

**THE ROLE OF MICROFINANCE  
INSTITUTIONS  
IN DEVELOPMENT  
OF UGANDA**

**A SURVEY STUDY OF JINJA  
MUNICIPALITY.**

**COMPILED BY,**

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ACCOUNTS OPTION.**

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**JULY, 31<sup>ST</sup> 2006.**

## DECLARATION

I, Ajanga Silver, declare that this was my own research work and has never been submitted to any other academic institution for any award, unless otherwise proved.



.....  
Signature

Date:

31<sup>st</sup>/02/2006

Supervised by:

**MR. NALEELA KIZITO**

.....  
Signature

.....  
Date:

## DEDICATION

I would love to dedicate my research dissertation to my parents, **Mr. Joseph Onyait** and my Mummy, **Mrs. Mectalina Among** not forgetting my brothers and sisters who are responsible of what I am today. Once again I thank you so much.

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## LIST OF ACRONYMS - ABBREVIATIONS

MFIs	-	Micro-finance Institutions
FINCA	-	Foundation for International Community Assistance
PRIDE	-	Promotion for Rural Initiatives and Development
B.O.D.	-	Board of Directors
C.E.O	-	Chief Executive Officer
ACUMEN	-	Meaning clear understanding and Accuracy of the Information.
NGO	-	Non Governmental Organisations
U.S.E	-	Uganda Security Exchange
AIG	-	America International Group
PEAP	-	Poverty Eradication Action Plan.

## **CHAPTER ONE**

### **1.0 INTRODUCTION:**

The study was about development of the municipality by the rapidly emerging associations and projects in Walukuba East, and Walukuba West, Masese and Mpumudde – Kimaka in Jinja Municipality.

The research was concerned with the findings of the factors that have led to the development of the municipality (areas) as a result of the upcoming Micro-finance institutions in Uganda like foundation for International Community Assistance (FINCA), Promotion of Rural initiative and Development Enterprise (PRIDE) and many others.

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

During the last decade, there was an upsurge in attention to the provision of Micro-finance services to Micro entrepreneurs, especially those from poor households. Before 1990's Micro entrepreneurs in Uganda had limited access to financial services. Co-operate societies provided loans to members and non members and non governmental organisations (NGO's) operated a revolving loan and small grant funds.

In the early 1990's NGO's began providing small loans to micro-finance entrepreneurs based on commercial interest rates, which reflected the sustainability of their programmes. These programmes focussed especially on the female entrepreneurs who did not have access to the formal financial sector.

This can be supplemented in a way that, an estimated 22 percent of all households are engaged in some kind of activity



and 29 percent of the working age population is estimated to be employed in the micro and small enterprises (Impact Associate 1995). These enterprises usually are micro in scale and are opened from owner's home.

The growth of Micro-finance organisations or institutions broaden an undertaking of whom their programmes reach and their impacts. The assessment signifies that; by the end of 1999, some organisations were exploiting the feasibility of offering other types of financial products and nearly a dozen of Micro-finance institutions (MFI's) each had more than 3,000 clients (Hulme 1999).

## **1.2 PROBLEM STATEMENT**

Micro-finance Institutions (MFIS) are known to lead a particular area, that is Jinja municipality in development as it led to better infrastructures like roads, low interest rates ensuring that many people or clients borrow a lump-sum of money so that, they can easily invest in businesses.

However, this was accompanied by some negative information like there was existence of nepotism in a way that, in some instances, loans are given basically on technical know who though following all the legal proceedings.

## **1.3 STUDY OBJECTIVES**

### **1.3.1 Ultimate Objectives**

The ultimate objective of the study was to generate enough information about the role played by micro-finance institutions in development of Jinja Municipality as a whole with major emphasis on the three constituencies of Walukuba East and West, Masese Division and Mpumudde – Kimaka.

### **1.3.2 Specific objectives**

- To find out whether the Micro-finance programmes have a positive effect on the clients' linkages with trade services.
- To find out the interest rates per amount borrowed by individuals.
- To find out the various methods used by the management in promoting credit and savings schemes.
- To find out the problems associated to borrowing of money by small associations and organisations.
- Further, identify the impact of Micro-finance programmes on clients, their household and their enterprises.
- Lastly, analyse the role played by the Micro-finance institutions in development of the Municipality.

### **1.4 STUDY VARIABLES**

There are two variables, viz a dependent variable and an independent variable.

#### **Dependent variable**

Development in Uganda

#### **An Independent variable**

Micro-finance Institutions (MFIS)

### **1.5 STUDY HYPOTHESIS (ASSUMPTIONS).**

- That the clients of Micro-finance Institutions in Uganda have experienced a lot of changes in their incomes.
- The ability to develop out of Micro-finance loans depends on one's (a person's) ability to save and business acumen that is, one's clear and accurate understanding about the business' going concern concept or aspect.

- Micro-finance loans have worsened the poverty levels in other areas due to the loan interests.
- People need to be taught in business entrepreneurship before accusing such loans from the Micro-finance institutions in order for their incomes to increase from the loans and also be able to pay back the loans in time.

## **1.6 SIGNIFICANCE OF THE STUDY**

- The study findings can be used by other researchers to avail or provide information that is important and was missed by the previous researcher in the process of collecting information while in the field.

The findings further can also be used to identify the possible problems and discuss with the management ways of overcoming such prevailing circumstances/situations.

The findings further helped in identifying the most often vital source of income in Uganda's economy.

## **1.7 SCOPE OF THE STUDY**

The study was limited to Micro-finance Institutions in Jinja Municipality focusing on PRIDE and FINCA with citations from other Micro-finance Institutions world over for relation purposes.

The study focused on clients from FINCA in Walukuba East and West about the role played by Micro-finance Institutions in the Municipality.

The study findings further confined itself among the Micro-finance clients in the three constituencies of Walukuba, Masese division and Mpumudde- Kimaka. It involved both the women who are the main clients and a few male clients.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 REVIEW OF RELATED LITERATURE**

This section seeks to provide information done by previous researchers and includes the use of newspapers, library, internet and many other documentations.

The assessment focused on clients of FINCA (foundation for International community Assistance) and PRIDE (Promotion of Rural Initiatives and Development Enterprises).

Before 1990's micro entrepreneurs in Uganda had limited access to financial services. This therefore brought up need for co-operative societies that provided loans to the members, and non-governmental Organisations (NGO's) operated a revolving loan and small-grant funds. In early 1990's however, NGO's began providing small loans to Micro entrepreneurs based on commercial interest rates, which reflected attention to the sustainability of their programmes.

These programmes focused especially on (Women) female Micro-finance enterprises that did not have access to the formal financial sector. This brought about the establishment of the new programmes and existing ones be expanded to new geographic locations.

Most Micro-finance Institutions (MFI's) require mandatory savings to encourage savings, but regulations bar them

from accepting deposits except for mandatory savings in Jinja Municipality. However, according to (Tomsen and Sabelta 1997) a number of programmes also offer non financial services.

Hulme 1999, further went ahead by the end of 1999 and came up with an analysis that, some organisations were exploiting the feasibility of offering other types of financial products and nearly a dozen Micro-finance Institutions (MFIs) each had more than 3,000 clients.

The Management of Micro-finance Institutions (MFIs) first conducted interviews pertaining the giving out of credit facilities to clients of Walukuba, Masese and Mpumudde-Kimaka in Jinja Municipality.

The baseline report according to (Barnes, Moris and Gaile 1998) centred on describing whom the Micro-finance Institutions' programmes reach and exploring linkages with the agricultural sector.

However, a fuller description of assessment framework also provided in the baseline report. (Barnes et al 1998) as I sets forth the main elements of the households' economic portfolio presented in an earlier AIM publication (Chen and Dunn 1996).

MFI's provide financial services, to the world's active poor families like residents in Walukuba, Masese and Mpumudde - Kimaka so that they can create their own jobs, raise household incomes to improve their standards of living. We deliver these services (FINCA) through a global net work of locally managed, self-supporting institutions.

A research released early this month by data bank research Africa. Finance advisory services firm based in Ghana, said the USE had for the second consecutive year out performed other African bourse. The USE according to the research report gained 81 percent index after Egypt (155) and Zambia (116).

Further MFIS management carries out promotions to ensure that their clients get the maximum benefits so as to motivate the clients.

Pride Micro-finance has T. Shirts with their phrase written on **"Your growth is our Pride"**.

Then according to the daily Monitor, Wednesday, March 29<sup>th</sup> 2006, pp 21. FINCA to lend out Shs. 60 billion. FINCA Uganda, a Micro-finance Institution has set aside up to Shs. 60 billion to be lent out to the public.

The managing Director Mr. Fabian Kasi said they expect to lend out an average of Shs. 5 billion per month this year, from the monthly Shs. 4 billion disbursed last year. "I hereby inform our customers and those tending to join us that we are committed to supporting their numerous investments through provision of loans at as little as 3 percent interest rates per month".

Mr. Kasi told Journalists at his office on Ben Kiwanuka street recently.

He said that, since FINCA obtained the Micro-Finance deposit taking license in January 2006 they have registered 20,000 new customers, with deposits of up to (Ug Shs. 5 billion) Uganda Shs. 5 billion.

Therefore with a branch network covering two third of the country. FINCA offers individual business loans, group loans to village banks fixed deposit loans, business loans, salary loans and balances among

others. They also offer money transfer-services on behalf of the western Union. This was written by Livingstone Ssempijja, Kampala.

This thus, makes Micro entrepreneurs to be vibrant in Uganda's economy. Particularly for working poor and those vulnerable to falling into poverty, Micro enterprise therefore is often a vital source of income. This has come up with an estimate where 22 percent of all households are engaged in some kind of business activity and 29 percent of all working age population is estimated to be employed in the Micro and small enterprises. (Impact Associates 1995).

This therefore renders these enterprises usually to be Micro in scale and is normally operated from owner's home.

Further, the support of small Municipal units has risen due to the new developments in the Municipal securities. It is noted that cost of debt interest and the availability of funds have sustained impact on the ability of smaller government units to meet their residents' needs. Small communities are likely to borrow amounts at a given time and the smaller the bond issue, the higher its cost proportionately. Also, because smaller issue are less liquid, their yields must be higher to compensate for this. This was said by Gerald O. Hatler, in his book second edition. Bank investments and funds management pp 329.

However, new techniques are being put in place to support the debts financing of smaller units and to make their debts more attractive to borrowers. These include Municipal bonds insurance, state bond banks and ear marking of state aid to repay local debts. For small fee, local issues of general obligation bonds within the state may contract with the fund, which then guarantees interest and principal on the loan issue.

The rich are believed not to join MFIs because the available loan amounts are too small to be worth the effort. In addition, the weekly



meetings are viewed as being too time consuming and onerous for the "busy mobile businessmen (SIC)". The not-so-poor find the extra money made available through these services useful because they have small businesses that are short of capital and periodic problems that require unplanned financing. Therefore, it is noted that the not-so-poor segment of the population are the main participants in the MFI schemes.

In the face of increased competition, MFIs will have to design products that are responsive to their clients' needs. It is noted that MFIs in Uganda are serving a broad spectrum of clients from relatively wealthy, urban clients to reasonably poor rural clients and (in rhetoric at least) seek to service the poor numbers of the community. This diversity of clients in turn necessitates a diversity of products associated with transforming a traditional credit giving MFI into a client service oriented financial service organisation is the challenge of improving the quality of service given by the credit officers. It is therefore time to think seriously about meeting the huge demand for voluntary open-access, unattached savings services.

With all these, given the high levels of drop-outs resulting from illness/death in the family, it is also time to consider insurance mechanisms.

However, most MFIs in East Africa extend only working capital loans with an emphasis on lending to existing woman-owned businesses that are older than one year.

Further, existing laws bar MFIs from accepting savings deposits and therefore are limited to offering credit services only. This limited range of financial services is incapable of meeting their risk management needs. More recently some MFIs have started examining health and

life insurance schemes with the idea that insurance plans offer a savings type security in cases of illness and death.

FINCA Uganda revised insurance product. From FINCA Uganda internal instructions to credit officers. As a strategy to ensure and insure repayment in case of injury and/or death due to domestic or outside accidents, FINCA has organised an open ended insurance policy for its clients. This is under written by American international Group (AIG) and is referred to as "Group personal Accident". It is tailored to suit the needs for protection against hazards caused by accidents. As part of the loan interest therefore, the client is covered under the policy, the benefits of which include;

- In case of the death of the client resulting from an accident (bodily injuries), AIG pays Ug. Shs. 1,200,000 ( \$ 827.59) plus the loan balance outstanding to FINCA.
- In case of the death of the husband of the client as a result of an accident, AIG pays Ug. Shs. 600,000 (\$413.79) to the client.
- Then in case of the death of the client's child /dependent as a result of an accident, AIG pays Ug. Shs. 300,000 (\$206.90) to the client. This covers up to a maximum of 4 legal children/dependants.
- Finally in case of death of a client as result of natural death or as a result of any disease (but not AIDS) AIG will pay with the loan balance outstanding with FINCA.

Under the previous policy negotiated with American international Group (AIG), FINCA Uganda had offered an insurance policy that also covered some basic medical and temporary and permanent disability expenses. FINCA Uganda is now with Nsambya Hospital to pilot test a health insurance scheme, which is designed to operate in broadly the same manner as the Ishaka-scheme.

There are also many ways of maximising the cost of providing savings services, and possibly even deriving a profit from doing so. This can be done directly through the pricing structure in the form of interest rates paid and the charges levied on savings accounts. These should be carefully structured to encourage savers to maximise deposits and minimise withdrawals. Clearly, the interest paid on savings deposit should be determined by the stability of the deposits. Thus the MFI can elect to pay interest only on accounts with balances above a certain minimum.

In view of the clear evidence that poor people are willing to pay for convenient savings services, in addition to ledger changes, MFIs could limit the number of withdrawal amounts, require notice of withdrawal or charge for withdrawal made. With this therefore, in addition to the pricing structure, the MFI can reduce costs through its organisational approaches and work methods.

Further according to the daily Monitor Tuesday, July 18,2006. pp 18, It was believed that the traditional perception of Micro-finance is strongly associated with charity and donor related activities. Indeed, Micro-finance institutions in Uganda have emerged from "donor boom" that was witnessed in the early to late 1990s, however, as we entered the 21<sup>st</sup> century, their role in the economy of Uganda become increasingly significant.

By 2003, there were over 1,500 MFIs in Uganda that constituted 935,000 savers and 395,000 regular borrowers. Some of the MFIS have developed significant loan portfolios to warrant the interest of Bank of Uganda who now enforce the Micro-finance deposit taking institutions (MDI) Act, which effectively allows MFIS of a specific standard to receive deposits.

Despite several positive mile stones in the MFI sector, their role as savings intermediaries in the Poverty Eradication Action plan

continues to be undermined by high costs of operations, financing and investments, inadequate infrastructure (roads, electricity and a shallow human resource base).

The high interest rates that MFIs charge reflect the factors listed above as major hindrances to the sustainability of their businesses. The government's own interventions in propping household in corners have mostly ended up in failure due to poor design and implementation.

With all the above, MFIs are further noted to have the following meritorious aspects:

MFIs carryout their professional assignments of the borrowers prudently and this reduces the default risk. MFIs traditionally train their clients on basic financial management skills, which also reduce the default risk.

The most common product of the MFIs is the group loan scheme and by offering more affordable financing to MFIs, more people stand to benefit, other than the "Entandikwa" model in which individual borrowing was the norm.

MFIs are also experts at relationship building and have high customer retention rates due to repeat borrowing. This implies that the success of the business stands a greater chance due to this nurturing ability of MFIs.

MFIs have developed expertise on managing their operational costs while maintaining a profitable business. This implies the scheme would have a long term outlook if channelled through MFIs.

Such a framework would guarantee greater outreach by MFIs, whose financing costs would have been cut by almost 50 percent. At the moment, MFIs obtain their funds from commercial banks (who charge interest rates ranging between 19-25 percent) and donor support (which is unreliable).

MFIs would have a greater geographical impact on Uganda due to their outreach abilities and this would ensure a greater economic impact on Uganda and finally, the default risk of “Bonna-Bagaggawale” (BB) fund would be shared. Furthermore, the loans of MFIs are by law insured and this would substantially reduce the risk of default.

The end result of the proposed framework would be best complemented by having a project manager whose role is basically to provide monitoring and evaluation services. By Alex Kalimugogo, Kampala.

## **2.1. ASSIGNMENT OF RESPONSIBILITIES.**

- The Board of Directors is responsible for approving or disapproving the portfolio policy and all portfolio responsibilities.
- The banks' chief executive officer and/of investment committee is responsible for establishing the investment portfolio policy and yearly strategy.
- The bank's chief executive officer and/or investment committee is responsible for appointing an investment officer to implement the investment policy:-
- The bank's investment officer is responsible for advising the bank's chief executive officer and/or investment committee in specific portfolio strategies as well as changes in the portfolio policy.

- The Bank's investment officer (BIO) is responsible for implementing the strategy, with in the guide lines of the investment policy and for actual execution of trades.
- The other responsibilities can be delegated by the immediate bosses with authority.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0. INTRODUCTION:**

This chapter was very important and played a tremendous role in showing the main body of the study. This section helps in showing the research design, area of the study, study population, study sample, data collection methods, data processing analysis and the problems encountered during data collection.

#### **3.1. RESEARCH DESIGN**

The research involved both qualitative and quantitative methods of research or data collection.

The qualitative research involved quotations of narration by the prominent members / staff from the management team.

The quantitative method involved digits rather use of different figures in supplementing the study as in showing the role of Micro-finance institutions in development of Uganda, with emphasis to the three constituencies of Walukuba East and West, Masese division and Mpumudde – Kimaka in Jinja Municipality.

#### **3.2 AREA OF STUDY**

The study was conducted in Walukuba East and west comprising of the central division within the Municipality.

The study focused on clients from Walukuba because the respondents were found to be living nearer to town than the

other two constituencies of Masese and Mpumudde-Kimaka divisions.

Walukuba seemed to be near the researcher's area of residence especially when passing through a certain place commonly known as Kazimingi and involved saving a lot of time which is a resourceful asset to most people.

The two Micro-finance institutions could easily be reached on Lubas road in the Municipality in that they are situated near each other. That is FINCA and Pride Micro-finance.

### **3.3. STUDY POPULATION**

The study centred itself to respondents who are both workers and those not in the working category but borrow some finance from the Micro-finance bodies.

The study consisted of 50 respondents from Walukuba, 40 respondents came from a group commonly known as AGALIAWAMU GROUP and the other 10 came from MUNAKU KAAMA GROUP.

It also involved 3 members of staff, 2 from FINCA Micro-finance and 1 from PRIDE Micro-finance.

However, in findings, most of the respondents were semi-illiterate and illiterates in that, most of the clients were using the so called Lusoga Language as a medium of communication which seemed hard for the researcher.

The few clients who had reached senior three in secondary education could also fear to hold a pen and put on paper with a



common say "Ffe Twasoma Daa". Literally meaning for us we studied long time.

### **3.4. STUDY SAMPLE.**

Since Jinja municipality comprises of many Micro-finance institutions, that is, FINCA, PRIDE, Women's' trust also known as U-Trust and many others, a randomly selected sampling of clients was conducted.

A randomly selected sampling was done hereby clients coming from AGALIAWAMU GROUP and MUNAKU KAAMA Group, BALIKYEGOMBA, BALIKITENDA, MIREMBE, AMAZIMA and KWEZIMBA etc. Majority of which are from FINCA Micro-finance.

However, the clients seemed to be having similar characteristics and thus, with the help of a checklist, all the questions asked by the researcher had an answer provided. This brought about consistence in collecting the information.

It was suitable in away that, most of the clients were staying just a metre away from the others especially when it comes to AGALIAWAMU GROUP because, a lady commonly known as MAAMA DAN was able to move and accompany the researcher to the other members of the group.

### **3.5 IDENTIFICATION OF RESPONDENTS.**

With the help of one group commonly known as AGALIAWAMU group, the researcher was guided house after house as they are living within the same periphery.

With the help of MAAMA DAN, I was able to get all the responses in time because she could help me interpret to the other clients. Hence, there was co-operation between the researcher and the clients.

Once again “Long live AGALIAWAMU GROUP”.

### **3.6 DATA COLLECTION**

There were four main methods employed in data collection viz; personal interviews, focused group discussion, observation and checklist method.

#### **3.6.1 Personal Interviews**

Personal interviews were conducted face to face by the researcher using an interview schedule (See Appendix attached behind). This was constructed in English but during the research it was translated and interpreted in Lusoga during the interview process. Since most of the respondents/clients were fluent with Lusoga language.

The researcher would ask the respondents questions and then tick the answers for the closed ended questions or write up the responses for the open ended questions.

#### **3.6.2 Focused Group Discussion**

Focused group discussion involved selecting members from different groups that is, AGALIAWAMU Group and MUNAKU KAAMA Group.

It involved 10 members from AGALIAWAMU and 5 from MUNAKUKAAMA. This ensured that enough information is obtained to supplement the already attained information.

The clients from the two groups seemed to have similar characteristics and thus, the researcher had a systematic co-ordination of activities hence encouraging proper participation of the clients and the researcher.

### **3.6.3 Observation**

Using this method, the researcher was able to observe the meetings of different groups and would meet and combine ideas about their business.

For instance, Micro-finance is known to have empowered women in various areas like in retail, in produce and poultry plus many more. This therefore was able to make the researcher come up with overwhelming findings.

This method was advantageous to the researcher because the researcher was able to write what he actually observes or sees in the field.

### **3.6.4 Checklist Method:**

With the help of an interview guide, the researcher was further able to obtain all the relevant response upon the closed questions and also wrote up the response against the open-ended questions.

The researcher was able to ask questions with the help of some body to translate and interpret to the clients. This method was

so advantageous in away that, all responses were obtained within the shortest time possible.

The researcher enjoyed this method because it saved a lot of time in that, a lot of information was obtained at the right time.

### **3.7 DATA PROCESSING**

The data was collected manually and involved editing and coding. The information obtained was analysed critically with the aid of quotation from prominent members in the management team.

#### **3.7.1 Editing:**

This process was carried out while still in the process of data collection and was completed after the final time.

After every successive interview, the researcher would pass through the completed interview schedule to ensure completeness, consistence, accuracy and uniformity.

In case of blank spaces, the completed interview schedules with some relevant facts from factual questions and the general observation made by the researcher during the course of the interview observed acted as guidelines in filling up these gaps or spaces.

#### **3.7.2 Coding**

This was concerned with classification of answers from the various respondents into meaningful responses so as to derive an essential pattern.

It involved generating response code categories for the different questions. This was done by obtaining a few data collection tools and record the information obtained from these tools on a separate piece of paper.

The response was obtained from different respondents especially from AGALIAWAMU group, MUNAKU KAAMA group and many others form the micro-finance institutions in Uganda that is, FINCA and PRIDE Micro-enterprises.

### **3.8 DATA ANALYSIS**

The data was analysed critically by reviewing the information collected qualitatively and conclusion taken whether the MFIs played a tremendous role or not.

#### **3.8.1 Analysis of Qualitative data**

The information obtained from the group participation was in line with the interview schedules.

During the interview, individual responses were coded as to whether the respondents have benefited from the MFIs, (Micro-finance Institutions) and if not then, their recommendation to the management or staff of micro-finance Institutions within the Municipality.

Checklist method of data collection was the most advantageous but still the same procedure like above was followed.

### 3.9. PROBLEMS ENCOUNTERED DURING DATA COLLECTION

The time available for the researcher was so limited that respondents had no free time to fill the questionnaires. With this, therefore the researcher tried at all cost to effectively utilise the available time at his disposal in order to successfully complete the area of emphasis (task).

The funds being limited, the researcher tried as much as possible to minimise costs since a lot of money was required for printing and photocopying important documents especially regarding the literature review and many other documents for easy back-up.

There was also suspicion and fear among respondents as some were not willing to reveal important information needed as a result of fear of losing their jobs. Hence, this called for other services like adult literacy which enlightened the masses about what was happening in our day to day changes in the economic environment as a whole.

#### **Language Barrier**

Most clients used their local language that is Lusoga, hence communication was a problem and difficult in expression.

There was a problem of transport moving from one constituency to another. This needed some facilitation which was not possible to reach Walukuba, comprising of also the central division and the other constituencies of Masese and Mpumudde - Kimaka.

## CHAPTER FOUR

### FINDINGS AND INTERPRETATIONS

#### 3.0. INTRODUCTION:

This chapter tries to elaborate on the findings and interpretation of the study. The findings will be discussed relating to the study objectives and the assumptions that were formulated. The information was to be analysed and interpreted in relation – to the Micro-finance institutions in development of Uganda.

#### 4.1 CHARACTERISTICS OF THE RESPONDENTS.

The background characteristics of the respondents were in relation to sex: age, level of education and terms of service which were investigated and are reported.

#### SUMMARY OF THE CHARACTERISTICS OF RESPONDENTS

VARIABLES	FREQUENCY (n)	PERCENTAGE %
Sex: Male	10	20
Female	40	80
Age: 20-29	15	30
30-39	30	60
40-49	5	10
50 above	-	-
Education: Primary	20	40
Secondary	25	50
Testing	-	-
Nil	5	10
Terms of getting service: Poor	-	-
Good	40	80
V. Good	10	20

From the above table, it is noted that majority of the participants were females with a percentage of 80% and males had a percentage of 20% with comparison between the two micro-finance institutions that is, FINCA and PRIDE.

It was noted also that, the most age bracket which involve themselves in borrowing money is within 30-39 which has a percentage of 60% followed by 20-29 which had a percentage of 30% and the balance which is 5% went direct to those within 40-49 years.

According to the findings, it was found that most of the clients had reached at least secondary education with a percentage of 50% but could fear to put a pen on paper. Then 20 clients had primary education with a percentage of 40%. 5 respondents had no education at all and had 10%. The small gap between the percentages shows that better ideas are made and thus, there is good service and management of the borrowing prospects.

Generally, according to the responses obtained, the terms of getting the services are good with the highest number being 40 with a percentage of 80% and then the other balance which is 10 claimed to be getting very good services from the Micro-finance Institutions.

However, leaving the analysis of the table above the respondents were further noted to be fluent in only their local language "Lusoga " and found hard time in expressing themselves using the English language.



#### 4.2 THE IMPACT OF MFIS IN DEVELOPMENT OF THE MUNICIPALITY.

Despite several positive milestones in the MFIs sector, their role as savings intermediaries in the Poverty Eradication Action Plan, continues to be undermined by the high costs of operation, financing and investment, inadequate infrastructure (roads, electricity especially with the frequent load shedding and a shallow human resource base).

The high interest rates that MFIs charge reflect the major hindrances to the sustainability of their businesses.

The government's own interventions in propping household incomes have mostly ended up in failure due to poor design and implementation.

However, according to the information obtained, most clients seem to be believing in the principle commonly believed to be "Bonna Bagaggawale" (BB). But MFIs also have some phrases to motivate their clients for example FINCA is believed to have

**"Small loans big changes" PRIDE "Your growth is our pride".**

In the findings, the clients believe that Micro-finance institutions have solved the most important problems of the poor because they economically improve the poor, they teach them to keep their books, and passing business skills to the poor.

MFIs are associated to help the active poor and most of the associations are prospering with their businesses doing well in retail, in produce, in poultry and many others.

MFIs carry out professional assessments of the borrowers prudently and this reduces the default risk, MFIs traditionally train their clients on basic financial management skills which plays significant role in also reducing the default risk.

MFIs have created experts aiding at relationship building and have high customers retention rates due to the repeat borrowing. This implies that the success of the business stands a greater chance due to their nurturing ability of the Micro-finance institutions.

They have developed expertise on managing their costs while maintaining a profitable business.

This implies that the scheme would have a long term outlook if channelled through MFIs.

The management/staff should come up with a proposed framework which would be best complemented by having a project manager whose role is basically to provide monitoring and evaluation services. This will bring about consistency as the tasks are completed at the right time, managers being strict and committed to their work and many others.

The high interest rates charged to the clients has made their profits limited and in some cases their work becomes limited and so hectic. This has hindered their activities and in most cases, many individuals are scared from borrowing the money from the MFIs.

In the findings further, it was noted that before 1990's Micro-entrepreneurs in Uganda had limited access to financial services. This therefore brought up need for co-operative societies that provided loans to the members, and non

governmental organisations operated a revolving loan and small grant funds aimed at developing the economy as a whole.

Further in the findings, it was discovered that MFIs require mandatory savings to encourage savings, but regulations bar them from accepting deposits except for mandatory savings. However, according to (Tomsen and sabelta 1997) a number of programmes also offer non-financial services.

Hulme 1999, further went ahead by the end of 1999 and came up with an analysis that, some organisation were exploring the feasibility of offering other types of financial products and nearly a dozen Micro-finance institution's (MFIs) each had more than 3,000 clients.

Financial services have been provided to the world's active poor families like the residents in Walukuba, Masese and Mpumudde-Kimaka so that, they can create their own jobs, raise household incomes to improve their standards of living.

FINCA delivers these services through a global network of locally managed, self supporting institutions.

This has led to improvement in social infrastructures, has brought an increase in access of services showed in percentages.

**TABLE 1. ACCESS SERVICES (IN PERCENTAGES).**

AREA	RURAL URBAN	FLUSH LATRINE	PIT LATRINE	ACCESS TO CLEAN WATER
Central	Rural	0%	93%	32%
	Urban	11%	87%	90%
Eastern	Rural	0%	69%	41%
	Urban	12%	81%	91%
Western	Rural	0%	96%	46%
	Urban	7v	92%	88%

**Source:-** Republic of Uganda Ministry of Planning and economic Development, statistics Department, 1997, Uganda National House survey (1994-1995), Second Monitoring, Survey, Main Report. Entebbe, Uganda. Republic of Uganda.

This thus, makes Micro entrepreneurs to be so vibrant in Uganda's economy particularly for the working poor and those vulnerable to falling into poverty. Micro enterprises therefore is often known to be a vital source of incomes. This has come up with an estimate where 22 percent of all house holds are engaged in some kind of business activity and 29 percent of all working age population is estimated to be employed in the Micro and small enterprises. (Impact associates 1995).

This therefore renders these enterprises to be micro in scale and is normally operated from the owner's home.

#### 4.4. THE VARIOUS TACTICS EMPLOYED IN BORROWING MONEY.

Several advertisements have been provided by the management of MFIs by informing the people about the various services offered.

However, the tactics employed in borrowing money includes the following:

- Individuals have been encouraged to form association like AGALIAWAMU GROUP, MUNAKUKAAMA GROUP, BALIKYEGOMBA, MIREMBE, BALIKITENDA, AMAZIMA, KWEZIMBA and many others so that they can be facilitated indirectly and later pay back the money to the banks.
- MFIs also have provided both women and men activities like Poultry, retail and many others, people involved themselves in such activities so as to earn some household incomes and improve in their standards of living. These activities have prospered further, making the clients competent and hardworking in paying back the loans.
- The Masses are told to open account numbers with minimum amounts ranging from the type of account one intends to open. For example there are fixed deposit account, Current Account Savings account, Salary loan Account , Business Loan Account and many others. These are done at reduced costs thus attracting many people to borrow money.
- Group loans are in most cases given a lump-sum of money than individual persons. This calls for association to be formed widely hence, widening their services.

#### 4.3 WAYS OF INFORMING THE MASSES (THE RESPONDENTS/CLIENTS)

Several advertisement programmes are put all over the media basically basing the form of advertisement to be informative. Since majority of the nationals can afford buying radios, so as to listen to the news, the (news) are normally accompanied by advertisements from either FINCA or PRIDE.

With this therefore, many people are attracted to open accounts with the microfinance institutions so as to earn some interest from the money they deposit on their accounts. The interests are normally calculated basing on the actual balance remaining on the account. This has enabled many clients to achieve more in that, those who used to rent are now residing on their personal houses, those who had no hopes in driving can now drive personal vehicles plus many others have established residential houses.

Further, in the findings, the staff of MFIs are also facilitated to go to the rural masses with the help of motorbikes to sensitize the people about the goodness of the microfinance institutions. Several sensitization programmes have been made and budgets scheduled to ensure that what is programmed is achieved at the right time possible. The staff travels to different places like Buwenge A, and Jinja as a whole that is why various village groups have been formed like Agaliawamu group, Kirikwimwino group, Balikyegomba, Balikitenda, Mirembe, Amazima, Kwezimba, Napier, Buyengo and many others whatsoever.

However, although the staff of MFIs go to villages in order to sensitise the people rather natives, the staff of MFIs also need specialized training because today's world is dynamic in that things are changing every other second. This training of the staff will enable and ensure that the staff is updated on what is on the ground and decides that the staff will be able to know what is new and also helps the more experienced people to share what they know with others (Exchange of ideas is encouraged amongst the staff)

The management of MFIs especially PRIDE and FINCA organize saving promotions aimed at promoting their services for example in Daily Monitor Monday, January 30, 2006 the managing Director of PRIDE microfinance, Mr. Paul K. Musoke, congratulated Mr. Haruna Ddamba who won a radio and shillings 100,000 during the company's saving promotion. The grand winner Ms Florence Nakibule got a television set and shillings 500,000.

With a branch network covering two third of the country, FINCA therefore offers individual business loans, group loans to village banks, fixed asset loans and salary loans among others. They also offer money transfer services on behalf of Western Union.

By Wednesday March, 29, 2006, the managing Director of FINCA microfinance was quoted saying "I hereby inform our customers and those intending to join us that we are committed to supporting their numerous investments

through provision of loan at as little as 3% interest rate per month.” This has enabled FINCA alone to register 20,000 new customers with deposits of up to 5 billion. This gives the MFIs gain an upper hand in up bringing the community and societies as one towards development of the country.



## CHAPTER FIVE

### SUMMARY, CONCLUSSION AND RECOMMENDATIONS.

#### 5.0. INTRODUCTION:

This chapter presents the summary of the research findings. It also shows the conclusion and the possible recommendations which the researcher ought to be the most significant role of Micro-finance institutions in development of Uganda with area of emphasis being Jinja Municipality.

The category of people studied were particularly persons or individuals who get group loans from FINCA and PRIDE Micro-finance in Walukuba East and West, Masese division and Mpumudde - Kimaka.

The study was carried out to significantly find out the role of Micro-finance Institutions in the three constituencies of Walukuba East and West comprising of central division, and the other two constituencies of Masese division and Mpumudde-Kimaka.

Respondents included the staff of FINCA and PRIDE, and their clients from Walukuba East and West with central division inclusive, Masese division and Mpumudde-Kiamaka.

Data collection was done using an interview schedule as the main research instrument, personal interviews, focused group discussion, observation and checklist methods.

### 5.1. SUMMARY:

The findings of the study clearly show whether the micro-finance institutions have played a significant role in development of Uganda with emphasis to Jinja Municipality. The Municipality is comprised of Walukuba East and West, Central division, Masese division and Mpumudde – Kimaka.

The finding, were as below:

Inappropriate interest rates. The high interest rates imposed to the clients of Micro-finance institutions limits their coverage. Most persons get loans but due to the high interest rates, they fail paying back the loans to the banks. This has made the clients lose their assets or belongings which were written as security for the money borrowed.

Bureaucratic procedures also existing among the Micro- finance institutions especially FINCA and PRIDE crates undesirable working relationship especially when the semi illiterates and illiterates fill in their particulars and then taken to the counter, in most cases they are denied at least twice or thrice before a hand (help) is provided. This therefore, crates undesirable relationship.

## 5.2. DARKSIDE OF THE STUDY

There was little practical literature available on the problem of the study.

Secondly, language barrier, the clients being well fluent in Lusoga language there was need for somebody to interpret and translate the information.

There was limited time. The time schedule was not enough to collect the information since the problem was so significant about the role of MFIs in development of Jinja Municipality.

The sample size being so big, it also took a lot of time for the researcher while collecting the data.

There was a problem of suspicion and fear among the respondents as some were not willing to reveal the information due to fear of losing their jobs.

There was a problem of transport moving from one constituency to another. This needed some facilitation which was limited to reach the three constituencies of Walukuba, Masese and Mpumudde – Kimaka.

### 5.3. COCLUSIONS

There were queries raised during the course of the study and objectives provided regarding the role of Micro-finance institutions in development of Uganda.

The most significant aspect during the study was issuing of loans to the clients but interest rates reigning the spreme as its being high influences the clients negatively. The high interest rates has made clients lose their assets to the MFIs due to failure of paying back the money.

However, it should not be exaggerated that the study of MFIs in propping house hold incomes have mostly ended up in failure due to poor design and implementation. This should be complemented by having project managers whose role will be basically to provide monitoring and evaluation services.

#### 5.4 RECOMMENDATIONS:

It is useless to identify a problem minus providing possible measures on how to overcome such a scenario. It is naturally believed that there is no problem without a solution.

From the study about the role of Micro - finance Institutions in development of Uganda clients are known to be associated with some hardships or hindrances in their way of operation. The researcher came up with the following recommendations to ensure that the activities of MFIs are addressed systematically.

- Due to the high interest rates, the management of MFIs and the government should combine efforts to reduce the interest rates so that many people can be attracted to borrow money and attain household incomes.
- The staff of MFIs also need specialised training because there are specific problems associated with the industry which needs special regard (attention) given to it.
- MFIs should also empower women and men in different areas like in retail, in produce and in poultry making them harvest incomes from various sources.
- There is need for the management and the staff to sensitise the masses about the services and the aims of the Micro-finance institutions towards development.
- There is need for adult literacy to be implemented because most people were fearing to air out the real problems associated with these Micro-finance institution. Most people thought of “Bonna Bagaggawale” (BB) principle not

involving work or paying back. This is wrong in that, people borrow money and later pay back therefore, there is serious need for sensitisation programmes by MFIs

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## Appendices

### INTERVIEW SCHEDULE FOR RESPONDENTS

The role of Micro-finance Institutions in Development of Uganda. A case study of Jinja Municipality.

**Tick Correct Ones**

### Background Information

100	SEX	Male.....1 Female.....2
101	How old are you	20 – 29.....1 30 – 39..... 2 40 – 49 ..... 3 50 – above ..... 4
102	Level education	Primary..... 1 Secondary..... 2 Territory..... 3 Nil ..... 4
103	Terms of getting the services	Poor..... 1 Good..... 2 V. Good ..... 3
104	After acquiring the service and later invested in some project, what is your monthly income	40,000-49,000..... 1 50,000-59,000..... 2 60,000-69,000.... . 3 70 above..... 4
105	Do you consider your income to be worthy What you incurred	Yes..... 1 No..... 2