SOCIAL CAPITAL, JOINT LIABILITY AND RE-PAYMENT PERFORMANCE

THE CASE OF PRIDE MICRO FINANCE IN BUGIRI DISTRICT

BY

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DECLARATION

This dissertation is my original work and has never been published or submitted for any other degree to any university or academic institution before. Where the work of previous scholars was used, the authors were cited.

Signed…………………………………………..

ODAKO ZADOK

Date…………………………………………..

APPROVAL

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

Signed…………………………………………. Date…………………………………

Dr.Nkote Nabeta

Signed………………………………………….Date…………………………………

Dr. Joseph Ntayi

DEDICATION

I dedicate this research work to my wife Mrs. Olive Mukata Odako, children; Opio Norman,

Adongo Joanita, Akello Patricia and Hamala Elizabeth.

ACKNOWLEDGEMENT

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ABSTRACT

The purpose of the study was to establish the relationship between Social capital, Joint liability and Repayment performance. The study was guided by the following research objectives; to establish the components of social capital, joint liability and repayment performance, to examine the relationship between social capital, joint liability and repayment performance, to examine the predictive potential of social capital and joint liability on repayment performance **and** to establish the predictive potential of the components of social capital and joint liability on repayment performance.

Using a sample of 127 clients engaged in active group borrowing in Bugiri District selected using purposive sampling, a cross sectional research design was adopted which involved descriptive, correlation and regression approaches. The study revealed that there was a significant positive relationship between Social capital, Joint liability and Repayment performance. The results from the regression analysis indicated that Social Capital and Joint liability together explained 53.6% of the variance in the Repayment Performance.

It was recommended that since social capital, joint liability and repayment performance worked well in the rural areas where poverty is significant as compared to the urban, it would be prudent for government to adopt the trust and networks that exist among client groups as it proposes the extension of microfinance services to the rural areas as a strategy to alleviate poverty. Besides, workshops and meetings for client groups should be conducted so that business progress is discussed to enhance better ways of improving savings and consequently good repayments by the groups. Furthermore, the Micro Finance Institutions should work hand in hand with the Community Development Officers to assist in giving guidelines for the formation of successful groups. Additionally, the microfinance institutions should continuously interact and share

information with their clients on productive business ventures which are tailored based on the clients residence. Finally, group screening, mentoring and routine monitoring should be undertaken by the microfinance institutions before credit is extended to clients in order to minimize instances of defaulting among their clients.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Micro Finance Institutions (MFIs) are financial institutions whose major aim is to advance financial services to the low income earners and in most cases to those clients who are not being served by the commercial banks. Most developing nations have taken the advancement of MFIs because of their excellent repayment record and they are becoming a widely used instrument to provide loans to the poor. These programs have been showing an extensive reach to the poor plus sustainability while maintaining high repayment.

Social capital through joint liability plays a great role in alleviating adverse selection, moral hazards and enforcement problems which in turn has brought about high repayment rates as viewed extensively by many scholars for the success of MFIs (Ghatak and Guinnanne, 1999 and Morduch, 1999). Though social capital has continued to make successes, internal delinquencies within groups have continued to exist whereby some members within the groups disappear with some loans given to them (Hermes, Lensink and Hableab, 2004) and they shift their burden to other members within the same group to pay.

According to the financial and management reports (Pride Micro Finance-Bugiri), this Pride had 16 groups in 2006 with an internal delinquency rate of 14.6%, 16 groups in 2007 with an internal delinquency rate of 0%, 17 groups in 2008 with an internal delinquency rate of 15.2% and 17 active joint liability groups with a clientele of 190 in 2009. The loans advanced to clients range from Ugx. Shs. 50,000= to Shs 6,000,000= per client for new and old clients respectively depending on past repayment performance. According to the annual report 2009, the internal

delinquency rate was 16.5%. This implies that there is a problem of members of the group moving away without paying their loans, (The Case of Pride Micro Finance in Bugiri).

1.2 Statement of the Problem

Social capital has continued to help people out of poverty by use of joint liability that exists between members of the group to enable them to access loans instead of the collateral security. Though social capital has continued to play an important role in advancing credit in MFIs, its role in 3rd to 6th round of loan repayment has not performed as expected because of the internal delinquency that has continued to rise from 5.8% in the first and 2nd round to 16.5% in the third to sixth round of the loan repayment period (Pride Micro Finance Bugiri Branch annual report 2009). Therefore the study examined the problem of continued loan delinquencies that occur in the 3rd to 6th round of loan repayment basing on the social capital and joint liability.

1.3 Purpose of the Study

The purpose of the study was to examine the relationship between social capital, joint liability and repayment performance.

1.4 Objectives of the Study

i. Establish the components of social capital, joint liability and repayment performance

ii. To examine the relationship between social capital, Joint Liability and repayment performance.

iii. Examine the predictive potential of social capital and joint liability on repayment performance

iv. Establish the predictive potential of the components of social capital and joint liability on the repayment performance.

1.5 Research Questions

i. What are the components of social capital, joint liability and repayment performance?

ii. What is the relationship between social capital, Joint Liability and repayment performance?

iii. What is the predictive potential of social capital and joint liability on repayment performance?

iv. What is the predictive potential of the components of social capital and joint liability on repayment performance?

1.6 Scope of the Study

Geographical Scope

The study was carried out in Pride Micro Finance in Bugiri district located in Eastern Uganda.

Subject Scope

The study focused on social capital, joint liability and repayment performance. Social capital focused on bonding social capital and bridging social capital. Joint liability focused on group screening and group monitoring. Repayment performance focused on internal delinquency rate.

1.7 Significance of the study

- This study may contribute towards the body of knowledge for researchers such that they may try to minimize the internal delinquency rate of the groups.

- This study may help MFIs to use a cheaper means of recovering their debts other than group members paying for delinquent members.

1.8 The conceptual framework

This model shows the way social capital; bonding social capital and bridging social capital together with joint liability that exists in social capital influence repayment performance. The social capital in this model is taken as the independent variable, joint liability is the intermediating variable and repayment performance is the dependent variable.

Social Capital		Joint Liability		Repayment Performance
- Bonding Social Capital		- Group Screening		- Internal Delinquency
- Bridging Social Capital		- Group Monitoring		
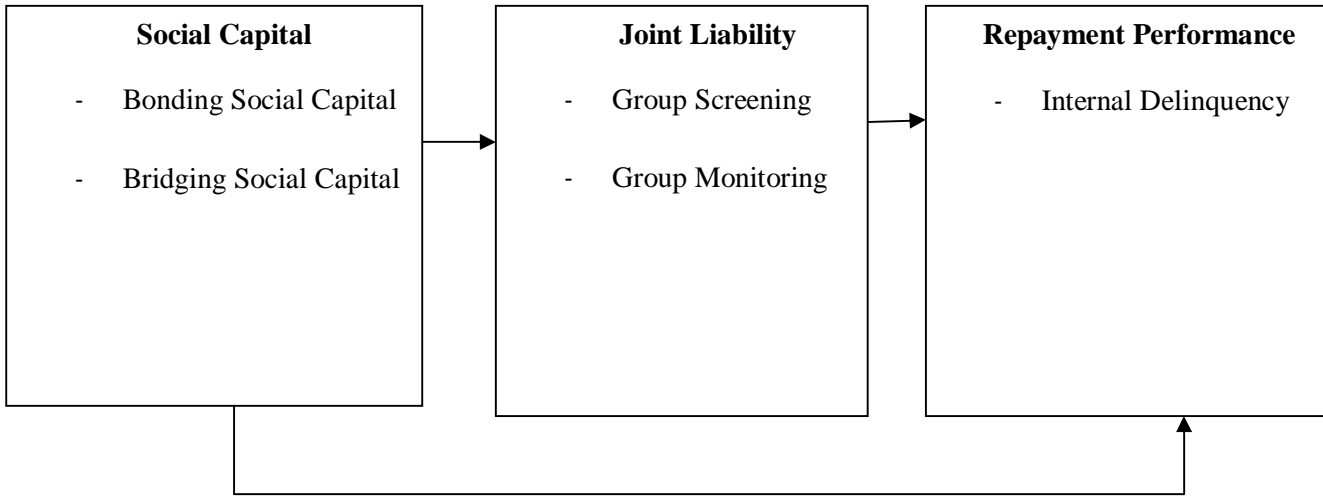
Source: Self developed based on the works of Hermes, Lensink and Mehrteab, 2004 and Narayan, 2006.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Many research papers have been written to explain the performance of loans in terms of repayment in MFIs. Although literature has covered a variety of these theories, this review will focus on Social capital and joint liability in terms of bonding and bridging social performances of MFIs.

2.2 Social Capital

Social Capital is the type of capital whereby when you are given a loan you do not have to provide collateral but a fellow client or member acts as security or guarantor through social collateral. Therefore Social Capital would mean emotional support, social benefit and performance where there is trust/network (structural diversity and demographic diversity). This concept has been in existence since communities formed and humans interacted with the expectation of reciprocation and trust (Woolcock, 1998).

Social capital is also represented in five dimensions namely;

- Networks: Lateral associations that vary in density and size among both individuals and groups.
- Reciprocity: Expectations that during short and long terms, kindness and services will be returned.
- Trust: Willingness to take risk in a social context based on an assumption that others will respond as expected.
- Social norms: Unwritten shared values that direct behavior and interaction.

- Personal and collective efficacy: The active and willing engagement of citizens within a participatory community (Paxton, 2002).

2.2.1 Bonding Social Capital

Bonding Social Capital means the network that exists among individuals before they form a group to access a loan. Bonding social capital rests on the premise that my connections can help me (Cross and Cummings, 2004). It is about establishing relationships purposely and employing them to generate intangible and tangible benefits in both short and long terms. Under bonding social capital, you come knowing each other and the level of trust you have in each other such that you may be able to get a loan since you must have something in common (bond) before you acquire a loan. Bonding social capital captures the common ties and the common cultural heritage that underlie interactions in the rural environment hence providing social security for somebody to get a loan (Wulff, 2004).

2.2.2 Bridging Social Capital

Bridging Social Capital would mean first coming together and there after you develop networks within yourselves for the purpose of attaining benefits that accrue to social capital. Under bridging social capital, trust within the group develops after some time and it is after that, that somebody can be entrusted with a duty to lead his fellow members and monitor them such that they are able to give them a loan that corresponds with their level of trust.

2.2.3 Social Capital and Repayment Performance

Social Capital can be defined as a variable that exists between people or groups of people that can enable them access credit using this form of security other than the collateral security which is being used by the commercial banks for the borrowers to access credit. Social capital can be broadly categorized into two thus bonding social capital and bridging social capital.

Social capital is used as group insurance and a lending contract members use to access credit which in turn improves the repayment performances of the group as sighted by (Beatrix and Thomas, 2005). Traditional societies have social ties that are stronger because of their set up and beliefs in extended families that makes them to have efficient credit controls and contracts hence allowing better repayment performances in these societies than in the developed world with weaker societies and their belief in the nuclear systems which makes joint liability monitoring very difficult according to, (U dry, 1994).

The success of Social capital that is used by MFIs to advance their activities of providing credit to the poor is the joint liability which is a significant tool used in developing countries. Most field experiments carried out showed that social capital in form of personal trust between individuals and social homogeneity within groups both have a positive effect on group performance, (Cassar et al, 2005).

Relational (bonding) social capital and informational (bridging) social capital are very critical to the success of joint liability and they are and it is through these irate properties that MFIs have been able to report very low default rates (Beatrix and Wiseman, 2005).

It has also been observed that the greater the potential for social sanctions, the more likely they are to lie off the equilibrium path, and the higher the joint loan repayment one should observe. Fluro and Yotopolous (1991) observed that when social ties are strong, group lending can improve both loan repayment and relax credit constraints.

Karlan (2005) puts that moderate support for the importance of the existing social capital between members to group lending but specifically the importance of irate trustworthiness as opposed to trust worthiness driven by the fear of social sanctions. Cessar, Crowley and Wydick (2005), found out that group homogeneity nearly always has a correct sign for improving repayment in our estimations and is often statistically significant.

Besley and Coate (1995), asserts that without the potential for social sanctions, joint liability may offer little or if any advantage over individual lending. However, if social capital sanctions are not sufficiently strong, group lending may not be able to curtail the moral hazard associated with the loan repayment.

Social capital according to (Alessandra, Lucas and Bruce, 2005) facilitates informational flow between the borrowers. However, social sanctions are deemed unnecessary to results of repayment performance. For (Zeller, 1998) finds credit group performance to be positively related to social cohesions within groups while (Klenner, 1995) finds active screening and social pressure among members to improve the group performance not social capital.

2.3 Joint Liability

Joint liability is when you are held liable together as a group (Xavier, 2008). Joint liability purports to improve performance rates by providing incentives for peers to screen, monitor and enforce each other's loans though excessive pressure can discourage good clients from borrowing, jeopardizing both growth and sustainability (Karlan, 2008). Armendariz de Aghion and Morduch, 2005 puts it that under joint liability the individuals have an incentive to screen other clients so that only trustworthy individuals are allowed into the program and still they ensure that funds are invested properly and effort is exerted on them.

Enforcement is enhanced because members face peer pressure not legal pressure to repay their loans which effectively shifts the responsibility of certain tasks from a lender to a client thus overcoming information asymmetries in the credit market. Joint liability could also refer to the terms of the actual contract whereby the individuals are both the borrowers and guarantors of other clients' loans. Therefore joint liability is summarized by identifying four channels through this contract feature can help improve the institutions repayment.

Adverse selection: ascertaining the riskiness of borrowers (Ghatak, 2000) or the insurance effect that results from diversification even if the borrowers do not know each other.

Execute moral hazard: ensuring that funds will be used properly (Laffont and Rey, 2000).

Monitoring: ensuring that borrowers tell the truth in case of default about their ability to pay.

Voluntary default or expost moral hazard: enforcing repayment if the borrower is reluctant to pay (Besley and Coarte, 1995). In case of a default by some members others have to make up the deficit.

2.3.1 Group Screening and Group Monitoring

Group Screening is when you choose the individuals that you are certain that they will make up their obligations as they fall due. This requires some degree of trust between those clients or individuals. You must know what they do, where they live and which person to approach in case they have disappeared and how much they are able to pay.

Group Monitoring is a responsibility of each and every member to ensure that their fellow members pay on time and in case they do not they should know what might have happened and they are supposed to advise each other on the type of business to engage in and its profitability.

2.3.2 Joint Liability and Repayment Performance

Joint Liability has been defined by some scholars as solidarity group lending system used by MFIs in extending credit to people other than the collateral system credit that is being used in commercial banks according to (Armendariz de Aghion and Crollier, 2000) while repayment performance is taken to mean the way the group honors its obligations by paying back the credit extended to it as agreed upon by the lending institution.

Joint liability has been a key innovation responsible for the rapid growth of Micro Finance Institution because of its ability to overcome adverse selection and moral hazard problems in the

credit markets especially when extending credit to the poor according to (Xavier and Karlan, 2006).

Also (Madajewicz, 2003) argues that joint liability ceases to be important when a group can no longer guarantee a member to get a loan hence leading to the collapse of the group. Cromez and Santor, 2003) put it that under joint liability, selection and incentives in a group play a bigger role in explaining the lower default rates in terms of repayment performances in groups other than the use of individual loans. They explained this by use of statistical matching model by comparing default rates between Joint liability and individual liability contracts.

It was also observed that self selected groups under joint liability performed mightly in the 1st round when credit was extended to them but co-operation among these groups tended to fizzle in the later rounds while when considering randomly selected groups, co-operation among them started lowering but became stable when rounds progressed. This shows also that under joint liability, selection is an important aspect to be considered in the group for better repayment performance according to (Cassar, Crowley and Wydick, 2005).

Ahlim and Towsend (2003), observe that repayment performances under joint liability are also affected by the geographical atmospheres and regions where those groups operate from. When it is favorable and the clients are good, always better results are yielded in terms of repayment for example in dry areas when clients are farmers, repayment of loans is usually difficult however willing the clients might be.

The success of Joint liability depends upon four issues thus ascertaining how risky a borrower might be, ensuring that funds are put to proper use (Moral Hazard), ensuring that the borrower in a group tells the truth about his/her ability to pay (monitoring) and enforcing repayment if the borrower is reluctant to pay. Short of that the repayment performance can be poor or low according to (Ghatak and Guinname, 1999). Credit incentives are other aspects that induce the

better functioning of joint liability. When there are no credit incentives, the borrower finds no use of being in the same group for a very long period of time and when the morale is low, the repayment performance in turn is affected according to (Besley and Coate, 1995) though credit incentives are not sufficient to ensure high repayment performances according to (Sadoult, 1997).

Rai and Sjostrom (2004), observed that high repayments under the joint liability can be achieved when MFIs have the ability to impose non-pecuniary punishments to its members about their success and that of others, more importantly if the borrowers have the ability to write contracts with one another but joint contracts are excessively burdensome to enforce.

2.4 Social Capital, Joint Liability and Re-payment Performance

The measuring devices for the success of group based lending program are its rate of repayment. Successful programs like Grameen bank and Bancosol show high repayment rates while reaching to millions of poor borrowers. This high repayment performance is attributed to their ability problems arising from asymmetry of information (Beatrix and Thomas, 2005).

Klenner, (2005) finds internal delinquency to be related negatively with the formal screening of the groups while visits by the credit office to be related positively. This means that members have written codes on how to behave experience less internal delinquency hence an improvement in the repayment performance of the group.

Sharma and Zeller (1997), consider repayment performance in terms of delinquency as the proportion of the total loan amount in arrears at the date when complete repayment is promised and these are related to a group. The number of relatives in a group, squared credit rationing and the size of loans are found to be positively significant which means the more the number of relatives in a group, the higher the credit rationing and the higher the un-paid loans.

Ghatak model, (1999) asserts that safe borrowers are drawn back in the credit pool as the equilibrium interest rate is reduced thus increasing repayment rates. Empirical marks and results of (Klenner, 1995) have shown the active screening and social pressure improve group performance in terms of repayment performance.

Wydick (1999) finds that while peer monitoring appears to be positively correlated with group loan repayment, strong societies within the groups have however, appeared to make it more difficult to pressurize fellow members to repay loans.

Basing on the observable variables of (Gomez and Santos,2003), they found that both selection and incentive effects are major players in explaining lower default rates for group loans relative to individual loans in terms of performance.

The success of Social capital through group based lending/joint liability can be measured basing on the rate of its repayment and their outreach to the poor. The repayment performance of these MFIs is attributed to their ability to curb the problems arising from asymmetry of information. Curbing information asymmetry in joint liability group based lending programs is done by screening, monitoring and pressurizing each other in order not to end up paying for the defaulting colleagues.

Social capital through joint liability /group members play a great role in alleviating adverse selection, moral hazard and enforcement problems and these have been viewed extensively by many scholars such as (Ghatak and Guinname 1999, Morduch, 1999).

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter describes the practical procedure for carrying out the study. It gives the details of the research design that was adopted, study population, sample design and size, sources of data, data collection instruments, validity and reliability, data processing and analysis, ethical considerations and anticipated problems/limitations.

3.2　Research design

This study adopted a cross sectional survey design with descriptive and analytical methods. The design was adopted because the study was for a short period of time and time saving regarding data collection. Descriptive method helped in simplifying the meanings of the findings. Analytical methods enabled the researcher to critically assess the findings in the area of study.

3.3 Study population

The study population was 190 clients who belong to small groups of Pride Micro Finance Institution in Bugiri district.

3.4　Sample Design and Size

A purposive sampling design was used to obtain information from the targeted clients. The sample size of 127 was determined using a sampling table guide provided by Krejcie and Morgan (1970).

3.5 Sources of Data

3.5.1 Primary data

One source of data was used that is Primary data. This was obtained from the clients of Pride Micro Finance-Bugiri through structured questionnaires and interviews.

3.6 Data collection instruments and research procedures

The researcher got an introductory letter from the University which was presented to the respondents which enabled them to know that the purpose of the research was purely for academic and not any other use. The researcher used questionnaires to collect data from the selected clients. An interview schedule was designed in questionnaire format and was administered with the help of one research assistant.

3.7 Measurement of variables

The independent variable was Social Capital and the dependent variable was Repayment Performance. For all the variables, a three page structured questionnaire was used. Except for background characteristics of the respondents, all variables were measured using a 5-point Likert scale ranging from strongly disagree (1) to strongly agree (5).

Social Capital (Bonding and Bridging Social Capital) was measured using the Likert scale as adopted by (Luganda, 2006).

Joint liability was measured basing on Likert scale as adopted by (Kasigazi, 2003).

Repayment performance was measured using the Likert scale as adopted by (Kasule, 2009).

3.8 Reliability test

To reduce sampling errors, pretesting was done to ensure the reliability of the instrument. The Cronbach Alpha Coefficient was used to test for the reliability of the instrument while the Content Validity Index was used to examine the Validity of the research instrument. Since the

Reliability and Validity values were above 0.5, the research items were considered to be valid and worth employing to collect data.

Table 3.1 Reliability test (Cronbach Alpha coefficient)

Variable	Anchor	Cronbach Alpha Value	Content Validity Index
Social Capital	5 Point	0.735	0.833
Joint Liability	5 Point	0.745	0.769
Repayment Performance	5 Point	0.807	0.692

Source; Primary data

3.9 Data processing and Analysis

After collecting data, qualitative data was edited, classified, tabulated, coded and reviewed in order to ensure the required quality, accuracy, consistency and completeness. The data was analyzed using the computer Statistical Package for Social Scientist (SPSS) software. Tables were used in analyzing the descriptive findings. Correlation coefficient was used to measure the strength and direction of relationships between the study variables **and** Regression and ANOVA were used to test the significance of relationships between the variables.

3.10 Problems of the study

- Some respondents were not available to answer the questionnaires. This was addressed by making at least two call backs to the targeted respondents after the first visit.

- Some respondents were illiterate and this posed a problem of language barrier. It posed difficulty in interpreting the questionnaire on the researcher. However, with the help from one of the loan officers of Pride Micro Finance Bugiri, this was overcome by inviting various groups at the branch office and interpreting the questions to the respondents in the local languages which were mainly Lusoga and Samia.

- The method used in the measurement of the variables and its degree of error. This was addressed by checking the validity and reliability of the questionnaire items.

CHAPTER FOUR

PRESENTATION AND INTEPRETATION OF FINDINGS

4.1   Introduction

This chapter contains the statistical results that were generated from the data analysis together with the interpretation thereof. The presentation in this chapter was guided by the research objectives and the results therefore were generated so as to appropriately address the research questions and objectives. It includes descriptive statistics, Factor analysis, Correlation analysis and ANOVA results.

The results in the tables were guided by the following research objectives;

i.   Establish the components of social capital, joint liability and repayment performance

ii. To examine the relationship between social capital, Joint Liability and repayment performance.

iii. Examine the predictive potential of social capital and joint liability on repayment performance

iv. Establish the predictive potential of the components of social capital and joint liability on repayment performance.

4.2 Background Characteristics

The results in the sections that follow, show the descriptive statistics for the respondents who were interviewed in the survey.

4.2.1 Age group of the respondents

The results in the table below show the age group of the respondents who participated in the study

Table 4.1 Age group of respondents

Age Group		Frequency	Valid Percent	Cumulative Percent
	Under 20 yrs	2	1.6	1.6
	20 - 29 yrs	31	24.4	26.0
	30 - 39 yrs	45	35.4	61.4
Valid	40 - 49 yrs	35	27.6	89.0
	50 - 59 yrs	13	10.2	99.2
	60 yrs & Above	1	.8	100.0
	Total	**127**	**100.0**	

Source; Primary data

The results in the table 4.1 above show that the majority of the respondents who participated in the study were in the 30- 39 year age bracket (35.4%) while on the other hand, the least populous age group were the respondents in the 60 years and above age bracket (0.8%).

4.2.2   Gender of the respondents

 The results in the table below show the gender of the respondents who participated in the study

Table 4.2 Gender of the respondents

Gender		Frequency	Valid Percent	Cumulative Percent
	Male	61	48.0	48.0
Valid	Female	66	52.0	100.0
	Total	**127**	**100.0**	

Source; Primary data

The results in the table 4.2 above show that the majority of the respondents who participated in the study were females (52%) while the minority was males (48%).

4.2.3 Level of education of the respondents

The results in the table below show the level of education of the respondents who participated in the study;

Table 4.3 Education level of the respondents

Level of Education		Frequency	Valid Percent	Cumulative Percent
Valid	Primary	75	59.1	59.1
	O level	38	29.9	89.0
	A level	3	2.4	91.3
	Tertiary	2	1.6	92.9
	University	2	1.6	94.5
	No formal Education	7	5.5	100.0
	Total	**127**	**100.0**	

Source; Primary data

The results in the table 4.3 above show that the majority of the respondents who participated in the study were of primary level (59.1%), while on the other hand, the least levels of education of the respondents were of "O" level (29.9%), No formal education (5.5%), "A" level (2.4%), Tertiary (1.6%), and University (1.6%).

4.2.4 Type of residence of the respondents

The results in the table below show the type of residence of the respondents who participated in the study

Table 4.4 Residence of the respondents

Type of residence		Frequency	Valid Percent	Cumulative Percent
Valid	Rural	76	59.8	59.8
	Urban	51	40.2	100.0
	Total	**127**	**100.0**	

Source; Primary data

The results in the table 4.4 above show that most of the respondents were resident in rural areas (59.8%) while the least were from urban areas (40.2%).

4.2.5 Duration in active business of the respondents

The results in the table below show the duration in business of the respondents who participated in the study.

Table 4.5 Duration in business of the respondents

Duration in business		Frequency	Valid Percent	Cumulative Percent
	Less than One yr	4	3.1	3.1
	1 - 2 yr	16	12.6	15.7
Valid	3 - 5 yr	48	37.8	53.5
	6 yrs & Above	59	46.5	100.0
	Total	**127**	**100.0**	

Source; Primary data

The results in the table 4.5 above show that the duration in business of most respondents was 6 years and above (46.5%).On the other hand, the respondents who had stayed in business for 3 to 5 years,1to 2 years and less than one year were 37.8%,12.6% and 3.1% respectively.

4.2.6 Household size of the respondents

The results in the table below show the household size of the respondents who participated in the study

Table 4.6 Household Size of the respondents

Household size		Frequency	Valid Percent	Cumulative Percent
	2 persons	8	6.3	6.3
	3 - 4 Persons	44	34.6	40.9
Valid	5 - 6 Persons	24	18.9	59.8
	7 & Above	51	40.2	100.0
	Total	**127**	**100.0**	

Source; Primary data

The results in the table 4.6 above show that the household size of most of the respondents were of 7 people and above(40.2%)while the least household size respondents were of 3 to 4 persons(34.6%),5 to 6 persons(18.9%), and 2 persons(6. 3%).

4.2.7 Marital Status of the respondents

The results in the table below show the marital status of the respondents who participated in the study

Table 4.7 Marital status of the respondents

Marital status		Frequency	Valid Percent	Cumulative Percent
	Single	16	12.6	12.6
	Married	103	81.1	93.7
Valid	Widowed	4	3.1	96.9
	Divorced	4	3.1	100.0
	Total	**127**	**100.0**	

Source; Primary data

The results in the table 4.7 above showed that most of the respondents were married people (81.1%), whereas the marital status of the other respondents was single (12.6%), widowed (3.1%) and divorced (3.1%).

4.3 Factor Analysis Results

Factor analysis is a technique that allows us to explore the relative composition of the variable. It helps identify the most essential issues or components of a variable so that the decision maker is able to designate interventions based on the most essential factor. Factor analysis results in the tables below were examined so as to explore the variables to a greater degree.

4.3.1   Social Capital

The results in the table below show the structure of Social Capital among the respondents who participated in the study.

Table 4.8 Factor analysis Results (Social Capital)

Factor analysis Results : Social Capital	Bonding	Bridging
The group members always create networks that last	.688	
Members operating same businesses at times exchange ideas and offer new markets	.591	
Members usually contact others and find out whether they need help	.574	
Members are always willing to share information about new markets and products	.570	
Members of the group interact frequently	.568	
We find it easy to maintain cohesion in the group	.534	
We enjoy working together as a group	.526	
The advise provided is timely in helping members stabilizing business operations	.524	
Members of the group frequently provide practical support for new ideas and their application	.522	
Networks created tend to foster relationships with other group members		.799
Members openly discuss about their success and hardships in business operations		.675
The extent to which we interact affects assets acquired		.566
Members believe and accept what others tell them and promise to do		.557
Group dense networks usually enhance cooperation and social benefits		.544
Eigen Value	2.870	1.349
Variance %	**47.825**	**22.475**
Cumulative %	47.825	70.300

Source; Primary data

The results showed that Bonding and Bridging are two crucial components of Social Capital and they explain variances of 47.825% and 22.475 % respectively. On Bonding, the results showed that it is essential to ensure that members of the group interact frequently (.568) and they also frequently provide practical support for new ideas and their application (.522). In addition, to foster bonding, it is key that members show continual willingness to share information about new markets and products (.570).

When it comes to improving Bridging, the results showed that priority should be assigned to helping the Networks created that tend to foster relationships with other group members (.799), and creating an environment whereby members openly discuss about their success and hardships in business operations (.675).

4.3.2 Joint Liability

The results in the table below show the structure of joint liability among the respondents who participated in the study.

Table 4.9 Factor analysis Results: Joint Liability

Factor analysis Results : Joint Liability	Group Monitoring	Group Screening
Joint liability always strengthen trust among our members	.704	
Group lending strengthens the trust among members	.695	
We have written down rules and regulations governing the group	.646	
Training programmes are always tailored towards addressing our business needs	.636	
We always monitor each other's business as a team	.514	
We always help each other when faced with payment problems	.500	
We are always conscious about the maximum loan a member is to get		.609
We screen the loan amount each members is supposed to get		.582
Credit risk is adequately assessed before a loan is given out to a member		.509
Eigen Value	2.221	1.099
Variance %	**51.246**	**16.913**
Cumulative %	51.246	68.159

Source; Primary data

The results showed that group monitoring and group screening are two pertinent factors of Joint Liability and they explain variances of 51.246% and 16.913% respectively. On group monitoring, the results showed that it is always necessary to have written down rules and regulations to govern the groups (.646), and that they require training programmes that are tailored towards addressing their business needs (.636). The researcher observed that in order to enhance group monitoring, team work in monitoring each other's business is essential (.514) which ensures that payment problems are jointly settled whenever they arise (.500). Besides,

group monitoring promotes group lending which strengthens trust among members (.695) and by furthermore holding members jointly liable, trust among the members is strengthened (.704).

On group screening, the results showed that it is key to be conscious about the maximum loan each member in the group is to get (.609) which is achieved by screening the loan amount each member is to get (.582) and adequately assessing the credit risk before a loan is given to a member (.509).

4.3.3 Repayment Performance

The results in the table below show the level of repayment performance in the microfinance institution.

Table 4.10 Factor analysis Results: Repayment Performance

Factor analysis Results : Repayment Performance	Prompt Compliance	Repayment Scheduling
We always pay our credit obligations on time	.648	
We always borrow basing on our payment track records	.636	
We always advise members to always pay back on time	.622	
We sometimes retire our loan obligations before the expertly of the loan period	.554	
We regularly pay the institutions periodical loan installments without getting reminders	.515	
Harmony in the group has enabled better loan repayment		.691
Supervision of our business activities helps us in saving money for repayment		.629
We regularly advise each other on the business performance		.592
Supervision greatly improves our payments		.586
Group meetings improves our repayments through discussion of our business progress		.581
We at times get problems in repayments		.576
The performance of our business helps us to repay our loans		.546
Eigen Value	2.854	1.059
Variance %	**43.906**	**16.289**
Cumulative %	43.906	60.195

Source; Primary data

The two major components of the Repayment Performance were noted to be Prompt Compliance and Repayment Scheduling which comprised variances of 43.906% and 16.289%. The researcher noted that to enhance Prompt compliance, the institution should ensure that Clients always pay their credit obligations on time (.648), advice members to always pay back on time (.622) and be flexible to at times retire their loan obligations before the expiry of the loan period (.554). It was further noted that clients were regularly paying the institutions loan installments without getting reminders (.515).

On repayment scheduling, the results showed that supervision of the group businesses was essential in enabling members to save money for repayment (.629) and improve on their repayments (.586). In order to repay as scheduled, the researcher additionally observed that advice to each other on business performance should be given (.592), harmony should exist in the groups (.691) and group meetings should be held (.581). However, the groups at times experience some repayment problems (.576).

4.4   Correlation Analysis

The results in the table below were presented using the Pearson (r) correlation coefficient so as to examine the nature of the relationship. The relationship between two variables, examined using this Correlation Coefficient also indicates whether the relationship is positive or negative. This allows the researchers to make reasonable conclusions and recommendations.

Table 4.11 Relationship between the variables

	1	2	3	4	5	6	7
Bridging Social Capital-1	1.000						
Bonding Social Capital-2	.293**	1.000					
Social Capital-3	.520**	.559**	1.000				
Group Screening-4	.322**	.246**	.417**	1.000			
Group Monitoring-5	.247**	.285**	.446**	.230*	1.000		
Joint Liability-6	.422**	.450**	.570**	.817**	.264**	1.000	
Repayment Performance-7	.420**	.494**	.692**	.433**	.559**	.604**	1.000
** Correlation is significant at the 0.01 level (2-tailed).							
* Correlation is significant at the 0.05 level (2-tailed).							

Source; Primary data

4.4.1   Social Capital and Repayment Performance

The results in the table 4.11 above showed that the Social Capital is positively related to Repayment Performance (r = .692**, p<.01). These results show that if the Social Capital is well managed, it will result into improved levels of Repayment. In addition, the results showed that both components of Social Capital are positively related to Repayment Performance i.e. Bridging Social Capital (r =.420**, p <.01) and Bonding Social Capital (r =. 494**, p<.01). The results indicate that if for instance members are always willing to share information about new markets and products, they are bound to also advise other members to always pay back on time, which is for the benefit of both the clients and the institution.

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4.4.2 Social Capital and Joint Liability

The results in the table 4.11 above showed that social capital and joint liability are positively related (r= .570**, p<.01). These results show that if social capital is well managed, it will lead to strength in joint liability. Besides, the results showed that social capital is positively related to both aspects of Joint liability i.e. group screening (r=.417**, p<.01) and group monitoring (r=.446**, p<.01). The results indicate that if for instance members create networks that last and interact frequently, they are bound to monitor each other's business and help each other when faced with repayment problems which are of benefit both to the members and the institution.

4.4.3 The relationship between Social Capital, Joint Liability and Repayment Performance.

Results in the previous sections indicated that Social Capital and Joint liability are two variables that are positively related to Repayment Performance. Results indicate that the institution should ensure that there is a relatively high commitment to the Social Capital and the Joint Liability attributes so that the Repayment Performance improves.

4.5 The predictive potential of social capital, joint liability and repayment performance.

Linear Regression was employed to establish the degree to which the Independent variables can determine the influence on the Dependent Variable. The degree of this prediction is essential in formulating the necessary recommendations and Conclusions. This linear regression was done for both the Global Variables and their Constructs.

4.5.1   Regression Model for the Global Variables and the Dependent variable

. The results for the Regression of Social Capital and Joint Liability were as indicated below;

Table 4.12 Results for the regression of Social Capital and Joint Liability

Model	Un-standardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.085	.255		4.261	.000
Social Capital	.535	.077	.515	6.947	.000
Joint Liability	.224	.053	.311	4.193	.000
Dependent Variable: Repayment Performance					
R Square	0.544		F Statistic		73.278
Adjusted R Square	0.536		Sig.		0.000

Source; Primary data

The results indicated that Social Capital and Joint liability together explain 53.6% of the variance in the Repayment Performance as indicated by an Adjusted R Square of 0.536 and a level of significance that was less than 0.05.

4.5.2 Regression Model _Constructs

The results in the table below show the Regression Model of the components of the Variables

and the Dependant Variable.

Table 4.13 Results for the regression of the components of Social Capital, Joint Liability and Repayment performance

Model	Un-standardized Coefficients		Standardized Coefficients	t	Sig.	Tolerance	VIF
	B	Std. Error	Beta				
(Constant)	1.968	0.261		7.552	0.000		
Bridging Social Capital	0.023	0.043	0.040	0.538	0.592	0.903	1.107
Bonding Social Capital	0.130	0.035	0.277	3.741	0.000	0.893	1.120
Group Screening	0.095	0.046	0.152	2.050	0.043	0.889	1.125
Group Monitoring	0.271	0.043	0.490	6.335	0.000	0.818	1.222
Dependent Variable: Repayment Performance							
R Square	.495					F Statistic	25.249
Adjusted R Square	.475					Sig.	.000

The components of Social Capital (i.e. Bridging Social Capital and Bonding Social Capital) and

Joint Liability (Group Screening and Group Monitoring) can explain some 47.5% of the

Repayment Performance (Adjusted R Square = .475). The Variance Inflation Factors (VIFs)

were all less than 4.00, indicating that Co linearity was not a problem in the study.

4.6 Analysis of Variance (ANOVA) Results

ANOVA is a statistical method for making simultaneous comparisons between two or more means that yield values that can be tested to determine whether a significant relation exists between variables.

4.6.1 ANOVA Results for Residence status against the variables

ANOVA results for the ranking of individuals with different residence status against the variables are indicated in the table below;

Table 4.14 ANOVA Results for Residence status against the variables

		Mean	Std. Deviation	Std. Error	F	Sig.
Social Capital	Rural	3.92	0.54	0.06	.586	.445
	Urban	3.85	0.48	0.07		
	Total	3.89	0.51	0.05		
Joint Liability	Rural	4.22	0.71	0.08	.001	.978
	Urban	4.22	0.80	0.11		
	Total	4.22	0.74	0.07		
Repayment Performance	Rural	4.16	0.49	0.06	1.762	.187
	Urban	4.04	0.59	0.08		
	Total	4.11	0.53	0.05		

Source; Primary data

On Social Capital, the respondents in the rural areas had a mean of (Mean = 3.92) while those in the Urban areas (Mean = 3.85). In addition, the responding in both areas had a similar mean (Mean= 4.22) on the Joint Liability variable but on Repayment Performance, the people in the Rural areas (Mean =4.16), Urban areas (Mean = 4.04). It was noted that these categories of respondents as far as residence is concerned, didn't differ significantly on all variables (Sig. >.05).

4.6.2 ANOVA results for duration in business against variables

ANOVA results for the ranking of individuals with different duration in business against the variables are indicated in the table below;

Table 4.15 ANOVA results for duration in business against variables

		Mean	Std. Deviation	Std. Error	F	Sig.
Social Capital	Less than One yr	3.90	0.52	0.26	1.317	.272
	1 - 2 yr	3.96	0.43	0.11		
	3 - 5 yr	3.78	0.57	0.08		
	6 yrs & Above	3.97	0.48	0.06		
	Total	3.89	0.51	0.05		
Joint Liability	Less than One yr	4.25	0.87	0.43	1.001	.395
	1 - 2 yr	4.31	0.75	0.19		
	3 - 5 yr	4.07	0.86	0.13		
	6 yrs & Above	4.31	0.62	0.08		
	Total	4.22	0.74	0.07		
Repayment Performance	Less than One yr	4.21	0.61	0.30	2.179	.094
	1 - 2 yr	4.16	0.44	0.11		
	3 - 5 yr	3.96	0.54	0.08		
	6 yrs & Above	4.22	0.53	0.07		
	Total	4.11	0.53	0.05		

Source; Primary data

On Social Capital, the respondents with 6 years and above in business (Mean = 3.97), 3-5 years (Mean = 3.78). The respondents with 1-2 years in business (Mean = 3.96), less than one year (Mean=3.90) all didn't differ significantly. On the Joint Liability variable there was a similar mean for those with 1-2 years, 6 years and above in business (Mean= 4.31) followed with those who had stayed in business for less than one year (mean=4.25). Finally, these categories of respondents as far as duration in business is concerned on all variables, they didn't differ significantly (Sig. >.05).

CHAPTER FIVE

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a discussion of findings, conclusions and recommendations. The researcher in the findings discusses what was found out in his course of study, the way the problems at hand were being addressed and the recommendations the researcher is giving after analyzing the problems at hand.

5.2 Discussion

5.2.1Social Capital and Repayment Performance

Regression analysis results in the previous chapter indicated that Social Capital is a significant predictor of Repayment performance. Among the elements of Social Capital which are Bridging and Bonding Social Capital, Bridging social Capital was noted to be more influential at predicting the Repayment Performance. When there are good relations between the members and the organization/credit institution the repayment of a loan also becomes easy because the member is able to give the correct information about him/her that can help to trace that person in case of default.

This view is supported by literature of Pitt and Khandker (1998), who found out that interaction particularly compensatory interactions imply that groups are less likely to default on outstanding loans which lead to improvement in repayment performance. This means that as the bridging social capital improves, so does the repayment performance. Further this shows that even in the absence of one member, others can come to his/her rescue because of the bridge that exist between them and they pay for that person when he has not been able to meet his/her obligation.

This view is in connection to the literature of Cessar et al (2007), who argued that the existing social capital reduces the costs associated with credit markets which brings with it costly audit which social capital eliminates through mutual insurance. As the interactions improve between members and the credit institution, the better the performance becomes. And this was in line with what other scholars found out (Grootaert, 2001). Grootaert,(2001) reports that social capital reduces the likelihood of being poor because it acts as security to access and pay back the loans which in turn improves the repayment behavior through mutual assistance networks. This was also supported by Floro and Yotopolous (1991), who observed that where social ties are strong, group lending can improve both the repayment of loans and relax the credit constraints. However, Karlan (2005) found out that social capital is inversely proportional to the repayment of loans meaning that the stronger the social capital, the more the default rate.

5.2.2 Social Capital and Joint Liability

Findings indicate that there was a social capital was related to joint liability. When the social capital improves, the strength of the group becomes better which in turn creates better monitoring and screening within the group which may lead to improved repayment of loans due to the existing trust within the group.

This was supported by Milada, Kasarjyan, Fritsch, (2007), who established that higher involvement in associational activities facilitates ones adherence to norms and better credit repayment and also asserted that the repayment behavior of individual members depends on the existing trust between the group in a way that the higher the trust the better the repayment.

Theoretical models of joint liability have also argued that through the use of social capital of borrowers, the repayment performance of the group is improved because peers are better able to screen, monitor and enforce the loan repayment of each other.

Findings also indicated that the expected utility cost of loan repayment is higher under individual liability than under joint liability Wouter, Vergote, Crec, (2008), and in so doing group lending with joint liability offers the possibility for borrowers to insure one another when some others see their projects yielding low returns while others enjoyed high returns.

Therefore social capital in form of personal trust between individuals and social homogeneity within the groups has a positive effect on the group repayment. Social capital is therefore viewed as a relational and informational factor. Group members become jointly liable for repayment of the loan of each group member and they have an initiative to pressurize fellow members to maximize their own share of the group loan.

5.2.3 Social Capital, Joint Liability and Repayment Performance

On the overall, social capital and joint liability were significant predictors of repayment performance. It was observed that social capital contributed greatly to repayment performance compared to joint liability. This is because when there is a strong bond between borrowers, there develops a good trust and encouragement for each and every person to pay on time or else they will try to pay for that person and when he gets the money he pays them back.

Findings on social capital, joint liability and repayment performance also indicated that under social capital; in bonding social capital, creation of networks that last contributed most while in the bridging social capital; networks with other groups that foster relations contributed most which implies that networks under social capital create a very strong significant joint liability which in return creates a high repayment in terms of promptness in repayment.

Kasarjyan, Fritsch, Buchenrieter, Koff, (2007), asserted that joint liability schisms have a positive impact on the repayment performance of borrowers which uses the social collateral instead of the physical collateral.

On the contrary, Van, Bastelaer and Leathers (2006), identified a negative relationship between social capital, joint liability and repayment performance whereby people in the same church (bonding and bridging social capital) were not paying their obligations as they could fall due. This is because the members may use the collective action rather to avoid them to enforce repayment.

5.3 Conclusions

It was established from the study that social capital is a significant predictor of repayment performance. This means that when there are good relations between the members and the organization/credit institution, the repayment of a loan also becomes easy because the member is able to give the correct information about him/her that can help to trace that person in case of default.

The study further established bonding social capital as a significant predictor of repayment performance. This means that as the bonding social capital improves, so does the repayment performance. Further this shows that even in the absence of a member, others can come to his rescue because of the bridge that exist between them and they pay for that person when he has not been able to fulfill his/her obligation.

The research findings also revealed that there was a significant strong relationship between social capital and joint liability meaning that the better the social capital became , the better the strength of the group which in turn creates better monitoring and screening within the group which may lead to better repayment of loans due to the existing trust within the group.

On the overall, it can be concluded that there was a significant positive relationship between social capital, joint liability and repayment performance. It was observed that social capital contributed greatly to repayment performance compared to joint liability. This is because when there is a strong bond between borrowers, there develops good trust and encouragement for each

and every person to pay on time or else they will try to pay for that person and when he gets the money he pays them back.

Findings on social capital, joint liability and repayment performance also indicated that under social capital; in bonding social capital, creation of networks that last, contributed most while in the bridging social capital; networks with other groups that foster relations contributed most which implies that networks under social capital create a very strong significant joint liability which in turn creates a high repayment in terms of promptness to repay.

5.4 Recommendations

Since social capital, joint liability and repayment performance worked well in the rural areas where poverty is significant as compared to the urban, it would be prudent to recommend that as government proposes the extension of microfinance services to the rural areas as a strategy to alleviate poverty, the trust and networks that exist among client groups should be given much attention.

Workshops and meetings for client groups should be conducted so that business progress is discussed to enhance better ways of improving savings and consequently good repayments by the groups.

The Micro Finance Institutions should work hand in hand with the Community Development Officers to assist in giving guidelines for the formation of successful groups.

The microfinance institutions should continuously interact and share information with their clients on productive business ventures which are tailored based on the clients residence.

Group screening, mentoring and routine monitoring should be undertaken by the microfinance institutions before credit is extended to clients in order to minimize instances of defaulting among their clients.

5.5 Areas for further research

Basing on the findings of this study, it was observed that social capital under joint liability improves repayment performance in Micro Finance Institutions. It was also observed that repayment performance for rural clients was better than that of urban based clients. Therefore the researcher recommends further research on;

- The impact of social capital and joint liability on individual group members' businesses/income.

- The poor performance in repayment performance under social capital and joint liability among urban clients for microfinance institutions

- Longitudinal study on the relationship between social capital, joint liability and repayment performance in Pride Micro Finance in Bugiri district.

- Credit Management challenges in developing countries; the case of Micro Finance Institutions.

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APPENDIX A:

MAKERERE UNIVERSITY

MAKERERE UNIVERSITY BUSINESS SCHOOL

GRADUATE AND RESEARCH CENTRE

INDIVIDUAL INTERVIEW ON SOCIAL CAPITAL, JOINT LIABILITY AND REPAYMENT PERFORMANCE

Dear respondent,

I am Odako Zadok, a student of Makerere University Business School undertaking a study on Social Capital, Joint Liability and Repayment Performance (The case of Pride Micro Finance in Bugiri district) in partial fulfillment of the requirements of the award of Masters of Science in Accounting and Finance degree. You have been technically selected as one of the respondents in this study and you are kindly requested to give your personal opinion as per the questions that follow. Please note that your responses will be treated with the due confidentiality and will be used for academic purposes only.

	Background information for the respondents	**Coding categories (circle the correct alternative where applicable)**
1	Age of the respondent (complete in years)	1. Under 20 2. 20-29 3. 30-39 4. 40-49 5. 50-59 6. 60 and above
2	Gender	1. Male 2. Female
3	Marital Status	1. Single 2. Married 3. Widowed 4. 4. Divorced
4	Level of Education	1. Primary 2. Secondary (O'level) 3. Secondary (A level) 4. Tertiary 5. University 6. No formal Education
5	Type of business carried out	…………………………..
6	Type of residence	1. Rural 2. Urban
7	Duration in active business	1. Less than one year 2. 1 to 2 years 3. 3 to 5 years 4. 6 years and above
8	Household size	1. 2 persons 2. 3 to 4 persons 3. 5 to 6 persons 4. 7 and above

In your own opinion as member, what do you say about the following assertions? (Tick appropriately)

Social Capital

		Level of agreement				
		1	2	3	4	5
		Strongly disagree	Disagree	Not sure	Agree	Strongly agree
1	Members of the group interact frequently					
2	Members of the group frequently provide practical support for new ideas and their application					
3	The group meetings enable members to strengthen existing social ties					
4	Members are always willing to share information about new markets and products					
5	Members operating same businesses at times exchange ideas and offer new markets					
6	The advise provided is timely in helping members stabilizing business operations					
7	The group members are always willing to meet and solve each other's problems					
8	The group members rely on each other hence combating isolation					
9	The group members always create networks that last					
10	Networks created tend to foster relationships with other members					
11	group dense networks usually enhance cooperation and social benefits					
12	Team work in the group adequately helps us while executing our duties					
13	Having the same cultural background always enables us to advise each other					
14	Members of the group understand and accept each other					
15	Members believe what other members tell them or promise to do					
16	Members sometimes visit each other's business to provide support					
17	Members openly discuss about their success and hardships in business operations					
18	Members usually contact others and find out whether they need help					
19	The group interaction affects our business sales					
20	Information provided in groups increases sales					
21	The extent to which we interact affects assets acquired					
22	Members adequately help others as long as the task is beneficial to them					
23	We enjoy working together as a group					
24	We find it easy to maintain cohesion in the group					

Joint Liability

		Level of agreement				
		1	**2**	**3**	**4**	**5**
		Strongly disagree	Disagree	Not sure	Agree	Strongly agree
1	We are always conscious about the maximum loan a member is to get					
2	We screen the loan amount each member is supposed to get					
3	Joint liability always strengthens trust among our members					
4	We always help each other when faced with payment problems					
5	We have written down rules and regulations governing the group					
6	We always monitor each others' business as a team					
7	Training programmes are always tailored towards addressing our business needs					
8	We always credit ration before a loan is given out to the members					
9	At least one member is adequately literate					
10	Credit risk is adequately assessed before a loan is given to a member					
11	We always advise each other on the amount of loan to borrow					
12	Group lending strengthens the trust amongst members					
13	The trust created under the group tends to last					

Repayment Performance

		Level of agreement				
		1	**2**	**3**	**4**	**5**
		Strongly disagree	Disagree	Not sure	Agree	Strongly agree
1	We always pay our credit obligations on time					
2	Harmony in the group has enabled better loan repayment					
3	Supervision greatly improves our repayments					
4	We always borrow basing on our repayment track record					
5	We always advise each member to pay back on time					
6	Supervision of our business activities helps us in saving money for repayment					
7	We regularly advise each other on business performance					
8	We always experience some members running away without paying their loan obligations					
9	Group meetings improves our repayments through discussion of our business progress					
10	We regularly pay the institutions periodical loan installments without getting reminders					
11	We at times face difficulties in repayments					
12	We sometimes retire our loan obligations before the expiry of the loan period					
13	The performance of our businesses helps us to repay our loans					

END

THANK YOU FOR YOUR COOPERATION