

KAMPALA INTERNATIONAL UNIVERSITY

FACULTY OF BUSINESS AND MANAGEMENT

**MICROFINANCE AND SOCIO-ECONOMIC DEVELOPMENT OF
CUSTOMERS.**

A CASE STUDY OF PRIDE UGANDA LIMITED.

A DISSERTATION SUBMITTED BY KIMONYI FELISTER MUENI

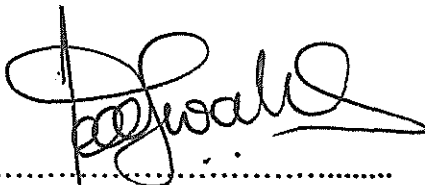
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**TO KAMPALA INTERNATIONAL UNIVERSITY IN PARTIAL
FULFILMENT OF THE REQUIREMENT FOR A DEGREE OF BACHELOR OF
INTERNATIONAL BUSINESS ADMINISTRATION OF KAMPALA
INTERNATIONAL UNIVERSITY, KAMPALA.**

AUGUST 2006

CERTIFICATION

I, the undersigned do hereby certify that I have read and hereby recommend for acceptance by Kampala International University, Faculty of Business and Management a project report entitled Microfinance and Socio-Economic Development of Customers; a case study of Pride Uganda Limited, in partial fulfillment of requirement of the award of the Degree of International business administration (B.I.B.A) of Kampala International University.


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HAJJI TWAHA K. KAAWAASE

SUPERVISOR

DATE.....4/8/2006.....

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.....

HAJJI TWAHA K. KAAWAASE

SUPERVISOR

DATE.....

DEDICATION

This work is dedicated to all those who have given and extended to me through life's tribulations.

I would like to make special dedication to my parents Mr. and Mrs. Peter Kimonyi Mutua, my sister Eva Mwende, my brothers Fred and Patrick and special friend Duncan Kamanyi to who I owe my life, for all their support and care.

To you all, I say, this is my first harvest of your wise investment into me, more is yet to come.

ACKNOWLEDGEMENT

Above everything and everyone I acknowledge the Almighty God. It is through His guidance, wisdom and comfort that I have lived to reap what I sowed. Lord, thank you for the knowledge and blessings you have pricelessly provided to see me through my ups and downs.

I wish to acknowledge my parents who made it possible for me to live. It is because of their endless sacrifices that I have been able to be what I am today. Who knows, perhaps this work would have remained a dream if they had not given me life and sustenance. They are my heroes and deserve a king's share of the harvest.

Special thanks go to my parents Mr. and Mrs. Peter Mutua, Miss Eva Mwende , Fred and Patrick(my brothers and sister) and my friends Duncan, Fred Lwanga , Marcella Mecha Masika Judy, Mase, Rispa, Keith and Chao Lillian who through thick and thin have provided all kinds of support besides other endeavors.

Special thanks and appreciation are also extended to my Supervisor Hajji Twaha K. Kaawaase for his advice and guidance in my research work. I would also extend my gratitude to all my friends (B.I.B.A Students), who have managed to be part of me in joy and sorrow. With you all I have managed to walk through the paths that have led me to this kind of achievement. Thank u all for sharing your valuable ideas with me.

ABSTRACT

Poverty is an increasing problem and a major concern worldwide. By extending financial services to the poor we encourage self employment, decision making and sustainable growth, allowing beneficiaries to fulfill their personal as well as their professional goals by accessing a financial system, to obtain the essay funds in order to achieve personal objectives. As a result, the tools used in microfinance sector are the key to remove the threat of poverty permanently.

20 respondents were investigated in the study. These include 18 clients of which 5 were shopkeepers, 6 were farmers, 3 who worked for wages and those who gain income from renting out small amount of land, vehicles, and draft animals were 5. The rest 2 were employees of Pride Uganda, Limited. The research employed both qualitative and quantitative methods of collection of data and analysis. The main areas of focus in the study included sources of microfinance, services offered by microfinance institution, government policy framework, donors of microfinance in Uganda, constraints of microfinance.

Lastly, policy makers should call for policy makers to have a better understanding of the microfinance industry to develop a clear framework for regulation and supervision of the sub sector.

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ABBREVIATIONS

ADB	African Development Bank
GDP	Gross Domestic Product
MDGs	Millennium Development Goals
MFIs	Micro Finance Institutions
PEAP	Poverty Eradication Action Plan
RMSP	Rural Microfinance Support Project
SACCOs	Savings and Credits Co operatives

CHAPTER ONE

1.0 INTRODUCTION

Developing countries such as Kenya, Tanzania and Uganda in particular though undergoing great diversity usually share common characteristics like having unequal distribution of income a preponderance(80%-85%) of population earns it's living in a relatively unproductive agricultural sector, distinguished employment or underemployment, high illiteracy rate and inadequate educational facilities, widespread malnutrition and wide range of health problems among others.

Such characteristic shows that a great population in this country is living poorly and in order to survive they need help. Financial Institutions that provide commercial microfinance help poor people manage enterprise growth and diversification and raise their household income. Living poorly means people suffer from lack of food and water, un employment, disease abuse, homelessness, degradation and disenfranchisement .the result for these include physical, mental and emotional disability , limited skills and education, low self esteem and lack of confidence and fear, resentment, aggression and truncated vision. The World Bank describes extremely poverty as living on less than 75 cents a day.

These people really need help financial institutions that provide commercial microfinance help poor people manage enterprise growth and diversification and

raise their household's income. Yet informal commercial lenders local traders, employer's landlords, commodity wholesalers, pawn brokers and money lender of various types provide loans to the poor in many developing countries.

Many bankers, economists and government officials assume that the informal commercial credit market works efficiently, satisfies demand and help the poor. A common view is that widespread use of informal financial suggest that it is well suited to most rural conditions (Van Pischke Adams and Donald 1983) most informal lenders provides valuable financial services at a reasonable cost to borrowers (Gonzales-Vega 1993)

About 90% of the 180 million poor households still lack access to institutional financial services most formal financial institution deny the poor financial services because of perceived high risks, high costs involved in small transaction, the poor inability to provide marketable collateral for loans (ADB and microfinance)

1.0 BACKGROUND OF THE PROBLEM

It is a much needed wake up call for economists who have long fulfilled the potential microfinance institution for promoting savings and investments and alleviating poverty. Likewise, it will alert advocates of subsidized microfinance that the financial needs of the vast majority of the poor can be met by commercially based micro lending.

Extreme poverty is described as living on less than 75 cents a day and above two thirds of people in Uganda are victims. These people include the unemployed or severely unemployed as well as those who work in the so poorly remunerated that their purchasing power does not permit the minimum caloric intake required to overcome malnutrition. Also included, are people who live in regions severely deprived of resources. That is those who are too young, too old, or disabled to work, those who are for reasons of environment, ethnic identity, politics, gender and the like, have no earning assets or household's members to support them and those escaping from natural or human made catastrophe.

Microfinance will be a panacea for poverty where it's much more on presenting and analyzing the fundamentals of microfinance and mobilizing savings among the poor. This study will clarify the application of commercial principles to microfinance which will ensure the long-lasting capacity of institutions to reach those previously excluded from financial services.

1.2 STATEMENT OF THE PROBLEM

Savings services allow savers to store excess liquidity for future use and to obtain returns on their investments while credit services will enable the use of anticipated income for current investment or consumption. Though the overall microfinance services can help low-income people to reduce risk, improve management, raise productivity, obtain high returns on investments, increase their income and improve the quality of their lives and those of their dependant, the low income households

and small micro entrepreneurs have been charged highly on access to those services hence experiencing difficulties due to inappropriate policy design, weak implementation framework and failure to institute and effectively monitor policy implementation within the microfinance institutions.

About 90% of the two thirds of the poor households and small micro entrepreneurs still lack access to institutional financial services. Most of thee microfinance institution may deny the poor financial services because of perceived high risks, high costs involved in small transactions, and the poor inability to provide marketable collateral for loans.

1.3 HYPOTHESIS

Microfinance has a strong positive impact in the socio-economic development of the society.

1.4 RESEARCH QUESTIONS

- i) Do poor people understand microfinance services? And do they know how to use them?
- ii) What do these poor people do to earn for their ends meet?
- iii) Do these people have ability to provide marketable collateral for loans?
- iv) What benefits do they obtain from the microfinance services?
- v) Does majority within the poor household and small micro enterprise come for your services?

1.5 SCOPE OF THE STUDY

Though many people world wide are benefiting on the services of microfinance, this study ^{was} ~~will~~ be carried out in the pride limited Kampala. Why this particular place is because there are many small micro entrepreneurs and poor households in the city and therefore this research study aimed at establishing detailed data on microfinance and socioeconomic development of customers of the pride limited.

1.6 OBJECTIVES

1.6.1 SPECIFIC OBJECTIVES

- To ensure wide spread financial services for the poor.
- To find out the access and costs of financial services to microfinance clients.
- To investigate the economic benefits of microfinance clients
- To find out whether these institutions are capital constrained and whether they can meet a big fraction of people

1.6.2 GENERAL OBJECTIVES:

Examine microfinance and socio-economic development of its customers.

1.7 SIGNIFICANCE OF THE STUDY

- i) The finding of this study will be committed on increasing the financial sustainability of MFI (microfinance institutions) and developing their poverty focus that is increase their outreach and impact on the lives of poorer people.
- ii) It will be also encourage donors to integrate a poverty focus in their appraisal and finding of MFIs.
- iii) The study will be useful to policy makers to have a better understanding of the microfinance industry to develop a clear framework for regulation and supervision of the sub-sector.
- iv) This findings will be a way forward for academicians of Business studies and other researchers to carryout further research on microfinance and socio-economic development of its clients.

1.8 Key concept

Customers: it's a group or individuals who have a business relationship with the organization those who receive and use or directly affected by the product and services of the organization.

Development: improving: is act of by expanding or enlarging or refining or is a process in which something passes a degree to different stage especially a more advanced or mature stage.

Impact: strong effect (free of collision)

Microfinance: It's small loans that helps poor people to expand their businesses but are not able to get banks to lend to them.

Poverty: this is a state of being without enough basic needs (necessities).

CHAPTER TWO

RESEARCH METHODOLOGY

2.0 Introduction

This chapter describes the area population of study methods used and data collection techniques and it also gives the problems encountered in the study and how they will be solved.

2.1 Area of study

This study was conducted in pride Bank limited located in Kabalagala in Kampala. Kabalagala is near Kansanga in Makindye Division.

2.2 Sample selection

The study is both quantitative and qualitative, purposive sampling was used to get informants who are knowledgeable about the microfinance and those experiencing the problem.

The study being qualitative in nature an interview guide was used to collect data.

2.3 METHODS OF DATA COLLECTION

2.3.1 Primary source of data

a) Questionnaires

This was used to obtain information on the respondent's institution and also will help the researcher to obtain detailed information by allowing respondents to express themselves.

The questionnaire contained the three types of questions; the multiple choice in which the respondent had several alternatives from which to choose, Dichotomous having only two alternatives available (yes or no) and open ended where the responder is free to formulate his or her own answer and expand on the subject of the question.

b) Observation

This was used to study situation which do not depend on reported behavior for instant the interaction between the employees of the institution and the customers.

2.4 Research procedure

An introductory letter was obtained from Kampala international university Department of Business and management to the management of pride Bank to give the researcher away forward.

2.5 Data Analysis

Data was analyzed systematically according to the objective of the study and a report was written.

2.5.1 Quantitative Analysis

Data was recorded before leaving the respondents. The researcher checked for accuracy, uniformity and consistency. Tables were developed to show no of people interviewed and economic activities of clients.

2.5.2 Qualitative analysis

for the case of qualitative data, field notes were written at the end of each day, later, identified themes, relevant topics and issues plus related literature were used to allow for interpretative and data presentation.

2.6 Research Constraints

In any study, there are constraints this is because of differences of nature in area and research.

Financial constraints - Necessary requirement of the study was substantially big and was self-financed with very limited resources.

Lack of time - There was little time given to the researcher to carry out this study.

CHAPTER THREE

LITERATURE REVIEW

3.0 Introduction

This chapter analyses some of the issues on the existing literature on the concept of microfinance. It will examine the microfinance and socio-economic development on the deprived groups and vulnerable people. The study has to put into consideration the findings of other people's work, which preceded it.

3.1 The concept of microfinance.

Microfinance plays a significant role in over achieving goal to reduce poverty in Asia and Pacific. Providing access to microfinance can prove to be an effective way of reaching the pool and improving their lives. In developing countries numerous studies have been conducted above the subject. However, this study has not been able to give detailed finding on microfinance and socio-economic development.

Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfer and insurance to poor and low income households and their micro enterprise (Microfinance-ADB.org 25 November 2005)

Marguerite S. Robinson defines microfinance as a panacea for poverty, is much more on presenting and analyzing the fundamental of micro lending and mobilizing savings among the poor. Robinson continued the study and found microfinance provide wide spread financial services for the poor. Robinson also describes

microfinance as the process through which financial services for the economically active poor are implemented on a large scale by multiple, completing financially self-sufficient institutions. Among the economically active poor of the developing world, this is strong demand for small scale commercial financial services. For both credit and savings where available, these and other financial service help low income people improve household and enterprise.

What matters to microfinance clients in East African region developing countries is the access and cost of financial services. Many poor people are served by informal money lenders who generally provide easy access to credit but at high cost, charging poor borrower nominal monthly effective rates that typically range from about 10% to more than 100%. Many times the monthly rates of sustainable financial institutions are usually 2-5%.

Supervision officials Central Bank of Kenya, Tanzania and Uganda at a joint workshop meeting(2006) on microfinance, the executive Director supervision Bank Justine Buganda aimed microfinance as access to financial services by Low income households and small and microfinance.

Financial sector assessment of the World Bank international monetary fund was on the view that providing of financial services to the poor and very poor, particularly in rural areas is the purpose of microfinance institution. They never put in mind

that also in urban areas such as Kampala where these poor and very poor communities exists.

A basic economic theorem states that opportunities in (economic) development are highly dependent on the access one has to capital market. Since both the commercial banking sector and capital markets in most groups in these countries, other alternatives must be sought. Microfinance and especially savings and lending communities, can fill the gap left by commercial finances .Building economies with microfinance lend a solid base to developing a lasting access to external monetary funds and thus to reducing poverty (Joost M Van der Voort.)

Microfinance services enable poor women to increate and diversify income and build assets, which in turn allow them to reduce and mitigate risks, make choices and plan for their future. There is direct impact of the access to financial services to address income poverty and in created income have been instrumental to finance for human capital (health, education, physical infrastructure including drinking water and sanitation), thereby gradually creating an enabling environment to address human poverty. Effectively delivered microfinance products and services through sustainable MFIS can be one of the effective tools on creating enabling environment for achieving remaining MDGs (Nara Hari Dhakal).

Extending financial services to poor people does not necessarily play a positive role in eradicating poverty, as it may lead to accrued indebtedness. Forced extension of

financial services results in unconditional lending and credit at low interest rates. These turn out to be traps rather than solutions. However, extending access to financial services to poor people plays a significant role in alleviating poverty. People that want and need financial services will consider financial services if the access is easy and if they are properly informed. The goal must be to reduce the vulnerability of the poor by providing them new opportunities. Destroying self constructed informal mechanisms through the extension of financial services at all costs would lead to a reduction of opportunities and thus increase their dependency and vulnerability. In conclusion, microfinance will succeed in eradicating poverty only if it brings new choices to the poor, through accrued accessibility. It won't if it replaces one fatality with another (Gilles Davignon).

The emerging paradigm of providing microfinance to mitigate the poverty pandemic in developing countries is the discourse within the political and economic circles of most nations. Microfinance plays an unprecedented role in the form of curative, preventive, and promotional mechanisms of moderating the effects of poverty. The answer questions "what" and "why" microfinance can do for the poor seem to have reached a positive consensus among both theoreticians and researchers. Issues of microfinance helping to build assets, empowering and mitigating the effects of vulnerability to both external and internal shocks have well been researched into and documented. (Samuel Kobina Annim)

Artcheddji Codjo Casimir sees microfinance as a key strategy in reaching the millennium Development Goals (MDGs) and in building global financial systems that meets the needs of most poor people. Although microfinance has demonstrated the potential to reduce poverty, its impacts have varied. Perhaps as a result of these inconsistencies, few donors have prioritized microfinance in their strategies to achieve the MDGs. Microfinance can have positive effects everywhere, if services respond to the particular mission and social context of a microfinance institution (MFI), as well as to the needs of its clients. Microfinance, and the impact it produces, goes beyond just business loans. Poor people use financial services not only for business investment (agriculture, livestock, trade, processing) in their micro enterprise but also for health and education, managing household emergencies, and meeting the wide variety of other cash needs that they encounter. The availability of financial services for the poor household is therefore a critical factor for the achievement of the Millennium Development Goals.

Microfinance increases the ability of individuals to invest in their future at a cost that is reasonable (both in time and expenses.) Microfinance is not so much about the 'micro' as it is about filling a need. Every person living in the modern economy (even those living in the periphery) needs financial products and services to meet the challenges of daily life. Those with access to more services are able to meet both the immediate challenges (food and temporary shelter) and longer term challenges (safe and long-term housing, education, stability of income, healthcare, etc.)(Paul Hamlin.)

D. Antony Vijayaraj states that the role of microfinance at a global level and achieving the MDGs is to cut out handouts and restore dignity and self-respect to the disadvantaged.

Each person has a role to play and is unique creation and born to succeed. Participatory capacity building effort makes the world we live in fair and equitable. Enterprise development, consumption and asset development increases the passion and belief of all in microfinance. This gives even the disadvantaged the confidence to move beyond barriers to change through innovation, creativity, research and advocacy. Poverty reduction helps everyone realize that:

- i) Opportunities are within and starting at us all the time.
- ii) We have to move fast, throw our heart and soul into the work. Work with focus, conviction, sincerity, and truthfulness.
- iii) In developed countries, one has to get the government on side to enable our newly engineered microfinance model to work.
- iv) Globalization makes our work challenging and interesting. Passion and perseverance with a positive mindset make everything a possibility.

One of the biggest challenges facing the microfinance industry today is to develop financial products and methodologies for very poor or difficult to reach rural populations to reduce their economic vulnerability and increase their overall well being. Microfinance can create an environment of community where people find

connection and can gradually bring about a more just, equitable and peaceful society. Microfinance programs when done well are a powerful tool to promote not only the full potential of the individual, but the force of unity reflects in concept of community. A sense of community motivates action for the common good rather than individualistic self interest and can result in greater protection of the environment and promotion of material sufficiency rather than rampant consumerism. It can create opportunities for local economic self sufficiency, thus helping to stem the out migration from rural to urban areas, and from less developed to more industrialized countries.

CHAPTER FOUR

STUDY FINDINGS

4.0 Introduction

The results are presented in both quantitative and qualitative analytical framework so as to give a clear explanation of this study. In this presentation tabular presentation is used in order to supplement or explain findings.

4.1 Socio-demographic characteristic of respondents

4.1.1 Number of respondents interviewed

A total of 20 respondents were interviewed, they consisted of 2 employees of the pride Uganda limited, 18 clients of which 5 were shopkeepers, 6 were farmers, clients who work for wages were 3, who gain income from renting out small amount of land, vehicles, draft animals where 5.

Table 4.1 Number of respondents interviewed.

Respondents	No. of respondents
Employees	2
Shopkeeper/small enterprise	5
Farmers	6
Working for wages	3
Renting out small amount of land ,vehicles, draft animals	4
TOTAL	20

Source: Field survey results.

4.1.2 Education

In the sample the majority of respondents were semi-illiterate with 10 of the person had only attained primary 1 to 7 education, 6 persons had attended secondary school at various stages 4 persons had post-secondary education with this, presented statistics, indicates that in pride Uganda limited clients as per as education is concerned people are still badly off because the data indicates that majority of the population only attained primary education. Due to low education level access to highly paying jobs is hard hence low income which forces them for help in micro-finance institutions.

Table 4.2 Educational status of the respondents

S/No.	LEVEL	NO.
1	Primary	10
2	Secondary	6
3	Post Secondary	4
TOTAL		20

Source: Field Survey Results

4.1.2 Gender Relation

Basing on the study the majority of the respondent in this institution were female 15 and male were 5. Those in paid employment sector were only 2 female and males 14 counterparts were 4. This Gender relationship indicated that majority of women in this area are not in paid employment due to lack of gender balance in employment sector in this place.

Men are the majority in the sector because culturally women are supposed to be doing only housework such as cooking and looking after children.

This indication, which should that poverty, has made women the most vulnerable group of people, with no opportunity to generate income to cater for their daily basic needs. This is because are not given opportunities as men are to documents in almost all activities. A microfinance revolution in the community, majority of female are going for their microfinance service and thereby trying to keep that

gender balance in the society. In this case the self employed are 3 males and 11 females.

Table 4.3 a) Male and Female ratio

Female	15	75%
Male	5	15%
Total	20	100%

Table 4.3(b) Number in Employment.

Sex	No. Employed	%
Female	2	10%
Male	4	20%
TOTAL	6	30%

Table 4.3 (c) Number in self employment

Sex	No. Self Employment	%
Female	11	55%
Male	3	15%
TOTAL	14	70%

Source: Field Survey Result

4.1.3 Individual VS Groups

The respondents generally interviewed which were the majority were 10 from a group and 5 individuals this indicates that majority of persons from groups whereby they register for loans in the microfinance institution and share the interest charged among themselves to make ease of payment.

4.4 No of Individual VS Groups

No. Individual	5	25%
Groups	10	50%
TOTAL	15	75%

Source: Field Survey Result

4.2 Source of Microfinance

Informal money lenders formal financial sectors, government or donor-non bank financial institutions such as nongovernmental organization and village bank are the main source of microfinance.

4.2.1 Informal Money lenders

The informational given by the respondents in this areas showed that informal money lenders usually provide easy access as credit but at high cost, charging poor clients as borrowers nominal monthly effective interest rates that typically range from about 10% to more than 100% to more than 100% many time the monthly effective rates of sustainable financial institution which are usually 2-5%.Even when

real (inflation adjusted) interest rates are used and borrowers' transaction cost are included.

4.2.2 Commercial microfinance institutions

It is said that is normally far less expensive to borrow from a local money lender. They also offer much in demands saving service that provide savers with security, liquidity and return a combination not generally available in the informal sector though the demands for commercial microfinance is rarely met by the formal sector. One reason given is that the demands are generally not perceived. Another is that many actors in the formal sector believe wrongly that microfinance cannot be profitable for banking institution.

4.2.3 Formal Financial Institution (state owned)

These usually provide government and donor financed subsidized credit but below market subsidies are often siphoned off by local elites and so may not reach the poor. These institutions have high areas and large losses. Access by the poor tends to be low, despite the subsidies the cost of borrowing may be high because of widespread inefficiency and corruption most formal financial institutions deny the poor financial service because of perceived high risk, high costs involved in small transaction the Poor's inability to provide marketable collateral for loans.

4.2.4 Semiformal (Non-Governmental Organizations and Village Banks)

These are non governmental organization and village banks. They is capital constrained and meet only a tiny fraction of demand for credit such institution provide credit at relatively low cost access to credit by borrowers is limited access to voluntary savings facilities is poor or non existents at many of keep institutions.

4.3 Qualification for Microfinance Services

According to the respondent, not everyone is accessible to microfinance services. They consider one's job status, marital status especially whether one is a widow, widower, married or single, also they consider if one have assets as collateral to secure loans. To ensure the right information is given out, the institution does a survey through interviewing a third party, documents issued by the client or clear observation by the microfinance personnel. Lastly, the institution is supposed to ensure that the client is debt free.

4.4 Services offered by microfinance institutions

According to the respondents microfinance institutions offer various services such as loans payments service money transfers insurance to poor and low-income households and micro-enterprise. These institutions aim to ensure permanent access to the institutional financial services for the region's poor people and their small business.

4.4.1 Loans

With microfinance loans the clients are able to use their increased income to buy more nutritious food, which in turn results in healthier pregnancies and healthier children. That income also enables them to send their children to school, improve their shelter and obtain health care. It also allows clients to buy essential tools to make their business more productive and provide employment within their communities.

4.4.2 Access to savings and microfinance

With access to these services the respondents said they are poised to absorb the economic shocks of death serious illness and natural disaster. This enables clients to contribute to reconstruction efforts whether familial or communal in the aftermath of an unplanned disaster.

4.5 Government policy framework

According to the Uganda ministry of finance FY 2005/06 which affected the objective and level of activity in the new FY 2006/07. It initiated the legal and institutional framework for microfinance and enterprise development their target is enabling the poor to access funds for economic activities to reduce poverty.

4.5.1 Achievement

Launched the matching grant facility and contracted price, water house coopers to manage the funds. Over 500 rural microfinance institutions benefited from loan portfolio of Ushs. 10.1, financial products specific to agriculture and acquisition of products assets were developed and capacity building for MFIS and SACCOS supported.

4.5.2 Indicator

- Growth of saving accounts opened with microfinance is institutions.
- Number of MFIS branches that lend to the poor number of clients served and loans disbursed.
- Guidelines and regulation manuals.
- Number of clients.

In the FY 2006/2007 the ministry will concentrate on generating policies for improving rural development and increased productivity at household level. This will be achieved through provision of well established microfinance services, private sector development with emphasis on industrialization and value addition, promoting and value research in science and technology to benefit local artisan.

4.6 Donors of microfinance funds in Uganda.

The microfinance support centre limited (MSC ltd) is a limited liability company that is wholly owned by government of Uganda. It was set up into August 2001, to among others manage the Rural Microfinance Support Project (RMSP) microfinance support project is a country wide is a country wide project funded by African development bank and government of Uganda. RMSP is a microfinance support project funded by African Development Bank and the Government of Uganda. RMSP is a 5 year project in February 2001 RMSP is geared at the realization of Poverty Eradication Action plan (PEAP) through the promotion of country wide access to affordable microfinance services in Uganda.

Other donors of microfinance include European Union World Bank through ministry of finance of Uganda.

4.7 Economic impact

This section presents finding which are directly relating to incomes of the people. This includes economic activities levels of income and productivity.

Table 4.5 (i) shows the income level of respondents

Annual income level(Us\$)	No of respondents	%
0-100000	12	60%
100000-300000	4	20%
300000-500000	3	15%
500000+	1	5%
	20	100%

Source: Field survey results

Table 4.5(ii) shows the economic activities through access to microfinance Services.

Activities	No.	%
Self employment	17	85%
employed	3	15%
Total	20	100%

4.7.1 Income base

This was reported by 60% of the sampled communities as impact of poverty most of the respondent were peasant farmers. They basically produce for food (subsistence farming) and just less for sale. This derive them enough income to meet their basic needs.

It can be observed from the table 4.5 (ii) that the majority of respondents (85%) can access through microfinance services and their income definitely will improve through indulging themselves into various economic activities such as farming, shop keeping and other micro enterprises.

4.7.2 Increased level of investment

Increased level of investment amongst the communities sampled was basically attributed to high number of people being self employed as the biggest % of this population this gives moral for respondents to invest.

Through the income and saving of the respondents was low before access to microfinance services, self employments will enable the respondents generate more income and save more for their future requirements. If one was earning 100,000 Ushs and he was able to access loan and create a business environment will be able to cater for its basic need's and save.

4.7.3 Increase productivity

Low productivity is attributed to various factors. The major one is lack of funds and poor technology. The critical observation made by the researcher and report from respondents revealed that, this acute impact of poverty can be envisaged in forms off lack of tools and equipment to facilitate the agricultural production off-farm activities.

About 99% of the people doing farming usually substandard primitive tools of production such as short hand hoes. This will affect both the quality and quantity of produce.

Through access of microfinance service, the people will have funds which will enable them buy the modern tools such as spraying pump, rakes, forks, slashes, tractors and watering cans and pesticide and other factor of production such as land. This improves the quality and quantity of produce which in increase sale, yield and income as well.

4.7.4 Employment

According to the findings here are many micro and small enterprises employing a big number of person or 29% of the country total employment. Also the microfinance sector is growing at are increasing rate and contributes certain percentage of the country's gross domestic product (GDP) and another percent of non-agricultural GDP.

Employment has been created through access to microfinance institution's services. According to respondents, when they start their businesses such as shop keeping or farming, they usually need to employ a number of people in their farms or shops to help them out. These labor forces need their wages which in turn help them to cater their basic needs and improve their standard of living.

4.8 Social Impact

4.8.1 Enhancement of quality of life of the clients

When used by the clients in ways that expand household economic activities increase income, microfinance service can contribute in multiple and far reaching ways to the quality of life of household members.

“Tell your husband that our institution does not allow borrowers who are beaten by their spouse to remain members and take loans”

According to this case the microfinance institution helped to solve domestic violence. Other case is when respondents could save for the children’s education and overcoming malnutrition.

Microfinance service can contribute in many ways to the quality of life of clients and members of their household. It contributes on improvement in nutrition prevention of diseases education of children and decreasing the child labor.

One of the most common by product of microfinance is sending children to school. Begin able to provide for old both one’s own that of one’s elderly relatives another way in which the quality of life is improve with the income increase that can accompany the use of microfinance.

4.8.2 Domestic Violence

Domestic violence; According to the respondents most of them claimed that the existence of domestic violence has been a major result of lack of basic needs in the families among the society the drinking of local beer by men who put all burden of lack of income and other basic needs on the wives by constantly quarrelling and fighting with them is a cause of domestic violence. Through access to microfinance service the most basic needs such food, shelter clothing is catered for and peace in the house is developed.

4.8.3 Social Safety values

Social safety values is when disaster hit and people unexpectedly lose their jobs, homes, incomes and assets many lenders and shop keeper. As such a time access to microfinance also will serve as a safety value for the wider society's to people who are able to feed and clothes their families are less likely to cause social disruption than those who can not.

"Because of my poor status and being the bread winner when my husband is in jail joining pride Uganda limited enabled me support my displaced family with all they need"

4.8.4 Create self confidence of their clients

Successful microfinance institution can boost the self confidence of their clients. The process happens in many ways and at many levels. According to respondents she

had to stop her husbands beating because of the power of her statement that her back did not approve women who beaten by their husbands.

A woman who makes kerosene lamps from Kampala she provided financial services and treated with dignity by her microfinance institution. Economic independence and associated increase in self confidence help those who are abused to stop the abuse or end the relationship.

4.8.4 Challenges Facing Microfinance Institutions

The major shortcomings of microfinance institutions development have been inappropriate policy design, weak implementation framework and failure to institute and effectively monitor policy implementation.

The other shortcomings are; some donors do not have adequate capacity to regulate or supervise, as a result the industry has been made susceptible to unscrupulous operators who give microfinance institutions bad name bad name.

Lastly, is the inability for client to pay back loans through misusing the funds that's, through luxury also the project they invest in may fail to take off.

CHAPTER FIVE

RECOMMENDATIONS

5.0 Introduction

The findings of the study established that microfinance services has affected the economic active poor people positively, with the majority of people accessing microfinance services and being self employed. The microfinance industry has some challenges which may hinder the poor access their services. This therefore calls for policy makers to have a better understanding of microfinance industry to develop a clear framework for regulation and supervision of sub sector as recommended below.

5.1 Government policy

Government policy is one of the factors which can hinder and deny the existence of microfinance institution and their clients from accessing microfinance services. In order to improve on more on this situation, there is need for.

Introduction of anew pilot initiative to create model programs for government support of microfinance and development of new instruments for collaborating with private sector. Through a new initiative a new initiative of joining an organization like IFAD which can sponsor workshops to compile and disseminate lessons from the experience of financial and business institutions engaged in marketing for small rural enterprises.

5.2 Central bank policies

Supervision of microfinance activities in the country still possesses a lot of challenges to central bank in the region as many activities going on in the industry are intertwined with unregulated with other unregulated activities due to lack of clear policies.

There is need to understand the microfinance industry better in order to develop clear framework for the regulation and supervision of the sector. There is also need for licensing Microfinance deposit taking institutions, examine how to continue encouraging innovation on new products in the industry and also examine which policy framework will facilitate the fastest growth and development of the sector.

5.3 Regulatory supervisory issues on microfinance institutions

The assessment of the regulatory framework for microfinance institutions is part of broader assessment of adequacy which will require a review of;

The range of financial services provided and target group served by several tier of formal, semiformal and informal financial institutions.

The demand for financial services from household micro enterprise and small businesses at different levels of the income strata, the different combination of financial services, the user of those services and the range of services that prevail in different geographical segments of the market.

The objective of assessment of the adequacy of access will be to identify the gap that exist (and the need to be corrected) in the range of products that are available for different layers of households, micro enterprises and small businesses in various geographical markets and;

To conclude, assessment of regulatory framework will assess whether the regulatory framework for financial transactions help expand or restrict access to the need for financial services.

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11. Are you a non profit making institution? give reasons

b) customers/clients

12. What do you understand by the term microfinance?

13. Who introduced you to microfinance?

14. Are you an individual taking microfinance or do you belong to a group?

.....

15. How has microfinance services benefited you?

16. Are you comfortable with their (microfinance institutions) charges?