THE ROLE OF MICRO-CREDIT ON PROFITABILITY OF MICROFINANCE INSTITUTIONS (MFIs): A CASE STUDY OF BRAC FOUNDATION UGANDA - NYANAMA BRANCH

BY

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A RESEARCH REPORT SUBMITTED TO THE SCHOOL OF BUSINESS AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE IN BUSINESS ADMINISTRATION OF KAMPALA INTERNATIONAL UNIVERSITY

MAY 2014

DECLARATION

I, Kasirye Charles hereby declare that this research report is my own original work, that all reference sources have been truthfully reported and acknowledged, and that this document has not previously, in its completeness or in part, been submitted to any University in order to obtain an academic qualification.

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Signature

02 / JUNE / 2014
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Date

APPROVAL

This is to oblige that this research report has been submitted in partial fulfillment of the requirements for the award of the degree in Business Administration of Kampala International University with my countersignature as Universal supervisor.

Signed: ....

Madam Kimuli Esezer

Date: 2 | JUNE | 2014 ....

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I enjoy and treasure the memorable moments with my class mates. I should give my appreciation for their generous support, sharing and encouragement during this long and sometimes lonely course leaning journey.

ACRONYMS

MFI	Microfinance Institutions
OSS	Operational Self-Sustainance
FSS	Finance Self-Sustainance
SDI	Sustainability Dependency Index
SDR	Sustainability Dependency Ratio
ESII	Efficiency and Subsidy Intensity Index
BURO	Bangladesh Unemployed Rehabilitation Organization.

TABLE OF CONTENTS

CHAPTER ONE

1.0 Introduction

This chapter presents the background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, scope of the study and the significance of the study.

1.1 Background to the study

The rise in consumer credit use across the advanced industrialized countries, together with a growing interest in institutions that promote credit access in developing countries, has focused academic attention on the sources of cross-national differences in credit use. Two kinds of explanations have dominated the debate. One sees credit markets as beset by problems of adverse selection that lead to an under-serving of risky borrowers. This strain of many studies has emphasized the importance of information sharing among lenders to limit non-payment loMFIs (Parker, J. et al, 2009).

Credit research has accordingly focused on credit rating agencies as a driver of credit extension, and on the use of credit data to select borrowers and set interest rates. In micro-finance and other social lending institutions, social ties have been seen as an alternative means to overcome the problem of adverse selection (Adams, D., et al 2008). Yet the perceived riskiness of consumer borrowers was, historically, largely a myth. During the Great Depression, consumer loans showed higher repayment rates than any other class of borrowing. In France during World War I, lenders in the industrial northeast that closed their doors during German occupation were able to collect on most of the debts after the war ended (World Bank, 1995). And when the United States enacted a liberal consumer bankruptcy policy in 1978, including a provision for automatic discharge of debts, lenders appear not to have worried about its impact on non-payment rates, and raised no objections. Observers frequently but mistakenly attribute the high cost of consumer credit to the risk associated with unsecured personal loans, but the reality is more routine.

Access to financial services by Micro Finance Institutions is normally seen as one of the constraints limiting their benefits from credit facilities. However, in most cases the access problem, especially among formal financial institutions, is one created by the institutions mainly through their lending policies. This is displayed in the form of prescribed minimum loan amounts, complicated application procedures and restrictions on credit for specific purposes (Schmidt and Bell, 2010). For small-scale enterprises, reliable access to short-term and small amounts of credit is more valuable, and emphasizing it may be more appropriate in credit programmes aimed at such enterprises. Schmidt, B., et al (2007) further argues that the type of financial institution and its policy will often determine the access problem.

Credit access refers to the possibility that individuals or enterprises can access financial services, including credit, deposit, payment, insurance, and other risk management services. Those who involuntarily have no or only limited access to financial services is referred to as the unbanked or under banked, respectively. Accumulated evidence has shown that financial access promotes growth for enterprises through the provision of credit to both new and existing businesses. It benefits the economy in general by accelerating economic growth, intensifying competition, as well as boosting demand for labor.

Profitability has been defined as an organizations ability to earn revenues in excess of expenses over a period. BRAC, an international development organization based in Bangladesh, is the largest non-governmental development organization in the world, measured by the number of employees and the number of people it has helped, as of November 2012. Established by Sir Fazle Hasan Abed in 1972 soon after the independence of Bangladesh, BRAC is present in all 64 districts of Bangladesh as well as in Afghanistan, Pakistan, Sri Lanka, Uganda, Tanzania, South Sudan, Sierra Leone, Liberia, Haiti and The Philippines as of 2012. Starting from a modest launch in 2006, Uganda is the site of BRAC's largest and fastest scale-up in Africa. There are currently programmes operating in microfinance, small enterprises, agriculture, poultry and livestock, health, education, youth empowerment, adolescent livelihood, and the Karamoja initiative. The programmes are halfway towards reaching its goal of serving 4.2 million people, which is 12 per cent of Uganda's population, by 2016.

1.2 Statement of the problem

Micro Finance Institutions (MFIs) have become an important contributor to the Ugandan economy. The sector contributes to the national objective of creating employment opportunities, training entrepreneurs, generating income and providing a source of livelihood for the majority of low-income households in the country (Republic of Uganda, 1995), accounting for 12–14% of GDP. With about 70% of such enterprises located in rural and urban areas, the sector has a high potential for contributing to rural development. Yet the majority of entrepreneurs in this sector are considered uncreditworthy by most formal credit institutions. Improving the availability of credit facilities to this sector is one of the incentives that have been proposed for stimulating its growth and the realization of its potential contribution to the economy (Republic of Uganda, 1995). Despite this emphasis, the effects of existing institutional problems, especially the lending terms and conditions on access to credit facilities, have not been addressed. Although informal credit institutions have proved relatively successful in meeting the credit needs of small enterprises in some countries, their limited resources restrict the extent to which they can effectively and sustainably satisfy the credit needs of these entrepreneurs (Nappon and Huddlestone, 2003). It's against such the above evidence; one questions her/himself whether microcredit access impacts profitability of MFIs, hence this study.

1.3 Purpose of the Study

The purpose of the study is to assess the role of microfinance credit on profitability of Micro Finance Institutions (MFIs).

1.3.1 Specific Objectives

i. To investigate the lending requirements of microfinance institutions
ii. To investigate the drivers of Micro Finance Institutions to acquire credit
iii. To investigate how to encourage Micro Finance Institutions to get credit

1.4 Research questions

i. What are the lending requirements of microfinance institutions?
ii. What are the drivers of Micro Finance Institutions to acquire credit?
iii. How can Micro Finance Institutions be encouraged to get credit?

1.5 Significance of the study

The study will be significant for the following reasons:

Practice strongly suggests that the microfinance sector indeed has such a potential to be one of the key instruments to fight poverty in its every aspect by positively affecting the house-hold economic portfolio.

For the poor, it can expand opportunities for enhancing income, improve capabilities in terms of human capital, improve the copping mechanism against vulnerability in its various features, as well as empower the disadvantaged; and the impact can occur at enterprise, individual, household and even community level, much of which being a result of enterprise profitability.

Yet, the available evidence suggests little progress in this regard. It is believed that evidence from this study will prove otherwise.

1.6 Scope of the study

1.7.1 Geographical scope

The study will be carried out in Brac Foundation one of the Branch that makes up the city of Kampala, Uganda. The headquarters at Nyanama will be considered because the area is largely dominated by Micro Finance Institutions and it is convenient and accessible by the researcher in terms of time and transport.

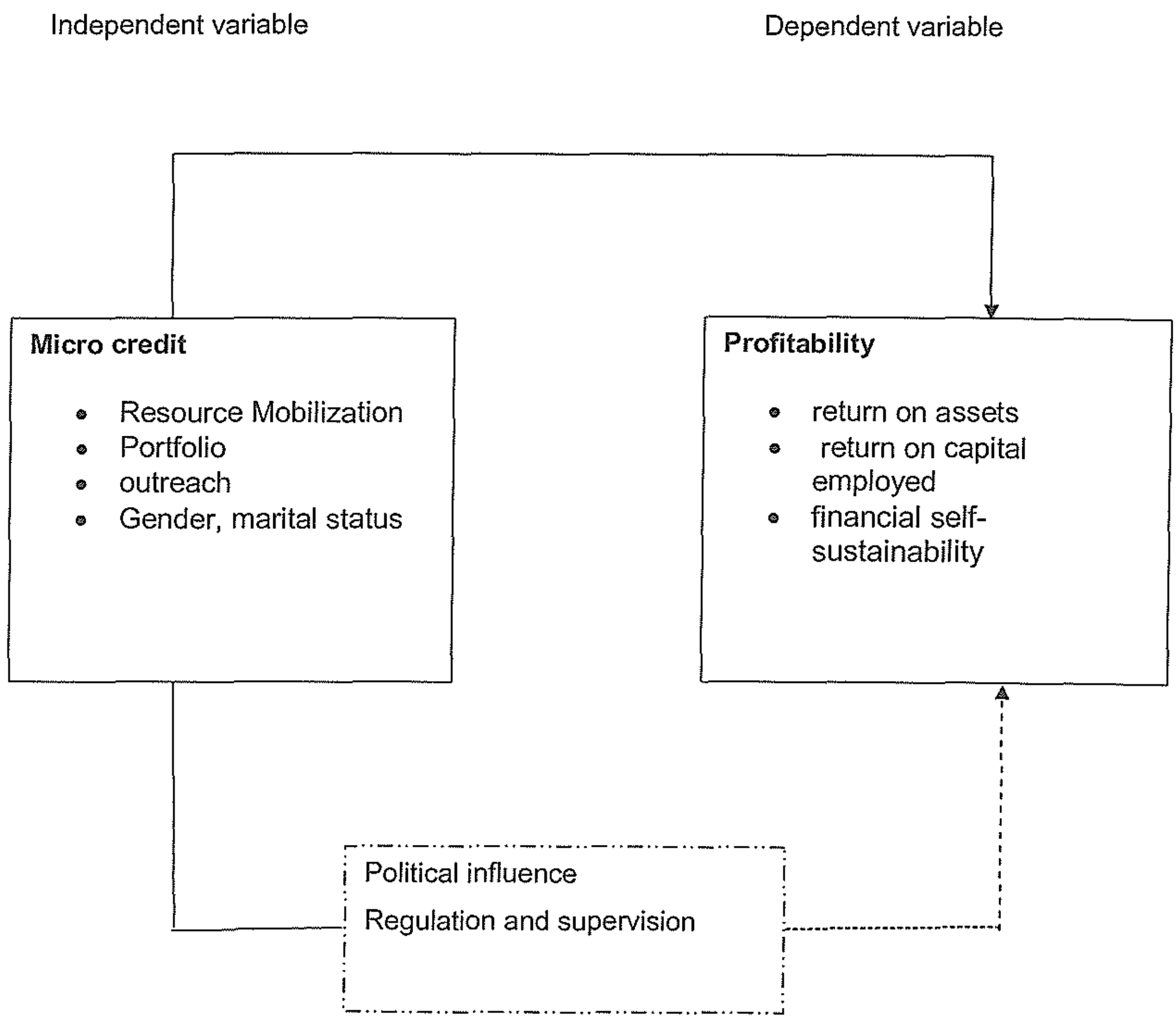
1.7.2 Time scope

The study will last for a period of two months but it will confine itself on the effects of credit access on profitability of between the period of 2011 to 2013 in order for the study to bring out valid conclusions.

1.7.3 Content scope

The study will focus on the effects of credit access as an independent variable and profitability as a dependent variable since the two are interlinked.

1.8 Conceptual framework



Source: Researcher's conceptualization

CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

This chapter presents the related literature review that have been explored and studied both theoretically and empirically on the existing literature on the impact of credit access on profitability of Micro Finance Institutions (MFIs) in developing countries and elsewhere in the world and this will be done in line with the specific objectives of the study in order to identify the knowledgeable gaps. It is important to note that the greatest part of the existing literature on the works of other scholars, opinions, suggestions who were written about the topic of the study or those who have addressed similar issues as those of the variable that were available in the study.

2.1 Micro credit

One important problem that MFIs often face is access to capital (Lader, 2006). Lack of adequate financial resources places significant constraints on MFI development. Cook and Nixson (2009) observe that, notwithstanding the recognition of the role of MFIs in the development process in many developing countries, MFIs development is always constrained by the limited availability of financial resources to meet a variety of operational and investment needs. A World Bank study found that about 90% of small enterprises surveyed stated that credit was a major constraint to new investment (Parker *et al.*, 2009). Levy (2010) also found that there is limited access to financial resources available to smaller enterprises compared to larger organisations and the consequences for their growth and development. The role of finance has been viewed as a critical element for the development of MFIs. A large portion of the MFIs sector does not have access to adequate and appropriate forms of credit and equity, or indeed to financial services more generally (Parker *et al.*, 2008). In competing for the corporate market, formal financial institutions have structured their products to serve the needs of large corporate.

The situation is not different in the case of Uganda; access to finance has been identified as a dominant constraint facing the Ugandan Micro Finance Institutions (MFI) sector (Abor & Bikpe, 2006). A priori, it might seem surprising that finance should be so important. Requirements such as identifying a product and a market, acquiring any necessary property rights or licenses, and keeping proper records are all in some sense more fundamental to running a small enterprise than is finance (Green et al., 2008). Some studies have consequently shown that a large number of small enterprises fail because of non-financial reasons.

Other constraints MFIs face include: lack of access to appropriate technology; the existence of laws, regulations and rules that impede the development of the sector; weak institutional capacity and lack of management skills and training (Kayanula & Quartey, 2007). However, potential providers of finance, whether formal or informal, are unlikely to commit funds to a business which they view as not being on a sound footing, irrespective of the exact nature of the unsoundness. Lack of funds may be the immediate reason for a business failing to start or to progress, even when the more fundamental reason lies elsewhere. Finance is said to be the "glue" that holds together all the diverse aspects involved in small business start-up and development (Green et al., 2007).

Many small businesses have trouble getting the start-up or additional capital that they need. Without a long list of a MFIs or a proven track record, there is no way to show banks exactly how promising your soon-to-be bustling business really is. Luckily, there are places you can turn to for money when the national banks turn you down. Here are just a few of the many places that other small businesses just have found the start up finds that they need to get off to a great start or have made significant improvement to their businesses.

The provision of credit has increasingly been regarded as an important tool for raising the incomes of rural populations, mainly by mobilizing resources to more productive uses. As development takes place, one question that arises is the extent to which credit can be offered to the rural poor to facilitate their taking advantage of the developing entrepreneurial activities. The generation of self-employment in non-farm activities requires investment in working capital. However, at low levels of income, the accumulation of such capital may be difficult. Under such circumstances, loans, by increasing family income, can help the poor to accumulate their own capital and invest in employment-generating activities (Hossain, 2008).

Commercial banks and other formal institutions fail to cater for the credit needs of smallholders, however, mainly due to their lending terms and conditions. It is generally the rules and regulations of the formal financial institutions that have created the myth that the poor are not bankable, and since they can't afford the required collateral, they are considered uncreditworthy (Adera, 2005). Hence despite efforts to overcome the widespread lack of financial services, especially among smallholders in developing countries, and the expansion of credit in the rural areas of these countries, the majority still have only limited access to bank services to support their private initiatives (Braverman and Guasch, 2006).

In the recent past, there has been an increased tendency to fund credit programmes in the developing countries aimed at small-scale enterprises. In Uganda, despite emphasis on increasing the availability of credit to Small and Microenterprises (MFIs), access to credit by such enterprises remains one of the major constraints they face. A 2005 survey of small and microenterprises found that up to 32.7% of the entrepreneurs' surveyed mentioned lack of capital as their principal problem, while only about 10% had ever received credit (Daniels et al., 1995). Although causality cannot be inferred a priori from the relationship between credit and enterprise growth, it is an indicator of the importance of credit in enterprise development. The failure of specialized financial institutions to meet the credit needs of such enterprises has underlined the importance of a needs oriented financial system for rural development.

2.2 Microfinance performance

2.2.1 The broader context

Microfinance performance has attracted significant interest in recent years, both from policy makers and in the academia. MFIs face unique challenges because they must achieve a double bottom line—that of providing financial services to the poor (outreach) and covering their costs (sustainability). MFIs are therefore a hybrid but some are also similar to banks because they are regulated or supervised and because they mobilize deposits. This organizational diversity makes any empirical analysis of their performance difficult (Cull, 2009a). In this chapter, we do not survey the extent to which MFIs contribute to social performance and neither do we review studies on cost-benefit analysis of funds invested by donors or governments which has largely been addressed by Hermes and Lensink (2011). The main focus of this chapter is MFIs financial performance. Recent academic interest on microfinance performance has not been matched by a surge in empirical research. The subject thus remains under-studied.

2.2.2 Financial sustainability

A vast and growing literature posits that for MFIs to achieve full potential they must become financially sustainable (see e.g. Brau and Woller, 2004 for a comprehensive review). Financial sustainability also known as financial self-sustenance (FSS) and operational self-sustenance (OSS) in this context, is measured as the ability of MFIs to continue operations indefinitely using own resources without seeking donations, grants, or subsidized loans from outside individuals, NGOs, or governments. It should however be noted that sustainability does not imply profitability (Morduch 2005). The importance of being financially self sufficient can best be illustrated by referring to pioneer institutions. Hollis and Sweetman (1998) for example compare six micro credit organizations of 19th-century Europe, to identify institutional designs that were a prerequisite to financial sustainability. They established that organizations that relied on charitable funding were more fragile and tended to lose their focus more quickly than those that obtained funds from depositors.

Hollis and Sweetman (2001) further show that these MFIs were financially sustainable for more than a century because they adapted to their economic and financial environment. Moreover, the literature survey by Hermes and Lensink (2007) in particular points to the need for further research on the mechanisms that explain MFIs financial outcomes. Most of the existing literature on MFIs performance has nevertheless been constrained by inadequate and unreliable data at the firm level and therefore has resorted to a number of indicators as proxies. It's for this reason that Morduch, (1999b) calls for more quantitative empirical research into MFI performance.
In the existing empirical literature, factors explaining MFI financial sustainability may be categorized into MFI-specific and those external to MFI management (Crabb, 2008).

External factors are macroeconomic environment, industry specific such as regulatory conditions, concentration and charter that established the MFIs. Several studies have examined the determinants of MFIs financial sustainability. Using a dataset of 124 MFIs across 49 countries, Cull, Demirgüc-Kunt and Morduch (2007) examine financial performance and outreach in a large comparative study. Where FSS represents financial self-sufficiency ratio. They find that the impact of various MFI-specific factors on performance depends on an institution's lending methodology. Although they pioneered the use of cross-country, cross-MFI data in statistical tests and provide a new dimension to the existing literature on MFIs performance, their pooled regression model omits fixed effects, and omitting fixed effects risks omitted variables bias. Rather than estimate different intercepts for each unit and/or time point, pooled regression estimates just a single intercept (Baltagi, 2008). The omitted country-specific intercepts may be correlated with the independent variables (Greene, 2008) and the disturbances may be correlated within groups. This study also fails to control for endogeneity. It is possible that previous levels of FSS may be explaining the current levels.

Where FSS represents financial self-sufficiency. Their results show that the quality of the loan portfolio is the main determining factor of MFI financial sustainability. They further show that outreach, the age of MFIs and the percentage of women among the clientele do not significantly influence the MFIs' financial sustainability. Consistent with Cull, Demirgüc-Kunt and Morduch (2007) this study suffers from the same methodological weaknesses, thus their results may not be convincing. Where is a year-t operational self-sufficiency (OSS) of MFI *i* located in country *j*; is a set of MFI-specific control variables at time *t*; and is a set of macroeconomic variables describing country *j* at time *t*. Their pooled regression model omits fixed effects, and omitting fixed effects risks omitted variables bias. While Ahlin et al (2011) shows that macroeconomic-context matters for MFI operational sustainability, Cull, Demirgüc-Kunt and Morduch (2007) concludes that MFIs can still expand outreach without compromising financially sustainability. Both studies nevertheless fail to circumvent methodological weaknesses.
Bogan (2009) investigates the impact of existing sources of funding on the efficiency and OSS of MFIs. He finds causal evidence to the effect that an increased use of grants by MFIs decreases OSS. Crabb (2008) models OSS as a function of both firm level and

environmental factors. Using MIX dataset from 2000 to 2004 to estimate a fixed-effects panel data model, Crabb finds that portfolio at risk and outreach breadth are significant, with the expected signs. Further evidence on OSS is presented by de Crombrugghe, et al (2008) who use regression analysis to study the determinants of self-sustainability of a sample of MFIs in India. They investigate three aspects of sustainability: cost coverage by revenue, repayment of loans and cost-control and conclude that MFIs can cover costs on small and partly uncollateralized loans without necessarily increasing loan size or raising monitoring cost. The use of OSS can however be misleading as it lumps together genuine operating net revenue with transfers. Hartarska and Nadolnyak (2007) further examine the determinants of MFIs OSS and find positive significant impact from MFI size and capital ratios. Using OSS Makame and Murinde (2007) estimate a linear random effects model where average loan is treated as a proxy for outreach depth and regressed against sustainability exogenous variables proxied by operational efficiency and profitability (measured as return on assets and return on capital employed). We do not find both Crabb (2008) and Makame (2007) OLS empirical results as convincing, since their empirical specification includes return on asset and outreach as exogenous variables without controlling for endogeneity. To the extent that there is likely to be persistence in the MFI. Financial outcome variables, endogeneity remains an issue as with previous empirical studies that have employed panel econometrics.

Using Sustainability Dependency Index (SDI), Sustainability Dependency Ratio (SDR) and Efficiency and Subsidy Intensity Index (ESII) techniques to investigate financial sustainability, of Bangladesh Unemployed Rehabilitation Organization (BURO), microfinance institution, Hasan, et al (2009) finds BURO achieved sustainability from 2001 to 2005, but then the trend was reversed between 2006 and 2007. Although computation based on SDI to determine financial sustainability is useful, it nevertheless has some drawbacks. First, the underlying assumption is that a rise in interest rates translates to higher profitability. This, however, need not be the case since higher interest rates could lead to a decline in profitability due to adverse selection and moral hazard effects (Morduch, 1999a; Cull, Demirgüc-Kunt and Morduch 2007). While financial self-sufficiency (FSS) and operational self-sustenance (OSS) of microfinance institutions are increasingly well researched, little is known about MFIs profitability. MFI could in principle cover operating expenses and not post any profit. Given the increased investments from commercial players, research focused on MFI's profitability may help a growing number of investment funds that target their money towards MFI's, with the aim of earning returns from the investments. Studies whose main focal point is OSS and FSS do not fill this void. Indeed, Cull et al. (2009a) and Guérin, et al (2011), show that profit-maximizing investors would have limited interest in most of the institutions that are focusing on social mission.

2.2.3 Profitability and outreach of microfinance institutions

The pioneering theoretical work by Copestake (2007) and Ghosh and Tassel (2008), shows that wealthier clients cost less thus pursuit of outreach should decrease MFI profitability. Empirical evidence adduced so far shows mixed results (for a recent review see Hermes and Lensink 2011). Cull, Demirgüc-Kunt and Morduch (2007) empirically investigate whether there is a trade-off between the depth of outreach and profitability of MFIs. Their results show that MFIs that mainly provide individual loans perform better in terms of profitability, but the fraction of poor borrowers and female borrowers in the loan portfolio is lower than for institutions that mainly provide group loans. They stress on the importance of institutional design in determining the existence and size of such a trade-off.

The most comprehensive study of sustainability-outreach trade-off is by Hermes, Lensink, and Meesters (2011). Using data for 435 MFIs for the period 1997-2007, they focus on the relationship between cost efficiency as a proxy for sustainability of MFIs and the depth of outreach measured by the average loan balance and percentage of women borrowers. They conclude that outreach is negatively related to sustainability of MFIs. The results remain robustly significant even after taking into account a long list of control variables. This is consistent with Cull et al (2009a) and Hoque, et al (2011), who shows evidence of such trade off from recent commercialization trend in microfinance. Although Olivares-Polanco (2005) use less rigorous techniques and/or smaller datasets, their study also confirms the existence of this trade-off. These findings are however inconsistent with Ayayi and Sene (2010) who after estimating a pooled regression model, show that outreach and the percentage of women among the clientele do not significantly influence the MFIs' financial sustainability. Their findings confirm Cull, Demirgüc-Kunt and Morduch (2007) who shows that MFIs can expand outreach without compromising financially sustainability. Though there is no convergence among these studies, we can deduce that varying outreach has implications on MFI financial outcomes. It is important however to point that the evidence adduced here mostly relate to MFIs sustainability and not profitability.

2.2.3.1 Profitability and microfinance mechanisms

Type of lending contract

MFIs employ a diversity of approaches, such as group lending and individual non-collateralized loans with gradual increase in loan size conditional on repayment (dynamic incentives). However, not all have the same impact on MFI profitable. Table 2.1 provides comparative data for 487 programs surveyed in the Micro-Banking Bulletin (2010). Relative to MFIs using group lending methodologies, those using standard loan contracts tend to (a) serve better off clients as reflected by the average loan size; (b) be more financially stable as proxied by the percentage of their financial costs covered (117 % relative to 105% for group lending MFIs); (c) serve a small percentage of female clients and (d) charge lower interest rates and fees as shown in the real portfolio yield. MFIs employing group lending and village bank models have considerably higher operating expenses relative to loan size. Whereas MFIs using standard loan contract devote 14% of each dollar lent to operational costs, solidarity group lenders devote 23% and village banks 24%. Therefore group lenders and village banks tend to serve poorer clients and face higher operating costs relative to loan size. Subconsciously therefore one would expect individual type of lenders to be more profitable. Thus one question that warrants empirical scrutiny is whether the type of loan contract influences profitability of microfinance institutions.

2.3 Microfinance performance

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2.4 The lending requirements of credit institutions

By its very nature, banking institutions are faced with the probability of default by counterparties in financial contracts. Loans constitute the biggest a MFIs for banks, thus credit risk is arguably the biggest risk that banks face. It is therefore necessary for banks to put in appropriate measures to first of all prevent occurrence of these risks, and be able to deal with the risk if and when it occurs. Credit risk mitigation techniques have evolved overtime, courtesy of global financial innovation. Traditionally, collateral and guarantees have remained the most popular credit risk reduction strategies. These are largely 'ex-ante' considerations, implying that any loan appraisals that do not pass this test are rejected. Moreover, the bank conducts a monitoring exercise to keep track of adverse changes that might affect the value of the collateral, periodic repayments as well as the total value of the loan (Radevic and Ahmedin, 2010). The most outstanding feature of the traditional credit risk mitigation measures is that loans remain in the balance sheet of the bank and a capital charge on this risky a MFI is subsequently conducted.

The Ugandan Banking sector constitutes 43 commercial banks and one mortgage financial institution. According to the results of the risk management survey by the Central Bank of Uganda, the sector largely operates under the traditional model with collateral being the most popular credit risk mitigation technique (CBK, 2011). To a MFIs the over-reliance on collateral lending in Uganda, we make use of information from past surveys conducted to a MFIs the same. The likely limitation of bank credit is attributed to lower cost of borrowing and availability of quality information for use by banks in the form of audited financial statements. Given the high level of collateral requirements posted by the survey, one would expect the same to feature among impediments to finance. From the study, the popularity of posted collateral categories was as follows: machinery and equipment (60 per cent), land/buildings (50 per cent); accounts receivables/ inventories (45 per cent) and personal aMFIs (28 per cent). Evaluations of reasons for loan rejection during the period of study revealed that unacceptable collateral was the most popular. The problem was found to be more severe for small enterprises (59 per cent reported collateral as main reason for loan rejection) compared to medium-large enterprises (19 per cent) and can be attributed to the fact that small enterprises may not own land and buildings or satisfactory inventories that is attractive for use as collateral.

Lending institutions can study the characteristics of an individual firm and form unbiased opinion about the firm's future and ability to repay a credit advance. According to Ewert, Schenk and Szczensy (2009) "there are firm-specific agency problems that can be mitigated using collateral or such covenant and each firm chooses a financial contract that maximizes firm value by trading off additional bonding and monitoring costs against reductions in interest rate premiums". A firm-specific financial contract is thus made for each firm depending on the perceived problems of the firm in question, and the use of collateral by a specific firm can be observed to reduce the credit costs (high interest premiums). However, such conclusion will most likely not hold for many firms because, as mentioned before, there are high-risk firms that will offer valuable collateral and probably accept high premiums.

Olokoyo (2011) examines predictors of the lending behavior of Nigerian Banks. The study considers volume of deposits, foreign exchange, investment portfolio, minimum cash reserve ratio, lending rate, liquidity ratio and GDP. Utilizing time series data for the period 1980-2005, the vector error correction estimates indicate that while the coefficients of foreign exchange, investment portfolio, deposits and liquidity ratio have significant impacts upon the lending volumes, the coefficients of lending rate and minimum cash reserve ratio were insignificant implying that monetary policy instruments do not affect bank lending volumes in Nigeria. The study does not, however, consider collateral as one of the explanatory variables; thus it is not possible to tell the impact of collateral requirements on the bank lending behavior in Nigeria.

Ewert et al. (2000) study the determinants of bank lending performance in Germany using credit file information of 260 medium-sized firm borrowers for the period 1992-1998. The study aims at testing the several theories relating collateral to interest rate premiums and therefore lending performance, using a random effects model on panel data analysis to eliminate the borrower and time-specific effects. Two models were estimated with interest rate premiums and probability of distress as the two predicted variables .Interest rate premium was set to be predicted in a random effects model by among other variables: collateral; bank relationships; bank firm rating; firm characteristic and firm size. The highlight of this study's finding was that interest rate premium increased with rise in the collateral pledged. This was contrary to the motioning and firm characteristics theories above, where we would expect higher interest rate premium for firms pledging little or no collateral. However, estimation of distress probabilities of the same firms revealed that more collateral and covenant in credit contracts lead to lower distress probabilities.

2.4.1 The drivers of Micro Finance Institutions to give credit

As in many other countries in sub-Saharan Africa, the performance of formal financial institutions and credit programmes for instance; in Uganda in terms of alleviating the financial constraints of the smallholder sector has met a lot of criticism. The criterion of creditworthiness, delays in loan processing and disbursement, and the government approach to preferential interest rates, resulting in non price credit rationing, have limited the amount of credit available to smallholders and the efficiency with which the available funds are used (Atieno, 2007). This can be seen as an indication of the general inadequacy of the formal credit institutions in meeting the existing credit demand in the country.

Unlike formal finance, informal lenders often attach more importance to loan screening than to monitoring the use of credit. Screening practices often include group observation of individual habits, personal knowledge by individual moneylenders and recommendations by others, and creditworthiness. In group lending programmes, members are made jointly liable for the loans given. The joint liability plus the threat of losing access to future loans motivates members to perform functions of screening loan applicants, monitoring borrowers and enforcing repayment. Investigations of the effect of intragroup pooling of risky a MFIs show that groups exploit scope and scale economies of risk by pooling risks and entering into informal insurance contracts. This confirms the role of social cohesion in group repayment (Zeller, 2008).

Access to credit by smallholders is normally seen as one of the constraints limiting their benefits from credit facilities. However, in most cases the access problem, especially among formal financial institutions, is one created by the institutions mainly through their lending policies. This is displayed in the form of prescribed minimum loan amounts, complicated application procedures and restrictions on credit for specific purposes (Schmidt, et al., 2007). For small-scale enterprises, reliable access to short-term and small amounts of credit is more valuable, and emphasizing it may be more appropriate in credit programmes aimed at such enterprises. Schmidt and Kropp (2008) further argue that the type of financial institution and its policy will often determine the access problem. Where credit duration, terms of payment, required security and the provision of supplementary services do not fit the needs of the target group, potential borrowers will not apply for credit even where it exists and when they do, they will be denied access.

Credit markets in Africa have mainly been characterized by the inability to satisfy the existing demand for credit in rural areas. However, whereas for the informal sector the main reason for this inability is the small size of the resources it controls, for the formal sector it is not an inadequate lending base that is the reason (Aryeetey, 2006). Rather, the reasons are difficulties in loan administration like screening and monitoring, high transaction costs, and the risk of default. Credit markets are characterized by information asymmetry, agency problems and poor contract enforcement mechanisms (Nissanke, 2007). They are mainly fragmented because different segments serve clients with distinct characteristics. Because of this, lending units are unable to meet the needs of borrowers interested in certain types of credit. The result is a credit gap that captures those borrowers who cannot get what they want from the informal market, yet they cannot gain access to the formal sources. Enterprises that want to expand beyond the limits of self-finance but lack access to bank credit demand external finance, which the informal sector is unable to satisfy.

This exclusion ranges from partial exclusion in developed countries to full or nearly full exclusion in MFIs of developed countries (LDCs). Due to lack of access to formal financial services, the poor has developed a wide variety of informal community-based financial arrangements to meet their financial needs. In addition, over the last two decades, an increasing number of formal sector organizations (non-government,

government, and private) have been created for the purpose of meeting those same needs. It has only been within the last four decades, however, that serious global efforts have been made to formalize financial service provision to the poor. This process began in earnest around the early to mid-1980s and has since gathered an impressive momentum. Today there are thousands of micro finance institutions (MFIs) providing financial services to an estimated 100 - 200 million of the world's poor (Christen et al., (2005).

2.5 Profitability of Micro Finance Institutions (MFIs)

Profits can be defined and measured in terms of gross or net profit to sales. In this case the total profits of a firm including the cost of materials and other expenses will be compared to total sales to get the net profit of a firm. The emphasis will be put on the ratio of Profits before Interest and Taxes (PBIT) to total revenue or sales times 100%. Pandey (2007) noted that, a company should earn profits to survive and grow over a long period. Firms must earn profits to maximize their shareholders wealth, to generate income for expansion and to finance their daily operations Pandey, (2008). "Profitability can also be defined as a company's ability, to generate revenue in excess of the cost in producing those revenues or is a measure of business success through comparing profits made with amount sold or invested." Hanson. E., (2002) poor profitability of small-scale enterprises can be attributed to credit problems, which is caused by inadequate or poor management, Drucker Peter (2009). Poor profitability has also been attributed to general lack of credit ethics. People acquire credit but do not pay back, and even if they pay back, they do not pay as scheduled, Michael Mc Cord, (2008).

Profitability is measured with income and expenses. Income is money generated from the activities of the business. For example, if crops and livestock are produced and sold, income is generated. However, money coming into the business from activities like borrowing money do not create income. This is simply a cash transaction between the business and the lender to generate cash for operating the business or buying aMFIs (Zeller, M. 2008).

Profitability is measured with an "income statement". This is eMFIntially a listing of income and expenses during a period of time (usually a year) for the entire business. An

Income Statement is traditionally used to measure profitability of the business for the past accounting period (Kariuki, P. 2005). However, a "pro forma income statement" measures projected profitability of the business for the upcoming accounting period. A budget may be used when you want to project profitability for a particular project or a portion of a business. As mentioned by Hulme (2007), "behind all microfinance programs is the assumption that intervention will change human behaviours and practices in ways that will lead to the achievement (or raise the probability of achievement) of desired outcomes." The conceptual model of impact chain presents a complex set of links as each 'effect' becomes a 'cause' in its own right generating further effects.

Profits are necessary for survival in the long run in a competitive environment, but MFI management may choose not to grow. Long-term profitability derives from the relations between cost and revenue; it is a necessary but not sufficient condition for growth. Revenues may be held up by entry barriers and costs pushed down by management ingenuity. A low-profit firm will lack the finance for expansion, but a high-profit business may conclude the risk and rewards of expansion are inadequate. In a 'life style' MFI, an owner may trade profitability today against profitability tomorrow. Dynamic pricing or sequential investment projects may require initially lower profits in order to obtain higher future pay-offs from greater market penetration. A MFI manager's time preference is likely to determine the inter temporal profit trade-off.

Interest in the role of Microfinance institutions (MFIs) in the development process continues to be in the forefront of policy debates in developing countries. The advantages claimed for MFIs are various, including: the encouragement of entrepreneurship; the greater likelihood that MFIs will utilize labour intensive technologies and thus have an immediate impact on employment generation; they can usually be established rapidly and put into operation to produce quick returns; MFI development can encourage the process of both inter- and intra-regional decentralization; and, they may well become a countervailing force against the economic power of larger enterprises. More generally the development of MFIs is seen as accelerating the achievement of wider economic and socio-economic objectives, including poverty alleviation.

The role of finance has been viewed as a critical element for the development of Microfinance institutions. Previous studies have highlighted the limited access to financial resources available to smaller enterprises compared to larger organizations and the consequences for their growth and development (Levy, 2010). Typically, smaller enterprises face higher transactions costs than larger enterprises in obtaining credit. Insufficient funding has been made available to finance working capital (Peel and Wilson, 2006). Poor management and accounting practices have hampered the ability of smaller enterprises to raise finance. Information asymmetries associated with lending to small scale borrowers have restricted the flow of finance to smaller enterprises.

2.5.1 Ways on how to encourage Micro Finance Institutions to give credit

Factors that come to mind include the development of horizontal relationships (for example, industrial clusters) aimed at improving the market environment for small enterprises; the development of vertical linkages with larger domestic enterprises, principally through subcontracting agreements; or the development of new interfirm networks that increase the small-scale sector's capacity for dialogue in relation to macro-level policy (for example, export rebates and tax concessions) (Huddlestone, 2012). The following are vital for the development of clusters: a concentration of suppliers of raw materials and components; specialist organisations providing technical, financial and accounting services and national and international marketing agencies; and the availability of a large pool of skilled, specialized workers, specialist training centers and transport services.Promoting MFIs can have many dimensions and goes far beyond the simple granting of finance. In particular, the experience of other developing countries provides ample evidence of the importance of non-finance policies (such as the importance of establishing economic linkages).

Governments in most countries have tried to help their MFIs wherever possible (usually through finance, training or other support by state and parastatal agencies) but the results have generally been poor. For instance, during the period from 1950 to 1990, governments in developing countries failed, nearly without exception, to create industrial organisations that could compete on the basis of collective efficiency. As a result, the World Bank terminated direct lending to MFIs in 1991, and now supports small enterprises only indirectly, i.e. through private-sector agencies. The quest for the promotion of MFIs dates back to the mid-twentieth century, and the rise of political-economy concerns over the lack of industrialization in developing countries. Macroeconomic and sector policies were designed accordingly. Broadly speaking, the overall policy framework was to promote large enterprises, often leaving small-scale producers at a disadvantage (Ouma, A., 2010). Monetary, foreign-exchange and industrial strategies were formulated to support the specialization of larger firms in capital-intensive production, feeding the higher end of the market, and small-scale producers were left to produce inferior goods, commonly catering for the lower end of the market, and using labour-intensive means of production. In many respects, India's industrialisation strategy, with its successive multi-year plans, exemplifies this paradigm. There were of course variations on this theme from country to country.

In practice, the promotion of MFIs may well require a creative synthesis of these two seemingly competing policy approaches. Though market distortions and policy-induced biases need to be removed, targeted interventions may well be required to remove bottlenecks so as to facilitate development. Whereas within any given sector there may be tradeoffs between large and small-scale firms, for the economy as a whole there are dynamic linkages and positive synergetic relations among various types of firm (Udry, C. 2007). The policy framework, therefore, needs to recognise complex interfirm relationships, the importance of spatial clustering and the significance of 'external economies' to successful enterprises. In view of the rising levels of globalisation, it is imperative to recognise the vital role of consistency between macro- and micro-institutional policies for an enterprise-friendly environment.

The Task Group is South Africa is of the opinion that certain structural features of the sector (such as banks' ownership of settlement systems and the barriers to entry into the banking sector) as well as certain business practices (e.g. the lack of an uniform disclosure regime of fees and charges in terms of a basic banking package) may constitute obstacles to a competitive and consumer-friendly market. This obviously also impacts upon the nature and quantum of financial services being provided, as well as the cost at which financial services are being provided (Raikes, P. 2009). Access to information is important both from the MFI's perspective and from the perspective of the providers of financial services. The MFI requires information with which to identify the potential suppliers of the financial services. It requires this information to evaluate the cost of the financial services that are being offered. The financial service providers require information with which to evaluate the risk of the MFI which is applying for finance, and to aMFIs the prospects of the MFI within the market segment and geographical area within which it operates. The Task Group identified deficiencies in all these areas. Addressing these deficiencies requires public action, as it involves trade-offs between the individual's right of privacy balanced against the commercial value of information (Kariuki, P. 2005.). Moreover, the market economy requires appropriate information in order to optimise the allocation of resources.

CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Introduction

In this chapter, the researcher highlighted on the research design, research area, population size, research instruments, data collection methods that were used, data analysis and validity and reliability of data.

3.1 Research Design

The study used a cross-sectional research design which was often used in assessing respondents' views towards the effects of micro credit on financial performance of MFIs. This type of research design utilizes different groups of people who differ in the variable of interest, but share other characteristics such as socioeconomic status, educational. Cross-sectional research design is designed to look at a variable at a particular point in time and focuses on finding relationships between variables at a specific point in time.

3.2 Study Population

The study sampled various categories of people above the age of 18 years and they will include the managers, accountants, tellers, supervisors and other authorized employees who have knowledge about the topic under study.

3.3 Sample size and Selection

The study used both simple random sampling and purposive sampling procedures. Purposive sampling was used to select different activities in the area of investigation in order to get first-hand information from the key informants. Simple random sampling was used because respondents have equal chances of being selected.

3.2 Sampling Techniques

The respondents was randomly selected and categorized. They comprised of both sexes but of different marital statuses and age groups and the study used 36 respondents that is; managers, accountants, tellers, supervisors and other authorized employees. This was intended in order to get a variety of views and unbiased response which made the study a reality. Also this sample size was selected since, Sutton and

David, (2004); state that a sample size should not be less than 30. Beyond basic description it would be difficult for the researcher to undertake more complex statistical analysis, as most of these analyses require a minimum sample of 30.

3.5 Data Collection Methods

To obtain data about the research variables, primary and secondary data sources will be used as elaborated below;

a) Primary Source

This will involve the use of first-hand information that obtained from the field using interviews and questionnaires. The types of data included the social- demographic characteristics of the respondents (age, gender, level of education etc), and perceptions of solid waste management.

b) Secondary Source

This included the already existing literature about the role of micro-credit on the profitability of MFIs. This information was collected from reports, circulars, newspapers, magazines and internet.

3.5.1 Questionnaire

A comprehensive questionnaire covering all the aspects of the study variables was designed. The first section of the questionnaire covered general information (gender, age, education, marital status). Section B covered the questions which were set inline with the objectives of the study. The questionnaires were first pre-tested before being administered on the respondents. The questionnaires were self administered to ease data collection. The questions were both open and close ended. This enabled the respondents to express their opinion about the implication of reward competitiveness.

3.5.2 Interview Method

Interviews with the target respondents were conducted to interview all the categories of respondents mentioned above. A separate interview was used for the key informants. This involved first making an appointment with the targeted respondents after which an interview meeting between the researcher and respondents to discuss the issues concerning the effects of micro credit on the performance of microfinance institutions.

3.5.3 Research Instruments

The researcher used questionnaires and an interview guide as the main tools for collecting data. The selections of these tools were guided by the time, objectives and the nature of data to be collected. The researcher was interested in capturing the views, perceptions, feelings, attitudes and opinion of respondents towards solid waste management.

3.5.4 Documentary Review

This involved the researcher revisiting existing literature on the study variables by reading newspapers, journals, text books plus the already existing on internet and margazines among others.

3.6 Measurements of Variables

3.6.1 Validity of the Instruments

Validity is the efficiency or the degree to which a method, a test or a research tool actually measures what is supposed to measure. It refers to the accuracy of the research data. For this case, the validity of the questionnaire will be tested using the Content Validity Index test (CVI). This involved item analysis to be carried out by the supervisors and an expert who was knowledgeable about the theme of the study. The process involved examining each item in the questionnaire to establish whether the items will bring out what it is expected to bring out. Item analysis was conducted using the scale that runs from Relevant (R), Neutral (N), to Irrelevant (I).

3.7 Pre-testing

In order to ensure and maintain a high level of consistency in this study, the researcher will do the following:

Questionnaires were pre-tested. Ambiguous questions were made clear and irrelevant questions were deleted. The researcher used accurate questions which were open-ended and closed ended questionnaires. The questions which were set had enough space to give appropriate responses.

3.8 Reliability of Instruments

Reliability means the degree of consistency of the items, the instruments or the extent to which a test, a method, or a tool gives consistent results across a range of setting or when it is administered to the same group on different occasions. The reliability of research questionnaire was tested using Cronbach's alpha coefficient test for its internal consistency to measure the research variables.

3.9 Data Validity

An introduction letter was obtained from the faculty by the researcher to solicit approval to conduct the study from respective departments in Brac Foundation. When approved, the researcher secured a list of the qualified respondents from the foundation authorities in charge and selected through systematic random sampling from this list to arrive at the minimum sample size.

3.10 Data Analysis

Data analysis included editing the findings, coding and tabulation in the computer Statistical Package for Social Scientists (SPSS) for analysis. Main ideas in qualitative data were clearly recorded. The data filled in the questionnaires were copied and analyzed by tallying it and tabling it in frequency tables identifying how often certain responses occurred and later evaluation was done. This yielded the primary data which was raw in nature. Both qualitative and quantitative methods were used for data analysis as the study generated both qualitative and quantitative data. Once the data was collected, it was coded and analyzed by use of descriptive statistics such as frequencies percentages, means, modes, medians, standards deviations, variances and correlations.

3.11 Ethical considerations

It is important during the process of research for the researcher to make respondents to understand that participation is voluntary and that participants are free to refuse to answer any question and to withdraw from participation at any time they are chosen.

Another important consideration, involves getting the informed consent of those going to be met during the research process, which involved interviews and observations on issues that may be delicate to some respondents. The researcher undertakes to bear this seriously in mind. Accuracy and honesty during the research process is very important for academic research to proceed. A researcher should treat a research project with utmost care, in that there should be no temptation to cheat and generate research results, since it jeopardizes the conception of the research.

Personal confidentiality and privacy are very important since the report was public. If individuals have been used to provide information, it is important for their privacy to be respected. If private information has been accessed then confidentiality has to be maintained (Stephen, P. 2002). All respondents will therefore, be re-assured of this before being involved.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF THE FINDINGS

4.1 Introduction

This chapter involves the presentation, analysis and interpretation of findings in relation to the study objectives and can be evidenced below. Out of the total sample size of 36 respondents, responses were received from 30 respondents representing a response rate of 83% and non-response rate of 17%.

4.2 Findings on social demographic characteristics of the respondents.

4.2.1 Gender of respondents

Table 1: Showing the Respondents Gender

Gender	Frequency	Percentage	Cumulative Percentage (%)
Males	20	66.67	66.67
Female	10	33.33	100
Total	30	100	

Source: Primary data

The table above show that most of the respondents 20 (66.67%) were male and 10(33.33%) were females. This could have been due to the fact that most households in the area are male headed and thus women lack the collateral critical for borrowing except when you are a widow. Few of the women have formal salaried jobs to enable them access salary micro credit, and this affect women's ability to access credit.

4.2.2 Findings on age of respondents

Table 2: Showing the Respondents Age

Age	Frequency	Percentage (%)	Cumulative percentage (%)
20-30	2	6.67	6.67
31-40	20	66.67	73.34
Above 40	8	26.67	100
Total	30	100	

Source: Primary data

From the table above the majority of the respondents falls in the Age bracket from 31-40 (66.67%), followed by the Age bracket above 40 (26.67%) and lastly between20-30 (6.67%). This implies that the credit institution considered age as a determining factor for credit disbursement since it is clear middle age respondents are the ones that accessed credit with very few respondents past the age of 40 years and visibly no members below the age of 20-30 because they lack collateral and most of them lack tangible employment to be able to save with Brac Foundation.

4.2.3 Findings on marital status

Table 3: Showing the Respondents' Marital Status

Marital status	Frequency	Percentage (%)	Cumulative percentage (%)
Married	19	63.3	63.3
Single	1	3.3	66.6
Divorced	3	10.1	76.7
Widowed	8	26.67	100
Total	30	100	

Source: Primary data

From the table above, the majorities of the respondents were married 19 (63.3%) and followed by widows 8 (26.67%) This implies that marital status influenced loan acquisition ability since most married people are more settled with well-established homes and have collaterals as opposed to the singles that can easily disappear with the loan funds hence posing higher risk to the institution's funds. However, widows can easily acquire micro credit since they are in control of the family assets in most cases and can use them as collateral.

4.2.4 Findings on education level of the respondents

Table 4: Showing the Education level of the respondents.

Level of education	Frequency	Percentage (%)	Cumulative percentage (%)
Non	4	13.3	13.3
Primary	4	13.3	26.6
Secondary	15	50.3	76.6
Tertiary	7	23.4	100
Total	30	100	

Source: Primary data

From the table above the highest number of respondents 15(50%) had gone to secondary level i.e. 0'level and A' level, and 7(23.4%) had gone to tertiary institutions i.e. college and university .This implies that Education level of the borrower was significant in credit acquisition given that those that had gone to secondary level and tertiary institutions i.e. holders of degrees and diplomas were more of members than those who had stopped primary level or had not gone to school at all.

4.2.5 Findings on number of dependents

Table 5: Showing the Number of dependants

No. of dependants	Frequency	Percentage	Cumulative percentage (%)
0-3	11	36.7	36.7
4-6	15	50	86.7
6-10	4	13.3	100
Above 10	-	-	
Total	30	100	

Source: Primary data

From the table above, the majority of the respondents had 4-6 dependants and non above 10. This is an indicator that most of the members have got many dependants and therefore they cannot save and invest their savings in any profitable businesses and hence reducing poverty.

4.2.6 Findings on occupation of respondents

Table 6: Showing the respondents occupation

Occupation	Frequency	Percentage (%)	Cumulative percentage (%)
Self employed	7	23.3	23.3
Employed	13	43.3	66.6
Business	5	16.7	83.3
Other sources	5	16.7	100
Total	30	100.0	

Source: Primary data

From the table above, a significantly higher proportion of households (43.3%) had a member with salaried employment; therefore being eligible for salary micro credit and these mostly included police officers and other civil servants. Other sources of income for households included business with 16.7% of Brac Foundation members.

4.3.1 Findings on membership duration

Table 7: Showing the Duration of Member

Period	Frequency	Percentage (%)	Cumulative percentage (%)
0-6 months	15	50	50
6 months – 1year	10	33.33	88.33
1-2 years	3	10	98.33
Above 2 years	2	6.67	100
Total	30	100	

Source: Primary data

From the table above, the majority of the respondents 15 (50%) have been members between 0-6months and 2 (6.67%) above two years. This implies that most of the members joined Brac Foundation recently .The recent increase in the number of Brac Foundation was attributed to intensive sensitization of police officers by the management which was done last year (2013).

4.3.2 Findings on number of times the members had received credit.

Table 8: Showing Number of times the members had received credit

Times	Frequency	Percentage (%)	Cumulative percentage (%)
1	6	20.0	20.0
2	8	26.7	46.7
3	4	13.3	60.0
Above 4	12	40.0	100
Total	30	100	

Source: Primary data

From the table above, the data indicates that 40% of the respondents had received credit at least 4 times, 13.3% had borrowed 3 times, 26.7% borrowed 2 times while 20% had borrowed only once. The implication of this finding is that due to experience in credit use by most of the respondents, fewer problems could be encountered in credit procurement which also highlights the relative ease with which credit was accessed by most of the members. This also implies that the more the borrowers use credit, the less the likely problems.

4.3.3 Findings on credit acquisition and accessibility

Table 9: Ease with which micro credit can be accessed by Brac Foundation clients

Ease of access	Frequency	Percentage	Cumulative percentage (%)
very easy	4	13.3	13.3
Easy	13	43.3	56.6
difficult	11	36.7	93.3
very difficult	2	6.7	100
Total	30	100.0	

Source: Primary data

From the table above the majority of the respondents were able to access the micro credit relatively easy 13 (43.3%) compared to 36.7% who had difficulties in accessing credit. This implies that most of the borrowers have the requirements such as savings and collateral, whereas those who had found it difficult to access credit did not meet the requirements.

4.3.4 Findings on Interest Rate on the loan per year

Table 10: Showing the interest rate on the loan per year

Responses	Frequency	Percentage	Cumulative percentage (%)
Low	16	53.3	53.3
Medium	12	40.0	93.3
High	2	6.7	100
Total	30	100.0	

Source: Primary data

From the table above the majority of the respondents interviewed 53.3% felt that the interest rates charged on their micro credit were low, while only 6.7% found the interest rate to be high.

This implies that the majority of the members that had borrowed from the credit institution, felt that the interest rates charged by Brac Foundation to be comfortable.

This could have contributed to the ease on the members faced in paying back their micro credit.

4.3.5 Findings on Loan Utilization

Table 11: Showing Loan Utilization

Loan utilization	Frequency	Percentage (%)	Cumulative percentage (%)
Savings	4	13.33	6.67
Paying school fees	2	6.67	20.0
Medical bills	5	16.67	36.67
Starting small businesses	15	50	86.67
Buying assets	4	13.33	100
Total	30	100	

Source*:* Primary data

From the table above, the majority of the respondents 15(50%) have utilized their micro credit for starting up small-scale business while only 2 (6.67%) used their micro credit on paying school fees This implies that investment in small scale medium enterprises is one of the main reasons for borrowing amongst other purposes.

4.4 PROFITABILITY OF MICRO FINANCE INSTITUTIONS

4.4.1 Findings on profitability level before the operation of Brac Foundation.

Table 12: Showing profitability level before the operation of Brac Foundation

Profitability level	Frequency	Percentage (%)	Cumulative percentage (%)
Very poor	10	33.3	33.3
Poor	15	50	83.3
Average	5	16.67	100
Well off	-	-	
Total	30	100	

Source: Primary data

From the table above, most of the respondents had low levels of profitability i.e. 15(50%) while 5 (16.67%) were in average. This could have been due to lack of access to credit, low income, low savings, and lack of entrepreneurial skills.

4.4.2 Findings on the factors for low levels of profitability

Table 13: showing the Causes of poverty of the respondents

Causes of low levels of profitability	Frequency	Percentage (%)	Cumulative percentage (%)
Lack of access to credit	14	46.67	46.67
Low income	4	16.67	60
Low savings	8	26.67	86.67
Lack of entrepreneurial skills	4	13.33	100
Total	30	100	

Source: Primary data

From the table above, major cause of low levels of profitability is due to inaccessibility to Brac Foundation services, 14% (46.67%) followed by low savings, 8(26.67%) and lastly by low income and Lack of entrepreneurial skills which accounts for 4 respondents hence(13.33%).

4.4.3 Findings on Capital improvement of respondents.

Table 14: Showing the capital improvement of the respondents.

Variable	Frequency	Percentage (%)	Cumulative percentage (%)
Less than 100,000	-	-	-
100,000-300,000	2	6.67	6.67
300,000-600,000	5	16.67	23.34
600,000-900,000	8	26.67	50.04
Above 900,000	15	50	100
Total	30	100	

Source: Primary data

From the table above, the majority of the respondents their capital 15(50%) was above 900,000 while only 2(6.67%) their capital was from 100,000-300,000. This implies that there was a marked improvement in capital after accessing the Brac Foundation micro credit.

4.5. Findings on Respondents who benefited from Brac Foundation

Table 15: Showing how the members had benefited from Brac Foundation

Benefit/investment	Frequenc	Percentage	Cumulative percentage (%)
Business	9	30	30
Savings	6	20	50
Education	8	28	78
consumption	2	8	86
Health	3	9	95
Other benefits	2	5	100
Total	30	100	

Source: Primary data

The respondents were asked whether participation in Brac Foundation programs has benefited them. The majority of the respondents felt that they had attained a real change in their business enterprises as compared to themselves before they joined Brac Foundation. Many felt that they can educate their children, pay medical bills and afford a nutritious for their households. On a business level, 30% of the respondents felt that they had managed to acquire capital and hence improve their businesses.

4.6. Problems of Brac Foundation services as advanced by respondents

Table 16: Showing Problems with Brac Foundation services as advanced by respondents

Problem	Frequency	Percentage	Cumulative percentage
Delays in loan processing	6	20.0	20.0
High interest rate	9	30.0	50.0
Limited time to pay	3	10.0	60.0
Need for collateral	3	10.0	70.0
Harsh treatment from bank	2	6.7	76.7
Lack of enough to borrow	6	20	96.7
Failure to get guarantors	1	3.3	100
Total	30	100	

Source: Primary data

Respondents were asked whether in their own view, there were any problems with Brac Foundation services. To this, there was unanimous agreement among respondents of existence of problems with Brac Foundation services in general. The problems given include; Delays in loan processing due to bureaucratic tendencies resulting into increased costs, late investment of the acquired funds which could in turn result into delinquency in payment, High interest rates, limited time of payment and harsh treatment from some bank officials were the other problems the clients faced. Only a very small percentage of all respondents indicated that they had not obtained the required amount that they had applied for. This implies that access to the required loan money for most clients was not a problem, but rather high interest rates, unwillingness of guarantors and other problems as shown in the table above.

4.7 Solutions to the problems

Table 17: Showing Possible solutions to the problems

Solutions	Frequency	Percentage (%)	Cumulative percentage (%)
Lower lending rates	9	30	30
Quick processing	6	20	50
Increase the time of payment	3	10	60
Give collateral free micro credit	2	6.7	66.7
Improve customer care	6	20	86.7
Encourage savings	3	10	96.7
Personal visits to reduce default	1	3.3	100
Total	30	100	

Source: Primary data

Finally, the clients were asked to suggest the possible ways through which banks can improve their services. The responses given include lowering of lending rates by the institutions to make the micro credit more affordable for clients, quick processing of micro credit to reduce bureaucracy hence minimize costs and thus give micro credit in time to increase their timely utilization by the clients, increased time for payment. Improving customer care and encouraging of members to save and thus be given micro credit basing on their saving were also possible solutions advanced by the clients as shown above.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter involves summary of major findings conclusion and recommendations. The summary is based on the major findings on the study objectives and the recommendations are based on the discussion of the findings and analysis as well as interpretation of findings

5.2 Summary of Major Findings

5.2.1 Findings on Brac Foundations services among Micro finance institutions

Findings revealed that Brac Foundation provided its members with Brac Foundation micro credit, savings promotion of cooperation, spiritual transformation, training of the members, outreach services/sensitization.

5.2.2 Findings on profitability among Micro finance Institutions

Findings revealed that majority of the respondents 15(20%) were of the view that business enterprises were performing poorly. When further interviewed they said that major cause of low levels of profitability was lack of accessibility to Brac Foundation micro credit before they started their operations, other identified causes of low levels of profitability were low income, low savings to mention. But after accessing Brac Foundation micro credit there was a marked improvement in their capital and increased profitability.

5.2.3 Findings on Brac Foundation and profit maximization among Micro finance Institutions

Findings showed that there is a strong positive relationship between the impact of Brac Foundation and profit maximization among micro finance institutions. This implies that brac foundation micro credit have a positive contribution towards profit maximization among small scale businesses by 79% and 21% by other factors.

5.4 Conclusions

5.4.1 Conclusion on Brac Foundation services among Micro finance Institutions

It can be concluded that Brac Foundation micro credit have played a significant strategic role in providing the bulk of capital used by small and medium scale enterprises in poverty reduction.

5.4.2 Conclusion on poverty reduction among Micro finance Institutions

Poverty in Uganda has been regarded as a common phenomenon. This could be partly attributed to inaccessibility to financial services, insecurity, and low income which called for an assessment of the Brac Foundation services on profit maximization.

5.4.3 Conclusion on the impact of Brac Foundation on profit maximization

There is a strong positive relationship between the impact of Brac Foundation on profit maximization among small and medium scale business units at Pearson correlation coefficient of 0.799.

5.5 Recommendations

5.5.1 Recommendations on Brac Foundation services from the respondents

1. The Brac Foundation should adequately monitor the groups on loan utilization so that it should not misappropriate to non-income generating activities.
2. Savings and credit cooperatives should employ highly trained staff who can do the monitoring evaluation of the utilization of the loan. And also to train, educate and sensitize the members on short-term investment and other business portfolios.
3. Savings and credit cooperatives should reduce the minimum requirement for the members, such as interest rate and security required because this has limited on the accessibility of micro credit.

5.5.2 Recommendations on profit maximization

Education, training and sensitization of business proprietors and the general public about the utilization of micro credit acquired. This must be in line with poverty reduction. Since the Brac Foundation have got a positive impact on profit maximization, it can be recommended that they should be subsidized in case of any deficiency and use them to reach the poor business people.

5.5.3 Recommendations on the impact of Brac Foundation on profit maximization

The micro credit should be given to organized groups such as the women groups which can be easily traced in case of any default instead of giving it to single individuals who may fail to pay the micro credit given out. To increase high profitability levels, people should be encouraged to join Brac Foundation and develop the spirit of savings and entrepreneurship.

5.6 Areas of further research

The importance placed on microfinance as a policy instrument for development coupled with the increasing inflow of capital to the industry, indicates a need to better understand microfinance profitability. This research has brought to the fore numerous PRIs, that emanate from the literature reviewed and the empirical studies. We conclude this research report by presenting the PRIs and giving some concluding remarks. This report has uncovered that inefficiency in the management of operational expenses is associated with declining MFI profitability.

Future research may consider how technology can optimally be used to enhance operational efficiency, and what partnerships are required to scale up technological solutions.

To what extent can for example adoption of mobile banking such as the *MTN Mobile Money* which is widely used in Kenya lead to a decline in operation costs and therefore higher profits when most MFIs in Africa lack adequate back office systems?

In order to improve the efficiency of MFIs there is need for further research perhaps using non parametric Data Envelopment Analysis (DEA) in line with Flückiger and Vassiliev (2007). This may be achieved by considering both inputs oriented and output oriented methods while assuming constant returns to scale and variable returns to scale technologies using cross-country data and based on multivariate analysis. The results may have an important policy implication on whether there would be need to enhance the managerial skills and improve on technology. It is also often argued that high MFI transaction costs are partly driven by the cost of frequent payment collection (Shankar 2006), which keeps MFI interest rates high and limit their ability to scale up operations and reach new clients in more remote locations (Armendáriz and Morduch 2010). This issue therefore deserves further empirical study to determine the impact of this lending technology on MFI profitability.

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APPENDIX 1: QUESTIONNAIRE TO BE FILLED BY CLIENTS OF BRAC FOUNDATION- UGANDA CLIENTS

Dear Sir/Madam,

Dear respondent, am conducting a research study on the role of micro credit on profitability of MFIs using Brac Foundation as a case study. The questionnaire items are about the study and you are kindly requested to participate in responding to the questions below. The information given will be treated as confidential and the results of the study will be used for academic research purposes only.

SECTION A: BACKGROUND OF THE RESPONDENT

Please tick your personal information in the gaps below

1. a) Bio-data

Gender Male ☐ Female ☐

b) Age 21-30 ☐ 21 -30 ☐

31-40 ☐ Above 40 ☐

c) Marital Status

Single ☐ Divorced ☐ Married ☐ Widow ☐

d)What is your level of Education?

Level of education	**Strongly agree**	**Agree**	**Not sure**	**Disagree**	**Strongly disagree**
Non					
Primary					
Secondary					
Tertiary					

e)How many dependants live in your household?

No. of dependants	Strongly agree	Agree	Not sure	Disagree	Strongly disagree
0-3					
4-6					
6-10					
Above 10					
Total					

f) What do you do as a means of living (Occupation)?

Unemployed ☐

Self-employed ☐

Employed ☐

Others (specify) ☐

SECTION B: BRAC FOUNDATION ACTIVITIES

3) For how long have you been a member of Brac Foundation?

Period	Strongly agree	Agree	Not sure	Disagree	Strongly disagree
0-6 months					
6 months – 1year					
1-2 years					
Above 2 years					

4) When did Brac Foundation start its operation?

2007 ☐ 2008 ☐ 2009 ☐ others specify..............

5) Have you ever received a loan from Brac Foundation?

Yes ☐ No ☐

b) How easy was it?

Responses	Strongly agree	Agree	Not sure	Disagree	Strongly disagree
Very easy					
Easy					
Difficult					
Very difficult					

c) If you think it was easy, Why?

....

d) If you think it was difficult, Why?

....

6) Brac Foundation charges interest rate on loan per year to its members

Variable	Strongly agree	Agree	Not sure	Disagree	Strongly agree
Low					
Medium					
High					

7) What do you use the loan given to you for?

Loan utilization	Strongly agree	Agree	Not sure	Disagree	Strongly agree
Savings					
Paying school fees					
Medical bills					
Starting small businesses					
Buying assets					

SECTION C: PROFITABILITY LEVELS

8) Before the introduction of Brac Foundation how was profitability levels

Variable	Strongly agree	Agree	Not sure	Disagree
Very poor				
poor				
Average				
Well-off				

9)What do you think are the major causes of low profitability levels**?**

Causes of poverty	Strongly agree	Agree	Not sure	Disagree	Strongly Disagree
Lack of access to credit					
Low income					
Low savings					
Lack of entrepreneurs skills					
Lack of land					

10) How much was your capital before you joined Brac Foundation or from the time you started the occupation.

Variable	Strongly agree	Agree	Not sure	Disagree	Strongly disagree
Less than 100,000					
100,000-300,000					
300,000-600,000					
600,000-900,000					
Above 900,000					

11) How much is your capital now after joining brac foundation at least for the last one year?

Variable	Strongly agree	Agree	Not sure	Disagree	Strongly disagree
Less than 100,000					
100,000-300,000					
300,000-600,000					
600,000-900,000					
Above 900,000					

APPENDIX II: INTERVIEW GUIDE
FOR BRAC FOUNDATION MANAGEMENT

1. What are the bank's strengths?..
2. What services does the bank offer?..
3. What is the minimum amount needed to open a savings accounts?.................
4. How much do you have as deposits/savings?..
5. What interest rates do savings accounts pay, and what interest rates are charged for micro credit?..
6. Have you ever received loan applications from members?
7. Yes ☐ No ☐
8. If yes, how many?....................
9. And how many loan applications have you approved?................
10. How many people received the micro credit?............
11. Why didn't some applicants receive micro credit?........
12. Why do they borrow?...
13. How long does it take to process a loan?....................................
14. How do rate the performance of the loan beneficiaries so far?[Tick the most]

	Strongly agree	Agree	Not sure	Disagree	Strongly Disagree
Excellent					
Good					
Fair					
Bad					

9. Does it seem the bank is doing a good job of serving the financial needs of the community?
Yes ☐ No☐

If not, why not?
....
....
....
....

Thank you very much for your cooperation.