
ECONOMIC AND SOCIAL RESEARCH FOUNDATION
(ESRF)

INTERNATIONAL LABOUR ORGANISATION (ILO)

**WORKSHOP REPORT ON COLLATERALIZATION COSTS IN
SMALL-SCALE FINANCIAL TRANSACTIONS STUDY**

WORKSHOP HELD AT ESRF CONFERENCE HALL ON 25TH
JANUARY 2000

Opening

The workshop was attended by participants who were mostly from banking institutions (list of participants **Appendix 1**) and was opened by the Executive Director, Prof. Wangwe at 3:20 p.m. by introducing the presenters, Dr. Semboja, Mr. Kapella and Mr. Mpuya, all from ESRF. He also introduced the discussants Mr. Kibodya of CRDB, Mrs. Kibano from the Ministry of Lands, and Mr. Kapinga of NMB. He said the aim of the workshop was to discuss the output of a study funded by ILO and conducted by the presenters. He then invited Dr. Chijoriga from the Faculty of Commerce and Management, University of Dar es Salaam to chair the workshop.

Presentation

To start off the presentation Dr. Semboja gave background to the study, collateral systems and procedures followed in collateralisation; Mr. Kapella gave details of what was happening in practice while Mr. Mpuya dealt with legal issues on collateralisation. All the three presentations were based on the draft report copies of which were distributed to the workshop participants (**Appendix 2**).

Comments from Discussants

The presentation was followed by comments from the discussants, the first of whom was Mr. Kibodya who commended the presenters for the job well done and said that banks were interested in having the loans repaid, and that was the bottom line. He listed problems related to borrowers as:

- (a) Lenders did not have collateral except for residential property which was difficult to use as security because it was protected by law;
- (b) Most customers requesting for loans had their securities locked out in rural or unsurveyed areas;

- (c) Difficulty in getting track records of borrowers or would-be borrowers (whether they were individual persons or companies) since none such records were kept anywhere in our society;
- (d) Sometimes the collateral offered as security was situated on a plot whose title deed belonged to a different person;
- (e) Difficulty in keeping track of documents because our society did not have the culture of record-keeping;
- (f) Sometimes the borrower was a single person and in such cases when death occurred the bank lost its money;
- (g) Most businesses were ran by retirees who did not have managerial skills to conduct them, as a result they failed to repay the loan;

He said that one way to overcome these problems was to understand the status of the borrower and that there were other problems related to the legal system which he said were:

- (a) Court injunctions delayed the process of repossession and resulted in additional costs;
- (b) Changing of judges or magistrates in the middle of the case;
- (c) Most of the cases were decided in the absence of one party especially when a customer had defaulted.

The second discussant, Mr. Kapinga said that it was a general consensus by the researchers that the act of banks requiring collateral was indispensable to the life of the banks. In response to a question raised in the presentation by Mr. Kapella as to why banks in Tanzania did not entertain group lending, he said it was because of past history. For example, he said, loans to groups of women by CRDB were never repaid, the groups could not be traced and the loans had to be written off.

The third discussant, Mrs. Kibano gave the following points:

- (a) the new Land Act had helped a lot, for example by providing new zonal offices for land commissioners which therefore meant that congestion in the process of land registration would hopefully be reduced;
- (b) the new Land Act needed to be translated into Kiswahili for it to be accessible to the majority of Tanzanians;
- (c) the new Land Act had the intention of protecting the matrimonial home and to protect the family;
- (d) the judicial system had established commercial courts to avoid delays in cases, but these courts have three judges only, therefore the move might not make much difference.

Before she invited members of the floor the chairperson made an intervention and said that the objective of the presentations was to look at the possibility of banks giving loans using collateral, and what the other alternatives to collateral were. She added that the other issue was to know who the borrowers were, whether they were consumer individual or corporate customers.

Contributions from Participants

The presenters were commended for having covered very well the study area and the following issues were raised:

- (a) Advantages of group lending should not be ignored otherwise it would be like throwing away the baby with the bath water;
- (b) ILO experience of providing loans to groups of women showed that when conditions were not right, and the women did not know what the loans were for, there was poor repayment rate;
- (c) After the same women were made aware of the benefits of loans, recovery rates rose to almost 100 %; therefore group loans should not be totally dismissed as unworkable;

- (d) Collateral was not the major constraint, but rather the banks did not have the expertise to give loans;
- (e) NMB offered other financial services as well such as savings, lending for individuals, for groups and for both;
- (f) There seemed to be a misconception that NMB lending should be cheap. That should not be the case, but rather they should charge at market rates, and that with competition the rates would go down;
- (g) NGO's could not be allowed to ask for loans since they did not meet the condition to get license and they did not have clear ownership;
- (h) On the recommendation that banks should be forced to lend a certain percentage, it was argued that this was outdated, that the current policy allowed actors to be left on their own to make decision on who to lend to and what the amount should be. The government could provide enabling environment;
- (i) The report seemed to be biased towards legal problems rather than focusing on attitudes of non-payment and how to change them and make them conducive for repayment;
- (j) In South East Asia the rate of loan repayment was said to be high because societal attitudes encouraged re-payment rather than defaulting. Social pressure made borrowers ashamed of failing to repay while in Tanzania defaulters were seen as heroes;
- (k) Another dimension was that of resolving cases outside the courts, the mediation process in institutions outside the courts could be better in local conditions;
- (l) The structure that reached the people was good, hence the importance of linkage with the rural community and the village government to become substitutes for collateralisation;
- (m) Taking a portion of one's land temporarily and renting it out to recover payment of loans might help;

- (n) Three important points on good environment for lending were said to be: profitable activity, attitudes to repay (i.e. the way society views a defaulter), and business behaving as a social responsibility (i.e. undertaking social responsibility to be seen as respectable activity in the eyes of the community);
- (o) Looking at performance of lenders through close follow up as a key factor in securing loan repayment;
- (p) The report pointed out the negative aspects of loans, however, focus should be on changing the environment and taking a positive approach.

Reactions from Presenters

Dr. Semboja thanked the discussants and the participants for their contribution saying that all the points raised would be taken on board when refining the report. He invited participants to send in more comments even after the workshop because they were still open to comments while they were waiting for members of the study team who were visiting India and Bolivia collecting more data.

The chairperson thanked everyone and closed the workshop at 6:05 p.m.