MICROFINANCE SERVICES AND POVERTY ERADICATION IN UGANDA
A CASE STUDY OF FINCA (U) NAKULABYE BRANCH

BY

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DECLARATION

I here by declare that this work is a result of my own effort and has never been submitted for any award in any other University or Institution of higher learning and where work of others has been cited due acknowledgement has been given

Name……ABANIS TURYAHEBWA……

Signature……………………………..

Date…12/10/08……………………..

APPROVAL

This is to certify that, this thesis entitled "*Microfinance Services and poverty Eradication in Uganda A case study of FINCA (U) Nakulabye Branch*", submitted in partial fulfillment of the Masters Degree of Business Administration of Kampala International University, by Abanis Turyahebwa, was under my supervision and guidance and is now ready to be submitted to the School of Post Graduate Studies with my approval,

Signature……………………………………

Dr. Sunday Olwol

SUPERVISOR

Date……20/10/08**…………………………………**

DEDICATIONS

To my son Aloyce, my wife, Mum and Dad and my entire family.

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ABBREVIATIONS AND ACRONYMS

BOU	Bank of Uganda
FINCA	Foundation of International Community Assistance
GNP	Gross National Product
MFIs	Micro Finance Institutions
MDI	Micro Finance Deposit-Taking Institutions
NGO	Non Governmental Organization
PEAP	Poverty Eradication Action Plan
PRIDE	Promotion of Rural Initiative Development Enterprise
MFPED	Ministry of Finance Planning and Economic Development
CERUDEB	Centenary Rural Development Bank
FOCCAS	Foundation for Credit and Community Assistance
UWFT	Uganda's Women Finance Trust
MSMEs	Micro, Small and Medium Scale Enterprises
IFAD	International Fund for Agricultural Development
RAAUS	Rennaissance Alliance for African University Students

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ABSTRACT

The study was set to analyze the relationship between Microfinance services and Poverty eradication in Uganda. The case study was FINCA (U) Nakulabye Branch. The purpose of the study was to examine the relationship between various microfinance services and poverty eradication in Uganda. The objectives of the study were to establish the impact of microfinance services on poverty eradication in Uganda and also to identify various microfinance services offered by microfinance institutions in Uganda. The study utilized descriptive research design which involved quantitative techniques of data collection. The total population was 803 clients and 51 management staff. The sample size of 800 was taken as a representative sample of clients of FINCA (U) at Nakulabye Branch and 50 management staff was taken as a representative sample for the management.

The findings of the study revealed that household incomes have increased for clients of microfinance institutions than those who are not clients. Similarly clients have been in position to own consumer durables and are in condition to live an improved standard of living. The research recommends that Microfinance institutions in Uganda should design client responsive products, introduce client exit surveys, have group guarantee systems, encourage Loan restructuring, train credit officers, Credit reference, charge customer friendly Interest rates, and Increase in loan terms. The researcher concluded that the services offered by microfinance institutions have a positive impact on the clients who access those services, since their standards of living is improved and they are able to establish small scale businesses as a result of accessed loans.

CHAPTER ONE

1.0 Introduction

Poverty alleviation has been a key development challenge over decades. One of the identified key constraints facing the poor is lack of access to formal sector credit to enable them to take advantage of economic opportunities to increase their level of output, hence move out of poverty. This concern for the poor has been responsible for the design of various financial sector policies (ranging from repressive to liberalization policies) with conflicting prescriptions (Obwona, M. B.; Ddumba-Ssentamu, J. 1998).

Poverty remains a matter of growing concern in many developing countries of the world. Today, as other continents continue to register sustainable economic growth and development, Africa is not only lagging behind but is trapped in a vicious circle of borrowing and donor dependency syndrome which some critics point out as one of the causes practically sabotaging real development. Africa has perpetually failed to focus its development efforts on the optimum utilization of the immense natural resources that many countries are endowed with to turn it into wealth to propel their economies and people towards a high level o f economic and social development and as a consequence to eliminate pervasive poverty (Hulme D 2000).

In the case of Uganda, the issue of the importance of improving access to the poor was identified as a key development strategy right from the 1960's. The formal banks that were inherited from the colonial government were judged to be serving the trade sector and neglecting the agricultural sector that was the backbone of Uganda's economy employing over 80% of the population especially in the rural sector. This motivated the government to set up state owned banks (like the former Uganda Commercial Bank ltd) whose mandate included among others to provide credit to the rural sector including agricultural credit. This was under the policy of sectoral allocation of credit and controlled interest rates which were administratively fixed by the Central Bank (Mwesigwa, 2000).

The credit to the poor engaged in agriculture was extended mainly in kind through the supply of productive inputs like fertilizers, high yielding seeds and tractor hire services under special bank schemes like Rural Farmers Scheme. The recovery performance of these credit schemes was poor partly because of the perceptions that these were government grants, and also because of the lack of the linkage between production and marketing. There were however concerns that this directed credit was not reaching the poorest of the poor as it was the non-poor with good political connections who mainly accessed this credit. The co-operative movement which emerged in the 1950's was also geared to providing financial services to the agricultural rural sector to boost their productivity. However the mismanagement which engulfed the cooperatives in Uganda led to their collapse in the 1990's (Bategyeka. L 1999).

To enhance the efficiency of the microfinance sector, the MDI Act (2003) was enacted which provides opportunities for MFIs to be licensed under Tier 3 and will be allowed to intermediate public savings. The Microfinance services also tend to biased in favour of the women and yet poverty cuts across gender (Dichter 1998). The interest rate in the microfinance sector is another challenge. While the principle of market rate determination is assumed to apply, some of the inefficiencies within the sector may keep this rate excessively high (Wright1999).

1.1 Background to the study

FINCA (Foundation for International Community Assistance) was founded in 1992 and has been providing financial services to economically active poor women for more than a decade. It has 44,327 Clients, of which, 74% are women and 26% are men. The sole objective of FINCA (U) is to alleviate poverty among the poor that is women, youth and other members of the society through provision of various services and that is why it has spread in almost all districts of Uganda. Policy makers, donors, practitioners, academicians and the business community have all gained interest in micro finance issues, since it has been identified as a major way for alleviating poverty (Bategeka, L. 1999). While many factors contribute to poverty, its most obvious manifestation is insufficient household income. Both the extent of income-generating opportunities and ability to respond to such opportunities are determined to a great degree by access to affordable financial services. Increasing the access of poor households to microfinance is therefore being actively pursued worldwide. Once almost exclusively the domain of donors and experimental projects, microfinance has evolved during the last decade with prospects for viability, offering a broader range of services and significant opportunities for expansion. Improved access to microfinance services can enable the poor to smooth out their consumption, manage their risks better, build their assets, develop their micro-enterprises, enhance their income-earning capacity, and enjoy an improved quality of life (Mpuga Paul 2004).

Microfinance services offered by FINCA (U) range from Village Banking and working capital, solar loans, village phone loans, K O Net, savings accounts, money transfers, micro credit, loans for small scale enterprises among others.(Microfinance Journal, 2006).

According to Navajas et al (2000), the professed goal of microfinance services is to improve the welfare of the poor as a result of better access to small loans. Zeller (2001) argues that lack of adequate access to credit for the poor may have negative consequences for various household level outcomes including technology adoption, agricultural productivity, food security, nutrition, health and overall welfare. Access to credit therefore affects welfare outcomes by alleviating the capital constraints on agricultural households, hence enabling poor households with little or no savings to acquire agricultural inputs. This reduces the opportunity costs of capital intensive assets relative to family labour, thus encouraging the adoption of labour-saving, higher-yielding technologies and therefore increasing land and labour productivity. Access to credit in addition increases the poor households' risk-bearing ability, improves their risk-copying strategies and enables consumption smoothing over time. By so doing, microfinance is argued to improve the welfare of the poor.

Zeller (1998) argued that microfinance services can help to establish or expand family enterprises, potentially making the difference between grinding poverty and economically secure life. Burger (1989) observed that microfinance tends to stabilize rather than increase income, and tends to preserve rather than create jobs.

Rhyne and Otero (1992) argued that financially sustainable microfinance services with high outreach have a greater likelihood of having a positive impact on poverty alleviation because they guarantee sustainable access to credit by the poor. Outreach is the number of clients served by the MFI. Financial sustainability on the other hand measures the extent to which the MFI covers its operational and financial costs from internally generated revenues (interest and commissions). MFIs with higher repayment rates are more likely to be financially sustainable

1.2 Statement of the Problem

Today one of the most compelling challenges facing Uganda is the problem of poverty. Poverty is not only on a steady increase but also wide spread in rural areas (Katimbo 1999). In the quest for solutions to the country's development challenge and poverty alleviation, microfinance services is becoming one of the most popular options as credit has been identified as a barrier facing the poor (Mutesasira 2000). Thus the researcher is intending to identify the contribution of microfinance services towards poverty eradication in Uganda.

1.3 Purpose of the Study

The purpose of the study was to determine the role played by Micro finance services in as far as poverty eradication is concerned in Uganda.

1.4 Objectives of the Study

i. To identify the various Microfinance services offered by MFIs in Uganda.

ii. To establish the relationship between Microfinance services and poverty eradication in Uganda

iii. To identify the problems that hinder microfinance services in Uganda.

1.5 Research Questions

i. What is the impact of Microfinance services on the poverty eradication in Uganda?

ii. What are the various microfinance services offered by MFIs in Uganda?

iii. What are the problems hindering the microfinance services in Uganda?

1.6 Scope of the Study

The study was based on Microfinance services and the poverty eradication in Uganda and FINCA (U) was used as the case study. The research was conducted at FINCA Uganda, Nakulabye Branch, so as to ascertain the actual contribution of Micro finance services towards poverty eradication in Uganda.

1.7 Significance of the Study

i. The study will help in determining the contribution of Microfinance services on Poverty eradication in Uganda.

ii. The study will help in identify the problems currently being faced by MFI's in their efforts to eradicate poverty.

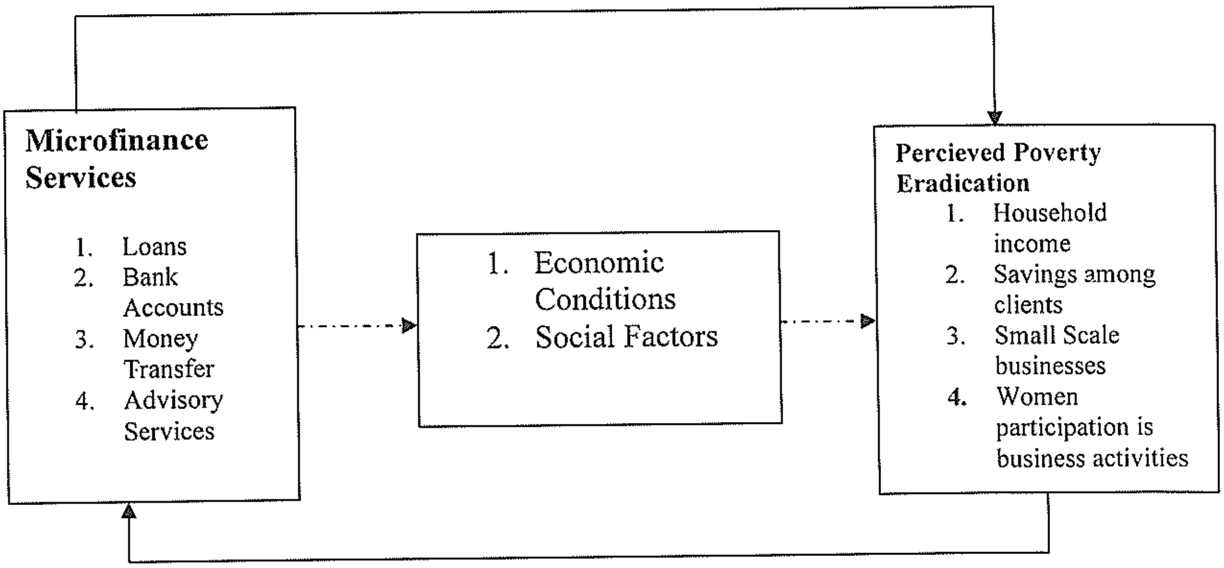
iii. The study will help in suggesting possible solutions to the problems hindering MFI's operations

iv. The study will help policy makers in particular the Government of Uganda on how to work closely with MFI's so as to eradicate poverty.

v. The study will help the researcher to gain an insight in the microfinance industry as well as a requirement for completing the course.

1.8 Conceptual Framework

Morris, G.A., Lobao, L.M. and Wavamunno, C. 1995, Microfinance programs and activities strengthen businesses and improve the welfare of poor and their households. This is through the funds and advice obtained from the Microfinance institutions. However, Fernando, Nimal A. 2005, Microfinance services, if coupled with high interest rates, they destabilize the little income of the poor and they end up losing the little they have. (Vogel, R. C.; Gomez, A.; Fitzgerald 1999):



Source: Schrieder, (1999)

The above framework illustrates how microfinance services can have a direct impact on poverty. However, this can be influenced by the social and economic forces. Social forces in this regard may include, the nature of families that is to say if they are extended families where there is a lot of dependency, then even if one obtains microfinance loans it still remains difficult to develop easily (Fernando Nimal 1985). The economic factors in this regard include interest and the nature of the economy at large. For example if the microfinance loans are accessed at high interest rate then it is very difficult to remain with savings after business transactions. However, the situation is different if the interest rate is low and the business people can easily access markets, then high returns are expected which may have an impact on the financial status of such clients of the MFIs (Paul 2004).

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

Under this chapter the researcher analyzed and gave critical views on issues that have been put foreword by different scholars and academicians. This is because a number of surveys have been done about microfinance and poverty eradication, both in Uganda and outside world. Different subjects were reviewed under different headings.

2.1 Microfinance Outreach

The evolution of Micro Finance Institutions is a direct response to the failure of past attempts by government and donor funded rural credit programmes to reach poor farmers and landless households within the rural areas. Coupled with this is the fact that the small scale business people targeted by Micro Finance Institutions did not have the traditional collateral which is the basis for loan acquisition to the formed banking sector (Kabeer, N. (2001).

Despite the substantial worldwide expansion of microfinance in the last two decades, an overwhelming number of poor people continue to lack access to basic financial services (Marr, A. 2000). This expansion has reached mainly urban households and micro-enterprises with regular income flows. With activities that may require comparatively larger loan amounts, small-scale enterprises and rural households have less frequent revenue flows, need longer repayment terms and are still largely un serviced. Even rural microfinance institutions still focus mainly on trading and other non-agricultural activities that have a shorter turnover. Successful outreach expansion can be achieved through the entry of financial intermediaries not previously serving micro-clients, or through the broadening and deepening of the coverage of services by already existing microfinance institutions (Zeller and Sharma e tal 1998).

Schrieder (1999), argue that, In rural and remote access regions, strengthening and expanding operations of existing microfinance institutions may work better than trying to lure urban commercial banks to rural areas. The lack of rural lending experience of these banks may constitute a formidable barrier to their entry in rural markets. Microfinance experience shows that the forced expansion of lending operations under supply-led regimes typically leads to poor microfinance institution performance, with declining repayment rates as the quality of the borrowers and the loan portfolio are sacrificed in favor of quantity.

According to (Duval, 2000), limited branch networks are a bottleneck to the outreach extension of already operating microfinance institutions. This is often a greater constraint for banks when restrictive banking legislation imposes high capital requirements for opening new branches, and for limited funds, especially NGO microfinance institutions that are excessively dependent on government and donor financing. Establishing a network of partnerships among microfinance institutions, and between them and other financial institutions can help overcome both constraints, and allow for the necessary growth and expansion (Sharif, 1997). For integration to take place, microfinance institutions must adhere to financial best practice standards and transparency in their financial and operational performance. The increasing availability of microfinance institutions' appraisal mechanisms and rating institutions should facilitate the establishment of such partner networks. When viable, for example through mobile branches or visiting loan officers, doorstep services enhance accessibility to microfinance institutions and support outreach expansion for remote areas, especially for low-income and illiterate households. Information communication technology has also a very high potential for breaking geographical and other barriers to outreach expansion, and may therefore represent a great opportunity for forest communities.

2.2 The Microfinance Services

According to Heidhues F(1995) Microfinance refers to the provision of financial services to poor or low-income clients, including consumers and the self-employed. The term also refers to the practice of sustainably delivering those services. 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."

According to Dichter, T. W. (2003), Uganda is endowed with a variety of microfinance operators offering a broad range of products. The services offered range from, Village banking, provision of working capital or start up funds, business loans, Solar power loans, Money transfer in association with international transfer organizations, home investment loans, back to school loans to micro entrepreneur loans among others . Interest in microfinance has soared in the recent decade and the instrument is now seen as one of the most promising tools to tackle poverty in the developing world. Mosley, P. (2001). The fascination with microfinance derives from the fact that the provision of financial services can contribute to poverty reduction and pass the test of sustainability at the same time.

2.2.1 Loans

According to Stuart Rutherford (2005), traditionally, banks have usually not provided financial services to clients with little or no cash income or people without collateral security. Banks must incur substantial costs to manage a client account, regardless of how small the sums of money involved.

According to Dichter, T. W. (1998), Microfinance institutions offers different types of loans, these are categorized differently, Micro Leasing, this option enables you to increase your business capacity and productivity. Through this Micro Leasing you can acquire equipment, machinery and motor vehicles, Back to school loans short term loan facility that coincides with the new terms/semesters of institutions, extended to parents investing in education. The back to school loan is easy to access, the loan amount depends on the ability to repay, Repayment period of up to 4 months and there is no compulsory savings on the loan required. Other loan services include, Housing Loans build your dream house, repair your present one or buy a plot of land with our Housing Loan. This facility is open to any individual irrespective of income level (GTZ 2007).

According to Mwesigwa, D. (2000), Clients form self-selected groups ranging from five to ten individuals of which at least 50% must be female and then attend a one to two hour lecture on FINCA rules and procedures. Once this sensitization is complete, members are now able to borrow. Neither formal collateral nor a credit history is a prerequisite to qualify for a loan. Loan terms range from 1 to 6 months and loan amounts begin at Shs. 100,000 and increase based on the business potential of the customer. These loans are basically for enabling the microfinance clients to have start up capital for their small businesses.

According to Obwona, M. B.; Ddumba-Ssentamu, J. (1998), MFIs give loans to the poor so as to improve their small businesses and enable them compete favorably with the rich large scale companies. In Uganda, the vast majority of the poor have severely limited access to credit and other financial services. Thus MFIs tries to bridge this gap by availing credit services nearer to the poor. With the recent Economic liberalization measures, the creation of sustainable mechanisms for providing financial services to the low-income households particularly those in rural areas has become a critical element in the enhancement of Rural Development and poverty Alleviation. However, MFIs vary considerably in visibility, effectiveness and efficiency as well as the scale of operation and have attributed variously to the provision of credit to the rural poor (Barnes, C (1998).

2.2.2 Bank Accounts

Microsavings accounts allow individuals to store small amounts of money for future use without minimum balance requirements. Micro-savings accounts are tapped by the saver for life needs such as weddings, funerals and old-age supplementary income. The savings account involve, mandatory savings accounts, and voluntary savings.

Microenterprises are a vibrant part of the Ugandan economy, providing a wide range of goods and services. In 1995 an estimated 22 percent of all households were engaged in some kind of business activity (Impact Associates, 1995). These were usually micro in scale and home-based. Twenty-nine percent of the working age population in 1995 was estimated to be employed in micro and small enterprises. These statistics underscore the prevalence of microenterprises, but mask the importance of microenterprises as a vital source of income for the urban and rural poor. Their business activities are often the major source of household revenue.

These poor microentrepreneurs, especially women, have had limited access to financial services offered by the commercial banks (Duval, 1991; Morris et al., 1995; Mugyenyi, 1992). Widespread recognition of this lower accessibility to formal credit has led to recent endeavors to target the poor, especially women entrepreneurs, through development programs that provide financial services. In addition to the provision of credit, these programs also facilitate the establishment of savings accounts. Thus, these semi-formal financial institutions provide low-income clients (particularly women) with financial services not previously provided by commercial banks.

According to John Hatch (2000), a village bank is an informal self-help support group of 20-30 members, predominantly female heads-of-household. If the program is "on mission", in a normal village bank about 50% of all new members entering the program will be severely poor, representing families with a daily per-capita expenditure (DPCE) of less than US$1; the rest are moderately poor (DPCE=$1-2/day). These women meet once a week in the home of one of their members to avail themselves of working capital loans, a safe place to save, skill training, mentoring, and motivation. Loans normally start at $50-$100 and are linked to savings such that the more a client saves the more she can borrow. The normal loan period is four months and is repaid in 16 weekly installments.

According to Stiglitz, J. E.; Bhattacharya, A. (2006), to eliminate the need for collateral (the poor man's obstacle to receiving bank loans), village banking rely on a variation of the solidarity lending methodology. It relies on a system of cross-guarantees, where each member of a village bank ensures the loan of every other member. This system gives rise to an atmosphere of social pressure within the village bank, where the cost of social embarrassment motivates bank members to repay their loans in full. The admixture of cross-guarantees and social pressure makes it possible for even the poorest people to receive loans. This method has proven very effective for FINCA, yielding a repayment rate of over 97% in its worldwide network. Village banking is highly democratic, self-managed, grassroots organizations. They elect their own leaders, select their own members, create their own bylaws, do their own bookkeeping, manage all funds, disburse and deposit all funds, resolve loan delinquency problems, and levy their own fines on members who come late, miss meetings, or fall behind in their payments.

2.3 Concept of Poverty

Ledger Wood (2000) defines Absolute poverty as a degree at which an individual cannot achieve the basic needs like food, shelter and clothing. Being a multi-dimensional issue, poverty cannot be reduced to a single indicator.

Hulme and Mosley (1996) define poverty as not purely about material conditions. It also refers to other forms of deprivation, and the effects of innovative financial services on those who suffer from social inferiority, powerlessness and isolation are considered. In order to discuss microfinance as a tool for poverty alleviation, it is important to understand the concept of poverty both at a micro and a macro level. It is not enough to define poverty in terms of basic needs only because this is likely to omit other important components therefore focusing at poverty as a single sided problem. It is necessary for microfinance institutions (MFIs) to embrace broad aspects of economic development.

2.3.1Poverty in Uganda : Trends and Patterns

This gives a clear overview of recent developments in poverty in Uganda and patterns across different groups. It covers three main aspects of poverty: low incomes, limited human development, and limited empowerment. However, particular emphasis is placed on income poverty, because there is good recent evidence for changes in this dimension.

2.3.2 Income, Poverty and Inequality

Using a national survey on household expenditure (which has been conducted in most years since 1992), statisticians calculate the real household expenditure per adult equivalent. This measure includes home-produced food as well as goods purchased from the market, and adjusts household size for the number of people of different ages, to give an accurate reflection of the relation between the household's total expenditure and its members' consumption needs. It also corrects for inflation. Households whose real expenditure per adult equivalent falls below a given level (the poverty line) are considered poor(Sebstad, J 1998).

Katimbo-Mugwanya (1999), the poverty line used in Uganda is an absolute, not a relative one; it measures the level of expenditure needed to secure basic food consumption needs (taking into account regional variations in food prices) and a corresponding level of non-food consumption. Poverty can be measured by the headcount – the proportion of people below the poverty line – or by the poverty gap and depth of poverty, which also take into account the distance below the poverty line.

According to Wright, G.A.N., et al (2001), during the 1990s, income poverty fell dramatically. The proportion of Ugandans whose expenditures fell below the poverty line (the poverty headcount) fell from 56% in 1992 to 44% in 1997/8 and even faster to 34% in 2000. These changes were driven mainly by increases in average income, rather than by redistribution. Inequality was basically steady from 1992 to 1997, but increased thereafter; the Gini coefficient was between 0.37 and 0.35 until 1997, but rose to 0.39 in 2000. Since 2000, the trends have been less encouraging. Income poverty increased from 34% to 38% between 2000 and 2003, and inequality as measured by the Gin coefficient rose markedly from 0.39 to 0.43. Recent research sheds some more light on the changes in poverty. First, per capita expenditures fell most dramatically in the second quintile. This corresponds with an increase in poverty in crop farming households and households with small non-agricultural enterprises, driven by falls in producer prices. Secondly, most inequality in Uganda is within, rather than between, regional or occupational groups.

Asset distribution; There are signs that the distribution of assets as well as incomes became more unequal during the late 1990s and early 2000s. In general, this reflects the underlying causes of increased inequality. However, recent land reforms may lead to increases in the rents paid by kibanja holders on mailo land, which have previously been controlled at a very low level. There is some risk that this could lead to an increase in inequality, reflecting a transfer of income from kibanja holders to mailo owners. It will be important to monitor the effects of this change (PEAP2004).

2.3.4 Causes of Poverty

According toMorduch, Jonathan. 2000, the main causes of poverty are classified into two that is; at the level of household and at the level of society and public action. This involves poverty at level of household due to Low access to credit schemes, Poor education and lack of education facilities, Over dependency due to extended families.

Chen, Martha Alter and Elizabeth Dunn, June 1996, says poverty can also be looked at from the society level and public action. This is normally caused by, Insecurity, Poor infrastructure like roads, schools as well as financial institutions like Banks, Lack of enough employment opportunities due to inadequate capital intensive investments, Epidemic and pandemic diseases, Environmental changes like deforestation, overgrazing and soil erosion, Lack of enough quality information in markets, productive technologies, services, policies and rights, Land scarcity and legal protection of property rights, High population growth rate due to increased child birth, Government restriction on foreign trade(Muhammad Yunus 1999).

2.4 Clients and Impact of Microfinance Services

Microfinance Providers in Uganda reach low-income households in both rural and urban areas, but not the poorest of the poor. The average client is female, married, between 30 and 39 years and sufficiently literate with an average household of 7 people, many of whom are dependents (Barnes 1998). Commerce is the main activity of clients, followed by agriculture, services and manufacturing. Clients of MFIs tend to cluster around the poverty line. Most users of MFI services appear to be nonpoor, but not wealthy: they tend to come largely from households that can usually meet their daily needs, have access to primary education and basic health services, and have accumulated some assets. They tend to spend a high proportion of their earnings on basic needs such as food and education of children. This group of clients are in the "comfort zone", they enjoy a relatively stable income source and sufficient livelihood diversification, allowing them to service regular repayments even when faced with small crises. However, they remain vulnerable to shocks, and access to microfinance has proven to play an important role in managing this vulnerability (Mutesasira et al 1999).

2.4.1 Reduced vulnerability to economic risks

According to Barnes, C,(1998), the poor are very vulnerable to risks (such as illness or death of a household member, medical expenses, funeral costs, crop failure, the loss or theft of a key asset, or a dramatic change in prices), and microfinance services in Uganda have proven to help the poor to protect against these risks. Individuals and households pursue strategies to protect against risks ahead of time. As MFIs provide loans for working capital and to purchase productive assets, clients are able make their enterprises more competitive and increase profits (although in most cases only to a limited extent), diversify their income sources and broaden their asset base. Participation in microfinance programs also appears to enable clients to build the households' human assets, for example by investing into children's education or household members' health. Even when loans are used for business, the household's own capital is thus freed for other investments, particularly in school fees and health care.

Group-based lending schemes provide clients with an opportunity to build their social assets by reinforcing reciprocal relationships and social networks. Membership of microfinance groups links individuals, households and enterprises into a vital web of business and personal relationships that enables members to better cope with the challenges of life. However, in some cases membership to groups can also become a social liability, especially where there is a consistent pattern of non-payment and mounting peer pressure. Access to financial services also allows the poor to cope with shocks or economic stress events once these take place. Clients use microfinance loans to re-stock their businesses and to smooth consumption. As most Microfinances offer only inadequate savings services, only few clients are able to use these as source of liquidity in times of emergencies (Baydas, M. M.; Graham, D. H. 1997).

2.4.2 Strengthening linkages of clients and their households to the agricultural sector

Microfinance clients are actively involved in the agricultural and natural resource based marketing chain. Loans to micro entrepreneurs strengthen their position in the agricultural sector. Microfinance program participation results in clients expanding the amount of land they cultivate and diversifying the crops they grow for sale and domestic consumption. Clients of Microfinance are more likely than non-clients to increase their remittances to rural dwellers (Barnes, Morris and Gaile 1998).

2.4.3 Gender and Empowerment

The vast majority of clients of Ugandan MFIs are women loans to female clients constitute around 75% of the loan portfolio and 80% of the savings portfolio. Some microfinance providers like FINCA, FOCCAS or UWFT only target female clients. Most MFIs focus on women for two reasons. First, lending to women is thought to benefit the whole family and strengthen the role of women in society. The second reason is that women, like in most other parts of the world, have proven to be better repayers. In some cases, women groups of female-only MFIs accept men if they replace their deceased wives. CERUDEB, a commercial microfinance provider with slightly larger average loans than most other MFIs, pursues an equal access policy and asks for collateral. This sometimes excludes women. However, it is not uncommon that a loan is in the husband's name but the woman is running the business. In most microfinance institutions, especially in those only targeting women, at least half of the workforce is female. While MFIs increasingly recruit female credit officers and women constitute approximately half of senior management (varying form organization to organization), board members are still mainly men (MFPED 2000).

According to Kikonyogo (1997), People in Microfinance Institutions have, in particular, catalyzed opportunities for millions of poor women to become active participants in economic activities and to attain new roles as cash income earners and managers of household incomes. With the newfound access to financial services, poor women are found to be more confident, assertive and better equipped to overcome cultural inequalities. Micro-finance has caused a shift in values and expectations that affect women's role in society

2.4.4 Increased Employment Opportunities

Through granting loans, MFIs have increased employment opportunities to different people. This is because loans enhance and boost up Business, hence leaching to Expansion and diversifications large businesses employ more people and even people who start up small businesses also employ some people. Similarly, MFIs as well also provide employment to the entire professionals in different sectors (FINCA (U) 2004).

2.4.5 Advice on how to use obtained funds

MFIs provide financial advice to clients. This involves type and kind of viable projects that people can start up so as to yield high returns in a short period possible. This is because most people have been having problem on how to choose projects in which they are to invest their funds and they end up losing almost all their funds. Thus with provision of such advice, MFIs tend to reduce on poverty (Microfinance Competent Centre, 2001).

2.4.6 Reduction of Income Inequality

In FINCA (U) 80% are women clients. This is because Women status has been left behind for long and most women are poor compared to men. According to (CEEWA-U 2003), the reasons for targeting poor women include an interest to influence the welfare of the household incomes, desire to reach directly to the poorest of the economically active.

2.4.7 Poverty Alleviation

In Uganda like any other developing country, Microfinance Credit Institutions are reaching out to millions of people as a means of improving their livelihood, and bettering their communities.

According Bank of Uganda report (2001), the impact of Microfinance in poverty eradication is evidenced from the fact that there has been a tremendous reduction in general poverty from 80% in 1992 to 58% in 2000; house hold poverty is estimated to reduce to 30% by 2007 in rural areas.

Poverty alleviation is a key policy debate in recent development literature. Many

Researchers of development economics, for example Emwanu (1995), have argued that the fight against poverty is a necessary condition for growth. The elaborationof policies for poverty alleviation requires a thorough knowledge of the poverty phenomenon as well as an understanding of the efficiency of implemented programmes. According to the World Bank (1990), the burden of poverty is spread evenly among regions of the developing world, among countries within those regions and among localities within those countries. People in sub-Saharan Africa, along with those in south Asia, are among the poorest in the world, both in real incomes and in access to social services. The World Bank reports that about 45% of the approximately 590 million people in sub-Saharan Africa live below the national poverty lines.

2.4.8 Increased Investment, Savings and Schemes

Through the activities of Microfinance Institutions, people have learnt how to save their Money, which in turn is used for investment. For instance, those institutions that build up cash reserves through foregoing income, saving is possible by making deposits out of income by avoiding current use in order to draw a sum of these savings in the future for development purpose (Hanning 1999).

2.4.9 Education and Health

Access to Micro Credit and Micro-finance has been formed to promote increased expenditure on education and related improvements in health among poor clients and in this respect, it can enhance human capital. A number of studies have shown that poor people tend to invest their income from Micro enterprises in their children's education and that children of Micro-finance clients are more likely to go to school, stay in school longer and have lower dropout rates.

2.4.10 Develop ment of Small-Scale Enterprises

Through Micro Credit Schemes, small-scale enterprises have developed and are playing a significant role in almost all economies than had been acknowledged before. Statistics show that between the year 1970 and 2000, the average Growth National Product (GNP) contributed per firm rose by nearly two – thirds (which is 67%) (BOU 2001).

2.5 Government Interventions in the Microfinance Sector

After the implementation of financial sector reforms in the early 1990's which among other things abolished directed credit to priority sectors (Muwanga, 2000), the government put in place some state credit programmes such as the Entandikwa" and the Youth Entrepreneurship (YES) credit schemes which were funded through the Treasury. The repayment performance of these loans were poor as they were perceived to be political grants which should not be paid back.

The Medium Term Competitiveness, Strategy for the Private Sector (MTCS, 2000) adopted the policy prescription of government divesting from direct credit delivery to minimize pollution of the credit environment through development of a bad credit culture of non-payment of loans. In addition the stoppage of the subsidized credit programmes will be a relief to the tax payers. Accordingly the Entandikwa Credit Secretariat under the Ministry of Gender, Labour and Social Development is expected to systematically reconcile and recover the outstanding loan portfolio, divest the Entandikwa and YES scheme through the sale of management contracts to MFIs or Non-Performing Assets Recovery Trust (NPART) and to transfer the recovered funds to sustainable MFIs through institutions such as Microfinance Support Centre Ltd. This would send an important signal to the population that there is no more free money from the government or donors and hence help to develop a good credit culture (MFPED, PEAP 2001 – 2003)

The PEAP provides an over-arching framework to guide public action to eradicate poverty. It has been prepared through a consultative process involving central and local Government, Parliament, Donors and Civil Society. In order to achieve middle-income status, Uganda needs to industrialize by enhancing its competitiveness. Industrialization in Uganda will depend on using the resource base and hence on equipping farmers to understand the technical and quality requirements of commercial production. Government will therefore ensure the provision of public goods to support both agriculture and industry. In order to reverse the recent marked increase in inequality, Government will aim to increase the ability of the poorer households to participate in economic growth through self-employment inside and outside agriculture and wage employment.
Four core challenges for the PEAP include, the restoration of security, dealing with the consequences of conlict and improving regional equity, restoring

sustainable growth in the incomes of the poor, human development, using public resources transparently and efficiently to eradicate poverty (MFPED 1999)

The Poverty Eradication Action Plan is Uganda's national planning framework. The PEAP was first drafted in 1997 and was revised in 2000. This is the second revision of the PEAP. Revisions are intended to keep the PEAP current in the light of changing circumstances and emerging priorities. The purpose of the PEAP is to provide an overarching framework to guide public action to eradicate poverty, denied as low incomes: limited human development: and powerlessness. The PEAP provides a framework within which sectors develop detailed plans. The PEAP aims at contributing towards transforming Uganda into a middle-income country. Such a process of transformation will involve industrialization based on private investment in competitive enterprises. Middle-income countries invariably have a higher share of industry in GDP, both because they have a higher capital stock and because they have higher domestic demand for manufactured output (MFPED 2003)

Uganda is generally seen as the country with the most vibrant and successful microfinance industry in Africa. Some MFIs have experienced strong growth and are now reaching a considerable number of clients, with three serving between 25.000 and 45.000 clients. A number of microfinance providers are close to financial sustainability or have already surpassed it. A series of impact studies conducted in Uganda in the past years have demonstrated that the provision of microfinance services contributes to reduced client vulnerability to economic risks, results in strengthening linkages of clients and their households to the agricultural sector, and enables clients to acquire valued skills. (MFPED, PEAP 2001 – 2003)

Credit services for the poor have been found to make positive impact on household income. Some borrow for investment, leading to increase in income, and others for consumption smoothing in periods of hardship, thus maintaining their consumption levels without running down productive assets. To promote economic development, there is a need for both short-tem and long-term financing for both the formal and informal sectors. For the informal sector, the fast-expanding microfinance industry is very effective at financing investments with quick and high returns. Micro, Small and Medium Scale Enterprises (MSMEs) tend to be more attractive to MFIs because most of them have quick returns and owners can begin to pay back the loans in a relatively short time. The microfinance industry has hitherto been less effective at financing agricultural activities, whether for marketing or seasonal credit or loans for small agricultural investments. Government is therefore exploring an initiative with the International Fund for Agricultural Development (IFAD) and other development partners to promote better access to agricultural credit for smallholders, as well as promoting the expansion to rural areas of microfinance services through the Microfinance Outreach Plan (MFPED, 2002).

Microfinance has grown considerably in recent years in Uganda. A survey, by the Ministry of Finance, Planning and Economic Development (MFPED) in 2002, of over 1,000 Microfinance Institutions (MFIs) revealed that MFIs had just under 1 million members, and a total loan portfolio of Shs 86.5billion; the average loan size was Shs 262,533.The majority of loans are to non-agricultural enterprises in urban or peri-urban areas. Microfinance institutions have been supported by a variety of donors and NGOs. Mapping of microfinance institutions has revealed informal institutions even in areas not reached by formally constituted MFIs. Microfinance institutions ill an important gap in the financial market. International experience shows that many good institutions need support for a sustained period of time before becoming self-sustaining, and that public resources devoted to microfinance have in some countries had higher returns in terms of poverty reduction than those devoted to other public interventions (MFPED, PEAP 2001 – 2003).

Government is seeking to encourage the microfinance institutions to move into less served areas and activities, in particular agriculture. Under the Microfinance Outreach Plan, Government will provide capacity building and matching grants that will provide incentives for service delivery in rural areas.

The grants are designed to favour delivery of innovative products in relatively remote areas. The plan is intended to promote an average growth of 25% over the entire period on the client base, so that there should be 1.3 million clients and 9 million indirect beneficiaries by 2006, of which 60% should be in rural areas. It will be important to monitor the extent to which microfinance institutions are able to meet the needs of agriculture so that, where necessary, changes in strategies can be made to better serve borrowers in the sector (MFPED, 2002).

2.6 When Microfinance becomes less efficient

Despite the many studies and reports documenting their positive contribution to poverty reduction, micro-credit and micro-finance constitute neither a panacea for poverty nor a formula for achieving social development. The reality is only in certain situations, and only which certain types of clients.

Robinson (2002), asserts that, its becoming more clear that many poor and especially extremely poor – clients exclude themselves from such micro-credit or micro-finance as is currently available to them. In general micro-credit programmes that typically require sustained, regular and often sympathetic payments are unlikely to be attractive to, or financially viable for, poor families that lack sustained, regular and significant incomes. Rather than credit, these extremely poor people need social protection programmes that can help them with basic needs.

Micro-credit seems to work best for people who have identified an economic opportunity and who would exploit that opportunity if they had access to a small amount of cash or credit. Thus poor people who work in a stable or growing economies, who have demonstrated an ability to understand the proposed activities in an entrepreneurial manner, and who have demonstrated a commitment to repay their debts are the best candidates for micro-credit.

However and Montgomery (2003), observed that, easy access to serving and provision of emergency loans enabled the poor to cope up better with seasonal income fluctuations. Micro-finance specialists increasingly, view improvements in economic security and income protection as the first step in poverty reduction.

Dreze and Sen (1989), argue that access to reliable, monetized savings facilities can help the poor to smoothen consumption over periods of critical or unexpected financial crises, thus greatly improving their economic security. They also argue that its when people have some economic security that access to credit can help them move out of poverty by improving the productivity of their enterprises or creating new sources of livelihood

2.7 Challenges faced by MFIs in their efforts to eradicate poverty in Uganda

Abbink, Irlenusch and Renner,(2002), Uganda has a well established and vibrant microfinance industry. However, some challenges remain to be tackled, including: reaching out to rural areas in a sustainable manner; strengthening community based organizations so that they can become a viable option to reach poorer and more remote clients; developing new products more responsive to the needs of different client groups, including savings services, payment systems, emergency loans, housing loan products, investment loans, insurance products, agricultural loans, leasing, etc.; preparing MFIs for the transformation from NGOs to licensed microfinance providers; exploring and promoting commercial funding sources and reducing subsidization by donors; developing a stronger MFI network able to effectively coordinate the industry; educating stakeholders in order to prevent negative publicity from the press, politicians and the public. Other challenges include:

Lack of enough information about their clients to whom they lend money to. This is because inadequate analysis made about he client before the loan is extended to them. This some times leads to too much defaulting by the clients which limits the capacity of MFIs in eradicating poverty (Adams and Frechett, 2002).

The literacy level in developing countries is still down especially with women. Thus the women are not informal about any need for business development which makes it difficult for MFIs to eradicate poverty among such a group.

Inadequate funds; Most MFIs are faced with a problem of shortage of funds. This is because they have little or on access to formal sources of funds and long term capital for investment. This is because they almost enough collateral security to enable them get large funding. Alternatively the funding they obtain from Donors is of specific periods thus limiting the scale of operation of MFIs as far as poverty eradication is concerned (Aryeetey, E. 2006),

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter describes how the research was conducted. It gives an explicit description of the Research design, sample size and selection, methods of data collection, sampling methods, and data collection instruments.

3.1 Research Design

Descriptive research design was used in the study. It was purely based on questionnaires. Descriptive research design involves a systematic collection and presentation of data to give a clear insight with an aim to discover the extent of the problem. Quantitative research approaches were used to obtain the data that can be measured in numerical figures. The variables were critically identified and helped in explaining the attitudes and behaviors of the subjects basing on the data collected.

3.2 Sources of Data

The sources of data were both primary and secondary.

3.2.1 Primary source

Primary source refers to raw data collected through personal interviews, through questionnaires. It is also described as the data that have been observed and recorded by the researcher for the first time to their knowledge and data was collected by using interviews, surveys and observation methods.

3.2.2 Secondly source.

This provided data by reading related documents from the micro finance institutions, and other related institutions like the institute of bankers, drafted Microfinance policies, Microfinance journals and any other related data.

3.3 Study Sampling Procedure

There were 803 clients at FINCA (U) Nakulabye Branch and 51 Management staff that were taken as a population to draw a sample of respondents. The population comprised employees, support staff, management at various level. In order to obtain a representative sample, purposive judgment was used to identify the sample of clients and stratified sampling for staff.

3.3.1 Sample Size

From a total population of 803 recorded clients of FINCA (U), 800 was selected and 50 officers (management\staff) out of 51 staff members was selected in order to achieve the required sample. This sample was obtained through Sloven's formula. This was calculated as follows; $n = \frac{N}{1+ne2.}$

Where, n is sample size

N is total population

ne is the degree of error at 0.05 of level of significance.

$$n = \frac{803}{1+(0.05)2}$$

$$= 800 \text{ Clients.}$$

$$n = \frac{51}{1+(0.05)2}$$

$$= 50 \text{ Management staff.}$$

3.3.3 Sample Selection

Due the nature of the population which is heterogeneous, the sampling frame included management and clients, the sample size was determined using sloven's Formula and the sample selection for clients who access microfinance services was arrived at using simple non-probability purposive judgment sampling and stratified sampling for management and staff.

3.4 Research Population

The study was conducted in Kampala at FINCA (U) Nakulabye Branch. It acted as a representative of all other branches in the Central Region.

3.5 Data Collection Methods and instruments

3.5.1 Questionnaires

This refers to the collection of items to which the respondent is required to fill in the questions asked by the researcher. These were both structured and non-structured and they aimed at getting all the necessary data from respondents. This method was used because it was helpful in obtaining specified quantitative and qualitative information with accuracy and completeness.

3.5.2 Interviews

Interview method refers to where there is person to person verbal communication in which one person or a group of persons asks the questions intended to obtain information. The researcher used interviews to acquire information that was not easily obtained through questionnaires. Interviews were used because it saves time when the interview schedules are structured and you get the first hand information from the respondents and it enabled the researcher to probe more for clarification.

3.5.2 Documentary Review

This method involved reading documents related to clients drop out and microfinance. It is advantageous because it enabled the researcher to get first hand information through critical examination of recorded information. It was also used to cross check information received from other research procedures.

3.6 Interpretation and presentation of data

The data was collected and processed and it involved checking the interview schedules for mistakes. The data entry was done by the secretary and verified by the researcher. For interpretation the researcher used simple statistical methods such as means percentages and statistical programmes.

3.6.1 Data Analysis

After collecting data, preliminary data processing commenced, it include d checking interview schedules assigning serial numbers extracting initials summaries sorting and filling. The person's correlation coefficient and the decision coefficient were computed to determine the strength of variables under each objective.

3.7 Validity and reliability of the research instruments

3.7.1 Validity of the research instruments

To measure the validity of the research instrument, the researcher used the content validity index (CVI) approach. The researcher circulated the research instruments to six judges to assess every item in the instrument as valid (V) and Not valid (NV). Then the inter judge coefficient of validity is calculated as

$$\text{Inter judge Coefficient} = \frac{\text{Number of judges declared item valid}}{\text{Total number of judges}}$$

Amin (2005) confirms that the process is repeated for all the items in the instrument. Then the average of number of items valid is calculated to get the CVI.

According to Amin (2005), if the CVI is from 0.7 above it is accepted. Therefore it was accepted because the CVI was 0.76.

Table3.71 showing inter-judge coefficient.

Items	Valid	Not Valid	Inter-judge coefficient (x)
5	5	1	0.83
6	5	1	0.83
7	4	2	0.67
8	5	1	0.83
9	5	1	0.83
10	4	2	0.67
11	4	2	0.67
12	5	1	0.83
13	5	1	0.83
14	4	2	0.67
15	5	1	0.83
16	5	1	0.83
17	4	2	0.67
18	4	2	0.67
19	4	2	0.67
20	5	1	0.83

$$\text{Content validity index} = \frac{\text{Number of items declared valid}}{\text{Number of Total items}}$$

$$= \frac{12.16}{16.0} = 0.76$$

3.7.2 The reliability of the instrument.

In finding the consistency of the instruments of the study, the research used split half reliability test, where the test was split into two halves. Even items forming (x) and odd items forming (y). Since the researcher used purposive sampling. It was of no use to re- administer the instruments as put forward by Amin (2005). Split half test is especially appropriate when a test is very long or when it would be difficult to administer the same test at two different times or two different forms of a group. It was therefore paramount for the researcher to use split half reliability test since the instruments where administered to a special group.

Amin (2005, pp298) argues that since split half reliability test procedures require only one administration of a test, certain sources of errors of measurement are eliminated like differences in testing conditions.

After obtaining the correlation, the spears Brown prophecy was applied.

Where $rxx = \frac{2r^1 xx}{1+r^1 xx}$

Where r^1 xx =The correlation between two halves

Rxx =Split half reliability co efficient

Which is then summarized as:-

r (total test) = 2r(split half)/1+r (split half)

Split half reliability

Table3.72 showing Reliability of the instrument

H'lwWidth590X	Y	X^2	Y^2	XY
4	4	16	16	16
3	4	9	16	12
4	3	16	9	12
3	4	9	16	12
4	3	16	9	12
4	4	16	16	16
3	3	9	9	9
3	4	9	16	12

$\sum X = 28$

$\sum Y = 29$

$\sum X^2 = 100$

$\sum Y^2 = 107$

$\sum XY = 101$

$$r\,x\,y = \frac{N\sum XY - \sum X \sum Y}{\sqrt{N(\sum X^2) - \sum (X)^2 * N(\sum Y^2) - (\sum Y)^2}}$$

$$\frac{16 \text{ x } 101 - 812 = 804}{\sqrt{16 \text{ x } 100 - 28^2 * 16 \text{ x } 107 - 29^2 = 804}}$$

$= 1600 - 784 \;\; *1712 - 841$

$= \;\; 816 \; * \; 871$

$= \;\; \sqrt{710736}$

$= 843$

$= 804/845 \; = 0.9$

rxx =0.9

Apply specimen – Brown prophecy

$$r(\text{total test}) = \frac{2r\ (\text{split half})}{1+r\ (\text{split half})}$$

$$= \frac{2(0.9)}{1+(0.9)} \qquad = \frac{1.8}{1.9}$$

rxy = 0.94

This was accepted.

3.8 Ethical Consideration

Bearing in mind the ethical issues, the researcher first obtained permission from the authorities before beginning with the process of conducting the research. The consent of the respondents was also sought before they were given questionnaires or being interviewed. The researcher provided the respondents with the necessary information as regards the main purpose of the research, expected duration and procedures to be followed, and be in position to keep privacy and not disclose the confidentiality of respondents and researchers responsibility.

3.9 Limitations

The time allowed for research was short for the researcher to able to obtain the total relevant information from the total number of respondents. The other other challenge was obtaining information from the microfinance institutions together with the clients themselves who had a fear of releasing the information.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter contains the presentation, analysis and discussion of the findings made by the researcher. The researcher followed the objectives of the study to help in making a thorough analysis. The researcher used tables, pie charts and bar graphs to present and analyze the findings.

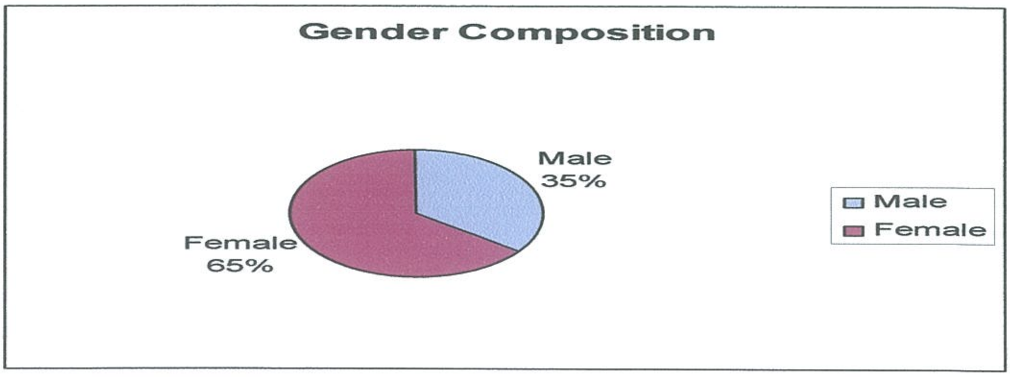
4.1 Demographic Responses

Background characteristics of the respondents were considered in this analysis because they directly affect the efforts of microfinance services towards poverty eradication. Such background information consisted gender, age and level of education.

Table 4.1 Showing Gender Composition

Sex	**Frequency**	**Percentage**
Male	300	35 %
Female	550	65%
Total	**850**	**100%**

Source: Primary Data



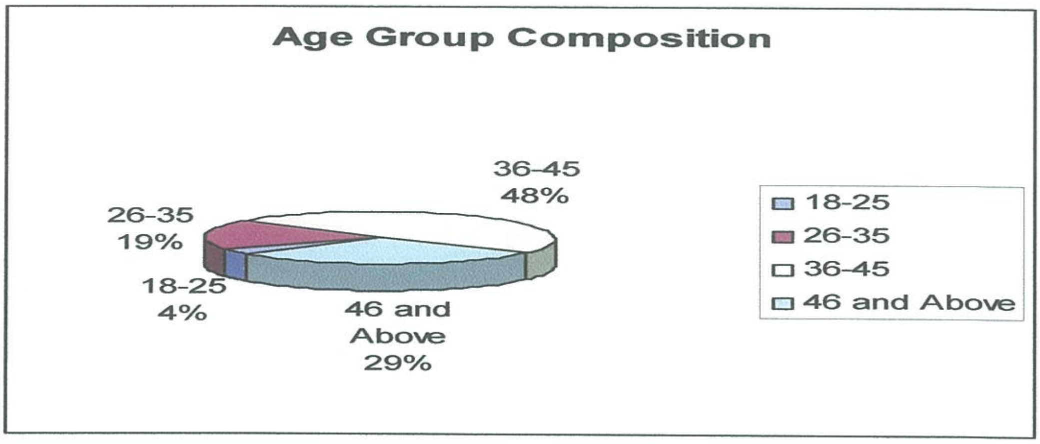
Source: Primary Data **Figure 4.1 Gender composition**

From the above table and figure, it is clearly seen that FINCA (U) has most of its clients as female since it serves 65% as women and 35% as male. This is evident from the initial objectives of FINCA (U), since it solely looks foreword for empowering the poor women and the rural women so as to be self sustaining and improve their standards of living.

Table 4.2 Showing Age Group Composition

Age Bracket	Frequency	Percentage
18-25	30	4
26-35	160	19
36-45	410	48
46 and Above	250	29
Total	**850**	**100**

Source: Primary Data



Source: Primary Data

Figure 4.2; Age group Composition

The findings indicate that the majority of the clients for FINCA (U) fall under the age bracket of 36-45 years. This goes hand in hand with John Hatch (2000), who suggests that Microfinance services are for the elders who have already established assets that can act as collateral security for easy access of loans.

Table 4.3 Showing the level of education of Management Staff of FINCA (U)

Education level	Frequency	Percentage
A. Level	0	0
Diploma	10	20
Degree	38	76
Masters degree	2	4
Total	**50**	**100**

Source: Primary Data

The findings from the above table reveal that majority of the staff/management had degrees in various field represented by 76% and 20% with diplomas meaning that they had high degree of integrity when dealing with clients and managerial and analytical skills both soft and hard skills that enable them monitor the operations of the microfinance institution.

Table 4. 4 Showing Reasons why clients join FINCA (U)

Reasons	Frequency	Percentage
Increase household income	200	25
Participation in new business activities	350	44
Education and health	60	7.5
Increase capital base	190	23.5
Total	**800**	**100**

Source: Primary Data

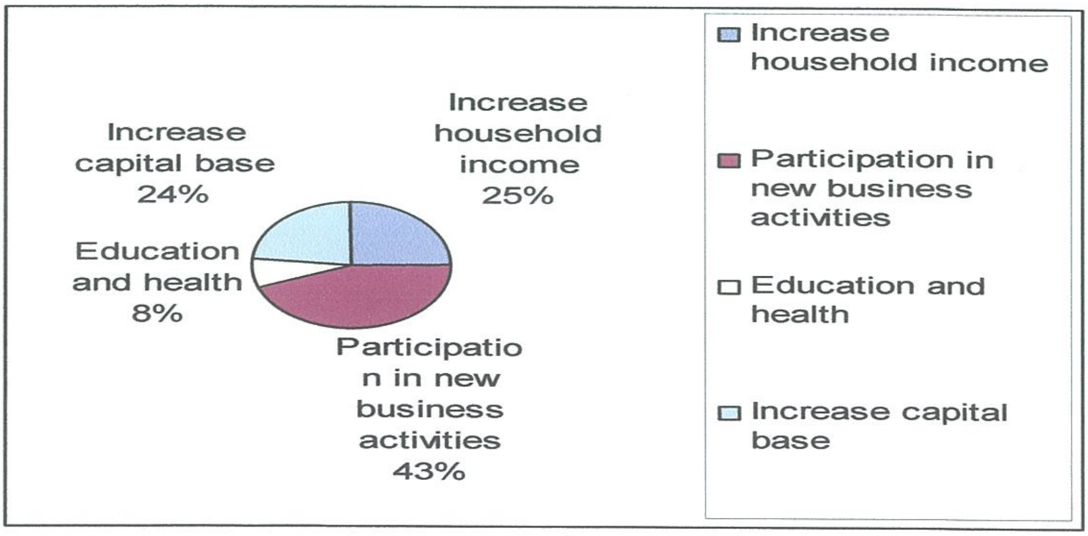


Figure 4.3; Why Clients Join FINCA

Source: Primary Data

From the above table and figure, the findings of the study reveal that most respondents join FINCA (U) to obtain funds to enable them start new small scale businesses. This is reflected by 43% of the total response. The further findings revealed that people join FINCA (U) to increase their household incomes so as to enable them improve their standards of living. The major reason here is that both the business start ups and house hold incomes increase are aimed at reducing the level of poverty among their families. The findings also revealed that some clients are already participating in business activities and they would like to increase on their current capital base.

The findings also revealed that 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 (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.

Approximately three-fourths of the respondents rank their enterprise as the number one source of household cash income. Enterprise earnings are the main source of funds for education expenses and for the purchase of business and household assets.

4.2 Microfinance Services and Programs

Table 4.5 showing the response towards microfinance services

Services	Frequency	Percentage
Loans	740	93%
Advisory Services	690	86%
Bank Accounts	790	99%

Source: Primary data

The findings revealed that 93% of the respondents were currently holding loans with FINCA (U). The clients are required to repay the loan in flat weekly payments, beginning one week after the loan is received. The findings further revealed that at the time of the weekly banking meeting, all the clients are required to add a specified amount to their mandatory savings and clients are encouraged to add voluntary savings to this payment.

The initial loan size varies from Shs 100,000 to Shs 160,000. Stated interest rates vary from 30% flat annual rate to the 12% per 16 week loan cycle rate charged by microfinance. The interest is calculated on the amount of the original loan, not on the declining balance. This method of interest rate calculation results in effective annual interest rates ranging from 66% to 77% per annum. The repayment period for FINCA loans is 16 weeks. In comparison, the period is 26 weeks for the first loan, building to a year for larger loans. FINCA does not permit further loans to a group until the specified loan payback period expires and until the loans to all group members have been repaid. The findings further revealed that clients have trouble in paying back and they are alleging that it is because of short period for the repayment coupled with high interest rates.

The study revealed that FINCA village banks receive a lump sum loan from FINCA, which they distribute among themselves consistent with the rules governing loan size. After 16 weeks (or when all individual loans and the group loan have been repaid) the village bank can receive and distribute another loan. Because no member can move to the next borrowing cycle until all members have repaid their respective loans, each woman's ability to borrow and the timing of her loans are a function of the entire group's conduct and creditworthiness.

Weekly the group's chosen officials conduct the village bank's business, logging loan payments and mandatory and voluntary savings in the "bank's" ledgers and in each woman's individual passbook. The remainder of the meeting's agenda is set by the group, usually focusing on disciplinary problems encountered (e.g., tardiness, absence, nonpayment). Members can be excused from the weekly meetings for personal or family illness or funeral attendance, but they are expected to send their weekly payment with another member. In its training FINCA stresses the importance of voluntary savings, the investment of loan proceeds in each client's business, and the group's responsibility for all repayments.

The findings revealed that 86% of the total respondents receive advisory services in form training regarding the usage of the obtained loans and different business strategies. Once the group's members are identified, training for each individual credit group for up to eight weeks is conducted at mandatory weekly meetings. FINCA teaches elementary banking, bookkeeping and credit principles, and impart the rules that govern the program.

In each program self-management is expected. Group officers (for example, chair, secretary, treasurer) are selected by group members. In FINCA, the members are expected to identify and qualify the individual businesses that will generate the cash flow necessary to repay the loan. Each group establishes its own bylaws and disciplinary rules, usually imposing fines or restricting future borrowing privileges for those who do not comply.

4.3 Impact of Microfinance services on poverty eradication

The findings of the study revealed that Savings, enterprise earnings, and loan funds are used to expand the wealth base of households and enterprises. 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. The income of a household is used to provide for its basic needs, to maintain or expand its income generating activities, to increase its asset base to improve the living standards, and/or to maintain its social network. Information was gathered to determine the spending patterns of clients. Data on uses of revenue generated by the respondents' enterprises the month prior to the survey serve as a proxy indicator of the main, recurrent uses of the monies, while extraordinary purchases are captured in data on the source of funds for purchase of enterprise fixed assets and consumer durables.

The study findings further reveals that, Microfinance programs operating in urban areas reach microentrepreneurs who have strong linkages to the agriculture sector. Microfinance program linkages with the agriculture sector are illustrated in the access of microfinance program clients the prevalence of businesses that are part of the marketing and small scale businesses like salons, retail shops among others. Household income can be obtained from a variety of sources: income generating activities, such as wage employment, casual labor, enterprises, crop and livestock sales, and rental property; and transfers and gifts. By definition for inclusion in this study, all respondents have micro enterprises which generate a cash flow on a regular basis. The boundaries of an enterprise are defined to include those income-earning activities which operate in the same time and space and/or use the same stock. Income-earning activities which meet this criteria are then classified as a single enterprise

The findings revealed that at least 25% of the respondents confirmed that micro enterprises are the main source of household cash income. Approximately one thirds of the respondents rank their enterprise as the number one source of household cash income. Enterprise earnings are the main source of funds for education expenses and for the purchase of business and household assets.

The findings reveal that most of the clients are able to own consumer durables in their households. Ownership of consumer durables indicates the standard of living of households and may serve as a proxy indicator of relative wealth. More than 90% of respondent households in Kampala reported owning mattresses, an indicator used to determine level of extreme poverty. Taking into account that more than one child may sleep on a mattress, the ratio of number of mattresses owned to household members over the age of 9 was calculated.

Table 4.6 Showing Percentage of Respondents Owning Specific Consumer Durables

Ownership of Consumer Durables	**Clients**	**Percentage**
Mattresses	750	93.8%
Radios	700	87.5%
Televisions	640	80%
Refrigerators	250	31.3%
Bicycles	300	37.5%

Source: Primary data

A significantly higher proportion of client compared to non-client households own radios and television sets, but the same proportion own refrigerators .Bicycles are the most common type of transport found among respondents. Less than 2% of the respondents own a motorcycle, car, or truck.

The findings of the study revealed profile of client respondents and their households emerges. The average client respondent is 36 years old, has one year of secondary education, is married, and classifies herself as head of household. The household is composed of 6.57 persons, with one person not present on a regular basis. On average two persons are economically active; 70% of the household members are
economically dependent. Slightly fewer than half of the client respondents reside on rental houses.

The baseline data suggest that the clients are not among the extremely poor and neither are they among the wealthier segment of society. Rather, they appear to be among a broad class of working poor. This is suggested by the low proportion of client households with piped water and electricity in their houses, and the low proportion of client households that own vehicles, refrigerators, televisions, rental units not contiguous with their residence.

4.4 Review of credit terms on loans offered by FINCA (U)

The researcher found out that there are terms that have to be met before a credit facility is extended to the client. The researcher found out that some of the terms of credit were so much demanding from the clients which acted as a barrier to some clients accessing the loan facility of FINCA (U).

Table 4.7: Response on credit terms

Response on credit terms	**Clients**		**Credit officers**	
	Number of respondents	Percentage	Number of respondents	Percentage
Strongly agree	150	18.7%	-	-
Agree	250	31.3%	30	60%
Disagree	300	37.5%	20	40%
Not sure	100	12.5%	-	-
Total	**800**	**100%**	**50**	**100%**

Source: Primary data

From the above table, the researcher found out that clients themselves disagreed that their loan from FINCA (U) is not easily accessible. This is because 37.5% of the clients said that the loan is not easily accessible and the terms of the credit are some how complicated for local people to understand them. However, the findings of the study found out that the credit officers affirmed that the loans at FINCA (U) are easily accessible. This is because 60% of the credit officers accepted that their loans at FINCA are easily accessible if the client meets the following conditions; An on-going business in which money is earned weekly, Not currently borrowing from any other organization, Be guaranteed by your village bank, Be at least above 18years old, Attend meetings and save money weekly. Thus the researcher found out it is the above mentioned terms that have to be met before a credit facility is extended to the client. The credit officers claimed that they are simple as well as the largest percentage of clients. However, some clients said that the terms are harsh, for example, they restrict them from acquiring other forms of finance from other banks and yet at FINCA (U) they are given little money which cannot fully finance their businesses. Therefore, FINCA

(U) needs to revisit their terms so as to come up with terms that will be favorable to their clients so as for FINCA (U) to achieve its objectives.

The findings of the study further revealed that there are specific yardsticks for measuring credit performance; Business profitability, Groups easier to repay the loan, Frequency of credit application, Level of savings, Credit management, Long term survival of an individual business.

4.5 Challenges faced by FINCA (U) in their effort to eradicate poverty

The findings of the study revealed that FINCA (U) has faced challenges in its pursuit of eradicating poverty. Among the challenges faced that the researcher was able to identify include; failure of customers to pay the loan in time and the customers of FINCA (U) misuse the funds and they end up collapsing. This in the end has affected FINCA (U) since it loses a lot of money through such acts.

FINCA (U) has also faced the challenge of high transaction costs in the country. The researcher was able to identify that the challenge that is mostly affecting FINCA (U)'s operation is poor education among people on how to utilize the given loans to invest them in productive activities. The study revealed most complaints raised by the clients of FINCA (U). for example, high interest rate which leaves the clients with little or no savings, short loan period which makes it difficult for customers to pay the loan in time. Thus if all the above challenges are left unchecked, then the objective of FINCA (U) of eradicating poverty will not be met.

CHAPTER FIVE

SUMMARY OF MAJOR FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of the Findings

This research study was guided by both specific and general objectives and one of the objectives was to establish the impact of microfinance services on the perceived poverty eradication. According to the findings of the study, it was found out microfinance services like loans and its categories, advisory services have a very big impact on the perceived poverty eradication since it leads to increased household income, increased standards of living, and ownership of consumer durables among other indicators.

The study revealed that FINCA (U) has promoted women's growth in business, and more women have become self reliant and they are in position of running their own businesses independently. However, not all women have been in full position of self reliance, thus more needs to be done since some of the women are still poor. The findings of the study revealed that FINCA (U) is faced with more challenges and this affected them in their operation. Among the challenges found out include failure to repay the loan by customers, insufficient funding, and misuse of funds by the clients.

The findings of the study revealed that Clients of FINCA (U) have all received at least one loan and have participated in the mandatory savings programs as part of the lending requirements. The clients are also encouraged to have voluntary savings. Loan periods are typically four months with the initial repayment due the first week of then loan. Given this loan repayment pattern, respondents appear to be using loan funds in their enterprises as a source of working capital.
All clients have mandatory savings accounts, and many clients also have voluntary savings. The average amounts saved by clients in mandatory and voluntary savings represent a significant impact.

In this baseline study survey 65% of the sampled microfinance program clients are women. The effect of participation in microfinance programs on financial discipline and leadership opportunities illustrates the importance of these programs on women's empowerment. The findings suggest that FINCA has an impact on women trying new health and nutrition practices and informing others about these practices. When asked about positive consequences of owning your own business, one-third of the respondents mentioned the ability to meet basic family needs and the ability to take care of oneself. The findings further reveal that Participation in the credit and savings programs of FINCA assists clients in acquiring financial discipline. Clients are required to adhere to a weekly loan repayment schedule and contribute weekly to a mandatory savings program.

The findings of the study revealed that FINCA Uganda's majority clients are women. FINCA Uganda serves clients in 34 of the country's 69 districts. Some 60 % of clients are single mothers; 75% care for orphans who lost parents due to HIV/AIDS. The total number of clients served by FINCA totals 44,327 and the services are Village Banking and working capital, solar loans, village phone loans, K O Net, savings accounts, money transfers, and more.

5.2 Conclusion

The baseline data suggest that the microfinance program clients are from low-income households which are part of a class of working poor (that is, people earning an income, but spending a high proportion of it on basic needs, such as food and education of children, and having low levels of consumer durables and other assets). They are not among the impoverished and destitute. On average the households of client respondents have 6.57 members, of whom two are economically active. One-third of the client respondents reported no purchases (sole or joint) of household assets during the 12 months prior to the survey. At the same time, a high proportion of clients own (or are purchasing) their current residence, own radios. The percentage of girls and boys aged 6-16 in their households who are enrolled in school is high, as is the ratio of mattresses to persons 9 years and older. Most client households were able to cope with unanticipated financial crises without selling income generating assets.

There is clear evidence that Microfinance services and programs have done a tremendous work in uplifting people's incomes and their standards of living. Though this is the case, the rate of interest on borrowing from Microfinance institutions is still high and it needs to be addressed if the services are to be totally pro-poor. The government through the central bank also should be able to regulate the microfinance banks so as to protect the innocent poor citizens from the unscrupulous cheats who come up with so called microfinance institutions to cheat the public; the example is front page microfinance.

The landscape of microfinance is changing as a result of increasing understanding of how the poor use money and their diverse demands for financial services. Correspondingly, the microfinance industry is evolving into an increasingly commercial operation to serve a larger segment of the potential market. A number of challenges need to be overcome to facilitate and accelerate this process to realize the vast potential of microfinance.

5.3 Recommendations

From the findings of the study, it was revealed that microfinance institutions are being faced with a lot of challenges. The following are the recommendations put forward by the researcher;

I. Microfinance institutions should make their pre-loan requirements and conditions flexible. For example, they should ease the process so as for the clients to easily access the loans. For example, the condition of having on-going business for one to be allowed a loan should be dropped since majority of clients more especially women do not have startup capital.

II. The condition of not to borrow from any other institution is not realistic since it limits the clients and loan they obtain from them is not enough to meet all the needs from the client. Thus such a condition should be revised and indeed be dropped.

III. Since FINCA's mission is to enhance women growth and eradicate poverty, then interest rates should be allowed to a reasonable rate that will enable clients afford in repaying the principal as well as the interest in time.

IV. MFI's should carry out performance appraisal, for example, the initial loan should be in position of being raised to who ever pays the loan in time so as to motivate the clients to repay their loans in time.

V. Training of credit officers: There is need to look at the services delivered by credit officers. Persuading credit officers to see the group members as ''clients'' not ''beneficiaries''. Continued training of officers like in customers care and to be encouraged to bridge the gap between credit officers and clients, must be enforced.

Micro Finance Institutions should look on how meetings are conducted, contents and system and whether it cost effective and time to teach the clients to maintain their own books of accounts.

5.4 Areas for Future Research

i. Understanding and Dealing with High Interest Rates on Microcredit

ii. Microfinance services and women entrepreneurship in Uganda.

iii. Impact of structural adjustment programme on poverty and income distribution in Uganda.

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OFFICE OF THE DIRECTOR
SCHOOL OF POSTGRADUATE STUDIES AND RESEARCH

04 August 2008

TO

THE DIRECTOR RESEARCH AND DEVELOPMENT
FINCA (U) NAKULABYE
KAMPALA

RE: RECOMMENDATION FOR ABANIS TURYAHEBWA

This above mentioned is our registered student in the School pursuing a Master Business Administration (MBA-Finance and & Accounting).

He wishes to carry out a research in your organisation on " Microfinance Services and percieved Poverty Eradication in Uganda. A case study of FINCA (U)

Any assistance accede to her regarding research will be highly appreciated.

Yours faithfully,

for.
Prof. Owolabi O. Samuel
THE DIRECTOR-SCHOOL OF POSTGRADUATE STUDIES AND RESEARCH

APPENDIX A

RESEARCH QUESTIONNAIRE

TO CLIENTS OF FINCA (U) NAKULABYE BRANCH

Dear Respondent

I am Abanis, a student of Kampala International University, I am glad to have you selected as one of the Respondents as regards the topic of; "MICROFINANCE SERVICES AND THE PERCEIVED POVERTY ERADICATION IN UGANDA. Your observation, experience and opinion is very important. This research is purely academic and the information obtained will be treated with confidentiality.

PERSONAL DATA

Please tick in the appropriate box

☐

1. Age

Between 18 and 25 years ☐

Between 25 and 35 years ☐

35 years and above ☐

2. Sex Male ☐

Female ☐

3. Why did you join FINCA (U)?..

....

....

4. List the types of services offered by FINCA (U)

…………………………………………….

……………………………………………..

……………………………………………….

5. Has the above services helped you in reducing poverty?

Yes ☐

No ☐

6. If yes in (5) above, then list how it has helped you

………………………………………………………

………………………………………………………

………………………………………………………

………………………………………………………

7. What business activity are you engaged in?

Retail shop ☐

Salon ☐

Clinic ☐

Farming ☐

6. How long have you been in this business activity?

Less than a year ☐

Between one to five years ☐

Between five to ten years ☐

8. Do you think joining FINCA has helped you?

Yes ☐

No ☐

9. If yes please specify in which way it has helped you?...

....

....

10. What is the proportion of FINCA's loan to your capital?

Less than 30% ☐

Between 30%and 50% ☐

More than 50% ☐

11. Is this proportion significant to your business?

Yes ☐

No ☐

12. What loan amount is given to the new client?

Between 100,000/= and 200,000/= ☐

Between 200,000/= and 500,000/= ☐

Above 500,000/= ☐

13. Please tick in the appropriate box below.

Details	Strongly agree	Agree	Disagree	Not sure
Joining FINCA ha enhanced my business				
FINCA's credit terms are friendly and easily accessible				
I always manage to pay my loan in time				

Do you always obtain all your needs from the loans?

Always ☐

Sometimes ☐

Not always ☐

14. What are some of the challenges that are faced by FINCA in its effort to eradicate poverty in Uganda ?..

....

....

APPENDIX B

STRUTURED INTERVIEW GUIDE

Microfinance services

Structured interviews for credit officers.

(A) BACKGROUND

(a) Name……………………………………………..

(b) Gender (F) ………………..M………………

© Location of work

(d) Date you joined FINCA (U)

(e) Level of education

(f) Languages spoken

(g) Do you speak the local language at your work area?

(B) KNOWLEDGE AND TRANING

(a) Did you have any knowledge of Microfinance services before you joined as a credit officer? Yes……… No…………………………..

(b) Were you trained for this job?

Yes…………… No……………..

(c) Was training in your view adequate?

Yes…………………..No……………

(d) How often do you attend refresher course?..................................

(e) What does the retraining involves/ emphasize?

(f) Who conducts the training?..

(g) Is there any review of the systems while you carry out the training?

Yes........................No........................

(C) SERVICES OFFERED BY FINCA (U)

(a) List the services offered by FINCA (U) to its clients

....

....

....

....

(b) What is the perception of FINCA (U) clients towards the services they receive?

....

....

(d) Do the Clients obtain the all the available services?

Yes ☐

No ☐

(e)Do you follow a specific criterion in selecting customers for the above services?

(f) How long is your credit period?

☐

One month

Three months

Six months

One year

Over two years

(g) Please tick in the appropriate box

Details	Strongly agree	Agree	Disagree	Not sure
Loans are given to whoever applies for them				
FINCA (U) has promoted growth among the women in Uganda				
FINCA (U) has benefited the poor				
Credit officer choose business activities for the clients				

(D) Perceived Poverty eradication

(a) Do you think the services of FINCA (U) have an impact on poverty eradication in Uganda? ☐

Yes

No ☐

(b) If yes, please explain

....

....

....

©Do clients pay their loans on the scheduled time?

Always ☐

Sometimes ☐

Not always ☐

(E) GROUP FORMATION AND LENDING METHODOLOGY

(a) Briefly describe the group formation

(b) What is your role in group formation?

© How do you compare the lending methodology used by FINCA (U) to the traditional Methods?

(d) Do you find this appropriate to FINCA (U) clients?

(e) Enumerate any problem associated with lending methodology

(f) Briefly describe what the appraisal processor involved.

(g) Is this appropriate? Yes.....No....if no give reasons why you think it is appropriate.

(h) Mention any suggestions.

(F) COMMUNICATION WITH CLIENTS.

(a) How do you communicate with your clients?

…………………………………………………………………………………………

…………………………………………………………………………………………..

THANK YOU