

THE ROLE OF MICROFINANCE INSTITUTIONS ON  
ENTREPRENEURSHIP DEVELOPMENT

A CASE STUDY OF OPPORTUNITY UGANDA,  
OWINO BRANCH

Submitted by

MANIRAH O HIRWA GUILLAUME

BBA/8510/52/10

A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF  
THE REQUIREMENTS FOR THE AWARD OF A BACHELOR'S  
DEGREE OF BUSINESS ADMINISTRATION (FINANCE &  
BANKING) OF KAMPALA INTERNATIONAL  
UNIVERSITY.

MAY, 2010

### Declaration

I, Maniraho Hirwa Guillaume, declare that this is my original work and is has never been produced by anyone in any other university.

Signature of Student: 

Name of student: MANIRAHIO HIRWA GUILLAUME

### Statement Of Approval

This project is submitted to the School of Business and Management after being supervised and approved by

Name of supervisor: SARAH KAMBA

Supervisor signature: 

Date: 10/6/10.

## **Dedication**

To all my lecturers and fellow students in the Business and Management Faculty.

## Acknowledgement

I'm grateful to God for allowing me to join university, keeping me healthy and enabling me to meet wonderful people and make valuable friendships.

I also thank my parents, Mr. and Mrs. Maniraho, for their emotional, spiritual and financial support since bringing me into the world till today.

Had it not been for my supervisor Madam Sarah Katumba, this research project would not have been possible. I'm grateful for her support, guidance and patience.

I'm grateful to Rita, a relationship officer at Opportunity Uganda, Owino Branch, for enabling me collect all the information I needed for this research. Without her help it would have been extremely difficult to carry out my research.

My research assistants, Mr. Brian Mukago and Mr. Edwin Ojiambo, helped me overcome the language barrier by interviewing respondents in Luganda. I'm grateful for their contribution.

## Table Of Contents

Declaration .....	i
Statement of approval .....	ii
Dedication .....	iii
Acknowledgement .....	iv
Table of Contents .....	v
List of tables.....	ix
List of Figures .....	x
Abbreviations .....	xi
Abstract .....	xii
 CHAPTER ONE.....	 2
1.0 INTRODUCTION	
1.1 BACKGROUND OF THE STUDY.....	2
1.1.1 OPPORTUNITY UGANDA.....	2
1.2 STATEMENT OF THE PROBLEM.....	4
1.3 PURPOSE OF THE STUDY.....	4
1.4 OBJECTIVES OF THE STUDY.....	4
1.3.1 General Objectives.....	4
1.3.2 Specific Objective .....	4
1.5 RESEARCH QUESTIONS.....	4
1.6 SCOPE OF THE STUDY.....	4
1.7 SIGNIFICANCE OF THE STUDY.....	4
1.8 CONCEPTUAL FRAMEWORK.....	4
 CHAPTER TWO.....	 6
LITERATURE REVIEW	

2.0 INTRODUCTION .....	6
2.1 OVERVIEW OF MICROFINANCE.....	6
2.1.1 History of Microfinance in Uganda.....	7
2.1.2 Key providers of Microfinance include.....	8
2.1.3 Examples of Micro Finance in Uganda .....	8
2.2 OVERVIEW OF ENTREPRENEURSHIP.....	9
2.3 ENTREPRENEURSHIP IN UGANDA .....	10
2.4 RELATIONSHIP BETWEEN ENTREPRENEURSHIP AND MICROFINANCE .....	10
2.5 SAVING CULTURE .....	12
2.6 ACHIEVEMENTS OF MICROFINANCE AS AN INSTRUMENT OF WEALTH CREATION.....	13
2.7 CHALLENGES OF MICROFINANCE AS AN INSTRUMENT ENTREPRENEURSHIP DEVELOPMENT .....	17
 CHAPTER THREE.....	24
METHODOLOGY	
3.0 INTRODUCTION.....	24
3.1 RESEARCH DESIGN.....	24
3.2 POPULATION OF STUDY .....	24
3.3 SAMPLE FRAMEWORK .....	24
Sample Size .....	24
Sample Selection.....	24
3.4 INSTRUMENTS OF DATA COLLECTION.....	24
Questionnaires.....	24
Interviews.....	25
3.5 SOURCES OF DATA.....	25
3.5.1 Primary Data.....	25

3.5.2 Secondary Data.....	25
3.6 DATA PROCESSING AND ANALYSIS.....	25
3.8 LIMITATIONS OF THE STUDY.....	25
 <b>CHAPTER FOUR.....</b>	 <b>27</b>
<b>PRESENTATION, ANALYSIS AND INTERPRETATION OF THE</b>	<b>27</b>
<b>FINDINGS</b>	
4.0 Introduction.....	27
4.1 Opportunity Uganda's Role In Helping Entrepreneurs Start Businesses	27
And Create Wealth.....	
4.2 Number Of Years Interviewees Have Been Members Of Opportunity	27
Uganda.....	
4.3 Benefits To Their Clients from Opportunity Uganda.....	28
4.4 Assets Bought.....	29
4.5 Increase In Income .....	29
4.6 Entrepreneurship Training .....	29
4.7 Areas Where Clients Require More Training .....	29
4.8 Challenges Faced By Entrepreneurs .....	30
4.9 Access To Funds And Saving Culture Of Entrepreneurs.....	30
4.10 Percentage Of Income Saved .....	31
4.11 Reasons For Saving .....	32
4.12 Challenges Faced By Microfinance Institutions .....	33
4.13 Source Of Challenges .....	33
4.14 Government Policies That Discourage Entrepreneurship.....	33
 <b>CHAPTER FIVE.....</b>	 <b>35</b>
<b>SUMMARY OF FINDINGS, CONCLUSION AND ECOMMENDATIONS</b>	<b>35</b>
4.0 Introduction .....	35
4.1 Summary Of Findings .....	35



4.2 Conclusion.....	36
4.3 Recommendations.....	36
REFERENCE.....	38
Appendix 1 BUDGET.....	40
Appendix 2:	
STAFF QUESTIONNAIRE.....	41
CLIENTS QUESTIONNAIRE.....	44
Appendix 3: WORK PLAN.....	46

## List Of Tables

Table 1: How long clients of Opportunity Uganda have been members

Table 2: The benefits to clients from Opportunity Uganda

Table 3: The percentage of income saved.

Table 4: Reasons for saving

## List Of Figures

Figure 1: Showing the membership percentage

Figure 2: Showing the percentage of income saved.

Figure 3: Showing reasons for saving

## Abbreviations

ADB	- Africa Development Bank
ASIAD	- Unites states Aid for International Development
CBO	- Community Based Organizations
ESC	- Entaandikwa Credit Scheme
EU	- European Union
FOCCAS	- Foundation for Credit and Community Assistance
FSAs	- Financial Services Associations
MFI	- Microfinance institutions
NGOs	- Non-Governmental Organizations
PAP	- Poverty Alleviation Project
RFS	- Rural Farmers Scheme
RFS	- Rural Farmers Scheme
RMSP	- Rural Microfinance Support Project
ROASCAS	- Rotating Savings and Credit Associations
UWFT	- Uganda's Women Finance Trust
WB	- World Bank
YES	- Youth Entrepreneurs' Scheme

## **Abstract**

The purpose of this research project was to investigate the role of Microfinance Institutions on entrepreneurship development.

The case study was Opportunity Uganda, a Microfinance Institution in Uganda.

The first objective of the study was to explore how Microfinance Institutions help people start businesses and create wealth. The findings of the research clearly show that Microfinance Institutions play a very important role in empowering entrepreneurs with loans, training and advisory services.

The second objective was to find out whether access to funds improves the saving culture of entrepreneurs. The research found that when entrepreneurs access funds, there is an increase in their income and this eventually leads to having extra income to save.

And the last objective was to analyze the challenges faced by Microfinance Institutions as they promoting entrepreneurship. It was found that Microfinance Institutions experience challenges from clients as concerns trustworthiness and meeting their obligations, from the government with unfavorable policies and from management of the institution.

The research clearly shows that Microfinance Institutions are important in entrepreneurship development. Without them, entrepreneurs would have difficulty in starting, running them and creating wealth.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 INTRODUCTION**

This chapter introduces the topic in regard to the background of the study, its purpose, objectives, scope and significance. It also includes the conceptual framework of the study.

#### **1.1 BACKGROUND OF THE STUDY**

Poverty is a real problem in Uganda. With an estimated Per Capita Income of Us\$300, Uganda remains one of the poorest countries in the world.

Unemployment rates high both among those who are educated and those who are skilled or semi-skilled. And because poverty brings with it bad health, hunger and diseases, it is important to find ways to reduce or eradicate it if possible, hence the need for Microfinance Institutions.

Though Microfinance institutions has built its name in fighting poverty through enabling the poor start businesses, its actual impact on entrepreneurship and wealth creation for the poor is not completely known.

The world all over, poverty is viewed as a disease that needs a cure, as a challenge that must be overcome, and as a threat to modernity. No one deserves to live in poverty yet something can be done to improve the lives of those living on abject poverty.

Are the social and economic impacts of Microfinance significant? Is it just enough to provide credit to the poor and leave them to get returns without any other help?

Stakeholders of Microfinance are the governments and policy makers of countries with high levels of poverty, international NGOs like United States Aid for International Development (USAID), European Union (EU), World Bank among others and the beneficiaries of Microfinance.

##### **1.1.1 OPPORTUNITY UGANDA**

This research was carried out in Opportunity Uganda.

Opportunity Uganda Limited, formerly called Faulu Uganda, is a member of International Network – a US based organization supporting banks and Microfinance Institutions in various countries around the world.

They belong to an international network making them financially stronger and secure in serving their clients.

Opportunity International has a presence in Kenya, Tanzania, Rwanda, Malawi, Mozambique, South Africa and Ghana.

## **1.2 STATEMENT OF THE PROBLEM**

Microfinance is increasingly gaining a good reputation in promoting entrepreneurship development and improving the lives of the poor. But to what extent does Microfinance promote entrepreneurship development?

## **1.3 PURPOSE OF THE STUDY**

The purpose of the study was to investigate the role of Microfinance Institutions on entrepreneurship development.

## **1.4 OBJECTIVES OF THE STUDY**

### **1.4.1 General Objective**

To find out the role of Microfinance Institutions on entrepreneurship development.

### **1.4.2 Specific Objective**

The objectives of the study are:

1. To explore how Microfinance Institutions helps people to start businesses and create wealth.
2. To find out whether access to funds improves the saving culture of entrepreneurs.
3. To analyze the challenges of Microfinance Institutions in promoting entrepreneurship.

## **1.5 RESEARCH QUESTIONS**

1. In what ways does Microfinance help people to start businesses and create wealth?
2. Does access to funds improve the saving culture of entrepreneurs?
3. What are the challenges faced by Microfinance Institutions while promoting entrepreneurship?

## **1.6 SCOPE OF THE STUDY**

The study focused on Opportunity Uganda and its role in helping people start businesses and create wealth.

The study considered the customers and staff members of Opportunity Uganda in order to achieve its objectives.

The research was carried out for a period of six months.

## **1.7 SIGNIFICANCE OF THE STUDY**

Since the inception of Microfinance over 25 years ago, it has gained considerable attention by governments and policy makers of countries that are experiencing high poverty levels. Though it's a new phenomenon, it has gained some reasonable results despite the fact that it is still under study.

First, this study will add to the existing knowledge available about Microfinance. It found out how Microfinance Institutions enable people to start businesses and create wealth. It also found out whether access to funds results in a better saving culture of the people.

Secondly, the study gathered useful information that can be submitted to decision makers of Opportunity Uganda. And this can enable the institution to provide better services to their clients.

## **1.8 CONCEPTUAL FRAMEWORK**

Microfinance is an independent variable while poverty is the dependent variable.

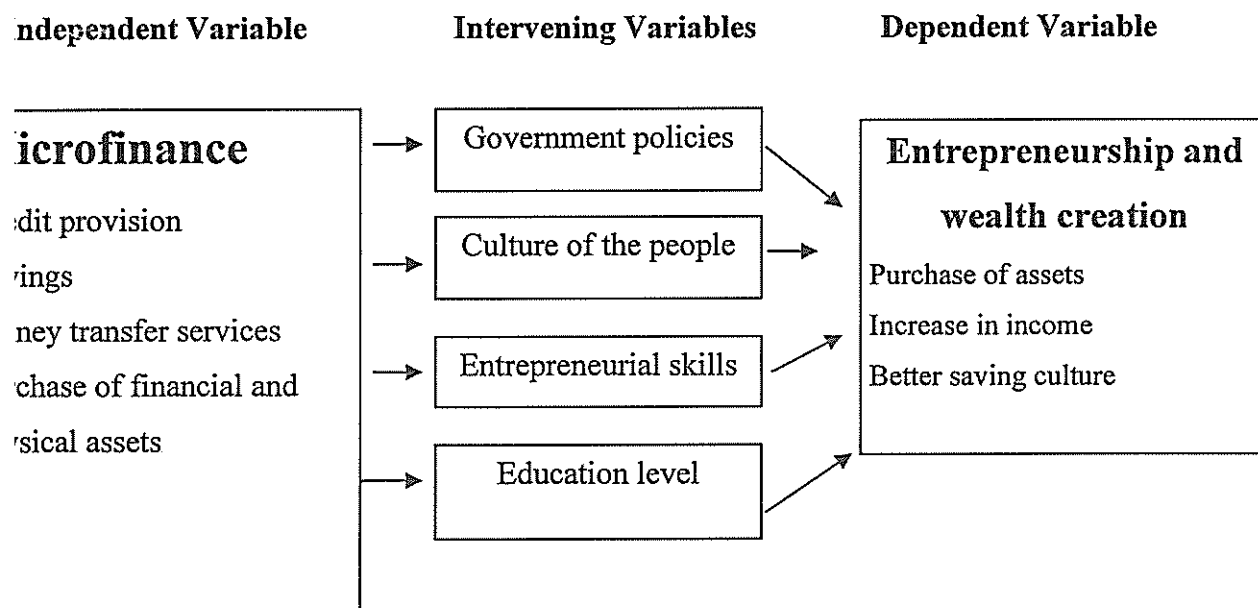
Entrepreneurship depends on the Microfinance as an independent variable.



Government policies can either hinder or promote the activities of Microfinance in its quest to help people get involved in entrepreneurship and wealth creation. They have a lot to play on the savings and wealth creation. Interest rates and levels of taxation, for instance, contribute much to how much one can save.

The people's culture also influences the way people save and create wealth. If the culture of the people does not invest in assets and people do not believe in saving, then there will be no wealth creation.

If people have no entrepreneurial skills or have low education levels and where business money cannot be separated from personal funds, their chances of engaging in business and create wealth could be affected.



## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 INTRODUCTION

This chapter will examine the available literature on Microfinance; its achievements and challenges.

It will also look at entrepreneurship in Uganda, the saving culture of the people and the level of wealth creation.

#### 2.1 OVERVIEW OF MICROFINANCE

Tessie (2005) microfinance, banking to the poor, is a recent global phenomenon introduced by Nobel Prize winner Dr. Mohammed Yunus of Bangladesh in the 1970's. Before Dr. Yunus, the poor were not allowed access to credit and loans due to the widespread belief that the poor could not repay loans. Dr. Yunus' project, Grameen Bank, began with loans of less than \$50 to poor basket weavers in Bangladesh. In the past 30 years Grameen has grown to over 3.7 million borrowers worldwide with a 98% repayment rate, higher than any commercial bank. Dr. Yunus has proven that the poor are indeed responsible enough to manage credit and repay loans.

According to Wikipedia (2010) "**Microfinance** refers to the provision of financial services to low-income clients, including consumers and the self-employed. More broadly, it refers to a movement that envisions "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers." Those who promote Microfinance generally believe that such access will help poor people out of poverty."

Financial services can play a critical role in reducing poverty. Permanent access to financial services can enable poor people to increase income, build assets, and reduce their vulnerability to external shocks. Financial services can put power into

the hands of poor households, allowing them to progress from hand to mouth survival to planning for the future acquiring physical and financial assets. Microfinance is about investing in people and institutions, rather than subsidizing clients or relying on permanent subsidies from Microfinance institutions.

Microfinance Institutions have targeted poor women and youth and have proved that these people can save if provided with appropriate and friendly frameworks.

### **2.1.1 History of Microfinance in Uganda**

Microfinance is fairly new in Uganda. Rotating Savings and Credit Associations (ROASCAS) Informal financial arrangements like ROSCAs have existed in many forms in Uganda for several decades. From the mid -1980s on credit schemes started emerging as side components of social welfare programs. Like in all other parts of the developing world, these components usually followed a project-oriented approach, disbursed credit at subsidized interested rates, had very poor repayment rates and were therefore typically rather short-lived.

The first true Microfinance Institutions like FINCA and Uganda's Women Finance Trust (UWFT) appeared in the early 1990s. However, they did not start to expand in terms of significant client outreach and receive recognition until the mid 1990s. With increased interest from donors and NGOs discovery that they can make a lasting impact on poverty alleviation by offering sustainable financial services, the Microfinance industry began to take shape.

Government has launched several microfinance schemes in Uganda with little or no success. For example , entaandikwa Credit Scheme (ESC), Rural Farmers Scheme (RFS), Rural Farmers Scheme (RFS), Youth Entrepreneurs' Scheme (YES) and Boda-Boda Scheme.

"The other government supported credit programmes that exhibited a high level of success was the Poverty Alleviation Project (PAP) that was funded by Africa Development Bank (ADB) and Uganda Government. This program which was implemented under the Prime Ministers Office channeled funds to the poor through intermediary Entities (mainly MFIs, NGOs and co-operative credit societies) who

were paid a commission for management and recovery of the funds. The PAP project that runs from November 1994 to December 1998 disbursed a total of Ugshs 13.5 billion to over 32,000 clients.

Nathan, Margaret and Ashie (2004) To ensure continuity of delivery of financial services to the poor, a second five year phase of the project code named "Rural Microfinance Support Project (RMSP) was launched on 24<sup>th</sup> August 2000 with the following objectives.

- To provide sustainable financial services based on sound business principles through viable institutions and private sector operatives to the economically active poor engaged in small-scale enterprises in the urban and rural areas in Uganda, so as to improve the standard of living.
- To provide capacity building through the Microfinance support center to Microfinance Institutions and private sector operatives to enable them to deliver financial services sustainable to the active poor.

Due to the good performance of the RMSP project, government decided to institutionalize the project through the creation of "The Microfinance Support Centre ltd" a company limited by guarantee which will continue to wholesale credit to MFIs in a sustainable manner.

#### **2.1.2 Key providers of Microfinance include:**

- Village "banks". Self Help Groups (SHGs);
- Formal Institutions, such as Microfinance Institutions(MFIs),
- Rural/Community Banks, Commercials/Development Banks, Co-
- Community Based Organizations (CBOs);
- Informal providers mainly including money lenders and traders;
- Rotating Savings and Credit Associations (ROASCAS); operative Banks etc.
- Government and Development Projects/Programs,

#### **2.1.3 Examples of Micro Finance in Uganda**

- Pearl Microfinance limited
- Pride Micro Finance Limited

- Opportunity Uganda
- Uganda Micro Finance Limited
- Micro Finance Uganda

## 2.2 OVERVIEW OF ENTREPRENEURSHIP

The word entrepreneur is derived from the French word “entreprendre” meaning to undertake. The entrepreneur is one who undertakes to organize, manage and assume the risks of a business.

Therefore entrepreneurship consists of doing things that establish or create wealth by individuals based on a vision of building something from practically nothing.

Entrepreneurs are motivated by different factors in order to start a business. According to P. N. Misra, there are five factors that are mostly considered to be compelling factors that will motivate an individual to be an entrepreneur. In addition, there are other three factors that will fuel and guide the belief of an individual thus making them eight. These include:

- Educational background. A person with a certain level of education or specialization can start an business with the acquired knowledge.
- Occupational experience. A person who has gained experience in doing a certain can decide to go start his/her own business.
- Desire to be independent. Some people no longer want to be employees of any one and so they would rather go into business and be the one to manage their own business activities. Due to limited capital they may have to begin small businesses that do not require a lot of capital.
- Availability of technology. New products can be innovated and produced with the acquisition of modern technology. For instance purchase of computers, printers, freezers and other modern equipments can be used to start a new business.
- Family background. A person may have learnt how to do a certain business in their family and will find it easy to start the same kind of business.

- Financial assistance. With the emergence of Microfinance Institutions more people are able to access credit and start businesses.
- Government assistance. The government can encourage entrepreneurs by availing them land, equipments and sometimes training to individuals who are interested in starting businesses. For instance, NAADS provides seeds and animals to farmers and this promotes entrepreneurship.
- Availability of infrastructure. Good road networks, power and water supply and good communication systems support those who get into business.

Depending on the type of business and the capital available, an entrepreneur can start a business either as a sole proprietorship, a partnership, joint company, public company or a co-operative.

## **2.3 ENTREPRENEURSHIP IN UGANDA**

Internationalentrepreneurship.com (2003) says, "The average age of an entrepreneur in Uganda, many of who are women, are between the ages of 30 and 40; many of whom only have a high school education. 59% of these people are surveyed as being in business for making a living. According to fastcompany.com, the percentage of individuals, ages 18 to 64, active in either starting up or managing a new enterprise is 29.3% in Uganda."

It also points out that, there is considerable potential and a wide range of opportunities, both for rural and agriculture-linked micro to small Enterprises and for linkages with small and medium enterprises competing in national, regional and international markets." It's careful to also note that "The government is engaged in entrepreneurship development, but suffers from highly variable funding sources."

## **2.4 RELATIONSHIP BETWEEN ENTREPRENEURSHIP AND MICROFINANCE**

Microfinance plays a big role in entrepreneurship and wealth creation. Many of its services enable entrepreneurs to accomplish more than they would have dared without the help of Microfinance institutions.

Vincent (year of research not indicated) Entrepreneurship is the active process of recognizing an economic demand in an economy, and mobilizing the factors of production (land, labour and capital) to satisfy that demand, usually to generate a profit. High levels of poverty combined with slow economic growth in the formal sector have forced a large part of the developing world's population into self-employment and informal activities. But this is not necessarily negative; microenterprises contribute significantly to economic growth, social stability and equity. The sector is one of the most important vehicles through which low-income people can generate wealth and escape poverty. With limited skills and education to compete for formal sector jobs, these men and women find economic opportunities in microenterprises as business owners and employees.

Services provide by Microfinance Institutions to entrepreneurs include:

#### **2.4.1 Credit Provision**

When people are able to access funds from Microfinance institutions, they are empowered to start businesses. Without financial assistance, many entrepreneurial ideas will die with the owners who will mostly have no else to turn to for assistance.

Microfinance Institutions have enabled people to start small businesses like poultry farming, selling farm products, starting shops, among others.

#### **2.4.2 Saving Services**

Traditionally, people used to save their money under mattresses or dig holes and bury it. But with the coming of Microfinance institutions, individuals can deposit their money there and use it when they need it.

This service encourages saving and with these savings, individuals are able to do much more than they would have done. Saving discourages indiscriminate use of money and encourages the discipline of saving.

#### **2.4.3 Purchase of Assets.**

Microfinance Institutions assist their clients to purchase the required assets to start a business. For instance, a Microfinance Institution can enable a people buy Boda

bodas, cars for business, construct a stall for a business, or any other equipment that is vital to the business.

Assets enable entrepreneurs to carry out more business and can even use them to get more credit for investment.

#### **2.4.4. Insurance**

Some financial institutions have gone to the extent of providing insurance services to their clients. These enable entrepreneurs to take a certain level of risks.

#### **2.5.5 Money Transfer.**

Entrepreneurs need to transfer money from one part of the country to another. Here a Microfinance Institution enables an entrepreneur to do business without having to carry lots of money with them.

### **2.5 SAVING CULTURE**

When people learn to save they improve their cash management.

The Ultimate Media Consult published an article that gives a clear picture of the saving culture of Ugandan. The article said, "The Minister of Finance, Hajjati Syda Bbumba has said that the saving culture of some homesteads in Uganda is below 5% of the total income earned in a year.

She says the statistics at the Ministry of Finance shows that the average saving rate of individual Ugandans stands at 6.2% far below the minimum savings required for a family to eradicate poverty."

Because of the poor saving culture of many Ugandans, wealth creation and entrepreneurship is very much affected because the people consume almost all their income.

NDIAYE (2005) says, "Access to improved financial services – access to more and better ways of turning savings into lump sums – helps poor people from sliding deeper into poverty and helps them lay foundations for their ambitions to better



themselves and their families.” Microfinance Institutions are playing a great role in providing saving services to entrepreneurs.

Concerning the risk of using informal ways of saving by the poor, Leonard and Graham (2002), say that results from a recent quantitative study (Wright and Mutesasira, 2001) indicate that in 1999, respondents had saved an average of Ush.211,000 (US\$132) in the informal sector, and 22% of that money was lost. The same study indicated that 82% saved in-kind and of these 75% lost some of these savings due to theft (in 33% of cases) and animals falling ill and dying (in 48% of cases). In addition, 68% of the sample reported saving at home and losing a large amount of their savings 50% of which was due to demands of friends/family and theft. The results clearly demand a greater examination of the poor people’s risk environment before declaring well intentioned policies that may hurt more than protect the interests of the poor. The findings also challenge the entire financial sector to look for creative ways of extending secure, high quality savings services to the poor using devices that may not be within the supervisory reach of the central bank.

## **2.6 ACHIEVEMENTS OF MICROFINANCE INSTITUTIONS AS INSTRUMENTS OF ENTREPRENEURSHIP DEVELOPMENT**

### **2.6.1 Direct Effects:**

#### **2.6.1.1 Microfinance and Income Generating Activities**

With small sums of money, entrepreneurs are able to purchase the inventory, supplies and tools needed to start or expand micro businesses that range from weaving, sewing, grinding grain, reselling produce, and growing and selling vegetables, to catching and selling fishing, wholesaling dried fish, raising chickens to sell eggs, and breeding livestock. Microfinance Institutions also helps the rural poor to start technology micro businesses, such as selling cell phones to other villagers, which also provides valuable means of communications and access to vital information.

Microfinance Institutions help entrepreneurs to take advantage of available economic opportunities by providing them with funds which in turn they invest in new opportunities in-order to create more revenue for themselves.

#### **2.6.1.2 Self - Employment**

One microentrepreneur in the Philippines dried fish caught by her husband and sold them to local markets. The demand grew quickly and she then hired her neighbors to help. Now, nearly 20 neighbors earn an income from her family fish business, and her entire community is benefiting.

Entrepreneurs who can access credit from Microfinance Institutions are able to start income generating projects and in the process they even create jobs for others.

#### **2.6.1.3 Building Assets**

Due to increased income, and the ability to save and take on credit, Microfinance Institutions can provide the means for entrepreneurs to acquire land, construct or improve their home, purchase animals and consumer durables, or create or expand their businesses. Studies have shown that clients who take part in Microfinance Institutions acquire more productive assets over time than those who do not.

Carolyn, Gayle and Gary (1998) Almost all clients report using the loan funds on their enterprise, usually as operating capital to expand or diversify their businesses. They indicate that they would not have made these expenditures without the loan from their respective Microfinance program. Clients also purchased household assets (e.g., utensils, furniture) and fixed business assets with savings and enterprise earnings. For some clients it appears that access to loan funds allows savings to be used to accumulate household assets.

#### **2.6.1.4 Mitigating Risks**

Entrepreneurs are able to use their funds appropriately, avoid wastage and mismanagement of funds. They can cope with emergencies like death, famine, political unrest and other unforeseen circumstances.

### **2.6.1.5 Training**

Though not all Microfinance Institutions offer training opportunities for their clients in areas like entrepreneurship, leadership skills, nutrition among others, those that do, have an edge. Such training empowers people to accomplish more than their counterparts who never get a chance to go through such training.

Dean and Martin (2006) Training led to better business practices and increased revenues and profits. Clients report engaging in some of the exact activities being taught in the program: separating money between business and household, reinvesting profits in the business, maintaining records of sales and expenses, and thinking proactively about new markets and opportunities for profits. The implementation of these strategies seemed to have helped clients increased business income, mainly by smoothing fluctuations between good and bad periods.

### **2.6.2 Indirect Effects**

#### **2.6.2.1 Income and Salaries**

Financial services can improve entrepreneurs' lives by providing needed financing for business activities, which can increase their household incomes. By offering a variety of financial products such as savings, insurance, loans, and remittances, Microfinance Institutions empower entrepreneurs to diversify their income sources, meet basic needs and cope with shocks to their income. While increased earnings are by no means automatic, reliable sources of credit provide a fundamental basis for planning and expanding business activities, which can enable clients to save, manage cash flows, and reduce the need to sell assets to in times of crisis.

#### **2.6.2.2 Market And Service Provision.**

Where clients for a Microfinance Institution are grouped and are producing the same products or services, a Microfinance Institution can assist them to lobby for a market. When clients prosper, the Microfinance Institutions also prosper and more entrepreneurs will be created in the process.

### **2.6.2.3 Women Empowerment and Social Dimensions**

Many Microfinance programs target women entrepreneurs. For women, money management, greater control over resources, and access to knowledge leads to more choices and a voice in family and community matters. Economic empowerment is accompanied by growth in self-esteem, self-confidence, and new opportunities. Many qualitative and quantitative studies have documented how access to financial services has improved the status of women within the family and the community. Women often become more assertive and confident. In regions where women's mobility is strictly regulated, women have often become more visible and are better able to negotiate the public sphere. Women involved in Microfinance may also own assets, including land and housing, and play a stronger role in decision making. In some programs that have been active over many years, there are even reports of declining levels of violence against women.

Carolyn, Gayle and Gary (1998) Female Microfinance program clients make decisions on the allocation of their loan funds, loan repayments, and savings requirements. Their loan funds are spent on their own business activity. The formation of credit groups within each Microfinance program provides clients with an opportunity to participate in formal leadership positions within the group (e.g., treasurer, chair). In addition, clients are expected to acquire financial discipline skills that enable them to repay loans on time and meet weekly mandatory savings requirements.

### **2.6.2.3 Improvement In Living Conditions**

Increased earnings from financial institutions, improves nutrition and better living conditions of entrepreneurs. This also means that clients may seek out and pay for health care services when needed rather than go without or wait until their health seriously deteriorates.

Carolyn, Gayle and Gary (1998) FOCCAS program personnel facilitate the presentation of information on new health and nutrition practices such as AIDS prevention and breastfeeding techniques to female clients participating in their Microfinance program. This information enables these female entrepreneurs to

become better informed on new practices, and in turn to try these and to disseminate this information to friends and/or other household members. Female FOCCAS clients are significantly more likely than nonclients to have tried a new health or nutrition practice and to have advised a friend or household member about the improved practices, a positive impact of the FOCCAS program.

## **2.7 CHALLENGES OF MICROFINANCE INSTITUTIONS AS INSTRUMENTS ENTREPRENEURSHIP DEVELOPMENT**

### **2.7.0 Introduction**

Microfinance faces many and different challenges from various directions. This study looks at the challenges in three main aspects as follows:

### **2.7.1 Challenges from Microfinance Institutions**

#### **2.7.1.1 Growth Management**

Due to deficiency in the internal control system and procedures, Microfinance Institutions are unable to manage growth when, for instance, they have to open branches in different places. Microfinance being a new area of study, Uganda does not have enough qualified Microfinance professionals and those who are available may not be willing to work for low pay offered by upcoming Microfinance Institutions.

Owing to lack of proper growth management, a Microfinance Institution may even have to shut down in the long-run.

#### **2.7.1.2 Management Information System Problem**

A Microfinance Institution cannot do without a suitable management information system. It has to be able to keep a track of the information about clients, their repayment schedules and savings. The challenge is that management information systems for Microfinance Institutions are very expensive and after purchasing one, there are maintenance costs involved.

### **2.7.1.3 Insufficiency In Innovative Products**

Despite some progress, many Microfinance Institutions are not in a position to offer a variety of new products and services due to financial constraints, lack of enough personal and sometimes because the target of customers is not large to sustain the new services.

Clients have different needs. Some want single loans, others group themselves.

Also, the purpose of the loan can determine whether a clients gets a loan or not. For instance, some entrepreneurs may desire a school fees loan or medical loan which a Microfinance Institution may not be in a position to provide.

A Microfinance Institution may not be in a position to provide services like ATM services, money transfer services, and others due to the costs involved. This can lead to some clients going for loan in banks where they can enjoy a variety of services.

### **2.7.1.4 Financial Transparency**

Financial transparency has been a great challenge for Microfinance Institutions. Many do not want the public to know how much money they are making because of the fear that if they know people may feel that they are exploiting them. Due to this lack of financial transparency, some people do not trust Microfinance Institutions and will not join them.

### **2.7.1.5 Commitment Of Management**

At times, the management of a Microfinance Institution can be its hindrance. If for instance employees are given unreasonable targets, it will affect their performance. Other times the management may not be giving employees reasonable compensation and low motivation of the workers. Such lack of commitment will affect service delivery to entrepreneurs.

### **2.7.1.6 Quality Of Loan Portfolio**

The loan portfolio of a Microfinance Institution will definitely affect its performance. It has to make sure that it has enough liquidity to meet its day to day obligations. For instance, it maybe tempted to give many loans because it will earn interest but be

unable to recover the many quickly enough thus leading to a crisis in working capital.

Also, it important to ensure that it does not take more debt than it can be able to handle both in the short run and long run. Some Microfinance Institutions have gone bankrupt because they could not manage their portfolio well.

#### **2.7.1.7 Availability Of Resources**

Many times, Microfinance Institutions lack the resources they require to run their businesses. For instance, it is not easy to get qualified and experienced personnel who are willing to work at a compensation which a Microfinance Institution can afford. Other resources like software like databases and computers to run the institutions may be too expensive for the institution hence resulting to cheap software and computers which cannot do the job well.

#### **2.7.1.8 Location Of The MFI**

Where a Microfinance Institution is located matters a lot. It has to be located near clients so that they can easily make deposits and withdrawals. The challenge here is to find location that is near clients and yet not so expensive. This leads to high costs of renting in city centers by Microfinance Institutions which leads to financial strain.

#### **2.8.1.9 Outreach Of The MFI**

Microfinance Institutions' sustainability mostly depends on the number of clients it can reach. The more the clients, the better. Unfortunately, Microfinance Institutions in Uganda are based in urban areas and rural areas are unreached. This may be due to lack of infrastructure in rural areas and because of this, Microfinance Institutions in urban centers have to compete for the customers in cities.

#### **2.7.1.10 Safety of Clients' Savings**

Leonard and Graham (2002) Respondents reported cases where NGOs have mobilized users' savings promising to give them loans, but then disappeared. These cases have tended to be "brief case" NGOs with dubious registration. There were also reports of individuals posing as agents or employees of some prominent international NGOs that defrauded many people of their savings in Masaka and

Iganga Districts. These unscrupulous operators promised to give clients housing loans, school fees loans, child sponsorship, etc. after a period of initial saving. The promises were never honored and the individuals disappeared, with the savings they had mobilized. There are also cases of NGOs working as implementing agencies for the government poverty alleviation schemes that have run off with people's savings without extending loans. It is because of such cases that some respondents differed with those that have strong confidence in financial NGOs.

Leonard and Graham (2002) There was a strong feeling among respondents that NGO-MFIs were relatively safer when operated by personnel from other parts of the country. This is because outsiders are more likely to focus on the business and less on local social/political entanglements. International NGOs have typically proved safer because staff have typically been better trained on how to manage a financial services scheme.

Due to risk of clients losing their money, people have turned to formal banks. Leonard and Graham (2002) The most important reasons included the strong security evidenced by armed policemen, a strong structure that houses a strong safe, skilled personnel and high quality record keeping. It is for these reasons that all the other financial institutions including FSAs, village banks, savings clubs, etc. use the formal banks to secure their excess funds.

#### **2.7.1.11 Reliance on Donor Funds**

Microfinance Institutions that rely on donor funds are not in a position to make independent decisions in regard to how they should operate.

Also, when donors fail to honor their obligations, the Microfinance Institution that depends on them can even collapse. When this happens, savers may lose their money hence affecting entrepreneurial activities of their clients.

#### **2.7.2 Challenges From Clients**

##### **2.7.2.1 Default in Repayment Of Loans**

The main challenge of Microfinance Institutions from clients is when clients fail to pay back the loan advanced to them. The default may be due to a number of factors



like high interest rates, natural calamities, inflation among others. These lead to bad debts and liquidity crisis in the Microfinance institution.

#### **2.7.2.2 Low level of productivity**

Poor health and nutrition of clients leads to low productivity in their businesses. Because of this, they are unable to build sustainable businesses and will eventually make losses. If such a person had taken a loan, they will default and the effect will be felt by the Microfinance institution.

#### **2.7.2.3 High Illiteracy Rate**

The literacy rate in 2005 was 71%. People without an education are not able to get jobs with higher incomes and this reduces their ability and capacity to get loans. Also, high illiteracy rates give Microfinance Institutions more work of sensitising their clients on the importance of saving, health and nutrition, business management.

Michael (2003) The recent efforts by President Museveni to bring free Universal Primary Education (UPE) to his country are supported by the highly positive returns to an additional year of education for the household head. At the upper bound, each additional year of education to current and future household heads could increase household well-being by 7.4% on average.

#### **2.7.2.5 HIV / AIDS**

Carolyn, Gayle and Gary (1998) AIDS has been at the epicenter of social, economic and political life in Uganda over the past decade and jeopardizes the progress Uganda has recently made in economic and social development. Family-level impacts include increased financial expenditures on health, loss of income earners, and care of children who have lost one or both parents, whereas the social impacts include a relatively high death rate among the educated elite and a shortage of drugs and hospital beds. The prevalence of HIV/AIDS is considered to be relatively high in two of the three baseline study sites: Kampala and Masaka districts.

There is increasing evidence, however, that HIV prevalence is declining, especially among young women. The declines are particularly evident among pregnant women

aged 15 to 19, among whom the HIV prevalence rate of 26% in 1992 declined to 8% in 1997. Declines are also observed in women aged 20-24.

### **2.7.3 Challenges From Government**

#### **2.7.3.1 Government Policy**

Entry into the Microfinance industry is not easy. Speaking at the opening of commercial Microfinance, Owino Branch, the governor bank of Uganda said that some of the regulations include:

- A licensing requirement;
- A minimum capital requirement to provide a buffer against losses;
- Standards for ownership and management which ensure that directors and managers are both professionally competent and people of integrity;
- Very strict controls on insider lending and other abuses of savers' funds;
- A minimum liquidity requirement;
- Requirements to report financial data regularly to the Bank of Uganda;
- Legal authority for the Bank of Uganda to intervene in a problem Microfinance Institution where this is necessary to protect its deposits.

Though this regulations are well meant for the protection of depositors, there are a hindrance to new entrants thus to some extent it reduced the growth of the Microfinance industry.

#### **2.7.4.3 Political Stability**

Without political stability in a country, Microfinance Institutions will not be able to operate. Donors and investors will fear to lose their investments hence few institutions leading to fewer providers of Microfinance services.

During times of political instability, entrepreneurs are not sure if they should invest or not. Businesses are brought to a halt until there is stability.

#### **2.7.4.3 Lack Of Infrastructure**

Due to deficient transportation, communication and power infrastructure, Microfinance Institutions are not able to reach as many people as possible. Going to

places which lack such infrastructures brings with it additional costs which the Microfinance Institution may not be in a position to meet.

Also, lack of infrastructure affects entrepreneurs who cannot carry out their businesses smoothly and they are forced to incur extra costs thus reducing their profits.

#### **2.7.4.4 Business Environment**

A proper business environment that encourages establishing of Microfinance Institutions should be availed by the government. It should not be very difficult for Microfinance Institutions to enter the industry. Also, taxes and other government policies should not be prohibitive.

A bad business environment also affects entrepreneurs. When it's hard to register a business and taxes are high, entrepreneurs are discouraged hence the need to the government to provide a conducive business environment.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 INTRODUCTION**

This chapter explains the methodology that was used for the study. This included the population of the study, sample framework, the instruments of data collection, sources of data, how the data was processed and analyzed. Finally, the chapter captures the limitations of the study.

#### **3.1 RESEARCH DESIGN**

#### **3.2 POPULATION OF STUDY**

The researcher targeted Opportunity Uganda with a view of understanding its impact on entrepreneurship and wealth creation.

The researcher had target to interview 50 clients of Opportunity Uganda to gain an understanding of how they have been empowered to create wealth. But due to language barrier and the fact that the information gathered satisfied the objectives of the research, the researcher interviewed 25 clients of Opportunity Uganda and 4 staff members.

#### **3.3 SAMPLE FRAMEWORK**

##### **3.3.1 Sample Size**

This research targeted 5 staff members and 50 clients of Opportunity Uganda who were the representatives of the whole.

##### **3.3.2 Sample Selection**

The respondents of questionnaires and interviewees were chosen at a random in order to get a clear picture of what is happening.

#### **3.4 INSTRUMENTS OF DATA COLLECTION (METHODS)**

##### **3.4.1. Questionnaires**

Questionnaires were used to gather information from Opportunity Uganda staff and clients.

#### **3.4.2 Interviews**

One on one interview was also used by the researcher to get the first-hand view and information from the staff members of Opportunity Uganda and their clients.

### **3.5 SOURCES OF DATA**

#### **3.5.1 Primary Data**

The researcher collected primary data through questionnaires and interviews. The respondents who were not be in a position to fill the questionnaires were interviewed.

#### **3.5.2 Secondary Data**

Secondary data was collected from government and NGO reports on entrepreneurship in Uganda to critically analyze the impact of Microfinance in wealth creation.

### **3.6 DATA PROCESSING AND ANALYSIS**

Quantitative methods were used in data analysis.

Statistics collected were analyzed to establish the extent of entrepreneurship development in relation to the services of Microfinance Institutions.

Also, the target/clients of Microfinance were analyzed to find out the best possible ways of promoting entrepreneurship development in Uganda.

### **3.8 LIMITATIONS OF THE STUDY**

- The main limitation of the study was that it was impossible to reach all clients of the institution since it would take a lot of time ad money.
- Language barrier. Since the researcher does not speak Luganda, it became hard to interview and fill the questionnaire by clients who do not speak English. The research had to get research assistants who spoke Luganda.

- Microfinance being a new area of study, its not easy to access all the current information on this area.

## **CHAPTER FOUR**

### **PRESENTATION, ANALYSIS AND INTERPRETATION OF THE FINDINGS**

#### **4.0 Introduction**

This chapter presents the findings. It addresses three questions: how does a Microfinance Institution help people start businesses and create wealth, does access to funds improve the saving culture of the entrepreneurs and pointing out the challenges faced by Microfinance Institutions while promoting entrepreneurship.

The researcher interviewed 5 staff and 25 clients of Opportunity Uganda. While interviewing the clients, the researcher realized that the answers given were the almost the same from client to client and saw no need to give out more questionnaires and do more interviews.

#### **4.1 Opportunity Uganda's Role In Helping Entrepreneurs Start Businesses And Create Wealth**

Opportunity Uganda has played several roles in empowering entrepreneurs start businesses and create wealth.

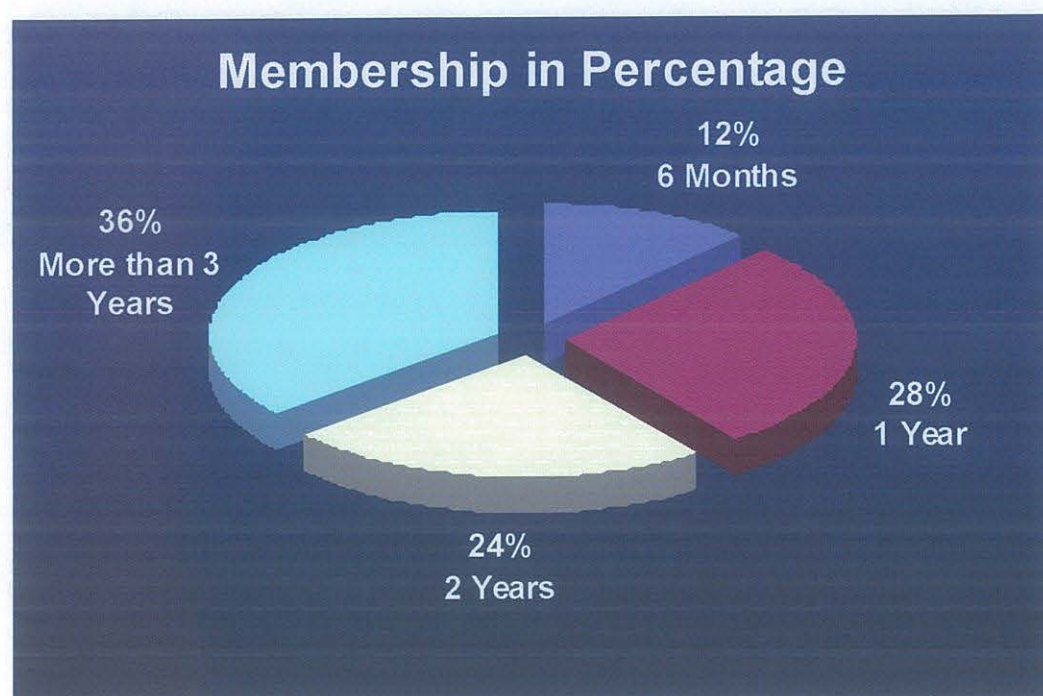
First, it has made it possible to access loans for its clients. Entrepreneurs who are short of funds can approach any of their branches and apply for a loan and within a few days get a loan. They use these loans to expand their businesses.

#### **4.2 Number Of Years Interviewees Have Been Members Of Opportunity Uganda**

Most of the clients of opportunity Uganda interviewed have been members for over 3 years and they account for 36% of the total. 24% have been members for 2 years and 28% have been members for 1 year. The least percentage of 12% accounts for interviews who have been members for only six months.

Years	Number of interviewees	Percentage (%)
6 months	3	12
1 year	7	28
2 years	6	24
More than three years	9	36
Total Number	25	100

**Table 1: How long clients of Opportunity Uganda have been members**



**Figure 1: Showing the membership percentage**

#### **4.3 Benefits To Their Clients from Opportunity Uganda**

The research revealed many benefits which clients have gained from opportunity Uganda.

Most of the entrepreneurs have benefited from the loans and entrepreneurship training given to them. This in turn has enable them to acquire assets like land, motorcycles, and other appliances needed in their business. Eventually, most of them have seen a growth in their business and increase in their incomes.



Benefit	Number
Training	25
Loan	25
Acquisition of assets	5
Growth of business	15
Increase in income	5
Access of advisory services	25

**Table 2: The benefits to clients from Opportunity Uganda**

#### **4.4 Assets Bought**

The entire interviewees had taken loan from opportunity Uganda. 5 of them used the loan to acquire assets like land and farming tools and 15 used the loan to grow their business.

Other assets mentioned by the staff of opportunity Uganda include cars, shares, motor vehicles, business machinery, generators, Television sets among others.

#### **4.5 Increase In Income**

Five of the interviews reported an increase in their level of income due to the growth in their businesses after taking the loans.

The increase in income enables these clients to meet other obligations without worrying that their businesses will collapse.

#### **4.6 Entrepreneurship Training**

All those interviewed admitted to having gone through entrepreneurship training. Of those interviewed, 11 mentioned entrepreneurship training as one of the key benefits they have acquired from Opportunity Uganda.

#### **4.7 Areas Where Clients Require More Training**

When a person joins Opportunity Uganda as a client, he/she goes through mandatory entrepreneurship training for four days. This training covers areas like

becoming a successful businessperson, business principles that include product, place, price and promotion.

Despite the entrepreneurship training received, interviewees had areas in which they would like to receive more training. Five of the interviewees needed training in how to improve their businesses. They wanted to be equipped with skills that can enable them to take their business to another level.

Other five interviewees needed more training in book keeping and accounting. They did not know how to calculate profits and keep the necessary records of their businesses.

One other interviewee expressed a need to know something about insurance schemes available for him as an entrepreneur.

#### **4.8 Challenges Faced By Entrepreneurs**

The interviewees face different types of challenges in the running of their businesses as entrepreneurs.

Four of them mentioned competition as a major challenge. Due to competition, they were experiencing low profit margins and their customer base decreased.

Another challenge was changes in weather which affected those entrepreneurs who are involved in agrobusiness. Because of this, their profits were not certain in some seasons.

Three of the interviewees mention electricity shortages which affected their businesses.

#### **4.9 Access To Funds And Saving Culture Of Entrepreneurs**

The research shows that every client of Opportunity Uganda has taken a loan at some point. Clients have been able to access loan for different purposes like improving their businesses, buying assets, schools fees among others.

On the saving culture, two staff members of Opportunity Uganda replied that the saving culture of their clients is fair. It's not very good and yet not very bad. Only one staff member replied that the saving culture is bad. This respondent said it's because many clients rely to a great extent on credit to finance their businesses.

#### 4.10 Percentage Of Income Saved

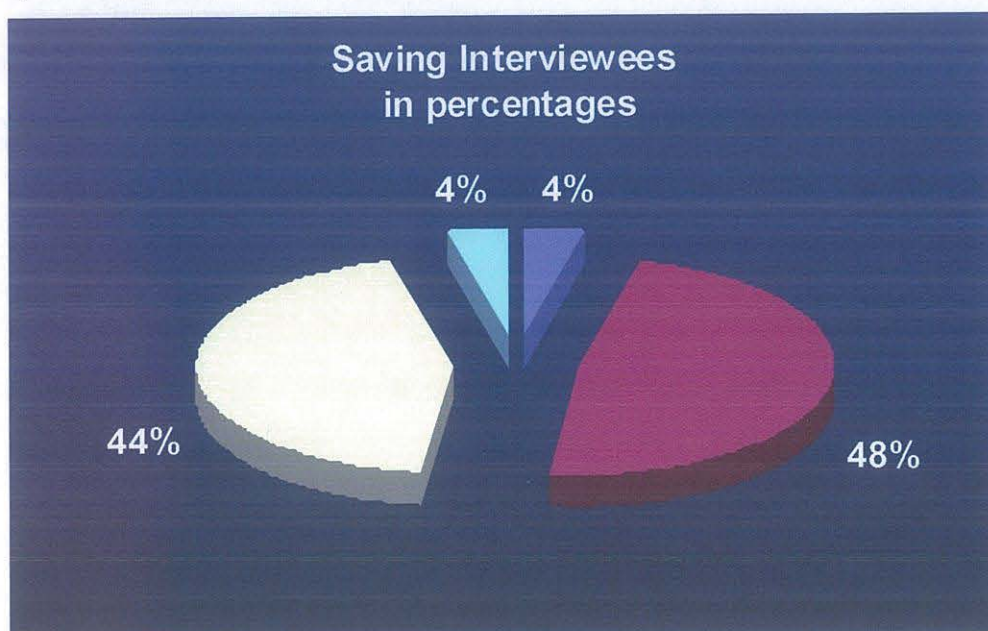
Findings of the income saved are as follows: -

Percentage saved	Number	In percentage
0%	1	4
5% - 10%	12	48
10-20%	11	44
Above 30%	1	4
Total	25	100

**Table 3: The percentage of income saved.**

Opportunity Uganda requires that every client who takes a loan must save 15% of the loan with them. It's called a Loan Security Fund and it's given out to the client after he/she has completed pay back the loan. The benefit of the Loan Security Fund(LSF) for Opportunity Uganda is that its used when a person in a group fails to repay back his loan and so the LSF of his/her fellow group members is used to repay the loan of the defaulter.

The research shows that 96% of the clients of opportunity Uganda are involved in some saving. The Loan Security Fund enables everyone to participate in saving thus improving the saving culture of everyone.



**Figure 2: Showing the percentage of income saved.**

#### 4.11 Reasons For Saving

Interviewees saved for the following reasons: -

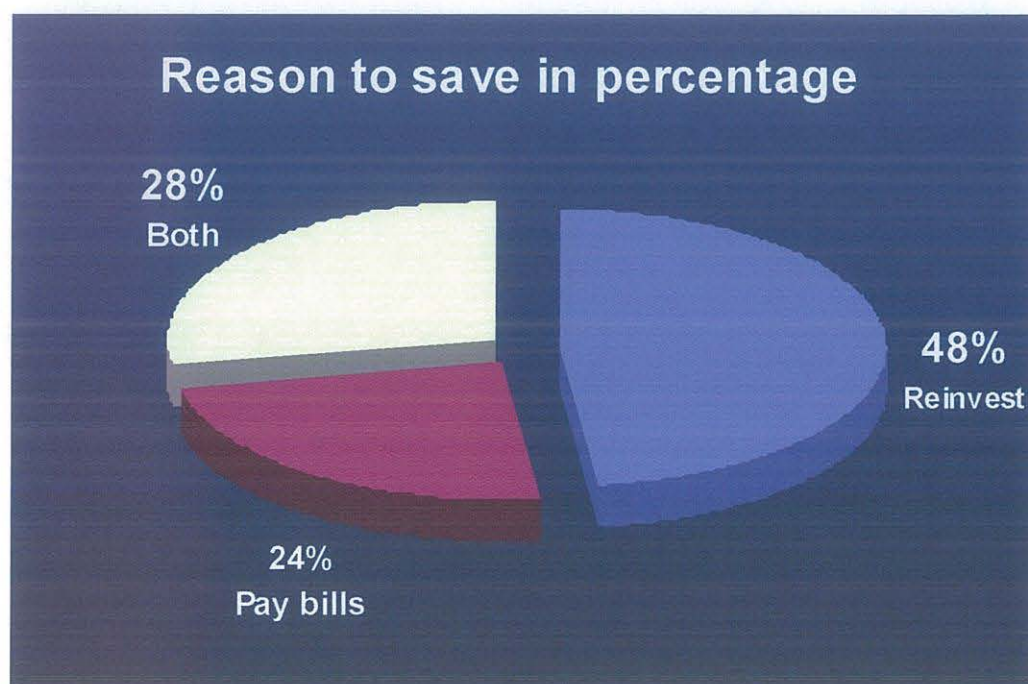
Reason to save	Number	In percentage (%)
Reinvest	12	48
Pay bills at home	6	24
Both	7	28
Total	25	100

**Table 4: Reasons for saving**

The research shows that 48% of those who save, do so to reinvest in their businesses. This way the business is able to grow and expand thus leading to creation of wealth by the entrepreneurs.

On the other hand, 24% of the interviewees save in order to pay bills at home like electricity, school fees, buy home appliances among other things. Therefore, the saving gives them a supplementary income.

About 28% who save used the saved money to reinvest and also pay bills as they come.



**Figure 3: Showing reasons for saving**

#### **4.12 Challenges Faced By Microfinance Institutions**

The findings on the challenges faced by microfinance institutions were got from the questionnaires given to the staff of Opportunity Uganda.

One of the challenge mentioned is the stiff competition between Microfinance Institutions. Uganda has seen a rise in Microfinance Institutions over the years and this leads to high competition. Also, other financial institutions like banks are starting to offer microfinance services thus increasing the competition.

Another challenge is illiterate clients of Opportunity Uganda. This makes it hard to train them and they are likely to perform poorly in their businesses.

Another challenge is with clients who take loans from different Microfinance Institutions and this increase their financial obligations and many eventually default in paying back their loans.

#### **4.13 Source Of Challenges**

Two relationship officer of Opportunity Uganda replied that the main challenge of their work comes from clients. One said that that it's hard to ascertain the character of the clients. For instance one may already be in debts from other Microfinance Institutions and yet want a loan from Opportunity Uganda.

Another relationship officer replied that some clients resist saving. This becomes a challenge because these clients want to consume all their income yet entrepreneurs need to learn the importance of saving.

For another relationship officer, the main source of challenge was management of Opportunity Uganda. He replied that some policies of management do not favor efficient service delivery.

#### **4.14 Government Policies That Discourage Entrepreneurship**

Concerning the government policies that discourage entrepreneurship, high taxes by the government was on top of the list. And so due to high taxes, Opportunity Uganda has to pass on the burden to their clients through high interest rates thus leading to hampering of entrepreneurship development.

Another challenge from the government is economic policies who do not favor entrepreneurship development. For instance, the government's policy of levying high taxes on microfinance institutions does affect their operations.



## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

#### 4.0 Introduction

This chapter will look at the summary of the research, give the conclusion and finally give the recommendations.

#### 4.1 Summary Of Findings

The general objective of this research project was to find out the role played by Microfinance Institutions in entrepreneurship development.

The first objective was to explore how Microfinance Institutions help people start businesses and create wealth. It was learnt that Microfinance Institutions offer loans, entrepreneurship training and advisory services to entrepreneurs. And this has played a great role in developing entrepreneurship in Uganda.

The second objective was to find out whether access to funds improves the saving culture of entrepreneurs. Microfinance Institutions sometimes do impose compulsory saving to their clients and these has enabled entrepreneurs to learn the importance of saving. Also, thanks to Microfinance Institutions, entrepreneurs have an increase in their income and so they are able to save in order to reinvest the savings in their businesses.

The last objective was to analyze the challenges of Microfinance Institutions in promoting entrepreneurship. It was discovered that Microfinance Institutions do face challenges from clients, government and within management of the institution. Some of the challenges experienced are competition, lack of trustworthiness among clients, unfavorable government policies and institution policies that hinder delivery of services to clients.

Indeed, entrepreneurs are better off with the presence of Microfinance Institutions than doing without them. These institutions play an important role in

entrepreneurship development and the government should rise up to give more support to Microfinance Institutions.

## **4.2 Conclusion**

This research was carried out to find out the role of Microfinance Institutions on entrepreneurship development.

The research showed that Microfinance Institutions play a major role in entrepreneurship development through several ways.

They allow entrepreneurs to access funds at lower interest rates than other financial institutions in order to improve their businesses, buy assets, improve their income, pay their debts and this empowers them to create wealth.

Microfinance institutions also play a role in offering entrepreneurship training which equips entrepreneurs with business skills. These skills include bookkeeping, accounting, communication skills among others. With knowledgeable entrepreneurs running businesses, the chances of success are increased and entrepreneurship in Uganda is given a boost.

Another role played by Microfinance Institutions on entrepreneurship development is the promotion of saving culture of the entrepreneurs. Opportunity Uganda for instance requires a mandatory 15% saving on the loan acquired by the clients. This sends a message to the client on the important of saving in order to invest.

The research also discovered that Microfinance Institutions do face challenges as they go about the business of promoting entrepreneurship. Some of the challenges are from the government like high taxes and economic policies which do not favor microfinance institutions, other challenges are from clients who may not be trustworthy and other challenges are from within the Microfinance Institutions especially by the policies of the management.

## **4.3 Recommendations**

Microfinance Institutions should do more sensitization of their clients concerning the importance of saving. Also, incentives can be given to those clients who have a good history of saving in order to motivate them and encourage others to do the same.



Entrepreneurship training is very important for entrepreneurs and Microfinance Institutions should have a yearly program of training clients so that they can perform better in their businesses.

The government should recognize the key role played by Microfinance Institutions and should offer them tax relief and give them other incentives like discounts when they buy assets all in the effort of empowering Microfinance Institutions to offer better and inexpensive services to their clients.

Microfinance Institutions should constantly seek feedback from both their clients and employees on areas which need improvement and ensure that a solution is found. This will motivate employees since the institution shows care and concern for them and clients will remain loyal and in the process draw more clients to the institution.

## REFERENCE

Dean Karlan, Yale University, Innovations for Poverty Action, and Jameel Poverty Action Lab, , Martin Valdivia, Grupo de Análisis para el Desarrollo (November 26th, 2006). *Teaching Entrepreneurship: Impact of Business Training on Microfinance Clients and Institutions*.

Drs. Carolyn Barnes, (Management Systems International) Gayle Morris and Gary Gaile, In association with Richard Kibombo, Samuel Kayabwe, Agrippinah Namara and Peter Waalwo-Kajula, (Makerere Institute of Social Research), Kathleen Graham, J. D., (WorldWID Fellow, USAID/Uganda), Assessing the Impact of Microenterprise Services (AIMS), (May 1998). *An Assessment Of The Impact Of Microfinance Services In Uganda: Baseline Findings*, Volume 1.

*Entrepreneurship in Uganda*. GEM Report. URL:

[http://www.internationalentrepreneurship.com/african\\_entrepreneurship/Uganda\\_entrepreneur.asp](http://www.internationalentrepreneurship.com/african_entrepreneurship/Uganda_entrepreneur.asp)

Fodé NDIAYE (2005). *Microfinance as a Strategy for Poverty Reduction in Africa*, UNCDF Microfinance Regional Unit for Southern and Eastern Africa.

Guy Vincent, *Sustainable Microentrepreneurship: The Roles of Microfinance, Entrepreneurship and Sustainability in Reducing Poverty in Developing Countries*.

Kampala International University (2009),. *Microfinance Lecture Notes*

Leonard K. Mutesasira and Graham A.N. Wright, Microsave (May 2002). *It Is Expensive to Be Poor: Losses Suffered by People Saving in Ugand.,*

Michael L. L. Mann, Advised by Professor James Warner, Second Reader, Professor

José Vasquez, Department of Economics at the College of Wooster (March 2003). *A New Foundation for Microfinance Impact Studies, An Empirical Analysis on the Household Level in Uganda*.

Okuru Francis Nathan, Banga Margaret, Mukungu Ashie, (April 2004), *Microfinance And Poverty Reduction In Uganda: Achievements And Challenges*, Economic Policy Research Center (EPRC).

*Speech by the governor, Bank of Uganda*, at the re-opening of the Owino Branch of the Commercial Microfinance ltd, 31st January 2001.

Tessie Swope (May 2005). *Microfinance and Poverty Alleviation*

*Uganda Business News: Poor saving habits cause poverty in Uganda*. URL:  
[http://www.ugpulse.com/articles/daily/news.asp?about=Poor+saving+habits+ca](http://www.ugpulse.com/articles/daily/news.asp?about=Poor+saving+habits+cause+of+poverty+in+Uganda&ID=11585)  
[use+of+poverty+in+Uganda&ID=11585](http://www.ugpulse.com/articles/daily/news.asp?about=Poor+saving+habits+cause+of+poverty+in+Uganda&ID=11585) (2009).

## Appendix 1: BUDGET

ITEM	UNIT	COST PER UNIT	AMOUNT
<b>Stationery</b>			
Full scups	1	5,000	5,000
Pens	3	300	900
<b>Sub-total</b>			<b>5,900</b>
<b>Local travel and communication</b>			
Air time	2	10,000	10,000
Local travel	-	20,000	20,000
<b>Sub-total</b>			<b>30,000</b>
<b>Typing and photocopying</b>			
Photocopying	180 Pgs		
Binding proposal	2 copies	1,500	3,000
Binding report	4 copies	8,500	34,000
<b>Sub- total</b>			<b>28,500</b>
Miscellaneous			30,000
<b>GRAND TOTAL</b>			<b>Ugshs 102,900</b>

## Appendix 2: QUESTIONNAIRE

### STAFF QUESTIONNAIRE

Dear respondent,

I'm a student of Kampala International University conducting a research in your institution on the impact of Microfinance on entrepreneurship development. More than that, the research is also done to fulfill the requirement for the award of Bachelors Degree in Business Administration.

Your participation is highly appreciated.

Note: Your responses will be treated with the highest degree of confidentiality.

Please tick and fill in the gaps where appropriate.

#### A. Entrepreneurship Development

1. Do you offer entrepreneurship training to your clients? Yes ☐ No ☐

2. If yes, how often in a year? Once ☐ More than once ☐

3. What is the success rate of businesses financed by Opportunity Uganda?

1 - 30% ☐ 30 - 50% ☐ 50- 75% ☐ 75 - 100% ☐

5. How do you ensure your clients use the credit advanced for the intended purpose?

.....  
.....

6. What are some of the examples of assets your clients have been able to purchase?

- I. ....
- II. ....
- III. ....
- IV. ....
- V. ....

7. Do you notice a significant raise in income of your clients who take credit?

Yes ☐ No ☐

8. In your own opinion, what others measures do you suggest can be taken to encourage entrepreneurship development in Uganda?

.....  
.....  
.....

9. Do you follow up on your clients’ progress in business? Yes ☐ No ☐  
How?

.....  
.....  
.....

**B. Saving culture**

10. In your own opinion, how would you grade the saving culture of your clients?

Excellent ☐ Good ☐ Fair ☐ Bad ☐ Worst ☐

11. Why do you think that is so?

.....  
.....

12. What are some of the ways you encourage clients to save?

.....  
.....

13. What do you suggest can be done to improve the saving culture of your clients?

.....  
.....

14. Who do you see as the saving culture of your clients in the future?

.....  
.....

C. Challenges

15. What is the main challenge you face in providing your services?

.....

.....

.....

16. What is the main source of challenges you face?

Management ☐ Clients ☐ Government ☐  
How?

.....

.....

17. What government policies discourage entrepreneurship development?

.....

.....

.....

.....

18. Beside offering loan and saving services, what other efforts has Opportunity Uganda made to promote entrepreneurship development?

.....

.....

.....

**Thank you.**

## CLIENTS' QUESTIONNAIRE

Dear respondent,

I'm a student of Kampala International University conducting a research in your institution on the impact of Microfinance Institutions on entrepreneurship development.

The research is also done to fulfill the requirement for the award of Bachelors Degree in Business Administration.

Your participation is highly appreciated.

Note: Your responses will be treated with the highest degree of confidentiality.

Please tick and fill in the gaps where appropriate.

1. How man Years have you been a client of Opportunity Uganda?

6 months ☐ One year ☐ Two Years ☐ More than Three Years ☐

2. Have you ever received any entrepreneurship training in your life?

Yes ☐ No ☐

3. What areas would you like to be trained in?

.....  
.....  
.....  
.....  
.....

4. What percentage of your income do you save?

0% ☐ 5% -10% ☐ 10% -20% ☐ above 30% ☐

5. Why do you save?

To reinvest ☐

Pay bills ☐

Buy a product for home use ☐

Other, specify .....



.....  
6. What is your major challenge in owning and running a business?  
.....  
.....  
.....

7. Do you freely access advice from Opportunity Uganda?

Yes ☐ No ☐

8. How would you describe services offered by Opportunity Uganda?

Good ☐ Excellent ☐ Bad ☐ Terrible ☐

9. What do you think will happen to you if you fail to pay back your loan?  
.....  
.....

10. Would you say your life has improved since you become a client of Opportunity Uganda?

Yes ☐ No ☐

How?  
.....  
.....  
.....

11. What is the one single service or gain you have acquired from Opportunity Uganda that has empowered you as an entrepreneur?  
.....  
.....

**Thank you.**

### Appendix 3: Work Plan

Time	Activity
September	Topic Identification
October -January	Research proposal writing
February - March	Data collection
April	Data analysis and interpretation
May	Preparation of report and presentation.