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An In-Depth Assessment Of The Ugandan Microfinance Market Qualitative Side Study Report

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Introduction

Until the late 1990s, most micro finance institutions (MFIs) did not have to worry about competition. They enjoyed near monopolies, as only a few, mostly small service providers sought to reach a huge untapped market. The idea of competing for clients was so far from the mindset of the early MFIs that when two of them operated in the same city, they often reached gentlemen's agreements on how to divide the market geographically. MFIs frequently shared valuable technical learning with each other. This period of low competition was essential for the development of microfinance. It allowed microfinance institutions the freedom to focus single-mindedly on making the breakthroughs in methodology and management necessary to reach scale and sustainability. These breakthroughs have now brought microfinance to the threshold of competition.

The rapid increase in competition is coming from three sources:

- Expansion of the traditional NGO-MFIs
- Entry of new commercial players into microfinance
- Emergence of related businesses, primarily consumer lending, that overlap with the client base of traditional microfinance.

Objectives

This study sought to:

- Understand why and how clients make the various choices to use different financial service providers in the main markets in Uganda.
- Understand how and why clients have moved between financial service providers
- Understand how clients are using the many options available to them (including accessing financial services from several sources simultaneously) and
- Assess the implications for the MFIs operating in these areas.

Research Design And Methods

The research was designed to collect information from different socio-economic groupings to assure reasonable representation across the board. The research team interviewed businessmen, farmers, teachers, youth groups and the disabled, among others. The research was done in four districts (Kampala, Mukono, Jinja and Masaka), which were chosen deliberately due to the high concentration of MFIs when compared to other districts.

The study employed basically qualitative research methods in soliciting information from the respondents. The study team used Focus Group Discussions and selected Participatory Rapid Appraisal Tools (Relative Preference Ranking, Financial Sector Trend Analysis, Simple Ranking, Financial Service Matrix and the Financial Service Usage over Time tool). See Table 1 below.

Table 1 ***MicroSave* Tools Used**

Tool	**Reason for choice of the tool**	**# of sessions**	**# of participants**	
			Male	**Female**
Focus Group Discussions	Focus Group Discussions allowed the collection of detailed information using a standard Question Guide that addressed key areas of interest. The tool facilitated an in-depth examination of issues through the dynamics of peer-group discussions	**14**	**41**	**100**
Financial Sector Trend Analysis	The tool helped in getting to understand the different financial services in existence and changes in the use of these services over time and why they are used. The tool has the potential to bring to light competition experienced on the market from the users' point of view.	**4**	**17**	**14**
Simple Ranking	Simple Ranking was used to understand the importance respondents/people attached to some institutions in their delivery of financial services to the market.	**1**	**6**	**2**
Relative Preference Ranking	The Relative Preference Ranking was used to gain an understanding the key service providers and how they are positioned on the market against key elements such as proximity, staff attitude, product range, etc. It also explains the reasons clients base on to choose between the service providers.	**2**	**11**	**8**
Financial Service Matrix	This tool was used to determine which financial service mechanisms are used by which group and why.	**1**	**2**	**9**
Individual Interviews (with Financial Service Usage over Time tool)	This tool helped in getting to understand the usage by clients of different financial service providers over time and why they moved from one provider to another.	**41**	**10**	**31**
TOTAL		**63**	**87**	**164**

Findings

Findings have been divided into two broad sections. In Section A, the explanations that respondents gave as to why and how clients make choices to use different service providers are discussed. In Section B, the reasons clients gave for the concurrent usage of multiple financial institutions are examined.

Section A: Why And How Clients Make Choices To Use Different Financial Service Providers.

To be able to make a choice there must exist a variety or options to choose from. The study shows that there are both formal and informal institutions in the districts sampled, as well as informal and semi-formal financial service mechanisms. The following matrix (Table 2) shows the distribution of these mechanisms across the sampled districts. The matrix also includes those institutions that were specifically mentioned by respondents (indicating awareness). Note that institutions that were not mentioned by respondents are not included in the matrix.

Table 2 Institution Awareness Matrix

	Kampala	**Mukono**	**Jinja**	**Masaka**
Formal	UCB-STANBIC CERUDEB TROPICAL STANCHART POSTBANK ORIENT CRANE BARODA ALLIED	UCB-STANBIC	UCB-STANBIC TROPICAL, STANCHART POSTBANK ORIENT CRANE BARODA ALLIED	UCB-STANBIC POSTBANK CERUDEB DFCU TROPICAL
Semi-formal	VEDCO UWFT UWESO UMU PRIDE MEDNET FAULU FINCA UGAFODE COWE* CMFL FSAs	VEDCO UWFT UWESO UMU PRIDE RMSC MEDNET FAULU FINCA COWE CMFL	UWFT UMU PRIDE REGENT FINCA CMFL	VEDCO UWFT UWESO UMU PRIDE RMSC MEDNET FAULU FINCA COWE CMFL MOBILE IMIDECOT MAMIDECOT BUDDUKIRO SACCOs FSAs
Informal	RoSCAs ASCAs In-House In-Kind Moneylenders	RoSCAs ASCAs In-House In-Kind Moneylenders	RoSCAs ASCAs In-House In-Kind Moneylenders	RoSCAs ASCAs In-House In-Kind Moneylenders

From the matrix above, it is clear that there are many different organizations operating in these districts. It is also clear that the informal sector is used throughout all the towns and competes favorably with the other sectors. It was also observed that the operations of the formal and the semi-formal sectors are limited to some specific stretches in these districts. They are more pronounced in the urban areas (town and trading centers) and the immediate environment and along main communication lines. The further away (usually from 5km+) one goes from trading centers, the thinner their operations become and the informal sector then becomes a major player.

Reasons Why People Choose The Providers They Do

People have different reasons why they choose to use particular financial service providers. These reasons differ from person to person depending on whether the service needed is credit or savings and also on the kind of income generating activity undertaken. The study sought to understand why people choose to use different financial service providers. Before one can examine the reasons for the choices of providers that people make however, it may be necessary to understand how they are put in a position to be able to choose. In other words, how are the people informed to help them make their choices of financial service providers? How for example do they come to know about the choices available? How is initial information delivered and how is it processed? How do they follow up on initial information? All channels and mediums listed by the respondents in the study are discussed below in order of importance.

Peer information

This communication method, sometimes referred to as ‘word of mouth’, is by far the most common method of knowledge transfer. Many clients, as they try to form their sub-groups of five, go to their neighbours and friends and ‘recruit’ them. They inform them of the institutions terms and conditions, as they know them and their friends make decisions based on the information they receive. The importance of this channel should never be underestimated. Peer information is potentially the cheapest and most effective marketing tool. By implication therefore, an institution with excellent customer service would not need to spend large amounts of money on an advertising campaign since the members would ‘sell’ it. Many RoSCAs also get membership by peer information. The major downside of peer information is that negative reports from members can easily and quickly destroy customer goodwill in the market. Another disadvantage with peer information is unfortunately that this information is not always accurate.

Seminars and public village meetings.

Many clients come to learn of the different service providers through seminars and public village meetings organized by microfinance institutions with the help of the local council offices. In most microfinance institutions, credit officers are sent out to map an area, explore potential demand and conduct public information meetings. Faulu Uganda is an example of a provider that uses this technique. This is the first phase in client mobilisation. In almost all towns visited, all providers of microfinance services made regular ‘pitches’ for clients in the marketplace, and used public village meetings with the help of local officials. The only notable exception to this rule was Centenary Rural Development Bank (CERUDEB) whose loan officers spend months without going out to look for clients and hence do not usually conduct meetings of this type. In the case of CERUDEB, people seeking information usually walk into the branch.

Visits to institutions / enquiries

Many clients still obtain information directly from the institutions by direct visits. As mentioned above, this is CERUDEB’s main client entry channel. Some institutions have catered for this well by having customer information desks or introductory printed materials. A good example is Uganda Microfinance Union (UMU). In many cases, a visit to the institution would be a follow-up to information previously obtained elsewhere.

Marketing materials

Posters, banners, brochures, flyers, T-shirts, caps etc are also a common means of marketing. Most financial institutions will use some or all of these when launching new products.

Media

Both print and electronic media are major channels of information dissemination. The launch of the CERUDEB’s Home Improvement Loan was accompanied by a tremendous amount of publicity and some respondents said they had heard about the product on the Central Broadcasting Radio Station. Radio seemed to be more effective than television or newspapers. Different towns had different radio stations that enjoyed a very wide listening audience. In Central region, Central Broadcasting Station was the most listened to station by the respondents interviewed.

Church announcements
Some institutions are very close to the church (e.g. CERUDEB) and respondents claimed that some clients had been encouraged to open accounts with the bank by their local perish church. The researchers were not able to verify this claim. CERUDEB staff noted CERUDEB's ownership is vested in the sixteen catholic dioceses of Uganda who are the major shareholders (along with other parties) of the bank.

Once in possession of information, what considerations are made?
In the study, questions were directed at extracting specific information regarding the reasons that drive the choices different people make. As stated earlier, these reasons differ from person to person depending on whether the service needed is credit or savings and the kind of income generating activity undertaken. All considerations given by respondents in all the study sites are discussed below. They have been ranked in order of the importance clients attach to them. The reader should note that this ordering or ranking was derived from the respondents' feedback. A numbering system has been used to assist the reader. Some considerations attracted equal importance and where this was the case, the considerations are given a similar number.

Reasons for choosing between institutions – Credit Services
(1) Staff Attitude or Customer Care
Staff attitude and customer care is the most cited reason for choice (and retention) of financial service provider. The bottom-line here as respondents argued, is that good customer care can attract and keep more clients, while poor customer care will do the opposite. Uganda Commercial Bank (now Stanbic Bank) was cited as the best example of an institution that has had a reputation for very poor customer care. Where financial institution staff did not treat clients very well, especially at teller and customer service points. Female staff members, in particular, were singled out as being a problem, whereas male staff members were believed to be more customer friendly and polite, according to many respondents in Masaka and Mukono. It is, of course, cheaper to retain and grow existing clients, than to bring in new ones and thus this finding has important implications for all MFIs. Furthermore, once the existing clients are well served, they themselves will bring in new ones. It is this dynamic of attraction of satisfied existing clients that plays the most important role in influencing choice of potential new clients.

(1) Interest Charged
Together with staff attitude, this was also stated to be the biggest consideration in clients' choices of credit service providers. By implication, increases in interest rates could discourage clients both from joining the institution to borrow money, and keeping membership. It must be noted however that although clients said that they took price into account, when they were pressed for detail, they did not seem to know the actual details of the interest they paid on their loans. So even though they said interest was important to them, they did not really know the differences in interest charged by different providers on their loans. It is probably realistic to conclude that although clients say interest rates influence their choice of providers of credit services, the reality is that this is not the case – simply because of the lack of clear documentation and communication of effective interest rates by MFIs.

(3) Flexibility of terms (e.g. loan term, repayment schedules etc)
Respondents held that the flexibility of the terms of a loan was the next most important consideration after customer care and interest rates. They argued that it is important for clients to believe that an institution is not too rigid in enforcing all policy. There should be some room for negotiation, especially when a client meets an unexpected problem. Respondents argued that if a loan agreement is a contract, like all contracts, both parties should be able to negotiate it's terms otherwise it becomes a one-sided arrangement and not a true contract. Flexibility of terms also included an element of choice in the specifics of a service a client can receive. This could for example include flexible loan terms, flexible repayment terms etc. that make the client get that 'made to measure' feeling of satisfaction. Fixed short loan terms discourage clients. This is one of the dissatisfaction factors listed by FINCA Uganda clients. Many clients would prefer a flexible loan term

that one can adjust depending on their monthly repayment capacity. Faulu Uganda is an example of a microfinance institution that offers flexible loan terms. In the case of repayment schedules, debate around the weekly vs. bi-weekly vs. monthly payments was plentiful. Whereas it is true that weekly instalments being smaller are more manageable, it is also true that weekly payments constitute an inconvenience, especially where a group has to physically meet for them to be collected. Many better off people would not subscribe to a weekly repayment regime. Here too, respondents expressed preference for a choice. It would appear that institutions like Uganda Microfinance Union (UMU) have already started responding to this need, much to the satisfaction of their clients.

(3) Collateral

Collateral consideration was scored equally to flexibility of loan terms. Commercial bank's preference for land title excludes many of the lower-end clients from using their credit facilities. Even where clients used physical assets as collateral they expressed a preference for those institutions that do not make a big spectacle out of securing the collateral. In Masaka respondents complained about the photography teams from CERUDEB and Uganda Women's Finance Trust (UWFT) that make a big fuss when they come to a clients residence to photograph collateral items. " *…If you are pledging your cow, you have to take a photograph with the cow and touch it to prove that it is yours. Why should they force me to take a picture with a cow and even to touch it? Why should they force me to sit in my own chair and then take my photograph? This is so humiliating. The whole village gets to know that I have borrowed money and this is terrible…"* Another respondent in Masaka said, *"…We do not own any thing now. All that we own, even the mattresses we sleep on, have been pledged as security for different loans…"* Clients also argued that in almost all institutions, collateral amounts required were excessive and they believed that any institution that accepts what they termed 'fairer' collateral would attract many clients.

(5) Grace period

Respondents said a larger grace period was more likely to draw a prospective client towards a particular institution. Respondents argued that the main importance of a grace period is that it gives the client time to make the loan productive (i.e. turn it around and generate income). The plea for a grace period was made again and again by different respondents. It was also a major contributor to the movement from one provider to another.

(6) Speed of service

Clients like institutions that serve them quickly both over the counter and in terms of loan processing time. Sometimes they are discouraged from using a particular provider because of the reports they receive from peers about unreasonable delays. Corruption in an institution will also have a negative result. Clients seemed to interpret long delays as an opportunity for corruption.

(7) Business type (including history, size etc)

Some institutions have policies that restrict the business types they can support. Many microfinance institutions for example do not fund agricultural business. Many also do not fund start-ups, preferring instead those businesses that have been in operation for at least six months. This forces farmers and newly established business owners to look for credit elsewhere.

(8) Own experience

Many respondents had been users of multiple service providers or methods. Over time they have accumulated a wealth of experience to draw from as they choose their providers.

(9) Perceived institutional capacity to deliver (size of the first loan / loan increments)

Many prospective clients are very interested in the size of the first loan offered by microfinance institutions. They are also interested in the incremental size of the subsequent loans given by different institutions. When a loan is approved, it should be disbursed quickly. Delays fuel rumours of liquidity problems in institutions. People like to be associated with an institution that has an image or reputation of strength. One way of

assessing this commonly seemed to be the size of the loans the institution gives. Some institutions also give credit that is considered "too small." FINCA was a commonly cited example. Many respondents said they would not join FINCA because their initial loan amounts are too small. The incremental loan sizes offered were also criticized, and many members have left FINCA for this reason.

(9) Methods used in handling defaulters

Respondents were generally very scared of micro finance institutions procedures on default. Some people have been imprisoned (e.g. FINCA clients). This fear has made others stay away from microfinance institutions and use only RoSCA's and ASCA's. Where they did venture into borrowing from MFIs, the reputation of the institution regarding how it handled delayed repayments or default was something to carefully consider. This does not mean that they borrowed with an intention to defraud the institution. Rather that they are conscious of the fact that they can meet unexpected problems before they complete the loan repayment.

(11) Prior arrangements with institutions (e.g. for salary or school fees)

Respondents who had accounts in Uganda Commercial Bank in most cases had been requested or encouraged to open these accounts by their employers. If they had been left on their own, they probably would not have opened these accounts. Typically many accessed these accounts once or twice a month to withdraw **all** their salary. Similarly, some respondents had opened accounts with banks that had a relationship with the schools their children go to. This made it easier for them to pay school fees (which was a priority expenditure that ranked very highly for many respondents).

(12) Confidentiality

Some respondents (usually men) liked an institution that does not share their financial details with their spouse. One respondent in Masaka said some institutions in Masaka do not respect this and do not keep confidential matters and have in some cases given a woman her husbands bank statement for her to deliver to him. Closely related to confidentiality is the issue of security on the disbursement of loans. In Masaka, respondents said Pride Uganda disburses loans to clients in cash in a public meeting. This is obviously a great security risk and some respondents have been robbed after receiving money. This has also led to some client exits to other institutions they feel disburse money in a safer way.

(13) Institutional transparency

It is important to clients that a financial institution be transparent. It is important to be able to trust the institution. This is true not just when one is saving in an institution but also when one is borrowing from it. This is especially true in regard to charges, fees and other loan conditions. Respondents expressed some level of frustration with some institutions or providers. Masaka respondents reported that credit officers in many microfinance institutions left clients feeling cheated whenever they tried to calculate arrear penalties payable over late payments. As one respondent in Bwala Masaka expressed it *"…The problem is that the staff can get a calculator and calculate things you do not understand. They calculate figures and give them to you. You do not receive any statement tracking your loan repayments. There are no documents. The staff just show you the figures on a calculator and you have to pay…"*

(13) Clear communication

Communication is another feature closely related to transparency. Some microfinance institutions it was reported have a history of suddenly changing policy and implementing the changes without giving clients notice. This has contributed to some client exits. For example, in FAULU Uganda, the interest rate for the school fees loan product was suddenly increased without giving the clients any notice. This was a great disappointment for many clients who were preparing to apply for this loan when this change took effect. It was however a greater disappointment for clients to whom the product had been marketed as a social concern product with a reduced interest rate. The issue for these clients was not simply that the rate had been increased without notice; it was more that the institution had broken an earlier commitment to their welfare and no justification had been given for this. They were confused by this change and they felt betrayed.

(13) Multiplicity of bank charges.

Respondents expressed some frustration with the multiplicity of bank charges that many institutions have. When seeking information to decide whether to join a particular microfinance institution or not, this was a cited factor.

(16) Proximity

Typically, people will seek services from a provider that is located quite closely (physically) to them. This has implications on overhead costs such as transport, especially where weekly meetings are involved. Where some travel is inevitable, it is preferable for clients when the institution is located on the main street of the serving town centre.

(17) Customer literacy level

Respondents argued that some people's level of education enables them to access particular types of institutions. Commercial banks for example were seen as a preserve of the educated or the rich. It was argued that since it was mainly the educated that could get jobs and a monthly salary that was usually paid onto a bank account, they are the main users of banks. Masaka respondents reported that MEDNET recently launched an individual loan product restricted to salaried people, more specifically, teachers.

(18) Personal knowledge of bank staff member

There are many instances in which bank staff members have introduced clients to banks. These clients are in some cases relatives or friends or introduced to them by a relative or friend. A client who personally knows a staff member in the bank feels they enjoy some advantage over other clients.

(19) Ownership (or religious affiliation)

For some respondents the ownership of the institution mattered to some people. As mentioned earlier announcements in Catholic churches have encouraged many people to access financial services from CERUDEB. People also seemed to have more confidence in institutions established by large international organizations (such as MEDNET that was born out of World Vision International) than those that had local ownership, although this preference, at least in Masaka, may be slowly changing. It is also true that the internationally linked MFIs tended to be able to disburse larger loans than the latter. The exception to low preference for locally owned institutions, that is worth noting, is the apparently increasing interest in member owned (share ownership based) MFIs and SACCOs such as BUDDUKIRO and MAMIDECOT in Masaka, or even the Masaka Teachers' SACCO. In many meetings in Masaka, respondents mentioned these institutions as their institutions of choice, in many cases, only ranking lower than CERUDEB but higher than well-established MFIs. It appears that clients are beginning to take keen interest in those institutions where they have some sort of ownership or share in the profits of the financial institution. Preliminary examination (through documentary evidence and staff interviews) suggests that the three institutions mentioned above have experienced quite rapid and dramatic growth recently. This is significant in the Masaka market where many institutions have found great difficulty in growing and maintaining healthy portfolios, and the reasons for this have to be properly studied and understood.

(20) Political directives

A few cases were reported of instances where some politicians have associated themselves with microfinance institutions and directed people to them for credit. This usually happens close to election campaigns, and it appeared that in many cases, the institutions do not realize that they are being used for political gain.

Reasons for choosing between institutions – Savings Services

Respondents met during the research indicated that saving is a very important activity in life and *" is the very reason for people's existence – it assures you living tomorrow"*. As has been noted in many other studies, people have various methods they use to save. See Table 3 below:

Table 3 Savings Methods

METHOD	REASON	CONSTRAINTS
In-kind • Animals • Produce	• Animals reproduce. • Hoarded produce sold at high price • No paperwork and easy to monitor • Source of pride and status in society	• Costly to keep animals as sometimes they may die or be stolen thereby losing everything • Large space required for produce and it usually cannot be kept for long periods
In the house • Box • Roof • Pillow	• Easy access and • Easy to monitor • No paperwork required • No time wastage	• Subject to trivial spending • Can easily be stolen or destroyed by fire, termites, rats, etc. • Bank notes may lose colour/fade away with passage of time.
RoSCAs	• Easy to join and very transparent • Useful lump-sums easily created • Within community so easy access. • No legal requirements for formation	• Often collapse as some members fail to honour their contributions. • Some are short-lived (especially those formed to achieve a specific purpose).
ASCAs	• Easy to join • Easy access to loans	• Problems with record keeping • Easily influenced by high profile people who sometimes even default
Banks	• Safe places for money • Can secure bigger loans from banks	• Many forms to fill yet many people don't know how to read and write. • High opening deposits and minimum balances • Bank closures • Limited in scope geographically • Some banks have unfriendly staff • Some banks are slow in processing a transaction • LC Letters call for additional costs
MFI Groups FINCA, CMFL, PRIDE, MED-Net, etc	• Located within community • They have educational programs • Saving small bits leads to a lump sum. • Savings are a precondition for credit	• Limited in scope e.g. FINCA targets women and limited geographically • They don't have safe places to keep money – use a link bank. • People lose their savings to defaulting members in the groups. • Not easy to withdraw savings when there is need while servicing loan

Most people use one or a combination of the methods mentioned above to have something put aside for future use. The choice of the method used depends on the purpose for which the saving is done, the time it takes to build the required amount, the return on the amount saved, safety and convenience.

Money is saved for different purposes such as building a house, marriage, school fees, medical treatment, etc. Looking at a whole range of the purposes/needs, there are those that are realized in the short term and those in the long run. Saving in-kind would be used for long-term needs such as marriage and building a house and RoSCAs and in the house methods are for emergency needs like sickness. In the latter's case not much importance is attached to return on amounts saved. The importance is immediate availability. Money required for specific times in the year like school fees for children can only be held on a bank account until the due date.

So what did respondents say they consider in choosing between financial service providers for savings services?

Participants' answers are again ranked in order of significance or importance.

(1) Physical Appearances (i.e. of premises, guards, weapons etc.)

What is visible to the eye is the most important consideration. Respondents were of the view that institutions with good, strong, attractive premises were strong solid institutions. They felt more safety for example, keeping their saving deposits with these institutions. Security is very important for clients who want to save for some purpose. People want to first know how secure their money will be before deciding to save with an institution be it formal or otherwise. This can be influenced by the physical appearance of premises. *"Looking at UWFT one cannot take them seriously. How does a bank share premises with a milk seller? The guards look frail and that may have been the reason they accepted three* ***chapatis*** *(from robbers), fell asleep and the bank was robbed without any resistance"*. (A respondent narrating a real event in Jinja). Thus physical appearance means a lot to clients – they would want to see strong buildings and healthy guards with reliable, functioning rifles.

(2) Ease of access to savings

For savings services, ease of access is also a major consideration a prospective client will make. They will want to know how easy it is to withdraw their savings when the need arises. The cross-guarantee method that locks most MFI client savings into the institution has contributed to the reluctance of clients to save 'even a shilling more' than is required to secure the loan. MFIs have started experimenting with open access accounts that are de-linked from the clients' loans.

(3) Perceptions of institutional stability

Sometimes, even where all the above considerations are made, customer perceptions may change. For example, banks have, for a long time, been well regarded for safety of clients' money. People however still use the other informal means to build lump sums. The high minimum deposits/balances, long transaction time, unfriendly staff, and the recent bank closures have unfortunately driven the masses away. "*Many people have moved away from Uganda Commercial Bank since its future is not certain"* remarked one of the respondents in Jinja. Related to perceptions of institutional stability is the institutions' history. Appearances of security can be influenced by the history of the institution or that particular method (in the case of informal mechanisms).

(4) Ownership

Because the banking industry has experienced difficulty over the last few years, there has been a crisis of confidence in the entire financial services sector. This makes ownership very important, especially for savings services. In Masaka, membership of the Catholic Church has a great influence over clients in CERUDEB. Many respondents argued that CERUDEB was a *'safe bank because it belongs to the Pope'*. They argued that whereas many banks had closed, CERUDEB could not close because of this.

(5) Interest paid on savings

Although interest paid on savings may be considered, not all clients take too much notice of actual interest paid. They could however be very reluctant to keep their savings in an arrangement where they do not receive any interest at all, unless it is as forced savings to access credit.

(6) Working hours

Some respondents when making comments about saving services mentioned this as a factor that could influence where they choose to save. Access on Saturday was very important to many respondents who use commercial banks. In many upcountry areas, Saturdays are large market days. Opening and closing hours were also important, especially for those in full-time employment.

Section B: Reasons For Clients' Concurrent Usage Of Multiple Financial Institutions

The research showed that it is very common for microfinance institution clients to use more than one financial service provider. Multiple institution users were present in all groups assembled and in most

groups, they outnumbered users of only one institution. There are many reasons that can explain multiple memberships and why clients have moved between financial service providers.

How and why have clients moved between financial service providers?
Reasons for the movement of clients from one institution to another seemed to revolve around the following:

(1) Awareness of new information from another institution
People who are already clients of an institution sometimes join another institution just to 'try it out' when they receive new, attractive information about the latter. In doing this, they will not necessarily leave the current provider immediately. They will usually keep both memberships as they familiarize themselves with the new institutions terms, conditions and offerings. They will normally receive this information from peers, especially those who may have been with them in the former institution then left for the latter. The peers normally do this as they are trying to grow their own solidarity groups.

(2) Customer disloyalty due to poor customer care
Where customers are not treated well by the institution, the temptation to move to another provider is extremely high. The customers will normally jump out of their current institution on the first opportunity they get. One respondent said, *"…We are told by the staff that…for us we don't know your sickness or bereavement or your problem, all we want is the money… Yet when they were recruiting us as members they were very nice and polite and we thought they had come to help us…"*

(3) Emergencies and the unwillingness of friends to lend money
A long time ago, one could borrow from friends or relatives. Nowadays however, many friends do not lend money. They are reluctant to lend money because they do not want to adversely affect their friendships. This general unwillingness of friends to lend money unfortunately extends even to emergency situations. An emergency can force a person to seek credit from any source even if they are already burdened with debt.

(4) Physical relocation of the person or the institution
Sometimes people will change their residence or their job. In some cases, they may even be transferred to another town. Some institutions can cater for the movement of a client to a new location by transferring them to the nearest branch (e.g. Faulu Uganda) but this is not common. Most institutions in this case will allow the client to exit their programme and withdraw any mandatory savings they may have kept with them. In other cases, it is the institution that relocates or closes down a branch. Here, clients have no choice but to move to another provider.

The process of moving to another provider
As already mentioned above, the customer will not usually leave the current provider immediately or as soon as they receive attractive information about another provider. This is especially true where they have reached upper levels (larger loan amounts of say Ush.800,000 and above) because it would take a couple of loan cycles for them to get where they are with a new provider. Where they have the option, they may decide to 'rest' between cycles with the first institution while they progress up the second one. Once they are reasonably comfortable with the second one and in good range of their first providers loan level, they will most likely leave unless something happens in the first institution to stop them (i.e. to persuade then to stay).

What are the major motivators of multiple usage? (How clients use funds accessed from several sources simultaneously).
Respondents gave many reasons for multiple usage. The reasons are listed below, in order of frequency. Target borrowing was the most commonly cited reason for multiple borrowing.

(1) To make up the required capital (by "patching" loans together)
This was the leading reason given for multiple membership. In many cases, microfinance institutions do not give the clients enough money. Respondents said it is common for one to ask for a loan of a specified amount

and be given much less than one applied for. When this happens, such a loan will just become a burden because it is not sufficient for the intended purpose (this being more critical if it is an income generating purpose). The client will however still usually accepts the reduced loan (this according to the respondents being due to the general poverty in which most of them live). Having done this, the client will then usually get another loan to raise the shortfall and to be able to meet his target purpose.

(2) To finance another loan (repaying the loan or obtaining required upfront savings)
Many respondents had many loans from different institutions. One of the main reasons cited for this practice was to service another loan. This is especially so in low business seasons or in the middle of the loan term when many people have reduced disposable income. Credit can also be sought to obtain required compulsory savings for another loan. This was said to be quite a common use of a loan obtained from a second provider. Although it ultimately makes the repayment amounts higher, it is surprisingly very common. Where one can, most try to wait for their turn in a RoSCA, or borrow from friends or relatives, to obtain this up-front savings. As already discussed above however, there was general agreement that it is now extremely difficult to obtain any sort of financial help from a friend.

(3) To finance critical demands and emergencies
Many times sudden emergencies force people to borrow. In these cases, they may even resort to expensive informal sector providers such as moneylenders. Other important needs like education, medical needs etc. sometimes force people to borrow from other providers. This is normally because the only other alternative would be to access their working capital, which would make loan repayments difficult.

(4) Consumption smoothing
Participants noted that everyone has times when incomes are low and times when incomes are high. In the low seasons, when expenditures outweigh incomes, a second loan may be taken to assist in meeting everyday needs.

(5) To take business opportunities
There are cases where a client will see a business opportunity and seek credit to take advantage of it. There are also some businesses that are seasonal e.g. school supplies, some food items etc. When this type of opportunity arises, it would be a missed opportunity to wait until one has paid off an outstanding loan.

(6) To avoid fluctuation in business stock
When their business stocks dwindle in the middle of an ongoing loan term, some clients are tempted to restock by borrowing from somewhere else. They go elsewhere because most microfinance institutions do not permit overlapping loans although this restriction is slowly changing.

(7) To finance different businesses or projects
Some respondents said they have a different line of credit for different businesses and they try not to mix up the different businesses. For example, one can receive a loan from one provider to run a small business and then obtain another loan from another provider to buy a few cows to rear for milk. Some institutions now even offer school fees loans. These funds will normally be accessed specifically for that purpose.

(8) Greed, or the intention to defraud
There will always be the case of those who borrow from many institutions for no other purpose than that they want to be in possession of a lot of money. These will normally borrow with an intention of defrauding the institutions. This problem is also seen in the informal sector. As one respondent in Masaka put it, *"...In RoSCAs there is a problem of people waiting for their turns and when they get the money, they take off. There are also those who join an MFI targeting a certain amount (like one million shillings) and when they receive it, they simply disappear..."*

How do clients manage extensive debt?
Clients gave many common sense solutions to debt management.

(1) Many clients run more than one business.
This helps with cash flow cycles and management of repayments especially where they belong to more than one microfinance institution. As already discussed earlier, sometimes clients have multiple membership so that each business they run can have it's own supply of funds. In this case, each business will repay it's own loan.

(2) Rely on borrowing from others
This could include an employer or business supplier and in some cases, benefit from salaries or other remittances. The support of a spouse was also mentioned.

Other forms of management come through *'saving down'*. This is similar to refinancing. The clients will obtain an advance from somewhere else to pay their loan obligation and then repay this other source through a series of small instalments.

(3) Sell off their personal assets
It this case the non-productive household assets are liquidated first in order to preserve income earning capacity of the household.

(4) Reduce on their personal expenditure
For example eating meat in the home once every two weeks instead of twice a week) and work very hard at the same time, usually involving as many family members (unpaid labour) as possible.

*(5) If the worst comes to the worst: run away***.**
There are many instances where defaulters have run away from their homes. Many respondents personally knew of examples of this.

Concluding suggestions from clients and the implications for financial institutions operating in these markets.
Respondents made some suggestions for the particular attention of financial service providers. Their suggestions reveal a number of opportunities for innovation and change.

(1) Increase Grace Period
A microfinance institution that addresses this issue correctly may gain some advantage over the competition. The grace period respondents would like to see ranges from two weeks to one month. Respondents advised that it would be better to differentiate the period offered to traders; manufacturers and farmers. Currently, UMU gives one-month grace period and Faulu Uganda a two weeks period for traders and one month for manufacturers. FINCA does not have a grace period.

(2) Improve Staff Attitude
This factor, as we have seen, can drive clients to the competition. It is important that microfinance institutions make investment in customer care training for their staff. Some microfinance institutions have staff that listen to clients and interact well with them but *"…PRIDE staff do not listen they just come to collect repayments..."*. If this is not checked, it will erode the goodwill the institution has among clients.

(3) Increase Speed of service
Microfinance institutions should speed up their loan processing time. Indeed, time spent processing all transactions should be speeded up. One area where this can achieve much appreciation is in the case of clients who finish paying up their loans before the repayment period deadline. Respondents argued that *"..bad clients should not be allowed to frustrate good ones.."* In as much as possible (where methodology

permits) loan cycles should be de-linked from those of other members and the person who finishes their loan should be allowed to graduate to the next loan speedily. Respondents ranked PRIDE highly here arguing that if one paid their loan in advance, one was able to get another loan immediately. With VEDCO and FINCA, you have to wait for other group members to finish repaying their loans before moving to the next loan cycle.

(4) Increase Flexibility

Respondents wanted flexibility introduced in repayment schedules, loan terms and perhaps compulsory saving requirements. They also suggested that attendance of weekly meetings should also not be compulsory where a member can send their payments in to the group. Where appropriate, balloon payments or payments in specially adjusted plans should be permitted. Repayment periods could also vary for different business types and loan amounts. Institutions could revisit the amount required as mandatory savings to become more competitive. Any institution looking to gain this advantage could carry out a market survey to assess up-front savings levels required by competitors.

(5) Improve Communication

Respondents suggested that staff should communicate more with clients. Institutions could schedule meetings at least once a quarter or twice a year to listen to clients' needs and problems (complaints). Access to the higher officials (i.e. top management) should be encouraged in these meetings (e.g. Operations Manager). This would ensure greater client satisfaction, greater access to information and greater client confidence in the whole process. Related to this is the issue of training. Respondents were of the view that all MFIs should ensure that all clients receive appropriate training. Trainers should be willing to clarify issues when members do not understand. The training should be detailed and informative. In Masaka, respondents said that usually the first clients who make up a group are well trained by staff but then they (these clients) are expected to train other clients who join later. They said this practice should be stopped. They argued that this leaves room for confusion, misrepresentation, miscommunication and error and groups have suffered a lot because of it.

(6) Reduce the number of different fees and charges

Too many fees and charges serve only to increase the confusion clients suffer. Respondents suggested that in as far as it is possible, the number of different fees should be reduced. PRIDE only charges membership fees these are considered low because it is one fee, compared to MEDNET which charges administration fee, insurance, application fee etc. Other institutions like FINCA are also slowly moving away from the multiple fee regime. Multiplicity of fees makes the product seem very expensive in the mind of the client and could constitute an entry barrier.

(7) Decrease collateral requirements

Many respondents were very disturbed by what they said was the practice of almost all microfinance institutions to secure all household assets as collateral even where their value far exceeded the value of the loan obtained. They complained that current collateral requirements were exploitative and unfair. An institution can take advantage of this perceived unfairness by securing an established percentage of the value (e.g. 150%). Respondents suggested that this percentage, which they mentioned specifically i.e. *".. one and a half times more .."* was fair. This would still work out better than the current situation where respondents reported that some institutions secure assets worth in some cases more than ten times (1000%) the value of the loan. Alternatively, where the institution insists on securing very high value, a simple written undertaking attached to the client's loan file and shown to the client, that the institution will only dispose of assets that equate the balance outstanding in the event of a default, would go a long way in giving clients confidence in the institution. They will have less fear of borrowing from that institution.