# THE EFFECTS OF MICROFINANCE INSTITUTIONS SERVICES ON THE PERFOMANCE OF SMALL BUSINESSES ENTERPRISES IN MAKINDYE DIVISION.

**(CASE STUDY OF MAKINDYE DIVISION)**

BY

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## DECLARATION

I **AWOR MARGARET** Hereby declare that the work presented in this book is original unless otherwise stated. It has never been presented before in any institution of learning either in part or full, for any academic award, publication or otherwise.

SIGINATURE ..........................  DATE 25th 05/2018.....................................

## APPROVAL

I certify that Miss. **AWOR MARGARET** carried out this research under my supervision and has submitted with my approval as the University Supervisor.

Signature ..........................................................

Date.............25th/05/2018.............................

**MRS. IRAU FLORANCE**

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## ABBREVIATIONS

| | |
|---|---|
| SPSS | Statistical Package for Social Scientists |
| MFI | Micro Finance Institutions |
| NGO | Non-Governmental Organizations |
| MSCL | Microfinance Support Centre Limited |
| RFS | Rural Finance Scheme |
| UBOS | Uganda Bureau of Statistics |
| WDR | World Development Report |
| MSI | Management Systems International |

## ABSTRACT

The purpose of the study was to assess the contribution of microfinance services on the growth of small scale businesses and the objectives were to establish the percentage growth of small scale businesses, to ascertain the services and products rendered by small scale businesses after accessing micro credit facilities, to establish the practices employed in paying back the loans and interest rate and to establish the tangible achievements arising from accessing financial services.

l'he study adopted a descriptive research design and followed both qualitative and quantitative ıpproaches to research. The study sample included 90 small scale businesses covering, retail ;hops, market vendors and kiosks operators. The respondents to be included in the sample study vere selected using random sampling method and the researcher used a sample of 90 espondents. Questionnaires, personal interviews and observation were used in data collection. )ata was gathered, assembled, classified, edited and corded which will be mainly done to ensure ccuracy and consistency of information provided. Coding was also done to transform the ıformation into a more presentable form. Data was analyzed using SPSS and Microsoft excel nd the results presented using tables, charts and graphs.

egarding the findings of the study, there is an increase in the growth of small scale businesses ; a result of accessing financial services from MFI's. This is shown by the increased ·ofitability and tangible achievements arising from accessing financial services.

ıe researcher concluded that there is an increase in the growth of small scale businesses as a sult of accessing financial services from MFI's and recommended that there is need to reduce ı the interest rates in all microfinance institutions that offer financial services to small ısinesses such that it can benefit the business community in terms of low burden in paying ck the loan and this further lead to growth of more businesses and there is need for the vernment to give more funding to microfinance institutions since they are involved more in ancing small scale businesses and they are more in contact than the government.

## CHAPTER ONE

### 1.0 Introduction

This chapter presents the background upon which this study is based, it includes historical, theoretical, conceptual and contextual background, purpose of the study, statement of the problem, objectives of the study, research questions, scope of the study, significance of the study and the conceptual framework.

### 1.1 Background of the study

#### 1.1.1 Historical perspective

Microfinance is a facility that makes it possible for the focused poor people to get a small loan to start a business, pay for school fees, procure housing or receive health care (Microfinance vital to economic growth 2005:15). Such an initiative is instrumental in changing the poverty patterns in view of improved facilities to lessen the challenge posed by startup capital. Microfinance has been changing people's lives and revitalizing communities since the beginning of trade (United Nations 2005e:1).

The United Nations declared the year 2005 the year of micro-credit because since 1959, the UN has designated International Years in order to draw attention to major issues and to encourage international action to address concerns that have global importance and ramifications (Microfinance vital to economic growth 2005:15). The United Nations General Assembly resolution on the mandate for the year invited member states, relevant organizations of the United Nations system, non-governmental organizations, the private sector and civil society to collaborate in the preparation and observance of the year.

The invited organizations were expected to raise public awareness and knowledge about micro-credit and microfinance (United Nations 2005d: 4).

In Latin America, Small Scale Businesses are characterized by the dependence on family labor and limited technical and managerial skills. They are commonly not registered, maintain no business records and do not have access to credit from formal credit institutions. They are relatively small, flexible, require low capital needs, modest educational requirements with informal structures that are high labor intensive and do depend on local raw materials (Okurut F. Nathan, 2004).

According to Susanjoekes (1995), the small scale business sector in India has been accorded as a priority sector of the national economy by the national decision makers since it is protected and promoted in various ways by government policies and measures to enhance their growth potential. Small Scale Businesses generate employment at relatively small capital costs, mobilize resources at micro levels and meet the rising demand for various goods and services required by the economy. To the decision makers, Small scale businesses constitute nearly 40% of the total output in the private sector. Much more significant was the employment generation capacity of 70%.

### 1.1.2 Theoretical perspective

**Theory of social-collateral; Group micro lending;** social Collateral also known as social capital generally refers to rust, concern for someone's associate, willingness to live the norms of one's community and to punish those who not. The theory of social collateral is a mechanism within microfinance that lends to communities and not to specific individuals. By doing so it nduces borrowers to select themselves into groups of same risk level and hold it each other accountable. Group lending gives incentives for borrowers to pay back the loan on time, to avoid a default. Members within the community now have more incentives to monitor neighbors and exclude risky borrowers who might put them into risky situations. Balunywa W (2002).

### .1.3 Conceptual Perspective

According to (Robinson,1998) he defines microfinance as " a development tool that grants or rovides financial services and products such as very small loans, savings, micro-leasing, micro-nsurance and money transfer to assist the very or extremely poor in growing or establishing heir businesses". Microfinance institutions are mainly used in economies to support small usinesses that may require less capital to start operating.

Kiiza, 2002) also goes ahead and narrate that Microfinance institutions are those institutions oviding Microfinance Services. Microfinance institutions fall into various forms for ample commercial banks and non-governmental organizations. They are those which are gulated by Bank of Uganda and those simply operating as NGO's. Financial institutions in ganda are regulated depending on the tier they belong. (Ssendaula, G, 2002)

According to De Gobbi (2003), the small scale businesses refer to small and micro enterprises that lack sufficient collateral to cover the particularly high risks involved yet they operate with high transaction costs. She further says that they represent the large proportion of the economic sector in every country. They sometimes operate in the informal sector since many micro entrepreneurs are illiterate and have limited access to information, they are vulnerable and neglected group commonly composed of house wives since they have a lot of responsibilities to accomplish. On the on other hand international organizations such as the World Bank and the International Finance Corporations (2002), define Small Scale Businesses as those that require small amounts of capital to establish, small number of employees or in most cases personally handled by the owner, and referred to as micro businesses hence to them they are "mini businesses"

The European Union (EU) definition is based on the parameters of development, turnover and asset size and Organization for Economic Cooperation and Development (OECD) on employment and sales turnover. This implies that they play a vital role in alleviating poverty and increasing employment attributed to their promotion of competition and dynamism, since they augment government efforts in rural and urban areas thereby improving the household incomes which enables them to access various items for daily use at affordable costs. It is from this perspective that small scale businesses are dubbed as the small scale establishments since they operate at the least levels investment.

### .1.4 Contextual perspective

This study covered the theory concepts, philosophies, historical overview of microfinance institutions, the methodology used, and the objectives of the study. This study was carried out in Small business Enterprises in Makindye Division, Kampala. This area was chosen as a case study because it's near the Researcher's access and also due to the availability of Small Business Enterprises. This will hence help the researcher to intensively collect the required data for the study.

## 1.1 Statement of the Problem

Developing countries like Uganda, the rest of other countries in Africa and worldwide have greatly benefited from Microfinance institutions because these institutions play a vital role towards economic development of a country, in countries like Uganda microfinance institutions act as money lenders to small businesses, not that only but they also go ahead and provide trainings , keep deposits of its clients, money transfer services, and other non-financial services to its customers, just as it has been and it is normally small businesses operate on a small scale basis with limited capital for expansion therefore the services of microfinance institutions are greatly seen as a blessing to small and medium businesses (Balunywa, W (2002). Despite the fact that microfinance institutions provide the following benefits to small and medium businesses, most of owners of small and medium businesses are the same with no improvement at all therefore it's from this background that the research intended to find out the Effects of Microfinance Institutions Service on The Performance of Businesses in Uganda using Kansanga Town, Makindye Division as a point of reference.

## 1.3 General objective of the study

The Effects of Microfinance Institutions Service on the Performance of Businesses in Makindye Division.

## 1.4 Specific Objectives

1. To examine the effect of MFIs on the growth of businesses in Uganda.
2. To find out the contributions of small and medium businesses to the economy
3. To examine challenges faced by small businesses while accessing financial services from microfinance institutions.

## 1.5 Research Questions

1. What is effect of MFIs on the growth of businesses in Uganda?

2. How has small and medium businesses contributed to the development of the economy?

3. What are the challenges faced by small businesses while accessing financial services from microfinance institutions?

## 1.6 Scope of the study

### 1.6.1Geographical scope

The study will be conducted from Kansanga Town, the Town is found in Makindye Division along Ggaba Road Kampala Uganda. The Town has got several business enterprises dealing in different kinds of goods and services.

### 1.6.2 Content Scope

The Effects of Microfinance Institutions Service on the Performance of Businesses in Uganda.

### 1.6.3 Time scope

The study took 3-4 months (February to May) the reason why the Researcher choose this because is , in the month of March is when business men and Women are all available also this period is always a rainy season so many businesses take place during this period.

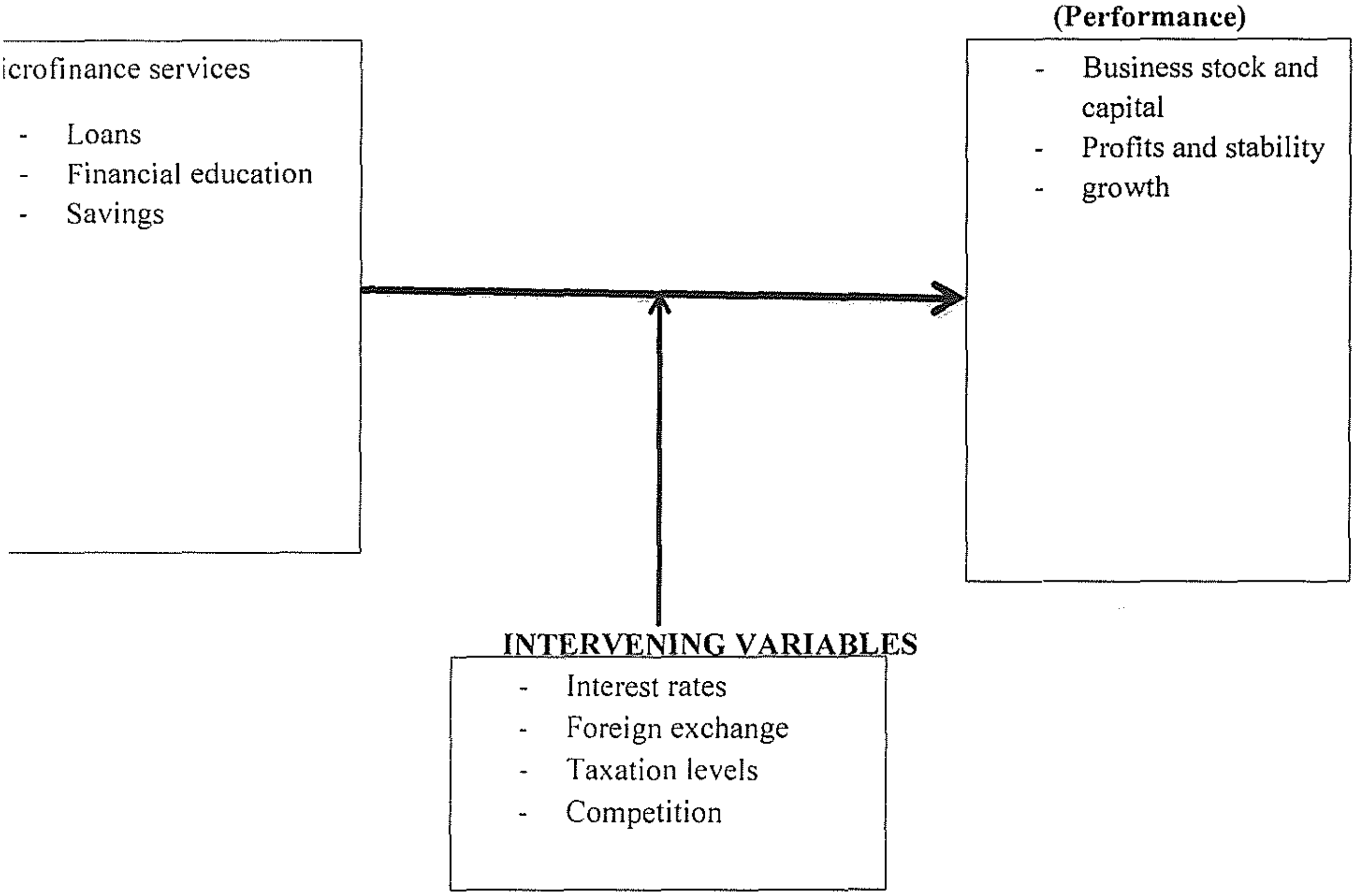
## 1.7 Significance of the Study

Results from the study will be used as a guide by economic policy makers into small enterprises in Uganda.

The findings of this study would be used as an additional guide by economic policy makers into small enterprises s in Uganda.

The findings of this study can be adopted and used as a guide to take more pragmatic decisions. The study will also serve as literature which will contribute and add up to the existing knowledge of the proposed topic.

### 1.8 Conceptual frameworks




The conceptual framework shows the relationship between services offered by microfinance towards the performance of small enterprises. services provided by microfinance consists of financial and non-financial services financial services include, loans, deposit takings, among others. non-financial normally consists of trainings and so on. All these greatly have a bigger impact on the performance of small enterprises. However other factors like the location of the business. business skills. competition government policy on small enterprises also influence the performance of small enterprises.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.0 Introduction

This chapter explains various literatures from different researchers and authors who have tried to talk about microfinance institutions and small enterprises, their impact to the performance of small enterprises.

## 2.1 Theoretical review

Theory of social-collateral; Group micro lending; social Collateral also known as social capital generally refers to rust, concern for someone's associate, willingness to live the norms of one's community and to punish those who not. The theory of social collateral is a mechanism within microfinance that lends to communities and not to specific individuals. By doing so it induces borrowers to select themselves into groups of same risk level and hold it each other accountable. Group lending gives incentives for borrowers to pay back the loan on time, to avoid a default. Members within the community now have more incentives to monitor neighbors and exclude risky borrowers who might put them into risky situations. Balunywa W (2002).

## 2.2. Conceptual review

### Microfinance Institutions Services

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**Loan**

In finance, a loan is the lending of money from one individual, organization or entity to another individual, organization or entity. A loan is a debt provided by an organization or individual to another entity at an interest rate, and evidenced by a promissory note which specifies, among other things, the principal amount of money borrowed, the interest rate the lender is charging, and date of repayment. A loan entails the reallocation of the subject asset(s) for a period of time, between the lender and the borrower. In a loan, the borrower initially receives or borrows an amount of money, called the principal, from the lender, and is obligated to pay back or repay an equal amount of money to the lender at a later time.

The loan is generally provided at a cost, referred to as interest on the debt, which provides an incentive for the lender to engage in the loan. In a legal loan, each of these obligations and restrictions is enforced by contract, which can also place the borrower under additional restrictions known as loan covenants. Although this article focuses on monetary loans, in practice any material object might be lent( Guttentag, Jack ,2007).

**Savings**

Saving is income not spent, or deferred consumption. Methods of saving include putting money aside in, for example, a deposit account, a pension account, an investment fund, or as cash. Saving also involves reducing expenditures, such as recurring costs. In terms of personal finance, saving generally specifies low-risk preservation of money, as in a deposit account, versus investment, wherein risk is a lot higher; in economics more broadly, it refers to any income not used for immediate consumption. Saving differs from savings. The former refers to the act of increasing one's assets, whereas the latter refers to one part of one's assets, usually deposits in savings accounts, or to all of one's assets. Saving refers to an activity occurring over time, a flow variable, whereas savings refers to something that exists at any one time, a stock variable (Kotlikoff, Laurence J. 2008).

**Financial education**

financial education as "the process by which financial consumers/investors improve their understanding of financial products, concepts and risks, and through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being"( Enkhbold, Enerelt ,2016).

## 2.3 Microfinance Institutions on the Growth of businesses

### 2.3.1 Human Capital and entrepreneurship Growth

Mel. McKenzie and Woodruff (2008) highlight the importance of human capital in a growth perspective. Mel et al. (2008) suggest that it makes the labour force more productive and adoptive towards new technology. The study indicates that knowledge and abilities are important in determining returns to capital. Most developing countries have low levels of human capital, in particular evident in the informal sector where people with poor education might see entrepreneurship as a last way out to earn an income. There are a number of NGOs offering business training to small and medium scale entrepreneurs in poor countries, though there are few academic studies that investigate the causal effect of entrepreneurial training on enterprise outcome. An important research issue is whether relevant training in business management, such as cost control, accounting, market analysis, marketing, and pricing strategies can stimulate investments in feasible projects and lead to growth and expansion in the long-term (Bjorvatn and Tungodden, 2010).

Klinger and Schundeln (2007) find that participation in business-training programmes significantly increases the probability of establishing new enterprises and expansion of existing businesses. However, the findings indicate that there are no impacts from business training on business outcomes, such as sales and profits. Further, by restricting the sample to mature enterprises, they partly ignore the role of financial constraints in entrepreneurial activity. Klinger and Schundeln (2007) find a positive relationship between age and the probability of launching a new business. One possible explanation is that younger entrepreneurs have relatively severe capital constraints compared to their older counterpart.

Karlan and Valdivia (2006) conducted a comparable study in Peru, where they implemented a business-training programme to micro entrepreneurs in two different cities, Lima and Ayacucho. Their study differs from the one by Klinger and Schundeln (2007) in several dimensions: First of all, Karlan and Valdivia examine the impact of providing business training to entrepreneurs with lower operation scale than in the case of Klinger and Schundeln. In addition, by restricting their sample to female microcredit clients, they investigate how injections of both human and financial capital affect the enterprise performance of a group with relatively severe financial and human capital constraints. Finally, the methodology differs in that Karlan and Valdivia conduct a randomised control trial to measure the average treatment effect of their programme.

### 2.3.2 Training programmes

Karlan and Valdivia (2006) find that microfinance clients subjected to the training programmes are more likely to maintain a clean repayment record compared to untrained clients. They argue that this results from the improved business outcome, which on average is 16 percent higher for trained clients in terms of sales. The results are however not similar to other business outcomes such as profit margins and change in the number of employees. Nor are there significant changes in loan size and cumulative savings due to training. In a different study carried out by Henriken and Svoldal (2010) on the impact of providing business training to microfinance clients in Tanzania, the study uncovered that training was not reflected on the entrepreneur's profits. The general judgment was that business training leads to shifts towards business structures that are associated with higher profitability. This is because entrepreneurs with business training have more often become multiple-business owners (Karlan and Valdivia, 2006).

Second, the entrepreneurs offered business training have increased their engagement in commerce at the expense of engagement in manufacturing. Parallel to this, the bulk of indicators rank commerce as the most profitable sector and manufacturing as the least profitable sector, especially in terms of profit per working hour (Bennett, 2007). Taking into account working hours, it is therefore confirm that business training enhances movements away from the least profitable sectors and towards the sectors associated with higher profits (Legerwood, 2009). Any better predictors of the future business environment are however difficult to find, and the micro entrepreneurs are also restricted to the available market information when they evaluate the profitability of different business practices. In view of this, the entrepreneurs with business training have more often exploited the profit opportunity of operating successful businesses compared to the least profitable ones (Henriken and Svoldal, 2010).

The presence of people that have gone to school also eases the sensitization process, training on business development, loan utilization and repayment. This is because educated people would grasp the ideas faster than those with low education levels (Karlan and Valdivia, 2006). It was also found that the issues of expansion and diversification of businesses, asset accumulation, and interest calculations were all found to be well understood and practised by educated people in the loan groups (Bennett, 2007). Microfinance institutions also provided training and skills development to enable the clients to plan, manage and evaluate investment, keep the record of all activities of the investment and also to utilize the loan more effectively.

### 2.3.3 Sensitization of Members

According to Karlan and Valdivia (2006), another service provided by the MFIs is that of sensitising the clients about their policy issues new products. This is where the clients are given information about new loans, saving procedures and any other new products from the MFIs. This enables the clients to benefit from the promotions and also diversify the investment portfolio. The clients are also sensitized about food security, HIV/AIDS and other health issues. It was established that most of the MFIs sensitize their clients about HIV/AIDS so that the necessary precautions are taken for the infected persons appropriately. For example, insurance cover and collateral details are emphasized so as to enable the MFIs not to lose the funds and for the family to benefit as well in case death occurred to the beneficiary. It was established that there is a cost for insurance cover in case of fire or the death of a partner that is provided to the family.

Karlan and Valdivia (2006) explains that this insurance cover ensures that the families do not suffer with the burden of paying back the loan but are given some funds as contribution towards the funeral arrangements of the dead client. In Uganda, there have been various fire outbreaks in the markets and MFIs have encouraged the traders who lost their goods that the insurance they took could cover for their losses. A case in point is in the capital city, Kampala, where St. Balikuddembe Market got burnt in February 2009. The traders who had loans from the MFIs were told they would not repay the old debt but could apply for a new one since their insurance had covered their misfortune and losses.

**2.3.4 Entrepreneurial Skills**

Some MFIs actively pursue strategies to teach about entrepreneurial skills. The fast growing economies and the ones with competitive capabilities have realized the importance of Human Resource Development (HRD) as of prior importance and therefore invest heavily in HR in the form of capacity building and acquisition of modern skills. Upgrading of the human skills can make SMEs remain competitive (Bennett, 2007). A survey report by OECD for determining the relationship between the training and SMEs competitiveness and productivity shows that the nature and impact of training and skills development in firms is viewed by firm managers as being an important contributor for firm's development. Small firms continue to have a preference for arranging their own trainings in line with their particular business needs (Henriken and Svoldal, 2010).

SMEs lack managerial skills, resources and experience to motivate the potential investors to invest with them. They view them as high risk business concerns and some well to do SMEs may be hindered from critical financing (Kanichiro and Lacktorin, 2000). SMEs and providers of debt and equity need to have a cordial relationship to avoid the problem of information asymmetry and their conflicts of interests. The MFIs in Cameroon fight to meet the aspirations of their customers by organising trainings on book-keeping, auditing and providing supervisory techniques. These services are not offered by the regular commercial banks. These activities can have a significant impact on SMEs human resource development. Bennett (2004) also adds that the clients need to be trained so as to have the skills for specific production and business management as well as better access to markets so as to make profitable use of the financial resource that they receive.

### 2.3.5 Enterprise Development

In most developed and developing economies, SMEs still need both entrepreneurship development and financing support for them to grow. To support the development of SMEs, some governments, particularly in the developed world provide a comprehensive set of programmes through various agencies which are broadly categorized into financial assistance and business support services (Berger and Udell, 2006). These governments' financial assistance to micro enterprises comprises of soft loans, grants, equity financing, venture capital, guarantees and tax incentives. Governments in developing countries should follow suit. While, the SMEs business support services benefit from advisory services, awareness and outreach, strengthening skills of workforce, entrepreneur development, marketing, promotion, product development, quality accreditation and technology development (Rosli and Ghazali, 2007).

According to Ledgerwood (2009), some MFIs provide financial and social intermediation services such as the formation of groups, development of self confidence and the training of members in enterprise development. The services provided by MFI include: marketing and technology services, business training, production training and subsector analysis and interventions. Enterprise development services can be sorted out into two categories (Karlan and Valdivia, 2006). The first is enterprise formation which is the offering of training to persons to acquire skills in a specific sector such as weaving and as well as persons who want to start up their own business. The second category of enterprise development service rendered to its clients is the enterprise transformation program which is the provision of technical assistance, training and technology in order to enable existing SMEs to advance in terms of production and marketing (Bennett, 2007).

Entrepreneurship training can equip business owners with all the necessary tools that can hinder them from obtaining loans. Existing businesses with part of their capital being equity is preferred by most MFIs to work with since the level of involvement is high and consequently lower risk (Ledgerwood, 2009). Enterprise development services are not a prerequisite for obtaining financial services and they are not offered free of charge. These charges are sometimes subsidized by the government or an external party since to recover the full cost in providing the services will be impossible by the MFI (Bennett, 2007). The enterprise development services may be very meaningful to businesses but the impact and knowledge that is gained cannot be measured since it does not usually involve any quantifiable commodity. It has been observed that there is little or no difference between enterprises that receive credit alone and those that receive both credit packages and integrated enterprise development services (Ledgerwood, 2009).

## 2.4 Contributions of small and medium enterprises

Entrepreneurship in form of Small enterprises in Uganda have dominated most urban parts of Uganda; these small enterprises provide informal kind of employment to Ugandans since now we live in a country of unemployment. According to (UBOS, 2010) Uganda largely focuses on small enterprises hence the contribution of this sector makes to economic growth and development through job creation.

Entrepreneurship in form Small enterprises greatly contributes to tax revenue to the government of Uganda for example those operating in city Centre normally pay Registration fee and trading licence, this money is used by the government to fiancé its deficit budgets. Also according to the Schmitz. 1995 small businesses employ 22% of the adult population in developing countries also small enterprise are mainly labour intensive

Small and medium enterprises play and important role for both economic and social development of developing countries. From an economic perspective, comes up with the fact that small and medium enterprises provide a number of benefits, thus small and medium enterprises have been noted to be one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low-income countries. These enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. They are thus potential sources of employment and income in many developing countries. (Abor and Quartey, 2010).

Small enterprises have advantages over their large-scale competitors in that they are able to adapt more easily to market conditions, given their broadly skilled technologies. They are able to operate in a adverse economic conditions because of their flexible nature. Contributed that small enterprises are more labour intensive than larger firms and therefore have lower capital costs associated with job creation. (Schmitz,1995).

In many developing countries, informal sector activities are often the leading source of employment opportunities for the people with limited access to formal-sector wage employment, women in particular (Mbeche, 2002). Informal sector is an important sector in most developing nations of Africa, Latin America and Asia and around 70 percent, of the population are self – employed, while in developed countries, wage employment dominates (Sutheraman, 1997). For example, informal employment makes up 48 percent of non-agricultural employment in North Africa, 51 percent in Latin America, 65 percent in Asia, and 72 percent in Sub-Saharan Africa (Mbeche, 2002).

**2.5 Challenges facing Small and medium Enterprises**

Access to financial services is cited as a main constraint for small scale businesses in Uganda. According (Sechmukler , 2008) Small enterprises are always faced with the challenge of accessing capital and also to meet the operating costs like salaries, water bills also the little capital that they obtain form microfinance institutions and other financial services charge them a lot of interest hence failing in the long run.

Inadequate information towards the type of business that business owners normally invest in, most of the small business owners have limited knowledge about their businesses that they engage in this result into poor planning, limited knowledge running the business, hiring semi-skilled staff, which in turn lead to poor business performance and failure in the long run.

According to (Okumu .J, 2007). most of small enterprises lack collateral security when it comes to requesting for loan from any microfinance and any other financial service providers, therefore they end up getting less money from these financial institutions which may not even do half of what the business owner had intended to do also these little money that is given is associated with high interest rates hence leading to failure of the business.

**High cost of financing;** the high cost of finance and limited access to credit remain key impediments to private sector growth in Uganda. Commercial banks' average lending rates have been over 23% for the past three years. These rates compare unfavorably with those of Uganda's neighboring countries. Very few private businesses in Uganda can achieve an internal rate of return as high as 25% to justify borrowing from the Uganda's commercial banking sector (Ssendaula, 2002). Banks have costs of processing a loan. Costs such as Loan processing fees, Valuations and other costs involved. This together with high cost of doing business has rendered small businesses inefficient (Mugume, 2001).

The studies carried out have indicated that actually not so many small business operators have benefited from microloans acquired through MFI's. Many have had to repay loans that have left businesses collapsed. Borrowings at high interest rates have not matched with the rate of return. Clients have had to lose their property due to failure to loans and others have simply closed (Kasekende, 2003).

The methodology of group lending in order to get capital to small income group has not helped much. Many customers complain of having to pay for the group members who default on payment, members are forced to save which affects business also. Others complain of mandatory group meetings that affect business because they are time consuming. Moreover the methods of collection employed by most MFI's are often brutal and dehumanizing (Kikonyogo, 2000). However despite the high costs of borrowing, it seems the only sure way for most businesses to acquire working capital for their ventures is through banking. The government however needs to set up regulations that will favor the borrower. There is need to set up community based savings Corporative schemes to help bring down the cost of lending (BOU report.2008).

**Lack of adequate information;** inadequate information escalates the cost of borrowing and constrains access to the required credit. Banks often do not supply all the required information to the small borrowers, except the lending rates that is; other fees are not mentioned. When these are added up, the cost of borrowing escalates. On the other hand, small borrowers do not supply all the information required by banks, thereby constraining their own access to credit Micco, 2005).

Information is key in all forms of businesses, however most small business lack proper record keeping. Informal exist of business without training in management skills renders most small business inefficient. No proper books of accounts are maintained and banking records are usually scanty. MFI's too are not the best institutions in providing information to their customers. Basic information like interest rates is what is usually provided (Arden, 2003).

Information is usually passed on to customers through group meetings. These meetings are usually held periodically to pass down vital information. Some MFIs' are known to teach new customers. This involves lecturers in which information is passed down. This is encouraged since most customers especially peasants and small business owners tend to be illiterate and have little or no knowledge about banking (Bagazonzya, 2003).

**Lack of formal Collateral** Many banks, particularly the transnational ones, do not accept collateral outside a 25 kilometer radius of the city centre. Even for urban-based small scale businesses. this condition is a severe constraint. It has been suggested that banks could salvage the small borrowers, but the financing requirements of small scale businesses are beyond the limits of many banking institutions (Aung, 2008).

In addition, the very short-term nature of loans, coupled with the high interest rates, makes banks unsuitable as a funding mechanism for financing in this sector. Moreover not so many small Business owners have any form of collateral. Most are urban and pre-urban poor strangling to survive and haven't acquired property to use in Banks as collateral (Kakuru, 2002).

Collateral security can be in form of land, insurance guarantees, share certificates or term deposit certificate. However given the condition of small business owners it is not likely that they will have the collateral required. And those who seem to have land it is usually family owned or even not titled making it unsuitable to use as collateral (Keough, 2002).

The proposed form of collateral for some MFIs' has been Group lending methodology were each member guarantees the other and therefore acts as security for the other. This has worked for the poor as a solidarity group. However the set back of group lending methodology has been with the members themselves. Members have had to pay for those who fail to pay and others have lost their savings to the banks as a recovery procedure (Mwanje, 2003).

**Few available financial institutions**; Uganda's financial sector is dominated by commercial banks, with a limited number of development banks. As a result, small scale businesses frequently use the more readily available short-term financing instruments for medium- to long-term investments. In addition to reducing their profitability and constraining their ability to pay, this situation diverts investment decisions away from capital-intensive ventures (Uganda Bureau of Statistics, 2003).

Although Uganda today the banking sector has grown from a handful banks in the 1980's to so many banks. Still banking is not accessible to the majority. Most banks are based in urban and pre-urban areas were the common man in rural areas has not fully benefited from it (United Nations Statistics Division, 2004).

Moreover the few available rural MFIs' are inefficiently managed with high closure rate in that very few people have confidence in them. The bigger banks are not tailored on the other hand to meet the needs of small businesses and farmers (Mbaguta, 2002).

Studies have shown that skill MFIs' have not catered for the poor man with smaller incomes. The credit facilities are extended to only those that have businesses in a particular range of turnover and their doors are open to those with ability to save. Those with very little income are less encouraged to benefit from the products provided by the banks (Ssendaula, 2002).

**Limited Financial Products provided by Banks;** The business needs of enterprises are generally varied. For these needs to be adequately addressed by the financial sector, the latter must be equally diverse. This calls for a wide variety of long-, medium- and short-term products, and a healthy composition of debt and equity instruments, as well as those instruments specifically tailored to the unique needs of certain sectors. The financial sector in Uganda is narrow with only a few standard products, and this limits the options available to small scale businesses (Micco, 2005).

The products provided by most banks centre around loans and savings. Products provided are limited and not suited to most business owners. Most banks are inflexible and still run on the old principles of banking. Banking today like any other business needs to tailor its products to suite the customers' needs (Snyder, 2000).

However today competition has enabled banks to diversify their products. There many products that one can walk in a bank and demand. Products like Mortgage and land acquisition financing, leasing, money transfer, school fees loans and many more other products have been made available to the customer.

**Informal Operations;** Relative to large firms, small scale businesses are more likely to be nformal, particularly in developing countries. This not only worsened the situation, but it also poses additional obstacles and risks to small scale businesses lending. For example, banks cannot lend to small scale businesses as much as would be warranted if firms do not report reliably their full financial activity on their financial statements. Furthermore, informality implies that the firm has unrecorded, contingent liabilities to the government and to its own employees (Kasekende, 2000).

Small businesses world over are the greatest employers and the engine for development. However in Uganda small businesses are usually inefficiently managed, families owned and operate informally. Few of them have registered and have tax returns. The majority however are too small with very low turnover which limit bank support in terms of financing (Ishengoma,

2008). this also limits there bargaining power. They are hardly reorganized and most not likely to benefit from government programs. There death rate is also usually very high. (Murinde, 2006).

# CHAPTER THREE

# METHODOLOGY

## 3.0 Introduction

This chapter presents in detail the methods to be used in this research. This focuses on the various methods to be used by the researcher to obtain data. Research methodology involves and orderly manner employed in collection, interpreting and analyzing of data used in this study, which involves selection of sample, population, and research data as well as the statistic tool of analysis.

## 3.1 Research design

A research design can be described as an outline or plan from which an activity can be carried out (Nworgi, 1999:23). The research study used a descriptive research design and this research design normally describes events or things the way they appear in their natural settings. The researcher used both quantitative and qualitative approaches in data collection, however, qualitative method of data collection dominated. This means that quantitative research design was used for expressing the numerical information that was captured during the study which cannot easily be expressed in words.

## 3.2 Population of the study

This study "The Effects of Microfinance Institutions Service on the Performance of Businesses in Uganda" The research was only limited to the Business people of Kansanga Town. The estimated population to be considered was be 60.

## 3.3 Sample Size

The sample size was determined using Slovene's formula as expressed below.

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

When n= sample size, N= population Size and e= Sample probability.

N = Study population = 60 respondents

$$n = \frac{60}{1+60\,x(0.05)}2$$

$$n = \frac{60}{1.06+5)}2$$

n=52 respondents

**Table 3.3.1 Showing sample size**

| Designations | Sample size (n) | Population (N) | Percentage |
|---|---|---|---|
| Retail shop operators | 30 | 35 | 58.3 |
| Market Vendors | 18 | 19 | 31.6 |
| kiosk Operators | 4 | 6 | 10 |
| Grand Total | 52 | 60 | 100 |

**Source:** *Survey Data 2018*

## 3.4 Sampling Technique

### 3.4.1 Simple random Sampling Technique.

The participants in the study were selected through simple random sampling method for respondents among them students to have an equal chance of being selected to be part of the study. Simple random sampling is best because it is easy to collect data when the population members are similar to one another on important variable (Gay, 2010). It also ensured a high degree of representativeness and ease of assembling the sample (Thompson, 2012; Levy& Lemeshow, 2014)..

## 3.5 Sources of data

In order to collect as much relevant material on this study as possible, a number of methods of data collection were used. However for good understanding of the revenue generation both primary and secondary sources of data will be used. As a matter of facts filed research work in form of personal interview, questionnaires will be administered together for the purpose of this work.

### 3.5.1 Primary data

Primary sources of data was used on this study mainly as they provide basic reliable and concrete information from the respondents. The questionnaire was the major source of my data collection. The information got will be analyzed and findings drawn. Personal interviews were conducted in scenes where adequate and accurate information will not be obtained through the use of questionnaires.

### 3.5.2 Secondary data

There are information's already in existence before the conduction of this research works. It constitutes a stepping stone in most research works, assignments; Internet searches etc. just in this case. This is because the knowledge acquired from reading and collecting materials done by others helped me generate primary data. Library research was also done in text books journals and other published materials.

## 3.6 Data collection instruments

### Questionnaire

This questionnaire involved the research works which was typed questions personally were issued to the respondents so as to enable them fill in their options to the questions asked. The questions were in form of Yes or No structures to enable the respondent with limited knowledge of the study areas to answer them with minimum accuracy.

## 3.7 Validity and reliability of the instrument.

### 3.7.1 Validity of instrument.

To establish the validity of the instruments, the researcher will administer questionnaires to the various officials and the researcher pre-tested using the questionnaires, and checklist to find out if they are valid.

### 3.7.2Reliability of the instrument.

To test the reliability of the research instruments, the researcher retested the instruments to see if they can produce the expected data.

## 3.8 Data analysis

The data collected from the respondents was both manually analyzed by the researcher and sometimes using a computer with the help of the excel computer program. In addition, the analysis of data and its presentation was supplemented with the aid of pie charts, graphs as well as the frequency table.

### 3.9 Ethical Considerations

The researcher protected respondents by keeping the information given confidential and where there is a need to reveal, consent was first obtained.

The questionnaires did not include the names of the respondents for issue of privacy and secrecy. After the collection of data questionnaires were destroyed so that collected information does not leak.

## CHAPTER FOUR

## PRESENTATION, INTERPRETATION, ANALYSIS, AND DISCUSSION OF FINDINGS

### 4.0 INTRODUCTION

This chapter presented the findings of the study that involved a sample of 52 respondents. The study was aimed at establishing the contributions of Micro Finance Institutions towards the development of entrepreneurship. The research was carried out at Kansanga Town, the leading section of where entrepreneurship development has taken place.

The findings presented here are derived from systematic analysis and interpretation of the data and information obtained from the field.

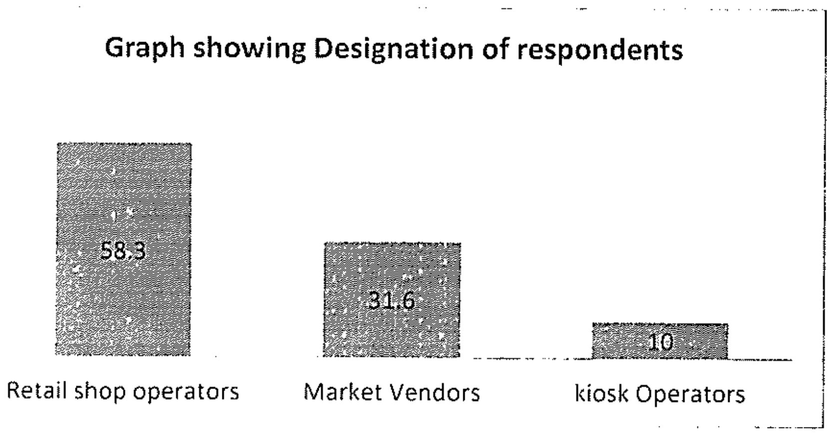
### 4.1 Discussions of Findings

**Demographic Characteristics of the Respondents.**

**Table 2: Type of the respondents**

| Designations | Sample size (n) | Percentage |
|---|---|---|
| Retail shop operators | 30 | 58.3 |
| Market Vendors | 18 | 31.6 |
| Kiosk Operators | 4 | 10 |
| Grand Total | 52 | 100 |

*Source: Primary 2018*

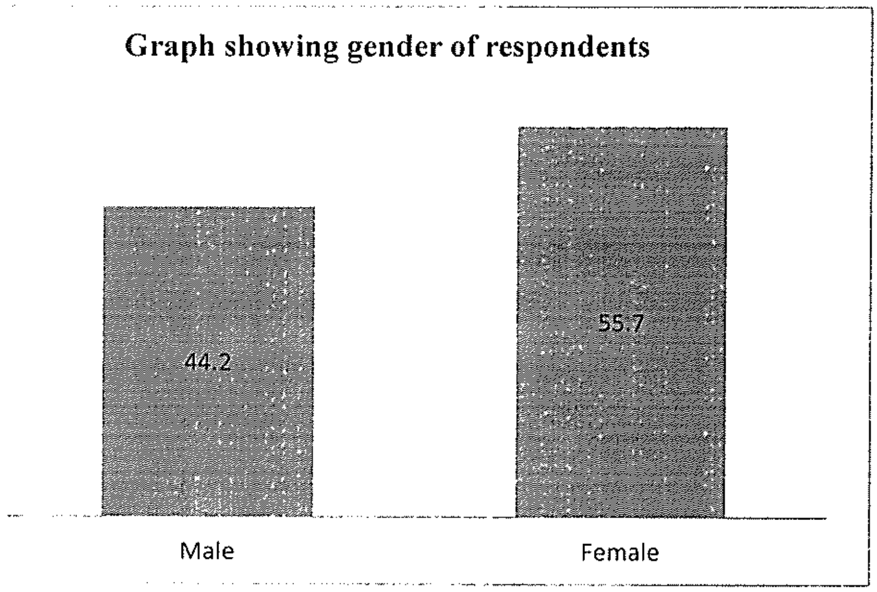


Most of the respondents were Retail shop operators as the table above shows at 58.3% followed by Market Vendors with 31.6% and the minorities were kiosk operators at 10%. This is an implication that more business people prefer opening up shops than as opposed to market vendors operators and kiosk operators.

**Table 3: showing Gender of respondents**

| Gender | Frequency | Percentage |
|---|---|---|
| Male | 23 | 44.2 |
| Female | 29 | 55.7 |
| **Total** | **52** | **100** |

*Source: Primy 2018*

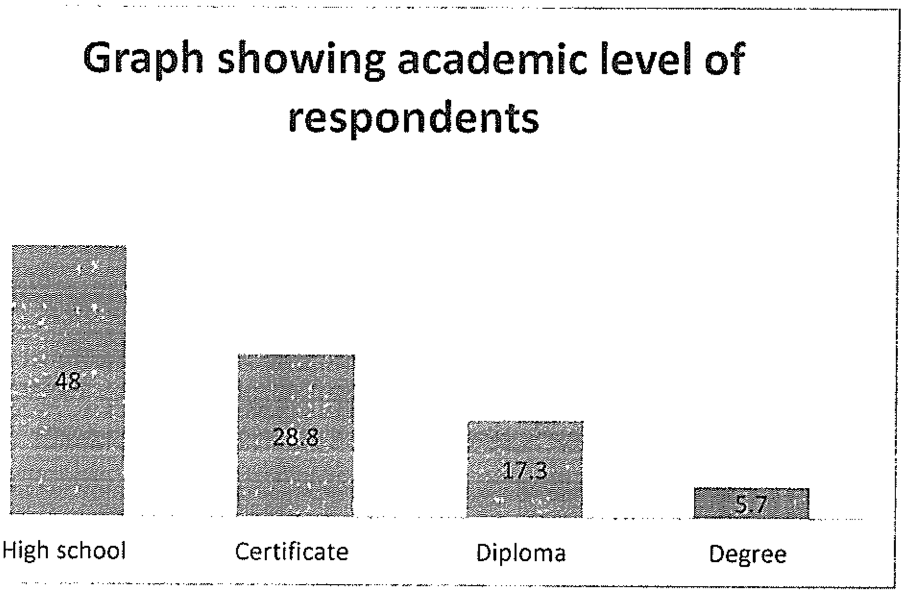



The graph above revealed that more female respondents (55.7%) were interviewed than male (44.2%). This signifies a high number of female participants who turn up for the engagement in small businesses around Kansanga Town.

**Table 4: showing Academic level of respondents**

| Academic level | Frequency | Percentage |
|---|---|---|
| High school | 25 | 48 |
| Certificate | 15 | 28.8 |
| Diploma | 9 | 17.30 |
| Degree | 3 | 5.7 |
| **Total** | **52** | **100** |

*Source: Primary 2018*

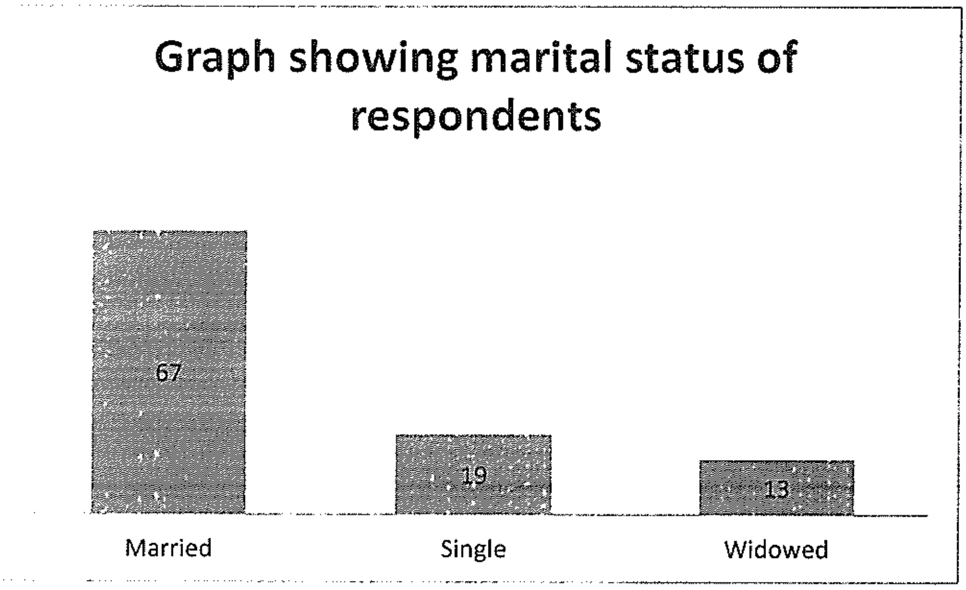



'he above graph shows the academic level of the respondents where most of them at 48% topped in high school, 28.8% are certificate holders, 17.30% are diploma holders and 5.7% are egree holders.

Table 5: **Marital status of the Respondents**

| **Status** | **Frequency** | **Percentage** |
|---|---|---|
| Married | 35 | 67 |
| Single | 9 | 19 |
| Widowed | 7 | 13 |
| **Total** | **52** | **100** |

*Source: Primary 2018*

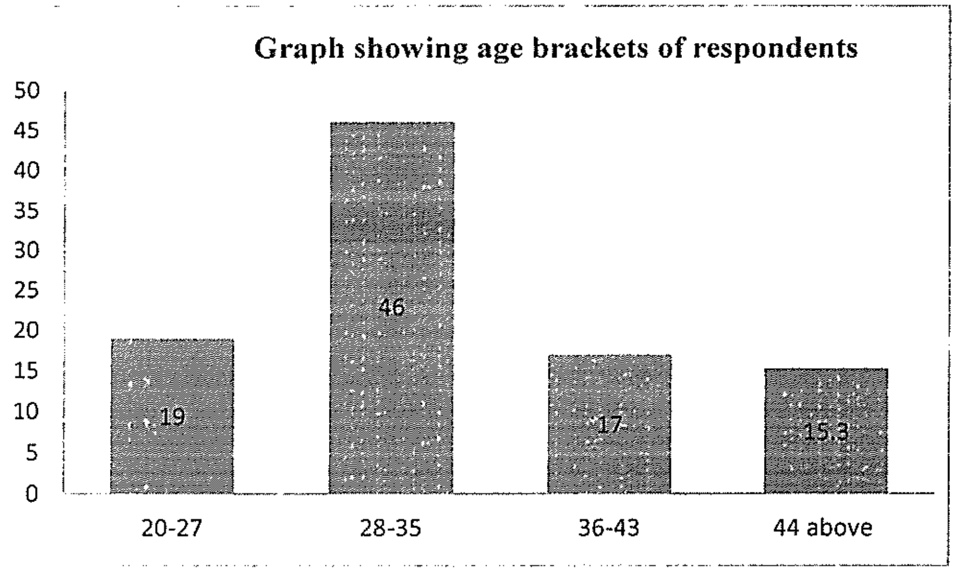



Findings showed that most of the respondents are married (67%), some are still single (19%) and only 13% of the respondents are widowed. That is to say, there's a lot of responsibility amongst the majority of the respondents and they have to sustain their families hence the establishment of small businesses and other activities to earn a living.

**Table 6: Age Bracket of the Respondent**

| **Age bracket** | **Frequency** | **Percentage** |
|---|---|---|
| 20-27 | 10 | 19 |
| 28-35 | 24 | 46 |
| 36-43 | 9 | 17 |
| 44 above | 8 | 15.3 |
| **Total** | **52** | **100** |

Source: primary data 2018

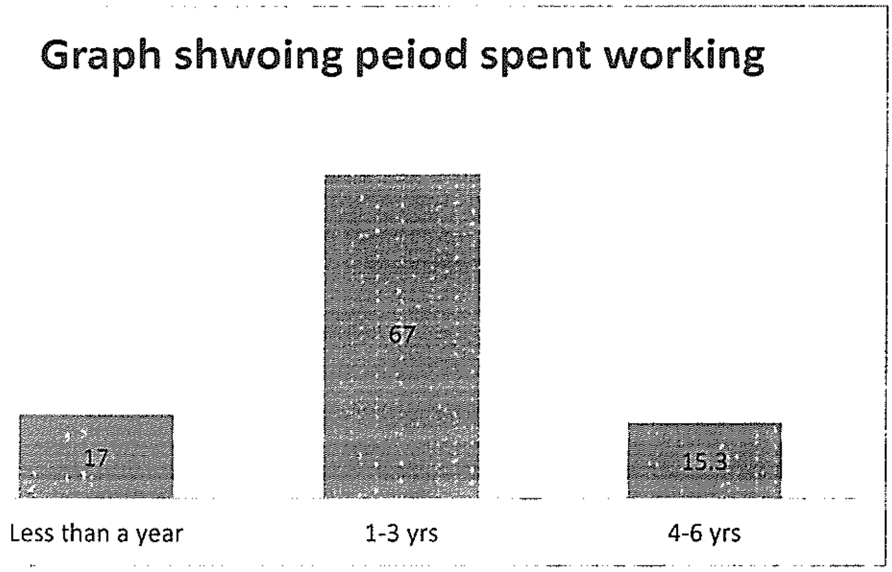



Most of Respondents at 46% were between the age of 28-35 years, 17% were of 36-43 years and 19% were between the age brackets of 20-27 years. All respondents were proven to be youth and energetic with determination to work and meet their essential welfare.

**Table 7: Working experience of the respondents**

| Period | Frequency | Percentage |
|---|---|---|
| Less than a year | 9 | 17 |
| 1-3 yrs | 35 | 67 |
| 4-6 yrs | 8 | 15.3 |
| **Total** | **52** | **100.0** |

*Source: Primary 2018*




The graph has it that 67% of the Respondents have worked for between 1-3 years, 15.3% have been in the field for a period of between 4-6 years and only 17% have worked for less than a year. This reveals that both business hold experience in the field of working and have knowledge about the business curriculum.

**4.2 Benefits of Financial institutions to businesses**

**Table 8 : Benefit of microfinance institutions to entrepreneurship development**

| Benefit of microfinance institutions | Agree | Disagree | Not sure | Total percentage |
|---|---|---|---|---|
| At times you obtain leasing as an alternative means of financing capital investment of Small businesses. | 40 | 30 | 30 | 100 |
| Lease finance helps most businesses acquire the right machinery for their businesses | 67 | 20 | 3 | 100 |
| most banks ask customers to contribute a portion of the cost of machinery | 78 | 12 | 10 | 100 |
| Business improved after a lease loan | 55 | 25 | 30 | 100 |
| At times Banks extend long term financing to their customers | 85 | 10 | 5 | 100 |
| Few Banks extend startup capital to borrowing customers | 50 | 20 | 30 | 100 |
| All banks require security from customers as collateral to the facilities extended to them | 68 | 2 | 30 | 100 |

| | | | | |
|---|---|---|---|---|
| loan repayment period given was appropriate | 78 | 12 | 10 | 100 |
| Microfinance institutions have help a lot of business to grow | 90 | | 10 | 100 |
| Microfinance institutions offer short term financing like overdraft facilities to their customers | 88 | 2 | 10 | 100 |
| Microfinance institutions encourage small businesses to borrow in groups | 90 | | 10 | 100 |
| It is much easier to obtain working capital loans from microfinance institutions | 80 | 10 | 10 | 100 |
| Microfinance institutions have a variety of savings products | 70 | | 30 | 100 |
| Customers always have access to their savings | 90 | | 10 | 100 |
| Microfinance institutions offer ATM services | 90 | | 10 | 100 |
| Customers are allowed to save as little as possible of their money | 100 | | | 100 |

'rom the findings in table above 40% agree that At times they obtain leasing as an ılternative means of financing capital investment of Small businesses, 30% disagree and ;0 were not sure, 67% agree that Lease finance helps most businesses acquire the right nachinery for their businesses, 20% disagree and 3% are not sure, 78% agree that most ›anks ask customers to contribute a portion of the cost of machinery, 12% disagree and 10% are ıot sure, 55% agree that Business improved after a lease loan,25% disagree and 30% were not ure, 85% agree that At times Banks extend long term financing to their customers,10% isagree and 5% not sure, 50% agree that Few Banks extend startup capital to borrowing ustomers, 20% disagree and 30% were not sure, 68% agree that All banks require security rom customers as collateral to the facilities extended to them, 2% disagree and 30% were not ure, 78% agree that loan repayment period given was appropriate, 12% disagree and 10% vere not sure, 90% agree that Microfinance institutions have help a lot of business to grow and 0% were not sure, 88% agree that Microfinance institutions offer short term financing like verdraft facilities to their customers, 2% disagree and 10% were not sure, 90% agree

hat Microfinance institutions encourage small businesses to borrow in groups and 10% were ot sure, 80% agree that It is much easier to obtain working capital loans from microfinance ıstitutions, 10% disagree and 10% were not sure, 70% agree that Microfinance institutions ave a variety of savings products and 30% were not sure, 90% agree that Customers always have access to their savings and 10% were not sure finally 100% that Customers are allowed to save as little as possible of their money.

**4.3 Challenges and hindrances small businesses face in accessing and maintaining of loans**

| Challenges and hindrances small businesses | Agree | Disagree | Not sure | Total percentage |
|---|---|---|---|---|
| interest rates are often too high | 30 | 60 | 10 | 100 |
| There too many charges in processing a loan | 20 | 55 | 15 | 100 |
| Borrowing in microfinance involves compulsory savings | 90 | 5 | 5 | 100 |
| Group borrowing customers often times pay for defaulting members | 70 | 20 | 10 | 100 |
| At times you incur extra costs to process documents to acquire a loan | 80 | | 20 | 100 |
| MFI often do not supply all the required information to the small borrowers | 45 | 50 | 5 | 100 |
| At times bank officers don't offer enough information | 20 | 70 | 10 | 100 |
| The business doesn't have any record books | 60 | 30 | 10 | 100 |
| There few Microfinance institutions in your area | 90 | 5 | 5 | 100 |
| commercial banks don't have products that benefit small businesses | 80 | | 20 | 100 |
| Banking Products offered are very expensive to small business owners | 45 | 50 | 5 | 100 |
| Banks ask for a lot of requirements to become its customer | 90 | 5 | 5 | 100 |
| Bank products are few in that they don't meet expectations | 70 | 20 | 10 | 100 |
| Products offered are expense | 80 | | 20 | 100 |
| products offered don't meet your needs | 45 | 50 | 5 | 100 |

| | | | | |
|---|---|---|---|---|
| Banking products are made for the rich only | 90 | 5 | 5 | 100 |
| Banks encourage savings to their customers | 70 | 20 | 10 | 100 |
| Small business are not formally registered | 80 | | 20 | 100 |
| Books of records are not important for small businesses | 45 | 50 | 5 | 100 |
| sales revenues are not often banked | 90 | 5 | 5 | 100 |
| The business is run with the rest of the family members | 70 | 20 | 10 | 100 |

n study to find out the challenges and hindrances small and medium enterprises face in accessing and maintain of loans, 30% agree that interest rates are often too high, 60% disagree and 10% were not sure, 20% that There too many charges in processing a loan, 55% disagree and 15% were not sure, 90% agree that Borrowing in microfinance involves compulsory savings, 5% disagree and 5% were not sure, 70% agree that Group borrowing customers often times pay for defaulting members, 20% disagree and 10% were not sure, 45% agree that MFI often do not supply all the required information to the small borrowers, 50% disagree and 5% were not sure, 20% agree that At times bank officers don't offer enough information, 70% disagree and 10% were not sure, 60% agree that The business doesn't have any record books, 30% disagree and 10% were not sure, 90% agree that There few Microfinance institutions in their area, 5% disagree and 5% were not sure, 80%agree that commercial banks don't have products that benefit small businesses and 20% were not sure, 45% agree that Banking Products offered are very expensive to small business owners, 50% disagree and 5% were not sure, 90% agree that Banks ask for a lot of requirements to become its customer, 5%disagree and 5% were not sure, 70% agree that Bank products are few in that they don't meet expectations, 20% disagree and 10% were not sure, 80% agree that Products offered are expense and 20% were not sure, 45% agree that products offered don't meet their needs , 50% disagree and 5% were not sure 90% agree that Banking products are made for the rich only, 5% agree and 5% were not sure, 70% agree that Banks encourage savings to their customers, 20% disagree and 10% were not sure, 80% agree that Small business are not formally registered, 20% were not sure, 45% agree that Books of records are not important for small ɔusinesses, 50% disagree and 5% were not sure, 90% agree sales revenues are not often banked, 5% disagree and 5% were not sure and lastly 70% agree that The business is run with the rest ɔf the family members, 20% disagree and 10% were not sure.

# CHAPTER FIVE

# SUMMARY DISCUSSION OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

## 5.2 Summary of the findings of the study with respect to study objectives.

### 5.2.1 Benefits derived from Micro finance Institutions

Findings showed that leasing has been an alternative means of financing capital investment of Small businesses with minimum initial outlay (Kikonyogo, 2005). In addition, findings revealed that this is advantageous as it does not limit one's ability to borrow from lending sources (Kisaame, 2003). Lease finance helps most businesses acquire the right machinery for their businesses, resulting to improvement of primary product producer, most often women in rural areas, incomes will stimulate economic growth and better living standards according to (Opondo, 2003).

Findings showed that all banks require security from customers as collateral to the facilities extended to them. In addition according to Margaret Kigozi (2010) venture capital is a vehicle for economic development through which businesses acquire equity. It can as well be out sourced from individuals, investment companies and banks. Besides, firms typically look for new businesses with perceived long-term growth potential (obwana, 2009).

Findings revealed that it is much easier to obtain working capital loans from microfinance institutions. Loans extended to customers as term loans or overdraft facilities help customers to have funds to purchase stock for their businesses, pay workers and other running costs involved in the running of Businesses. Findings of (Okumu, 2001), also showed that microfinance institutions have helped a lot of business to grow where by Working capital is the life blood of all businesses. All businesses depend on it to purchase stock, pay workers, pay taxes and many other expenses (Balunywa, 2003).

Findings proved that Microfinance institutions offer savings facilities because the culture of saving was uncommon most people preferring to spend what they earn and others saving it in form of assets like land and domestic animals (Arbuckle, 2002). Moreover, the banking sector catered for a specific middle class and had no room for the rural poor and small income groups who operate small Businesses. Today many farmers and small petty traders can be able to save their earning with microfinance institutions which encourage their participation (Nsubuga, 2010).

Findings showed that customers are able to get money from relatives and customers living abroad through methods such as western union and Money gram (Sennoga, 2011). This relates with Money Transfer remittances that are increasingly becoming a significant source of Development finance in Uganda which had a recorded amount of remittances equivalent to 5 percent of Gross domestic product in 2009 (World Bank report, 2011).

**5.2.3 Challenges and hindrances small and businesses face in accessing and maintain of loans.**

Inadequate information towards the type of business that business owners normally invest in this in line with Okumu .J.( 2007) who say that most of small enterprises lack collateral security when it comes to requesting for loan from any microfinance and any other financial service providers, therefore they end up getting less money from these financial institutions which may not even do half of what the business owner had intended to do also these little money that is given is associated with high interest rates hence leading to failure of the business.

High cost of financing; the high cost of finance and limited access to credit remain key impediments to private sector growth in Uganda this is in line with (Ssendaula, 2002) who said that Banks have costs of processing a loan. Costs such as Loan processing fees, Valuations and other costs involved. This together with high cost of doing business has rendered small businesses inefficient (Mugume, 2001).

The methodology of group lending in order to get capital to small income group has not helped much. This is in line with (Kikonyogo, 2000) who said that despite the high costs of borrowing, it seems the only sure way for most businesses to acquire working capital for their ventures is through banking. The government however needs to set up regulations that will favor the borrower. There is need to set up community based savings Corporative schemes to help bring down the cost of lending (BOU report, 2008).

Lack of adequate information: this is in line with (Micco, 2005) who said that inadequate information escalates the cost of borrowing and constrains access to the required credit. Banks often do not supply all the required information to the small borrowers, except the lending rates that is; other fees are not mentioned. When these are added up, the cost of borrowing escalates. On the other hand, small borrowers do not supply all the information required by banks, thereby constraining their own access to credit.

Lack of formal Collateral Many banks, this is in line with (Aung, 2008) who said that particularly the transnational ones, do not accept collateral outside a 25 kilometer radius of the city centre. Even for urban-based small scale businesses, this condition is a severe constraint. It has been suggested that banks could salvage the small borrowers, but the financing requirements of small scale businesses are beyond the limits of many banking institutions In addition, the very short-term nature of loans, coupled with the high interest rates, makes banks unsuitable as a funding mechanism for financing in this sector. Moreover not so many small Business owners have any form of collateral. Most are urban and pre-urban poor strangling to survive and haven't acquired property to use in Banks as collateral (Kakuru, 2002).

Limited Financial Products provided by Banks; The business needs of enterprises are generally varied. For these needs to be adequately addressed by the financial sector, the latter must be equally diverse. This calls for a wide variety of long-, medium- and short-term products, and a healthy composition of debt and equity instruments, as well as those instruments specifically tailored to the unique needs of certain sectors. The financial sector in Uganda is narrow with only a few standard products, and this limits the options available to small scale businesses (Micco, 2005).

The products provided by most banks centre on loans and savings this in line wit (Snyder, 2000) who said that The products provided by most banks centre around loans and savings. Products provided are limited and not suited to most business owners. Most banks are inflexible and still run on the old principles of banking. Banking today like any other business needs to tailor its products to suite the customers' needs

Informal Operations; Relative to large firms, small scale businesses are more likely to be informal, particularly in developing countries. This not only worsened the situation, but it also poses additional obstacles and risks to small scale businesses lending. For example, banks cannot lend to small scale businesses as much as would be warranted if firms do not report reliably their full financial activity on their financial statements. Furthermore, informality nplies that the firm has unrecorded, contingent liabilities to the government and to its own employees (Kasekende, 2000).

## 5.3 Conclusions of the study.

t was concluded that procedures used by Micro Finance Institutions to provide credit, depend on one's willingness to pay and settle obligations, credit history as an indicator of repayment capacity and the key purpose of the loan. Besides it is important to carryout identification checks on all borrowing customers while the books of account are required before extending credit.

t was also concluded that Micro Finance Institutions have benefited the small scale business hrough a variety of products where by customers always have access to their savings, payments o suppliers can be made through banks and customers can receive money from abroad through heir branches. In addition, it's much easier to obtain a working capital loan from Micro finance nstitutions.

t was concluded that small businesses face a challenge in accessing and maintaining loans as a esult of high cost of financing, lack of adequate information, lack of collateral security, few inancial institutions and limited products alongside informal operations which limit them from ccessing credit.

## .4 Recommendation

'rom the study, it was realized that the financial sector in Uganda is narrow with only a few tandard products which limit the options available to Small Scale Businesses. The products rovided by most Micro Finance Institutions are basically loans and savings. The business perators should acquire loans with flexible and reliable terms and conditions which do not ffect the established business operations or their objectives.

'he government should encourage investors to set up more Micro Finance Institutions in rural reas so as to bring financial services nearer to Small businesses.

## .5 Areas of further research

inancial policies and performance of business organizations

ax subsidies and growth trend in Courier business services.

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## APPENDIX I: QUESTIONNAIRE

## RESEARCH QUESTIONNAIRE

**Dear Respondent,**

You are kindly requested to answer the following questions providing information to the best of your knowledge and in its best true sense. The information is purely for academic purposes as a partial requirement for the award of a Bachelor of business administration

The information provided in this questionnaire will be treated with utmost confidentiality.

The research topic is **"The Effects of Microfinance Institutions Service on the Performance of small Business Enterprises in Makindye Division".**

## SECTION A: BACKGROUND INFORMATION

1. Gender:

Male ☐ Female ☐

2. Education level

University Degree. ☐ Post graduate ☐ Diploma ☐

Certificate ☐

3. Marital status.

Married ☐ Single ☐ Widowed ☐

4. Age bracket

0.27 ☐ 28-35 ☐ 36-43 ☐ 44- Above ☐

5. How long have you been in business? Less than a year 1-3 ☐

- 6Years ☐ 7 Years and above ☐

5. Type of business

Retail ☐ Wholesale ☐ Production vender ☐

Others specify ..............................................................................................

**SECTION B;** Procedures employed by micro finance institutions services to small-scale Businesses.

**Benefit of microfinance institutions to small and medium businesses**

| **Benefit of microfinance institutions** | Agree | Disagree | Not sure |
|---|---|---|---|
| At times you obtain leasing as an alternative means of financing capital investment of Small businesses. | | | |
| Lease finance helps most businesses acquire the right machinery for their businesses | | | |
| most banks ask customers to contribute a portion of the cost of machinery | | | |
| At times a lease is given to group | | | |
| Business improved after a lease loan | | | |
| at times Banks extend long term financing to their customers | | | |
| few Banks extend startup capital to borrowing customers | | | |

| | | | |
|---|---|---|---|
| All banks require security from customers as collateral to the facilities extended to them | | | |
| oan repayment period given was appropriate | | | |
| Microfinance institutions have help a lot of | | | |
| Microfinance institutions over short term financing like overdraft facilities to their customers | | | |
| Microfinance institutions encourage small businesses to borrow in groups | | | |
| The cost of borrowing is sometimes very expense to small businesses | | | |
| t is much easier to obtain working capital loans from nicrofinance institutions | | | |
| Microfinance institutions have a variety of savings products | | | |
| Customers always have access to their savings | | | |
| Microfinance institutions offer ATM services | | | |
| Savings accounts have a lot of bank charges | | | |
| Customers are allowed to save as little as possible of their noney | | | |

**Challenges and hindrances small businesses face in accessing and maintaining of loans**

| Challenges and hindrances small businesses | Agree | Disagree | Not sure |
|---|---|---|---|
| nterest rates are often too high | | | |
| There too many charges in processing a loan | | | |
| Borrowing in microfinance involves compulsory savings | | | |
| 4)Group borrowing customers often times pay for defaulting members | | | |
| At times you incur extra costs to process documents to icquire a loan | | | |
| MFI often do not supply all the required information to the small borrowers | | | |
| At times bank officers don't offer enough information | | | |
| Training customers is carried out by bank official | | | |
| The business doesn't have any record books | | | |
| nformation about the business is through experience and vord of mouth | | | |
| Most of your assets are in form of stock | | | |
| nost people prefer liquid cash to solid assets | | | |
| ecurity offered is subject to valuation | | | |
| Mortgage is registered on all land used as | | | |
| here few Microfinance institutions in your area | | | |
| here is easy access to financial services | | | |
| ommercial banks don't have products that benefit small usinesses | | | |
| anking Products offered are very | | | |
| anks ask for a lot of requirements to become its ustomer | | | |

| | | | |
|---|---|---|---|
| 3ank products are few in that they don't meet expectations | | | |
| ?roducts offered are expense | | | |
| ›roducts offered don't meet your needs | | | |
| 3anking products are made for the rich only | | | |
| 3anks encourage savings to their customers | | | |
| 3mall business are not formally registered | | | |
| 3ooks of records are not important for small businesses | | | |
| ales revenues are not often banked | | | |
| 'he business is run with the rest of the family members | | | |
| 'here is no trained staff to operate the business | | | |

.ist challenges and hindrances small businesses face in accessing and maintaining of loans

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**Thank you for your time.**