

**THE EFFECTS OF MICRO CREDIT SCHEMES ON THE DEVELOPMENT
OF SMALL SCALE BUSSINESSES IN KOBOKO TOWN COUNCIL
A CASE STUDY OF FINCA**

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**A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF
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DECLARATION

I, ACID AYADI AMULE, do declare that the information presented in this report has never been reproduced, copied or transmitted before for any award of the academic qualification.

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APPROVAL

This research report has been submitted by ACID AYADI AMULE, registration number BBA/41550/133/DU for examination with my approval.

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DEDICATION

This research report is dedicated to my parents, Mr. HABIBU AMULE and Mrs. Khadija, the family at large and to all my lecturers and friends.

ACKNOWLEDGEMENT

I do acknowledge the help and support of my parents in making this research project a success towards my education.

I do also appreciate the efforts of my supervisor Mr. MUZAMIL for the guidance and time accorded during the course of the project.

Lastly to all those who have given me help in one way or another but their names have not appeared here, know that I really appreciate your support in my form.

Thank you all.

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ABBREVIATIONS

KIU-Kampala International University

UG-Uganda

MFI- Micro Credit Finance Institutions

UN-United Nations

SHGs-Self Help Groups

M.F-Micro Finance

M.F.I-Micro Finance Institutions

M.C-Micro Credit

NGOs-Non Governmental Organisations

MCS-Micro Credit Schemes

PEAP-Poverty Eradication Action Plan

NAADS-National Agricultural Advisory Services

PMA- Plan For Modernisation Of Agriculture

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ABSTRACT

The leaders of Koboko town council have a role to play in as far as the development is concerned that is; engage people in developmental activities; ensure proper planning, promotion of full utilization of the available micro-credit schemes, provision of education facilities, encourage community members to adopt a culture of saving, promote creation of small scale business among others. Looking at modernization and globalization, there is a significance strain people's ability to pa/these roles. However, the increasing poverty levels and climatic changes in Uganda have hindered several development strategies since the majority of Ugandan population depend on agriculture for their survival (subsistence and commercial).

The study was purposed to access the impact of micro credit schemes and development of small scale businesses in Koboko town council.

The research design was essentially explanatory and descriptive. It gave an explanation on what compels families to borrow and the impact on development of Koboko town council. It has used both qualitative and quantitative methods. Qualitatively, the study sought to establish the impact of credit schemes on the development of Koboko town council. It also established what has been perceived as the role of credit schemes in development in Koboko town council. This has been done through interviews and focus group discussions.

A sample of 100 respondents was used for the survey. Five identified adult represented the people in the town and this was done through a probability sampling whereby the entire FINCA Microfinance clients. These focus group discussions were ranged between 6-10 people.

The findings show that micro credit schemes have great significance in fostering development in Koboko town council. However, there is much reliance on informal credit schemes and individual money lenders who charge exorbitant interests.

The study recommended that the researchers should pay more attention in future to micro credit institutions which have no affiliation to any employer company, in an attempt to analyze the impact as well as challenges.

There is need for a comprehensive evaluation of informal credits schemes, such as the American dollar system" and other individual money lenders and their bearing on the development.

CHAPTER ONE

INTRODUCION

1.1 Background to the study.

Development planner's civil leaders, political leaders are pressing micro finance institutions (M.F.I) as the key to aspiration of the development not only in Koboko or Uganda but the whole world for instance Kofi Annan the former united nation (U.N) Says that micro credit is an article for anti-poverty tool for investment in human capital. When the poorest, especially women receive credit have become economic actors with, power to improve not only their own lives hut listening cycle, improve the lives of their families and communities and their nation at large.

Micro credit is emerging as a powerful instrument for poverty alleviation in the new economy. En Uganda micro-finance scene is dominated by self help groups (SHOs). Micro-credit involves lending in groups (originally of five numbers) who are jointly responsible for the loan. It required in small periodic installments, over a relatively short period. It lend not only to farmers but also to rural laborers, petty traders, and most importantly to women.

Micro-credit schemes, aimed at providing a cost effective mechanism for providing financial services to the unreached poor'. In the Uganda context terms like small and magical fanners", .rural artisans" and economically weaker sections" have been used to broadly define microfinance customers.

The significance of the Grameen Bank and other micro credit experiments was that they countered this axiomatic belief of showing that even formal financial institutions could provide loans exclusively to the poor and still be assured of repayment This is because they are based on the principle of group lending" whereby loans are made to a group (of between 5 to 20 people) and therefore peer pressure acts as an effective mode of ensuring repayment.

Women borrow money from the micro-credit schemes to establish business, allowing them independence and the ability to provide for themselves and their families well into the future.

The schemes join those who have few or no opportunities into co-operatives, where they can borrow money and receive training.

The role of social mobilization in reducing poverty; working of community banking programs at the village level is the efforts to create space for women to carry out credit and savings transactions. The process of empowerment through the formation of women's groups and the improvement of women are through savings and credit activity. The primary role of development according to the world summit for social development, held in Copenhagen in march 1995, also underlined the importance of improving access to credit for small rural or urban producers, landless farmers.

The study was to aim at finding out the role of micro credit schemes to the development of small scale business in Koboko town council in Koboko district.

1.2 Statement of the problem.

The leaders of Koboko town council have a role to play in as far as the development is concerned that is; engage people in developmental activities; ensure proper planning, promotion of full utilization of the available micro-credit schemes, provision of education facilities, encourage community members to adopt a culture of saving, promote creation of small scale business among others. Looking at modernization and globalization, there is a significance strain people's ability to pa/these roles. However, the increasing poverty levels and climatic changes in Uganda have hindered several development strategies since the majority of Ugandan population depend on agriculture for their survival (subsistence and commercial).

In the liberal financial markets, many members of the community (Koboko town council) resort to borrowing from formal micro-credit schemes and informal money lenders in order to cause development.

There is a need to appreciate how the borrowed money impacts the development of Koboko town council and this can be done through looking at how the borrowed money is utilized, accessed as well as paying back challenges.

1.3 Objectives of the study.

1.3.1 General objective

To access the impact of micro credit schemes and development of small scale businesses in Koboko town council.

1.3.1 Specific objectives

- (i) To find out the reasons as to why people in Koboko town council borrow credit schemes.
- (ii) To identify the challenges faced by the borrowers in accessing loans and also utilizing the money so borrowed.
- (iii) To find out the impact of micro credit schemes and development of Koboko town council.

1.4 Research questions

- (i) Why do people borrow from micro credit schemes?
- (ii) What are the challenges faced by the borrowers in accessing loans and utilization of the borrowed money?
- (iii) What is the impact of micro credit schemes and development of Koboko town council?

1.5 Significance of the study.

The study finding on impact of the micro credit schemes and development of small scale business in Koboko town council will be of a great importance to the policy makers as it guides their understanding of the influence of credit schemes and development of small scale business in Koboko town council with regard to poverty eradication.

The study will be useful to all academicians as it guides them in research and further provides up to date information about the micro credit schemes and development of small scale business in Koboko town council.

The donors also works on the interest debt, they provide funds at the lowest interest debts and expects this interest with the principal back.

Small scale business people belong to the poor who do not have collaterals to give commercial banks. So they go to these schemes and get soft loans that capitalizes their business to build the culture of savings, they borrow savings.

To the developments, as people fight so hard to have the poverty cycle, they are able to meet their basic needs to meet their obligations like paying taxes and they accordingly demand for their right that is they demand rights for their services.

1.6 Definition of key terms.

Micro credit: Refers to small loans given to small scale entrepreneur.

Micro finance: Refers to the provision of financial services such as deposits, loans and payments.

Micro finance institutions: Are institutions whose major business is providing finance Services

NGOs: Are voluntary independent and non-profit making organizations formed with the principle aim of improving the circumstances and prospect of the disadvantaged groups of people.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

In this chapter, attempts to review findings about micro credit schemes and development of small scale business in Koboko town council. Microcredit is widely seen as means of reducing poverty.

The general assumption is that by lending money to a poor person, they are able to start a business, become an entrepreneur, be self-sustaining and may even employ other people in time. It will examine a range of factors that inform the trends in development of Uganda today. The review is largely in accordance with the plan of this study. It further looked at other factors which have led to the development of small scale business in Koboko town council because micro credit schemes range from political, social, and economic factors.

According to J.M. Cramm, H. Finkenflugel. Micro credit has become a popular instrument to promote economic empowerment among poor entrepreneurs in developing countries. Less than 10% of the adult populations in many African countries have bank accounts. And this acts as a break on growth and opportunity (G8 summit (1), 2005). The UN and the World Bank are developing indicators on access to microfinance, and to support national governments to maximize the productive use of remittances. They perceive microfinance as a powerful tool in reaching in millennium Development Goals.

Micro credit is a part of microfinance. Apart from microcredit, microfinance includes savings, micro-insurance and other financial services. The UN launched 2005 as international year of microcredit and in 2006 Mr. Muhammad Yunus, whose imaginative microcredit scheme among poor women became a model for the world, received the Nobel Peace Prize.

Sustainability is prioritized over reaching the poor, leading to exclusion of poorest due to perceived higher skills. Exclusion by design is the last excluding mechanism. To access microcredit programs they often demand entry fees and prior business experiences. The poorest of the poor are not able to save and have no prior business experience, so they tend to be excluded from microcredit.

Simanowitz (6) described four mechanisms leading to marginalization and exclusion of the poorest of the poor from microcredit: self—exclusion, exclusion by others, exclusion by staff and exclusion by design. Poor people's lack of confidence constrains their capacity to believe the programs can be beneficial to them, which leads to self-exclusion. Exclusion by other members is the second excluding mechanism.

Exclusion particularly in group lending (FINCA), self-help groups, solidarity groups, village banking serves as a barrier where there is an incentive for stronger people in the community to exclude the poorer ones. A core element is that all members are jointly liable for each individual's loan, which creates an increased likelihood that the poorest of the poor and more valuable tend to be excluded from such groups. The third exclusion mechanism is exclusion by staff. Loan and credit officers may have explicit or implicit incentives to exclude the poorest a result of the perception that the poorest are problematic and will create increased work burden.

Walden Bello regarded the awarding of Nobel peace prize to Muhammad Yunus as the father of microcredit, comes at a time when microcredit has become something like a religion to many of the powerful, rich and famous. Hillary Clinton regularly speaks about going to Bangladesh, Yunus's homeland, and being inspired by the power of these loans to enable even the poorest of women to start business, lifting their families—and their communities—out of poverty.' (The Nation 17 October. 2006)

In the microcredit world there are several schemes. Mersland makes a distinction between self-helping schemes, institutional schemes and ad-hoc schemes (2). People set up self-helping schemes themselves without the support from an organization. A group of 15-30 people pool savings weekly or monthly. These savings are distributed as loans amongst the members. Group lending minimizes administrative and transaction costs for lenders by replacing credit checks and collateral processing with self-selection of groups by borrowers. Borrowers who are jointly liable for the loans of their group, have vested interest in choosing trustworthy partners. Joint liability also discourages default because group members exercise peer pressure to play.

Microcredit is a great tool as a survival strategy but it is not the key to development, which involves not only massive capital-intensive, state-directed investments to build industries but also assault on the structures of inequality such as concentrated land ownership that

systematically deprive the poor of resources to escape poverty. Microcredit schemes end up co existing with these entrenched structures, serving as a safety net for people excluded and marginalized by them, but not transforming them. No. Paul wollbwitz. Microcredit is not the key ending poverty among the 75 million people in Andhra. Pradesh. Dream on.

2.1 Objectives of microcredit schemes

Ledger wood (2900) identified universal objectives of the credit schemes as being reach the unserved and underserved enterprises and household, ranching from ultra poor who may not be economically active to small growing enterprises that provide employment in their communities hence, improvement in development. The overarching objective has been identified as being applicable to credit and saving schemes the world cover.

According to the World Bank (200), The Kenyan rural enterprise program (K-REP) 'as established in 1984 as a development non-governmental organization that provides credit to promote growth and generate employment in the micro enterprise sector. The role of micro institution as a development organization is therefore to serve the financial needs of the unserved and the underserved groups within the community. This explains the reasons as to why such role must be in line with the development of micro finance institutions are in line with poverty eradication, women empowerment, creation of employment opportunities and the encouragement of development of new business among others. This can explain the reason as to why there is extensive government intervention in the allocation of credit at all levels especially in developing countries, as noted by Pederson (1997:134).

2.2 Challenges facing microcredit schemes

Credit schemes in Uganda are faced with a number of challenges which range from structural to conceptual. The structural challenges are that before these schemes are granted permission to operate in any part of the country, they must follow a bureaucracy of modalities in the name of registration. Besides, some parts of the country are insecure and since these schemes operate at the ground level of the community, their activities are as such rendered impossible. Micro credit schemes are mostly located in urban areas, hence unable to reach small scale producers to access loans hence affecting production of people who are in remote or deep in the villages.

In addition to the above, various individuals within the community lack proper understanding of the credit schemes: therefore, these end up deliberately failing to pay back the money so borrowed. In the circumstances where people fail to pay back, such schemes can hardly achieve any success.

2.3 Poverty

Poverty in Uganda today has been ranked as number one factor in information of the nature of small scale business development. This explains why it has been integrated into the strategic plan that aims at reducing poverty to considerable levels by bathe year 2025, according to the government Poverty Eradication Action Plan (PEAP) (2025). The basic definition of poverty emergingb from the 12 sampled districts is the lack of basic needs and services such as food, health care, education and communication; all of which have a great bearing on small scale businesses in Koboko town council.

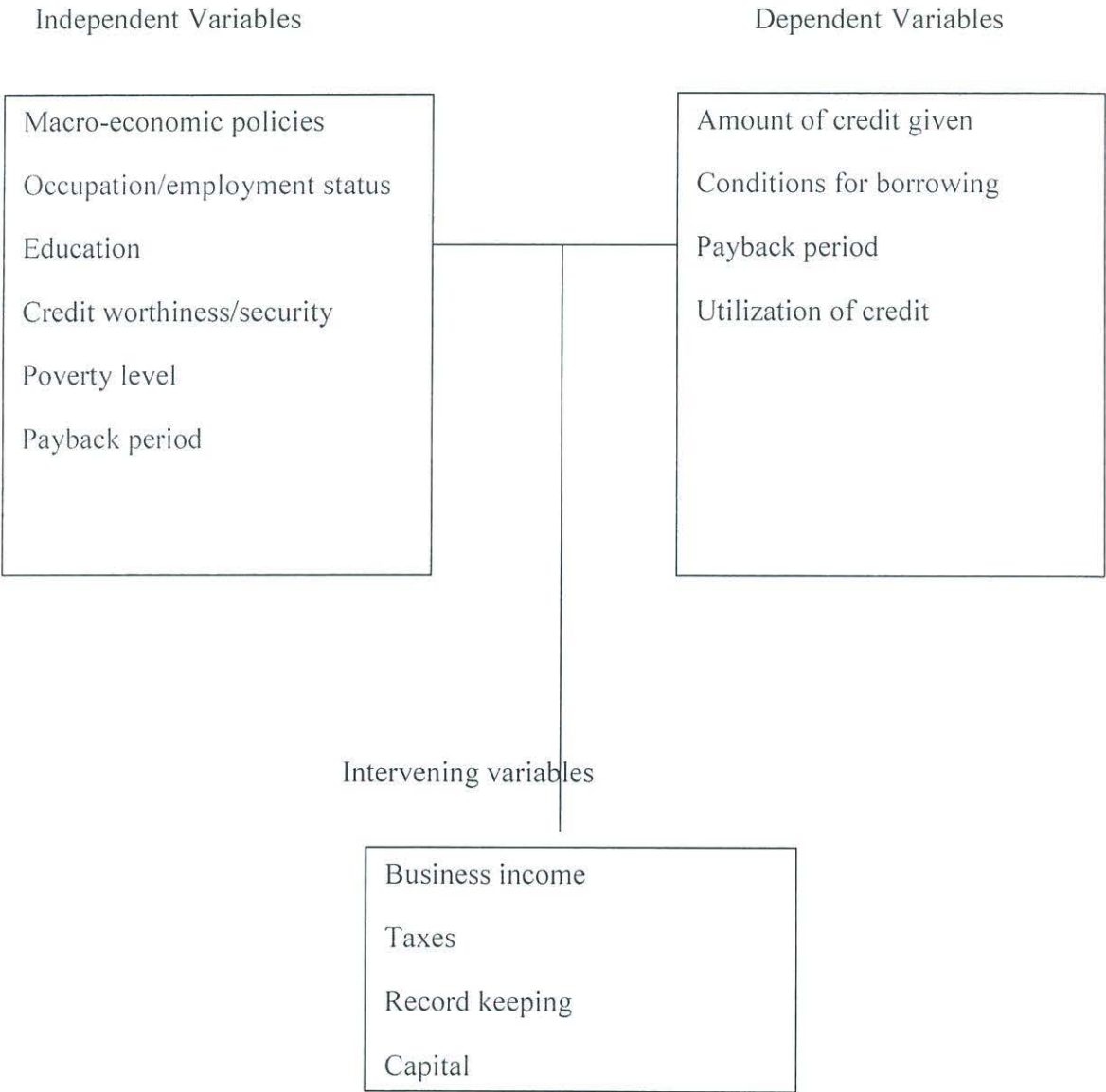
The above definition therefore, brings about the dimension of powerlessness. Social exclusion and vulnerability as portrayer by chambers (1998). Since the poverty stricken families are incapacitated to cater for the life contingencies, they find an alternative source of income from credit schemes and they resort to borrowing. It is therefore, a primary determinant of small scale business which has attracted many policies such as; the plan for modernization of agriculture (PMA) and National Agricultural Advisory Services (NAADS) and according to the ministry of finance's annual report (2009) of 42% of Ugandan live absolute poverty and the budget report 2003/4 notes that 38% Ugandans are below the poverty line. This is a clear indicator that poverty levels are still high. Impliedly, there is a strong feeling of marginality, dependence and powering of personal property and among the poor people.

The fact that Uganda is basically dependent on agricultural farming which is basically subsistence, generally people are poor in Uganda and unable to take timely action so: they lbmi groups and borrow money to meet their obligation.

2.4 Conceptual framework

Inherent in the conceptual framework is the assumption that families will depend on business income. This will be determined by the employment status of various people. In the situation of

inadequate income or unemployment, borrowing from formal credit will largely depend on the macroeconomic policies, which will determine access to whether there is improvement on the small scale business or otherwise it will also be influenced by conditions attached to such loans. For example, amount accessed, payback period and security require among others, the way the money so borrowed issued may also affect small scale business development of Koboko town council.



Source: Adopted From Literature Review

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter handles methodological and practical aspects of how the research was conducted. The major aspects in this chapter include; Research Design, area of study, sample size and selection as well as data collection and analysis.

3.1 Research design

The research design was essentially explanatory and descriptive. It gave an explanation on what compels families to borrow and the impact on development of Koboko town council. It has used both qualitative and quantitative methods.

Qualitatively, the study sought to establish the impact of credit schemes on the development of Koboko town council. It also established what has been perceived as the role of credit schemes in development in Koboko town council. This has been done through interviews and focus group discussions.

The quantitative method will be used to establish the reasons for borrowing from credit schemes, the challenges to borrowing and utilization of the borrowed money. Under this method the researcher will use household survey with the help of personal interviews in Koboko and sub counties around Koboko town council.

3.2 Area of study

The study was conducted in Koboko town council, Koboko district. Koboko town council is one of the five sub counties in the district. It is bordered by Midia sub-county from north west, Lobule Sub County from the east. It is 19 kilometers from the southern border town of Kaya and the republic of Congo. Koboko town council is the administrative and commercial headquarters of Koboko district. Koboko district is 574km from Kampala.

3.3 Study Population

The study population comprised of all individual that have borrowed from FINCA microfinance ltd which was identified as a credit scheme in Koboko town. The people that are concerned with the management of the scheme, the leaders constituted the respondents for qualitative data.

3.4 Sample Size

A sample of 100 respondents was used for the survey. Five identified adult represented the people in the town and this was done through a probability sampling whereby the entire FINCA Microfinance clients. These focus group discussions were ranged between 6-10 people.

3.5 Sampling procedure

Both purposive and probability sampling were employed. Koboko town council was purposively sampled because of the willingness offered by the administration to allow the researcher to carry out the study. It was out of FINCA microfinance Ltd that a sampling frame was drawn up from the list of clients .From the sampling frame, the researcher used simple random sampling to get the 100 respondents who responded to the questionnaire.

The key informants such as credit officers, manager and members of the executives board were purposively sampled for qualitative data. It was from the sampling frame that the researcher obtained randomly the respondents who participated in the focus group discussions and this was done because all the respondents had common denominator of being members of FINCA microfinance Ltd.

3.6 Data Collection Research instruments.

Qualitative data was collected with the help of focus group discussion guide, a cassette recorder and a reporter. The researcher also used interview Guides for the key informants. For qualitative data the researcher used questionnaires.

These instruments selected led the researcher to succeed in the study because of their effectiveness in soliciting the information from the respondents. The 100 respondents who were

randomly selected from the sampling frame availed quantitative data the key informants and the focus group discussion respondents were purposively to provide qualitative data.

3.7 Procedures for data collection

An introductory letter was obtained from the department of sociology which was presented to the chairman executive board of FINCA micro finance who granted permission and guided the researcher on how to get audience from FINCA microfinance clients. Later on the researcher proceeded to the manager who provided the researcher with the list of all the FINCA microfinance clients and further introduced the researcher to the other managerial staff.

The survey questionnaires were administered to the respondents by the researcher and the exercise lasted for about four weeks. The key informants' interviews were about thirty minutes each while the focus group discussion were between 45 minutes to 1 hour each and were recorded using a cassette recorder. The key informant's interviews were carried out in their respective offices while the focus group discussions were held at their work places.

3.7 Data analysis

After collection of data, the survey questionnaires' results were edited. They were checked for Consistency, accuracy, legibility and uniformity. Quantitative data was also coded manually and tabulated.

The Qualitative data was mathematically analyzed; the recorded discussions were transcribed, until a given pattern of responses was drawn. Similar sub themes in line with the objectives of the study were identified which helped the researcher in the construction of a coding frame.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter presents the findings on the demographic characteristics of the respondents as well as their general profile in terms of income.

4.1 Social Demographic Characteristics

These describe the Sex, religion, age and marital status of the respondents.

4.1.1 Sex

Of all 50 respondents interviewed 26 of them were male constituting 52% of the total sample where as females constituting 48% as shown in the table below:

Table 1 : showing sex of respondents

Sex	Frequency	Percentage
Male	26	52
Female	24	48
Total	50	100

Source: from management FINCA Koboko Branch

4.1.2 With regard to the age

The majority of the respondents were in category 30—39), representing 46% followed by category 40-49 representing 20% as shown in the table below:

Table 2 : Showing the age category of the respondents

Age group	Frequency	Percentage (%)
20-29	9	14
30-39	23	66
40-49	13	8
50+	5	12
Total	50	100

Source: from management FINCA Koboko Branch

4.1.3 Religion

In terms of religion, the study found out that Anglicans were more than other people in other religions. They constituted to 42% of the total sample, followed by Catholics with 34% then Moslems and Pentecostals, as shown in the table below.

Table 3 : Showing the religious denominations of the respondents

Religion	Frequency	Percentage (%)
Anglicans	7	14
Married	33	66
Divorced	4	8
Widowed	6	12
Total	50	100

Source: manager FINCA Koboko Branch

4.1.4 Marital status

Out of the 50 respondents that were interviewed, 33 were married, constituting to 66% of the sample. 7 were single constituting to 14% of the sample, 4 were divorced and 6 were widowed as shown in the table below;

Table 4 : Showing marital status of respondents

Marital status	Frequency	Percentage (%)
Single	7	14
Married	33	66
Divorced	4	8
Widowed	6	12
Total	50	100

Source: manager FINCA koboko branch

4.2 Profile of the respondents

The profile of the respondents includes the type of occupation, average monthly income as well as the time one has spent in FINCA Koboko branch.

4.2.1 Occupation

The study found out that out of the 50 respondents, 20 were shop attendants constituting 40%.

Table 5 : showing occupation of respondents

Occupation	Frequency	Percentage (%)
Plantation workers	20	40
Technicians and drivers	10	20
Data clerk/store keeper	9	18
Supervisor/guards	9	18
Shop attendants	2	4
Total	50	100

Source: manager FINCA koboko branch

4.2.2 Income

Majority of the respondents were found to be earning between 100,000-200.000 shillings per month. This category constituted 60% followed by those earning between I 0,000-90,000 shillings who constituted 30% as shown in the table below.

Table 6 : Showing the income of the respondents

Income	Frequency	Percentages(%)
10,000-90,000	15	30
100,000-200,000	30	60
210,000-500,000	5	10
Total	50	100

Source: management FINCA koboko branch

4.2.3 Time spent in FINCA

The research found out that 28 out of the 50 respondents had been clients of FINCA, for a period ranging between 1 and 5 years, constituting 56%. 13 of the respondents had been FINCA clients for a period less than one year followed by 6 clients who had been FINCA clients for over 11 years as shown in the table below.

Table 7 : showing time spent in FINCA by the respondents

Time spent	Frequency	Percentage(%)
Less than 1 year	13	26
1-5 years	18	56
6-10 years	3	6
11 years	6	10
Total	50	100

Source: management FINCA koboko branch

4.3 Money borrowed

With regard to the amount of money borrowed, the study established that most of the respondents borrow between shillings 100,000 to 200,000 constituting 38% of the respondents, but those who borrow between 210,000 to 300,000 constituting 20% from the data gathered, it

can be said that there is a relationship between income and money borrowed. This relationship is in such a way that those people who get between 100,000 to 200,000 are more prone to borrowing than those who get between the range of 300,000 to 500,000. Notably also is the fact that 18% of the respondents never had a fixed amount of money to be borrowed as illustrated in the table below;

Table 8 : showing amount of money borrowed by respondents

Amount borrowed	Frequency	Percentage(5%)
10,000-100,000	19	38
110,000-200,000	10	20
210,000-300,000	7	14
310,0000	5	10
Total	50	100

Source: management FINCA koboko branch

4.4 Reasons for borrowing from FINCA (Koboko) as compared to other credit schemes.

The study found out that people had various reasons for borrowing particularly from FINCA. These included being affiliated to the small scale business having a savings scheme and of good system as illustrated in the table below

Table 9 : showing the respondents reasons for borrowing from FINCA

Reasons	Frequency	Percentage (%)
Affiliation to employ a company	19	38
Having a savings scheme	16	32
Good system of operation	15	30
Total	50	100

Source: management FINCA koboko branch

4.5 Reasons for borrowing

The reasons for borrowing included paying school fees, starting up or maintaining business enterprise, constructing houses, commercial farming as well as construction of clinics creating.

4.5.1 Paying school fees

This was sighted as the primary reason for borrowing in FINCA. Out of 50 respondents, 10 claims to borrow in order to meet school fees for their children. This constitutes 70% of the sample. Paying school fees cuts across for parents and non parents alike because even some

single and unmarried people borrowed either to pay their own school/tuition fees or pay for their brothers. For example one respondent said;

“I don’t have a family but I borrow to pay my university tuition”

This is further aggravated by the fact that most families have more than one kid yet the cost of paying their school fees is high as compared to the salaries earned. A key informer noted that FINCA as an institution faces more strain during school openings and it is during such periods that you can see the climax of borrowing here. This is simply because most people borrow to pay school fees for their children.

Education being a human right, no parent would like to see his/her child sit at home. And in the circumstances where salaries are not enough to meet the education requirements for most people, then breadwinners are left with no choice but to borrow so as to maintain their children in school.

This shows that most children are educated on borrowed money and in the circumstances of failure to pay back the parents, the children will then have to forego their education. This is in line with the finding of Wamayi (1995) who established that; the reason as to why people in budadiri borrow from informal credit schemes was basically to meet the school fees and requirements for their children.

Similarly the findings do not also deviate from what was established in Sri Lanka (South wolf (1991). In which she noted that education is one of the long term projects in which people can invest with anticipated positive results, particularly in terms of family welfare and education is no exception among the long term projects.

4.5.2 For construction purposes/housing

The study also found out that people borrow either to buy construction materials or purchase land. It is from these loans that some people have managed to set shelter for their own. Of the total sample, 24% of the respondents said they borrow to open on constructing their own facilities. Despite the fact that the employer organization (SCOUL) offers housing facilities to most of its employees, they end up in borrowing to construct in preparation for their retirement age. Besides construction, there are people in the organization who borrow to pay house rent

especially those who are housed by the company. During the study, 4% of the respondents said that it is because of the house rent that they joined FINCA and this may be backed by the response below by a key informant.

As already mentioned, some respondents agreed that they were in position to put up family and business structures, through borrowing. One respondent had this to say;

During the last period, I borrowed in order to lay a foundation for my building and thank God it was laid. This time I am going to borrow to have a complete building structure so that we as a family can get where to sleep and use other front rooms for business.”

This therefore means that the micro credit schemes can greatly lead to the development of Koboko town council.

Throughout the study, it was established that people can buy land, start and finish construction houses/business structures through borrowed funds. This is also evidenced by one of the key informants that:

People come here and when you ask them the reason for which they borrow, they tell you that we are doing this in order to buy timber, iron sheets, iron bars and so on; this shows that the materials bought are meant for construction of houses and/or business structures”

The implication for this is that; once somebody starts borrowing for construction purposes, chances are that such a person will borrow throughout his tenure of employment. Unlike the findings from Budadiri and Sri Lanka construction is a strong reason for people to obtain credit in FINCA.

4.5.3 Maintaining health

Health ranked third with 20% as a reason for borrowing. This percentage shows that people are conscious about their health as earlier on noted by the family planning perspective of 2002. According to the PEAP 2002, poor health was sighted as a primary cause of poverty and an indicator of poor social welfare leading to under development. In the circumstances where people borrow to improve on health of community members, borrowing must then have a

reasonable impact. 20% of the respondents agreed they had borrowed to save their lives or that of their family members. One of the respondents in the focus group discussion had this to say;

Hadn't it been for FINCA to give me money, my father would have lost his life, this is because the company hospital had referred us to Mulago for an operation which required shillings I 50,000 which I only managed to get from FINCA."

This is also in line with the response of one of the key informants who had this to say:

"People gave various reasons for borrowing from FINCA which range from starting up business to paying school fees."

It should also be noted that some people borrowed small amount of money for medical/treatment. This can be from individuals or through the American dollar system. For example: several respondents confessed that they borrowed such money to access medical treatment, in form of buying drugs from pharmacies. This was so because the company hospital in which they are supposed to get free treatment is very far from their places of residence. This has led to development since it ensures steady carrying out of business as a result of the loans by people of FINCA.

This is in line with what Wamayi established in 1995 that accessing treatment was a major reason for borrowing in Budadiri. It further confirms health as a basic need which all the people strive to improve under all circumstances, getting treatment had been taken on at a personal as well as a family level all of which has led to development in Koboko town council.

4.5.4 Start up business

The study also established that people borrow to start up income generating activities/businesses. Most of the respondents, who borrowed for starting up business, either participated into the American dollar system (an informal form of lending and borrowing) or have a shop where they can access credit in case they run out of stock in their business. The study found out that 17.6% of the respondents borrow to start up business. Much as they were actively involved in FINCA.

One participant in a focus group discussion has this to say;

You may never avoid borrowing simply because we live in a world of uncertainties/unanticipated circumstances. For example you may find out that there are cheap items on the market before the old stock is finished and when you have no money ,the only solution is to borrow from individuals.”

4.5.5 Acquiring household properties

The study also found out that 6.9% of the respondents borrowed in order to acquire basic household equipment. These include washing trough, saucepans, radios, television sets and bicycles among others. It can therefore be said that through borrowing, people can equip their houses with utensils and can also acquire some other property, which may be required for their survival as one of the respondents in the focus grouped discussion lamented.

“Badly needed a bicycle in the home. What I did was to acquire one in the previous few months. This bicycle had acted as a source of income to the family besides, providing transport for me as I come to look for what can sustain us”. This has led to development at family level as a result at micro credit schemes in Koboko town council.

In the situation where people can engage in economic activities, it can also be taken that they can easily reduce poverty. For example where people can save profits and be able to buy radios. It shows that such a home has access to information which can later on be a drive to development.

This information can be regard to public announcements that can call up people to engage in business, adopt prosperity and all slogans among others.

The findings on house hold equipments contrast with what was established by wamayi in Budadiri. However, in line with what Southwold found out that: people in Sri Lanka borrowed to meet short term and long term problems in which Uganda is no exception.

The reason as to why people borrow was a specific objective for the entire study. The reasons as discussed above range from construction of schools, starting up business, constructing houses commercial farming as well as construction of clinics as summarized in the table below.

Table 10 : Showing the reasons for borrowing

Reasons for borrowing	Frequency	Percentage
Accessing treatment	10	14.7
Construction purposes	8	11.8
Paying school fees	35	51.4
Starting up business	12	17.6
Getting household equipments	3	4.5
TOTAL	68	100

Source: management FINCA koboko branch

The totals are exceeding the originals in the sample because multiple responses were allowed.

4.6 Utilization

It is evident from the research findings that most of the people who borrow spend their money on direct development aspects such as paying school fees, housing/construction purposes.

Starting up businesses, farming and accessing treatment. However, it is also manifested that a big percentage of the respondents use their money properly.

From the research, it is evident that apart from investing in developmental activities, the borrowers are left with little if any option for their welfare.

The table below shows the various aspects on which people spent the money they borrowed.

Table 11: showing utilization of the money borrowed.

Utilization	Frequency	Percentage (%)
Housing	24	23.7
Health	15	14.9
Household equipments	7	6.9
Education	21	20.8
Bussines	34	33.7
TOTAL	101	100

Source: management FINCA koboko branch

Note: Multiple responses were allowed. Therefore, it is common among the borrowers to spent borrowed money on farming at the same time housing, and education as well as health.

4.6.1 Utilization Pattern

According to the income pattern of the respondents, it was evident that people are low income earners. It is therefore not surprising to note that utilization of borrowed money is more focused on the life contingencies.

From the research,30% of the respondents earn between shillings 15,000 to 95,000 while 60% of them earn between 105,000 to 205,000 per month. Therefore many are caught up between the inadequacy of salary as a source of income and the increasing cost of living.

The findings however conform to the previous findings by Tihakoma A (1993) in which she established the informal credit schemes and semi—formal credit schemes can solve the immediate financial needs of various people. In this case, the financial needs of the people which are solved include housing, starting up small businesses, farming, construction of clinics as well as construction of schools.

4.6.2 Education and health

In total 35.7% of the respondents indicate having utilized the money borrowed on education and health. These being the indicators of development, profoundly conform to some of the study

objectives. This is an increasing desire to have people acquire enough education and this desire is reflected in the findings above; which are also in line with the national development goal.

4.6.3 Housing and business

An in housing and business is a clear indicator of development. The findings from the study indicate that over 93.1% of the respondents use borrowed money specifically for development aspects as shown above in tables.

Generally the respondents use money on business projects (developmental ventures) however, from the study, it was evident that there was a clear link between business and the loan in any case, each sustained the other; as one of the respondents had this to say: “without the loan, I cannot finance my business and without the business I cannot service the loan.

From the analysis above therefore, there is adequate utilization of the funds borrowed from micro credit schemes in regard to development in Koboko town council.

4.6.4 Perceived impact of the micro credit scheme on development of Koboko town council.

This sub-section includes findings about the perceived contributions of the micro credit schemes with regard to development; particularly covers the economic aspects to development that are involved in the micro credit transactions in FINCA and other forms of credit schemes.

According to the study, besides being FINCA clients, most respondents had involved in the micro credit schemes either at house hold level, friends and relatives, traders or through the famous systems of borrowing called “The American Dollar system”. There is enough evidence to show that people who borrow money have experienced significant changes. It was observed that many people survived and still survives because of borrowing from FINCA.

In relation to the above, the study established that micro credit schemes can improve on the business hence development as one of the key informants say:

“there is really positive impact on the development of KOBOKO town council and seem to be very comfortable with the little we offer, say for example; several of our clients have been in position to afford education for their children, increase on their yields in their businesses and this

has enabled them to increase on their profits hence leading to development. So can generally say that: people have been in position to improve their standards of living”.

The impact of micro credit schemes on development is perceived to be positive. This is because 78% of the respondents agreed that micro credit schemes have had a positive impact on development. However 16% perceived the micro credit schemes as being negative. This is because of the problem in loan the repayment system which reduces on the monthly earning as well as the “American Dollar system” whereby interest is hiked at the cost of the borrower. It should however, be noted that 6% of the respondents did not know what the impact, of micro credit schemes was on the development. This is illustrated in the table below.

Table 12 : Showing the statistical representation of the perceived impact of micro credit schemes on the development of Koboko town council.

Impact	Frequency	Percentage (%)
Positive	39	78
Negative	8	16
I do not know	3	6
Total	50	100

Source: management FINCA koboko

The perceived impact can further be explained by the benefits that come as a result of one’s involvement who perceive the impact to be positive have realized out of the micro credit schemes.

Table 13 : showing the benefits from involvement in micro credit schemes.

Benefit	Frequency	Percentage (%)
Able to educate children	34	30.6
Manage to acquire land and build houses	21	18.6
Have access to health services	24	21.6
Able to carry out commercial farming	15	13.6
Managed to engage in trade/businesses	7	6.3
Total	111	100

Source: management FINCA koboko branch (*Multiple responses were allowed.)

As shown in table 13 above, it is apparent that most people have been able to educate their children. This is represented by 30.6% which shows the attitude of people towards education and the importance that is attached to it. Because education can be used as means through which people can climb the economic ladder, it is evident that micro credit schemes can bring about positive impacts in as far as development is concerned. Therefore the micro credit schemes are perceived as an alternative savior to escalating cost of educating children and also those who go for mature education.

Therefore the impact of micro credit schemes on development can also be manifested in its ability to maintain steady business performance as one of the key informants noted that:

“Most of the people who borrow from FINCA are SCOUL employees and we acknowledge the fact that SCOUL offers medical services to its employees but in the situation where the patients are referred to Mulago for further treatment, the medical benefits may not come immediately. therefore, one can come to FINCA and get a push in terms of a loan and in this way our clients' health can be improved. But even one goes to Mehta hospital for treatment, he will also end up spending as a result of the sickness suffered.”

Furthermore, a reasonable number of respondents reported to have a positive impact from micro credit schemes because, through such schemes, they were in position to construct their own house. Some of them have also bought parcels of land in anticipation of constructing their own houses. To confirm this, several respondents envisaged/contended that;

“If it were not for FINCA credit scheme, I do not think I would have a chance of setting up a small structure for my family. But since we are allowed to save and borrow more money than the savings, my family grabbed an opportunity of acquiring a basic house.”

Another respondent argued that;

The benefits from FINCA are not measurable because when I was widowed; my husband's relatives gave me the opportunity to fill the land we had. What I did was to work hard, save with

FINCA and thereafter borrow and as I talk now, I have a piece of land which I cultivated for both subsistence and commercial though it took me long to own, all the same, I have it and credit goes to FINCA.”

Other participants said to have acquired property out of the loans from FINA. Such property includes; bicycles, motor cycles for business among others. In respect to the above, one key informant said;

“We have land titles for people who borrow big sums of money and such people may be intending to do business such as, motor cycling.”

With the acquisition of property, it can be said that people can change their styles of living which greatly impact development.

Some of the other factors which had not featured in the quantitative data but pronounced in the qualitative data were the fact that, even during the festive seasons people borrow money from FINCA so as to boost their business. This was particularly mentioned by a key informant who said that;

‘Towards the festive seasons, borrowing tends to intensify’

It can therefore be mentioned that micro credit schemes are perceived to be important as far as development is concerned; for it, it facilitates acquisition of education, improvement in health, construction of structures for various purposes, and businesses. Therefore, the implication is that most of the people especially those in FINCA perceive credit as a means through which development aspects can be fostered and acquisition of what they would not have acquired.

4.7 Challenges

This section presents findings on challenges faced by the borrowers. It addresses issues such as those found in getting the loan, utilizing them and paying back the loans.

4.7.1 Getting the loan

The study found out that in the process of getting the loan, there are a number of challenges amongst which, is having a minimum balance on one's account, having security and guarantees as well as entire process being time consuming. Below is a presentation of the challenges faced in getting the loan.

Table 14 : showing challenges faced in getting the loan

Challenges	Frequency	Percentage(%)
Minimum balance	15	30
Guarantees/security	13	26
Time consuming	15	30
No response	7	14
Total	50	100

Source: management FINCA koboko branch

FINCA is registered credit financial institution. The researcher found out that for one to have an account in FINCA. One is required to pay a share of shillings 1 0,000 (ten thousand only) and also open up an account with shillings 10,000, which would also make the minimum balance.

However to borrow money from FINCA one must have 30% of the total sum of money intended to be borrowed from his/her account and in the event of withdrawing any amount, the same should not be given until debt has been serviced.

The study also established that another challenge faced in getting the loan was the time factor. Subsequently, since FINCA has many clients, it would require a number of days; say nearly a month for one's loan to be processed. In this regards, one of the respondents has this to say:

“If only the management could allow us to withdraw up to the minimum balance, we would have no problem with the whole arrangement. For example. for one wanting to borrow shillings 100,000, it is a must that he should have more than shillings 30.000 on his savings account. That means that they are giving shillings 70,000, yet pay back is guarantee.”

Another respondent in focus group discussion said:

“When we want to pay for a loan, intending to solve a problem in march say injecting in a business more money, you should start the process in February and when they tell you to come, you can spend hours in the queue unattended to, especially when one is borrowing big sums of money.

It was established that getting the loan was challenged by one’s getting a referee who is commonly referred to as a guarantor. The referee must be having an account with FINCA and most of the clients were found to have been referees once or twice. Therefore, they would not intend to second more people for the security of their own account. It was however, established that in the circumstances of failure to pay back, the referees account is impounded to ensure that the recovery of the loaned money by the borrower, which creates not only a challenge to the borrower but also a formidable source of fear.

4.7.2 Utilizing the loan

The study established that a big percentage of the respondents contended never to have encountered challenges in utilizing the loan. However, there were issues that created challenges to the utilization of the loan and these included; unavoidable problems that lead that money to be used for other purposes other than those for which it was borrowed; failure to get the loan in the anticipated time as well as the amount requested for. The challenges on utilization of the loan can be summarized in the table below;

Table 15: Showing the challenges faced in the utilization of borrowed money.

Challenges	Frequency	Percentage(%)
Un avoidable problems	17	34
Time the loan is received	5	10
Amount of money given	5	10
No challenges	23	46
Total	50	100

Source: management FINCA koboko branch

From the study. 34% of the respondents agreed that at times, the money borrowed may never solve the problem for which it was got; and this was because of unforeseen problems. as one of the respondents in the focus group discussion lamented.

“I one time borrowed money to start up a business, but as soon as I got it, my daughter fell sick and had to go for an operation, and I had to use the same money to cater for her treatment.”

Whereas the time for which the money was got was also a potential challenge to utilization: for example: several respondents contended that due to a long process of borrowing the money at times the money is got when it cannot solve the problem for which it is intended. Therefore the borrower is left with no option but to divert it to some other use.

According to Wamayi (1995). paying back was one of the possible challenges faced by the borrower. This is contrary to the findings from FINCA. Most respondents seemed not to find challenges because of the check off system used in paying back the loan. The check off system is where the loan is recovered through compulsory monthly deductions from one's earning's.

In the check off system, there is close collaboration between the FINCA management and the employer of FINCA's clients, in which the pending loan is paid through the monthly deductions made on every borrower's salary. 58% of the respondents seemed to be comfortable with the system. however 26% of the respondents found it hard and unconvincing to pay back the loan with a 20% interest rate, which they deemed as being high and as such, a challenge to clients.

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of findings

The study was aimed at establishing the perceived impact of micro credit schemes on the development of Koboko town council.

The respondents included all persons, male and female, who save with FINCA and borrow from it. The technique of random sampling was used in sample selection. For data collection the questionnaire was the main instrument for quantitative data; while as the interview guide and the focus group discussion guide were used for qualitative data. The data collection process took about three weeks and the response was fairly good.

Some problems were encountered in this study. To start with FINCA, it has a big wide area of operation, so tracing some respondents from the sampling frame involved walking long distances, it also involved a lot of call backs, as some of the respondents could not be reached at the time the researcher needed them. However, the researcher was in position to cope with all the problems by persisting and the research went on smoothly up to its completion.

It was also observed that most of the respondents were male, constituting to 52% of the total sample; and 66% of the respondents were married. Those who were not married still had responsibilities to perform (had families to look after). No respondent was found living alone and such responsibility compelled them to engage in economic and development activities, making borrowing inevitable.

It was found out that involvement in micro credit scheme had improved the standard of living of many people. Most of the respondents admitted that had benefited from micro credit schemes. It was rare to find those who were disappointed for failing to meet the goals for which they had borrowed the money and various reasons were given for this including overwhelming need to start up business, educate their children, acquire land/housing and maintaining good health among others.

It was established that people had problems which micro credit schemes can solve: it was evident that some of the respondents involved in informal credit schemes, 99% of them had heard about other credit schemes in the area such as FINCA Uganda, Uganda finance trust bank among others but overwhelmingly, they borrow from FINCA because of the pay back system, which is favorable to all because it is affiliated to employer companies.

It was however, noted that some respondents engaged in activities which later on plunged them into untold poverty, accruing from misuse of funds borrowed. For example, some respondents spend some of the money on drinking while as others borrowed from FINCA to meet the escalating interests incurred through the “American dollar system”.

Some of the findings further indicate that people can not improve on their standard of living but only stay in a position under which they can meet the basic necessities of life on a piece meal basis. It was also clear that as long as one was an employee of a recognized company/organization, it was heard for search a person to fail to payback the loan because of the “Check off system” whereby the loan is recovered through compulsory deductions from the monthly earnings. Many of the respondents seemed to agree the overwhelming demand for money as a means of solving various development aspects makes borrowing an inevitable practice. But the participants consented to have benefited from the loans. This is because many of them obtained credit for injecting in already existing and new businesses, which in most cases ended up being achieved.

5.2 Conclusion

The study investigated the perceived impact of micro credit schemes on the development of Koboko town council in the present times and also aimed at establishing the reasons for borrowing, utilization challenges and impact of such schemes on the development of people in FINCA.

The findings show that micro credit schemes have great significance in fostering development in Koboko town council. However, there is much reliance on informal credit schemes and individual money lenders who charge exorbitant interests.

Looking at starting up business as an investment, it is apparent that short term investment dominated the use of borrowed money. It was rare that money was borrowed for acquisition of household property. It can be concluded that micro credit schemes have an influence on the actual impact of many people in FINCA.

Though the “Check-off system” was the most common means of repayment, there are cases of failure to pay back and these resulted from failure to work for casual laborers and this meant that there was no salary to be deducted. In the circumstances of failure to pay the loan, the guarantor’s account would be impounded in an attempt to recover the money.

To a larger extent it can be concluded that micro credit schemes have met the developmental needs of average people, especially during the seasons of severe financial demands, such as school openings and festive seasons.

The findings also show that the respondents abide by the operational mechanisms of FINCA since they have a hand in deciding what policies should be adopted through their participation in general assembly.

5.3. Recommendations

As discussed above that micro credit schemes are instrumental in as far as development is concerned, the researcher came up with the following recommendations:

The researchers should pay more attention in future to micro credit institutions which have no affiliation to any employer company, in an attempt to analyze the impact as well as challenges.

There is need for a comprehensive evaluation of informal credits schemes, such as the American dollar system” and other individual money lenders and their bearing on the development.

Policy makers should be very conscious about the interest rates set by the various lending institutions because such rates may impact negatively on the development of presumed development. Being affiliated to some employer companies, there is need for FINCA to streamline the modalities which could perhaps reduce on the interest rates paid by the borrowers and this can be done through combined efforts between the employer companies and FINCA.

Though micro credit schemes are basically lending organizations, they ought to develop the culture of saving among the people in which they operate. This can be done through capacity building and sensitization.

APPENDIX I: QUESTIONARE

THE IMPACT OF MICRO CREDIT SCHEMES ON THE DEVELOPMENT OF SMALL SCALE BUSSINESSES IN KOBOKO TOWN COUNCIL

Questionnaire

Dear sir/madam

I am a student of Kampala International University in Uganda undertaking the study topic.' The impact of micro credit scheme on the development of small scale businesses in Koboko town council.

You are kindly requested to fill this questionare, the information given will be treated with confidentiality and it will be for academic purposes only.

Thank you for your precious time spared for this task(Tick where appropriate)

Section A:

BACKGROUND INFORMATION

1. Sex: male/female.....
2. How old are you.....
3. What is your religion ? catholic, muslim, Anglican, others(specify).....
4. What is your marital status
 - (a) Single.....
 - (b) Married.....
 - (c) Divorced.....
 - (d) Widowed.....
 - (e) Others(specify).....
5. How many people do you have in your home ?.....
6. What is your occupation ?.....
7. How can you rank average monthly incomes ? 10,000-90,000 shs, 100,000-200,000 shs, 210,000-500,000 shs, 510,000-1000,000

SECTION B: REASONS FOR BORROWING

8. For how long have you been a FINCA client ?.....
9. Have you ever heard about other credit schemes ?.....
10. Why do you borrow particularly from FINCA ?.....
.....
11. What reasons do you have for borrowing ?.....
.....
12. How much money can you borrow at ago ?.....
.....
13. For how long can you borrow that money ?.....
.....
14. Are you free to borrow from another scheme ?(i) Yes.....(ii)No.....
15. Do you also borrow from individuals ?(i) Yes.....(ii) No.....
16. Give reasons for your answer.....
.....
17. Might these include small amounts of money borrowed from neighbours,say for salt ?..
.....
18. How do the two compare ?
.....
.....
.....
19. Under what circumstances do you borrow from them ?
.....
.....
.....

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