GROUP LENDING METHODOLOGY IN MICROFINANCE AND CLIENT EXITS IN UGANDA

BY

VERONICAH S. NAMAGEMBE

A Thesis submitted to the School of Graduate Studies in partial fulfillment of the requirements for the award of the Degree of Master of Science in Accounting and Finance of Makerere University

DECEMBER 2009

ABSTRACT

This study focuses on the relationship between group lending methodology virtues and customer dropouts in MFIs. The relationship between group dynamics, loan terms & conditions, clients' socio-economic profiles and client dropouts is important in highlighting how the methodology used by an MFI can influence the level of customer dropouts and retention which are key factors in attaining an acceptable level of self sustainability and outreach of the MFI. The relationship between the study variables also guides policy makers on how to develop and manage the products and policies/procedures of microfinance institutions.

A conceptual model developed from literature review was used as a guide on assessing the relationship between the study variables. Using a designed questionnaire, data was collected from one hundred fifty sampled MFI clients and analyzed using SPSS, from which zero-order correlations were used to summarize the results of the research questions.

The finding showed strong positive relationships between the study variables implying that the virtues of group lending methodology affect the dropout levels in microfinance institutions. Therefore increased outreach and sustainability of MFIs would be attained with improvements in loan terms and conditions, group dynamics and client socio-economic profiles as these would result into reduced client exits, which are positively correlated with the growth and sustainability of MFIs.