CLIENT PROTECTION AND SOCIAL PERFORMANCE OF MICROFINANCE

A STUDY OF MFIS IN KAMPALA, WAKISO AND MUKONO DISTRICTS

By

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DECLARATION

I Buyondo Athanasius, declare to the best of my knowledge that, this dissertation is my original work which has never been published and/or submitted for any award in any other University.

Signed: --- **Date:** ------------------------

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APPROVAL

This is to certify that this dissertation had been submitted with our approval as University Supervisors.

Signed: --   Date: --------------------------

DR. NKOTE NABEETA

Signed: --- Date: **----------------------**

MR. STEPHEN K. NKUDABANYANGA

DEDICATION

To my Wife, Children and all those who will find value in this publication

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ACRONYMS

ACCION-ACCION International

AFI- Alliance for Financial Inclusion

AMFIU- Association of Microfinance in Uganda

CGAP- Consultative Group to Assist the Poor

GFEP- Global Financial Education Program

IFAD- International Fund for Agricultural Development

MFI-Microfinance Institution

MFPED- Ministry of Finance Planning and Economic Development

NGOs- Non Governmental Organizations

OECD- Organization for Economic Co-operation and Development

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ABSTRACT

The inspiration of this study was to establish the relationship between client protection and social performance of microfinance institutions in Kampala, Wakiso and mukono Districts. Client protection was operationalised by transparency pricing, sensitivity to over indebtedness and grievance handling while social performance had social mission, client service, employment climate and outreach as its constructs. The study was a cross sectional research design, which was combined with a descriptive and analytical research design and Thirty two (32) MFIs were studied. The data was collected using a self-administered questionnaire and data was analyzed using SPSS and Excel programs.

Results show that there is a significant positive relationship between transparency pricing, sensitivity to over-indebtedness, grievance handling and social performance. This means that when an MFI improves its disclosure of information related to prices, creates a transparent system of grievance handling and with a high sensitivity to over indebtedness of the client, it improves the social performance. It was also established that these three (transparency pricing, sensitivity to over indebtedness and grievance handling) can predict 55.1% of social performance.

The results revealed that transparency pricing and Grievance handling were significant in influencing social performance. This implies that disclosure of all relevant information and timely and adequate conflict resolution between the MFI and clients are paramount in improving the social performance of an MFI

CHAPTER ONE

INTRODUCTION

1.1   Background

Today microfinance practitioners and funders are realizing that it is also important for microfinance services to reach the very poor people, provide quality services, and most important to improve clients' lives (IFAD, 2006). The social value of microfinance is to improve the lives of the poor, excluded clients, their families and widen the range of opportunities for communities (IFAD, 2006).

Social performance is the effective translation of an institution's social mission into practice in line with accepted social values such as outreach, client service, labor climate and improving social responsibility of an MFI (CGAP, 2010). To create this value, the MFI must achieve it's social objectives of serving the increasing numbers of poor and excluded people in an ongoing, sustainable way both by broadening and by deepening outreach; improve the quality and appropriateness of the financial services available to target clients through the systematic assessment of their specific needs, create benefits for microfinance clients, their families and communities. Thus leading to social capital and social links, assets, reduced vulnerability, income, access to services and the fulfillment of basic needs; and improve the social responsibility of the MFI towards its employees, clients and the community it serves (CGAP, 2007).

Consumer protection is the implementation of measures that prevent irregularities or transactions which have negative impact on consumers; empower consumers to exercise informed choices and select value-for-money goods and services; provide fair access to basic goods and services; and open avenues to address consumer interests and concerns (Duggan, 2009). Consumer protection is surging

around the world and dozens of MFIs, donors, practitioners and investors have recently signed on to the Campaign for Client Protection in Microfinance, seeking to build recognition of microfinance as a pro consumer industry and encouraging microfinance providers worldwide to embrace appropriate treatment of clients (GFEP, 2009).

ACCION (2007) believes that social performance of the MFI depends on the perception of clients, staff, and the community. This is in line with Zeller (2003) who accesses social performance by analyzing intentions and action; and looking at the involvement of clients in decision making. Where as the two authors agree that client involvement influences social performance, there is an information gap as to whether client based practices in microfinance will lead to social performance necessitating the researcher to investigate further with a specific focus on Uganda.

Microfinance started in Uganda in the late 1980s through foreign funded Non Governmental Organizations (NGOs), and has since revealed a tremendous growth in the number of microfinance institutions in the country with an objective of self sustainability (MFPED, 2008). Prior to 2000, less than 60 microfinance institutions existed and has since increased to more than 1500 institutions, many of which are urban based (MFPED, 2008) . While the growth of Uganda's microfinance sector is hailed globally, immense difficulty in accessing financial services has been faced. There is an out cry that many MFIs target clients who are commercially productive or corporate enterprises, while the low-income levels of which most are micro-entrepreneurs are left un attended too, (MFPED, 2008; Asiimwe, 2007).

1.2 Statement of the Problem

There is significant evidence that Uganda's microfinance sector has tremendously grown both in terms of numbers and dollar value. However, the growth has tended to favor more the active

poor in urban setting while the rural and the actual poor population are not attended to (Asiimwe, 2007; MFPED, 2008). This has led to many clients to operate on the mercy of the microfinance service providers causing many customers and politicians to question the effectiveness of microfinance institutions in achieving their social obligations (Estelle & McKee, 2010; Wafula, 2009).

1.3   Purpose of the Study

The study was undertaken to establish the relationship between client protection and social performance of MFIs in Kampala, Wakiso and Mukono Districts.

1.4   Objectives of the Study

  i.   To establish the relationship between transparency pricing and social performance.

 ii.   To establish the relationship between sensitivity to over indebtedness and social performance

iii.   To establish the relationship between grievance handling and social performance.

1.5   Research Questions

  i.   What is the relationship between transparency pricing and social performance?

 ii.   What is the relationship between sensitivity to over indebtedness and social performance?

iii.   What is the relationship between grievance handling and social performance?

1.6 Scope of the Study

- **Geographical Scope**

The study focused on MFIs operating in Kampala, Wakiso and Mukono Districts. This was because Kampala, Wakiso and Mukono had the greatest number of MFIs and it was easier to access these MFIs by the researcher.

- **Subject Scope**

The study focused on transparency pricing, sensitivity to over indebtedness, and grievance handling as constructs of client protection, while social performance was mainly limited to social mission, client service, employment climate and outreach. The researcher focused on an MFI as a unit of analysis.

1.7 Significance of the Study

- The research findings provide MFI's managers, employees and client with the necessary knowledge abilities and skills to enable them comply with the necessary requirements.

- The study provides a wealth of knowledge for policy makers and regulators on the best regulatory procedures, and also guide consumer associations on the right actions to take while agitating for the rights of the consumers in the microfinance sector.

- The study will guide future researchers with a wealth of knowledge regarding consumer protection and social performance.

1.8   Conceptual frame work

Figure 1   Conceptual frame work

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┌─────────────────────────────┐           ┌─────────────────────────────┐
│ CLIENT PROTECTION           │           │ SOCIAL PERFORMANCE          │
│                             │           │                             │
│  ┌───────────────────────┐  │           │      •  Social mission      │
│  │      Transparency     │  │           │                             │
│  │       Pricing         │  │           │      •  Outreach            │
│  └───────────────────────┘  │────┐      │                             │
│  ┌───────────────────────┐  │    ├──▶   │      •  Client service      │
│  │   Sensitivity to over │  │────┘      │                             │
│  │    indebtedness       │  │           │      •  Employment climate  │
│  └───────────────────────┘  │           │                             │
│  ┌───────────────────────┐  │           │                             │
│  │   Grievance Handling  │  │           │                             │
│  │                       │  │           │                             │
│  └───────────────────────┘  │           │                             │
└─────────────────────────────┘           └─────────────────────────────┘
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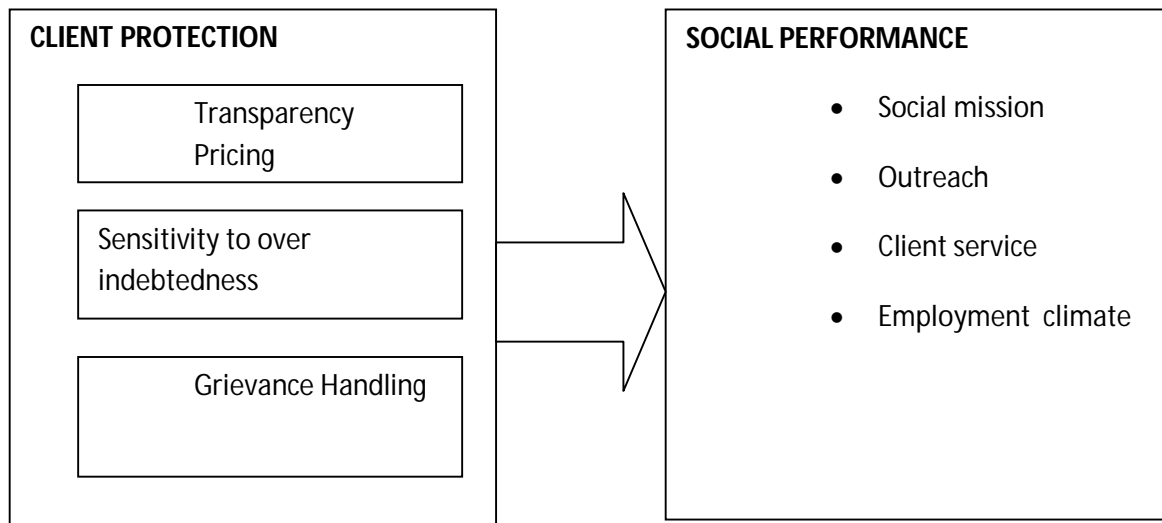
Source: Developed from Literature Review (Microfinance Insight, 2009; ACCION, 2007; CGAP, 2007 and Asiimwe, 2007)

The conceptual framework as shown in figure 1, demonstrates the relationship between Client protection and social performance. Client protection is seen to be composed of transparency pricing, sensitivity to over indebtedness and grievance handling. Social performance is seen in the perspectives of social mission, outreach, and client service and employment climate.

CHAPTER TWO

LITERATURE REVIEW

2.1   Introduction

This chapter brings out the literature on the variables under study and identifies the gaps in the existing body of literature. Most of the literature reviewed in this study was cited mainly from studies carried out from developed countries.

2.2   Social Performance

Social performance is the effective translation of an institution's social goals into practice in line with accepted social values. These include sustainably serving increasing numbers of poor and excluded people, improving the quality and appropriateness of financial services, improving the economic and social conditions of clients, and ensuring social responsibility to clients, employees and the community they serve (Hashemi, Foose & Baadawi, 2007).

Microfinance institutions have different reasons to evaluate social performance, depending on their institution type and maturity. These may include providing information on how the microfinance institution is perceived by all its stakeholders, improving organizational performance by highlighting the strengths and weaknesses in different areas of social performance; mitigating risk (particularly political risk of greater regulatory control) by demonstrating transparency and voluntarily disclosing a broader set of information to stakeholders; and differentiating their brand from other financial institutions (ACCION, 2007; CGAP, 2007).

2.2.1 Social Mission

Most microfinance institutions were incorporated with both social and financial goals and all these are stipulated in the mission of the MFI. An MFI's social mission provides a roadmap of an institution's specific social goals like women's empowerment, alleviating poverty or simply increasing access to financial services. This dimension discusses how MFIs can evaluate their commitment to institutional mission and different mechanisms to measure mission fulfillment (Reddy, 2005; Estelle & McKee, 2010).

MFIs are able to translate their social mission into social goals is a key way for MFIs to define the social value they create; while holding themselves accountable for the goals articulated in their mission (ACCION, 2007). Thus social mission helps an MFI to effectively translate into practice with accepted social values. Managing an MFI's social mission is good business as it improves the financial performance of MFIs through better retention of clients and reduction of costs (ACCION, 2007; Wood, 1991).

2.2.2 Outreach

Outreach is the number of clients being served by an MFI; and has been noted as core social performance indicator for a given MFIs (Kereta, 2007). Outreach analyses how many and which clients an MFI serves; and broaden access to financial services particularly the poor and underserved populations (Reddy, 2005; CGAP, 2007).

Outreach can be explained as the number of persons now served that but were previously denied access to formal financial services. These persons include the poor because they can not provide the collateral required for accessing formal loans, are perceived as being too risky to serve, and impose high transaction costs on financial institutions because of the small size of their financial

activities and transactions (Meyer, 2002). In addition, women often face greater problems than men in accessing financial services so number of women served is often measured as another criterion. Depth of poverty is a concern because the poorest of the poor face the greatest access problem. Some measure of depth of outreach is needed to evaluate how well MFIs reach the very poor (Meyer 2002; Kereta, 2007). Out reach also emphasizes the variety of financial services provided as a criterion because it has been shown that the poor demand and their welfare can be improved if efficient and secure savings, insurance, remittance transfer and other services are provided in addition to the loans that are the predominant concern of policy makers (Kereta, 2007).

Navajas *et al.* (2000) indicated that there are six aspects of measuring outreach. These include depth of outreach (the value the society attaches to the net gain from the use of the micro credit by a given borrower); worth of outreach to users (how much a borrower is willing to pay for a loan and consists of prices like interest rates and various payments that they have to pay, which could be revenue to the lender, and other loan related transaction costs like expenses on documents, transport, food, taxes), breadth of outreach (the number of users), length of outreach (the time frame in which a microfinance organization produces loans), and Scope of outreach (the number of type of financial contracts offered by a microfinance organization).

2.2.3   Client service

Microfinance institutions should offer quality services that fulfill the financial needs of clients since clients are key stakeholders of microfinance institutions, and providing clients with quality services is at the heart of any social performance (Wood, 1991). A strong good working relationship between the MFI and its clients enhances a high MFI reputation (ACCION, 2007).

2.2.4 Employment Climate

Employment climate focuses on the existence of policies and procedures to promote diversity and equal treatment and the existence of fair labor practices, the support organizations provide to employees to enhance personal skills and potential and the existence of a broad array of feedback mechanisms to promote communication between staff of all levels (ACCION, 2007). This is so because employees are key stakeholders of microfinance institutions, as the nature of its interactions with clients, depends upon them. It has been argued that microfinance institutions should strive to develop their human resources and maintain active communication with staff and also maintain policies and procedures that promote staff satisfaction (IFAD, 2006).

2.3 Client Protection

Client protection in microfinance is the prohibition of deceptive and unfair practices in lending and collection practices, which would seek to abuse the vulnerability of beneficiaries of the services (WSBI, 2009). Client protection seeks to prevent abusive lending and collection practices as well as to reveal transparent and detailed information about the costs of financial services to the customers (Christen et al, 2003), and also seeks to level the playing field between suppliers and consumers of financial services. Client protection is a result of the imbalance between retail customers having less information about their financial transactions than the financial institutions providing the services do, which can result in excessively high interest rates paid, lack of understanding about financial options, and insufficient avenues for redress (OECD, 2009). This vulnerability of the borrowers is attracting the attention of regulators and politicians to ensure there is transparency, sensitivity to over-indebtness and Grievance handling (Wafula,

2009; OECD, 2009). Client protection creates environment where consumers receive satisfaction from the delivery of goods and services they need.

2.3.1 Transparent Pricing

Consumers of financial services, especially new customers, lack information about the financial system and financial transactions, while on the other hand, the financial providers serving these customers try to access a great deal of information about the customer and the market including credit histories, market assessments, and analysis to inform their decisions (AFI, 2010). This requires MFIs to make full disclosure of prices, terms, fees, and loan conditions, and management makes efforts to ensure clients understand the product terms including contracts and payment schedule (Microfinance Insight, 2009). Consumers who demand information play an important role in ensuring transparency among financial institutions. Transparency in the market encourages institutions to compete on the basis of better products and services and lower costs. Ultimately the availability of quality retail financial services will draw in new customers and expand the market. (World Bank, 2008)

2.3.2 Sensitivity to Over-indebtedness

Porteous (2009) defines over- indebtedness as when a particular clent is or will be unable to satisfy in a timely manner all the obligations under credit agreements to which that client is party. Many MFIs encourage   clients to acquire additional loans or even to take a loan from one MFI to repay a loan granted by another MFI which affects their repayment position as in many cases the standard monthly repayment of half their income is exceeded, causing over indebtedness (Duquet, 2009).

In order for the any MFI to effectively manage client's indebtedness, it must have systems that enable management to track issues related to the indebtedness of the client. These may include credit bureaus (if available) are consulted, incentives emphasize portfolio quality at least as much as growth, credit capacity must be assessed conservatively, products should be flexible and appropriate, existence of cooperation from clients and authorities; and oversight should be carried out (OmSeng, 2009; ACCION, 2008).

Sensitivity to over- indebtedness leads to reduced transaction costs and thus facilitate the analysis and quantification of credit risk, avoiding the aggregation of bad debt by borrowers and increase the number of loans granted as potential borrowers who were before excluded become beneficiaries (Daquet,2009). Over-indebtedness can lead to personal problems for clients and affect the asset position of the MFI as evidenced in India, where borrowers who had taken out microcredit on several occasions from MFIs chose to take their own lives when they failed to pay (Duquet, 2009).

2.3.3   Grievance Handling

Porteous (2009), demonstrated that client's thinking and behavior is of a particular nature and in some cases it may cause conflict in credit markets. This thinking exists even when clients are well informed about their choices like the available products or services; inherently subject to biases and prejudice. This requires well defined MFI system to handle complaints including specially training staff, a process for categorizing complaints, an adjudication committee and a mechanism for monitoring (ACCION Insight, 2008). Also all contractual consequences should be explained before signing, clients treated with dignity even during default, and court proceedings treated with respect (OmSeng, 2009). A conflict free microfinance environment

demonstrates profit potential of microfinance as more entrants are able to be attracted to the market. In this sense, appropriate grievance redress is likely to have a positive impact on outreach in the future, resulting in more clients being served by MFIs (Porteous, 2009).

2.4   Transparency Pricing and Social performance

According to Asiimwe (2006), transparency pricing is essential if the microfinance industry is to expand and to sustain the expansion. Transparency enables consumers understand the various choices at their disposal and use them wisely as they demand for financial services. Microfinance Insight (2009), argues that increase in transparency pricing has a reputation impact on the social ranking of the MFI. When there is full disclosure of prices, terms, fees, and loan conditions, clients are able to understand the product including contracts and payment schedule (CGAP, 2009; CGAP, 2008; Claessen & Laeven, 2003). In addition, clients who demand information play an important role in ensuring transparency among financial institutions and thus transparency in the market encourages institutions to compete on the basis of better products and services and lower costs (Daquet, 2009; Kosicki, 2008; Kereta, 2007). Ultimately the availability of quality retail financial services will draw in new customers and expand the market as earlier proposed by World Bank, (2008).

When MFIs increase transparency of their services, quality service to clients as well as fulfillment of clients financial needs are enhanced; and thus providing the key stakeholders (clients) with quality service is at the heart of any social performance of an MFI (Wood, 1991; OECD, 2009; GFEP, 2009; Navajas etal, 2000).

Increase in transparency leads to high sales of the MFI services and thus increase the MFI profitability (OECD, 2009). The increased earning for the MFI may also result in increased

earnings for the staff interms of increased salary structures. A remunerated employee is able to provide feedback and effective communication with all clients as suggested by ACCION (2007) and IFAD (2006). This is because employees are key stakeholders of microfinance institutions, as the nature of its interactions with clients, depends upon them (Hashemi, 2009).

Low income earners particularly the poor in developing countries have a high fear for financial institutions resulting from a high level of information asymmetry (Meyer, 2002; Omseng, 2009; Reddy, 2005). This is in line with Smart Campain (2009) that argued that transparency pricing reduces the information gap between clients and the MFIs. This aspect of information sharing is likely to build trust in the institution by the clients and thus increase the institution's social perception (United Nations, 2003).

Porteous & Helms, 2005; Poerteous 2009; World Bank, 2008 argue that when MFI clients receive full information in their local languages, it could yield a high level of understanding of their credit responsibilities, which in-turn could result into good payment performance and thus a good relationships with the institution. This places the MFI into in a good position before its clients. This is however contrary to Leonard (2010) who argues that the poor shun MFIs because some of them are so ignorant to understand their credit responsibilities particularly when they are in numerical terms.

Transparency pricing should encourage full disclosure of all relevant information to consumers, including interest rates and terms for loan products, and a schedule of other allowable fees and charges (AFI, 2010; Wafula, 2009; Wood, 1991; OECD, 2009). This means Transparency in the market encourages institutions to compete on the basis of better products and services and lower

costs. Ultimately the reduction in costs will increase the marketability of financial services and subsequently draw in new customers and expand the outreach (World Bank, 2008, Bulut, 2008).

2.5   Sensitivity to Over- Indebtedness and Social performance

Sensitivity to client over-indebtedness compels MFIs to take reasonable steps to ensure that credit will be extended only if borrowers have demonstrated an adequate ability to repay and loans will not put borrowers at significant risk of over-indebtedness (ACCION, 2008; CGAP, 2009; CGAP, 2008; Zeller, 2003). In addition, MFIs take adequate care that noncredit, financial products such as insurance, extended to low-income clients are appropriate, thus improving the social value of the MFI (CGAP, 2008).

World Bank (2008) argues that increased sensitivity to over-indebtedness improves the credit rating of the institution and thus improves the client's ranking of the institution which results in improved social performance. For instance if a client's business is growing steadily, many other business players in the industry tend to find where is the source of the strength. In so doing the successful business client may make recommendations to that particular MFI, thus improving its social rating. This is in line with arguments by Porteous (2009) and Bulut, (2008) that social performance of an MFI leads to recommendations of other clients to that MFI.

2.6   Grievance Handling and Social performance

Having an effective way of handling grievances ensures that MFIs have in place timely and responsive mechanisms for complaints and problem resolution for their clients (CGAP, 2008), and subsequently giving a quick response to the concerns of all stakeholders. This improves the working relationship between the MFI and its stake holders thus improving on its social performance (IFAD, 2006). Redress of grievances ensures that clients have proper options for

recourse by addressing their complaints, liaise between the customer and the MFI; and then determine when and where the MFI is failing in the quality of its service.

An MFI with a clear system of grievance handling is likely to frequently conduct surveys to determine the quality of service and identify weaknesses with the idea of being proactive, so it does not simply respond to current problems, but also foresee and circumvent future problems. Once such problems are addressed, harmony is created between the customer and the MFI, thus attracting the marginalized groups to access the financial services; and its social objectives will be achieved in the long run (AFI, 2010).

According to Porteous (2009), behavioral economics demonstrated that client's attitudes and actions have systematic patterns which deviate from the rational; and that these deviations have always caused conflict in credit markets either erroneously or mistakenly. These deviations exist even when clients are well informed about their choices; because they are inherently subject to behavioral biases. This requires a well defined MFI system to handle complaints including training of staff, a process for categorizing complaints, an adjudication committee and a mechanism for monitoring conflict. This is inline with the predictions of ACCION Insight (2008). Daquet (2009) states that that when contractual terms and conditions are explained to the client before signing, clear contractual obligations are created on the clients and subsequently lead to timely repayments. This creates harmony between the client and the MFI thus promoting a positive image.

Grievance Handling may ensure that clients are treated with dignity even during default and also court proceedings treated with respect. This creates a conflict free microfinance environment

demonstrates profit potential of microfinance as more entrants are attracted to the market. In this sense, appropriate grievance redress is likely to lead a positive impact on outreach in the future, resulting in more clients being served by MFIs. Thus having a clear grievance handling procedure, may promote a positive image the institution (Porteous, 2009; CGAP 2009).

According to ACCION Insight (2008), when an MFI has an effective grievance procedure, it strives to develop their human resources and so as to maintain active communication with staff and also maintain policies and procedures that promote staff satisfaction. This therefore ensures that employees communicate effectively with the clients thus creating a harmonious relationship and this is agreement with IFAD (2006) and AFI (2010).

2.7   Conclusion

As the microfinance industry increases in size and prominence, there is a growing need for microfinance institutions (MFIs) to become more effective in fulfilling their mission, as well as fulfill their social responsibilities. MFIs need to understand that incorporating client protection into their operations makes the MFI stronger, builds long-lasting relationships with clients, may lead to greater staff satisfaction, increased client recruitment and retention and reduced financial risk.

While the above is true, the literature does not provide clear evidence of the nature of the relationship between transparency pricing, sensitivity to over indebtedness, grievance handling and social performance. The extent to which the three constructs of client protection affect social performance is also none existent; thus the need for an in-depth study to explore the relationship between the variables further.

CHAPTER THREE

METHODOLOGY

3.1   Introduction

This section covers the research design, sample design, study population, sample size, sources of data, research instruments, measurement of variables and limitations of the study.

3.2   Research Design

A cross-sectional and descriptive research designs were used. There after, correlation and regression analysis was conducted to establish the relationship between the variables.

3.3   Population

The population is comprised of 35 MFIs in Kampala, Wakiso and Mukono Districts. These MFIs were obtained from a list of AMFIU members (AMFIU, 2010) and the districts were selected because of their easy accessibility and had the greatest number of MFIs.

3.4   Sample Size

The Sample size of thirty two (32) MFIs (Krejcie & Morgan, 1970) from which 128 respondents comprised of staff and customers were selected as shown in the table 3.1;

Table 3.1   Showing Population, Sample and Response rate

Category	Population	Sample	Response rate
MFIs	35	32	-
Chief Executive Officer/ Operations Directors	35	32	29 (90.6%)
Clients	-	96	80 (83.3%)
Total	-	128	109 (85.2%)

Source: Primary Data

The sample of 85.2% (109) was considered acceptable as per the rule of thumb of Roscoe (1975) as cited by Sekaran (2000) who stated that sample sizes of larger than 30 and less than 500 are appropriate for most research.

3.5   Sampling Design

The chief Executive Officer or the operations Director (Manager) were purposively selected because of their knowledge on the social goals of the organization. To validate the responses of the Chief Executive Officer or Operations Directors, customers were also interviewed. The customers were conveniently selected according to their borrowing availability and three (3) customers were selected from each MFI (Daquet, 2009).

3.6   Data Sources

- **Primary Data**

Primary data was collected from staff and clients of various MFIS.

- **Secondary Data**

The secondary data was used to support the empirical findings of the study**.** This data was obtained from the published journal articles like the emerald publishing group particularly from developed countries.

3.7   Data Collection Instrument

A self administered questionnaire was used to collect data from literate respondents and where the respondents are not literate; the researcher took time to interpret the questions in their local languages to ensure clarity.

3.8   Measurement of Variables

Social performance and client protection were measured using a research instrument developed by AFI, (2010) and Smart Campaign (2009) where respondents were required to answer a yes or no questions relating to the various constructs of client protection and social performance. However, modifications were made to item wording for some of the items and a 1-point to a 5-point likert scale was used to suit the context of the research setting in Uganda and also to allow respondents to express both the direction and strength of their opinion about the variables (Garland, 1991).

3.9   Validity and Reliability Tests

The Content Validity Index (CVI) was used to measure the relevancy of the questions of the study variables; and all the CVIs were above 0.700, meaning that questions in the instrument measured under the study variables were effective. In addition, comments on the correctness of the questions in the instrument by the supervisors were included.

Reliability (Internal consistency and stability) of the instrument was tested using Cronbach's Alpha (α) coefficients (Cronbach, 1946). The researcher tested the inter-item consistency reliability to ensure that there was consistency of respondents' answers to all items in the measure and the reliability coefficients are shown in Table 3.2 below:

From table 3.2 below, all Cronbach coefficients were above 0.5 indicating that the scales used to measure all the study variables on both the employees and borrowers questionnaires were consistent, and therefore, reliable.

Table 3.2   Reliability and validity of the research instrument

Variable	Anchor	Cronbach Alpha	Content validity Index
Transparence Pricing	5 Point	0.943	0.867
Sensitivity to Over Indebtedness	5 Point	0.844	0.750
Grievance Handling	5 Point	0.904	0.750
Social Performance	5 Point	0.847	0.800

Source: Primary Data

3.10   Data Analysis

Data collected from the primary survey was complied, sorted, edited, classified, coded into a coding sheet and analyzed using Statistical Package for Social Scientists (SPSS). Descriptive statistics were used to describe the data; also factor analysis, correlation and regression analysis were used to determine the degree and significance of the relationship between the variables.

3.11   Limitations of the Study

- Since there was little research done on client protection and social performance in developing countries, literature and measurement scales for the variables were scarce. The research endeavored to use literature from developed countries to guide the direction of the study.

- There was insufficient time provided for an in-depth study. However, this was solved by prioritizing this research until it was accomplished compared to other tasks.

- One of the limitations of this study is the limited nature of its sample, which was drawn from one sub region in Uganda -Central. Thus, the results may not be generalized to other regions.

CHAPTER FOUR

ANALYSIS, INTERPRETATION AND PRESENTATION OF FINDINGS

4.1   Introduction

This chapter presents the descriptive statistics that reveal the institution characteristics; correlation and regression tests to show the relationship between Client protection and Social performance. The findings are interpreted in relation to the research questions.

4.2   Background information

The results in the table below show the nature of the institutional characteristics and the respondents that the researcher gathered data from. The questions here were designed to recognize the respondent's knowledge about the institution they transacted business with. The various characteristics are shown in tables 4.1- 4.9 below.

Table 4.1   Showing responses on period of operation

PERIOD MFI HAS BEEN OPERATING	FREQUENCY	VALID PERCENT	CUMULATIVE PERCENT
Less than 1 yr	12	11.4	11.4
1 - 2 yrs	6	5.7	17.1
3 - 5 yrs	9	8.6	25.7
6 - 10 yrs	70	64.3	90
More than 10 yrs	5	4.3	94.3
Not sure	7	5.7	100.0
Total	**109**	**100.0**	

Source: Primary Data

The results show that 74.3% of the MFIs have operated for more than 6 years, and fourteen (14) amounting to (11.4%) were new in the industry.

Table 4.2   Showing responses on number of employees

NO OF EMPLOYEES	FREQUENCY	VALID PERCENT	CUMULATIVE PERCENT
Less than 5	16	14.3	14.3
5 – 10	8	7.1	21.4
11 – 50	11	10.0	31.4
More than 50	58	52.9	84.3
Not sure	19	15.7	100.0
Total	**109**	**100.0**	

Source: Primary Data

Table 4.3   Showing responses on number of Branches

NUMBER OF BRANCHES	FREQUENCY	VALID PERCENT	CUMULATIVE PERCENT
1 Branch	11	10.0	10.0
2 - 4 Branches	62	57.1	67.1
5 - 10 Branches	20	18.6	85.6
More than 10 Branches	16	14.4	100
Total	**109**	**100.0**	

Source: Primary Data

Table 4.4   Showing responses on the origin of founders

ORIGIN OF FOUNDERS	FREQUENCY	VALID PERCENT	CUMULATIVE PERCENT
Ugandans	75	68.6	68.6
Non Ugandans	25	22.9	91.4
Not Sure	9	8.6	100.0
Total	**109**	**100.0**	

Source: Primary Data

The results also show that 52.9% of these institutions had more than 50 employees (Table 4.2), 85.6% were located in both rural and urban areas (Table 4.3); while majority of these institutions (68.6%) were owned by Ugandans (Table 4.4).

Table 4.5   Showing Age group of the respondents

AGE GROUP	FREQUENCY	VALID PERCENT	CUMULATIVE PERCENT
18-24 years	3	2.9	2.9
25 - 34 yrs	69	63.7	66.7
35 - 44 yrs	32	29.4	96.1
45 yrs & Above	4	3.9	100.0
Total	**109**	**100.0**	

Source: Primary Data

The results show that most of the respondents were in the 25 – 34 year age bracket (63.7%) while only 2.9% were in the 18-24 age groups. The study also indicated that the respondents in the 35- 44 years of age comprised 29.4% of the sample respondents. Only 3.9% were in the age group of 45 years and above.

Table 4.6   Showing Gender of the respondents

Gender	FREQUENCY	VALID PERCENT	CUMULATIVE PERCENT
Male	74	68.6	68.6
Female	35	31.4	100.0
Total	**109**	**100.0**	

Source: Primary Data

The results show that most of the respondents were   male with a percentage of 68.6%. The study also indicated that the female respondents were list with a percentage of 31.4% of the total 109.

Table 4.7   Showing the Marital status of the respondents

STATUS	FREQUENCY	VALID PERCENT	CUMULATIVE PERCENT
Single	30	27.5	27.5
Married	75	68.6	96.1
Divorced	4	3.9	100.0
Total	**109**	**100.0**	

Source: Primary Data

The results show that most of the respondents were married (68.6%) while only 27.5% were single. The study also indicated that the respondents who were divorced comprised 3.9% of the sample respondents.

Table 4.8   Showing the duration of the respondents with the MFI

DURATION	FREQUENCY	VALID PERCENT	CUMULATIVE PERCENT
Less than 1 yrs	42	38.2	38.2
1 - 5 yrs	62	56.9	95.1
5 and above	5	4.9	100.0
Total	109	100.0	

Source: Primary Data

The results show that most of the respondents had worked between 1-5 years (56.9%) while only 38.2% had worked for less than one in the organization. The study also indicated that the respondents in the range 5 and above years of working comprised 4.9% of the sample respondents.

Table 4.9   Showing the education level of the respondents

QUALIFICATION	FREQUENCY	VALID PERCENT	CUMULATIVE PERCENT
Below O- Level	33	30.3	30.3
O level	12	11	41.3
A Level	20	18	59.3
Diploma	11	10	69.3
Degree	8	7.3	76.6
Professional course	18	16.5	93.1
Masters	7	6.9	100.0
Total	109	100.0	

Source: Primary Data

The results show that most of the respondents held a professional qualification (16.5%) while the degree holders in the organization were 7.3%. The study also indicated that the respondents with masters comprised 6.9% only. Of the respondents 10% were diploma holders in the organization, while 30.3% had no O- level equivalency.

4.3   Factor Analysis

In order to establish the correlation and regression, a factor analysis was carried out to determine the key items that strongly characterize variables in MFIs. Factors analysis helps to reduce the number of reported constructs by determining significant constructs and combining' these into a

single variable and a 0.5 cut off point was used; this is because anything below 0.5 is considered insignificant.

4.3.1   Factor Analysis Results for the Social Performance Variable

The factor analysis results below were generated to explore the social performance construct as shown in table 4.10 below;

Table 4.10   Showing Factor Analysis Results for the Social Performance Variable

	Social Mission	Employment climate	Client Service	Outreach
This MFI always considers social goals in making key decisions	.608			
Management, staff and clients believe in the mission of this MFI	.726			
Staff and clients receive adequate training the MFI's mission	.718			
This MFI ensures adherence to its mission	.682			
The mission of this MFI includes a focus on reaching clients who have no access to financial services in a sustainable manner	.605			
The credit policies of this MFI ensure adequate mutual respect to gender	.628			
This MFI has an established a clear salary structure that provides staff with adequate salaries		.579		
This MFI ensures that staff receive an adequate attractive benefits package that is inline with national norms		.692		
Management of this MFI has a clear established system to address staff grievances		.589		
Staff always receive adequate training to promote quality customer service			.540	
This MFI regularly measures the time it takes between the end of the credit evaluation and disbursement			.591	
This MF regularly uses information from exit surveys to improve operations			.595	
This MFI regularly solicits for feedback from clients related to service quality			.713	
Efforts are always taken to promote access of its services to poor clients				.557
This MFI incorporates the retention of clients in determining incentives for credit officers				.594
Eigen Value	**5.893**	**3.028**	**2.0735**	**1.5485**
Variance %	**36.831**	**18.926**	**12.959**	**9.677**
Cumulative %	**36.831**	**55.757**	**68.716**	**78.393**

Source: Primary Data

The results indicated that the Social Mission, Employment climate, Client Service and Outreach are key indicators of social performance and they comprise variances of 36.83%, 18.926%, 12.959% and 9.677% respectively.

With the Social Mission, the results indicated that the key issues that should be addressed had to do with the fact that the MFI always considers social goals in making key decisions (.608), Management, staff and clients believe in the mission of the MFI (.726) and Staff together with the clients receive adequate training on the MFI's mission (.718). Other issues that were essential

for this issue were ensuring adherence to the MFI mission (.682) and having a mission for the MFI which includes a focus on reaching clients who have no access to financial services in a sustainable manner (.605).

With employment climate, the results indicated that the key issues to address ahs to do with the MFI having an established clear salary structure that provides staff with adequate salaries (.57.9), the MFI ensuring that staff receive an adequate attractive benefits package that is inline with national norms (.692) and that Management of that MFI had a clear established system to address staff grievances (.589).

Under client service, it was established that the key issues to address were Staff always receiving adequate training to promote quality customer service (.540), the MFI regularly measuring the time it takes between the end of the credit evaluation and disbursement (.591), the MF regularly using information from exit surveys to improve operations (.595) and MFI regularly solicits for feedback from clients related to service quality (.713).

Under outreach, efforts always taken to promote access of its services to poor clients (.557) and the MFI incorporating the retention of clients in determining incentives for credit officers (.594) were the key outstanding issues that could be addressed.

The analysis clearly reveals that Social Mission is leading predictor of client protection with Eigen value of (5.893), followed by employment climate (3.028) , followed by Client Service (2.0735) and Outreach is the least with (1.5485). However, the entire four variable where significant predictors and they had an Eigen value above 1.0.

4.3.2 Factor analysis results for Client Protection

The factor analysis results below were generated to explore the social performance construct as shown in table 4.11 below;

Table 4.11   Showing Factor analysis results for Client Protection

	Transparency Pricing	Grievance Handling	Sensitivity to over-Indebtedness
Staff communicate effectively with all customers	.747		
This MFI takes appropriate measures to ensure that prices are adequately disclosed to the client prior to sale	.783		
Terms and conditions of all financial products are adequately disclosed to the client prior to sale	.849		
The loan statement clearly differentiates between the principal, interest and fees to be paid	.786		
Clients are usually given amortization schedules that discloses the due dates of installment payments	.846		
Clients are usually given adequate explanations on penalties for late payment and related consequences	.859		
This MFI ensures that multiple channels of communication are used reach out to clients	.714		
Clients always ask questions related to the terms and conditions of the loan prior to signing of the loan contracts	.729		
Clear written policies are adequately put in place to take customer complaints seriously		.744	
Management has put in place clear mechanisms to handle customer complaints.		.804	
Clients are adequately informed of their right to complain to management in case of any grievance		.800	
This MFI has flexible products that address different business and family needs			.851
The loan approval process requires satisfactorily evaluation			.832
Eigen Value	**9.1695**	**2.95**	**1.7775**
Variance %	**52.395**	**16.858**	**10.155**
Cumulative %	**52.395**	**69.253**	**79.408**

Source: Primary Data

The results established that transparency pricing predicted (52.4%) of client protection meaning transparency pricing had the greatest influence, followed with grievance handling (16.86%) and sensitivity to over-indebtedness (10.16%) has the least influence.

Under transparency pricing, it was established that Clients usually being given adequate explanations on penalties for late payment and related consequences (.859) emerged greatest, followed by Terms and conditions of all financial products are adequately disclosed to the client prior to sale (.849) and then Clients are usually given amortization schedules that discloses the due dates of installment payments (.846).

Management has put in place clear mechanisms to handle customer complaint (.804) and Clients are adequately informed of their right to complain to management in case of any grievance (.800) was of greatest influence under grievance handling.

Under sensitivity to over indebtedness, the MFI having a flexible products that address different business and family needs(.851) and The loan approval process requires satisfactorily evaluation (.832) are of great influence.

The analysis of results clearly manifests that transparency pricing is key predictor of client protection with an Eigen Value (9.1695) compared to grievance handling (2.95) and Sensitivity to over indebtedness (1.7775).

The results from the factor analysis helped the researcher to load only those factors that were significant to a particular variable and thus aided in establishing the strength of the relationship between the independent and the dependent variables.

4.4   Relationship between the study variables

In order to establish the relationship correlation coefficient was computed to test the direction and strength of relationships among the study variables, which are shown in table 4.12 below;

Table 4.12   Showing the Relationship between the variables

	1	2	3	4
Transparency Pricing(1)	1.000			
Sensitivity to Over Indebtedness (2)	.472**	1.000		
Grievance Handling (3)	.780**	.458**	1.000	
Social Performance(4)	.692**	.448**	.721**	1.000
** Correlation is significant at **the 0.01 level (2-tailed).**				

Source: Primary Data

4.4.1   Transparency pricing and social performance

The results revealed a positive significant relationship between the between transparency pricing and social performance with a correlation coefficient of ($r=.692^{**}$, $p<.01$). The high significant positive relationship means that increase in transparency pricing leads to high social performance. That is if an MFI is transparent with how costs are charged, it's likely to increase the client's trust and perception of the institution and thus increase its social ranking among other MFIs.

4.4.2   Sensitivity to Over Indebtedness and social performance

The results revealed a positive significant relationship between sensitivity to over-indebtedness and social performance with a correlation coefficient of 0.448^{**} at a significance level of 0.01 level 2- tailed), as shown in table 4.12; meaning that, when an MFI is sensitive to over-indebtedness, it's likely to influence the client's loan size. The resulting effect is likely to enable the borrower take affordable loans and thus bring about a good relationship between the borrower and the MFI, thus leading to high levels of social performance.

4.4.3   Grievance Handling and Social performance

The results established that a significant positive relationship exists between grievance handling and social performance with a correlation coefficient of 0.721** at a significance level of 0.01 level 2- tailed). This means that increase in grievance handling leads to high social performance. That means that, if an MFI has a clear policy on grievance handling, there is a high perception of the institution and thus increase its social ranking of the MFIs.

However, the correlation coefficients could not establish the extent to which the independent variable affects the dependent variable and thus the need for a regression model.

4.5   Regression Analysis

Simple regression is used to examine the relationship between one dependent and one independent variable. The regression model helps to predict the extent to which the independent variable predicts the independent variable. The results of the regression model are shown in table 4.13 below;

Table 4.13   Showing the regression analysis

Model	Un-standardized Coefficients		Standardized Coefficients	t	Sig.
	B	**Std. Error**	**Beta**		
(Constant)	1.415	.328		4.311	.000
Transparence Pricing	.171	.081	.289	2.097	.040
Sensitivity to Over Indebtedness	.119	.095	.120	1.250	.216
Grievance Handling	.251	.077	.440	3.245	.002
Dependent Variable: **Social Performance**					
R Square	0.572		**F Statistic**	27.176	
Adjusted R Square	0.551		**Sig.**	0.000	

Source: Primary data

The results of the regression model show that transparency pricing with a significance level of (.0400 and grievance handling with a significance level of (.002), significantly predict the dependent variable (social performance,) while sensitivity to over-indebtedness with a significance level of (.216) does not significantly predict social performance. This is because transparency pricing and grievance handling have a significance level below (.05) meaning a high significance level while sensitivity to over-indebtedness has a significance level above (0.05) showing a low significance level. The results further revealed that client protection which is a function of (Transparency pricing, over indebtedness orientation and Grievance Handling) have a positive relationship with the dependent variable (social performance).

The regression further reveals that transparency pricing, over indebtedness orientation and Grievance Handling have the potential to explain 55.1% of the variance in Social Performance (Adjusted R Square of .551), with a significance level of (sig. <.01). This means that an

improvement in the client protection attributes such as transparency pricing, sensitivity to over indebtedness and grievance handling, will significantly improve on the social performance of the microfinance institution.

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1   Introduction

This chapter provides the discussion for the research findings, conclusions and the recommendations from the study. The discussions, conclusions and recommendations were made in accordance with the research objective.

5.2   Discussion

5.2.1   Transparency Pricing and Social Performance

The findings revealed a significant positive relationship between transparent pricing and social performance. The study has supported previous literature by other researchers that transparency pricing and social performances have a relationship. For example World Bank (2008) investigated the impact of client protection on social performance found out that factor like transparency pricing play an important role in determining the reputation of a particular finance institution. Then ACCION (2007) pointed out that when MFIs increase the transparency of their services, there is likelihood to increase quality services and subsequently fulfill the financial needs of clients since clients are key stakeholders of microfinance institutions, and providing clients with quality services is at the heart of any social performance.

Also the findings confirmed the proponents of Microfinance Insight (2009), which suggested that full disclosure of prices, terms, fees, and loan conditions; enable clients to understand the product including contracts and payment schedule. In addition, Clients who demand information play an important role in ensuring transparency among financial institutions and thus

transparency in the market encourages institutions to compete on the basis of better products and services at lower costs.

Meyer (2002) postulated that low income earners especially the poor particularly in developing countries have a high fear for financial institutions resulting from a high level of information asymmetry. This is inline with the findings as transparency pricing reduces the information gap between clients and the MFIs. This aspect of information sharing is likely to build trust in the institution by the clients and thus increase the institution's social perception.

The findings also revealed that when MFI clients receive full information in their local languages, could yield a high level of understanding of their credit responsibilities, which in-turn could result good payment performance and thus a good relationships with the institution. This places the MFI into in a good position before its clients. This is contrary to Leonard (2010) who argues that the poor shun MFIs because some of them are so ignorant to understand their credit responsibilities particularly when numerical are used.

5.2.2 Relationship between Sensitivity to Over indebtedness and Social performance

The findings revealed that Sensitivity to over indebtedness was significantly correlated to Social Performance of Microfinance Institution. These findings support earlier works by other researchers like Porteous (2009), Microfinance Insight (2009), Daquet (2009)   and Meyer (2002); that postulated that sensitivity to over- indebtedness will result in reduced transaction costs and thus facilitate the analysis and quantification of credit risk, avoid the aggregation of bad debts by borrowers and increase the number of loans granted as potential borrowers who were before excluded become beneficiaries. Over-indebtedness can   when not checked, leads to personal problems for clients and affect the asset position of the MFI as earlier

evidenced in India, where borrowers who had taken out microcredit on several occasions from MFIs chose to take their own lives when they failed to pay. Such acts resulted in loss of lives and subsequently affected the reputation of the MFIs.

The positive correlation could also mean that sensitivity to over Indebtedness helps clients to take manageable credit, that promotes good relations between the client and the MFI as repayments are in turn manageable, thus improving the image of the MFI.

5.2.3 Relationship between Grievance Handling and Social Performance

There was a significant positive relationship between Grievance handling and social performance of microfinance institutions according to the findings of the study. These findings support the earlier works of AFI (2010), CGAP (2008) and IFAD (2006) who argued that effective grievance handling creates a conflict free microfinance environment that demonstrates profit potential of microfinance as more entrants are attracted to the market. More so appropriate grievance redress is likely to lead to a positive impact on outreach in the future, resulting in more clients being served by MFIs. This further ensures that clients have proper options for recourse by addressing their complaints, liaise between the customer and the MFI, and determine when and where the MFI is failing in quality of service, thus enabling the MFI to perform socially positively.

5.3   Conclusion

From the findings of the study, it can be concluded that there is a positive relation between client protection and social performance. This means that any management of MFIs that concentrates on addressing the constructs of transparency pricing, sensitivity to over-indebtedness and concentrates on handling grievances of it clients, will achieve a great deal of social performance.

It was established that there is a positive relationship between transparency pricing and social performance. This implies that, when the MFI management concentrates on addressing the key aspects of transparency pricing like giving adequate explanations to clients regarding the pricing of the financial products like interest rates, penalties and any other incidental costs, disclosure of installment payments and ensuring that the terms and conditions of all financial products are adequately disclosed to the client prior to sale. This will enable the MFI to gain client's trust in the MFI and thus enabling the MFI to perform socially highly.

It was also established that there is a positive relationship between sensitivity to over-indebtedness and social performance. Some of the key things that came out very clearly were the fact that MFIs need to a loan approval process that involves satisfactory evaluation and the MFI having flexible products that address different business and family need. These were likely to enable the client have manageable loans and thus have a clean payment record. This builds the relationship between the MFI and its clients thus promoting high levels of social performance.

It was also established that there was a positive relationship between grievance handling and social performance. Among other things it was established that when clients are adequately informed of their right to complain to management in case of any grievance, Management has put in place clear mechanisms to handle customer complaints and clear written policies are adequately put in place to take customer complaints seriously; it means that the client's queries being addressed with urgency thus creating harmony is created between the client and the MFI, thus increasing the MFI's social performance.

However, while transparency pricing, sensitivity to over-indebtedness and grievance handling predict 55.1% of social performance, it is important to note that sensitivity to over-indebtedness

is the less significant. For MFIs to achieve high levels of social performance, emphasis must be put on transparency pricing, and grievance handling as they are the most significant predictors.

5.4   Recommendations

From the analysis of results, it was discovered that transparency pricing was a strong predictor of client protection. Government should therefore make compulsory disclosure of all relevant information that include interest rates, principal amounts, interest amounts, and indirect costs should be made to ensure clients are protected from exploitation.

The results reveal that social mission is a key construct of social performance. Thus MFIs should make an effort to always explain their social mission to management, staff and client.

It was discovered that transparency pricing was a strong predictor of client protection. Government should therefore make compulsory disclosure of all relevant information Grievance handling was revealed as a key predictor of social performance. This implies that timely and adequate conflict resolution between the MFI and clients is paramount. The researcher therefore recommends the establishment of the microfinance conflict resolution tribunal to handle grievances between the client and the MFIs which is similar to the tax tribunal that was established to handle and resolve complaints between the tax payers and collecting bodies.

5.5   Areas of Further Study

This study was conducted covering only MFIs located in Kampala district. The results therefore may not be replicated to all MFIs in Uganda. It would be good if further research that involves the investigation of client protection and social performance including all MFIs in Uganda.

A comparison study on social performance of MFI in Uganda could be conducted to determine how MFIs in Uganda are social performing compared to other countries.

Results show that there is a variance percentage of 78.393 resulting from social mission, employment climate, client service and outreach. This study could be expounded to discover factors responsible for the remaining variance of 21.066 loan performance.

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Appendex 1