THE EFFECT OF VILLAGE BANKS ON RURAL DEVELOPMENT:

"A CASE STUDY OF MIDIA SUB-COUNTY, KOBOKO DISTRICT"

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DECLARATION

I ATAYI SARAH hereby declare that this research report entitled "The Effect of Village Banks on Rural Development" is of my own. It has never been submitted elsewhere for any other academic qualifications. I have acknowledged all the secondary sources used in this study.

ATAYI SARAH
Signature: 
Researcher: 
Date: 20/05/2011
APPROVAL

This research report entitled "The Effect of Village Banks on Rural Development" has been conducted under my guidance and supervision as Institution Supervisor. It is now ready for submission and examination.

MR. SUNDAY ARTHUR
Signature: ..................................
Supervisor: ..................................
Date: ....................................

2010-12-01
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ABSTRACT

This research investigated the effect of village banks on rural development from 2006 to the year 2010. The specific objectives of the research were to determine the role of village banks in development of clients in Midia, discover the social and economic achievements of the clients of the village banks and identify some of the challenges facing the village banks in developing clients’ socio-economic life in Midia Sub-County.

In the literature review, different concepts and opinions and ideas of various experts were used to support the study and concepts linked and analyzed to bring an understanding of the study. In the research methodology, the study employed a case study design where both qualitative and quantitative approaches were employed and study population consisted of management and employees of the banks, clients of the banks, relatives of some of the clients and local government officials in the sub-county of the study. Seventy respondents were sampled through stratified technique. Both questionnaire and interview methods were used to collect data and the researcher followed all the research procedures on ground besides respecting all the ethical and logistical considerations of research.

The findings of the study reveal that the effect of village banks in the Sub-County is wholesome and holistic. This means that village banks in the area have empowered people not only in business but also in health, nutritional, educational among others through offering a variety of services such as microfinance loans, development loans, business loans, education loans among others and some saving products. Based on the challenges facing village banks in the area, the study recommends that the banks should continue providing such developmental and client friendly products and argues different stakeholders to support such banks for better development.
CHAPTER ONE
INTRODUCTION

1.1 Background Information

The advent of village banks can not be easily traced. As some reports assert, rural banks were at first witnessed in Europe and United States of America in 1850’s and these were greatly under the care of World Bank to help both poor men and women to build business that creates income, opportunity and economic growth for their families as well as in their counties and sub-counties (Pitt and Khandker, 1994).

It is said to have brought much opportunities to the poor men and women in many rural areas by dedicated to alleviate poverty, by offering financial services to the poor, including loans, saving accounts, micro-insurance and money transfers. It also integrated social empowerment strategies into it operations including healthcare and nutrition, financial literacy and environmentally friendly technologies such as solar energy and biogas. Such strenuous programs and innovations require constant growth in skills and capacity in 2002 (NHS, 2003).

In Uganda for example, village banks are said to have been operational in 1990s under the government of National Resistance Movement that brought peace and turned economic trends of the country upwards. Village banks in Uganda are said to have helped both the small and medium entrepreneurs in many villages in the country (MoFPED, 2007).

Despite the success of Uganda’s village banks, only about 10% of people or entrepreneurs are estimated to have access to village bank services due to several reasons. According to PEAP (1997) for example, although there is demand for credit by rural people at market interest rates, many have been denied access to the services. Many factors ranging from social, economic and political point of view are some of the responsible factors that tend to limit the effectiveness of services to various local populations in the area.
Additionally information about village banks by PEAP (1997) also indicates that the institutions lend a wider range of money to its clients and these ranges from 50,000 Ugandan Shillings to 100,000 Uganda Shillings and the amount to be lent to individual customers depends on the level of security of the individuals. The securities considered by the institution include having an account with the institution, having some valuable assets and a rich business as a witness and when an individual customer has a plot of land.

This research work therefore established the effect of village banks on rural development in the case of Midia Sub-county, Koboko District. In doing this, the research tried to assess the impact of rural bank services on the welfare of its clients or borrowers. Some clients of some of the rural banks in Midia sub-county were sampled to find out the effects of rural banks on welfare of the clients among others.

1.2. Statement of the Problem
Branch et al (2002) praised the effectiveness of village banks in promoting and encouraging savings and providing loans for entrepreneurship among the poor. However, Randhawa and Gallardo (2003) revealed that village banks sometime discourage the local poor with some of their unnecessary charges on saving products. Many charges like minimum balance, withdrawal charges, balance inquiry charges, monthly charges among others discourage the local poor from entrusting the village banks to hold their money. The controversy on the importance of village banking in promoting development of rural people calls for research and it is through such background that this study attempted to find out the effect of village banks in the development of rural area while taking Midia Sub-county as a case study.
1.3 Purpose of the Study
The purpose of this study was to examine and establish the impact of village banks in promoting development projects and economic and social empowerment of rural poor in Midia Sub-county, in Koboko County.

1.4 Research Objectives
(i) To find out the role of village banks in development of clients in Midia Sub-county, Koboko District.
(ii) To discover the social and economic achievements of the clients of the village banks in Midia Sub-county, Koboko District.
(iii) To identify some of the challenges facing the village banks in developing clients' socio-economic life in Midia Sub-county.

1.5 Research Questions
(i) What role does village banks play in development of clients in Midia Sub-county?
(ii) What are the social and economic benefits of village banks to the development of the rural poor?
(iii) What challenges have faced the village banks in trying to develop their clients’ socio-economic development?

1.6 Research Scope
1.6.1 Geographical Scope
This study was carried out in Midia Sub-county, Koboko District. Different clients of some of the village banks in the area were sampled from all the four parishes of the Sub-county.

1.6.2 Content Scope
The study dwelt on the effect of village banks on rural development. In order to find out this, the study first found out role of village banks in promoting
development of their clients, then socio-economic achievements realized by the clients of the banks, and finally, some of the challenges facing the bank in trying to empower its clients both socially and economically were established.

1.6.3 *Time Scope*

This study was carried out within a period of two months; that is to say from the month of April 2011 to the month of May 2011. The findings of the research were based on the information about the financial institutions and their clients in the last few five years; that is from the year 2006 to 2010. This study believes that this time scope and frame was sufficient enough for academic research.

1.7 *Significance of the Study*

This research may be significant in the following ways:

Information provided in this research may help policy makers in formulating strategic policies with regards to saving and lending friendly approaches in village banks as a way forward to build business that creates income, opportunity and saving culture for the poor.

This research may also be useful to management of village banks especially in determining appropriate strategies to encourage and promote saving cultures among the local people of Midia Sub-county. This means that through some of the findings in this research, the management may review some of their unnecessary charges on savings products and other aspects that discourage individuals from saving and borrowing hence employing the most appropriate approaches to boost and attract more clients.

The research results may help clients and local population to learn and start saving and borrowing money from the rural banks as appropriate way of keeping and accumulating money and raising capital to start up small and medium
businesses that can get them economically and socially empowered and their livelihood improved.

The research findings may contribute to the existing theories on the effects of rural banks on development of socio-economic development of clients. This means that the study may act as a source of reference hence contributing to academic career of the researcher.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter was seeking to address what authors revealed about village banks in relation to rural development. It first established role of village banks in promoting rural development and then some of the socio-economic benefits realized by the clients of some village banks throughout the world. Lastly, challenges facing the village banks in trying to establish rural development were looked into.

2.2 The Concept of Village Banks and Rural Development

2.2.1 Village Banks
The concept rural bank was defined as financial institution that is set to benefit the rural poor in terms of lending and savings for individuals and institutions in local and international currencies. Rural banks like other commercial banks are also authorized to buy and sell foreign exchange, issue letters of credit and make loans to depositors and non-depositors (Otero and Rhyne, 1994).

2.2.2 Rural Development
Rural development can be defined as improvement in social and economic standards of those living in rural areas through accumulation of resources and assets. It may include their access to health, education, housing facilities, nutrition and dieting and general income level and asset level as well as their business level (UBOS, 2003).

2.3 Role of Village Banks in Rural Development
Literature reviewed showed that scholars have mixed feeling regarding the role of village banks in rural development.
In study Jairo et al (2004), for example on the role of village banks in rural development in Bangladesh, the authors noted that village banks are at least as
much about business as it is about philanthropy. Although village banks take a risk by lending to people with almost no collateral, the high interest rates they charge - sometimes as high as 20% - can have the inverse effect of what's intended: Rather than giving the poor a hand to help them out of poverty, having to pay such high interest can prevent the families from being able to build their own savings, keeping them reliant on loans forever, or at least, for the foreseeable future. In the authors' further explanation, they indicated that the longer the rural poor are on loans, the more money the village banks make. In this case, village banks have not been seen instrumental in benefiting the local population and promoting rural development but exploiting the rural poor.

In a similar way Khandker and Shahidier (1999) assert in their research findings that some village banks in Bangladesh often seem doing nothing more than "drinking the people's blood."

Contrary to what Jairo et al (2004) and Khandker and Shahidier (1999) is what Christen et al., (2003) believe about village banks setting higher charges. The scholars strongly contend that village banks interest rate are relatively set higher with the aim of providing viable, long-term financial services on a large scale. As for them village banks must set interest rates that cover all administrative costs, plus the cost of capital (including inflation), loan losses, and a provision for increasing equity. "Unless village banks do so, they may only operate for a limited time; reach a limited number of clients" hence failing to empower rural poor socially and economically. In the authors analysis they noted that the fact that village banks clients continue to increase reveals that their service provisions are affordable and do boost economic power of small and medium entrepreneurs and sustain their livelihood.

Village bank loans have also been seen as helpful to avail the poor with small scale loans that would introduce them to small enterprise sector (Annan, 2003). This could allow them to be more self-reliant, create employment opportunities
and help to engage the small and medium entrepreneurs in economically productive work which helps to improve their standards of living. UN report (2003) reveals that over two million entrepreneurs help themselves out of poverty through village banks’ loans in every five years.

Additionally, it has also been noted that village banks are instrumental in helping low income people by availing them with affordable financial services. Village banks therefore have been identified locally, nationally and internationally as a mechanism through which the poor who are largely based in rural areas can use to run away from the hands of poverty.

According to the UNDP report (2003) for example, village banks provide financial services to the poor people who have experienced difficulties in obtaining these services from most formal financial institutions because their business level and credit needs are all small. Therefore, the report notes that in many countries of the world especially in developing countries, the poor are mostly found in the rural areas, no wonder the rapid concentration of village banks in the rural areas.

In Uganda for instance it has also been portrayed that village banks have been incorporated in to poverty eradication strategy as indicated by PEAP, (1997). These institutions have been seen as to be playing a key role of promoting growth as well as eradicating poverty in the rural areas like in Kibaale, West Nile regions among others.

Village banks play a crucial role of responding to the real needs of their clients who in most cases are the rural people who may not have collateral or well written feasibility studies to solicit loans from the formal financial institutions like the commercial banks. This allows people in the rural areas who are the majority poor to also a case the financial services in terms of saving and credit in Uganda before the advent and development of village banks. This had limited the rate of
investment and employment creation particularly in rural areas, thus constraining growth (UBOS and MSEPU, 2003).

The role of village banks in poverty alleviation has been recognized widely by many governments in the world and president Museveni (2006) analyzed the rate of village banks as “Part of the SDS, which is in line with the MDGs, the government will commit all its efforts to support and develop village banking sector so as to reduce the rampant poverty facing our people in rural areas. We shall see to it that the interests charged are subsidiary to 16 % p.a to enable the local man access the credit facilities”

2.4 Benefits of Village Banks on Rural Development

Information in the literature indicates that village banks have gained tremendous influence in many countries by registering numerous successes in the field of poverty alleviation.

In various studies being carried in the globe, village banks’ services are said to have contributed directly to reducing extreme poverty by improving the income of poor people hence improving their welfare. In a study conducted in Lombok, Indonesia, (Otero, M. and Rhyne, E. 1994) for example reveal that those clients of Bank Rakyat Indonesia’s (BRI) incomes increased by 112%. Moreover, this increase was enough to move 90% of these families above the poverty line. In the study conducted with 121 respondents, 12 out of 121 respondents are said to have been the only ones reporting that their income did not increase, because their husbands used the money for other purposes.

Otero, M. and Rhyne, E. (1994) with the use of Poverty Assessment Tool (PAT), found out that, in India, three-fourths of the Village Bank clients saw significant economic improvements and half the clients got out of poverty. This was similar to the results declared by the World Bank in 1998, where if found out that the
poorest 48% of Bangladeshi families with access to micro village bank credits from Grameen Bank rose above the poverty line.

In People's Republic of China (PRC), village bank programs are reported to have helped a lot in lifting 150 million people out of poverty since 1990 (UNHDR, 2005). Moreover, in Ghana, McNelly and Dunford (1998) found that clients increased their income by $36, compared with $18 for non-clients. Clients of village banks generally have shifted from irregular, low-paid daily jobs to more secured employment in India and Bangladesh (Hilhorst, Th., and H. Oppenoorth, 1992). Correspondingly, Filipino households are said to have increased income, consumption, and capital (Phelps, 1995)

It has also noted that village banks allow poor people to diversify and increase income sources, the essential path out of hunger. Diversification makes people more resilient to external shocks. The study in Lombok, Indonesia very well explained this. it has been reported that 93% of village bank clients ate three meals a day, compared with 51% of non-members (Otero, M. and Rhyne, E. 1994)

Additional survey by UNICEF in Viet Nam showed that 73% of the non-borrowers faced food shortages of three months or more compared with 12% of borrowing households (UNICEF, 1996). This result of UNICEF is somehow corresponding to the studies carried out in Bangladesh where a study on Village bank clients found that fewer members suffered from severe malnutrition (relative to the control group), and, more importantly, the extent of severe malnutrition declined as the length of membership to village banks increased (Ebdon, R., 1995).

More studies show that children of village bank clients are likely to attend and stay in school longer. Student drop-out rates are also much lower in Village bank clients' households. A study in Bangladesh found that basic competency in reading, writing, and arithmetic among 11- to 14-year-olds in member
households increased from 12% to 27% between 1992 and 1995. In non-
member households, only 14% of children could pass the education competency
tests in 1995 (Ebdon, 1995). There has been significant improvement in school
attendance of children as well.

In UNICEF's report on Viet Nam about village bank programs, 97% of
borrowers' daughters were said to have attended school compared to 73% of
non-borrowers' daughters (UNICEF, 1996). Again in Zimbabwe, it was found that
the children (ages 6-21) of the repeat borrowers were likelier to stay in school
than those of non-clients (Buvinic, et al, 1989.).

A majority of village bank programs generally target women—often more
financially responsible at repaying than men—as clients, providing them with
direct control over resources. A survey in Bangladesh showed that credit-
program clients' empowerment increased with duration of membership,
suggesting strong program influence (Chen, 1996). This suggests that women
who access village bank services are empowered to make not only economic
decisions but also social decisions as well.

Additional report reveals that Women's Empowerment Program of a Nepalese
Bank found that 68% of its female members made household decisions like
selling property, the children's education, and budgeting—all traditionally male
duties (Schuler and Hashemi, 1994). Furthermore, female household-fund
managers increased from 33% to 51% (Schuler and Hashemi, 1994.). Also, in
the Lao PDR, women who ran family-owned economic activities significantly
increased household asset value (Pitt and Khandker, 1994).

Female clients of some village banks in the Philippines, Nepal, Bolivia, and
Bangladesh have become elected officials. In Russia, female village bank clients
organized a campaign for democracy in the Russian elections. Clients of village
banks in India have organized rallies for better wages, female worker rights, and legal changes (Barry, et al., 1996). This suggests that village banks have greatly empowered the rural women in politics, social and economic angles of life.

More still, village bank clients’ households appear to have better nutrition, living conditions, and preventive healthcare than non-client households. UNICEF, in 1995, noted that infant mortality rates in Nepal were lower in areas with a combined credit and basic social services approach than in areas where credit was extended without social services and in those where no credit was provided. Severe malnutrition is said to have declined with the increase in length of village bank membership in Bangladesh (Ackerly, 1995).

Many village banks also provide target clients with useful health information and with healthcare education to improve nutrition and to make them more aware of contagious diseases and preventive care. A growing number of village banks have forged partnerships with insurance providers to offer health insurance to clients. An impact study showed that clients had better breast-feeding practices, were likelier to give re-hydration therapy to children with diarrhoea, and had higher rates of diphtheria, tetanus, and poliomyelitis (DPT) immunizations for their children (MkNelly and Dunford, 1999).

There is evidence that increased earnings—stemming from access to financial services—lead to investments for improved housing, water, and sanitation, thus leading to improved health. Nepalese households with latrines were twice as high in areas where credit and basic social services or village banks were linked (UNICEF, 1995). Many village bank programs provide loans specifically for tube-wells and toilets. In India, village banks provide loans to upgrade community infrastructure (including tap water, toilets, drainage, and paved roads).
In one notable development, one Thai village bank recognizes organic agriculture certification and contracts with buyers of organic products as loan collateral. Organic agriculture is environmentally friendly and is most often practiced by poor households in marginal areas. For example, 70% of organic tea in the E.U. market is grown by poor households in mountainous areas in Wuyuan County of the PRC. Village banks efforts to finance activities such as organic agriculture adds positive notes on environmental sustainability. At the same time these could foster global partnerships between consumers in developed countries and the poor in developing countries. As it can be seen from the literature, village banks seem to be instrumental to the development of the socio-economic development of the rural poor. This is yet to be seen in the case of Midia Sub-county, Koboko District.

2.5 Challenges Facing Village Banks in Rural Development

On their efforts to support and develop the rural poor, it has been noted that rural poor face a lot of challenges. Some of these challenges that have been outlined by some scholars include the following:

High levels of poverty in both physical and social among the rural population. The physical poverty manifests itself in the absence of assets and daily quest for survival while the social aspect of poverty manifests itself through such attitudes as low self esteem, and helplessness in the face of disease and natural calamities and complete absence of freedom of choice. (MoFPED, 1999). This according to the information leads to failure of the poor to accept access to some of the services geared to their development.

In a similar way, report presented by the NHS (2003), the current poverty levels in the rural areas of many developing countries is so absolute that most of the rural persons cannot meet their basic necessities of life like food, clothing, shelter, health and education. This report indicates that some of those rural poor instead of building business with what they borrow from the village bank they
use the money for feeding and other social obligations hence making the village banks to lose a lot of money.

Low levels of education. In spite of the fact that PAF (1997) acknowledges that education especially primary education is a key component of PEAP education levels in rural areas of Uganda is still alarming. Low levels of education among the rural poor has made them fail to successfully manage their businesses hence making many of the clients either fail to succeed in their businesses or expand their businesses. This has made it quite difficulty for the village banks to eradicate poverty level (UNHS, 2003).

Poor saving culture among the rural population is also said to have been another big challenge facing the village banks on their way of empowering the rural poor. Over 70% of the rural population in Uganda for example, has poor saving culture hence building or accumulation of capital to start up a business is made difficulty. This has made it quite difficulty for the banks to play upper role in social and economic empowerment of the rural poor.

Poor enterprise selection: - People in the rural areas lack knowledge of choosing the most productive and correct enterprise that would help them earn reasonable income. Due to this, most people end up prioritizing less productive enterprise that make them get trapped in the vicious circle of poverty. President Museveni in the pre-Commonwealth Youth Forum conference at Hotel Africana highlighted this as follows; "Our people have remained poor because of poor enterprise selection. If one had four hectares of land, instead of using that land for an enterprise that can earn him reasonable income, he uses it for growing sweet potatoes, please join me in the struggle to educate our people".

Limited number of Unsustainable sources of funding; the village banking sector in many of the developing countries have for long suffered unreliable and
meager sources of funding. The PSDG and MFF plus AMFIU though are working in collaboration to boost the village banking sector; the sector is still in a crisis with inadequate funding. The funds donors give to the sector are too little to satisfy the needs of the poor rural population. This means that village banks find it hard to eradicate poverty completely in rural areas.

High default rates; majority of the clients of the village banks in Uganda for example, are not credit worthy. The default stand is very high. Many people especially due to lack of knowledge on how to invest effectively have ended up using loans got from these village banks for drinking in bars, marrying wives, buying good vehicles. All these have led to high default stand facing village banks especially in the rural areas. People lack knowledge on how to invest in the productive activities that would help them recover the loans and remain with some profits.

Government pressure: - The intervention of the government in the village bank has posed a great threat to the industry. The government since 2006 developed over ambitious expectations of the village banks, particularly with respect to the rapid rural outreach. Political pressure from the government to intervene in the village bank market has disrupted the original aim of the institution. Most of the village banks being private sector based, their aim to make profits though meager provided their high operational costs in the rural areas. In all countries of the world, government has a constructive, but limited role in building the financial systems that work for the poor (UMSER, 2004).

The costs of operation of village banks are generally higher than those of the formal financial institutions since village bank clients are generally located a distance from the braches and require continuous monitoring. Interest rates are hence necessarily higher for loans obtained at village banks than those loans obtained from the formal financial institutions. (LedgerWood et al, 2003)
Although village banks face a lot of challenges, they are still very vibrant, and has embraced a more business oriented outlook and maintaining its target groups of economically active poor while focusing on achieving operations and financial sustainability.
CHAPTER THREE
METHODOLOGY

3.1 Introduction
This chapter dealt with the research design, sampling procedure which included simple random and purposive sampling, sample size, method of data collection which included interviews and questionnaire, and the method of analysis.

3.2 Research design
A case study design employing both qualitative and quantitative techniques was used. This design was chosen as appropriate because the case study investigated role of village banks in the development of the rural population of Midia Sub-county in Koboko District. The design was also chosen because case studies are suitable for intensive investigations of a single phenomenon structure or group being studied.

3.3 Target Population
The study was conducted in Midia Sub-County. This sub-county was selected to act as a representative for all other rural areas because it is considered more accessible than other rural areas in the district.
The target population was 700 people and this included clients who access financial services from some of the rural village banks in the sub-county, staff and managers of some of the rural banks operating in the sub-county, relatives of some of the clients of the banks, and local government administrators. The study selected the above category in order to provide appropriate, relevant, sufficient and realistic information about the topic under study.

3.4 Sampling Design
Stratified random sampling was used to select respondents in this study. Stratified random sampling was chosen because of its flexibility in permitting investigation of different personalities of interest for specific subgroups. Mugenda
et al (2003) in their research report assert that stratified random sampling design is significant in sense that it enables the researcher to carefully select key respondents that are relevant for the study. This suggests that stratified sampling method helped in selecting informants who were capable of providing sufficient and topic related data for the study. The researcher selected 70 informants from a total population of 700 for this study and sample size is summarized in Table 3.1.

**Table 3.1: Sample Size**

<table>
<thead>
<tr>
<th>Category</th>
<th>Total Population</th>
<th>Sample Size</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clients of Village Banks</td>
<td>300</td>
<td>30</td>
<td>43</td>
</tr>
<tr>
<td>Relatives of the Clients</td>
<td>200</td>
<td>20</td>
<td>29</td>
</tr>
<tr>
<td>Staff and Managers</td>
<td>100</td>
<td>10</td>
<td>14</td>
</tr>
<tr>
<td>Local Government Staff</td>
<td>100</td>
<td>10</td>
<td>14</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>700</strong></td>
<td><strong>70</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

**Source:** Primary Data Centre

Following the recommendation of Gay (2003) on descriptive research, the researcher accessed ten percent of total population as representation for investigation. This means that from the management department a ten percent of 100, that is 10 respondents, 30 respondents were picked from ten percent of 300 clients of village banks in the sub-county, and 20 informants selected from ten percent of 200 relatives of the clients of village banks, and 10 Local Government officials were sampled from 100 hence making study population large enough to represent the salient characteristic of the accessible population and hence a target group. In the research process, the researcher also noted that the ten percent of respondents sampled from the various departments were capable of delivering information the researcher needed hence affirming the recommendation Gay (2003).
3.5 Data Collection Tools and Procedures

While carrying the study, the study employed a variety of methods among which included questionnaires, interviews and observation.

3.5.1. The Questionnaire

A questionnaire was used because they could collect information from many respondents in a projected timeframe. All respondents were asked the same questions except in technical circumstances. Forty five copies of questionnaires were used to collect data from respondents. Five questionnaires were administered to Village bank staff, five of them went to the local government officials, fifteen copies were administered to the relatives of the clients and 20 copies went to the clients of the village banks. These questionnaires composed of both close-ended and open-ended part. Close-ended questions were preferred because they were easy to answer and score, while open-ended questions were intended to give respondents a chance to support their opinions in a free atmosphere in addition to predetermined choices.

3.5.2. Interviews

Both formal and informal interviews were conducted with some of the respondents selected. Five remaining staff members of village banks, five relatives, five local government official and ten clients of the village banks were interviewed. Guiding questions were used for interviews but during the course, other questions were asked depending on the responses by the respondents. Results from interviews were helpful in complementing information that was obtained from questionnaire. During Interviews, clarification on some of the statements made by informants took place enabling the interviewee to reveal his or her view point. Information that could not be revealed through questionnaire method was obtained through interview technique.
3.6. Reliability and Validity of Data Collection Tools
The validity of the research instruments was established by expert judgment method proposed by Patton (2002). The University research supervisor judged the materials. The researcher adjusted the materials according to the expert’s recommendation and analysis. The materials were then tested with some few students from Kampala International University who are clients of some of the village banks in their areas and those who are relatives of some of the clients among others.

3.7 Research Procedure
An introduction letter was secured from the Kampala International University, department of Business Administration to enable the researcher to visit Mdia Sub-county to inform them formally about the forthcoming study. A list of employees were then obtained from the branch managers of the village banks around and clients of these banks were identified through the local councilors in the sub-county since they recommend the local people before becoming clients of those village banks.

After selecting the clients, interview was contacted and questionnaires administered. Information from respondents was recorded and used to derive conclusions about effect of village banks on rural development. Care was also exercised in ensuring that the right of those respondents was protected. The study respected human dignity and conceal the identity of respondents in the study. Only informed consent was required.

3.8. Data Analysis and Presentation
Both qualitative and quantitative data analysis techniques were used in the data analysis and presentation. The findings were discussed, analyzed and presented in form of tables, charts and other descriptive methods that were backed by
frequency and percentage presentation. The researcher ran all the data presentation and analysis using Microsoft Word and Excel.

3.9. Limitations
Some informants demanded money for what they were asked to do, that is, filling in the questionnaire. This presented some problems to the researcher in the collection of data. However, the researcher finally managed to convince the respondents to fill in the questionnaires free of charge.

In some instances, some respondents were a bit reluctant and suspicious to the researcher and looked at him as a stranger especially during the moments of interviews. This somewhat presented some problems to the researcher in the data collection process. To curb this problem, the researcher properly introduced himself and created rapport with the respondents such that they could give needed data without fear.

The researcher was also faced with some financial constraints for proper facilitation in terms of transport, lunch, and accessing some of the relevant information for this researcher. To curb this limitation, the researcher struggled to respect the budget drawn for this research and mobilized some fund from friends and relatives.

Since the questionnaires were meant to be self addressed, some respondents failed to fill and return the questionnaires. However, due to the researcher’s efforts in making constant visitations to the respondents and keep reminding them, most of the questionnaires were filled in and returned.
CHAPTER FOUR
DATA PRESENTATIONS, ANALYSIS AND INTERPRETATIONS

4.1. Introduction
This chapter presents the findings of the study, the analysis and interpretation of the results. The findings are analyzed in relation to the objectives of the study and literature reviewed. Findings were derived from the questionnaires and interviews conducted with respondents.

4.2. Demographic Characteristics of Respondents
4.2.1 Gender
Respondents were also asked to tick their appropriate gender during the study process. Table 4.1 illustrates the summary on the gender of respondents.

Table 4.1: Gender-Wise Distribution of Respondents

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>30</td>
<td>43</td>
</tr>
<tr>
<td>Male</td>
<td>40</td>
<td>57</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary Data

Figure 4.1: Gender Based Distribution of Respondents

Source: Primary Data
As shown on Figure 4.1, females formed 43 percent of the respondents while males formed 57 percent. This suggests that although there was some gender gap in the study, the gap between the two genders was not too wide enough to affect the findings. In actual sense some of the information that was not delivered by one gender during the study process was revealed by the other gender. This therefore helped in provision of detailed, fair information for academic purpose.

### 4.2.2 Age group

Respondents were asked to tick their relevant age interval as indicated in table 4.2.

**Table 4.2: Age Distribution of Respondents**

<table>
<thead>
<tr>
<th>Item (Age)</th>
<th>Male (f)</th>
<th>Male (%)</th>
<th>Female (f)</th>
<th>Female (%)</th>
<th>Total %</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-29</td>
<td>14</td>
<td>20</td>
<td>11</td>
<td>16</td>
<td>36</td>
</tr>
<tr>
<td>30-39</td>
<td>14</td>
<td>20</td>
<td>14</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td>40-49</td>
<td>7</td>
<td>10</td>
<td>4</td>
<td>6</td>
<td>16</td>
</tr>
<tr>
<td>50-59</td>
<td>5</td>
<td>7</td>
<td>1</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>57</strong></td>
<td><strong>30</strong></td>
<td><strong>43</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

**Source:** Primary Data

![Figure 4.2: Age Group of Respondents](Image)

**Source:** Primary Data

23
4.3 Role of Village Banks in Development of Midia Sub-County

Before investigating the role of village banks on the development of Midia Sub-County, the researcher was interested to know categories of clients of such banks. This is summarized in Table 4.5.

**Table 4.5: Category of Clients of Village Banks**

<table>
<thead>
<tr>
<th>Category of Clients</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farmers</td>
<td>15</td>
<td>21.4</td>
</tr>
<tr>
<td>Civil Servants</td>
<td>33</td>
<td>47.1</td>
</tr>
<tr>
<td>Small and Medium Entrepreneurs</td>
<td>22</td>
<td>31.4</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Primary Data*

As it can be seen in Table 4.5, majority (47.1 %) of the respondents of village banks in Midia Sub-County are civil servants, followed the small and medium entrepreneurs (31.4 %) and lastly, farmers forming 21.4 percent of the clients of the banks. Asking why most of the clients are civil servants and yet the majority of the population are farmers, many of the managers of the banks revealed that this is because of high level of default rates especially among farmers. The managements also lamented that they are going to increase lending to farmers who accept to bring referees who are civil servants. This is to prevent the banks from making loses and continue serving the local population to exploit businesses opportunities in the area and around.

The researcher then moved on to investigate the services offered by village banks to the different categories of clients. Figure 4.5, illustrates some of the core services that are geared towards the development of the local people of Midia Sub-County.
As it can be seen in Figure 4.5, one of the services that formed 18 percent of the development services offered by village banks in Midia Sub-County is the microfinance loans. This type loan was viewed as money lend to local people to start up micro businesses. As it was revealed by respondents, this loan tends to small in value, say from 10000 Ugandan Shillings to 500000 Ugandan Shillings.

Furthermore, business loans that formed 17 percent of the total development services offered was one of the services offered by village banks to the development of the people of Midia. According to respondents, this type of loan is offered to people whose businesses have expanded and in most cases it is in large amount. This form of loan ranges from 500000 Ugandan Shillings to 10,000,000 Ugandan Shillings. This loan is to help the local people to diversify and widen the scope of their business.
Personal Current Account was also one of the services that formed 14 percent of development services. This service is one of the common saving products found in village banks. According to respondents the easiness of the account holder to have access to deposit and withdrawal facilities at his convenience makes people to keep their business capital in banks hence reducing cases of theft. Furthermore, many individuals investigated preferred this kind of saving product because account holders can deposit and withdraw from any of the bank’s branches making its service accessibility quite interesting.

Development loans formed 13 percent of the services offered by village banks in Midia. According to respondents contacted this loan would be given mostly to civil servants who want undertake some development projects such as construction projects among others. However, respondents revealed that the interest rate charged on development loan tends to be higher (20 %) than any other service offered by village banks in the area.

Business Current Accounts formed 11 percent of the services offered by village banks in Midia. This kind of account is similar to personal current accounts but the difference as regards to respondents is that it is strictly for those rendering businesses. The advantage of this kind of product is that the holders can withdraw large amounts with a notice of only one day and account holders can deposit and withdraw from any of the bank’s branches.

Trade financing that formed 10 percent of services offered by village banks for development is not a popular financial service among ordinary customers or clients of village banks in Midia. However, its popularity exists mainly among business oriented individual clients of the financial institutions in the sub-county. In this, sellers and buyers would arrange with the bank to finance or transact their business as agreed upon by the two parties involved. This is to easy business dealings between the parties involved.
Agriculture loans formed 9 percent of the development products of village banks in Midia. This loan is geared strictly to agriculture development in the area. Managers revealed that the number of clients in this service is increasing and some of their clients are now actively involved in poultry and piggery through access of agriculture loans.

Education loan is one of the services being developed by village banks in the recent years in order to develop wide range of services for the local people in the area. This form of loan forms 8 percent of the development services by village banks in Midia and is directed to those who would like to advance their education attainment but are limited with financial constraints. This suggests that the bank lends them the money and they repay it later. However, clients in this revealed that the interest rates charged on education loans tend to be high.

As it can be seen, village banks have been instrumental in offering services for development process of local people of Midia Sub-county.

4.4 Socio-Economic Achievements of Clients of Village Banks in Midia

In the clear cut field research done in Midia on the effect of village banks services on the socio-economic welfare of the clients or beneficiaries, it was clearly noted that the beneficiaries of village banks have profited a lot from the services they acquire from the financial institutions. Below is a table to illustrate some of the socio-economic achievements that have resulted from the services by some of the clients of village banks in the Sub-County.
As it can be seen in Figure 6, investigation into the socio-economic welfares of the clients of village banks in Midia Sub-county was done. One of the commonest aspects that were rated to be 28 percent of total achievements of the clients of village banks in Midia was economic activity diversification of clients of village banks in Midia. Through borrowing and other services of village banks, clients have greatly been influenced to diversify their business opportunities. Unlike those days, some clients now operate some shops besides crop farming and poultry keeping that has greatly improved their socio-economic life. As Moro, one of the clients revealed "At least I am not now dependant on only one economic activity and if one fails the other can save me and my children". This suggests that many of the clients of village banks in Midia now have better socio-economic status unlike many of their counter parts.
The above photo is just one of the evidences to show that many of the clients of village banks in Midia now have the capacity to diversify their economic activities hence if one activity is affected by disasters, others can save them hence having better socio-economic status unlike many of their counterparts.

Another aspect that was also used to determine the socio-economic status of clients of village banks was their income level. Income level formed 21 percent of all the achievements of the clients of village banks in Midia as regards to respondents. Many clients, employees of the banks and the relatives contacted pointed out that they have witnessed increase in the earnings of clients. This was so since clients after gaining trust could have access to borrow relatively huge amount of money to run some of their business ventures. This enables them to earn relatively high profit margins that would not be got if they did not borrow some money from village banks. This was testified by Ramulah, one of the clients (interviewed on 23rd April, 2011) who revealed that she can now earn at least 10,000 Ugandan Shillings from her fish selling on daily basis. This was somewhat similar with some of the clients involved in "Boda Boda" riding, fish
selling, hawking, selling things in shops, involved in produce business, and poultry keeping among others.

Another aspect that was also used to determine the socio-economic life of clients of village banks was the level of expansion of their business. Taking those dealing in shops for example, it was found out that some of the clients who started small retail shops now operate in both retail and wholesales businesses. This was equally the same with those in other businesses. The expansion in the volume of goods of clients has been possible due to borrowing from the village banks. Expansion of business was rated to be 17 percent of the total socio-economic welfare achievements of the clients of village banks. As Asina, one of the female clients revealed in an interview on 18th April, 2011, "I only started with one canton of fish two years, but now I have three cantons in a period of one and half year." This portrays that there has been significant growth in business of many clients of the bank.

Majority of the clients of village banks investigated had also relatively larger and improved framings unlike their counterparts. With their improved income levels and businesses, the clients of the financial institutions now have the capacity to some of the modern farming methods. This enables them to produce relatively huge harvest hence reducing cases of starvation and hunger in the homes of many clients. As one of the clients revealed in an interview "Life was so hard and difficulty for my family before I became a client but now, my family can now afford to take two hot meals per day." Many of the respondents (clients) revealed that at least they can now take their tea with sugar which very few people in the area can afford. This shows that the socio-economic life of the clients of village banks in Midia has tremendously changed. The aspect of farming among the clients of village banks in Midia formed 13 percent of the all the aspects used to measure their socio-economic life.
Furthermore, the aspect of education facilitation of children coming from the families of the clients' village banks was also investigation. Out of all the aspects used to measure the socio-economic achievements of clients, education facilitation formed 11 percent. In the field study, the study also found out that over 60 percent of the clients investigated were capable of supporting their children's education facilities from primary, secondary schools and some few of them in higher education levels. Many of the clients attributed this success as a result of advisory, savings and loan services that encourages them to do a variety of business hence making it possible for them to earn a considerable amount of profit that they can use to pay back the money they acquired from village banks and at the same time pay their children's tuitions besides expanding their businesses. This therefore shows that the clients are of more advantage than those who have no access to such bank services.

Additionally, 80 percent of the clients of village banks also revealed living in better houses although only about 20 percent of them revealed living in semi-permanent houses. This was contrary to those who have no access to the microfinance services. As many of the respondents indicated, as clients' businesses expand, their living conditions improve as well. This indicates that their welfare keeps on improving as they keep on accessing more business and other advisory services from village banks around. As a measure of socio-economic status of clients of village banks in Midia, the aspect of improved housing formed 9 percent of all the percent of aspects considered.

One of the aspects that formed 7 percent of all the aspects used to measure the socio-economic achievements of the clients of village banks in Midia was their access to health services. Regarding the aspect of health service, about 87% of the clients of village banks revealed having relatively better access to health services as compared to their past life (when they were not yet clients). The reason behind this is that these clients have relatively higher income level as
such they can at least acquire better medical facilities. Many of the respondents conducted reveal accessing their medications from better health centers in the area. This therefore reveals that their socio-economic life has somewhat increased unlike before.

Although many of the clients were somehow happy of the services they acquired from the village banks, many of them still complained of some of the challenges they are facing and these ranged from social, economic and political grounds and leave the performances of the clients in weak position. Some of the challenges facing the clients of village banks include insufficient or low loan level, higher interest rates, and insecurity in the area, higher taxes and little grace period given to them for repayment.

Despite the challenges facing the clients, many of them still see village banks as the only gateway and success to their socio-economic status as it has promoted many of them to live improved standards as regards health, education, economically and socially.

4.5 Challenges facing Village Banks in Developing Midia Sub-County

This was also one of the central issues addressed in this research. Figure 7 illustrates the summary of challenges facing village banks in establishing development projects in Midia. These challenges also result basically from social and economic aspects of the area.
One of the top most challenges that was rated 22 percent of all the challenges facing village banks is absolute poverty among the local population. According to the management of many of the village banks, high level of poverty has stooped ability to help the rural poor to develop as it leads to inability and helplessness among people which in turns limits them voluntarily to visit and try the services of village banks hence making them remain undeveloped. This challenge was also cited in the report of Ministry of Finance, Planning and Economic Development (1999) that stated that the greatest challenge facing village banks is the physical poverty that manifests itself in the absence of assets and daily quest for survival while the social aspect of poverty manifests itself through such
attitudes as low self esteem, and helplessness in the face of disease and natural calamities and complete absence of freedom of choice.

Besides poverty, high level of illiteracy among people around and clients was one of the challenges mentioned by respondents. Illiteracy as a challenge was rated 18 percent of all the challenges facing the banks and respondents believed that high level of illiteracy has limited many of the people to plan and establish profit making businesses, to have record keeping that is necessary for business prosper. Many of the illiterate find it quite hard to approach banks for help due to their negative perception resulting from illiteracy. This therefore undermines the development strategies since many of the local people are reluctant to participate in development process. The issue of illiteracy was also cited by UNDP, (2003) that stated that illiteracy among people makes them fail to successfully manage their businesses hence making many of the clients either fail to succeed in their businesses or expand their businesses. Illiteracy makes it difficult for people of Midia to understand the basic banking procedures and importance of saving with a bank hence limiting the role of the bank in promoting savings in the area. In further explanation by one of the managers of the bank (name withheld) about 10 percent of the population saves money in banks while the remaining do not see use of saving money in accounts.

High default rates was one of the challenges rated 16 percent of the total challenges facing the village banks. As many respondents revealed, high default rates have resulted from misappropriation of fund borrowed for business. It was noted that some of the respondents misuse their loans to meet their social obligation instead of properly investing their loans in profitable business. This limits the capacity of the village banks to lend relatively high loan levels hence hindering development process of the area.
Fourteen percent of the challenges facing village banks in development process of Midia Sub-County if weak or low saving culture among many people in the area. Respondents noted that due to high level of illiteracy, absolute poverty among others, local people prefer keeping their money at homes instead of keeping it in banks from which they can earn some interest. Low saving culture has limited man of the local people fro accessing some of the services geared towards development process of the area. This aspect was also cited by LedgerWood et al, (2003) who indicated that over 70% of the rural population in Uganda for example, has poor saving culture hence building or accumulation of capital to start up a business is made difficulty.

Furthermore, 12 percent the challenge facing the village banks in their development process of Midia Sub-County is poor enterprising selection among the clients. According to some of the respondents consulted for proper business development, one needs to select business that can easily work and enhance increasing income level. However, many of the clients invest their loans in businesses that do not yield high profits and this slows development and increase in income level. This challenge was also cited by President Museveni in the pre-Commonwealth Youth Forum conference at Hotel Africana (2007) saying that people in the rural areas lack knowledge of choosing the most productive and correct enterprise that would help them earn reasonable income. Due to this, most people end up prioritizing less productive enterprise that make them get trapped in the vicious circle of poverty.

High cost of operation formed 11 percent of the challenges facing the village banks in Midia Sub-County. Respondents revealed that in times of higher inflation rates, their cost of operation has drastically increased and yet their clients are not many. Many of the clients live deep in villages and they have to reach them other operational costs have also increased. Increasing interest rates to catch up with economic situation has discouraged some clients and the bank
officials find it hard to monitor business projects hence affecting the
development of clients. This point was also noted by LedgerWood et al, (2003)
who indicated that due to high cost of living, the level of interest rates of village
banks are higher than those loans obtained from the formal financial institutions.

Additionally, respondents also cited the issue of insecurity in the area as one of
the challenges facing banks. This challenge formed 7 percent of the challenges
facing village banks. Insecurity that has been prevailing in the region still leaves
a large gap for village banks to impact on development process since some of
the businesses established on loans get affected because of theft and robbery.
This makes some clients face challenges of repaying loans and increases default
rates.

Although these were some of the major challenges facing the village banks in
Midia Sub-County as regards respondents, the researcher also noted that some
challenges facing village banks are resulting from improper economic activities in
the area. Since many of the people in Midia Sub-County are involved in
subsistence farming and the only commercial crop is the area is tobacco, this
makes it hard for people to get money and save some of it in banks
CHAPTER FIVE
FINDINGS, CONCLUSIONS, RECOMMENDATIONS

5.1 Introduction
This chapter builds up major findings in the study, especially on services offered by village banks for the development of local people, socio-economic achievement of the clients and challenges facing the village banks in empowering local people. Conclusions and recommendations on how different stakeholders can work together with village banks to ensure rapid development and socio-economic welfare of people suggested.

5.2 Findings
A clear observation from the findings asserts that students through microfinance loans, development loans, business loans, business current accounts, trade finances, agriculture loans, education loans and personal loans and personal current accounts the financial institutions are very vibrant in upholding development projects in the sub-county. These services encourage the clients to develop businesses and increase their earning levels.

Regarding the socio-economic welfare of the clients of village banks in Midia Sub-County, it was noted that over 70 percent of the respondents' lives have greatly changed as compared to their past life before they become clients of village banks. Many of the clients' annual incomes have increased; others have diversified their economic activities; good number of clients can afford to facilitate their children's education in different education levels; over 70 percent of the clients have improved housing facilities although around 30 percent of them either have semi-permanent houses or have started constructing one; more that 40 percent of the clients revealed having improved health service; and
over 50 percent of the clients owning shops have expanded their shops. This significantly portrays that their socio-economic welfare has significantly changed.

Village banks in Midia still face some challenges in trying to foster development in the sub-county. These challenges include absolute poverty, illiteracy among local people and some clients, high default rates, weak saving culture, poor enterprising selection among clients, high costs of operation and political instability. These challenges still demand a lot of attention for proper engagement of development of the area.

It was also indicated that the clients of village banks in Midia Sub-County still face some challenges in their dealings with the banks. Some of these challenges mentioned included insufficient or low loan levels, higher interest rates on loans, insecurity in the area, higher taxes and little grace period given to them for repayment. These still bows down the development of some of the clients.

5.3 Conclusion
Based on the findings, village banks in the area seem to bear impact on the development of rural people hence answering the purpose of the study and research questions. This means that clients have been able to access services geared to development. This has made them have improved business, housing, health, education facilitation among others.

5.4 Recommendations
In efforts to improve development of the rural poor of Midia Sub-County, the local government should also get involved in mobilization and sensitization such that people can access services for development.

The village banks should also continue offering products that suit the local population and geared toward development. For more appropriation, more client
friendly services should be developed and this would enhance greater development.

The government should also try to support village banks since they spearhead the development of the country. This can be done by offering financial support, security to increase their operational scope so as to solve some of the challenges resulting from high operational costs.

Formalities of becoming clients of the bank, grace periods offered, interests rates among others should also be looked at such that more people get attracted and those already there are sustained for greater development.

Responsible referees should be considered to solve the challenge resulting from high default rates. Besides this, clients should be briefed properly on penalties of failing to pay in time and benefits of prompt repayment such that everything is based on complete understanding.

Village banks should also help their clients on deciding what kind of businesses can be enterprising and which may not be. If this is done, clients are likely to engage in enterprising and profit generating businesses hence developing their capacity for higher business.

The local government could also together with the village banks get involved monitoring, advisory and directing businesses already established and if this is done, expansion of businesses is likely to be witnessed, increased level of income and improved socio-economic standards of living of clients.

Promotion to encourage people to start savings and get other services in the area should also be encouraged. This would enable good number of local people to join the rest and this would foster development of the area.
5.5 Areas for Further Studies

Since the study could not cover everything regarding involvement of village banks in the development of the rural poor, she therefore recommended the following areas for further studies.

(i) Role of village banks in promoting savings among the rural population of Uganda.

(ii) Role of village banks in the development of small and medium entrepreneurs in Uganda.
REFERENCES


Koffi Annan (2003), *What MFIs do UN*, Washington DC.


APPENDIX 1

QUESTIONNAIRE TO CLIENTS AND RELATIVES OF VILLAGE BANKS

Dear Respondent,

I am Atayi Sarah, a student from Kampala International University. I am doing a research on the topic: The Effects of Village Banks on Rural Development, case study of Midia Sub-county, Koboko District.

This research is part of the requirements for the award of Bachelor's degree in Business Administration of the above University (BBA).

I therefore kindly request you to answer the following questions. All the information will be kept confidential.

SECTION A: (Socio-Demographic Characteristic of Respondents)

1.1 Sex: Male □     Female □     (Mark one using √)

1.2 Age group: (Mark one using √)

20-29 □     30-39 □     40-49 □
50-59 □     60-69 □     70 and Above □

1.3 Education level:

Primary □     Secondary □
Diploma □     Degree (Mark one using √).

1.4 Marital Status

Single □     Married □     Separated □     Divorced □

SECTION B: (Research Related Questions)

2. Objective 1: Role of the Village Banks or Rural Development

Tick where appropriate

2.1 Who are the clients of village banks in Midia sub-county?

Farmers □     Small and Medium entrepreneurs □
Civil servants □     Others (Specify): ..............................................
2.2. What services do village banks in Midia Sub-county offer for the rural development?
A. Microfinance Loans { } E. Business current account { }  
B. Development loans { } F. Personal current Account { }  
C. Business loans { } G. Trade finances { }  
D. Educational loans { } E. Agriculture Loans { }  
F. Others (specify them): .................................................................................................................. 


3 Socio-Economic Benefits of Village Banks to Rural People
3.1 Do village banks contribute to the socio-economic development of its clients in this sub-county?  
Yes □  No □

3.2. If yes, what are some of the socio-economic contributions of the village banks to the clients?  
A. Ability to diversify business □  
B. Increased income □  
C. Better housing facilities □  
D. Better health facilities □  
E. Better education services □  
F. Better nutrition and feeding □  
G. Others (please specify): .............................................................................................................
......................................................................................................................................................

3.3. If no, give reasons to support your answer.  
......................................................................................................................................................
......................................................................................................................................................
......................................................................................................................................................


4. Challenges facing the village banks

4.1 What challenges do village banks face in trying to develop the rural poor?
A. Illiteracy among clients □
B. Weak saving culture □
C. Absolute poverty among people □
D. High cost of operation □
E. Poor enterprise selection □
F. High default rates □
G. Others (specify them): ......................................................................................

4.2 How do village banks solve some of the challenges they are facing while trying to develop the rural poor?

4.3 In what other ways can village banks solve the challenges they are facing?

4.4 What challenges do you (your relatives) face in your dealings with village banks?

4.5 What other thing would you like to say about village banks and rural development?

Thanks for cooperation and responding positively to these questions!
APPENDIX 2

QUESTIONNAIRE TO STAFF MEMBERS OF VILLAGE BANKS

Dear Respondent,

I am Atayi Sarah, a student from Kampala International University. I am doing a research on the topic: The Effects of Village Banks on Rural Development, case study of Midia Sub-county, Koboko District.

This research is part of the requirements for the award of Bachelor’s degree in Business Administration of the above University (BBA).

I therefore kindly request you to answer the following questions. All the information will be kept confidential.

SECTION A: (Socio-Demographic Characteristic of Respondents)

1.1 Sex: Male [ ] Female [ ] (Mark one using √)

1.2 Age group: (Mark one using √)
- 20-29 [ ]
- 30-39 [ ]
- 40-49 [ ]
- 50-59 [ ]
- 60-69 [ ]
- 70 and Above [ ]

1.3 Education level:
- Primary [ ]
- Secondary [ ]
- Diploma [ ]
- Degree (Mark one using √). [ ]

1.4 Marital Status
- Single [ ]
- Married [ ]
- Separated [ ]
- Divorced [ ]

SECTION B: (Research Related Questions)

2. Objective 1: Role of the Village Banks or Rural Development

Tick where appropriate

2.1 Who are the clients of village banks in Midia sub-county?
- Farmers [ ]
- Small and Medium entrepreneurs [ ]
- Civil servants [ ]
- Others (Specify): ..................................................
2.2. What services does your bank offer for the rural development in Mdia Sub-county?
A. Microfinance Loans { }  E. Business current account { }  
B. Development loans { }  F. Personal current Account { }  
C. Business loans { }  G. Trade finances { }  
D. Educational loans { }  E. Agriculture Loans { }  
F. Others (specify them): ..................................................................................
..................................................................................................................................
....................................................................................................................................

3 Socio-Economic Benefits of Village Banks to Rural People
3.1 Does your bank contribute to the socio-economic development of its clients in this sub-county?  
Yes □ No □

3.2. If yes, what are some of the socio-economic contributions of the village banks to the clients?
A. Ability to diversify business □  
B. Increased income □  
C. Better housing facilities □  
D. Better health facilities □  
E. Better education services □  
F. Better nutrition and feeding □  
G. Others (please specify): ..................................................................................
..................................................................................................................................
....................................................................................................................................

3.3. If no, give reasons to support your answer.
..................................................................................................................................
..................................................................................................................................
....................................................................................................................................
4. Challenges facing the village banks

4.1 What challenges does your bank face in trying to develop the rural poor?
A. Illiteracy among clients 
B. Weak saving culture 
C. Absolute poverty among people 
D. High cost of operation 
E. Poor enterprise selection 
F. High default rates 
G. Others (specify them):

4.2 How does your bank solve some of the challenges they are facing while trying to develop the rural poor?

4.3 In what other ways can your bank solve the challenges they are facing?

4.4 What challenges do you clients face in your dealings with village banks?

4.5. What other thing would you like to say about village banks and rural development?

Thanks for cooperation and responding positively to these questions!
APPENDIX 3
INTERVIEW GUIDE

What services does your bank (village banks) offer to the rural development in Midia sub-county?

Are you happy for these service the financial institution offers to you?

Yes ☐  No ☐

If yes, why are you happy about them?
If no, what is the problem with the services the institution offers to you?

How have you benefited from the services the financial institution offers you?

What challenges do village banks face in trying to develop rural poor?

What challenges have you experienced from the business you are running with the loan you acquire from the bank?

How do you thing these challenges can be solved?