GROUP LENDING POLICIES, SOCIAL TIES AND PERFORMANCE OF MICROFINANCE DEPOSIT-TAKING INSTITUTIONS (MDIs) IN UGANDA: A CASE OF KAMPALA DISTRICT

ABSTRACT

This study was conducted to establish the relationship between group lending policies, social ties and performance of Microfinance Deposit taking Institutions (MDIs) in Uganda. Specifically the study was conducted at Pride Microfinance Limited, UGAFODE, FINCA Uganda, EFC Uganda Limited and YAKO Microfinance Limited. The study objectives were to establish the relationship between group lending policies and performance of MDIs, examine the relationship between group social ties and performance of MDIs, examine the relationship between group lending policies and social ties at MDIs and to establish the relationship between group lending policies, social ties and performance of MDIs. A cross sectional research design was adopted for this study mainly utilizing quantitative research approach. A total of 130 out of 144 respondents participated in the study. These were selected using purposive and simple random sampling techniques. Questionnaires were used to collect data and SPSS ver. 16 was utilized for analysis.

Findings showed that most MDIs services were loans (89.2%), savings (3.8%), and other investment, deposits and withdraws, among other services. With exception of YAKO and EFC, all the other MDIs in Uganda were having group lending as their core services. Results show that most MDIs had over 50 groups, providing them services of group lending to a portfolio level of over UGX 25,000,000. The study also found that there was a positive relationship (r=. 246) between Group Lending Policies and Performance, while group social ties and performance were related at (r=.219). More so, a positive relationship of (r= .542) was established between Group Lending policies and Group social ties. The group lending policies and group social ties accounted 5.6% of the variance in performance among MDIs. The study concluded that there was positive relationship between group lending policies, group social ties and performance of MDIs. Recommendations of the study were to put in place strong group lending policies, encourage MDIs that had not yet engaged in group lending to do so, as it supported overall performance of the MDIs. There was also need to give group loans to only those groups that had a vision and mission for the money borrowed and had established strong times among members.

There is also need for further study on the relationship between group lending methodology and repayment capacity of Clients in MFIs in Uganda.