RURAL BANK SERVICES AND POVERTY ALLEVIATION IN SELECTED RURAL BANKS WITHIN WAKISO DISTRICT, CENTRAL UGANDA

A Thesis

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BY

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DECLARATION A

"This thesis is my original work and has not been presented for a Degree or any other academic award in any University or Institution of Learning".

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DECLARATION B

"I confirm that the work reported in this thesis was carried out by the candidate under my supervision".

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DEDICATION

This research work is dedicated in the loving Memory of my Mum, Mrs. Mangyeri Rwabukurukuru and my Son Joshua.

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ABSTRACT

This study set out to assess the effect of Rural Bank services on poverty Alleviation in Wakiso District. It was guided by four objectives, including determining the; i) profile of the respondents; ii) level of Rural Bank services; iii) level of poverty alleviation; and iv) relationship between level of rural banking services and poverty alleviation in selected Rural Banks within Wakiso District. A descriptive correlation design was used involving 250 respondents and the researcher made use of questionnaires to gather data from 154 purposively sampled customers and staffs.

Data analysis using SPSS's means revealed a very high poverty level (mean=3.55) and a high level of bank services (mean=3.31). A significant correlation between level of poverty and loan services (r=0.935, sig. =0.000) and advisory services (r=0.964, sig. =0.000).

The researcher concluded that the success of a microfinance program in terms of outreach, financial sustainability and/or socio-economic impact depends on an interaction between the characteristics of the program itself and the context in which the program is implemented. The researcher recommended for formulation of an accommodative regulatory and legal framework that will stimulate provision of a wide range of demand driven products and services needed by the poor, a deliberate improvement of rural financial infrastructure by the government and linkage of rural banks with the formal financial institutions.

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Abbreviations/Acronyms

CERUDEB	-	Centenary Rural Development Bank
BoU	-	Bank of Uganda
NGO	-	Non- Governmental Organization
MOFPED	-	Ministry of Finance Planning & Economic Development
PEAP	-	Poverty Eradication Action Plan
PAF	-	Poverty Alleviation Fund
MFIs	-	Microfinance Institutions
FSCs	-	Financial Services Corporation

CHAPTER ONE

THE PROBLEM AND ITS SCOPE

Background to the Study

The importance of rural banks and for that matter the banking institution cannot be over-emphasized as far as development is concerned. In the early years of its development, banking business was mostly done by private individuals, but as time went on many countries established public banks either for the purpose of facilitating commerce or serving the government. Even though the business of banking is as old as authentic history, banking institutions have since then changed in character and content very much. They have developed from a few simple operations involving the satisfaction of a few individual wants to the complicated mechanism of modern banking involving the satisfaction of the whole community by securing speedy application of capital slowly seeking employment and thus providing the very life-blood of commerce.

As time went on another form of banking came into the limelight basically to cater for the financial and banking needs of rural dwellers. The concept of 'rural bank', a kind of banking entity which is co-operative in character but provides a service of a much wider range was introduced. Apart from mobilizing local savings and meeting credit needs of all medium and small scale entrepreneurs and cultivators, the rural bank was envisaged to take up the task of implementing programmes of supervised credit, providing ancillary banking services, supplying inputs and agricultural credit, providing assistance in marketing and generally helping the overall development of its areas of operation. The idea of rural banking has, therefore, sprung across the length and breadth of the globe

Rural banks over the years have contributed to the operations and growth of the economy through various roles, including intermediary and provider of payment settlement facilities, bringing together borrowers and lenders (savers or depositors), lending to businesses and individual's and corporate social services in and around their catchment areas.

In Uganda, several banks were established to provide banking services to the populace. They include; Uganda Commercial Bank which is now Stanbic Bank, Centenary Rural Development Bank, Standard Chartered and others. The main characteristic of Uganda banking industry is their common objective of specializing in and offering corporate and merchant banking services (Anin, 2000: 99-100). As time went on, Uganda Commercial banks were not able to shoulder the financial needs of rural people since the principles they operated on were not favourable to a section of the populace especially those found in the rural areas. Thereafter, the government of Uganda to bridge the gap in the standard of living and also mobilize surplus funds and savings for development, the government, acting through the Bank of Uganda in 2001 introduced the rural banking concept into the country.

Rural bank is defined by Addea (1989) cited in Anin (2000) as a "body incorporated under Uganda companies code whose name include the word 'bank' and which is licensed by the BoU to carry out specified business

The Rural banks of which the Centenary Rural Development Bank (CERUDEB) and BRAC, Uganda is no exception since their establishment have contributed immensely towards the socio-economic development of the country. They have contributed in capital formation, savings and also extended credit facilities to people.

Poverty is regarded as a multidimensional phenomenon that exists in many parts of the world. Efforts have been put in place by countries and other world organizations to reduce the rate of poverty in the world. Poverty is a problem for all countries irrespective of their level of development. However, high rate of poverty can be observed in the developing countries of Africa, Asia and South America. In these areas, it can be seen that its prevalent rate is severe among the rural communities. The most valid generalizations about the poor are that they are disproportionately located in rural areas; they are engaged in agricultural and associated activities and are mostly women and children than adult male. On the average, it is concluded that in Africa and Asia, about 80% of all target poverty groups are located in rural areas as about 50% in Latin America (Todaro and Smith, 2009:238). According to the World Bank, 1.3 billion people live below the poverty line of which 939 million or 72.2 percent live in the rural areas (World Bank, 2000).

The beginning of the early 1970s saw much attention geared towards improving the well being of the rural people who formed the majority of the population in the developing countries where the rate of poverty is pervasive. Many governments and other international and local agencies shifted their attentions and channeled their resources towards rural development. This idea was motivated by their intention to reduce the levels of unemployment, increasing access to public goods and services by the rural folks and more particularly lowering poverty and overcoming income inequalities in most developing and least developed countries (Broham, 1996).

Statement of the Problem

Poverty has been asserted to be a rural phenomenon. Since independence in 1962, the Ugandan government has made several attempts to promote rural development in an effort to increase the living standard of the people who reside in rural areas. This is because the prevalent rate of poverty is high in developing countries and more especially in the rural areas. It is said that the vast majority (almost 70%) of the world's poorest people are located in the rural areas (Todaro, 1992).

As a result, countries are putting pragmatic measures in place to reverse the trend. The post-independence era has also seen several programmes to fight against poverty. Among the most recent programmes is the introduction of Poverty Eradication Action Programme (PEAP) which was launched in 1997and Poverty alleviation Fund (PAF) with the main objective of improving human welfare and reduces poverty in the country. Apart from these efforts to reduce poverty, research has shown that financial institutions have an important role to play in this direction. The question is, given the potential role that financial institutions play in poverty Alleviation, what role(s) do rural banks play in rural development? It is therefore, against this background that the study seeks to find out how Centenary Rural Development Bank (CERUDEB) and BRAC, Uganda have helped in the reduction of poverty within the rural communities of Wakiso District.

Purpose of the Study

This study was to explore the role and services of Centenary Rural Development Bank (CERUDEB) and BRAC, Uganda poverty alleviation and the cause and effect relationship of the two variables, test hypotheses of no significant difference and no significant relationship between rural bank services and poverty alleviation, to bridge the various gaps of previous studies and to validate existing information based on the theory to which this study is based.

Objectives of the Study

General: This study was set out to establish the relationship between rural bank services and poverty alleviation within selected banks of Wakiso district, Central Uganda

Specific Objectives

1. To determine the profile of respondents in terms of Bank staff in terms of age, gender, position, income level, and highest educational qualification.
2. To determine the extent of Rural Bank services in terms of Loans services (supervised credit, agricultural credit, business loans, school fees Loans and Housing loans) advisory services (training , marketing) in selected Rural Banks within Wakiso District.
3. To determine the level of rural poverty alleviation in terms of Household income, housing facilities, healthcare & education in selected Rural Banks within Wakiso district.
4. To establish whether there is significant relationship between the extent of rural banking services and level of poverty alleviation in selected Rural Banks within Wakiso District.

Research Questions

1. What is the profile of Respondents in terms of age, gender, rank, income level and highest education qualification?
2. What is the level of rural Banks servicers in terms of Loans services (supervised credit, agricultural credit, business loans, school fees Loans and Housing loans) advisory services (training, marketing) in selected Rural Banks within Wakiso District?
3. What is the level of poverty alleviation in terms of Household income, housing facilities, healthcare & Education in selected Rural Banks within Wakiso District?
4. Is there a significant relationship between the level of rural banking services and poverty alleviation in selected Rural Banks within Wakiso district?

Null Hypotheses

1. There is no significant difference in the level of rural Bank servicers in terms of Loans services (supervised credit, agricultural credit, business loans, school fees Loans and Housing loans) advisory services (training and marketing) in selected Rural Banks within Wakiso District.

2. There is no significant relationship in the extent of rural bank services and the level of Poverty alleviation in selected Rural Banks within Wakiso District.

Scope of the Study

Geographical Scope

The study was carried out in selected Rural Banks of Centenary Rural Development Bank and BRAC, Uganda within Wakiso district. Wakiso District is found in Central Uganda and was created by an Act of

Parliament in the year 2000. It is the third most populated District in Uganda with a population of 1,260,900 people. Wakiso is part of the famous Luweero Triangle, which was plundered during the five year struggle in the early and mid 1980

Theoretical Scope

The study was specifically based on neoclassical growth theory by Harrod-Dommar and Robert Solow's theory which states that Savings are not an end in themselves however; they play an important role in sustaining growth and development. Through savings there will be capital accumulation leading to investments hence economic growth and ultimately development. A high saving economy accumulates assets faster, and thus grows faster, than does a low saving economy (Lipsey and Chrystal, 1995:634).

Content Scope

The study was limited to establishing of Rural Bank Services and how it has alleviated Poverty in selected Rural Banks of Centenary Rural Development Bank and BRAC, Uganda with in Wakiso District.

The respondents in this study were Staff and Customers of Selected Rural Banks-Centenary Rural Development Bank(CERUDEB) and BRAC, Uganda within Wakiso District

Time scope

The study focused on the operations of rural banks (the financial institutions which were formed to serve the economically disadvantaged people) between 2009-2010

Significance of the Study

The study lies in the importance of the establishment of Rural Banks and also the importance that are attached to poverty alleviation within Wakiso District. One of the aims for the establishment of rural banks is to mobilize savings and provide lending to people within its radius of operations. Rural banks are also to engage in economic activity that will promote the social and economic development of the community in which they find themselves. All these activities are geared towards ensuring the development of the communities in which they operate thereby reducing poverty and enhancing the livelihood of the people in the community.

The study will further provide Policy Makers, Non-Governmental Organizations (NGOs) and other stakeholders operating in the district, with information on the activities of rural banks and the ripple effects associated with reducing poverty.

Lastly, the study will produce a document that could be useful to other scholars intending to undertake research on role Rural Banks play in poverty alleviation.

Operational Definition of Terms

Poverty

is deprivation of those things that determine the quality of life, including food, clothing, shelter ,safe drinking water, but also "intangibles" such as the opportunity to learn, medical care and to enjoy the respect of fellow citizens.

Poverty Alleviation

referred to any process which seeks to reduce the level of poverty in a community, or amongst a group of people or countries.

Rural banks

a rural bank is a financial institution that helps rationalize the developing regions or developing country to finance their needs specially the projects regarding agricultural progress..

Customers

People or organizations who utilize the services of Wakiso Rural Bank

CHAPTER TWO
REVIEW OF RELATED LITERATURE

Concepts, Opinions, Ideas from Authors/Experts
Rural Banking

Rural banking is the process of conducting banking transactions out in the country where bank branches are too far away to be of use. Rural banking is popular for very small towns and farmers who live far away from areas of larger population and cannot make the drive to these locations whenever they need to use banking services. Typically, an agent of the bank will visit these rural locations and offer to make transactions in an official capacity.

One type of self-help group found in Africa is that of the village bank. Village banks have been established with the purpose of addressing the financial needs within rural areas in a sustainable way. These institutions utilise the communities' resources by creating community-based intermediaries that may act as an effective link between the rural communities and the formal financial sector.

Village banks are semi-formal financial institutions that create access to basic banking services on a sustainable basis by utilizing a community's rules, customs, relationships, knowledge, solidarity and resources combined with formal financial methods and concepts. The shareholding structure of the bank allows for easy entry for new members thus not only increasing the bank's outreach but also result in villagers' commitment to the success of the bank. The bank targets both the poor and better-off segments within the community and in this manner further increase outreach (Jazayeri, 1996; Pearce and Helms, 2001).

Rural people have little if any access to financial services. The high costs and low returns associated in addressing their savings, loans, transmission and insurance needs prevent commercial banks from serving this segment of the market. Many researchers emphasise the importance of utilising a community's resources such as villagers' skills, imagination, initiatives and financial potential to establish self-help institutions that address the community's needs. The community by identifying their own potential has greater confidence in them and their capacity in meeting their economic demands.

Village Banks, founded by the International Fund for Agricultural Development in 1994, are self-sustaining financial institutions owned, financed and managed by the community with the purpose of providing deposit, credit, banking and other financial services to their members. Village banks are found throughout Africa, including South Africa, Bénin, the Congo-Brazzaville, Gabon, Guinea, Mauritania, Uganda and Kenya.

In Uganda about 18 million people live in rural areas, which represent about 62% of the population (Schoeman, undated (c)). Despite these numbers, formal financial institutions do not provide financial services within these areas. The income derived from these services does not warrant the cost of provision due to the limited extent of services and the remoteness of most of the rural villages. Furthermore, characteristics of the rural areas such as poor infrastructure, low population density, high levels of illiteracy, and limited business activities further restrain formal financial institutions from addressing the financial needs of the rural population. Rural villagers on the other hand, face high transaction cost in travelling to the nearest bank and often do not adhere to the minimum requirements set by the bank for either opening a savings account or obtaining a loan. If, however, commercial banks do provide financial services, it must be delivered sustainably. Experience shows that many communities were left vulnerable due to the closure of branches in rural areas that resulted from the unsustainable cost structures involved. Any rural financial institution therefore must address not only the risk and cost restraints, but also the specific needs of their rural clients in a sustainable manner.

The services rural people need or demand is as follow: I) The safe keeping of cash and saving opportunities. Studies by Spio et. al. (1995) as well as Yaron et. al. (1997) indicated that rural people have the ability to save. Often the importance of savings in rural areas has been neglected since it was assumed that rural people cannot and will not save due to low income levels and a high propensity to consume. In many instances, the demand for saving facilities is greater than that for credit; II) Short term credit. Credit is needed for unforeseen consumption expenses, for example, marriage, birth, and burials, and is often obtained from local moneylenders at high interest rates; III) Transmission services. Extended family networks found in the rural areas and extensive rural-rural and urban-rural migration lead to the demand for better electronic transmission services. Such services will allow transmission between urban and rural areas as well as within and between rural areas. Electronic transmission facilities are especially important since many pensioners as sole income earners are found within the rural areas (Spio et. al., 1995; Strauss Commission, 1996a and 1996b; Jazayeri, 1996; Schoeman, undated (c); Yaron et. al., 1997).

Given the financial needs of rural villagers and the problems of adverse selection and moral hazard associated in providing these services, Graham and Von Pischke (Cross and Coetzee, 1995) advocate the importance of decentralised financial services, i.e. financial services that are organised by the local community. These self-help groups emphasise intermediation at the local level, i.e. to mobolise local financial, human and social resources and provide services such as saving and credit facilities. The solidarity and trust that exist among members of the community as well as local knowledge, management and pressure decrease adverse selection and moral hazard problems often associated with local financial intermediaries.

According to Derban (2005), the causes of non-repayment could be grouped into three main areas: the inherent characteristics of borrowers and their business that make it unlikely that the loan would be repaid, the characteristics of lending institution and sustainability of the loan product to the borrower, which make it unlikely that the loan would be repaid. Third, is systematic risk from the external factors such as the economic, political and business environment in which the borrower operates.

Vigenina & Kritikos (2004) found that individual lending has three elements namely; the demand for non-conventional collateral, a screening procedure which combines new with traditional elements and dynamic incentives in combination with the termination threat in case of default, which ensure high repayment rates up to 100 percent. To mitigate the repayments problems, a close relationship between lender and borrower can be applied through monitoring, business adviser and regular meeting. Besides that, the lender can be introduced to a reward system to those that paid on time such as discount and introducing innovative ways of making the repayments.

Poverty Alleviation

Poverty is generally perceived as individuals' or households' lack of resources to meet their needs for a healthy living or when their resources are so limited than other community members to exclude them from a traditionally acceptable way of life. Such poor people, according to World Development Report 2000/2001, often lack adequate food, shelter, education and health besides facing extreme vulnerability to economic problems and natural disasters. In addition to the very limited assets, inaccessible markets and scarce jobs that lock them in material deprivation, poor people "are often exposed to ill treatment by institutions of the state and society, and are powerless to influence key decisions affecting their lives" (World Development Report, 2000/2001). Moreover, they lack the freedom of choice and action to shape their lives; control over resources; and make decisions, as their freedom is severely curtailed by their voicelessness and powerlessness in relation to institutions such as state and market (World Bank, 2002).

With the view to improving the lives of the poor and mitigating the extreme conditions of deprivation in which the poor households live, various poverty reduction strategies such as promoting opportunities to the poor, empowering them and reducing their vulnerability have been taken at international, national, regional and local levels. In connection with poverty reduction, the World Development Report 2000/2001 suggested the creation of opportunities for the poor such as jobs, credit, roads, markets for their produce, schools, water facilities, health and sanitation; empowerment of the poor that is implementing action responsive to the needs of poor people to facilitate the political, social and institutional interactions of the poor; and enhancing security by reducing their vulnerability to economic shocks, natural disasters, ill health, disability, and personal violence.

Microfinance programmes have been introduced as one of these actions to alleviate poverty, empower low-income people and reduce their vulnerability to risks. According to Aguilar (1999), microfinance services have been believed to alleviate poverty by creating jobs and increasing incomes as they link the poor into productive economic activities. In many cases, basic business skill training accompanies the provision of microloans to improve the capacity of the poor to use funds (Webster and Fidler 1996).

Microfinance services have been provided since the 1970s to alleviate poverty by creating jobs and increasing income. This has been done on the basis of the assumption that by integrating the poor into productive economic activities, development would be promoted automatically through microfinance (Aguilar, 1999). In recent years, however, policy makers, donors and practitioners have been in increasing doubt whether the desired results have been achieved (Aguilar 1999, Hulme 2000, Wright 1999). The doubts called for impact assessment studies, and as a result, a number of such research have been conducted in Asia, Latin America and Africa where the majority of the society are poor and microfinance programmes are being carried out.

Theoretical Perspective

Poverty, measured by proportion of the population living below the poverty line, is observed to be declining over time in Uganda; the percentage of the poor people living below the poverty line fell from 56% in 1992 to 44% in 1997 and 35% in 2000 but rose to 38% in 2002. Poverty in Uganda is mainly a rural phenomenon, 96% of the poor living in rural areas in 2000. Poverty continues to be regionally concentrated, with the North and East, having the largest proportions of the poor populations. However, income inequality has worsened with Ginnn coefficient rising from 35% in 1997 to 38% in 2000 (MOFPED, 2001). To reduce the rural urban income gap (inequality), the Poverty Eradication Action Plan (PEAP) emphasizes among other things the strategic improvement of access to credit by poor through the microfinance sector.

Credit is considered to be an essential input to increase agricultural productivity, mainly land and labour. It is believed that credit boosts income levels, increases employment at household level and thereby alleviates poverty. Credit enables poor people to overcome their liquidity constraints and undertake some investments, especially in improved farm technology and inputs, thereby leading to increased agricultural production (Adugna & Hiedhues 2000). Furthermore, credit helps poor people to smooth out their consumption patterns during the lean periods of the year (Binswanger & Khandker, 1995). World Bank (1989) also observed that improved consumption is an investment in productivity of the labourforce.

According to Navajas et al (2000), the professed goal of microcredit is to improve the welfare of the poor people as a result of better access to small loans. Diagne and 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-savings, 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 overtime. By so doing, microfinance is argued to improve the welfare of the poor.

Rhyne & Otero (1992) argued that financially sustainable MFIs 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.

Buckley (1997) argues that commonly touted indicators of success of microcredit programmes (namely high repayment rates, outreach and financial sustainability) says nothing about the impact on microenterprise operations and only tantamount to "microfinance evangelism". Based on a study on three countries (Kenya, Malawi & Ghana), Buckley (1997) concluded that there was little evidence to suggest any significant and sustained impact of Microfinance on the beneficiaries in terms of micro entrepreneurs graduating to higher or more sophisticated operations, increased income flows or level of employment. The main argument that was adduced was that improvement in access to microfinance and markets was sufficient unless there was an accompanying change in undertakings themselves (i.e. changes in techniques and/or technology).

Evidence by Coleman (1999) suggested that the village bank credit did not have any significant impact on physical asset accumulation; production and expenditure on education. However, the main conclusion from this study was that credit is not an effective tool for helping the poor to enhance their economic condition and that the poor are poor because of other factors (such as lack of access to markets, price shocks, inequitable land distribution) but not lack of access to credit. This was a similar view expressed by Adams and Von Pischke (1992).

Mosley and Hulme (1998) in their study of 13 MFIs in seven developing countries concluded that household income intended to increases at a decreasing rate, as the debtors' income and asset position improved. Results by Diagne and Zeller (2000) in their Malawi study also suggested that Microfinance did not have any significant effect on household income.

Despite these development opportunities which credit will offer to poor households, formal banks hardly lend to the rural people engaged in agriculture because they lack collateral that they could offer as security for loans. Furthermore, because of the small sized loans, former banks are averse to lending to small borrowers because of high transaction costs. Another factor why formal banks are reluctant to lend to people employed in agriculture is the high uncertainty of their incomes, which is highly dependent on weather and sheer luck (World Bank, 1989; Adugna & Hiedhues 2000). As a result of these factors poor households rely almost exclusively on informal credit markets (Nissanke, 1994; Soyibo 1994; Hyuha et al 1993).

Related Studies

Microfinance is provision of small amount of institutional credit and saving to jointly liable low-income people, who are unable to obtain loans from formal sector banks for lack of collateral (Rahman 1999, Morduch 2000). The Grameen Bank in Bangladesh (Wright 1999:39) first began it in 1976. Formal sector banks do not lend to the poor, as it is difficult for them to identify the truly reliable borrowers, monitor their behavior and to make them accountable when it needs (Morduch 2000:622-23). It is with the view to overcoming this phenomenon that the microfinance movement emerged by substituting material collateral with social collateral, organized social pressure from group members among the poor to make each member of the group responsible to and for the collective to enhance social solidarity (Rahman 1999:7, Morduch 2000:622-23).

According to Aguilar 1999, the aim of integrating the poor into the economic circuit through microfinance programmes is to alleviate poverty by creating income and jobs, and consequently promote development. To that end, participants of microfinance programmes are expected to invest the micro-loans in productive activities (Rahman1999:75) that generate enough income enabling the low-income households to exit from poverty; expand their businesses; and improve the quality of their lives (Morduch 2000:620).

In this regard, Webster and Fidler (1996:23) stated that clients of microfinance programs have higher and more stable income, increased household expenditures for basic needs, employment opportunities, nutritional intake and better children's education than they did prior to their participation . Aguilar (1999) said that the poor undoubtedly benefit from microfinance services in growing levels of health care and education expenditures, better income, and better quality of nutrition, asset holdings, and weights of preschool children.

They also become familiar with financial institutions; gain confidence; save for emergency use and build up collateral for loans; have access to market; and increased women empowerment and contraceptive use, among others.

Gulli and Berger (1999:17) summarized the assistance of microfinance programmes to poor households in to four major areas:

1. Investment in productive assets for income generation;
2. Facilitating the household's livelihood activities;
3. Protection against income shocks and reduced vulnerability; and

4. Qualitative factors such as empowerment and building of social capital.

Problems such as adverse selection and moral hazard often associated with loans to rural people are addressed through village banks. Jazayeri (2000) reports that the village bank's local knowledge ensures good borrower selection, that reduces the risk of adverse selection; and the identification of borrowers through the share-holding mechanism reduces moral hazard. Local pressures via other shareholders reinforce repayment discipline.

Loan facilities are currently available to members of FSCs but no information is available to the author on the precise utilisation of these services. As mentioned above, the amount of shares determines the maximum amount a borrower can borrow from a village bank in Uganda and Kenya. No borrower is allowed to borrow more than 15% and 10% of the village bank's loan fund in Uganda and Kenya respectively. The duration of lending varies, from 4 - 6 months in Uganda and 1 – 3 months in Kenya. Monthly repayment instalments are preferred with an interest rate of 15% per month in Uganda and 10% per month in Kenya. Since the loan amount is linked to a member's share value, these village banks have experienced increased participation from villagers (Jazayeri, 2000; DFID, 2000; Pearce and Helms, 2001).

The objective of the village bank must be to focus on the financing of bankable activities and projects within the community. Such lending will result in increased employment, development and the overall improvement of the community. Thus, the success of the village bank could spill over to non-members who will eventually become members of the local village bank.

To put poverty-reduction intervention of microfinance programmes in a nutshell, they reach the poor in need of credit, and the poor pull themselves out of poverty through income generating activities and empowerment (Gulli and Berger 1999:17). Empirically, however, not all microfinance programmes have led to reduction in poverty. In this regard, Rahman (1999:68) said that "...there are still many borrowers who become vulnerable and trapped by the system; they are unable to succeed." According to Hulme (2000:26), calling micro-credit 'micro debt' help us is more realistic as it increases borrower debt-liability, and anxiety and tension among household members (Rahman 1999). Moreover, Hulme (2000:26) wrote, "outside Bangladesh the microfinance industry has not even scratched the surface of poverty." On top of that, Hulme (2000) and Rahman (1999) reported that the poor are very frightened about getting in to debt, and female clients of microfinance service of the Grameen Bank committed suicide when they faced problems with repaying loans. Possessions of debtors (pots and pans, roofing irons) were seized, while the poor have been arrested by police and even threatened with physical violence (Hulme 2000:27).

According to Meehan (2000), services of Debit Credit and Saving Institution had a significant impact on increasing agricultural production, increasing trading activities, increasing income, food supply, child education, clothing and other basic necessities. The study concludes that the credit provision had a positive impact on alleviating poverty.

Asmelash (2003) said though not statistically significant, clients had higher income than non-clients. He also reported more diversified income sources, building of key assets, improved child education, increased access to health facilities and nutritional intake, and improved risk management capacity.

The paper by Fitsum and Holden (2005) indicated that the impact of participation in microfinance resulted in positive changes in per capita consumption expenditure but not statistically significant. The impact on off-farm income and children's education was statistically significant positive change. However, livestock holding is negatively correlated with participation in the microfinance.

Microfinance institutions give loans to individual members of the group for investment in productive activities; generate income; and repay loans with interests, among others. For instance, according to Rahman (1999:75), the Grameen Bank expects from its clients to start their repayment on the second week to the loan receiving by using part of the profit earned from the investment. In many cases the repayments should cover the total costs, if not profit making. In connection with repayment of installments, Webster and Fidler (1994:34) noted that "...there is now strong consensus that repayment rates of less than 95 percent are not acceptable." Webster and Fidler (1996:35) said microfinance institutions have been succeeding in cost recovery and brining about positive impact on their clients even at interest rates more than 70 percent. While arguing for the existence of positive relations between financial sustainability and positive impact on clients, Beth (2001:4) said, "no test for impact comes close to institutional sustainability" as an indicator it makes microfinance meet market test; and if the institution is profitable, it is proof of positive impact.

Studies indicate that rural people desire to save their money but that formal financial institutions are too far away, increasing the transaction costs of the client and that rural people do not meet the minimum requirements of the bank. Therefore, the primary business of

FSCs is to mobolise local savings from members. Two types of accounts can be kept:

i) An open account is used for safe keeping of money that earns no interest on deposits. This facility allows the member to store the money while rationally deciding on consumption spending.

ii) A fixed deposit account provides the member with a medium term investment opportunity. The member receives a fixed deposit certificate and may earn 11% interest on an investment of 3 months, 11.5% on a 6 months and 12% on a 12 months investment (Schoeman, undated (b):5).

Members are encouraged to use the saving facilities of the FSC since a member's future lending depends on his/her savings track record. In Kenya, village banks are allowed to accept deposits. Any withdrawals are charged at a small transaction fee of between 5-12 cents. In Uganda, however, village banks are not legally allowed to accept deposits, but they do. Withdrawals are charged at 3% on the amount deposited that prevent members from fully utilising the service. Members therefore rather buy shares since no returns are received on savings. Future lending depends on the amount of shares a member has and is not influenced by the member's savings track record (Jazayeri, 2000).

On the other hand, Simanowitz (2001:11) critically questioned the existence of positive relations between loan repayment and positive impact by describing what was observed in Kenya when drought devastated poor women, amidst famine, were repaying loans by selling chicken when a particular region was experiencing its third consecutive crop failure as a result of drought; while the community was reaching crisis situation; livestock were dying; and people were leaving the area. In addition, studies on Grameen Bank also reported mixed results. For example, Wright (1999:43) reported that direct effect of the bank has been observed on the accumulation of capital by the poor; working capital of members' enterprises increased by an average of three times within 27 months; investment in fixed assets increased by 2.5 times; and members had incomes about 43 percent higher than the target group in the control village, while Hulme (2000:27) and Rahman (1999:68) were pointing out worsening conditions of clients with repayment problems as their possessions like pots were seized; the debtors were arrested; and even some women committed suicide due to excessive pressure exerted by bank workers and peer group members on borrowers for timely repayment, rather than working for borrower empowerment as originally envisaged. To cope up with the problem many borrowers maintain their regular repayment schedules through a process of loan recycling (paying off previous loans by acquiring new loans from members of other groups), which considerably increases borrower debt-liability (Hulme 2000, Rahman 1999).

CHAPTER THREE
METHODOLOGY

Research Design

The study adopted descriptive correlation design to describe the current conditions and investigate relationships, including cause effect relationship between the two research variables (Rural Bank services and poverty alleviation) in the study context. Descriptive data was used to describe a phenomenon as set out in the questionnaires and it employed both quantitative and qualitative approaches.

Research Population

Target Population

In this study, the target population was 250 respondents comprising staff and customers of the selected rural banks in wakiso, Central Uganda, The selection of the respondents from Centenary rural Development Bank (CERUDEB) and BRAC, Uganda; to participate in the study helped in accessing information about the activities and services of the bank which are geared towards alleviating poverty. It is believed that customers who have accessed the services of Centenary rural Development Bank (CERUDEB) and BRAC, Uganda for a period of three years have the basic knowledge and were used since they are in a position to tell the extent to which their livelihoods have been influenced by the services of these rural banks.

Sample Size

The minimum sample size was computed using the Sloven's formula, which states that, for any given population, the required sample size is given by;

$$n = \frac{N}{1 + N(e^2)}$$

Where n=the required sample size; N= the known population size; and e= level of significance, which is= 0.05. Therefore, given a total population of 250 respondents in Centenary rural Development Bank (CERUDEB) and BRAC, Uganda, a sample was 154 as indicated in table 1.

Table 1

Category of Respondents

Respondents	**Target Population**	**Sample size**
Centenary Rural Development Bank(CERUDEB)	40	25
BRAC, Uganda	30	18
Customers of Centenary &BRAC	180	111
Total	**250**	**154**

Sampling Procedures

The study made use of purposive sampling methods for the banks that were selected for the study and the respondents (both customers and staffs) were chosen basing on simple sampling techniques. The choice of procedure depended entirely on the rate of usage and knowledge of bank services, and for staffs, technical expertise and level of familiarization with customers within these rural areas. The application of the simple random sampling methods was to ensure that each customer is given equal, calculable and non-zero probability of being selected for the study (Sarantakos, 1998: 141).

Data Collection Methods

The study employed both the primary and secondary sources of data in an effort to gather relevant information useful for the study.

Primary data was collected from respondents using questionnaires as the main data collection instrument.

The secondary sources of data was basically obtained from companies' official documents, thesis unpublished articles, reports, publications and journals articles relevant to the field under investigation.

Research Instrument

Two sets of self administered questionnaires were administered to employees and customers of selected Rural Banks to obtain information related to the variables under investigation. This was preferred because questionnaires are easy to administer and where possible, interviews were also used to gather in-depth information from the respondents.

Validity and reliability of Instruments

In order to test the reliability and validity of the data collection instrument, pre-testing was carried out. The research undertook a reconnaissance study at the study area to conduct a pre-test of the instruments on some key employees of Stanbic and Pride Microfinance Employees to determine the relevance of questions included in the instrument and the methods used. This stage revealed the suitability of the methods and instruments that will be employed in the study. This consequently led to an early detection of possible errors or distortions so that they could be corrected.

Content Validity Index (CVI) was calculated for the questionnaires and it was found to be 0.83 using the formula:

$$CVI = \frac{\text{The number of relevant questions}}{\text{The total number of questions}}$$

And it was found to be 0.83 which is an accepted value according to Kathuri and falls (1993) who observes that any CVI should be above 0.76 hence the researcher's questionnaire was valid.

The reliability of the instrument was tested using cronchbach's coefficient (α) and the results obtained was 0.83(SPSS) which was greater than 0.70 indicating that the instrument was highly reliable.

Data Gathering Procedures

The following data procedures were implemented:

Before the Administration of the question

The Researcher requested for an introductory letter from the School of Postgraduate Studies and Research to the authorities of the rural banks under study to be permitted to conduct the research. The letter contained the criterion for selecting the respondents and the request to be provided with the list of employees from the selected rural banks. After approval, the requested list of respondents that was provided to the researcher by selected rural banks in Wakiso district was used as a guide in identifying the participants for the study, after which pre-testing of the instrument Rural Bank services followed.

The researcher prepared the questionnaires together with the research assistants to discuss and brief them on sampling techniques and data gathering procedures.

The researcher utilized (Table 1) on respondents to determine the number of participants

During the administration of the questionnaire

Specifically, the researcher together with researcher assistants requested the respondents: (1) to sign the informed consent; (2) to answer all questions or items set out in the questionnaire; (3) to be objective in answering the questions.

The researcher together with research assistants ensured that retrieving the questionnaires was done within two weeks from the date of their distribution. All Questionnaires retrieved were checked to ensure they were completely filled out.

After the Administration of the questionnaire

The data collected was organized, collected, summarized, statistically treated and drafted in tables using the statistical Package for Social Sciences (SPSS).

Data Analysis

Frequency and percentage distributions were used to determine the profile of respondents. Means were applied to determine the levels of rural bank services and poverty alleviation. The following means were used to arrive at the mean of the individual scores and interpretations:

A. ***For the level of rural bank services***

Mean Range	Response Mode	Interpretation
3.26-4.00	Very often	Very high
2.51-3.25	Often	High
1.76-2.50	Rarely	Low
1.00-1.75	Very rarely	Very low

B. ***for the level of Rural Poverty Alleviation***

Mean Range	Response Mode	Interpretation
3.26-4.00	strongly agree	Very high
2.51-3.25	Agree	High
1.76-2.50	Disagree	Low
1.00-1.75	Strongly Disagree	Very low

To determine whether there is a significant relationship between rural bank services and Poverty alleviation, the Pearson linear correlation coefficient (PLCC) was used to compute the influence of the independent variable on the dependent variable.

Ethical Considerations

To ensure utmost confidentiality for the respondents and the data provided by them as well as reflect ethics practiced in this study, the following was done:

1. All questionnaires were coded to provide anonymity of the respondents.
2. The respondents were requested to sign the informed consent.
3. Authors quoted in this study were recognized through citations and referencing.
4. A written communication to the authors of standardized instrument on organizations' performance to solicit permission to use the standardized questionnaire.
5. Presentation of findings was generalized.

Limitations of the Study

The researcher claims an acceptable (0.05 level of significance) 5% margin of error in view of the following anticipated threats to validity with relevance to this study:

1. Testing: Differences in conditions and time when the data was obtained from respondents by different persons on different days at different hours. This was minimized by orienting and briefing the research assistants on sampling techniques and data gathering procedures.
2. Instrumentation: The Research Instrument on Rural Bank Services was not standardized. Validity and Reliability test was done to produce a credible research tool.

3. Extraneous variables. The researcher did not have control over the extraneous variables such as honesty of the respondents, personal biases and descriptive nature of the design. For untruthfulness where some of the respondents were expected not to say the truth, the researcher probed the respondents further to establish the truth when it was deemed necessary and personal biasness were also avoided by the researcher.
4. Attrition: The researcher experienced loss of Respondents over the course of a study, such as employees retired, resigned or died but the researcher gave out more questionnaires than the required number to reduce on this.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

Introduction

Data was analyzed and interpreted basing on the study Objectives. It specifically sought out to; determine the respondents' profile, level of Rural Bank Services, level of poverty Alleviation, and the relationship between Rural Bank Services and Poverty Alleviation.

Profile of Respondents

Respondents in the study included staff and customers of the selected rural banks in Wakiso District. The first objective of this study was set out to determine the profile of the respondents in terms of age, gender, rank, income level and highest education level. In each case, respondents profile was determined using an open ended questionnaire and their responses were analyzed using Frequency counts and percentage distributions as indicated in Table 2;

Table 2
Profile of Respondents

Age(Customers)	Frequency	Percent
40-59	130	72.2
20-39	47	26.1
60 and above	3	1.7
Total	**180**	**100.0**
Age(staff) 20-39	50	71.4
40-59	18	25.7
60 and above	2	2.9
Total	**70**	**100.0**
Gender(customers) Female	120	66.7
Male	60	33.3
Total	**180**	**100.0**
Gender(staff) Female	40	57.1
Male	30	42.9
Total	**70**	**100.0**
Position in organization(Staff) Field worker/Loans officer	30	42.9
Accountant/Auditors	14	20.0
Banker/Cashier	12	17.1
Manager	12	17.1
Receptionist	2	2.9
Total	**70**	**100.0**
Income level(Customers) Medium(200000-500000 per month)	95	52.8
Low(below 200000 per month)	80	44.4
High(600000 and above)	5	2.8
Total	**180**	**100.0**
Education level(Customers) Secondary	130	72.2
Primary	20	11.1
College	20	11.1
University	10	5.6
Total	**180**	**100.0**
Education level(Staff) Degree	50	71.4
Diploma	10	14.3
Certificate	8	11.4
Masters	2	2.9
Total	**70**	**100.0**

Responses in Table 2 show that most respondents were female as compared to their male counterparts. This is indicated by 66.7% for females, 33.3% males for customers, whereas staffs consisted of 57.1% females and 42.9% males in terms of gender. This indicates the active involvement and participation of women in community services compared to their male counterparts.

Regarding the Position/Rank in organization most employees were field workers 42.9%), followed by auditors/accountants 20%, managers and Cashiers constituted 34.2% while receptionists were only 2.9%.This implies that rural banks employ a lot of manpower in their bid to extend/or take nearer their services and products to clients.

Income level indicated that majority of the customers 58.2% were middle income earners, followed by low income earners 44.4% and 2.8% for high income earners. This indicates that field officers were in position to assess and determine the loan requirements for the rural customers and at the same time be in position to devise terms of recovery against the monies paid out. In contrast, it is also evident that the MFIs approached only the wealthier poor as their clients who were able to make repayments; hence, it could reduce poverty of the poor who had certain level of income hence micro credit is not an effective measure of poverty reduction of the ultra poor who are already indebted.

As for the case of Educational level most respondents (customers) had acquired minimum educational qualifications ranging from secondary (72.2%), University (5.6%), college (11.1%), and primary (11.1%). Similarly, as for the case of staffs, responses indicated that most respondents had acquired the basic educational qualifications ranging Degree (71.4%), Diploma (14.3%), certificate (11.4%), and masters (2.9%). This indicates that most respondents (both customers and staffs) had the basic knowledge necessary to help them undertake transactions of commercial and financial nature.

Responses indicate that majority of the customers were between 40-59 years of age (72.2%) followed by 20-39 (26.1%) and above 60 (1.7%). Similarly, most staffs were between 20-39 (71.4) years of age, followed by 40-59 (25.7%) and above 60 (2.9%). This implies that Rural Banks extend their services and facilities to all categories of clients irrespective of age and that these institutions employ a youthful staff to enable them extend and offer reliable, convenient and dependable services to their clients in a cost effective way.

Level of Rural Bank Services

The level of Rural Bank Services in terms of Loans services was operationalised as supervised credit, (agricultural credit, business loans, school fees Loans and Housing loans) advisory services (training and marketing). Rural Bank Services were divided into 2 parts, A and B. Part A was on loan services which were broken down into questions on supervised credit, agricultural credit, business loans, school fees Loans and Housing loans and, PART B was on advisory services and was divided into Training and Marketing.

A four point Likert scale was employed on all items on Rural Bank Services which ranged from; 1=Very rarely, 2=Rarely, 3=Often, 4=very often. Their responses were analyzed and described using means as summarized in table 3;

Table 3

Extent of Rural Bank Services in terms of Loans services and Advisory services (N=70)

Categories	Mean	Interpretation	Rank
Loan services			
You give loans to business persons to start new business or expand existing ones (Business Loans)	3.36	Very high	1
You help members to grow by providing loans to build domestic houses (Housing Loans)	2.99	High	2
You encourage parents to take loans to pay fees for their children (School fees Loans)	2.94	High	3
You give out money for a specific period & make a follow up to check whether it really(supervised credit)	2.93	High	4
You give credit to farmers to increase and improve on their produce (Agricultural loans)	2.79	High	5
Sub-total	**3.000**	High	
General advisory services			
Training clients on how to market their products	3.73	Very high	1
Advising clients about market opportunities	3.67	*Very high*	2
Giving clients information about the markets	3.67	Very high	3
Encouraging /training people to save (through seminars, workshops and media programmes)	3.61	Very high	4
Advising clients on how to invest	3.57	Very high	5
Training people on how to open up income generating activities	3.50	Very high	6
Sub-total	**3.626**	Very high	
Overall total	**3.313**		

Source: Primary data

Results in table 3 indicated that there were different levels of Rural Bank Services on different aspects. For example, respondents under category **A** (loan services) rated business loans to be very high with mean score of 3.36 and this Ranked number 1. In category **B** (Advisory Services), training on marketing products was rated number 1 with mean score of 3.73 but interpretations on all questions of advisory services were Centenary bank and BRAC – Uganda, Wakiso District.

The above trend (i.e. high levels of loan services and very high levels of general advisory services) can be explained by the fact that despite efforts instituted by the rural banks to extend services nearer to the local populace, efforts have been concentrated entirely on helping the poor get out of poverty through the promotion of advisory services other than encouraging people to apply and/or take loans without properly and efficiently identifying viable and profitable economic, income generating and sustainable projects to alleviate these rural communities out of poverty.

The Level of Poverty

The independent variable in this study was the level of Poverty in terms of Household income, housing facilities, healthcare & education, which was divided into a Four point Scoring system 1= Strongly Disagree, 2= Disagree, 3 = Agree, 4= Strongly Agree. Questions on the level of poverty ranged between 1-7. The responses were analyzed and described using means as summarized in table below;

Table 4

Extent of Poverty Alleviation in Terms of Household Income, Housing Facilities and Healthcare, in Wakiso District (N=180)

Categories	Mean	Interpretation	Rank
Poverty Alleviation			
Your income level has increased since you accessed Rural Bank Services	3.83	Very high	1
You have managed to expand your business as a result of utilizing loans/advice	3.81	Very high	2
Your savings have increased since you opened up an account with this Deposit taking Institution	3.81	Very high	3
Your savings from these institutions have enabled you to send your children to school	3.77	Very high	4
Your business earnings have increased as a result of advisory services provided	3.70	Very high	5
Rural Banks have enabled you gain access to health services in community	2.97	High	6
Efforts to build yourself a house are attributed to the presence of the Rural Bank service facilities	2.94	High	7
Total	**3.548**	Very high	

Source: Primary data

Table 4 results indicate that the level of poverty among customers of the selected Rural Banks within Wakiso district were Very high with only 2 items being high (i.e. household and accessibility to health services).

Poverty levels constituted 7 questions and were sub-divided into household income, housing facilities, healthcare & education. For example income was rated as being Very high with a mean of (3.83) and was ranked number 1 and Housing was ranked number 7 with a mean of (2.94) i.e. high. However, a general trend indicate the level of poverty among rural bank customers was very high (computed mean 3.548) implying a reduction in poverty levels. This is indicated by the concerted efforts of rural communities to embrace the usage, availability and/or outreach of the rural bank customers to acquire loans with the anticipation of improving their livelihoods and enhancing living standards to better meet their daily demands.

Relationship between Level of Rural Bank Services and Poverty among the Rural Communities of Wakiso

The fourth objective was to establish whether there is significant relationship between the level of rural banking services and poverty alleviation in selected Rural Banks within Wakiso District. This was hypothesized that the mean scores of respondents from selected Rural Banks in Wakiso regarding the level of Rural Banks services and poverty alleviation do not significantly relate. To test this hypothesis, the researcher compared the mean scores computed in table 3 and 4 for respondents from two Rural Banks involved in this study. To achieve this objective and to test the null hypothesis, the researcher correlated the means for all aspects of rural bank services and those on poverty alleviation using Pearson's Linear Correlation Coefficient. This analysis of PLCC results are as presented in table 5;

Table 5
Relationship between the level of rural bank services and poverty Alleviation in Wakiso District

Variables correlated	r-value	Sig.	Interpretation	Decision on Ho
Poverty Vs Loan services	.935	.000	Significant relationship	Rejected
Poverty Vs Advisory services	.964	.000	Significant relationship	Rejected

Results from table 5, r=0.935 was high enough to indicate a negative relationship between rural bank services and Poverty alleviation.

Its sig value of 0.00 is less than $\alpha=0.05$ resulting into the rejection of the null hypothesis and accepting the research Hypothesis that there was no significant relationship between Rural Bank services & Poverty Alleviation in the selected Banks of Wakiso District.

Basing on these results, the null hypothesis is rejected, leading to a conclusion despite efforts by either government or community initiatives to establish and expand the services of either commercial banks or microfinance institutions, rural poverty will continue to loom.

CHAPTER FIVE
FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

FINDINGS

This study wanted to establish the relationship between Rural Bank Services and Poverty Alleviation in selected Rural Banks of Wakiso in Central, Uganda which was guided by the following objectives; to determine the profile of the Respondents in terms of age, gender, rank, income level and highest education level, to determine the level of Rural Bank services in terms of Loan services (supervised credit, agricultural credit, business loans, school fees Loans and Housing loans) advisory services (training , marketing) in selected Rural Banks within Wakiso District, to determine the level of poverty alleviation in terms of Household income, housing facilities, healthcare & education in selected Rural Banks within Wakiso district, to establish whether there is significant relationship between the level of rural banking services and poverty alleviation in selected Rural Banks within Wakiso District.

Level of Rural Bank Services

Responses from **table 3** indicate that rural banks offer a variety of services ranging from loans (average mean 3.00), to advisory services to clients (average mean 3.626). However, despite these facilities offered by banks, their level of outreach is relatively low thus having not been able to achieve the desired level in terms of its widespread and the performance. Respondents noted that micro finance markets are well established in the limited geographical areas of Uganda where the low-income group people have access to the wide range of financial Services

As highlighted, one of the key roles microfinance has to play in development is in bringing access to financial services to the poor, to those who are neglected by the formal banking sector. This is their social mission. Mainstream banks target clients that have collateral. The poor do not have assets to act as collateral, therefore they are ignored by the formal financial sector. These banks tend to be found in urban centres while the majority of the poor in the developing world live in rural areas, where financial services are not provided. Therefore, if MFIs are to fill this void they must reach the rural poor.

However, according to most studies, microfinance is only reaching a small fraction of the estimated demand of the poor for financial services (Littlefield and Rosenberg, 2004). MFIs do not have the depth of outreach that is needed to meet the demands of the rural poor. Serving the rural poor in the developing world involves a major financial commitment, as it is expensive to run rural microfinance projects. Claessens (2005) states that high transaction costs, small volumes and the high costs of expanding outreach, make it unprofitable to serve the rural poor. It is for this reason that commercial banks are positioned in areas of high population density. However, if MFIs are to meet their social mission of serving the poor then financial services need to reach the rural poor.

As far as impact of micro finance services on its users is concerned, various studies undertaken by the previous researchers indicated the positive impacts of such services. For example, a cross- sectional survey carried out in Bangladesh between 1991-1992 revealed that of 1500 households used to analyse the impact of micro financing services on the ultimate borrowers, it was found that there was increase in consumption and education level of the households using micro financing services as compared to the households who were not served by any micro finance program.

Similarly, (Otero, 1999) noted that microfinance creates access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through local organisation building, enables people to move out of poverty. She further argues that by providing material capital to a poor person, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and society. The aim of microfinance according to Otero (1999) is not just about providing capital to the poor to combat poverty on an individual level, it also has a role at an institutional level. It seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector.

Level of poverty

Analysis of findings from table 4 reveal that the level of poverty among the rural communities making use of rural bank services had to some extent declined as a result of accessing rural credit from these institutions (*average mean score 3.548*). However initiatives by these rural communities to access financing do not translate into poverty reduction but depends on what the poor do with this money. This is in agreement with Wright (1999, p.40) who argues that by increasing the income of the poor, MFIs are not necessarily reducing poverty as it is often times gambled away or spent on alcohol, so focusing solely on increasing incomes is not enough. The focus needs to be on helping the poor to "sustain a specified level of well-being" by offering them a variety of financial services tailored to their needs so that their net wealth and income security can be improved. Hulme and Mosley (1996, p.109) in a comprehensive study on the use of microfinance to combat poverty, argue that well-designed programmes can improve the incomes of the poor and can move them out of poverty. They state that "there is clear evidence that the impact of a loan on a borrower's income is related to the level of income" as those with higher incomes have a greater range of investment opportunities and so credit schemes are more likely to benefit the "middle and upper poor" (1996, pp109-112). For instance, their study on how MFIs such as the Grameen Bank and BRAC provided credit to very poor households, those households were able to raise their incomes and their assets (1996, p.118).

Similarly, Chowdhury *et al*, (2005) argues that for micro credit to be a real poverty alleviation tool, it should have a long run impact on its client. Often seen that people rise out of poverty when they get credit but as the credit received is spent, they again come back to their prior position. Micro credit is not a short-term phenomenon of poverty reduction. It must lead to sustainable increase in the poor households' wealth.

Relationship between Rural Bank Services and Poverty Alleviation

Analysis of findings from table 5, (r=0.935 sig. = .964), this was high enough to indicate a negative relationship between rural bank services and Poverty alleviation. With its sig value of 0.00 < α=0.05, the decision on the null hypothesis was rejected and accepting the research Hypothesis, that there was no significant relationship between Rural Bank services & Poverty Alleviation in the selected Rural Banks within Wakiso District. However, despite a negative correlation between rural bank services and poverty Alleviation, studies conducted by Littlefield, Murduch and Hashemi (2003, p.2) on various projects in India, Indonesia, Zimbabwe, Bangladesh and Uganda showed very positive impacts of microfinance in reducing poverty by documenting increases in income and assets, and decreases in vulnerability of microfinance clients". In India For example, a report on a SHARE project showed that three-quarters of clients saw "significant improvements in their economic well-being and that half of the clients graduated out of poverty" (2003, p.2).

Conclusion

The success of a microfinance program in terms of outreach, financial sustainability and/or socio-economic impact depends on an interaction between the characteristics of the program itself (both its design and the way it is managed) and the context in which the program is implemented. The program environment can influence the success and impact of microfinance interventions in two distinct ways. First, socio-economic conditions may affect both the ability of clients to benefit from their loans and their capacity to repay. Second, the environment directly influences the operation of the program itself, for example by restricting the possible range of program activities or the terms on which services can be offered (Snodgrass, 1997).

Recommendations

Based on the findings, the following recommendations were made:

Rural Banks need to carefully design financial products that meet the banking needs of the poor. There is need to entrust the society to screen and monitor borrowers for subsequent loans, especially in-group lending. Besides the pricing structure of Products, products flexibility, and reduced transaction costs need to be critically analysed with emphasis on measures like proximity to the poor and low cost organizational structure of these Institutions are paramount.

Government incentive and policies geared towards rural banking. There is need to put in place incentives to encourage rural financing by mainstream commercial banks. Effective rural financing need to be complemented by increased investments, especially on rural infrastructure and human development to equip the would be 'potential investors' with necessary technical skills.

Institutional and regulatory measures. There is need to establish a favourable policy environment to facilitate proper functioning of rural financial institutions. In this regard, it is imperative that the banking regulation and the legal framework adapted be favourable to the needs of micro finance operations so as to ensure their financial sustainability. This notwithstanding, an important point to note is that the micro finance industry has special features that call for the modification of banking regulations to accommodate them in terms of flexibility, ownership structures, interest rate ceilings, portfolio risk evaluation and aggregate portfolio quality and loan loss provisioning.

To withstand unfortunate events, limited asset bases of clients that shake when they face risks could be enhanced if significant results are achieved in reducing poverty. Training on business may also help clients to minimize transaction related risks. On the other hand, micro-insurance scheme could be established to enable poor clients to pool risk or share losses that individuals may not withstand.

Areas for further Research

The study sought to assess the effect of Selected Rural Bank Services on Poverty Alleviation in Wakiso District. However further researchers can divulge further in areas not covered by the researcher as;

- Impact of Bank Advisory services on improving Agricultural productivity of the Rural Communities.
- The Impact of Bank Loans and Community livelihoods' improvement in Uganda.

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KAMPALA INTERNATIONAL UNIVERSITY
EXPLORING THE HEIGHTS

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Fax: +256- 41- 501974
E- mail: admin@kiu.ac.ug,
Website: www.kiu.ac.ug

**OFFICE OF THE COORDINATOR, BUSINESS AND MANAGEMENT
SCHOOL OF POSTGRADUATE STUDIES AND RESEARCH (SPGSR)**

June 10, 2011

Dear Sir/Madam,

**RE: REQUEST FOR NINSIIMA CAROLINE MBA/42995/92/DU
TO CONDUCT RESEARCH IN YOUR ORGANIZATION**

The above mentioned is a bonafide student of Kampala International University pursuing a Masters of Business Administration (Finance and Accounting).

She is currently conducting a field research of which the title is **"Rural Bank Services and Poverty Alleviation in Selected Banks within Wakiso District, Central Uganda."**

Your organization has been identified as a valuable source of information pertaining to her research project. The purpose of this letter is to request you to avail her with the pertinent information she may need.

Any information shared with her in your organization shall be treated with utmost confidentiality.

Any assistance rendered to her will be highly appreciated.

Yours truly,

Mr. Malinga Ramadhan
Coordinator
Business and Management (SPGSR)

SCHOOL OF POST GRADUATE
P.O. BOX 20000, KAMPALA

Centenary Bank

Wakiso Branch,
Plot 214,
P.O. Box 69
Wakiso (U)

Tel: 256-414-380511
Fax: 256-312-265347

Our Ref: ....

Your Ref: ....

Date: 20th July 2011.

TO WHOM IT MAY CONCERN

Ninsiima Caroline with REG. NO. MBA/142995/92/DU of Kampala International University has conducted a research study in our Institution under a topic:

RURAL BANK SERVICES AND POVERTY ALLEVIATION IN SELECTED RURAL BANKS WITHIN WAKISO DISTRICT.

During her stay here, we have found her very Intelligent, hardworking and ready to learn more.

We therefore, recommend her for the interest showed in her studies.

Yours faithfully,

Centenary Bank
20 JUL 2011
8
WAKISO BRANCH
CENTENARY RURAL DEVELOPMENT BANK LTD.

....

BRANCH MANAGER

brac

BRAC UGANDA

P.O. Box 9946
Nansana Branch
Wakiso (U)

Tel: 256-039-270185/3

Our Ref: ....

Your Ref: ....

Date: 15th July 2011.

TO WHOM IT MAY CONCERN

Ninsiima Caroline a student of Kampala International University with REG. NO. MBA/142995/92/DU has successfully completed her research study in our Institution under a topic:

RURAL BANK SERVICES AND POVERTY ALLEVIATION IN SELECTED RURAL BANKS WITHIN WAKISO DISTRICT.

During her stay here, we have found her very Intelligent, hardworking and ready to learn more.

We therefore, appreciate her conduct and interest she has showed in her studies.

Yours faithfully

brac Uganda
15 JUL 2011
P.O. Box 9946, Wakiso
Nansana Branch

....

BRANCH MANAGER

APPENDIX IB

TRANSMITTAL LETTER FOR THE RESPONDENTS

KAMPALA INTERNATIONAL UNIVERSITY
SCHOOL OF POST GRADUATE STUDIES AND RESEARCH
MASTERS PROGRAM

____

Dear Sir/ Madam,

Greetings!

I am a Masters candidate in MBA (Banking and finance) of Kampala International University. Part of the requirements for the award is a dissertation. My study is entitled, **Rural Bank services and Poverty Alleviation in selected Rural Banks within Wakiso District.** May also I request you to participate in this study by answering all questions. Any data you will provide shall be for academic purposes only and no information of such kind shall be disclosed to others.

May I retrieve the questionnaire within five days (5)?

Thank you very much in advance.

Yours faithfully,

Ms. Ninsiima Caroline

APPENDIX 11

CLEARANCE FROM ETHICS COMMITTEE

Date_______________

Candidate's Data

Name_______________________________________

Reg.# ______________________________________

Course _____________________________________

Title of Study

____

____

____

Ethical Review Checklist

The study reviewed considered the following:

___ Physical Safety of Human Subjects

___ Psychological Safety

___ Emotional Security

___ Privacy

___ Written Request for Author of Standardized Instrument

___ Coding of Questionnaires/Anonymity/Confidentiality

___ Permission to Conduct the Study

___ Informed Consent

___ Citations/Authors Recognized

Results of Ethical Review

___ Approved

___ Conditional (to provide the Ethics Committee with corrections)

___ Disapproved/ Resubmit Proposal

Ethics Committee (Name and Signature)

Chairperson _____________________________

Members

____

____

Appendix III
Informed Consent

In signing this document, I am giving my consent to be part of the research study of Miss. Ninsiima Caroline that will focus on **Rural Bank services and Poverty Alleviation in selected Rural Banks within Wakiso District.**

I shall be assured of privacy, anonymity and confidentiality and that I will be given the option to refuse participation and right to withdraw my participation anytime.

I have been informed that the research is voluntary and that the results will be given to me if I ask for it.

____

Name and Signature of Respondent

Date__________________________

Appendix IV

RESEARCH INSTRUMENT

FACE SHEET: PROFILE OF THE RESPONDENTS

PART A: PROFILE OF THE RESPONDENTS

1) **Age** (Please Tick):

____1. 20-39

____2. 40-59

____3. 60 & Above

2) **Gender**

-----1. Male

-----2. Female

3) **Position in organization**

____1. Field worker/Loans Officer

____2. Banker/Cashier

____3. Receptionist

____4. Accountant

____5. Manager

4) **Education Level**

____1. Certificate

____2. Diploma

____3. Degree

____4. Masters

PART B: RURAL BANK SERVICES

How often do you provide the following Loan Services to the Clients? Answer Key 1=Very rarely 2=Rarely 3=Often 4=very often

	A: Loan Services	**1**	**2**	**3**	**4**
1	You give out money for a specific period & make a follow up to check whether it really exists (Supervised credit).				
2	You give credit to farmers to increase and improve on their produce (Agricultural loans).				
3	You give loans to business persons to start new business or expand existing ones (Business Loans)				
4	You encourage parents to take loans to pay fees for their children (School fees Loans)				
5	You help members to grow by providing loans to build domestic houses (Housing Loans)				
	B: General Advisory Services				
6	Encouraging /training people to save (through seminars, workshops and media programmes				
7	Giving clients information about the markets				
8	Advising clients about market opportunities				
9	Training clients on how to market their products				
10	Advising clients on how to invest				
11	Training people on how to open up income generating activities				

PART B: LEVEL OF POVERTY ALLEVIATION

Indicate the extent to which you agree with the following statements

Please respond to the options and kindly be guided with the scoring system below; please write your rating in space provided. Be honest about your options as there is no right or wrong answers.

Score	Response	Description
4	Strongly Agree	You agree with no doubt at all
3	Agree	You agree with some doubt
2	Disagree	You disagree with some doubt
1	Strongly Disagree	You disagree with no doubt at all

	Poverty Alleviation	1	2	3	4
1	Your income level has increased since you accessed Rural Bank Services				
2	Your savings have increased since you opened up an account with this Deposit taking Institution				
3	Efforts to build yourself a house are attributed to the presence of the Rural Bank service facilities.				
4	Rural Banks have enabled you gain access to health services in community				
5	Your savings from these institutions have enabled you to send your children to school				
6	You have managed to expand your business as a result of utilising loans/advice from these institutions				
7	Your business earnings have increased as a result of advisory services provided by the Rural Banks.				

Work Experience

Year	Organization
2010-2011	Kampala International University
2008-2009	Bright future Transporters Uganda Ltd
2007	Blue Employee Benefits Uganda Ltd
2006	Profocus Consultants
2005	Bank of Baroda(Intern)