

**EFFECT OF ISLAMIC MICRO FINANCING AND POVERTY ERADICATION IN
UGANDA: A CASE STUDY OF NSSI**

BY

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DECLARATION

I declare that this research report is my original work and it has never been submitted to any other University or any Institution of higher learning for any award.

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APPROVAL

I certify that this research report has been written by Nakawooya Saidat under my supervision and guidance. It is therefore submitted with my approval.

Signature.....

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DEDICATION

I dedicate this report to my lovely mum Namata Sarah and my Dad Mr. Buruhani Witonze for their financial contributions towards my education am very grateful may the good Lord reward you abundantly.

ACKNOWLEDGEMENT

I acknowledge that my success is due to the Almighty God who has enabled me to produce this work and the entire course at large.

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LIST OF ABBREVIATIONS

MFIs:	Micro Finance Institutions
UWEP:	Uganda Women Entrepreneurship Programme
YLP:	Youth livelihood programme
NSST:	Njeru Small Scale Traders
NDP:	National Development Programme
ICT:	Information Communication Technology
UNHS:	Uganda National Housing Survey
UBOS:	Uganda Bureau of Statistics
SMEs:	Small and Medium enterprises

ABSTRACT

The purpose of the study was to investigate the relationship between Islamic micro finance and poverty eradication in Uganda.

The research designed for study was a case study approach focusing on Njeru small scale traders' savings and credit cooperative organization.

The population of the study consisted of 36 customers, who were the holders of accounts in the SACCO, 03 managers and 4 zakat administrators. Sample data collected by use of questionnaires administered by the researcher and a research assistant. Data analysis method used is based on the quantitative approach using descriptive statistics: mean and median were used to bring out the finding of the study.

The study revealed Islamic micro finance has a direct relationship with poverty eradication.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter specially gives a background of the study, problem, statement and objectives of the study, Research questions, scope of the study, and significance of the study, conceptual framework and operational definitions.

1.1 Background of the study.

Microfinance is a category of financial services targeted at individuals and small businesses that lack access to banking and related services. Microfinance includes: Micro-credit, Micro-insurance, saving and checking account. Microfinance is often defined as financial services for poor and low income clients offered by different types of service providers, Microfinance Institutions (MFIs) (WWW.investopedia.Com/terms/Com).

Islamic Microfinance is the type of microfinance which is carried out in line with Islamic rules of the Shariah. Islamic Microfinance refrains from practices such as providing or receiving any fixed, pre-determined rate of return on financial transactions. Profit and returns are based on tangible assets or discrete identifiable services opposed to the value of money.

Islamic Microfinance is based on risk and profit sharing and transparency aiming at safeguarding welfare and justice and is also asset-based, rather than debt based like conventional finance whose terms and conditions are favorable and accessible for the most vulnerable and disadvantaged population. (www.microworld.org)

In May 2017, the micro finance support Centre ltd became the first institution to implement Islamic microfinance in Uganda, having been identified by the government of Uganda as the most suitable agency to champion its implementation. The new mode of financing was a result of the government of Uganda's efforts through the ministry of Finance, Planning and Economic Development to seek strong partnerships in the implementation of the Rural Income and Employment Enhancement Project, such partnership was found in Islamic

Development Bank, to roll out Islamic microfinance to benefit up to 5000 people.(www.msc.com.ug)

Some of the Islamic finance models that are commonly used include; **Grameen Bank Model** (group lending), this is the most popular model which operates on a group based lending where members of the group act as collateral by guaranteeing each other and therefore minimizing the risk of default. The most shariah compliant Grameen Bank model is present in Bangladesh. Secondly is the **Village Bank Model** where the microfinance institution establishes a village bank containing approximately 30 members and also injects some capital for forward financing, they extend individual loans and repayment of those loans is normally on a weekly basis, after four months, the village bank pays back the capital plus profit to the microfinance institution. Lastly is the **Credit Union** which is a non-profit co-operative formed by a group of people who have a common bond, members of the group control the group themselves and offer services ranging from mobilization to extending credit and their recoveries, however they are generally linked to some apex body that supervises, provides them training and monitors their performance.(www.researchgate.net)

Service providers both Islamic financial institutions and conventional financial institutions that have opened Islamic finance windows to tap into this growing market, supported by international financial institutions such IFAD has been successful in initiating, piloting the use of Islamic microfinance products.(www.ifad.org>ena-islamicpdf)

Poverty is multifaceted concept, which may include social, economic and political elements. Absolute poverty, extreme poverty or destitution refers to the complete lack of means necessary to have basic personal needs such as food, clothing and shelter (Wikipedia).

According to “**Uganda Poverty Assessment report 2016**” by **World Bank**, Poverty is the lack or insufficiency of money to meet basic needs including food, clothing and shelter. Poverty can be measured in monetary terms based on monthly or annual expenditure of a given individual. The expenditure is then compared to threshold called a poverty line however is much more than the mere lack of money. It is also about deprivation in other important areas of well-being such as Education, Health, Water and housing.

The proportion of Uganda’s population living below the natural poverty line detained from 31.1% in 2006 to 19.7% in 2003. Despite the remarkable reduction in monetary poverty, the

country also faces wide spread deprivation in several non-monetary dimensions of poverty mainly improved sanitation, accessed electricity, Education and child malnutrition. This warrants to continued focus on improving the access and quality of these basic services.

In this study Islamic micro-financing is the independent variable and poverty eradication is the dependent variable. In this study Islamic micro-financing will be measured in terms of micro credit, micro-savings and zakat micro financing which are some of the types of Islamic micro-financing.

On the other hand poverty eradication will be measured in terms of good health, high levels of education and micro investment.

1.2 Problem Statement

Poverty among Uganda population is one of the most challenging problems that the government of Uganda is facing and has been facing over the past decades (www.africaw.com). Poverty being the major cause of domestic violence, early school dropouts and low entrepreneurship, the government has come out with many strategies to fight poverty like UWEP, YLP and private institutions like BRAC and they have yielded little success. Islamic Microfinance being based on risk and profit sharing and transparency aimed at safeguarding social welfare and justice, is a potential instrument to fight poverty in Uganda. The purpose of this study is to find out the effect of Islamic micro financing on poverty eradication in Uganda.

1.3 Objectives of the study

1.3.1 General Objective

To find out the relationship between Islamic micro financing and poverty eradication in Uganda.

1.3.2 Specific objectives

To find out the relationship between Islamic micro-credit and poverty eradication in Uganda.

To find the relationship between Islamic Micro-savings and poverty eradication in Uganda.

To find out the relationship between Zakat micro financing and poverty eradication in Uganda.

1.4 Research questions

What is the relationship between Islamic micro-credit and poverty eradication in Uganda?

What is the relationship between Islamic micro-savings and poverty eradication in Uganda?

What is the relationship between Zakat micro financing and poverty eradication in Uganda?

1.5 Significance of the study

The findings of the study will find information that could be used by both government and private institutions to understand the potential Islamic micro-finance holds in the fight against poverty in Uganda. Most especially the central government can use enhanced Islamic micro-finance services to encourage investment and entrepreneurship among the poor.

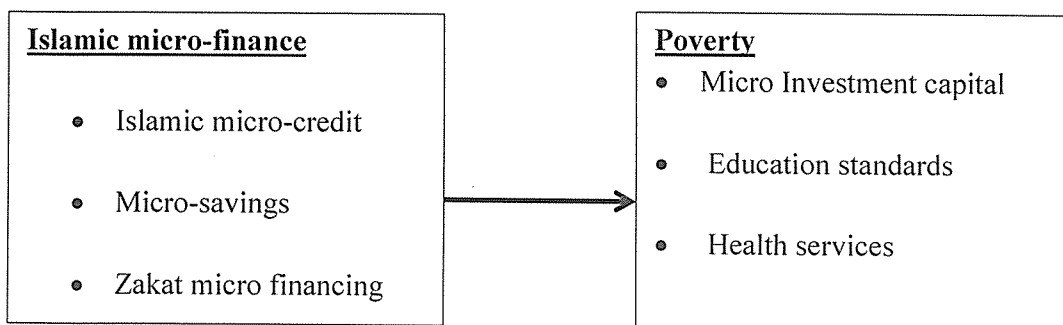
The study will add knowledge to the field of Islamic micro financing

The study will open chances for other researchers in the same area of study giving extensive research to the area which have not been handled.

1.6 Conceptual framework

Independent variables

Dependent Variables



Source; Researcher 2019

1.7 Scope of the study

1.8.1 Geographical scope

This study was carried out in Njeru Central Division Njeru Municipality, Buikwe District Uganda because here are some microfinance institutions that could be used when carrying out sampling.

1.8.2 Content scope

This study was limited to Islamic microfinance adoption in Uganda and its potential contributions towards the fight against poverty. Islamic microfinance includes Islamic microcredit, micro-savings and checking accounts and Zakat micro financing which has a big potential towards the fight against poverty.

1.8.3 Time scope

The study took a time period of April to July 2019. This period of 4 months was considered sufficient to explore valuable of study i.e. Islamic microfinance and poverty.

1.9 Operational definitions and key terms.

1. Islamic microfinance

Is a type of microfinance which is carried out in line with Islamic rules, principles and practices.

2. Poverty

Is the lack of insufficient of money to meet basic needs, including food, clothing and shelter.

3. Islamic micro-credit

Is the provision of small loans to poor clients in Shariah compliant way.

4. Eradication

This means complete destruction of something

5. Zakat

Zakat is the fourth pillar of Islam and is a form of alms-giving treated in Islam as a religious obligation or tax, which by Quran ranking is the next after prayer in importance.

6. Developing country

A developing country is a poor agricultural country that is seeking to become more advanced economically and socially.

7. Maqasidshariah is an Islamic doctrine which means goals of shariah

8. Monetary poverty is a situation where people are considered to be at risk when their equivalised disposable income is below the at-risk-of poverty threshold.

CHAPTER TWO

LITERATURE REVIEW

2.1.0 Introduction

This chapter consists of a review and discussion about a few studies in detail, describing their contribution to the study about Islamic Microfinance and poverty. Under this chapter details about Islamic microfinance in general, poverty in Uganda and in particular. Islamic micro-credit, micro-insurance and micro-savings are discussed.

2.2 Islamic Microfinance

According to Islamic microfinance and poverty alleviation program; preliminarily research findings from Indonesia. The depth of the financial sector and financial inclusion in developing countries is still relatively low. According to CGAP and World Bank (2000) in developing countries about 72% of adults do not have bank accounts particularly SMES and poor people have no access to the banking sector.

Therefore, in such circumstances, where financial inclusion has not reached the poor, then poverty alleviation programs should consider that microfinance institutions to play its potential role in empowering the poor (Hamada 2010) asserts that; the microfinance institution is feasible financial institution for this purpose as it provides a viable access to the poor to financial resources and facilitate community empowerment.

Islamic microfinance can serve a bridge the obstacles of poor in accessing formal financial institutions with more simple procedures and requirements compared to commercial banks.

The successful story of Grameen Bank with outstanding performance to achieve in providing micro-loans to 7.9 million borrowers of which 79% are women and with repayment rate of 98% became magnitudes in many studies of economics and poverty reduction agenda (Becker, 2011, Hamad 2010 Zeller & Mayor 2002).

A call for Islamic microfinance by Iqar and Mirakhor (2013) asserts that financial inclusion realized in Islamic microfinance core objectives with encouraging risk sharing modes of financial instruments, contracts and redistribution of wealth concept in the economy.

Therefore Obadullah (2008) asserts that core Islamic spirit in solving the poverty dilemma is the inclusive nature should be attached to Islamic financial development it means that Islamic finance has to concerning with poverty eradication issues as fundamental social responsibility in attaining Shariah objectives (Al-maqasid Shariah) and avoiding poor people fall into debt gap as adverse effect of compound interest rate.

The fundamental difference between conventional and Islamic microfinance is the obligatory of Islamic microfinance in using financial contracts that comply with the Shariah principles (eg. It must be free from interest/riba, Gharar and mysir transactions) and adhere to Islamic business ethics (Ahmad 2002) asserts that Islamic finance modes are suitable in designing financial contracts and products of Islamic microfinance. Usually, Islamic microfinance provides sales based contracts (murabahah, Ijarah) or project/equity partnership contracts (musharaka and mudharaba) in particular; Islamic microfinance has advantage to channel financing the poor with Zakat and Islamic charity fund. This specific financing are delivered in the format of non-interest grant contracts (qardhal Hasan) and microfinance for the SMEs to mitigate their business risk.

2.3 Poverty

2.3.1 Poverty in Uganda

Extreme poverty is living on less than 2.5 US dollars purchasing power parity. Uganda has made significant progress in eradicating poverty and allowed the first millennium development goal of having a number of people in extreme poverty. Uganda was listed 9th most successful country in Africa as regards poverty eradication.

According to the National development Plan I (NDPI). This was a strategy put into consideration in 2010/2011 to eradicate poverty in Uganda focused on primary growth section that provide direct products and services and these sectors include; agriculture, tourism, oil and gas, manufacturing, forestry, mining and ICT.

In 2015, the government of Uganda and United Nations Development Assistance launched the National Development Plan II to guide Uganda's path to poverty eradication. The main

goal of the National Development Plan II was to propel Uganda to the middle income status with a Gross Domestic Product per capital of US dollar 1,003.

According to the 2016 poverty assessment, Uganda had reduced monetary poverty at a very rapid rate. The population of Uganda living below the national poverty line declined from 31% in 2006 to 19.7% in 2013. Similarly, the country was one of the fastest in sub-saharan African to reduce the share of its population living on 81.90 PPP per day or less from 53.2% in 2006 to 34.6% in 2013. Nevertheless the country is lagging behind in several important non-monetary areas, notably, improved sanitation, access to electricity, education and child malnutrition. (Wikipedia).

According to the Daily Monitor Thursday September 28, 2017 more Ugandans were slipping into poverty with the number of poor people increasing from 6.6 million in 2012-2013 to 10 million in 2016/17. According to Uganda National Household Survey (UNHS) 2016/17 report released by the Uganda Bureau of Statistics (UBOS).

The above development translates into income poverty levels rising from 19.7% to 27%. At the sub-regional level, the survey cites the worst hit region as Karamoja, with 61% of the people categorized as income poor followed by Bukedi with 45% and Busoga with 42%. Income poverty means the proportion of Uganda's whole personal income lies below the poverty line, with is US \$ 1.25 (about 4,500) a day.

2.3.2 Poverty around other developing countries

According to poverty alleviation program in Indonesia (strengthening the role of community development and local organization report).Economic development and poverty alleviation programs in Indonesia started since 1948. Poverty alleviation programs have been conducted intensively during the new order period under the leadership of president Suhar to 1966-1998. However, some studies show a series of poverty alleviation programs do not get funding up to 1996 with 34.5 million poor people (17.5%).

The government policy to allocate in poverty alleviation programs had considerably increased significantly from 20.4 trillion to 94 trillion in 2010. Poverty reduced to 13.3%.

2.4.1 Islamic micro-credit

Islamic micro-credit is the way of alternative approach for eradicating poverty and from Bangladesh (CB hulyam A, Siwar, C, et al, 2011), Islamic Bank Bangladesh limited introduced an Islamic mode Rural Development Scheme (RDS) in 1995 with the objective of elimination rural poverty. RDS aimed at providing financial access to rural people to create opportunities for income generation.

Islamic Banking micro credit borrowers reduced vulnerability and poverty and improved socio-economic status. Played an important role in socio-economic development and improving the living stand of the poor without charging interest. Borrowers had used their loans in productive income generating activities.

Micro-credit facilities in Uganda are very commonly provided by BRAC, SACCOS, FINCA and PRIDE Bank but seemingly have no significant impact as regards to poverty eradication due to interest charges which are high and this is what Islamic microfinance will eliminate so as micro-credit facilities can become more effective and sufficient.(UMFSC 2018)

2.4.2. Islamic Micro-insurance

Micro-insurance is a mechanism designed to protect low income earners against risk like accidents, illness, and death in the family. The expression “**Islamic micro-insurance scheme**” means either the institution that provides insurance, a health mutual benefit association or a set of institution that provide insurance. (Wiki/micro-insurance).

Bamako 2000: There is alternative development logic for provision of insurance to low-income households. One can easily create a compelling story of how a micro-insurance product will protect the poor against devastating losses.

According to Shiraz Jetha 2006, Jamil Bora trust, a micro-lending institution in Kenya, recognized earthly on the importance of insurance, researchers found from a study they performed on its loan defaulters that over 90% of the delinquencies had one thing in common, an unexpected large expense was tied to the hospitalization of either the borrower or one of the family members and they realized that since they work with the poor, concludes that hospitalization micro-insurance program for its borrowers was the solution.

2.4.3 Islamic micro-saving

According to (fortunateinvestor.com), micro saving is a new trend that allows one to save in small amounts away from traditional banks and brokerages. Best of all it allows very small amounts to be invested i.e. (1 US dollar) without any minimum of the traditional companies usually (3,000 US dollars). The Islamic micro-saving products provide a no-trills saving account "Alpha Saving Account" that offers security and convenience along with no interest which is encouraged by Islamic financial Rules and practices.

According to poverty alleviation program in Indonesia : (Strengthening the role of community development and local organisation report). Indonesia used two approaches;

- (i) Up to bottom approach, where the government runs a centralized policy and program. The poor was treated as target and object, they are not involved in the formulation and search for a strategy in addressing poverty problem.
- (ii) Bottom-up mode. This model treats the poor not only as the object of the program they were also involving in each stage of activities, planning, executing and monitoring of poverty alleviation programs.

In conclusion, the possibility of ending poverty from the lens of strengthening local organizational initiatives will equip community development with adequate assessment process in few ways, Poverty alleviation outcomes improved, should be translated into particular locality measures such as level of income, food security and sustainability of income, Strengthening local organization will avoid a distortion of centralized planning of economic empowerment of society.

2.4.4 Zakat microfinance

Zakat is an essential component of Islamic economic system which bounds rich people to transfer 2.5% of their wealth to poor people of society and through proper implementation of Zakat system and poverty got completely eradicated during the era of Hazrat Umar E Farook (www.omiconline.org).

In 9AH, the obligation to pay Zakat on wealth was received by the prophet Muhammad (pbuh). History proves that zakat is an effective tool to eradicate poverty as during the period of Umar Aziz Bin Al Khattab and Umar bin Abdul Aziz poverty is completely eliminated.

The global Muslim community has an essential role to play in addressing the injustice of global poverty through Zakat. Zakat is an Islamic faith based institution and is being under-utilized for poverty reduction in many of these poor Muslim countries.

2.5 summary of literature review

Prior studies have sought to establish that Islamic microfinance is an expression of practical terms and application of part of Islamic religious conduct that encompasses every sphere of the society, honesty, social and private lives.

However other studies establish that the competence and convenience is dominating in both Conventional and Islamic microfinance although in term of degree it has high significance in Islamic micro finance. These relate to human factors such as the ability for microfinance institutions to understand the customer's requirements and tailor their products and services to meet the customer need. Other study established that empowerment of the women and SMEs through Islamic microfinance can also play a major role in eradication of poverty in developing countries like Uganda.

Finally the success of Islamic micro finance lays in the amalgamation of all necessary financial, economic, social, political, managerial and other skills in a manner that Conform to Islamic principles in order to attempt to preserve man's perpetual happiness on earth and in the hereafter.

This study seeks to contribute to existing literature by establishing the effect of Islamic microfinance on poverty eradication in Uganda.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter provides a discussion of the research methodology which will be used in the study. It discussed the research design identifying the population of study. sample and data collection methods as well as data analysis and data presentation methods employed in the study.

3.1 Research Design

A research design is an arrangement of conditions for the collection and analysis of data in a format that combines their relationship with the purpose of the study to the economy of procedures (Chandran, 2004). According to Bryman (2001), there are three main types of study designs, these are: exploratory, causal and descriptive or diagnostic study designs. Descriptive studies lead to a profile development of a situation or a group of people by acquiring complete and possible accurate information while a descriptive research reports the way circumstances are by describing elements such as possible behavior, attitudes, values and characteristics (Bryman, 2001). Descriptive data are collected through questionnaire and survey, interviews and observations (Chadran, 2004).

The research design employed in this study was correlational in nature in form of a survey.

3.2 Population & Sample

3.2.1 Population

Mugenda and Mugenda (2003); Peil (2005), describe a population as "the entire group of people, individuals, events or objects that have a common observable characteristic. The population of this study was 43 members.

3.2.2 Sample

The study employed a combination of census and probability sampling. The census method was used to include the manager in the SACCO whose customers were sampled.

The probability sampling was used to sample the customers; it was on a walk in basis. It was assumed that since the SACCO customers walk in at random, interviewing all willing customers was random enough.

According to Kothari (2004), a sample is a representative group of the accessible population that is selected using various sampling methods. The sample size for the managers was 2 and that of the customers was 31 and 3 zakat administrators.

Table 3.1: distribution of the sample

Category	Population	Sample	Strategy
Mangers	03	02	Random sampling
Customers	36	31	Random sampling
Zakat administrators	04	03	Convenience
Total	43	36	

The respondents’ rate of response was 83.7%

3.3 Data Collection Methods

Data collection involves contacting members of the population the researcher has sampled in order to collect the required information about the study (Mingala, 2002).

This study employed use of primary data, and obtained from SACCO employees and SACCO customers, by use of questionnaire and interview guides. The use of questionnaire was justified because they provide an effective way of collecting information from a large literate sample in a short period of time and at a reduced cost than other methods. Moreover, questionnaires facilitate easier coding and analysis of data collected.

3.3.1 Validity and reliability of the instruments

Validity is the extent to which the interpretations of a result of a test are warranted, which depends on the particular use the test is intended to serve. Using tests or instruments that are valid and reliable to measure such constructs is a crucial component of research quality. (researchgate.net). The researcher with the help of one research assistant who was trained on communication and interviewing respondents personally administered the questionnaires. This method of administration is justified since it results in higher response rate than drop and picks method of administration. The questionnaires were pilot tested and modified for all categories of respondents to improve further their reliability and validity.

3.4 Data Analysis

Data is a collection of facts and figures relating to a particular activity under study (Mingala, 2002). Mingala (2002) also acknowledged that for data to be useful, it has to provide answers to the research questions. Data analysis is defined as the whole process, which starts immediately after data collection and ends at the point of interpretation and processing of results (Cooper and Schindler, 2000).

In respect of the data collected using questionnaires, the likert scale was used. The liker scale was used because it is simple to construct, easy to read and infer, and is likely to produce a highly reliable scale. Data was captured and analyzed, descriptive statistics test such as mean, mode, median, percentage and factor Analysis was used to analyze the questionnaire and important factors in Islamic micro finance.

The numerical data collected were presented graphically using tables for easy interpretation.

CHAPTER FOUR

PRESENTATIONS, DISCUSSIONS AND ANALYSIS OF DATA

4.0 Introduction

This chapter presents the results and findings of the study based on the research objectives.

The results were presented in form of frequency tables.

Various statistical techniques were used to analyze the survey data to answer research objectives.

4.1 Characteristics of the Sample (Customers)

This section describes the basic characteristics of the sample for customers who participated in the survey; the section intends to demonstrate that the customers sample distribution was unbiased and that the sampling design had taken into account most of the important sample characteristics.

The characteristics of the respondents who responded to the customers' questionnaire include the gender of the respondents, age, religious affiliation, length of time with an account in the SACCO and the length of time they have heard about SACCOs that have offered Islamic compliant services

4.1.1 Gender of Respondents

Table 4.1: Distribution of Respondents by Gender

Gender	Frequency	Percentage
Female	21	67.7
Male	10	32.3
Total	31	100

Source; Primary data, 2019

According to the gender distribution table above, 67.7% of the respondents were female, 32.3% were male.

This is because most of the customers are female and their number is more than double of that of males and females have a bigger interest in micro finance.

4.1.2 Age of Respondents

Table 4.2: Distribution of Respondents by Age

Age category	Frequency	Percentage
20yrs and below	02	6.5
21yrs – 30yrs	14	45.2
31yrs – 40yrs	11	35.5
41yrs – 50yrs	04	12.8

Source; Primary data, 2019

According to the age distribution table above, 45.2% of the respondents were between 21 and 30 years of age, 35.5% were between 31 and 40 years, 12.8% were between 41 and 50 years. This is because most of the customers are youths below the age of 30 years and they are under the hard working age.

4.1.3 Religion of the Respondents

Table 4.3: Distribution by Religion of the Respondents

Religion	Frequency	Percentage
Muslims	23	74.2
Non-Muslims	08	25.8
Total	31	100

Source; Primary data, 2019

The findings also found out that 74.2% of the respondents were Muslims and only 25.8% were non-Muslims. This is because most of the customers are Muslims and the population of Muslims in the community is dominant.

4.1.4 Length of Time with the Account in the SACCO

Table 4.4: Distribution by Length of Time with the Account in the SACCO

Period of time	Frequency	Percentage
1year	14	45.2
Two years	17	54.8
Total	31	100

Source; Primary data, 2019

The table above shows that 45.2% of the respondents have had an account with the SACCO for one year, 54.8% have maintained an account with the SACCO for more than one year since the SACCO has been in existence for two years and this gave a greater chance that involved more exposed customers.

4.1.5 Relationship between Islamic micro savings and poverty eradication

Table 4.5: The relationship between Islamic micro savings and poverty eradication.

Islamic micro savings factors	Mean	Standard deviation
Health care services	3.18	1.439
School fees	4.48	1.121
Investment in business	4.15	1.286

Source; Primary data, 2019

To establish the factors that influenced the respondents to save with the SACCO, the respondents were asked questions rated on a five point likert scale .school fees payments had a mean of 4.48 which indicates that savings are mainly made for educational purposes followed by investment with 4.15, followed by health services with 3.18.

This indicates that there is a positive direct relationship between Islamic micro savings and poverty eradication since all respondents believed that an increase in micro savings would increase their ability to meet their educational, investment and health needs.

4.1.6 Relationship between Islamic micro credit and poverty eradication

Table 4.1.7 The relationship between Islamic micro credit and poverty eradication.

Micro credit factors	Mean	Standard deviation
Investment	4.36	1.222
School fees	4.26	0.708
Health	3.26	1.044

Source; Primary data, 2019

To establish the factors that influenced the respondents to borrow from the SACCO, the respondents were asked questions rated on a five point likert scale .investment had a mean of 4.36 which indicates that borrowings are mainly made for investment purposes followed by school fees with 4.26, followed by health services with 3.26.

This indicates that there is a positive direct relationship between Islamic micro credit and poverty eradication since all respondents believed that an increase in micro credit would increase their ability to meet their educational, investment and health needs.

4.2 Characteristics of the Sample (Managers)

This section describes the basic characteristics of the sample for managers who participated in the survey; the section intends to demonstrate that the managers sample distribution was unbiased and that the sampling design had taken into account most of the important sample characteristics.

The characteristics described include the gender of the respondents, age, religious affiliation and length of time in the SACCO.

Table 4.6: Distribution of Respondents by Gender

Gender	Frequency	Percentage
Male	01	50
Female	01	50
Total	02	100

Source; Primary data

The table shows that the sample comprised of 50% male and 50% female.

Table 4.7: Distribution of Respondents by Age

Age Frequency Percent

Age(years)	Frequency	Percentage
21-30	01	50%
31-40	01	50%
Total	02	100

Source; Primary data

The table above shows that 50% of the managers were between 21 years and 30 years, Another 50% of the managers were between 31 years and 40 years.

Table 4.8: Distribution of Respondents by Job Description.

Job Description Frequency Percent

Job title	Frequency	Percentage
Marketing manager	01	50%
Accounts manager	01	50%

Source; Primary data

The findings shows that 50% of the managers were marketing managers and 50% were accounting managers.

The findings also show that 100% of the managers had worked with the SACCO for two years. On the other hand, all the managers interviewed reported that they are interested in offering Islamic microfinance products.

Table 4.9: Factors that influenced SACCO's Entry in to Islamic microfinance Products/ Services

Factors	Mean	Std.dev
Increased competition in the traditional SACCO market	3.27	1.272
Potential huge inclusion of the poor by Islamic micro finance	3.73	1.009
Driven by public concern (CSR)	3.91	0.831
Service quality gap	2.36	0.924
Staff aggressiveness and commitment	2.64	1.206
Conducive government support through MSC	3.18	1.401

Source; Primary data

To determine the factors that influence the SACCO to start providing shariah compliant products and services, they were asked to rate the above factors on a five point likertscale where one represent no influence and five represent influence to a great extent. The findings shows that the managers were not sure about the influence from increased competition, Staff aggressiveness and commitment and having a conducive government regulations and support, all with a mean score of about three.

The findings show that potential huge inclusion of the poor by Islamic micro finance and Service quality gap were the two major factors influencing entry. On the other hand corporate socialresponsibility (CSR), activity driven by public concern and diversification to cushion the risk of micro borrowing does not have any influence.

4.3.6 Factors that leads to loans poor performance in the SACCO

The managers of the SACCO listed the following reasons that lead to poor performance of loans:

The first factor identified was payment of interest on loans, the interest rate of only 6% per month has discouraged the Muslim clients from applying for loans from the SACCO and also has made the loans look a bit expensive to administer.

Unexpected hospitalization of the clients and their family members is another factor that has led to poor performance of loans in the SACCO; this is where money which was borrowed for may be investment into the business ended up paying for hospital bills which does not fetch any monetary returns.

Poor business management skills by the customers which include poor or no record keeping has led to the collapse of their businesses and hence failure to pay back the loans to the SACCO.

4.2.7 factors that encourages clients to save or apply for credit facilities from the SACCO

The major factors that propel the clients to save or apply for loan facilities include:

School fees needs, most parents around Njeru central division and the municipality at large are either middle income or low income earners who need to either first make savings for their children's school fees or even apply for school fees loan.

Another major factor is investment in micro businesses, most of the clients of the SACCO are small scale business owners like retail shops, salon, charcoal selling and sale of second hand clothes. The need to boost their businesses force them to apply for micro business loan from the SACCO.

4.3 Zakat administrators

This section describes the basic characteristics of the sample for Zakat administrators who participated in the survey; the section intends to demonstrate that the Zakat administrators sample distribution was unbiased and that the sampling design had taken into account most of the important sample characteristics.

The characteristics described include the gender of the respondents and age

Table 4.10: Distribution of Respondents by Gender

Gender	Frequency	Percentage
Male	02	67
Female	01	33
Total	03	100

Source; Primary data

Table 4.11: Distribution of Respondents by Age

Age Frequency Percent

Age(years)	Frequency	Percentage
41-50	02	67%
51-60	01	33%

Source; Primary data

The table above shows that 67% of the Zakat administrators were between 41 years and 50 years,

Another 33% of the Zakat administrators were between 51 years and 60 years. This is an indication that zakat administrators are mainly elderly people with experience.

Table 4.12: the relationship between Zakat microfinance and poverty eradication.

Factors	Mean	Std.dev
Level of awareness of eligible Zakat payers	3.21	1.072
Amount of Zakat collected in a year	3.94	0.821
Awareness of Zakat recipients about effective utilization	2.62	1.186
Management by Zakat administrators	3.25	1.252
Support from top management of the mosques	3.16	1.388

Source; Primary data

To determine the relationship between Zakat microfinance and poverty eradication, administrators were asked to rate the above factors on a five point liker scale where one represent no influence and four represent influence to a great extent. The findings shows that the administrators were not sure about the management by the administrators and support from the mosque top managers, all with a mean score of about three.

The findings show that level of awareness of eligible Zakat payers and the amount of Zakat collected a year were the two major factors influencing the contribution zakat towards poverty eradication. On the other hand level of awareness of zakat beneficiaries about effective utilization does not have any influence.

Therefore there is a positive relationship between zakat micro financing and poverty eradication, the more amount of zakat collected the more benefits realized in form of poverty elimination.

4.4 Summary and interpretations

From the data that has been collected and analyzed, the following findings were made from the customers' point of view. Most of the customers were driven by school fees and investments' needs being met; that is 4.26 and 4.36 respectively on a five point likert scale.

When we look at religious affiliation, around 72.4% of those who responded were Muslims. Therefore it is crystal clear that Muslims want to safeguard their faith, their human self and their fight against poverty according to the ways stipulated in the Quran i.e. shari'ah.

Above all, they want their need to be met also, like others. This is why most of the Muslims and Non-Muslims responded positively to factors like responsive to investment and school fees overwhelmingly.

According to the statistics, improvement in awareness of eligible zakat payers and increase in the amount collected as well as more training of zakat administrators about effective management of zakat collections can make a very huge impact towards poverty eradication.

According to the statistics one of the factors that influenced the respondents to borrow in the shariah compliant way was Risk of borrowing where risk is shared by both the borrower and lender to a certain extent, this makes Islamic micro finance appropriate to fight poverty among the customers.

According to statistics, respondents are willing to save under Islamic micro finance services because of shariah compliance. This makes Islamic micro-credit the answer to their questions.

According to the factors that have hindered the performance of SACCO loans included unexpected hospitalization which is insurance is justified.

The education support needs through school fees loan schemes can be supported by the Islamic microfinance product of Qard Al Hasan loan that can provide help in form of an interest free loan and without profits.

similar to the findings by Shiraz jetha 2006, Jamil Bora trust in Kenya, therefore the need for Islamic micro credit embedded with Islamic micro insurance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The purpose of this study was to establish the relationship between Islamic micro finance and poverty eradication in Uganda. The research design adopted was a descriptive survey in form of census. The population identified the SACCO a sample of 02 zakat administrators, 31 customers and 2 managers were drawn. Data was collected through self-administered questionnaire and the data analysis method was correlative in nature. Descriptive statics' based on mean, median and correlative analysis was used to analyze the data and make comparisons among desired variables.

The findings were presented using tables.

The study concluded that the following are the key factors that influence respondents to save with the SACCO: responsiveness to the needs of the clients which includes; school fees needs, investment expenses and health expenses which indicates a positive relationship between Islamic micro savings and poverty eradication in Uganda.

The study also concluded that creating more awareness about zakat payment and zakat management could help to eradicate poverty as it was during the reign of Umar Farook as discussed in chapter two. This indicates a positive relationship between zakat and poverty eradication in Uganda.

The study also concluded that the following were the major factors that would influence the respondents to borrow from the SACCO, key among them are; school fees needs, investment for micro businesses and health needs in cases of hospitalization which indicates that there is a positive relationship between Islamic micro credit and poverty eradication in Uganda as the case was in Bangladesh as discussed in chapter two.

The study also identified that the factors that affects the performance of loans in the institution where; interest payment, unexpected hospitalization of the clients and poor business management skills.

5.2 Conclusions

Based on the findings discussed above the following conclusions were drawn from the study: firstly, the factors that influence clients to participate in SACCO activities are all poverty related factors and the institution should provide better quality services to answer the questions of the customers which include insufficient capital for investment into their small scale businesses, education needs and health needs. Both internal and external environments may drive these factors. That is, strong and effective policies that are in line with coming up with Islamic compliant products. In addition, the religious leaders can who are in charge of Zakat administration to also play their part in fighting against poverty.

Other than providing Islamic Micro finance products and services, the SACCO should look at factors such as: offering product and services that meet the customers' needs, reduced borrowing cost, minimum requirements to open an account and training the clients on how to keep records empowers more the individual clients to eradicate poverty. The SACCO should put these priorities at forefront and strengthening it. By doing so, they can also help a great number of customers from both Muslims and non-Muslims community to eradicate poverty.

Lastly, the research concluded that there are future market potentialities for the Islamic microfinance. Many younger generations were willing to go for these products and services. For this microfinance system to develop and continue to fight against poverty in Uganda, should create awareness through seminars, workshops, and advertisement and prayer sermons quoting verses from Quran and sayings of the prophet (hadith) that concern Islamic micro finance system and its benefits to the community.

5.3 Policy Recommendations

In Uganda, all micro finance institutions should adopt offering Islamic micro finance and have established separate Shariah Board to supervise and offer guidance to their respective SACCOs on Islamic micro finance system and also provide risk sharing products with no interest that can help to fight poverty.

Conventional micro finance system in Uganda discourages Muslim customers to get involved with such conventional institutions, as it is not acceptable in terms of shariah. Therefore, I recommend the Ministry of Trade and Cooperatives to allow such conventional institutions to have separate windows for Islamic micro finance.

Lack of qualified Islamic leaders in the field of Zakat administration and lack of a well-developed system for Zakat in the country is another challenge therefore I recommend the

Uganda Muslim supreme council to develop and publish a Zakat system that is binding to all institutions and mosques.

Further training and Islamic micro finance education should be given to SACCO personnel to up skill them to offer quality service and appropriate advice to their customers. I recommend micro finance institutions to organize regular training and workshops by inviting well-versed Islamic scholars to educate their customers and personnel about Islamic micro finance and banking.

5.4 Limitations of the study

The study contains three limitations. The first limitation was based on the sample area of the study. The area of the study is only limited to Uganda. It could be better if the area of study were extended over a range of countries, the best of all being different countries of different continent.

Secondly, this study was restricted to the use of analysis method since the data did not allow for aggregation. More than two method of data collection could have been employed thus overcoming any limitation.

Thirdly, this study was unable to perform ANOVA for religion differences as the sample consisted largely of Muslims. This could have been overcome by doing the same research in other conventional micro finance institutions, thus cross-checking both sides.

5.5 Suggestions for future research

Various factors can contribute towards poverty eradication in Uganda: further research should be done to find out whether those factors influencing Muslims have the same impact on the non-Muslims customers in the micro finance industry.

Though the uptake of Islamic micro finance products in Ugandan market is good, the rate of growth and licensing especially in conventional micro finance institutions that can open up windows has been too slow. Therefore, further research is required to establish factors that contribute to this slow pace of growth of Islamic products in Ugandan market.

Another area that requires further research is to investigate whether common factors influences customers to make choice between various Islamic products such deposits and borrowing.

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APPENDICES

APPENDIX I: COVER LETTER AND SURVEY QUESTIONNAIRE

Dear Respondent

I am an undergraduate student studying the relationship between Islamic Micro financing and poverty eradication in Uganda. You are part of our selected sample of respondents whose views we seek on the above mentioned matter. We would therefore appreciate it if you could answer a few questions. It should not take more than ten minutes of your time to fill in the questionnaire.

There are no correct or incorrect answers. Please answer the questions as accurately as possible. For each statement, tick (with a cross **X**) the number which best describes your experience or perception. For example, if you strongly agree with the statement, tick the number 5. If you strongly disagree with the statement, tick the number 1. Similarly, if you believe a stated variable is very important strongly, tick the number 5 and if you believe the stated variable is not important, tick the number 1. tick only one answer for each statement and answer all questions please. i guarantee that all information will be handled with the strictest confidentiality.

Thank you very much.

APPENDIX II: FOR SACCO CUSTOMERS

Name (optional)

SECTION I: Background Information (Please tick one)

1. Gender

☐ Male

☐ Female

2. Age

☐ 20 years and below

☐ 21-30 years

☐ 31-40 years

☐ 41-50 years

☐ 50 years and above

3. Details of your SACCO

a. Institution (SACCO)

b. Branch

c. How long have you banked with the above Bank?

☐ Less than one year

☐ Between 1 and 5 years

☐ Between 6 and 10 years

☐ More than 10 years

5. How long has your bank been involved in offering Islamic banking?

☐ Less than one year

☐ Between 1 and 5 years

☐ Between 6 and 10 years

☐ More than 10 years

SECTION II

Please indicate the extent to which the following factors have influenced you to save with the SACCO

FACTORS	Not at all influenced (1)	Small extent Influenced (2)	Not sure (3)	Large extent Influenced (4)	Very large extent (5)
School Fees needs					
Investment needs					
Health care needs					

Others (please specify)

SECTION 3

Please indicate the extent to which the following factors have influenced you to borrow from the SACCO.

FACTORS	Not at all influenced (1)	Small extent Influenced (2)	Not sure (3)	Large extent Influenced (4)	Very large extent (5)
School Fees needs					
Investment needs					
Health care needs					

Others (please specify)

APPENDIX III: Accounting and Marketing Managers

Name of the Institution (optional)

SECTION I Background Information (Please tick one)

1. Gender

☐ Male

☐ Female

2. Age

☐ 20 years and below

☐ 21-30 years

☐ 31 -40 years

☐ 41-50 years

☐ 50 years and above

3. What is your job description?

☐ Accounting Manager

☐ Marketing Manager

4. How long have you worked in the SACCO?

☐ Less than one year

☐ Between 1 and 5 years

☐ Between 6 and 10 years

☐ More than 10 years

SECTION 1. Please indicate the extent to which the following factors have influenced your customers to save with the SACCO.

FACTORS	Not at all influenced (1)	Small extent Influenced (2)	Not sure (3)	Large extent Influenced (4)	Very large extent (5)
School Fees needs					
Investment needs					
Health care needs					

Others (please explain)

SECTION 2. Please indicate the extent to which the following factors have influenced your customers to borrow from the SACCO.

FACTORS	Not at all influenced (1)	Small extent Influenced (2)	Not sure (3)	Large extent Influenced (4)	Very large extent (5)
School Fees needs					
Investment needs					
Health care needs					

Others (please explain)

APPENDIX 3: ZAKAT ADMINISTRATORS

Name of the Mosque (optional)

SECTION I Background Information (Please tick one)

1. Gender

☐ Male

☐ Female

2. Age

☐ 20 years and below

☐ 21-30 years

☐ 31 -40 years

☐ 41-50 years

☐ 50 years and above

3. What is your description?

☐ Collections Manager

☐ Disbursement Manager

4. How long have you worked in the SACCO?

☐ Less than one year

☐ Between 1 and 5 years

☐ Between 6 and 10 years

☐ More than 10 years

SECTION 1. Please indicate the extent to which the following factors have determined the performance of Zakat microfinancing towards poverty eradication.

FACTORS	Not at all influenced (1)	Small extent Influenced (2)	Not sure (3)	Large extent Influenced (4)	Very large extent (5)
Level of awareness of eligible payers					
Amount of zakat collected					
Effective utilization recipients					
Management by zakat					

administrators					
Support from top management					

Others (please explain)