The whole significance and purpose of JLL as a mechanism of enhancing loan repayment performance is therefore lost and overshadowed by negative

perceptions related to administration of the peer mechanism. This is a consequence of beneficiaries' lack of understanding of what the whole concept of JLL really is, and also its purpose and value in microfinance as a means of ensuring that people repay their loans even in the absence of physical collateral.

The findings indicate that commitment to loan repayment in rural microfinance is a function of both business performance and peer pressure. Half of the beneficiaries would honour their loan payments even under individual lending as long as their businesses are performing well while the other half honour their instalments under JLL for fear of possible sanctions on default from the group members, most commonly property seizure. Thus both peer pressure and peer monitoring are regarded as important aspects to enhance repayment performance in JLL in rural microfinance in Malawi. However, the findings imply that the peer monitoring function is under rated in most cases and beneficiaries do not really understand the relationship between this and repayment performance. There are no proper strategies for most groups to monitor business ventures of the members to ensure that income sustains repayments.

6.2.2 Structuring an effective JLL scheme

The study has highlighted suggestions that rural microfinance beneficiaries perceive as important to be considered when structuring JLL schemes in order to improve repayment performance. The outstanding issue was that property seizure as a sanction on default should be administered with caution and proper procedures as it accelerates poverty which impedes further repayments. Assessing the credit history of a borrower was also another issue that was stated as crucial to avoid acceleration of the bad loan repayment culture in microfinance. Further MFIs should strategize on how to separate the current interface between politics and government microfinance schemes as this negatively affects loan repayment performance from different angles. Lastly, there is need for proper monitoring mechanisms to ensure that beneficiaries actually use the loans for the intended purpose as outlined in their respective application forms.

6.2.3 Sanctions and rewards in JLL

The beneficiaries suggested that MFIs should offer longer repayment periods and lower interest rates on repeat borrowing to encourage repayment performance. Further the credit history of defaulters should be shared with other MFIs and also other organisations like the Ministry of Agriculture to ensure that defaulters do not access further loans and other privileges like the fertilizer and seed subsidies. On the other hand, groups were encouraged to refer cases of individual default to traditional courts ran by the village headman as this will force people to pay to avoid the shame. The findings also indicated that beneficiaries value recognition from their fellow group members for outstanding performance and this can be in form of presents from the groups and organising small functions in their honour.

The study revealed that in most cases default still persists among beneficiaries despite facing possible sanctions both from the MFI as a group and from the respective groups as individuals. Social problems in beneficiaries' everyday lives and failure of the groups in other cases to enforce necessary sanctions were indicated as some of the reasons for the persisting default. As such beneficiaries did not see the significance of existing sanctions in enhancing repayment. The study revealed that most beneficiaries have defaulted before but no sanctions were imposed on them for various reasons. This indicates that sanctions generally exist on paper and in some cases they are not actually enforced and this encourages people to default.

6.2.4 Group dynamics under JLL

Beneficiaries perceive that disputes among group members, even on issues not directly related to the group cause conflicts that negatively affect repayment performance for the whole group. Conflicts among individuals in the group cause disagreements that lower the level of cohesion and social ties among group members and this is detrimental to repayment performance. Further, the study reveals that there are no clear channels of resolving conflicts in most groups and cases are handled on as is basis and this brings inconsistence which usually worsens the situation. Strong leadership was identified as a pre-requisite for effective conflict resolution to ensure that group operations and repayment performance are not affected in a negative way.

The study suggests the formation of a dispute settling tribunal comprising of members from all the groups that have borrowed from the MFI within the same community. Thus the tribunal will preside over and mediate on conflicts among members from all the groups concerned for homogeneity and uniformity in resolving conflicts among beneficiaries within and across groups. Further, religious leaders were also recognised as important instruments to be incorporated in dispute handling procedures.

Further, rural microfinance beneficiaries perceive that there are members that are notorious of causing disputes within their respective groups. People with strong political affiliations and those that are related to the leaders of the group are perceived as the ones that mostly cause disagreements and conflicts in the group as they usually are culprits of default. The beneficiaries therefore suggested that people with strong political affiliations should not be allowed to join any group and also that each group should not have more than two members that are related as they end up forming a power pocket within the group. Further, a balance of income generating activities operated by members of one group is perceived as important to balance the aspect of peer monitoring at the same time reducing the risk of being affected by environmental factors that target homogeneous business ventures.

The results from this research indicate that generally rural microfinance beneficiaries do not have a proper understanding of the underlying concepts of JLL being peer selection, monitoring and pressure and this distorts their perception and behaviour as regards JLL loan repayments. The study concludes that this lack of understanding stems from inadequate training and education offered to the beneficiaries before they access the loans. As such they do not fully understand what JLL is and how the peer mechanism is applied to enhance loan repayments. Further, politicizing government microfinance initiatives has led to a misconception of JLL in microfinance with negative consequences on loan repayment performance.

6.3 Recommendations

This section presents the researcher's recommendations on factors that may be considered in structuring and administering rural microfinance JLL schemes, especially those initiated by the government in order to enhance overall repayment performance. The recommendations are based on the findings from the study and the researcher's analysis of the findings in relation to the study topic.

6.3.1 Training

There is need for MFIs to incorporate training on leadership knowledge and skills in the pre-disbursement business management training courses that beneficiaries undergo before accessing their loans. This will equip group leaders with necessary skills to manage group operations effectively and efficiently in a way that directs the group's efforts towards achieving set objectives. Strong and focused leaders will ensure that disputes are resolved in a consistent and professional manner that promotes group cohesion and collective effort in achieving and maintaining high repayment performance. Group regulations and procedures on default will also be handled professionally and consistently and this will lessen conflicts among group members.

Further the pre-disbursement training should incorporate educating beneficiaries on the concept of JLL as lending mechanism in microfinance. The beneficiaries need to have a clear understanding of the principles that underline JLL in as much as the peer mechanism is concerned. Understanding the purpose behind the principles of peer selection, peer monitoring and peer pressure will ensure that beneficiaries make informed decisions as early as in group selection stage as they would understand the implication of their decisions towards the group dynamics among members and loan repayment performance. Beneficiaries would also be committed towards peer monitoring as they would understand the correlation with repayment performance.

Group leaders should also be trained and encouraged to promote teamwork within their groups to ensure strong cohesion among group members. MFIs need to take a leading role to assist group leaders formulate and implement strategies that will help group members understand each other better to build a strong team that that will work together towards achieving team goals such as loan repayments. Group leaders should take the responsibility to organise team building functions outside the normal activities of the group such as informal meetings and parties, helping each other at funerals, weddings and in illnesses to develop team spirit among group members. Team building activities can also be extended to members of other groups in the same community to build a strong social capital base not only for the group but for the community at large.

6.3.2 Dispute management

As revealed in the findings of the study, disputes among beneficiaries present one of the aspects that negatively affects repayment performance.

The study respondents outlined the formation of a dispute handling tribunal as one of the ways through which conflict resolution can be handled professionally and efficiently to avoid negative implications loan repayments. MFIs should draw on these perceptions from the beneficiaries and facilitate the formation of such. The tribunal will be an informal structure not affiliated to any group with representation from all groups within the community such that a substantial level of impartiality is guaranteed. Thus all disputes that cannot be resolved by the group members themselves may be referred to the tribunal for mediation. The advantage is that members of the tribunal will be beneficiaries themselves and will mediate in an objective and impartial manner focused on the group objectives in line with repayment performance.

There is need to acknowledge the role that community leaders like traditional village headmen, church and religious leaders and family heads have in resolving disputes among beneficiaries within and across the groups. Most of the disputes among beneficiaries that do not directly involve issues of the group are referred to these community leaders who mediate in their own knowledge, experience and capacity. MFIs should take deliberate steps to create awareness of the dynamics of JLL, its purpose and objectives to these leaders. The idea is to enable them have an understanding of how to resolve the disputes among beneficiaries without jeopardising overall repayment performance and achievement of group goals. Community leaders are accorded a certain level of respect in rural areas and MFIs should capitalise on this to develop strong cohesion within and between groups to enhance loan repayments.

6.3.3 Politics and JLL

Politicising government microfinance initiatives has destroyed the general conception of JLL in rural microfinance initiatives in Malawi. There is need for MFIs to formulate proper strategies of separating politics from government microfinance schemes right from the inception stage when the scheme is being structured. The management of the MFIs should collaborate with politicians both at the community, regional and national levels and also the policy making instruments in the government offices to ensure that the microfinance scheme is not politicised and used as a tool of political campaigns. Further, those people with political affiliations in the community that need to join groups and borrow under the scheme should be sensitised on the difference between operations of their political parties and the microfinance initiative. This will ensure that they do not infuse their

political authority into whichever groups they join to destruct loan repayments and discipline procedures.

6.3.4 Rewards and sanctions under JLL

Group leaders should be encouraged to initiate formulation of systems of rewarding satisfactory individual performance according to the values of the group members. This will develop another angle of encouraging loan repayments to boost group performance. Further, MFIs should consider incorporating other reward strategies like lower interest rates and longer repayment periods on repeat borrowing as highlighted by the findings from the research.

Group members should also be helped to understand that property seizure is not the only sanction that can be imposed on default by an individual. Although this is the common sanction in rural microfinance in Malawi, the study has revealed that beneficiaries have negative perceptions against it perceiving it as impeding the members' efforts to continue business and honour further instalments when due. Thus property seizure is perceived to have negative perception on the overall objective of JLL which is poverty alleviation. Group leaders should work together with their fellow members to develop other systems of imposing sanctions (as a way of exerting pressure on defaulters) that will be accepted as viable and progressive by all members concerned and these should be incorporated in the group's constitution.

6.3.5 Further research

Because of time limitations, the research was conducted on a narrow perspective such that findings may not be representative of the perceptions of the whole population of rural microfinance beneficiaries regarding JLL. There is need to diversify the research into other rural areas of the northern and southern regions of the nation to capture more representative perceptions on JLL and repayment performance.

Further research should also be considered on the cultural values and beliefs that inform the behaviour of rural microfinance beneficiaries in loan repayment and group dynamics. This will complement the current research and provide a holistic understanding of how JLL can be adapted into rural microfinance in Malawi to effectively enhance loan repayments and achieve high repayment performance and sustainability in the long run.

The researcher also recommends further research on what really informs the bad loan repayment culture in rural microfinance in Malawi. This will enable authorities to develop strategies to reverse the culture if possible to ensure that revolving credit microfinance initiatives create a rippling effect of poverty alleviation through sustainably high overall repayment performance.

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APPENDICES

APPENDIX A : INTERVIEW QUESTIONNAIRE

Interview questionnaire for MARDEF loan beneficiaries in Bvumbwe area of Thyolo district in Malawi.

This questionnaire has been designed to explore the perceptions of MARDEF beneficiaries of Bvumbwe, Thyolo district in Malawi regarding the concept of JLL and its effects on rural microfinance loan repayments. Information from the research will assist rural microfinance providers in the country, especially the government to effectively adapt JLL, incorporating rural people's social and cultural values and understanding to ensure its effectiveness in enhancing loan repayments.

A. Profile of respondent

Name	Age	Sex	Group Name	No. of group members

1. Loan amount (individual):……(group):……Date accessed:……...
2. Loan repayment period (months)……...……
3. First repayment due……last repayment due……
4. Instalment amount (individual): ……(group):…….
5. Repayment status (if in default, by how many instalments?);

   Group……...Individual…….
6. Type of income generating activity……
7. Average profit per month…….

B. Respondent's perception of JLL and its purpose in microfinance

1. How do you understand the concept of borrowing in groups and how does it work?
2. Do you think JLL is important in microfinance? Why?
3. If you had accessed the loan as an individual, would you be similarly committed to your repayments as under JLL? Please explain why.
4. If one group member is struggling with his business and failing to honour his instalments, how do the other members support him (if at all) to ensure that group repayments are up to date?
5. What changes would you recommend in structuring group loans to improve individual and group repayment performance?

C. Respondent's perception on group and/or individual sanctions or rewards and, how this affects repayment performance

1. Are there any sanctions imposed by MARDEF on the group or by the group on individual members in case of any default in repayment? If yes, what are they?
2. Are there any rewards offered by MARDEF to the group or by the group to individual members to encourage repayments? If yes, what are they?
3. In your opinion, what other sanctions/rewards should either MARDEF or the group put in place to discourage default and encourage repayments respectively?
4. Explain, in your opinion, why people may still be compelled to default despite facing possible sanctions from the group or MARDEF as described above.
5. Have you ever defaulted payment as an individual?
    - If yes, which sanctions did the group impose on you and how did that make you feel?

- If no, do you think the group would actually impose the described sanctions on you if you defaulted? Explain

6. In the absence of these sanctions and rewards, do you think group members would still be committed to honour their individual instalments?

D. Respondent's perception on problems from group dynamics and how they affect group or individual repayment.

1. What are the most common issues that lead to disagreements among your group members and how does the group resolve such issues?

2. Do the disagreements explained in (1) in any way affect performance of either individual or group loan repayment? Explain.

3. In your opinion, what measures should the group put in place to ensure that the disagreements explained above are altogether avoided or resolved in a way that does not have negative effects on individual or group repayment performance?

4. Do you think the group would disagree less if some members were not part of it? If yes, how did these particular people become members and is there a way they can be removed from the group?

5. If you were to form another group, what criteria would you use to ensure you have a group with lesser disagreements or where issues are resolved in a way that does not negatively affect individual or group loan repayments?