CLIENTS DROP OUT AND FINANCIAL PERFOMANCE OF MICRO FINANCE INSTITUTIONS IN UGANDA: A CASE STUDY OF UGANDA FINANCE TRUST CENTRAL BRANCH

BY

SUNDAY ARTHUR

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DECLARATION

I here by declare that this work is a result of my own effort and has never been submitted for any award in any other University or Institution of higher learning and where work of others has been cited due acknowledgement has been given

Signature..................................

SUNDAY ARTHUR

Date...25/10/2007...........................

APPROVAL

This work has been under my supervision as a University supervisor, and submitted with my approval.

Signature……………………………………

DR. MUSIIME ANDREW

SUPERVISOR

Date 25/10/07……………………………………

DEDICATION

I dedicate this work to my Parents Mr and Mrs Rwemizano Frank for there valuable support and advice financially and morally during the course of the study. May the almighty God bless them abundantly.

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ABBREVIATIONS AND ACRONYMS

AMFIU	Association of Microfinance Institutions of Uganda
ADB	Asian Development Bank
BOU	Bank of Uganda
CERUDEB	Centenary Rural Development Bank
FINCA	Foundation of International Community Assistance
GB	Bank of Bangladesh
GNP	Gross National Product
MFIs	Micro Finance Institutions
MDI	Micro Finance Deposit-Taking Institutions
NGO	Non Governmental Organization
NBFI	Non Banking Financial Institutions
PAT	Portfolio At Risk
PEAR	Poverty Eradication Action Plan
PRIDE	Promotion of Rural Initiative Development Enterprise
UNDP	United Nation Development Program
UFTL	Uganda Finance Trust Limited
UWFT	Uganda Women Finance Trust

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ABSTRACT

Micro finance Institutions in Uganda seek to provide clients from poor households with a range of money management and banking services. Micro finance is important to the well being of the society because it improves on the welfare, wealth and general standards of living for those people involved in micro finance activities. Despite Micro Finance Institutions effort to support the low income earners by providing financial services, a high rate of clients drop out has persisted. The problem arising out of these excessive levels of client dropout is that they are likely to have negative effects on the financial performance of Micro Finance Institutions.

Basing on the above problem, the study was set; to assess the impact of client dropout on the financial performance of Micro finance Institutions in Uganda and also To determine the factors responsible for clients dropouts in Microfinance Institutions in Uganda.The research was based on a qualitative case study design of a descriptive nature and analytical based on structured questionnaires where the sources of data for this research were primary and secondary sources

The findings of the study revealed that Dropouts are the most important factors that lead to losses, which in the long run lead to capital erosion. Dropouts affect profitability by reducing the interest earned on loans. Additionally, they lead to increase in operational costs that have the impact on profitability and Capital Growth since they loose interest earned on loans.

The analysis of the findings, Indicates that the structure of various programs has influenced the dropout's rate significantly. The lack of grace period, high interest rates and poor loan monitoring are structural problems that need to be addressed seriously.

The research recommends that Microfinance institutions in Uganda should design client responsive products, Introduce client exit surveys, have group guarantee systems, encourage Loan restructuring, train credit officers, Credit reference, charge customer friendly Interest rates, and Increase in loan terms.

CHARTER ONE
INTRODUCTION

1.1 Back ground

Dropouts from any programme do not necessary mean problems to that institution. Sometimes, dropouts could help in strengthening of the institution by eliminating troublesome clients (Mugwanya 1999). However, the nature of dropouts and the excessive number in which they exit the programme is what worries Micro Finance Institution practitioners. These excessive levels of exits have a negative effect on the financial performance of Micro Finance Institutions and threaten their future annual reward. In order to make a comprehensive study on dropouts in Micro Finance Institutions, the study focuses on by looking at the causes of dropouts in Micro Finance Institutions and its impact on the financial performance.

A according to Sharif and Wood (1997), a dropout is defined as a person who is not able to access the subsequent loan. The main reasons for client dropouts include:-Voluntary dropout, and involuntary drop out, Closure of an MFI, Increase in the size of the businesses, Default and failure to abide by regulations. The problem arising out of these excessive levels of client dropout is that they are likely to have negative effects on the financial performance of MFIs.

Micro finance refers to the provision of credit and savings services to the economically active poor, to enable them start up or expand small income generating activities with a view to improve people's livelihood. A 1997 UNDP report on credit services in Africa Defines "Micro" as business with a net worth of (US $ 200-500), and 'Finance' as the provision of financial advisory services.

The field of micro finance sector is both old and new. People have always been borrowing, lending and saving for as long as there has been money. The sector now is new in that it has primarily developed as a response to the inability of commercial banks and the formal financial system to serve the needs of low income households and micro enterprises.

The evolution of Micro Finance Institutions is a direct response to the failure of past attempts by government and donor funded rural credit programmes to reach poor families and landless households within the rural areas. Coupled with this is the fact that the small scale business people targeted by MFIs did not have the traditional collateral which is the basis for loan acquisition to the formed banking sector (Abbink et al 2002).

According to Adams, and Frechett (1992), the first Micro Finance Institutions appeared in South Asia almost thirty years ago, but have since spread to Latin America, South East Asia and more recently Africa, China, the South Pacific. The most famous and possibly most successful Micro Finance Institutions are the Germeen Bank of Bangladesh (GB) and the Bangladesh Rural Advancement Committee) (BRAC). Both of which started as pilot projects in the 1970s but later finalizes in the 1980s with the Grameen Bank becoming a private sector bank and Bangladesh Rural Advancement committee, a Non Government Organization.

Micro finance institutions (MFIs) be it a bank, cooperative, credit union an NGO or some other form non bank financial intermediary seek to provide clients from poor households with a rage of money management and banking services which may include; Financial advisory service ,Credit, Deposits services (savings).

The idea behind micro finance is to provide services that would enable very poor people to become self –employed so that they can generate their own income, there by allowing them to care for themselves and their families. (Kabir,2002).Unlike government credit programs and traditional bank credit programs that emphasis large loans for long repayment periods, micro finance provides small loans that are repaid within a short period of time.

Kikonyogo (1997) argues that, Micro finance in Uganda has evolved on an economic development approach, intended to benefit low-income women and men. It refers to provisions of financial services to low-income clients including self employed. Micro finance in Uganda is fairly new with approximately less than 30 years old. It is a vibrant growing industry. The government of Uganda has over the past decade initiated, implemented and or supported various micro credit schemes aimed at fighting poverty in the country. Most of these schemes include PAP, Entandikwa scheme, Bona Bagagaware (prosperity for all), Uganda rehabilitation project (NURP) program for poverty alleviation and social costs of structural adjustment. In Uganda, Micro Finance Institutions started operations in the early 1990 with PRIDE Uganda being the pioneer organization.

1.1.1 Back Ground of Uganda Finance Trust

Uganda Finance Trust Limited - formerly Uganda Women's Finance Trust a Micro-finance Institution is headquartered in Kampala and operates through its 23 branches. Uganda Finance Trust was incorporated as a company limited by shares in 2004 and its majority shares owned by Uganda Women's finance trust (the NGO from which Uganda Finance Trust emerged).

Uganda Women Finance Trust Limited is an indigenous Micro Finance Institution. Uganda Women Finance Trust was established in 1984 by a group of preferential women who wanted to pen upon opportunity for women in Uganda to gain access to financial services.

1.1.2 Mission of Uganda Finance Trust

To provide unique financial services to low income people in Uganda, in a manner that delights our customers and adds value to our stakeholders".

1.1.3 Vision of Uganda Finance Trust

Our vision is low-income people should have access to financial services. In this widened dream we now target the whole family and its financial needs and wants.

1.1.4 Objectives of Uganda Finance Trust

- Facilitating low-income, expand their income generating activities through provision of an accessible and flexible banking service net work
- Encourage savings culture and investment for sustainable development
- Facilitating low income earners access to property and assisting them build a financial base through savings, investments, and acquisition of assets.

1.1.5 Activities of Uganda Finance Trust

It provides an integrated package of savings and credit facilities

1.2 Statement of the Problem

Despite Micro Finance Institutions effort to support the low income earners by providing financial services, a high rate of clients drop out has persisted (often in excess of 25% per annum) (Rutherford and Mugwanya, 1996).And its also Evidenced by the September-December 2002 issue of the Microfinance Banker which noted that the dropout clients in Uganda are expected to rise. This level compared to rates of 7% in other region like West Africa is exceedingly high. The problem arising out of these excessive levels of client dropout is that they are likely to have negative effects on the financial performance of MFIs and has negative implications for efforts to achieve operational and financial sustainability. And it's against the background of excessive dropout that the researcher decided to undertake the subject matter.

1.3 Objectives of the Study

General

To assess the impact of client dropout on the financial performance of Micro finance Institutions in Uganda

Specific

i. To determine the factors responsible for clients dropouts in Microfinance Institutions in Uganda
ii. To establish the effect of client drop out on financial performance of MFIs in Uganda
iii. To identify the strategies to be used on how to retain clients to improve financial performance.

1.4 Research Questions

i. What are the factors responsible for clients' dropouts in micro finance institutions in Uganda?

ii. To what extent is the Financial performance of MFIs affected by clients drop out?

iii. Are there strategies to be used by Micro Finance Institutions on how to retain clients to improve financial performance?

1.5 Scope of the Study

In order to establish the causes of dropouts, the researcher conducted research on Uganda Finance Trust central branch, Kampala district, Uganda as a case study, to represent a true picture of what is happening within this organization and similar institutions with in the industry. The researcher believes that the study would give a similar out look of what is happening within other MFIs with in the Uganda setting. The study was carried out in Uganda Finance Trust Central branch. The study population included staff members and clients who droped out from 2004-2006.

1.6 Significance/Purpose of the Study

i. To help to identify the gaps in Uganda Finance Trust clients administration and make recommendations on how drop outs can be reduced

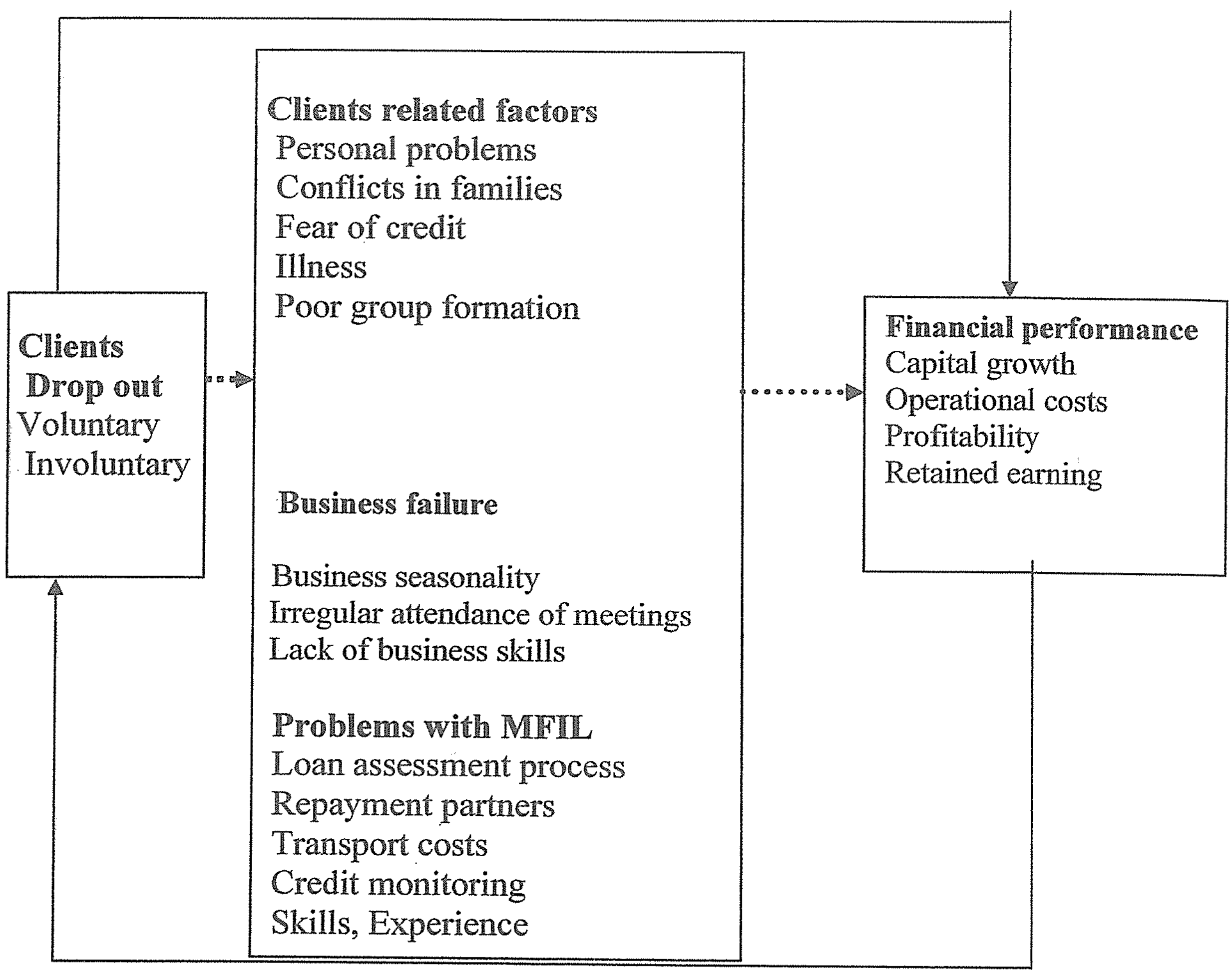
ii. To act as a self reflection of Uganda Finance Trust clients recovery programme and help to reduce drop out rate

iii. Analyzing the factors, causing high dropout rate, Uganda Finance Trust, MFIs and other stakeholder will use this information to improve on portfolio quality

iv. The study of dropout in the microfinance institutions is very important because it will provide a valuable source of information about the strength and weaknesses of the services offered by MFIs, with the hope for program improvement, improved service delivery and the creation of new products

1.7 Conceptual Frame Work

Ledger wood,(1999), states that the profitability of any microfinance institution is affected if interest revenue is not received on delinquent loans. However the most significant effect on profitability, portfolio equity and capital growth occurs when the loan principal and interest on loans are not repaid as a result of high drop outs due to high rates of defaulting. For every loan lost, many additional new loans must be made to generate enough revenue to replace the lost loan capital. In other wards when a loan is not received the entire principal must be expensed through a loss provision. This greatly affects the profitability of the MFI and consequently the amount transferred to the balance sheet as equity if the MFI records a loss the equity is reduced resulting in fewer funds available to finance additional loans.



Source: Literature.

CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

Various studies have been carried out on the subject of client dropout in Micro Finance Institutions as one unifying factor that dropouts for clients are "multi-dimensional". Mustafa (1996) and Mugwanya (1990) in their study of dropouts in Kenya, concluded that the reasons for dropout are various. They however narrowed down the causes in major categories that include personal reasons business failure, problems in groups and with MFI producers. Literature has been reviewed under the above-mentioned categories in relation to Microfinance institutions.

The evolution of Micro Finance Institutions is a direct response to the failure of past attempts by government and donor funded rural credit programmes to reach poor farmers and landless households within the rural areas. Coupled with this is the fact that the small scale business people targeted by Micro Finance Institutions did not have the traditional collateral which is the basis for loan acquisition to the formed banking sector (Abbink et.al.2002).

Micro finance institutions (MFIs) be it a bank cooperative credit union an NGO or some other form of non bank financial intermediary seek to provide clients from poor households with a rage of money management and banking services which may include;

Financial advisory service; where the views and needs of the poor are given a voice and right attention of policy makers, regulators and those with the authority to influence the environment in which poor households and informal sector institutions operate, Credit; a reliable source of banking capital secured against "collateral substitutes" such as standing in the community (character) group guarantees or compulsory savings.

Deposits services (savings); they are designed to offer poor households alternative savings options to the hoarding of cash or other forms of store of value. This helps to encourage them to save, hence developing a saving culture or discipline among the poor for the overall benefit of the economy. Other Services offered by microfinance institutions in Uganda are;

(i) Offering credit services to their clients (that are giving loans).

(ii) Training of clients on how they can efficiently utilize the borrowed funds. They train their clients in the following;

- Budgeting and costing
- Planning and monitoring
- Financial accountability
- Insurance facilities and employment facilities

2.1 Microfinance Outreach

Despite the substantial worldwide expansion of microfinance in the last two decades, an overwhelming number of poor people continue to lack access to basic financial services (Wiig, 1997). This expansion has reached mainly urban households and micro-enterprises with regular income flows. With activities that may require comparatively larger loan amounts, small-scale enterprises and rural households have less frequent revenue flows, need longer repayment terms and are still largely un serviced. Even rural microfinance institutions still focus mainly on trading and other non-agricultural activities that have a shorter turnover.

Successful outreach expansion can be achieved through the entry of financial intermediaries not previously serving micro-clients, or through the broadening and deepening of the coverage of services by already existing microfinance institutions.

Hasan and Shahid (1995), argue that, In rural and remote access regions, strengthening and expanding operations of existing microfinance institutions may work better than trying to lure urban commercial banks to rural areas. The lack of rural lending experience of these banks may constitute a formidable barrier to their entry in rural markets. Microfinance experience shows that the forced expansion of lending operations under supply-led regimes typically leads to poor microfinance institution performance, with declining repayment rates as the quality of the borrowers and the loan portfolio are sacrificed in favor of quantity. Limited branch networks are a bottleneck to the outreach extension of already operating microfinance institutions. This is often a greater constraint for banks when restrictive banking legislation imposes high capital requirements for opening new branches, and for limited funds, especially NGO microfinance institutions that are excessively dependent on government and donor financing. Establishing a network of partnerships among microfinance institutions, and between them and other financial institutions can help overcome both constraints, and allow for the necessary growth and expansion (Sharif, 1997). For integration to take place, microfinance institutions must adhere to financial best practice standards and transparency in their financial and operational performance. The increasing availability of microfinance institutions' appraisal mechanisms and rating institutions should facilitate the establishment of such partner networks.

When viable, for example through mobile branches or visiting loan officers, doorstep services enhance accessibility to microfinance institutions and support outreach expansion for remote areas, especially for low-income and illiterate households. Information communication technology has also a very high potential for breaking geographical and other barriers to outreach expansion, and may therefore represent a great opportunity for forest communities.

2.1.1 Gender Outreach

Microfinance programmes have generally targeted poor women. This is because experience has shown that targeting poorer households through women is more effective, as they are more risk-averse, look for more productive loan utilization, are better credit risks and ensure higher repayment rates than men. Women are reputed to possess more unrealized entrepreneurial capacity, to have higher savings propensity, and to be more inclined to use income that they control for improving children's nutrition and education. The small credit amounts used in microfinance seem to suit women better than men, and women can also be used as vehicles for credit delivery. Microfinance is generally viewed as a powerful tool for empowering women and improving their livelihoods (Hashemi 1997).

Addressing gender issues in microfinance interventions, however, means more than targeting a programme towards women, or counting the number of loans made to women. A gender-sensitive approach would imply examining both women's and men's economic and social position in the family and the community. It also implies analyzing how their position is reinforced through the institutions that they deal with and how it is governed by national laws and customs.

Government programmes that help women to overcome the constraints of accessing credit and other financial services through specific policies, programmes, and/or legislation can improve microfinance outreach, building on their general repayment performance and underused economic potential (FAO, 2002).

2.1.2 Outreach through Groups

According to Wright (1999), Microfinance institutions provide savings and loan facilities and other microfinance services to groups, thereby reducing the number of individual transactions. Through group outreach microfinance institutions can also avail themselves of the groups and their representatives for a number of activities such as the disbursement of individual loans, the collection of individual savings and repayments, peer monitoring, and repayment pressure.

Transaction costs may be too high to provide microfinance services individually, both sustainably and often enough, especially in areas of difficult access and sparse population. Although bigger and stronger rural based small-scale enterprises may afford to visit the microfinance institution branches when needed, group outreach can be a successful mechanism for microfinance institutions to expand their outreach with limited increases in costs.

2.1.3 Financial Sustainability

According to Hulme and Mugwanya (1999), financial sustainability is necessary to reach significant numbers of poor people in a stable and durable manner. Sustainability is the ability of the microfinance provider to cover all of its costs, and is therefore the only way to reach significant scale and impact beyond what donor and government agencies can fund. Sound, efficient and sustainable microfinance institutions should ensure high loan recovery rates, charge appropriate interest rates, increase productivity and the number of borrowers, and reduce operating costs with efficient delivery systems

(Maximambali 1999), Sustainability is closely linked to outreach since most poor people are not able to access financial services due to the lack of strong financial intermediaries, which is the only way to guarantee continued provision of microfinance services for poor people.

To achieve the viability and good financial performance necessary to service small-scale enterprises reliably and continuously, microfinance institutions should be able to charge cost-recovering rates and at the same time ensure transparency in pricing to protect consumers. Viable and sustainable microfinance institutions, focusing on reducing transaction costs and developing new products and services, will be able to better provide microfinance services to poor people. Promoting competition and institutional efficiency will facilitate the reduction of interest rates over time.

2.1.4 Microfinance Performance Indicators

Several microfinance indicators, benchmarks and rating systems have been developed to assess microfinance institutions' performance and their sustainability Transaction costs, including credit and economic risks, and interest rates are the main financial factors, together with the cost of funding, affecting the viability and sustainability of the institution.

According to the Micro Banking Bulletin (2002), the adjusted Return on Assets and the Portfolio at Risk are among the most significant indicators of overall financial performance. The adjusted Return on Assets shows the profitability of the microfinance institution, after discounting possible grants and subsidies from government or donors, and therefore its sustainability. The PAR tells how well the microfinance institution achieves its basic goal of lending money and receiving it back. More Detailed microfinance benchmarks, for example, by lending method, by region, by target market.

Microfinance institutions the world over use the group's lending methodology that has been illustrated and popularized by the Grameen bank of Bangladesh. The group lending methodology or "Group guarantee system" insists that economically active poor people joining MFLs form groups in order to access the services offered by those institutions.

The distinctive feature about the group guarantee system is that the group members guarantee each other by exerting social pressure on the member (s) who default on loans to pay up the principle and interests accruing on the loans. In case any member (s) default group member (s) are obligated to pay up the loan and interest due. Members do not receive a group loan but an individual loan. The group method acts as the substitute to traditional collateral, unlike having traditional collateral such as land titles, buildings, as is the case in the traditional collateral practices.

Orland (2002), observed that while these are methodological difficulties involved in measuring income brought about by provision of credit, studies have demonstrated that the availability of credit can have positive effects.

Hulme and Mosley (2004), demonstrated the better-off the borrower is the greater the increase in income from borrowed capital. Borrowers who already have assets and skills are able to take risks for use credit to increase their incomes. He argues that the poorest borrower becomes worse off as a result of micro enterprise credit. This is because their business failure is more likely to provoke a livelihood crisis than it is for turnover with a more secure asset base.

According to Pliza and Lopez (2004), Review of Oxfam's experience with income generating projects for women raised serious questions about the profitability of such activities. Full input costing, which would have revealed many income generating activities as loss making were not carried out. Omissions included depreciation of capital, the opportunity costs of labor and subsidization of income generating projects with income from other sources. Market research and training in other skills had often been inadequate.

2.2 Nature of Micro credit

According to Micro Banking Bulletin (2002), Micro credit consists of small loans provided to poor households or micro-enterprises. Micro credit is normally characterized by standardized loan products with short maturities, limited amounts, fixed repayment schedules and high interest rates. Most microfinance institutions require potential borrowers to save before applying for a loan in order to demonstrate their intention to develop a long-term banking relationship. When the amount saved reaches a specific level, the lender will consider granting a certain amount as a loan. Although forced savings might be effective in helping to control moral hazard risks, they increase the effective interest rate and restrict potential borrowing.

One of the characteristic of micro credit innovations is the use of group lending techniques (Jain, 1996). Group lending reduces information asymmetries common to most lending situations, drawing on borrowers' superior knowledge of each other. Since a group member is far more likely to understand the creditworthiness of an individual in a village than a non-local loan officer, group techniques can be gainfully used to screen members, monitor repayments, and exert peer pressure. Groups utilize the networks of trust and relationships in the village, mutual guarantees, and shared knowledge about eligibility and performance to help ensure repayment of the loans given to the group. Group incentives and dynamics to avoid moral hazard are reinforced through regular group meetings, often required under the terms of the group loan.

Martin (1998), argues that group and village credit and savings associations or village banks are usually formed following the loan from a sponsoring agency to a group or village association, which then makes individual loans to its members. The sponsoring agency can be an NGO or a bank. "Village banking" normally refers to a group of 10 to 30 individuals, while in "group lending", the group consists of 3 to 9 individuals. However, here the term "group lending" is used generically for both, as the key features are essentially the same.

Among key rationales for group banking methodology are the reduced operating costs for the microfinance institution, which provides a single loan to many small borrowers at once instead of a much greater number of individual loans, and the opportunity to substitute individual collateral with social solidarity to guarantee the loans (in the case of a solidarity group) (Hanning 2000). Pooling compulsory with voluntary savings helps overcome minimum deposits and low balance fees and reduces transaction costs for the savers with representatives making the trip for many. The disadvantage is that loan officers must travel to and attend all group meetings, and that time must be spent organizing and training new groups.

Groups can be used in two ways: simply as delivery mechanisms, receiving the loan payments from the microfinance institution and collecting savings and repayments on behalf of the members, while maintaining individual responsibility; or as solidarity groups, where the group as a whole is responsible for the individual members' sub loans and if one member fails to repay, the repayment will be covered by the others. The solidarity group guarantees these sub loans and relies on peer pressure and peer support among members to ensure repayment. In addition to providing a group guarantee for the loan, the advantage of all group members being responsible for loan repayment is that it creates incentives to admit only responsible individuals, and to make sure that each individual borrows within his/her repayment capacity (Jackelen and Henry, 1997).

As a complement to the co-liability for the existing loans of fellow group members, a group guarantee fund is often established. A small fee is added to each member's loan and deposited in a fund. The money can be used in emergencies to cover the loan installments of group members who experience temporary difficulties in making timely loan payments. The fund reduces the need for group members to use their own resources to make these payments, but raises the effective interest rate on their loans.

Group banking can offer small-scale enterprises and rural families several important services in addition to credit and savings: groups often also receive non-financial services, and establish internal accounts. As part of their establishment and functioning, groups normally adopt bylaws, strengthen their financial literacy and learn how to keep records of financial transactions with the assistance of the sponsoring microfinance institution. Regular meetings, which are the vehicle for delivery of credit and savings services, also provide benefits such as networking, informal technical assistance on production and processing aspects, empowerment, and strengthening of social group capital (Musana 2002). The group internal account, under which money is collected from several sources (forced and voluntary savings, interest income earned, fees and fines levied) and then used to make loans to group members, is practiced by some groups as a supplementary source of credit and savings among its members (Ledger wood 1999).

All of these advantages make group lending particularly useful when trying to reach rural based small-scale enterprises and poor rural households However, a limitation is that group loans are rather inflexible compared to individual loans; each member receives a loan that starts on the same date and has the same term and repayment frequency, and the size of the single individual sub loan is generally capped, in view of the group's solidarity. It may therefore be better suited to small-scale enterprises engaged in activities requiring limited capital and with regular and shorter-term yields.

Social capital is a prerequisite for the success of group lending. When social cohesion is weak, groups are not homogeneous and peer screening and monitoring are inadequate, putting the group's repayment at risk. Solidarity group lending however has the disadvantage of making group members responsible for co-borrowers' possible default, over which they may feel they lack control. This can hinder group participation and borrowing, or cause the failure of group lending initiatives.

As clients develop economically and become more acquainted with microfinance services, and as competition in the sector strengthen, small-scale enterprises are likely to have greater demand for more diversified products, such as flexible repayment schedules, individual loans and loans with different term structures and different purposes. An example of the move towards more flexible systems is that adopted by the Grameen Bank since the end of 2002. Under the new Grameen Generalized System, flexible loan terms and repayments and new deposit products have been introduced and group liability has been discarded. Other microfinance institutions are also shedding the traditional Grameen model, or making more flexible products available together with traditional standardized group ones.

Innovative lending practices and financial products can be adapted to suit small forest-based enterprises and household cash flows. Innovations that can facilitate access to credit include the use of collateral substitutes and the graduation of clients to larger loans and longer maturities. Equipment loans or leases with maturities of two or more years are other examples of new loan products that have emerged from the increasingly competitive microfinance sector and that would allow small forest-based enterprises to overcome the constraint of short-term working capital loans.

According Shepherd (1998), Microfinance institutions can also play an important role in enhancing smaller enterprises' ability to finance tree crop investments by offering them a mix of short- and medium-term loans, which enable them to bridge critical periods in their cash flows during the establishment and gestation periods. Such an approach is most feasible in the case of short gestation crops such as tea or coffee, and for enterprises that have also other sources of income. The promotion of practices such as intercropping, staggered planting of tree crops and planting of species with different gestation periods can ease cash flow constraints and make it possible to use other income sources for loan repayment.

Even the simple expansion of microfinance institution outreach, where possible, may not be sufficient to ensure that rural and especially poorer households can take advantage of the available microfinance services and in particular access micro credit. Small-scale enterprises often lack financial management and business planning skills, and this hinders their development into bankable customers of microfinance services. The availability of non-financial government support services such as input and equipment supply, output marketing, extension and business development can play a major role in facilitating their access to longer-term finance, because they reduce the high risks and transaction costs, and increase the profitability of the investments.

2.3 Impact of Microfinance Credit Schemes in Uganda

Many rural people have been able to access loans which in turn have led to development in such areas and reduction in poverty.Grimpe B (2002). For instance, the over all non banking financial institutions (NBFI) sector under which Microfinance institutions, has registered a credit increase of 2.3%. if 200 from 51.9 billion shillings at the end of September 2000 to 53.1 billion shillings at the end of December 2000.

The bulk of total credit registered in this quarter was on secured and un secured bans, which rose by 0.8 billion shillings at the end of December 2000 (Ministry of Finance Report 2000), Mortgage loans grew by 0.6 billion shillings from 17.5 billion to 1 billion shillings over the some period.

However, currently in Uganda is expected to have more than 50% increase by the end of 2006 as a result of increased out reach of Microfinance Institutions to include rural areas.

2.3.1 Poverty Alleviation

In Uganda like any other developing country, Microfinance Credit Institutions are reaching out to millions of people as a means of improving their livelihood, and bettering their communities.

According Bank of Uganda report (2001), the impact of Microfinance in poverty eradication is evidenced from the fact that there has been a tremendous reduction in general poverty from 80% in 1992 to 58% in 2000; house hold poverty is estimated to reduce to 30% by 2007 in rural areas.

2.3.2 Increased Investment, Savings and Schemes

Through the activities of Microfinance Institutions, people have learnt how to save their Money, which in turn is used for investment. For instance, those institutions that build up cash reserves through foregoing income, saving is possible by making deposits out of income by avoiding current use in order to draw a sum of these savings in the future for development purpose (Hanning 1999).

2.3.3 Education and Health

Access to Micro Credit and Micro-finance has been formed to promote increased expenditure on education and related improvements in health among poor clients and in this respect, it can enhance human capital. A number of studies have shown that poor people tend to invest their income from Micro enterprises in their children's education and that children of Micro-finance clients are more likely to go to school, stay in school longer and have lower dropout rates.

2.3.4 Empowerment

According to Kikonyogo (1997), People in Microfinance Institutions have, in particular, catalyzed opportunities for millions of poor women to become active participants in economic activities and to attain new roles as cash income earners and managers of household incomes. With the newfound access to financial services, poor women are found to be more confident, assertive and better equipped to overcome cultural inequalities. Micro-finance has caused a shift in values and expectations that affect women's role in society

2.3.5 Development of Small-Scale Enterprises

Through Micro Credit Schemes, small-scale enterprises have developed and are playing a significant role in almost all economies than had been acknowledged before.

Statistics show that between the year 1970 and 2000, the average Growth National Product (GNP) contributed per firm rose by nearly two – thirds (which is 67%),(BOU 2001).

2.4.0 Client Drop Out In Microfinance Institutions

There is clear evidence that many of the MFIs operating in Uganda are experiencing high (often in excess of 25% per annum) levels of drop-outs amongst the clients (personal discussions in 1998, Munyakho, 1996 and Rutherford and Mugwanga, 1996). This is significantly in excess of drop-out rates amongst most Asian, Latin American and West African MFIs, and has negative implications for efforts to achieve operational/financial sustainability.

Members "dropping-out" or leaving an MFI cost the organisation dear - both in terms of lost investments in initial training and in terms of the opportunity costs of losing the older, more experienced members most likely to take larger loans. The surprisingly high drop-out rates experienced by Ugandan MFIs may be indicative of the inflexible financial services they provide to their clients. The recent research into drop-outs in

Bangladesh (ASA, 1996; Chowdhury,., and Alam M.A., 1997; Evans et al., 1995; Hasan,. and Shahid, (1995); and Hashemi, (1997) strongly suggests that members leaving MFIs are usually doing so because they are dissatisfied with the quality of financial services being offered by the organisation ... or have found better services being offered by another one.

2.4.1 Defining Drop-outs

Drop-outs can be separated into two major groups- voluntary and forced. Conceptually it is possible to distinguish between voluntary drop-outs from those who are forced to drop-out The former may be the result of resting (i.e. they plan to re-join the MFI), transferring (i.e. leaving to join a different MFI) or withdrawing from MFI services entirely. The latter may be 'pushed out' by the MFI and its staff, or by other clients of the MFI (i.e. fellow solidarity/guarantee group members). In practice it is often difficult to identify a specific process for an individual and often both voluntary and coercive mechanisms are involved in an exit (Kasangaki et al 1999).

Conceptually, it is possible to distinguish between voluntary dropouts and those forced to drop out, either by peer members and/or staff. In practice, it is often difficult to isolate a specific factor in the dropout process since often both voluntary and coercive mechanisms are involved. Dropping out from one MFI, however, might not result in withdrawing from MFI services entirely. Many clients drop out to "rest" during periods of economic and business downturn while some transfer to other service providers where available.

Grimpe (2002), argues that, Different MFIs use different definitions for dropouts. In the credit-driven East African context, many MFIs consider those who do not have outstanding loans to have dropped out, even if they retain savings with the MFI. For many clients, however, not taking out a loan but retaining the option to do so could well be an important risk management strategy. Some MFIs do not permit this behavior and "balance out" (i.e. savings are returned or balanced with outstanding loan payments) clients who do not immediately take a repeat loan. Faced with risk and uncertainty, using savings and "resting", rather than taking out a fresh new loan, might be the preferred strategy for many clients. These differences in the definition of dropout make comparison across MFIs difficult.

This latter category is of particular interest since many MFIs' systems classify anyone who is not taking a loan as being no longer a member, and thus as having dropped out. As a consequence, the researcher found him self in meeting where members classified as "drop-outs" were attending simply to make savings deposits - as they had been doing every week. Neither they, nor their solidarity group members, saw them as drop-outs, for "resting" is a common phenomenon

Other MFIs have very strict loan recovery and "push-out" guidelines that force clients out after only 3 missed repayment installments. This can result in a situation in which long-term clients of good-standing are forced out even when they have more than enough compulsory savings/loan insurance fund to cover the missed payments and the loan outstanding balances. In the event that these members wish to rejoin the MFI (and many do after a few weeks) they must start again with the smallest loan size. Once again, these re-joining members are at worst extremely short-term "drop-outs", and lead to significant overstatement of the number of "drop-outs" from the programmes.

2.4.2 Socio-economic Characteristics of Drop-outs in MFI

According to Shahid (1995), Socio-economic status plays a tremendous role in the reasons that clients dropout; furthermore, socio-economic status is also closely tied to the likelihood that someone will or will not join an MFI's programme.

The reasons why clients decide to drop-out of MFIs vary greatly between different socio-economic groups. For example, poorer clients may drop-out if the average size of loans within a group rises to high levels requiring the poorer clients to guarantee (officially or unofficially) much larger loans than they can take themselves. By contrast, wealthier clients who drop-out of MFIs complain that the loan size is 'too small' for them to bother with the rigours of the organisation.

Level of education does not appear to influence drop-out rates. People with higher levels of education, who are likely to be wealthier, are no more or less likely to drop-out than clients with minimal education

Both poorer and wealthier clients have a similar propensity to drop-out depending on the nature of the financial services. However, clients on either extreme of the economic spectrum find MFI products less suited to their needs than 'average' clients, and are thus more likely to drop-out (Wright et al., 1999).

2.4.2.1 Poor/Upper-Poor Drop-outs

MFIs have significant proportions of clients who would be classified as 'poor' in terms of national poverty lines). Commonly, poor people are screened out through group selection processes, are scared off by savings and loan repayment requirements or drop-out during the initial training period.
However, many solidarity groups have some members from the 'upper poor' and occasionally the poor. Usually poorer drop-outs are pushed out of MFIs because of problems repaying their loans and/or meeting the savings requirements. Such difficulties affect poorer clients in particular because poorer clients have fewer assets and their income is less diversified than that of wealthier. Thus, the poor are more vulnerable to financial difficulties due to

cyclical or unexpected economic downturns –such as drought, the weakening of the national economy, or some other crisis (e.g. illness, death of a family member, the closure of business).

The extent to which poor clients that encounter problems with compulsory savings and repayments are pushed out varies with the nature of the product and the behaviour of group members and credit officers. While some products, groups and credit officers will give a struggling client some time to 'catch up' with payments, others chase out clients after making them settle up, at the first sign of a problem. However, it is likely to increase the level of vulnerability that poor people face, resulting in higher drop-out rates compared to wealthier clients whose assets and income flows permit them to cope more effectively with crisis situations.

2.4.2.2 Non-Poor: Average Drop-outs

The majority of MFI clients are small traders and business people who, while being far from wealthy, have incomes that place them above the national poverty line. We refer to these people as 'average clients'. If times are good (because of hard work and/or a favourable economic environment)

These clients prosper. If times are bad (because of ill-health, emergency demands, bad business decisions or an economic downturn) these clients may sink below the poverty line. The drop-out behaviours of these clients depend upon the nature of the MFI's product and the dynamics of the individual household's livelihood. Of particular importance is the relationship between loan size, loan timing and the capacity of a client to service that loan. When loan size and disbursement timing are determined by the client (within the boundaries set by the MFI), then the likelihood of a mismatch between these factors and repayment capacity can be reduced

2.4.2.3 Gender and Drop-outs

Munyakho and Dorothy (1996), in their Research, looked closely at the issue of gender and drop-outs in Microfinance Institutions. There was clear evidence indicating that women were more likely to drop-out of MFIs .Women were more likely than men to drop-out as "…women don't care much about it [repaying loans] … they have their husbands".

2.4.2.4 Age and Drop-outs

Age clearly plays a role in those individuals who are recruited and their likelihood to drop-out. The greatest number of recruits consists of people between the ages of 25-45. Of the recruits who subsequently drop-out, those younger than 31dropped out at the highest rate, those older than 60 drop-out at the lowest rate, while those between 31 and 60 drop-out at a similar rate to one another Most MFIs insist that members must drop-out of the organisation on retirement because they cease to be an entrepreneur thus increasing the drop-out rate for this age group for different reasons than those of the younger recruits.

2.5 Research Reasons for Clients' Drop Out

2.5.1 Research Reasons for Clients' Drop out Under Personal Problems

This category is the most diverse and complex Graham Wright (1999) and Antony Simon Owitz (2001), while carrying out research on clients' dropout in the Mpulumaga Valley of South Africa came up with five broad reasons for clients exists under personal reasons. These are death in the family and personal or family illness conflicts in family movement, material disasters fear for credits.

2.5.1.1 Death in the Family and Personal Problems

Most Micro Finance institutions target poorhouse holds, which are often led by a sole bread winner. These people assume a lot of responsibility, which are both social and economical. Khan and Chowchy,(1995), observed while in Bangladesh, that when death occurs in the family, the elaborate customary practices always involve the use of a lot of financial loss. Since most clients do not have any saving they divert loan monies to arrange for funeral and which is now a common practice in Bangladesh, taking on extended responsibilities which might include adopting families of the deceased.

In Uganda, the responsibilities assumed after the death of a relative always weighs down clients both in terms of money and time allocated to their businesses. This leads to defaults and consequently dropout of the programmes.

Muteesaira (1999), observed illnesses of the clients or their relatives through often neglected by researchers, is also a major causes of exists. in the case of Uganda, illness such as AIDS, malaria tend to keep away clients for along period of time during which time clients are not economically active and divert loan monies for costly treatment. It is agreed that death and illness in families put a lot of economic constraints on Micro Finance institutions clients. Subsequently; this leads to client dropout because they can no longer afford to meet Micro Finance institutions objectives.

2.5.1.2 Conflict in the Family

A bank of Uganda quarterly publication, the microfinance banker (September-December 2001) noted that many cultures put constraints on women and assume that they cannot include in economic activities without a man's knowledge.

Abdullah (1995), in his study of the Boro–Tangai Mai saving scheme Bangladesh observed that, cultural constraints in addition to the Islamic cultures practiced widely in Bangladesh were the leading causes of exist for women. Women were forced to leave the groups by their husbands

Micro Finance Institutions in the world over encourage women to join their programmes. Women, Abdullah et al noted that they are becoming more economically empowered which in some societies causes conflicts in families. The traditional role of men as providers is being eroded, which welcomed by men. He further to said "demand" that their wives receive loan monies and pass it on to them for in solving general family problems.

Anjeety (2000), while studying dropout in Ghana concurs with Abdullah's (1995) and adds that women for the sake of marital harmony find themselves having to cater for the additional demands from men in order to keep their families intact. Women still value their family units and conflicts in families discourage them from participating in MFI actives because they fear that any form of economic empowerment will break the family unit.

Anjeety (2000),however, noted that the current economic crisis in Ghana is shortly opening up men's attitude to women's economic empowerment because they are finding it hard to single sustain and up to keep their families

2.5.1.3 Movement

The microfinance bulletin (January-March 2002) noted that due to their limited capital base, MFIs are mainly located in and around the townships. It is therefore likely that a person moving from one area to another will encounter a Micro Finance Institutions distant away. Even where they exist the procedures involved in rejoining are difficult and act as deterrent. An example is a group guarantee system where the banker still has to go through the same rigors to group formation, weekly meetings and saving. Mosley (1996), found out in Burakit Indonesia, is demoralizing and often people who move do not rejoin Micro Finance Institutions activities.

2.5.1.4 Natural Disasters and Unforeseen Events

Most of the researchers give this as one of the major reasons why clients exist Micro Finance Institutions Natural calamities as opposed to other problems always disrupt economic and social livelihood of the client and deprive the client from access to the market place where he can trade to meet his obligations.

In Bangladesh Hulme and Ashley (1996), noted that during the Monsoon period over half of the country floods leading to the standing still of most businesses especially agro based. Natural disaster in Uganda include landslides, drought which at times denies access to the market and destroying the economic base of micro entrepreneurs, hence lack of money by the banker to meet personal needs let alone save and service the loans.

The New Vision of October 20th 2000 ruled that Pride Uganda an NGO dealing in micro finance in the Eastern region of the country was having problems accessing borrowers and collecting money because the landslides had cut off access to many areas and had also destroyed the farms and livestock which were the economic base of most of their beneficiaries.

The New Vision further notes that the 1999 Cholera outbreak in and around Kampala is a live example of how unforeseen event can cripple Micro Finance Institutions clients. Most of the markets were down leaving most vendors with no access to economic livelihood. Moore than 50% of the vendors who were clients to Pride Uganda defaulted in the first week alone. This was a big loss to the institution because it had to use clients' saving to recover the loans. By the end of the third week the bank had to dismiss 100 clients who could not afford to pay up the loans.

2.5.1.5 Fear of Credit

Hassan and Shalid (1995), in their studies of saving in Banco-Desol Colombia noted that historically most people accessing microfinance loans are those who had been leftover of the formal financial sector for reasons such as illiteracy, collateral or having an access to financial services.

The idea of "Credit for everyone" as used by most Micro Finance Institutions is appealing and initially excites the poor who see this as a move to economic emancipation. However the clients are soon discharged by the methodology of these institutions procedures which are used such as weekly loan repayments guaranteeing members who default and compulsory savings help enforce the fear; poor people have had against credit and financial institutions as a whole. In Uganda this situation is further compounded by the instability within the financial sector. The closure of cooperative bank led to a further scare. Many clients failed to access their savings for over a year, which discharged potential clients.

2.5.2 Business Failure

Research shows that business failure as a major cause of client's fro Micro Finance Institutions. Ruthford Sturt (1999), describes business failures as downward trends in the affairs of their business. For business failures to occur on notices a lack of growth or business goes down with values not increasing and declining.

Matesasira and Semwogerere (1999), have broken down reasons for business failure into five areas that are appropriate to this study.

2.5.2.1 Business Seasonality

Hulmes and Mosley (1996) in there study of dropout in Kenya noted that in rural area, economic businesses are affected by the different seasons.

During the planting season, which contained the rainy season and after the two or three months after planting they realize an increase in the deposits because clients in the first instance spent money buying inputs for planting and run out of produce to sell. Clients largely make payments from savings which is not sustainable for rural clients. During the harvesting season clients have their produce, which they sell to meet their obligations. It was observed that this is a period of low dropouts.

Climatic seasonal changes also affect the hopes of the rural farmers. During droughts or low levels of rainfall farmers thrive because as the price are high due to scarcity, they are able to meet Micro Finance Institutions obligations due to the high returns brought by very high prices. When there is no drought their purchase is always high leading to very low process and little money is received by farmers which cannot easily sustain them, hence at times affecting their level of fulfilling their financial obligations with Micro Finance Institutions.

According to Mugwanya (1999), in his study of dropout in Kenya noted that addition to climatic changes, seasonal lump sum payments affect the running of business. Rural and Urban bankers tend to be affected by lump sum payments particularly school fees. Almost all credit officers interviewed by him that the January scene seem to have high number of dropouts because of payments for school fees.

Micro Finance Institutions in Uganda, like their counterparts in Kenya lose many clients because they are not able to cater for business seasonal changes. The problem here is that programmes designed are very inflexible and are only aimed at ensuring that clients are loaned money at all times even during off seasons in order to increase their loan outlay.

2.5.2.2 Lack of Business Skills

Wright and Kisente (1991), noted that the majority of Micro Finance Institutions clients in East Africa have no basic education, unable to keep their business and transaction records monitor and evaluate the performance of their business.

Micro Finance Institutions are so reluctant to teach their client the basic of handling credit in business. The limited financial resources, which lead to inadequate staffing, compound the problem and as a result training of clients is affected.

2.5.2.3 Appropriate Loan Sizes

Micro enterprises have business skills as observes by Hussein (1996), while studying exists and dropouts of Grameen Bank in Bangladesh. They cannot easily access the appropriate amount their business can handle, many clients, he says, are very eager to progress through the loan money. What is required by their business eventually becomes overwhelmed by huge sums of money leading to diverting them into other economic activities.

Wright (1992), noted that in addition to the above problem, MFLs in East Africa do not carryout business needs assessment visits mainly due to logistical problems relating to these members of the clients involved compared to the few credit officers available.

Externally, the borrowers who out of desperacy need money will take the highest amount in any stage, which the business often does not require. Clients divert the excess of the required loan to other activities outside the business causing a heavy burden when it comes to loan repayments as all repayments come out of the business.

2.5.2.4 Poor Loan Utilization

Hulmes (1991), noted that the problem of poor loan utilization is not a preserved of only micro entrepreneurs but also established business. Micro Finance Institutions like other financial institutions in East Africa do not carry out proper loan utilization checks.

He further argues that for Micro Finance Institutions under the group guarantee system, the group structure is supposed to put pressure on other members to ensure that members are properly supervised and put the loan money to intended use. There is no mechanism to check that this is done.

Uganda is obsessed with loan delivery that they do not endeavor to maintain a quality loan portfolio. Clients do not feel the pressure from credit officer since most clients are increased in having a large loan portfolio, which is a key target for their performance. They have a false belief that the more money loans out the more will be earned by way of interest as fees which is evidently not true. This is because there are clients who will default, risks and uncertainties may occur all this should be put into consideration.

2.5.2.5 Employment

Greely (1997), observed while in Begal India that the nature of a micro entrepreneur is that he owns and manages the business full time. Clients dropout of MFIs because they find full time employment.

In Uganda cases, relatives usually lack commitment to the enterprise. With in a short time the business does not perform to its expected capacity and the only alternative is to close the business and concentrate on other fulltime employment.

2.5.3 Problem within Groups

Groups are a basis on which clients are encouraged to join and benefit from the financial service provided by Micro Finance Institutions. It is noted however, that sometimes these groups are the source of problems for both clients and credit officers.

Conflicts always arise for economic group members not making their repayments. This result in other members spending time looking for their counterparts to make their pay or having to pay on their behalf. This often causes tension and conflict. Unable to sustain pressure arising out of these conflicts, client's dropout destroying the group guarantee system. It was noted that conflicts come as a result of two distinct problems that is poor group formation and patching.

2.5.3.1 Poor Group Formation

Hanning and Katimbo (1999), noted that group is very essential aspect in the running of any Micro Finance Institutions. This is mainly because groups form the first line of collateral for any money loaned by the Micro Finance Institutions

It has been that the group formation in East Africa especially leaves a lot to be desired this is because of:-

a) Rapid growth of Micro Finance Institutions. The Micro Finance Institutions grows too fast to ensure proper group formation.
b) Most credit officers are inexperienced.
c) The pressure to meet targets by credit officers lead to haphazardly formed groups.

Groups are usually formed haphazardly without following proper procedures and this has led to the problem of cohesion especially when members fail pay.

The group guarantee system has been found not been wanting and provided no good cover to Micro Finance Institutions in times of crisis.

2.5.3.2 Patching of Other Members

Kasangaki (2001), defines patching as working for others". Patching refers to meeting the obligations of others wherever they default. The lost of members making additional payment for other, on top their lost may be enough to have these business failure and subsequently leading to dropout. This means that members sacrifice their money which they would have saved or re-invested to their business.

2.5.4 Problems with MFI(s) Procedures

Whight and Shanes (1999), noted that MFIs have very strict procedures that they require clients to follow. This is done to ensure that the objectives set by these institutions are met.

2.5.4.1 Repayment patterns

Whight and Shanes (1999), further noted that Micro Finance Institutions in East Africa offer no grace period to their clients. In Uganda they observed that most MFIs offer a week's grace period on their loan. This puts a lot of strain on the business since most businesses have incomes that spread throughout the month. Most clients express the desire for fortnightly payment or monthly payments. This inflexibility of the payments further is a great turnoff and leaves business drained.

2.5.4.2 Transport Costs

Simon (1999),observes that in Mpumulanga province in south Africa clients are required to make weekly trips to the premises of their respective MFIs Members pay high transport cost which in some cases amount to far more than the interest payment on the loan. For people with small loans and new business this may place a great burden on their ability to succeed hence forcing them to dropout of Micro Finance Institutions.

2.5.4.3 Staff Support

ASA (1997),on studies of Bangladesh Micro Finance Institutions noted that credit officers are caught up in collecting money and disbursing funds to clients, leaving no time for them to meet and interact with clients. Clients always feel life out and see no reason of staying with these institutions if all they require them is attendance and payment.

2.6.0 Impact of Clients Drop Out on Financial Performance

2.6.1 Capital Growth

Frank Wood (1996) described capital as the reserves set aside by owners or shareholders to set up and enterprise. They further describe capital growth as an increase in the owned or shareholders resource generated from the activities of the enterprise. Capital growth is usually a result of an increase in reserved arising from undistributed profits.

Joan Ledge Wood (2000), noted that Micro Finance Institutions with excessive levels of dropouts will eventually have their capital eroded as a result of persistent accumulated loses. The lack of capital growth affects the performance of MFIs and their eventual sustainability. In her study of Micro Finance Institutions (MFIs) in Colombia she noted that micro finance institutions which were making had to close down because these persistence losses had led to capital erosion.

The erosion of capital is as result of the accumulated losses of the years, which is a direct result of dropout of clients with large outstanding loans, coupled with failure to recover the accrued interest and related operational expenses.

The lack of capital growth not only affects the capital outlay but also impinges on the expansion of. Micro Finance Institutions Its noted that the source of finance for expansion to other locations and outlets is normally the accumulated profits which cannot realize when MFIs get excessive dropouts.

2.6.2 Profitability

The impact of dropout on the financial performances and profitability can be analyzed as below:-

2.6.2.1 Interest Earned on Loans Issued by Micro Finance Institutions

The primary source of fund in MFIs is from interest they charge on loans and other fees they charge. Interest refers to the price clients pay on borrowed funds MFIs charges interest because of the following reasons:-

a) To acquire excess money for expansion

b) Meeting operating expenses.

c) Source of income to provide a return to shareholders.

d) Cover loan losses.

e) As a caution against inflationary pressure.

Maria (1996), suggests that in order to establish the impact of dropout it is vital to understand how they affect interest earned on loans. Clients who dropout are usually with big debts to the MFIs and they fail to realize profits as a result of defaulting hence affecting financial forecasts since the MFIs would have booked the interest as income in their books. Mutesasira (2000) agrees with this view and suggests that a drop interest earned in relation to the operating expense affects the running of these institutions.

2.6.2.2 Direct Cost
Bad debts

Kahan and Chaudry (1991) noted that greatest effect of dropouts in Micro Finance Institutions is the bad debt written off which directly affect the reported profits. MFI have to write off bad debt for clients who dropout especially those in high loan stages where by the collateral of savings can not cover up for repayments and interest. This affects the profitability of Micro Finance Institutions and their performance in meeting their set targets.

2.6.2.3 Operational Expense

Johnson and Roglay (1996), suggest that in case of dropouts the loan portfolio reduces and thus the interest. They noted, however, that operational costs follow the opposite

Trend because exist lead to high recovery costs. Micro Finance Institutions find it hard to remain sustainable. They use the operating and self-sufficiency ration to assess how revenue interest compares to operating expenses

(FINCAUganda 2002). The FINCA Uganda guideline (March 2002) suggest that in order institution to remain sustainable the operation sufficiency ratio must be less than 120%. However, because of the excessive dropouts FINCA Uganda had to close its branch at Kalerwe because its operating self sufficiency level was averaging 60% annually for the years 2000-2002. FINCA in March report mentioned four areas which greatly distorted this ration leading to the closure of Kalerwe branch which include;

Transport costs: Transport costs change depending on the group you monitor. Problem group often require constant supervision and monitoring. Frequent visits to troubled groups by credit officers in an attempt to salvage the loans outstanding affect the transport costs. More so a compassion between the transport costs and loan portfolio shows that more costs are incurred in respect to a decreasing loan portfolio. Areas affected are fuel costs, motor vehicle repairs, out of station allowances for staff travel for long distances to look for defaulters.

Recruitment and Training costs: Costs of recruiting new clients are higher than the cost of monitoring the old one. Need for aggressive marketing of the MFLs product in light of staff competition. They have to spend more money on adverts and marketing which was not budgeted for.

Employee's Remuneration: Joan Ledge Wood (2000), noted that the remuneration or employees remain the same despite the fact that the case load is much smaller because of the excessive dropout.

2.7 Role of Government in Encouraging Micro-Finance Institutions in Uganda

Sserwadda (2002), points out the activities of financial institutions should put in more effort to educate the local people about savings and the importance of savings and encourage them to use micro-finance Institutions (MFIs)

According to the Minister of State for Finance Agard Didi, promoting the efficiency of micro-finance Institutions and expanding their bases is a critical factor in enhancing development through savings and acquire a savings culture. He further narrates that MFIs are in line with the poverty eradication. Action Plan (PEAR) given that they are there and increase peoples incomes and livelihoods.

The government is set to encourage the expansion of Micro-finance services. It is acknowledge that as the world Commemorate a decade of Micro-finances and the pertaining records, the majority of Ugandans have not been part of this program given that most of these institutions are instituted in urban and pre-urban areas

2.8 Enhancing the Capacity of Microfinance Institutions

According to ADB (2000), Experience has shown that microfinance institutions often need several years to cover their costs and establish a sufficient scale of operations and sound institutional organization. Especially in areas with low levels of economic activity and scarce penetration of microfinance institutions and services, where small-scale enterprises are likely to operate, some longer-term donor support (subsidies) may be required to help establish microfinance institutions. Kick-starting mechanisms such as the provision of matching grants, temporary interest rate subsidies for long-term loans, and equity finance at concessionary terms may be envisaged, but should be accompanied by procedures guaranteeing fairness of access and good targeting. Because these should be considered temporary initial arrangements, their design should ensure that they complement and accelerate the development of sustainable microfinance institutions instead of substituting them. Strong microfinance institutions will have the capacity to mobilize resources in the market, provide the microfinance services demanded by poor people, minimize transaction costs and offer competitive prices.

The decision to support a rural microfinance intervention should be based on the prospect of the microfinance institution reaching the twin objectives of outreach and sustainability within a reasonable and agreed time frame (Aryeetey, 1996).For this purpose, high-quality, targeted technical assistance should assist the microfinance institution in adopting appropriate microfinance technology and services for small-scale enterprises, and improving their management and financial performance.

Areas where governments and donors can best focus their assistance include: institutional and human capacity building of microfinance institutions, including training on small-scale enterprises and their activities; the improvement of financial infrastructure; exposure to and promotion of best practices; transparent information; support for reducing transaction costs, product innovation, and commercial mobilization of resources. Inadequate financial skills, difficulties in mobilizing savings and accessing long-term funding, and lack of attractive microfinance products are hampering the success of the credit and savings association EGAPA in the Sudan (Simon 2001).

Important support interventions that can significantly increase the performance of the microfinance sector in a country or region include: upgrading and mainstreaming informal financial institutions (registration, reporting, legal status, prudential practices, supervision); supporting linkages and networks among microfinance institutions and establishing apex services; linking banks with local informal financial microfinance institutions; and transforming agricultural development banks into sustainable providers of agricultural finance and other microfinance services.

In order to become fully sustainable and expand services to poor people in areas of low population density and remote access where most small-scale enterprises operate, microfinance institutions will have to develop innovative products, delivery mechanisms and financial technologies to break these barriers and lower costs. Furthermore, they will need to establish sustainable linkages between more formal financial institutions and informal service providers (Shepherd 1998). Delivery of microfinance services to small-scale enterprises should involve higher degrees of client involvement and division of labour between borrowers' representatives and microfinance institution loan officers. For example, by using group banking methodologies the number and the duration of individual transactions can be reduced.

Despite its rigidities, group lending with its reduced transaction costs and lending risks is a powerful mechanism to reach smaller enterprises and poorer households, some of which would have no access to microfinance services in its absence. Collateral substitutes such as group solidarity help lenders and borrowers overcome some of the problems regarding the availability and effectiveness of conventional collateral in rural and forest areas. Strategies of client graduation applied to groups, based on the principle of increasing the loan size and maturity upon successful repayment, help customers build up a track record with the microfinance institution. This reduces the importance of conventional tangible collateral while allowing for increasing loan amounts. Group lending is also a valuable tool for microfinance institutions to reduce the costs involved in reaching small-scale enterprises. In addition to reducing transportation and transaction costs, it requires less knowledge of forest production due to peer member screening and repayment pressure, and helps microfinance institutions achieve financial sustainability with lower interest rates.

According to Hanning (1999), for small-scale enterprises that have attained a greater economic development and have more diversified demand for microfinance services, and for those that are likely to have more heterogeneous financial needs in terms of amounts, duration and repayment terms, group lending may not be the best option. Micro-entrepreneurs who take out individual loans from microfinance institutions are able to start their loan on a date of their choice, and loan terms and repayment frequency are more likely to suit their needs. Under individual loan technology, clients also avoid bearing the risks of guaranteeing the loans of everyone in a solidarity group.

According to Jackelen and Henry (1997), both group and individual financial services microfinance institutions can maximize their outreach, building on the same delivery infrastructure and acquired knowledge of the sector. To maintain sustainability, higher rates can be charged for individual flexible products, which are likely to cost more but will be directed to more economically active enterprises. Maintaining low-cost group products can provide microfinance institutions with a profitable source of income, thereby contributing to their overall financial performance. Diversifying microfinance services by expanding the range of credit and savings products available, broadening clientele, and establishing operations in more favourable regions so as to compensate for the risks of remoter areas, help them reach sustainability.

Other possible measures to reduce transaction costs include: using collateral substitutes such as pledging of business assets; automating banking operations and improvements in management information systems and banking software; introducing staff incentive systems linked to the performance of branches and individual loan officers; reducing excessive paperwork, bureaucratic delays and controls.

According to Adams (1992), Local institutions and authorities such as agriculture extension workers can play an important role in helping microfinance institutions. They can screen clients and help microfinance institutions understand the economic activities for which they intend to borrow and the risks involved.

They can supervise loans and enforce repayment, thereby also contributing to the reduction of transaction costs. The case of Brazil nut harvesting in Peru shows that in the absence of adequate awareness support, economic activities requiring sectoral knowledge can discourage microfinance institutions from entering the market, even when other supply chain actors have succeed in providing micro credit gainfully. Village Arabic gum traders in the Sudan are able to operate with high profit margins, lending on the basis of personal guarantees, thanks to their knowledge of the sector and the limited number of competing microfinance institutions.

2.8 When Micro-Finance are less efficient

Despite the many studies and reports documenting their positive contribution to poverty reduction, micro-credit and micro-finance constitute neither a panacea for poverty nor a formula for achieving social development. The reality is only in certain situations, and only which certain types of clients.

Robinson (2002), asserts that, its becoming more clear that many poor and especially extremely poor – clients exclude themselves from such micro-credit or micro-finance as is currently available to them. In general micro-credit programmes that typically require sustained, regular and often sympathetic payments are unlikely to be attractive to, or financially viable for, poor families that lack sustained, regular and significant incomes. Rather than credit, these extremely poor people need social protection programmes that can help them with basic needs.

Micro-credit seems to work best for people who have identified an economic opportunity and who would exploit that opportunity if they had access to a small amount of cash or credit. Thus poor people who work in a stable or growing economies, who have demonstrated an ability to understand the proposed activities in an entrepreneurial manner, and who have demonstrated a commitment to repay their debts are the best candidates for micro-credit.

However and Montgomery (2003), observed that, easy access to serving and provision of emergency loans enabled the poor to cope up better with seasonal income fluctuations. Micro-finance specialists increasingly, view improvements in economic security and income protection as the first step in poverty reduction.

Dreze and Sen (1989), argue that access to reliable, monetized savings facilities can help the poor to smoothen consumption over periods of critical or unexpected financial crises, thus greatly improving their economic security.

They also argue that its when people have some economic security that access to credit can help them move out of poverty by improving the productivity of their enterprises or creating new sources of livelihood

CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Introduction

This chapter includes various sections that portray how the study was carried out. It presents the methods, techniques and procedures that were used in order to gather the required data for the study it comprises of several sub sections such as: - research design, research population, sampling methods, data, collection methods, data collection instruments, data management, data quality control and data type.

3.1 Research Design

The research was based on a descriptive design qualitative of a case study based on structured questionnaires. Due to the nature of the study, the researcher, used a case study which is an intensive, descriptive, and holistic analysis of a single entity that aimed at studying a single entity in depth in order to gain insight into larger cases This design was used because of its suitability in data collection because it enabled the researcher to study small samples in depth. It went beyond merely describing the variables but also explained the attitudes and behaviors of the subjects basing on the data which was collected.

3.2 Sources of Data

The sources of data for this research were primary and secondary sources

Primary source; Is described as the data that was observed and recorded by the researcher for the first time to his knowledge and data was collected by using questionnaires method. Primary source of data was collected directly from the field and it included the following;

- Key information, collected from managers and Credit officers of Uganda Finance Trust

- In depth, structured questionnaires were administered with dropouts in order to get to the core of the problem.
- In order to establish the impact of exist on the performance of MFIs, the researcher looked at the financial records such as balance sheets cash flow statements of the microfinance institution under the study

Secondly source. This provided data by reading related documents from the micro finance institutions, and other related institutions like the institute of bankers, visiting public libraries, published material, journals pamphlets and the internet.

3.3 Study Sampling Procedure

In order to obtain a representative sample non-probability sampling technique (purposive judgment) was used for clients who dropped out where the researcher decided who to include in the sample as it selects typical and useful cases only. And stratified sampling for management and staff for proper representation of sub groups and this ensured equitable representation of the population in the sample .This ensured that correct and reliable information was got from the relevant people

3.3.1 Sampling Frame

It was carried out in Kampala Uganda Finance Trust central branch as a case study and the sample unit included staff/management and former clients who droped out of Uganda Finance Trust central branch The case study parameters are determined by the fact that it's impossible to visit all Uganda Finance Trust branches in Uganda. Reliability of data that was required for research, the cost of the research in light of the limited resources, the operational limitations of traveling to up country branches.

3.3.2 Sample Size

From a sample population of 110 recoded drop outs, 86 were selected using sloven's formula and 10 officers (management\staff) out of 20 staff members were selected in order to achieve the required sample.

The sample size was arrived at after taking into consideration the slovens' formula

3.3.3 Sample Selection

Due the nature of the population which is heterogeneous, the sampling frame included management and clients who droped out of Uganda Micro Finance Institutions the sample size was determined using sloven's Formula and the sample selection for clients who droped out was arrived at using simple non-probability purposive judgment sampling technique where 110 recoded drop outs, 86 were selected and stratified sampling for management and staff where out of 20 staff members 10 were selected.

3.4 Data Collection Methods and Instruments

The researcher used structured questionnaire and documentary analysis In the process of collecting primary and secondary data, the selection of these tools was guided by the nature of data that was required, as well as by the objectives of the study.

3.4.1 Questionnaires

Questionnaires were structured that aimed at getting all the necessary data from respondents. This method was used because it's helpful in obtaining specified quantitative and qualitative information with accuracy and completeness. They are cheap to administer and are convenient for collecting data from such a large population within a short period. The questionnaires were administered by research assistants through head hunting and face to face contacts

3.4.2 Documentary Review

This method involved reading documents related to clients drop out and microfinance. It is advantageous because it enabled the researcher to get first hand information through critical examination of recorded information. It was also used to cross check information received from other research procedures

3.5 Validity and Reliability of Research Instruments

The reliability of research instruments was concerned with the extent to which the research instruments yield the same results. 10% of the questionnaires were used in pre-testing and Pre-testing of instruments revealed that g that the instruments would yield the same results on repeated trials hence the research instruments were reliable out of 86 questionnaires 80 were returned thus scaled using Alpha measurements 80/86 giving a reliability of 0.930 which was very reliable.

3.6 Interpretation and Presentation of Data

After collecting data, processing of data commenced it involved checking the administered questionnaires for mistakes. It was followed by extraction of initial summaries sorting and recording and finally interpreting the data. The data entry was done by the typist and verified by the researcher. For interpretation and analysis the researcher used descriptive analysis where simple computer package such as Ms Excel, Ms Word and the researcher further used distribution tables, frequencies, means, percentages, pie charts and bar graphs to present the findings.

3.7 Research Procedure

Research topic was handed to the supervisor and the school of post graduate studies for approval. Research instruments too were approved, the researcher then obtained an introductory letter and authorities from the relevant authorities that helped to introduce the researcher to the field of the study and actual administration of instruments was then done. Data from primary source was collected, sorted, organized, tabulated and edited to reveal frequencies and, percentage and compared with other relevant notes and actual analysis was finally done.

3.8 Ethical Consideration

Bearing in mind the ethical issues, the researcher provided the respondents with the necessary information as regards the main purpose of the research, expected duration and procedures to be followed, and be in position to keep privacy and not disclose the confidentiality of respondents and researchers responsibility.

3.9 Challenges

- Client who dropped out were some times not forthright in answering questions about the reasons for existing the program, this was overcome by giving them reasonable assurance that the responses were strictly for academic purposes and probing more as the questionnaire involved checks and balances.

- Difficulty in accessing the respondents due to their busy schedules however the researcher used multiple skills like call back, re-arranging appointments, and extensively mapping the appropriate respondents with the support of Uganda finance field officers.

CHAPTER FOUR
PRESENTATION AND ANALYSIS OF FINDINGS

4.0 Introduction

The chapter discusses the analysis and presentation of findings to achieve the overall objectives of the research study.

4.1 Demographic Responses

Background characteristics of the respondents were considered in this analysis because they directly affect the operation and performance of microfinance institutions. Such background information consisted gender, age and level of education.

Table1: Gender / Sex Composition

Sex	Frequency	Percentage	Valid percentage
Male	26	29	29
Female	64	71	71
Total	90	100	100

Source: Primary Data

The findings indicate that the majority of the respondents were Female (71%) and Male constituted 29% meaning that there were more Female using microfinance services than Men. And experience has shown that there are more women in microfinance institutions than men meaning, targeting poorer households through women is more effective, as they are more risk-averse, look for more productive loan utilization, are better credit risks and ensure higher repayment rates than men (FAO, 2002). Women are reputed to possess more unrealized entrepreneurial capacity, to have higher savings propensity, and to be more inclined to use income that they control for improving children's nutrition and education.

Table 2: Age Group Composition

Age bracket	No Frequency	Percentage	Valid Percentage
Less than 20	0	0	0
20-29	13	14.4	144
30-39	26	29	29
40-49	38	42.2	42.2
50 and above	13	14.4	14.4
Total	90	100	100

Source: Primary Data

The findings indicated that majority of respondents were in the age bracket of 40-49 as they have already established assets that act as security to access microfinance institutions. Humor and Mosley (2004), demonstrated that the better-off the borrower is the greater the increase in income from borrowed capital. Borrowers who already have assets and skills are able to take risks to use credit to increase their incomes.

Table 3: Level of Education of Management/ Staff

Education level	Frequency	Percentage	Valid Percentage
O.Level	0	0	0
A. Level	0	0	0
Diploma	3	30	30
Tertiary	2	20	20
Degree	5	50	50
Advanced degree	0	0	0
Total	10	100	100

Source: Primary Data

The findings reveal that majority of the staff/management had degrees in various field represented by 50% meaning that they had high degree of integrity when dealing with clients and managerial and analytical skills both soft and hard skills that enable them monitor the operations of the microfinance institution.

Table 4: The Level Education of Drop Outs

Response	Frequency	Percentage	Valid Percentage
Primary	4	5	5
O.Level	20	25	25
A. Level	10	12.5	12.5
Tertiary	24	30	30
Diploma	18	22.5	22.5
Degree	4	5	5
Others	0	0	0
Total	80	100	100

Source: Primary Data

The findings indicate that the majority of respondents were literate meaning that the respondents were able to answer all the questions and give the required information about microfinance institutions and its an evidence that the majority had the knowledge on how to use loans acquired from microfinance institutions.

Table 5: Economic Activity of Respondents

	Frequency	Percentage	Valid percentage
Agriculture	46	57.5	60.5
Industry	0	0	0
Commerce	20	25	26.3
Service	10	12.5	13.2
Total	76	95	100
No Response	4	5	
Total	80	100	100

Source: Primary Data

The findings indicated that majority of the drop outs were engaged in agriculture and commerce represented by 57.5% and 25%respectively. Because most microfinance institutions focus mainly on trading and non-agricultural activities because of the shorter turnover, pay back period since the grace period is also short on borrowed funds.

Table 6: Reasons for Joining Uganda Finance Trust

Reasons	Frequency	Percentage	Valid percentage
Increase investment	62	77.5	77.5
Development of business	45	56.25	56.25
Education and health	40	50	50
Increase capital base	74	92.5	92.5

Source: Primary Data

The findings reveal that respondents have diversified economic portfolios that include various types of enterprises, rental income and salaried income reflecting the reasons why thy joined microfinance institutions. In some cases the client is managing a range of very different activities, each contributing to the goals of the household in different ways. They tend to be differentiated in terms of their demand on the household members' time and management capability.

Loans from Uganda Finance Trust are sometimes distributed between the various economic activities with intent to develop business, increase capital base and increase investment. As one respondent said, "Apart from the business I do in the shop, my husband also lends money to matooke traders who pay him back with interest. I also have another source of income, I sell food in the evening market when I go back home." A lot of combinations of activities reflect a mix based on regularity of income flows. Some businesses such as sale of charcoal, beer, popcorn and water are important sources of regular, and often daily, income

4.2 Reasons for Clients Drop Out

4.2.1 Reasons for Drop out Under Client's Personal Problems

Table 7: Reasons for Drop out Under Client's Personal Problems

Reasons	Frequency	Percentage	Valid Percentage
Death /Illness	60	75	75
Conflicts in the family	52	65	65
Fear of credit	20	25	25
Poor group formation	40	50	50
Movement	13	16.25	16.25
More than one loan	55	68.75	68.75

Source: Primary Data

Death and illness in the family which accounts for 75% were sited as some of the reasons for drop out of clients. Respondents confirmed that due to the social structure of Uganda, death or illness comes with added responsibilities like expensive funeral arrangements, funeral rites and medical expenditures

Conflicts in the family: 65% of respondents suggested that family conflicts where men did not welcome women's financial empowerment therefore amongst interviewed respondents, said that family conflicts is a potential problem though not the main reason for exit. Movement or relocation from one geographical area to another led to exit of micro finance clients. A few cases were met as a result of relocation and other had simply left the areas where these institutions are located and could not be traced 16.25% of the respondents confirmed this.

Fear of credit: Lack of access to finance services and the literacy levels of the great majority of the population created fear among the poor towards the financial institutions.

Though the emergency of Microfinance institutions in Uganda have tried to reduce fear, 25% of respondents revealed that there are some clients who still fear credit, two major reasons were put forward for fear of credit: First, the financial requirement involved in accessing loans forced weekly savings in addition to weekly payments; highly loan processing fees are proving to be a big turnoff. Clients also cited that having more than was one of the factors for drop out and it accounted for 68.75% and also poor group formation accounted for 50% respectively.

4.2.2 Business Failure

Table 8: Reasons for Exits under Business Failure

Reasons	Frequency	Percentage	Valid Percentage
Business seasonality	73	91.25	91.25
Lack of business skills	52	65	65
Appropriate loan size	70	87.5	87.5
Poor utilization	20	25	25
Natural disaster	10	12.5	12.5

Source: Primary Data

91.25% of respondents confirmed that seasonal changes affect Microfinance institutions client's income and expenditures especially rural based clients who depend on agriculture as the main source of income. Most rural based clients borrow money to boost their agricultural activities which is subsistence in nature, however, unlike their counterparts where there is business allover the year. From the research carried out, information got shows that during harvesting season savings shoot up because of a boom in business activities and loans are rapidly. Then during the dry season, savings are too low, poor attendance of meetings, many loan defaulters hence exits. Kasangaki (1999) observed that businesses are adversely affected by their seasonality since most on them depend on some sort of crop, when in the off season all they can afford is to survive on subsistence crops.

In addition, in the rural setting people are more vulnerable to seasonal variations in income/expenditure flows and have fewer opportunities for making money than the urban settings where there are more opportunities to diversify. The researcher believes that it is these seasonal variations, together with the rising loan sizes and most MFIs' rigid loan disbursement systems, that require clients to take loans at a specific date or not at all, has lead to many clients opting out or "resting".

Natural disaster is one of the major causes of client exit in Uganda's Microfinance Institutions; this was confirmed by 12.5% of respondents. In Uganda circumstances of disasters are common but differ from area to area.

Lack of business skills is one of the factors for business failure. Business skills refer to the ability of client to process a good business plan and elementary book keeping when closing the business. According to the survey made, 65% cited business failure as their cause of exit accepted and that they lack business skills and this is because or due to;
Lack basic education, they there fore find it difficult to record business transactions and draw up essential plans.
Microfinance institutions put tight emphasis on their clients on business modules. Most clients conduct business by instinct, they do not know when, how and where to invest. For Microfinance institutions to maintain this client base, they must train clients in acquiring business skills for them to conduct profitability business.

Appropriate loan size. For the purpose of this research, the appropriate loan sizes refer to a situation when clients request for loan amount which is in excess of the business requirement. 87.5% of the respondents confirmed this; clients often assume that their businesses can accommodate any amount loaned to them. The end result is that clients often divert excess money to other users, leaving the business to pay loans they did not benefit from. Business usually can not cope with excess demand and often fails, leading to client's drop out. It was discovered however, that the weakness in the loan appraisal system helps aggravate the situation.

The findings were supported with Wright and Ahmed (1999), arguments that *'due to the weaknesses in the appraisal system, the discretion is left to the borrower to decide how much is appropriate to their business.'*

Poor loan utilization refers to a situation where the money borrowed is deliberately not put to its intended use. The problems regarding poor utilization are shared between the clients and Microfinance institutions. It was however noted that 25% of dropouts in this category blame the Microfinance institutions for; not carrying out proper loan monitoring, not enforcing the group guarantee requirement of peer loan monitoring.

4.2.3 Problems with Microfinance Institutions Procedures

Table 9: Problems with MFI Procedures

Procedures	Frequency	Percentage	Valid Percentage
Repayment partners	74	92.5	92.5
Transport costs	62	77.5	77.5
Loan assessment	30	37.5	37.5
Credit monitoring	45	56.25	56.25
Skills, Experience	26	32.5	32.5
Motivation	40	50	50
Poor decision making	62	77.5	77.5

Source: Primary Data

92.5% of respondents noted that Uganda finance trust has a very short grace period, a client who meets on Wednesday the loan he is expected to start paying the following Wednesday. This gives the clients a short grace period for business which has a monthly yield on those sell seasonal items. Clients suggested that for the most parts they use this loan to settle their weekly obligations when their businesses are not performing. Clients also blame Uganda Finance Trust limited on their conditions of borrowing which dictate when to borrow. This inflexibility is due to poor credit monitoring policies and lack of skills and experience indicated by 56.25% and 32.5% respectively. Short grace period affects client's business performance and many who can not afford to make weekly payments are expelled from the program.

Clients are required to make weekly payments and attend meetings at Uganda Finance Trust limited locations which is very costly. Over 77.5% of the clients use public means of transport to get to Uganda Finance Trust limited branches. They incur expenses which are even bigger than the interests they pay for the loan. Transport to and from Microfinance institutions greatly affects their ability to succeed and forces them to exit.

Another complaint amongst clients was with the way that some credit officers made decisions as evidenced by 77.5%. Credit officers have been given latitude to assess the clients' capabilities to service loans and take decisions on the size of the loan to be issued. This has caused some dissatisfaction and drop-out, particularly in the context of issues surrounding clients' perceptions that they are paying to borrow their own savings.

32.5% of the respondents said that there is a tendency of credit officers to refer all problems back to the group, leaving the onus on the group and its leadership to resolve them. This has caused high levels of dissatisfaction, particularly in view of the fact that often the problems arise from enquiries about disparities in book-keeping, attached savings or delayed disbursement of loans

4.2.4 Other Reasons for Clients Drop Out

During the course of carrying out the research, the study discovered some other reasons for client's exit, which were not included in the conceptual frame work.

Multiple borrowing: Multiple borrowing refers to a situation where a client of Uganda Finance Trust borrows from more than one institution. Clients agreed that it's possible to access credit from more than one institution. This is done to "Patch" loans together to create loans large enough to make business investments.

The formation of parallel Microfinance institutions by clients is another cause of exits. Many clients join MFIs as well as organized groups such as Shoe shiners, butchers and motorcyclists eventually start credit schemes, then they solicit funds from NGOs, and government to start revolving funds and subsequently parallel Microfinance institutions.

During the research, clients who had been members of Uganda Finance Trust limited formed two groups; the Kampala shoe shiner credit schemes and Owino Women's market credit scheme.

Clients being afraid of the closure of the Financial Institutions.Most of Microfinance institutions insist of client saving as a group and also saving individually. The 1999 closure of cooperative bank a fore runner in Microfinance institutions activities credited tension and fear. However, Uganda Microfinance institutions continue to attract clients especially among the poor. Situational factor Political factor/wars Legal factors, environmental factors/flood, Social factors/polygamy

4.2.5 Reasons Why People Don't Join Micro Finance Institutions

Table 10: Reasons Why People Don't Join Micro Finance Institutions

Response	Frequency	Percentage
Weekly repayment size	75	93.8
Exclusion by MFIs staff	60	75.0
Exclusion by MFI members	45	56.3
Self exclusion	54	67.
Compulsory Savings	70	87.5

Source: Primary Data

Compulsory savings: Many clients are also using these high levels of locked-in compulsory savings as a disciplined savings system to build-up lump sums for major acquisitions, typically of land or for house-building. Once the target has been achieved, the clients plan to drop-out and leave the MFI. However, several clients complained that the MFIs' systems and sometimes even their credit officers prevented them from accessing their voluntary savings in times of emergency, and this has on occasions

Exclusion by MFIs' Staff: Many of the poor the research team talked to in the poorer Kampala slums had simply not heard of any of the MFIs. This is probably since the MFIs' credit officers do not approach them. There are two possible (and not mutually exclusive) reasons for this: firstly, the poor are often "invisible" and unknown to the MFIs and their staff because of their appearance and where they live and go to work, and secondly the MFIs do not view the poor as good clients. Indeed the MFIs in Uganda (in common with many throughout the world) have clear policies that exclude the very poor by requiring that members have an on-going, fixed-site business.

In addition, the prospective clients must save regularly (typically for at least six weeks) and build up a compulsory savings/LIF of 25-35% of the loan required. This requirement automatically screens out many poorer potential members. One poor lady (who stays in a single room with her young brother, a casual labourer) noted that she knew about PRIDE, but she also knew that she cannot join because she does not have a permanent job to enable her save and thus get a loan.

Exclusion by Group Members: With the extension of the group guarantee to include the larger groups, existing members have in some cases made these strictures even stronger, excluding (for example) hawkers (on the basis that they have no fixed business) or taxi drivers (on the basis that they move around) The poor do not join MFIs' groups because they fear getting in trouble with loans and having to liquidate their assets. Thus even those poor who want to join cannot do so because they cannot find anyone to guarantee them since everybody knows they are very high risk. Similarly Wright et al., *forthcoming*, noted "However, women who are considered risky, like widows, poor women, and women whose lives are in crisis, are not usually invited by the other women to join
UFT groups – probably in view of the group guarantee mechanism".

Self-Exclusion: The poor also self-exclude for the same reasons that those who do manage to get in often drop-out again. In particular, the stress associated with membership: both in terms of having to find the weekly installments and in terms of the regular meetings are strong disincentives to join.
In addition, amongst the poor and particularly the very poor, there is a perception that they are likely to lose the few assets they have through the group guarantee system, or in extreme cases "be arrested from the house and sent to jail" for failure to repay the loan.

4.3 Impact of Client Dropout on Financial Performance of Uganda Finance Trust limited

4.3.1 Table 11: Management Response about whether Clients who Drop out do affect Financial Performance

Response	Frequency	Percentage	Valid Percentage
Yes	8	80	80
No	2	20	20
Total	10	100	100

Source: Primary Data

Opinions varied amongst MFI senior managers and field staff as to whether drop-outs were a problem. In all cases, there were higher priority issues than client retention, particularly default and loan portfolio size. Increases where drop-outs were viewed as influencing these two variables, they were taken seriously. At one extreme 20% viewed drop-outs as a good thing, "You have to remove the weeds to get a good harvest." At the other extreme, 80% viewed drop-outs as a serious problem because they increase the cost of training, lead to raised unit costs for administration and are one of the factors constraining outreach and loan portfolio targets.

4.3.2 Areas Affected by Clients Drop Out

Table 12: Areas Affected by Clients Drop Out

Response	Frequency	Percentage	Valid Percentage
Capital growth	7	70	70
Profitability	9	90	90
Retained earnings	6	60	60
Portfolio equity	3	30	30

Source: Primary Data

Capital growth: Uganda Finance Trust limited has been experiencing capital erosion due Clients dropout by reducing the earnings (interest earned on the loans) while at the same time leading to an increase in direct and operational costs. 70% of the respondents noted that Clients drop out lead the erosion of capital as result of the accumulated losses of the years, which is a direct result of dropout of clients with large outstanding loans, coupled with failure to recover the accrued interest and related operational expenses. Excessive levels of dropouts will eventually have capital eroded as a result of persistent accumulated loses. The lack of capital growth not only affects the capital outlay but also impinges on the expansion of Micro Finance Institution.

It should be noted that however, in the case of Uganda Finance Trust limited other factors apart from clients drop out also cause the erosion of capital and they include huge administrative costs and the ambitious expansion programs as it was noted by Woods (2000), clients dropouts are the main cause of poor performance of MFIs because they cause short fall in revenue and increase operational costs.

Profitability: It was observed that dropouts do affect the interest earned on loans. Uganda Finance Trust limited uses the "SALT" method (Saving and Loan Tracking) system that tracks interests lost on disbursed loan for clients who have exited the program. This analysis clearly showed that revenue is lost as a result of dropouts. Clients who dropout are usually with big debts to the MFIs and they fail to realize profits as a result of defaulting hence affecting financial forecasts since the MFIs would have booked the interest as income in their books as reflected by 90% and 60% respectively of the respondents this is further evidenced by Maria Otera (1996), who suggested that in order to establish the impact of dropout it is vital to understand how they affect interest earned on loans.

Client dropouts reduces the earning of MFIs which affects the profitability since the costs associated with running of Uganda Finance Trust limited in this case are constantly increasing, previously, Uganda Finance Trust limited was able to recover the monies from dropouts when clients were at a lower loan stage.

Initially because of the assumed perfection of the group guarantee system, Uganda Finance Trust did not write off bad debts. Uganda Finance Trust limited was advised by central Bank to make provisions for bad debts; the provision figure was set at 3% of the outstanding loan balance.

It was noted that increase in transport costs directly attributed to the cost of dropouts as part of its cost identification exercises, Uganda Finance Trust limited had an account code under transport expenses relating to dropouts. Credit officers have to incur transport costs to access client's premises.

Considering all other factors that contribute to persistent losses in Uganda Finance Trust limited dropouts affect profitability and performance most. They affect profitability and performance in the following ways; MFIs earn their monies from interest earned on loans. However, from the research, dropouts caused shortfall, this affected profitability and performance since other costs associated such as budgets, transport costs are increasing.

4.4 Strategies to Contain Clients to Improve Performance

Uganda Finance Trust management resorted to increase in the loan portfolio through continued shift towards larger individual loans. As such, they accounted for over 80% of the portfolio in 2006. Despite this, the bulk of the institutions 20,000 clients remain in the group lending scheme.

Increase in loan terms: The management of Uganda Finance Trust agitated for an Increase in loan terms. The aggressive expansion of individual loans has been supported by the flexibility of the loan product. Aside from increasing the maximum loan size, Uganda Finance Trust increased the loan term to 12 months, from 9 months previously. Further enhancements include reducing the level of forced savings from 20% to 17.5%, but this was only effective in April 2006.

Gross Loan Portfolio Number of Clients / Loan Officer Owing to the movement from group lending and a proportional increase in loan officers, loan officer productivity declined further to 229 clients per loan officer in 2006 (2005: 309). This is a low level of productivity and below the average of 360 seen in other African MFIs rated by Micro Rate.

CHAPTER FIVE

DISCUSSIONS OF MAJOR FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Discussion of the Findings

This research study was guided by both specific and general objectives and one of the objectives was to determine the factors responsible for clients drop out in microfinance institutions. According to the findings, it was found out that business failure is one of the main reasons why clients exit from Micro finance Institutions in Uganda, because of problems with their business. Under business failure, poor loan utilization, appropriate loan sizes, lack of business skills, business seasonality and natural disasters were main reasons for client's exits.

Personal reasons were also responsible for clients exits form MFIs. Respondents confirmed that it was because of personal reasons that they exited from the program. Foreseen and un foreseen circumstances which directly affect the person's ability to engage in any form of business, for example; illness, conflicts in the family, fear of credit, lack of access to micro finance institutions, poor group formation, and having more than one loan were the most significant reasons why clients exit microfinance programmes.

Problems within groups were also sighted as reasons for dropouts. There is growing evidence that despite the rhetoric surroundings "group guarantee" it is not as effective as its advocates suggest. The greatest problem with groups lies squarely with poor group formation. When groups are formed poorly, they lack cohesion and easily breakup.

Multiple borrowing and the formation of parallel MFIs were found to be the other reasons why clients exit from MFIs. And it was also noted that Uganda finance trust has a very short grace period on loan advanced to client which are coupled with high interest rates. Situational factor Political factor/wars Legal factors, environmental factors/flood Social factors/polygamy, were some of the factors that contributed to the clients drop out in micro finance institutions.

The research was further guided by the objective that wanted find out the effect of clients drop out on financial performance. And the findings revealed that Dropouts are the most important factors that lead to reduction on income earned on loans, which in the long run lead to capital erosion. Dropouts affect profitability by reducing the interest earned on loans. Additionally, they lead to increase in operational costs and bad debts written off.

Analysis of financial reports shows that the balance sheet and income statements Appendix III, shows that dropouts have a negative impact on the financial performance of Uganda Finance Trust limited but Uganda finance trust remains profitable due to the rise in portfolio yield 69.7% in 2006, compared to 57.7% in 2005.

Net Income Average Equity, Given higher funding costs and reduced efficiencies, the improved net operating margins were almost entirely due to the rise in portfolio yield to 69.7% (2005: 57.7%). This increase in portfolio yield followed the rapid growth of individual loans in 2004, offering significantly higher loan sizes compared to group loans.

However, it is unlikely that these margins can be sustained. Already margin growth has slowed and this is likely to be compounded by the increasingly competitive environment. Accordingly, using savings which are a cheaper source of funding will become more important.

In 2006, Uganda Finance Trust remained profitable recording a net income of $174,000 (2005: $136,000) and a return on equity of 19.3% (2005: 10.2%)(Appendix III)

The findings further revealed that Excessive levels of dropouts will eventually have capital eroded as a result of persistent accumulated loses. The lack of capital growth not only affects the capital outlay but also impinges on the expansion of Micro Finance Institution.

This analysis clearly showed that revenue is lost as a result of dropouts. Clients who dropout are usually with big debts to the MFIs and they fail to realize profits as a result of defaulting hence affecting financial forecasts since the MFIs would have booked the interest as income in their books

5.2 Conclusions

In the researcher's analysis, it was found out that the structure of various programs has influenced the dropout's rate significantly. Under business failure, poor loan utilization, appropriate loan sizes, lack of business skills, business seasonality and natural disasters, poor group formation, situational factors like social problems like polygamy were main reasons for client's exits Personal reasons and lack of grace period, the fixed regime and poor loan monitoring are structural problems that need to be addressed seriously.

Much as clients drop out do affect financial performance, Uganda finance trust remains profitable because of its improvement in portfolio, intermediation of clients' savings and clients who join are more than clients who exit microfinance programmes. However, It should be noted that, in the case of Uganda Finance Trust limited other factors apart from clients drop out also affect financial performance and they include huge administrative costs and the ambitious expansion programs.

With competition in Uganda expected to intensify, Uganda Finance Trust will find itself at an increasing competitive disadvantage, unless operating expenses are drastically reduced. Operating expenses should ideally be at less than half their present level. This being said, Uganda Finance Trust has successfully managed to increase yields, which is tough in a market as competitive as Uganda, Uganda Finance Trust management should resort to an increase in the Gross loan portfolio through continued shift towards larger individual loans and also improve in loan terms.

5.3 Recommendations

Basing on the assessment above, the study recommends the following in line with the objectives and research questions.

Uganda Finance Trust should respond to the problem of high drop-out rates. It should incorporate drop-out rate monitoring into its management Information System, by analyzing trends, conducting market research with clients and former clients, and modifying policies and products. There is a clear need for the Microfinance Institution to record and analyze drop-out rates as a performance indicator.

Design client responsive products. In the face of it due to increased competition in Uganda, MFIs have to design products that are responsive to their client's needs and not just organizational system. Presently in Uganda, a few systems and products on offers can be described as client friendly. They are expensive, conservative, driven more by needs of the organization and distrust of the clients items by a desire to offer a client responsive product.

Introduction of client exit surveys. Microfinance Institutions should initiate client's surveys to analyze the needs of the poor. MFIs in Uganda collect a lot of information but do not seem to use it to their benefit. Needs assessment survey should be conducted on a regular basis and findings implemented.

As discovered, weaknesses in the group guarantee systems, MFIs should adopt a strict and discipline group guarantee system in the first few cycles in order to screen out the clients. In the long run, members of group based loans, after the clients prove their worthiness and discipline.

Loan restructuring must be encouraged; there is a tendency of patching up for defaulting clients by quick deducting funds from good clients which discourages members. The aim should be to nurture the good clients and also help those who are genuinely having problems.

Training of credit officers: There is need to look at the services delivered by credit officers.Persuading credit officers to see the group members as "clients" not "beneficiaries". Continued training of officers like in customers care and to be encouraged to bridge the gap between credit officers and clients, must be enforced.

Micro Finance Institutions should look on how meetings are conducted, contents and system and whether it cost effective and time to teach the clients to maintain their own books of accounts.

Credit refrence: There is need for Micro Finance Institutions to be very vigilant when vetting clients in order to eliminate those who borrow from more than one institution. Further more; Micro Finance Institutions should form credit beaureus that would help detail the financial dealing of individuals thus reducing their chances of borrowing from more than one institution at a time. And also assess clients who request for loan amount which is in excess of the business requirement

Interest rates of microfinance institutions should cover all costs including costs of funds, administrative costs and provision for loan losses and inflation. But the interest must be customer friendly .Microfinance institutions often charge interest rates of 2 to 3 percent per month or even more; these rates are mainly a result of high transaction costs and risks in financial intermediation. Loan administration costs in terms of personnel and resources are approximately the same irrespective of the loan size, and thus have a higher impact when dealing with small loans.

5.4 Areas for Future Research

- Need for Internal controls in Micro Finance Institutions because there are cases of multiple borrowing by Micro Finance Institutions clients.

- Successful out reach of Microfinance Institutions. Despite the substantial worldwide expansion of Microfinance Institutions, an overwhelming number of poor people continue to lack access to basic financial services.

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APPENDIX I

QUESTIONNAIRE FOR CLIENTS WHO DROPED OUT

Dear respondent,

I am called SUNDAY ARTHUR MBA/0296/51/DU I am carrying out a research study on "Clients drop out and Financial Performance of MFIs in Uganda" You have been selected to participate in this study and therefore kindly requested to fill the questions below. The information given here will be solely for academic purposes and will be treated with auto most confidentiality. Thanks for your valuable time.

100. Demographic Background

101 Name of respondent .... (Optional)

102. Gender Male ☐ Female ☐

103 Age bracket.

Less than 20 ☐

20 – 29 ☐

30 – 39 ☐

40 – 49 ☐

50 Above ☐

104 Education bracket

Primary ☐ Tertiary ☐

O level ☐ Diploma ☐

A Level ☐ Degree ☐

Other specify ....

105 Economic activity of respondent

Commerce ☐

Agriculture ☐

Industry ☐

Service ☐

Others specify ....

200 Clients drop out

201 When did you join UFT ……………………………………………………

202 Was this you first time to join MFIs?

Yes ☐ No ☐

203 No what was your previous MFI ?……………………………………………………………………………………………………

204 How long were you in this MFI ?…………………………………………………

205 Why did you join UFT in particular?

i. …………………………………………………………………………………

ii. …………………………………………………………………………………

205 Did UFT meet your aspirations?

Yes ☐ No ☐

206 If yes why did you drop out?

(i)……………………………………………………………………………

(ii)……………………………………………………………………………

(iii)……………………………………………………………………………

207 If no why ?

(i)……………………………………………………………………………

(ii)……………………………………………………………………………

(iii)……………………………………………………………………………

208 At what stage of loan development did you drop out?……………………………………………………………………………………

209 Why did you drop out exit?……………………………………………………………

Personal problems ☐
Death /Illness ☐
Conflicts in the family ☐
Natural deserter ☐
Afraid of credit ☐

Business failure ☐
Business seasonality ☐
Lack of business skills ☐
Appropriate loan size ☐
Poor loan utilization ☐
Employment ☐
High interest rates

Group problems ☐
Patching ☐
Poor group formation

Problems with MFIS ☐
Procedures ☐
Repayment patterns ☐
Transport costs ☐
Loan periods ☐
More than one loan ☐

Situational factors ☐
Polygamy ☐
Legal factors ☐
Political factors

210 In your own view what are the factors that hinder people from joining Micro Finance Institutions in Uganda

....
....
....

END

APPENDIX II
QUESTIONNAIRE FOR MANAGEMENT STAFF

Dear respondent,

I am called SUNDAY ARTHUR MBA/0296/51/DU I am carrying out a research study on "Clients drop out and Financial performance of MFIs in Uganda" You have been selected to participate in this study and therefore kindly requested to fill the questions below. The information given here will be solely for academic purposes and will be treated with auto most confidentiality. Thanks for your valuable time.

100. Demographic background

101 Name .... (Optional)

102 Position ....

103 Department ....

104 Periods spent in an organization

105 Gender Male ☐ Female ☐

106 Highest level of education

O level ☐ Diploma ☐

A level ☐ Degree ☐

Tertiary ☐ Advanced degree ☐

200 Microfinance operation and clients drop out

201 How many groups / clients do you handle per day / week?

....

202 Do you find this as an over load? If so explain why..

203 How do you rate your lending methodology?

....

204 Do you find it appropriate to MFIS clients?

Yes ☐ No ☐

205 How do you communicate with your clients?……………………………………………………………………………………

206 Do clients have pass books for their savings and loans?

Yes ☐ No ☐

207 At what stage of loan development do most clients drop out?

…………………………………………………………………………………

208 Reasons for clients exit / drop out

Personal Problems ☐
Business Failure ☐
Problems with Groups ☐
Problems with MFI procedures ☐
Social factors ☐

300 Impact of Clients Drop out on Financial Performance

301 Has client dropout / exit affected the level of performance of Micro Finance Institution?

Yes ☐ No ☐

302 What areas are affected most by clients drop outs?

Capital growth ☐
Profitability ☐
Retained earnings ☐
Portfolio Equity ☐

303 If yes how has it affected the performance in terms of

303.1 Capital growth

(i)…………………………………………………………………………

(ii)…………………………………………………………………………

303.2 Profitability

(i)…………………………………………………………………………

(ii)……………………………………………………………………………

302.3 Retained earnings

(i)……………………………………………………………………………

(ii)……………………………………………………………………………

302.4 Portfolio Equity

(i)……………………………………………………………………………

(ii)……………………………………………………………………………

304 Are there any challenges that MFI have faced due to clients drop out?

Yes ☐ No ☐

305 If yes can you please list some?

(i)……………………………………………………………………………

(ii)……………………………………………………………………………

(iii)……………………………………………………………………………

306 In your own view how can MFI over come these challenges and clients exit and dropouts in particular to improve performance.

(i)……………………………………………………………………………

(ii)……………………………………………………………………………

(iii)……………………………………………………………………………

END

APPENDIX III

FINANCIAL STATEMENTS OF UFT

Loan stages

Stages	Loan amount	Percentage
1	108000	6 weeks
2	216000	12 weeks
3	360000	18 weeks
4	540000	24 weeks
5	828000	30weeks
6	1008000	36weeks
7	2108000	40weeks
8	3600000	46weeks

Source UFT limited

Stages of loan Exit

Stage	Frequency	Percentage	Valid Percentage
1	2	6.9	7.1
2	6	20.7	21.4
3	12	41.4	42.9
4	2	6.9	7.1
5	5	17.2	17.9
6	1	3.4	3.6
7	0	0	0
8	0	0	0
Total	28	96.6	100
Missing	1	3.4	
Total	29	100	100

Source: Primary Data

Uganda Finance Trust Financial information

Disclosure	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002
Number of Personnel	218	217	191	170	163
Loan					
Number of Active Borrowers	15,629	17,052	20,600	24,103	21,675
Woman	70.00%	70.00%	71.80%	80.00%	83.00%

Borrowers (%)					
Saving					
Number of Savers	93,154	78,707	98,003	82,220	62,155
Average Savings Balance per Saver (US$)	37	33	23	19	20

Source UFT

Financial Information in US$

Disclosure	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002
	31/12/06	31/12/05	31/12/04	31/12/03	31/12/02
Exchange Rate used for Conversion	1739.999 UGX/USD	1818.999 UGX/USD	1732.001 UGX/USD	1936.858 UGX/USD	1730.104 UGX/USD
Balance Sheet					
Gross Loan Portfolio (in US$)	7,753,348	7,352,998	6,844,829	4,399,434	3,707,056
Total Assets (in US$)	13,209,649	12,288,555	10,636,069	6,384,355	5,110,223
Savings (in US$)	3,455,127	2,606,207	2,235,585	1,544,680	1,472,389
Total Equity (in US$)	3,196,272	2,293,153	1,250,282	1,457,480	1,287,179
Financing Structure					
Capital / Asset Ratio	24.20%	18.66%	11.76%	22.83%	25.19%
Debt / Equity Ratio	313.28%	435.88%	750.69%	338.04%	297.01%
Deposits to Loans	44.56%	35.44%	32.66%	35.11%	39.72%

Deposits to Total Assets	26.16%	21.21%	21.02%	24.19%	28.81%
Gross Loan Portfolio / Total Assets	58.69%	59.84%	64.35%	68.91%	72.54%

Source UFT limited

Overall Financial Performance

	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002
Return on Assets (%	1.66%	-2.80%	-1.83%	n/a	-4.55%
Return on Equity (%)	7.71%	-18.12%	10.46%	n/a	-13.09%
Operational Self Sufficiency (%)	109.66%	91.39%	95.64%	113.31%	83.37%
Revenues					
Financial Revenue Ratio (%	38.60%	34.79%	30.10%	39.37%	n/a
Profit Margin (%	8.81%	-9.43%	-4.56%	11.75%	-19.95%
Expenses					
Total Expense Ratio (%)	35.20%	38.07%	31.47%	34.74%	n/a
Financial Expense Ratio (%	5.17%	6.32%	4.64%	3.03%	n/a
Loan Loss Provision Expense Ratio (%	1.14%	4.68%	1.16%	2.86%	n/a
Operating Expense Ratio (%)	28.89%	27.07%	25.66%	28.85%	n/a
Efficiency					
Operating	48.77%	43.71%	38.85%	40.91%	n/a

Expense / Loan Portfolio (%)					
Cost per Borrower	225.4	164.8	97.7	n/a	n/a
Productivity					
Borrowers per Staff member	72	79	108	142	n/a
Savers per Staff member	427	363	513	484	n/a
Risk					
Loan Loss Reservation(%	2.52%	6.21%	2.08%	4.62%	1.35%
Portfolio at Risk	5.12%	8.26%	4.40%	6.08	3.63%

Source UFT

KAMPALA
INTERNATIONAL UNIVERSITY

P.O.BOX 20000
KAMPALA- UGANDA.
TEL:-041-266813

OFFICE OF THE DIRECTOR
SCHOOL OF POST GRADUATE STUDIES

8/June/2007

The
Finance Manager,
Uganda Women's Finance
Trust.

Dear Sir Madam

RE: INTRODUCTION LETTER FOR MR SUNDAY ARTHUR.

The above named is our student in the school pursuing a Master of Business Administration majoring in Finance and Accounting (MBA).

He wishes to carry out a research in your organisation on "**Clients drop outs and financial performance of Microfinance Institutions in Uganda**" A case study of Uganda Women's Finance Trust Kampala (UWFT)

The research is a requirement for the Award of Master of Business Administration.

Any assistance accorded to him regarding his research will be highly appreciated.

Yours faithfully,

for:
Prof. Owolabi O. Samuel
DIRECTOR-SCHOOL OF POST GRADUATE STUDIES