

**CONTRIBUTIONS OF MICROFINANCE INSTITUTIONS ON BUSINESS  
PERFORMANCE,**

**A CASE STUDY OF NAKAWA DIVISION KAMPALA**

**BY**

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**A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS AND  
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## DECLARATION

I, **Kasaana Fidel, Reg No.1153-05154-01273**, declare that this research report is my original work and has never been submitted for any degree or any other academic award in any Institution of higher learning or University.

Name and Signature of Candidate

KF.

Date

18/06/18.

## APPROVAL

This is to certify that this research report entitled "Contributions of microfinance institutions on business performance, a case study of Nakawa Division Kampala" has been done under my supervision.

Signature of Supervisor

  
.....

Date

  
.....

MR. MUHEREZA FRANKLINE

## **DEDICATION**

I would like to dedicate this research to my dear Mum, Mrs. Mukobwa Steria for her courage and guidance offered through my entire education cycle. Special thanks also go to my brothers, sisters, relatives and friends.

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My Sincere gratitude goes to God the Almighty for giving me the time for to focus on this research report.

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## TABLE OF CONTENTS

DECLARATION .....	i
APPROVAL .....	ii
DEDICATION.....	iii
ACKNOWLEDGMENT .....	iv
TABLE OF CONTENTS .....	v
LIST OF TABLES.....	viii
LIST OF FIGURES .....	ix
ABBREVIATIONS AND ACRONYMS.....	x
ABSTRACT .....	xi
<b>CHAPTER ONE.....</b>	<b>1</b>
1.0 Introduction .....	1
1.1 Background of the study .....	1
1.2 Statement of the Problem .....	4
1.3 Purpose of the study.....	5
1.4 The objectives of the study .....	5
1.5 Research Questions .....	5
1.6 The Scope of the study .....	5
1.6.1 Geographical scope.....	5
1.6.2 Content scope .....	6
1.6.3 Time scope.....	6
1.7 Significance of the Study.....	6
1.8 : The conceptual framework of the study .....	7
<b>CHAPTER TWO.....</b>	<b>8</b>
<b>LITERATURE REVIEW .....</b>	<b>8</b>
2.0 Introduction .....	8
2.1 Definition of Terms .....	8
2.2 Review of the related literature.....	9
2.2.1 The role played by microfinance institutions .....	9
2.2.2 The level of business performance in Uganda .....	10

CHAPTER THREE .....	14
METHODOLOGY .....	14
3.0 Introduction .....	14
3.1 Research Design .....	14
3.2 Research Population .....	14
3.3 Sample size .....	14
3.4 Sampling technique .....	15
3.5 The Research Instrument.....	15
3.6 Methods of Data collection/Data collection Procedure.....	15
3.7 Data Analysis.....	15
 <b>CHAPTER FOUR .....</b>	 <b>16</b>
<b>DATA PRESENTATION ANALYSIS AND INTERPRETATION .....</b>	<b>16</b>
4.0 Introduction .....	16
4.1 Age of respondents.....	16
4.1.1 Gender of respondents.....	16
4.1.2 Level of education of respondents in Nakawa Division .....	17
4.1.3 Number of years in business for the respondents.....	17
4.2 The level of growth of Microfinance Institutions in Nakawa Division .....	17
4.3 The level of business performance In Nakawa division .....	19
4.4 The effects of Microfinances on business performance in Nakawa Division ....	20
4.4.1 Does the loan help you to acquire sufficient inventory and increase your business asset.....	20
4.4.2 Are you always able to purchase the required equipment for your business operations from the loans. ....	20
4.4.3 What are the levels of sales volume in your business .....	21
4.4.4 How would you rate the significance of the loans provided to your business performance.....	22
 <b>CHAPTER FIVE .....</b>	 <b>23</b>
<b>DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS .....</b>	<b>23</b>
5.0 Introduction .....	23

5.1 Discussion of key research findings.....	23
5.1.1 Findings on biodata of the respondents collected in Nakawa Division Kampala District. ....	23
5.1.2 The level of growth of Microfinance Institutions in Nakawa Division- Kampala .....	23
5.1.3 The effects of microfinance on business performance in Nakawa division- Kampala district. ....	24
5.2 Conclusions .....	25
5.3 Recommendation.....	25
5.4 Limitations of the study.....	25
5.5 Areas for further research .....	26
REFERENCES.....	27
APPENDICES .....	29
APPENDIX I: RESEARCH INSTRUMENT .....	29
APPENDIX II: RESEARCH BUDGET.....	33
APPENDIX III: RESEARCH TIME FRAME.....	34



## **LIST OF TABLES**

Table 4.1: The table showing age of respondents .....	16
Table 4.2: Gender of respondents.....	16
Table 3: Education level of respondents .....	17
Table 4.4: Number of years in business for the respondents.....	17
Table 4.5: The level of growth of Microfinance Institutions in Nakawa Division .....	18
Table 4.6: Level of business performance in Nakawa Division.....	19

## **LIST OF FIGURES**

Figure 4.1: Does the loan help you to acquire sufficient inventory and increase your business asset.....	20
Figure 4.2: Are you always able to purchase the required equipment for your business operations from the loans.....	21
Figure 4.3: Are you always able to purchase the required equipment for your business operations from the loans.....	22
Figure 4.4: How would you rate the significance of the loans provided to your business performance. ....	22

## **ABBREVIATIONS AND ACRONYMS**

BP	Business Performance
CAMMCUL	Cameroon Cooperative Credit Union League
CFO	Chief Finance Officers
CU	Credit Union
EBS	Equity Building Society
KIU	Kampala International University
MF	Microfinance
MFIS	Microfinance Institutions
NBFCS	Non- Bank Financial Companies
NCB	Nigerian Central Bank
ND	Nakawa Division
NGOS	Non- Governmental Organizations
SACCOS	Saving and Credit Cooperative Organizations
SCC	Savings and Credit Cooperative
SME	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences
UBOS	Uganda Bureau of Statistics
UCB	Uganda Commercial Bank
WB	World Bank

## **ABSTRACT**

The topic of the study was Contributions of Microfinance institutions on Business Performance in Nakawa Division-Kampala Uganda: The study investigated performance of business as a major problem following the high collapse of business due to non-performing loans from financial institutions. The objectives of the study included: determination of the role played by microfinance institutions in Nakawa division; determination of the level of business performance in Nakawa Division, and to establish the effects of microfinance institutions on business performance in Nakawa Division. This research used the mixed approach by applying both quantitative and qualitative research designs to enable the researcher and other future scholars have a deeper understanding of the of the problem and create more innovative solutions for the performance of business. Specifically, the designs consisted of descriptive co-relational design and cross-sectional design. The findings of the research study were that in Nakawa division, the age bracket for people with businesses ranges between 41-50 years representing the highest percent of 48 out of the total sample population with majority percent of being females representing 57 percent, however education level indicated a shrinking level with secondary education being the highest level attained by respondents representing 37 percent. To make a comprehensive examination, it was also important to find out the distribution of respondents of number of years in doing business and the study found out most of the businesses lasted between 3-5 years representing 46 percent. The findings on the level of growth of microfinance institutions in Nakawa Division indicated an overall mean of 2.29 implying that respondents were satisfied with the level of growth of these microfinance institutions indicators, in addition on the level of business performance, the overall mean was also satisfactory at 2.45 as the study was concerned. And lastly the effects of microfinance institutions on business performance revealed 70 percent according respondents as far as the sufficiency of the loans was and making them purchase the required equipment at 53 percent hence making a sales volume to stand at high rate of 55 percent according to the study. The researcher recommended to microfinance institutions to always not only provide loans but also supplement it with other services in order to enhance business performance in Nakawa Division.

## **CHAPTER ONE**

### **1.0 Introduction**

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

### **1.1 Background of the study**

The history of microfinance institutions dated back to the late 1800s and one of the earlier and longer-lived micro credit organizations providing small loans to rural poor with no collateral was the Irish Loan Fund system, initiated in the early 1700s by Jonathan Swift in Ireland and by the time his idea matured, there were already more than 300 small savings and credit centres already in existence to help people most especially those rejected by commercial banks to access credit at a 20 % interest (CGAP 2013).

In the 1800s, various types of larger and more formal savings and credit institutions began to emerge in Europe, organized primarily among the rural and urban poor. These institutions were known as People's Banks, Credit Unions, and Savings and Credit Co-operatives aimed at making it easy for the poor to obtain financial services through cooperatives and development finance institutions.

In East Africa for example, Equity Building Society (EBS) in Kenya has emerged as one of Kenya's leading microfinance institutions, with over 155,000 savings clients and 41,000 borrowers. Once insolvent, EBS transformed itself into a profitable financial-service provider by rigorously focusing on the needs of its clients - in particular, by developing a wide range of market-based financial products and services, including a mobile banking service (World bank 2015).

The microfinance industry in Uganda originated as a ground-breaking strategy due to the general dynamics of the country's economy, which left rural and other low-income people lacking financial services. The economic breakdown of the 1970s and 1980s caused many banks to close upcountry branches, and community based financial institutions like SACCOs, also closed down leaving the poor with no stable source of income. Attempts to reverse this through massive branch opening by the

then Uganda Commercial Bank in the 1980s was not successful as many of the branches made perpetual losses and were closed down. This was exacerbated by the massive failures of four banks in 1998, including the Cooperative Bank which then had the second largest branch network and agency arrangements for its microfinance sub-branches.

However, due to the nascent level of the industry, there is limited and scattered information on what is taking place in the microfinance industry in Uganda.

On a global level, sophisticated information systems were made possible by the innovations in communication technology, and this accelerated the microfinance revolution, (Gulli, 1999). Communication in Microfinance and exploratory case study of 45 micro institutions in different countries began to experiment with microfinance for the first time. Finally, the late 1990s witnessed competition among commercial microfinance institutions. This was however being confined to a few countries; and for reasons as discussed, not all the microfinance institutions were successful, (Martin, 2002).

The study was guided by Neo-classical economic theory, propounded by Schumpeter and Mark in 1911 as cited from Jhinghan, (1997). Neo-classical economic theory assumes that individuals are rational beings who respond in predictable ways to changes in incentives. From this perspective, there are two broad determinants of individual behaviour: opportunities (or constraints) and individual preferences (Pollak 1998). Preferences are generally assumed to be stable and exogenous (example, unaffected by opportunities and constraints) and many economic models also assume that individuals have perfect knowledge and access to perfect markets. Individual utility (that is, happiness or satisfaction) is usually assumed to be a function of consumption, and economic models often treat savings as a residual, those resources that remain after consumption decisions are made. In relation to this study, the Classical theory implies that microfinance institutions should provide the community with loans to enable invest and massive investment will improve the earnings, employ more people, generate quality output and hence the improvement in business performance.

The major goal of Microfinance Institution in the first place was to eliminate poverty and improve the wellbeing of all citizens in the country through offering short term loans, business advise, trustees services, accounts opening for customers, provision of insurance services and keeping precious documents of on behalf of the owners and all these have proved to have positive impact on business expansion by creating more jobs, increasing profitability, improving the quality of output realised by members of these institutions both directly and indirectly. The problem which microfinance can address is the inability of micro entrepreneurs and the active poor to make use of adequate financial services, especially loans or savings. As a result, they are unable to expand their businesses, get out of poverty, or even smooth out their consumption and grow their business because the sum of the loans provided is narrow.

According to Robinson, (2015), microfinance is defined as some small-scale financial services primarily credit and savings provided to people who farm or fish or herd; who operate small enterprises or micro enterprises where goods are produced, recycled, repaired, or sold; who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and groups at the local levels of developing countries, both rural and urban. In other words, Microfinance Institutions (MFIs) are financial institutions that provide financial services to the small economic agents or to small enterprises owned by small capital owners. Their clients are usually low income economic agents, the active poor, the poor and the business entities. The majority of their clients are self-employed. There are also informal microfinance institutions such as money lenders and rotating savings and credit associations.

As mentioned earlier, adequate and efficient financial services for small businesses and the active business entities are rarely accessible through formal financial channels. This is because banks mistakenly assume that small-scale services are not profitable. Where credit is available, it is usually provided to small business owners by local moneylenders, but sometimes at very high costs to the borrowers. In some cases such services are referred to as predatory lending which-Honohan, (2014), describes it as a pattern of abusive behaviour in which an unscrupulous lender

exploits superior knowledge, especially techniques and legal loopholes, to dupe borrowers into assuming contractual debt obligations that they cannot hope to meet, likely losing valuable collateral and transferring over time substantial net economic value to the lender despite defaulting and incurring additional social and psychological penalties. For example, in a rural community, wealthy individuals will often offer loans and in rare cases, they will even offer savings products. However, the interest that is charged on the loan is sometimes very high and the savings agreements provide little or no guarantee, (Ledgerwood, 1999).

The high cost of operation of businesses, high degree of competition and low profit margins from these micro-financial institutions motivated this study. Currently, the situation on ground is not so plausible for business owners in terms of performance as profits are reduced to almost nothing due to unfavourable government policies and the development of infrastructure and technology in Uganda.

The situation about the microfinance institutions in enabling to improve the business performance have not yielded any success despite the fact that the government of Uganda is putting in emphasis on MFIs as one imperative sector to drive and improve on business performance. Microfinance institutions are trying to offer various services to the community of Nakawa division in terms of small loans, typically for working capital, informal appraisal of borrowers and investments, secure savings products, training in financial literacy, training in management capabilities, development of self-confidence, skills training and marketing and Social services. It is due to this unclear situation that has necessitated the researcher to undertake the study to find out the extent to which microfinance institutions lead to improved business performance in Uganda and taking Nakawa as the case study area.

## **1.2 Statement of the Problem**

The Uganda microfinance institutions are confronted with a myriad of problems but notable among them is financial constraint caused by the sources of funds used in financing the project. Microfinance institutions operate with limited capital which has not been enough for them to meet the demands of the community in Nakawa division.



In Nakawa division, business growth and development are still very low and continued to decline at a steady rate (CFOs Nakawa division 2014). This could be due to the failure to have a reliable resources and capital to enable the community establish and finance their enterprises. Most individuals perceive loans from microfinance institutions as being risky. As a result, these institutions restrict those to get loans and it is upon this background that the researcher's curiosity has been increased to investigate on the effects of microfinance institutions on the business performance in Nakawa division.

### **1.3 Purpose of the study**

The purpose of this study was to establish the effects of microfinance institutions on business performance in Nakawa division-Uganda.

### **1.4 The objectives of the study**

The following were the objectives under which the study was carried out:

1. To determine the role played by microfinance institutions in Uganda
2. To determine the level of business performance in Nakawa division
3. To establish the effects of microfinance on business performance in Nakawa

### **1.5 Research Questions**

1. What are the roles played by microfinance in Nakawa division?
2. What is the level of business performance in Nakawa division?
3. What are the effects of microfinance on performance of businesses in Nakawa division

### **1.6 The Scope of the study**

#### **1.6.1 Geographical scope**

The study was carried out in Nakawa division-Kampala district. This study concentrated in the market areas of Nakawa.

### **1.6.2 Content scope**

The study was intended to establish the effects of microfinance institutions on business performance in Nakawa division-Kampala district.

### **1.6.3 Time scope**

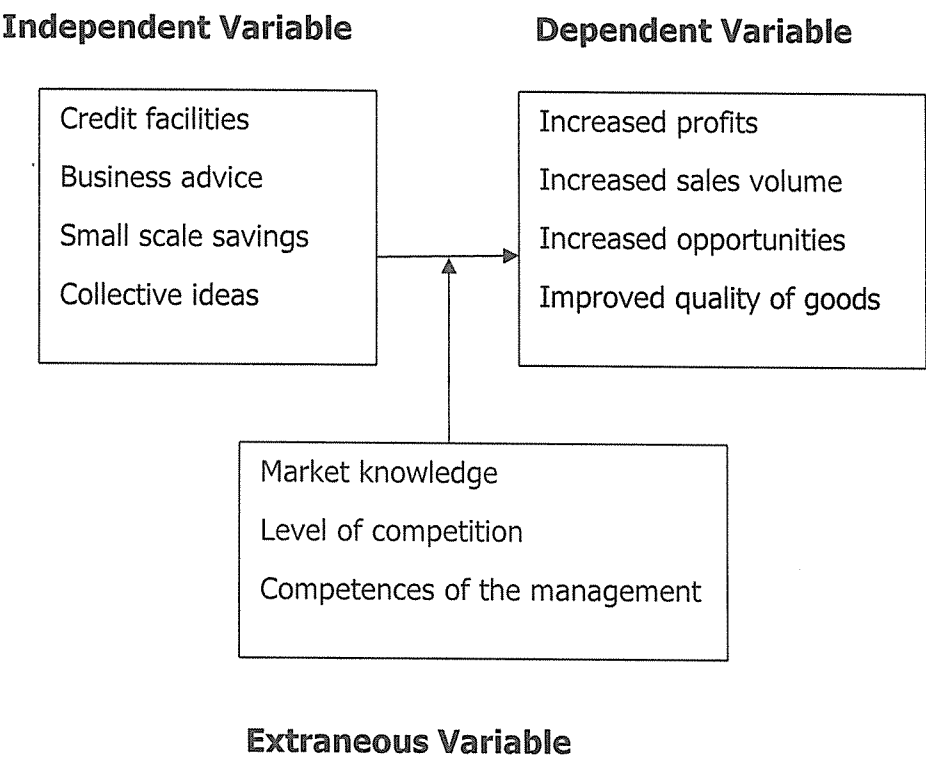
The study was conducted for a period of three months, that is, from February, 2018 to May 2018. The entire period activities included proposal writing, data collection, dissertation writing and submission.

## **1.7 Significance of the Study**

The study will be useful in the following ways:

It is expected that the findings of this study will be useful to the administrators of Nakawa to enable them devise policies and means of improving business performance that will benefit the entire country through revenue generated from taxes paid because the higher the size of the business, the more the amount paid for taxes. The findings of this study will be useful to management of microfinance institutions to develop and offer services that will bring the best results to their borrowers. The findings of this study will be useful to individual researcher because it will help to fulfill the partial requirement for the award of a bachelor's degree in Economics and Applied Statistics of Kampala International University.

1.8 The conceptual framework of the study



(Source: Researcher 2018)

The conceptual framework above indicates that any adjustment on credit facilities, business advice, and savings can cause changes on the firms’ levels of profits, volume of opportunities available, quality of products, increased sales and customers satisfaction depending on the direction of change implying that they all dependant on the services provided by the microfinance institutions.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

This chapter shows the definitions of key variables, theoretical reviews and other related literature of the study.

#### 2.1 Definition of Terms

**Microfinance institution** is defined as an organisation/institution established with the goal of providing financial services to a bigger number of people who have low income and lack bigger collateral security to get financial services from the already established commercial banks but active (have higher ambition of self-growth and development) yet unable due to lack of finances and other required resources or raw materials. The aim of these financial institutions is to alleviate poverty (Researcher 2018). According to the researcher, this study will examine microfinance institutions in terms of small scale credit offered, business advice, savings, collective ideas and sharing of risks.

This is in line with study definitions given by the Nigerian Central bank, where Microfinance institutions are termed as licensed financial institutions meant to serve the un-served, but economically active clients in the rural and peri-urban areas by providing diversified, affordable and dependable financial services to the active poor, in a timely and competitive manner, which would enable them to undertake and develop long-term, sustainable entrepreneurial activities and mobilize savings for intermediation (CBN, 2013).

Other notable terms that are in line with this research are Micro enterprise which is defined as the informally organized business activity undertaken by entrepreneurs; excluding crop production by convention, employing less than ten people and having assets less than N5 million excluding land and building while a small business is any business that is independently owned and managed; started with little capital and is being operated using a few numbers of employees to produce goods and services to satisfy the needs of the local community for profit (Abiola, 2011).

**Business Performance.** This is measured in terms of certain standardized attributes that show changes in volumes of activities or physical size. When these changes are increasing the performance is generally positive. These attributes include profitability, sales volume, quality of products, productivity, employment levels, expansion in physical facilities and ability to have access to other support necessary for growth and development (external and internal economies of scale), as defined by the researcher (Researcher 2018).

## **2.2 Review of the related literature**

### **2.2.1 The role played by microfinance institutions**

Since the micro-credit summit in 1997, a number of active poor people have been reached. This has led to employment, improved standards of living, and access to education, health and general wellbeing of the poor people. The challenge continues to be limited capital to enable microfinance institutions to support more than they have reached (Byamugisha 2016).

According to the research conducted by Jeanty, microfinance institutions fill a needed gap within the financial services industry by offering small loans, or micro-loans, to people unable to access conventional loan services and microfinance institutions vary in size and function with some organizations focusing entirely on micro financing, while others work as extensions of large investment banks. People living in under-developed areas such as Latin America, Kosovo and countries within the Sub-Saharan region can access needed financial resources through the services provided by microfinance institutions (Jeanty 2017).

Microfinance is increasingly being considered as one of the most effective tools of reducing poverty. Microfinance has a significant role in bridging the gap between the formal financial institutions and the rural poor. The Micro Finance Institutions (MFIs) accesses financial resources from the Banks and other mainstream Financial Institutions and provide financial and support services to the poor. Various types of institutions offer microfinance: credit unions, commercial banks, NGOs (Non-governmental Organizations), cooperatives, and sectors of government banks. The emergence of "for-profit" MFIs is growing. In India, these 'for-profit' MFIs are referred to as Non-Banking Financial Companies (NBFC). NGOs mainly work in

remote rural areas thereby providing financial services to the persons with no access to banking services (Word Press 2013).

In another dimension for the case of Uganda and Kenya, the informal business sector, comprised primarily of microenterprises that provide a vital source of employment and income in these developing economies. These small businesses are characterized by few employees, few assets, and informal operations. This study focuses on the primary source of capital to fuel microenterprise operations--personal savings (Gudz 1999).

Small-scale enterprises play important small and medium enterprises in the Kenyan economy and are accorded high priority in the development policy (GOK, 2007). They offer many advantages including the creation of jobs in both the rural and urban areas, support for larger industries including the agricultural sector and the utilization of local resources. These types of businesses require very little capital to create jobs, rely primarily on family savings and often provide their own skill training at no cost to the government (Maitha et al., 1997).

### **2.2.2 The level of business performance in Uganda**

Studies on business performance employed various measures (Radipere & Dhliwayo, 2014). These measures can be summarized as financial and nonfinancial measures. Financial measures include cash flow, return on assets, and return on equity as a means of assessing firm performance.

While the nonfinancial measure includes aspects such as customer service, marketing effectiveness, human capital, strategy achievement, innovation, employee satisfaction, financial practice, processes, and corporate culture (Dele& Strivers 2012;). In relation to this, some studies suggest a combination of both financial and non-financial measures in order to offer a complete evaluation of the businesses performance. The use of nonfinancial data was adopted in this study for several reasons.

Several scholars affirm that such nonfinancial measures have been endorsed by both academic and managers. They are that (i) Nonfinancial measures can be better indicators of both present and future financial performance, (ii) Nonfinancial data

can provide indirect, quantitative indicators of a firm's intangible assets, and (iii) nonfinancial measures are less susceptible to external „noise“ than accounting measures.

Noise being change in performance measure that cannot be controlled by business owner, such as changes in the economy or even luck. Secondly, the perceived measure of performance (perceived performance) was used as a substitute to financial data as recommended by Dele (2012).

This is due to limitations of financial data as pointed out by Ittner & Larcker in the case of small businesses in Uganda. Small businesses are reluctant to share their financial data due to several reasons including no financial records, poor financial record keeping or manipulated books for the sake of tax evasion to mention a few (Easete, 2005; Rooks, Szirmai & Sserwanga, 2009).

Research has shown that there is a significant association between the managerial efficiency of small firms and long-term survival, profitability and viability. The acute shortage of finance experienced by small businesses is a result of lack of efficiency in the management of development finance. There is a long-term strategic benefit in financing today's small enterprises through appropriate support strategy (Lerner and Wulf 2007).

Efficient managerial and technical skills are critical for the sustained growth and development of small businesses and enterprises in Ethiopia. The lack of essentially needed managerial skills is a serious threat to the continued survival and profitability of small businesses in developing economies (Decron and Krishnan, 2009).

### **2.3The effects of microfinance on the business performance**

Nilsson (2010) conducted a study to investigate the impact of micro finance institutions (MFIs) on the development of small and medium size businesses (SMEs) in Cameroon. The study adopted a case study approach that involved CAMCCUL(Cameroon Cooperative Credit Union League). The study concluded that microfinance is an important asset to developing countries since it is able to cater for financing needs of the very poor in the society.

Using India as an economy which has surpassed the and become one of the fastest growing economies in the world, research carried out revealed a strong link of the effects of microfinance on business performance. The study concluded that microfinance has brought better psychological and social empowerment than economic empowerment (Bran and Woller 2010). The study further recommended that the impact of microfinance is commendable in courage, self-confidence, self-worthiness, skill development, awareness about environment, peace in the family, reduction of poverty improving rural savings, managerial ability decision making process and group management. In other variables the impact is moderate. As a result of participation in microfinance, there is observed a significant improvement of managerial skills, psychological well-being and social empowerment. It is recommended that the SHGs may be granted legal status to enhance the performance.

The study conducted by Olu in Nigeria on the impact of microfinance on entrepreneurial development of small scale enterprises that are craving for growth and development in a stiffened economy used a questionnaire as an instrument of primary data collection. The study revealed that microfinance institutions are evident tools for entrepreneurship development due to the various services they offer and the role they play towards the development of the economy (Olu 2009).

Not overlooking the various challenges that affect microfinance i.e. operations, the current banking reforms introduced by the Central Bank of Nigeria (C.B.N.) Governor is a welcome development as its employment is set to fortify the microfinance institutions world over and especially in Nigeria are identified to be one of the key players in the financial industry that have positively affected individuals, business organizations, other financial institutions, the government and the economy at large through the services they offer and the functions they perform in the economy.

Many studies that followed then have focused on each level specifically concludes that microfinance has offered an effective finance method for the construction of new socialist rural regions and has won the support of agriculture and farmers (Li 2006).



In another study conducted in China by Dyar to examine the impact of microfinance on gender inequality also have revealed that there are many benefits to providing microfinance to women, despite lack of conclusive evidence on significantly reducing gender inequality. Microfinance allows women to enjoy greater economic power, better living quality, and stronger social and political empowerment (Dyar, Harduar, Koenig, & Reyes 2006).

## CHAPTER THREE

### METHODOLOGY

#### 3.0 Introduction

This chapter presents the methodology used in this study; it includes research designs, target population, sample size, sampling techniques, research instrument, validity and reliability of the research instruments, method of data collection, data analysis, and ethical consideration as well as the limitations of the study.

#### 3.1 Research Design

This refers to the structure within which the research is based on or the plan within which the research is built on (Kibuuka 2015). The researcher used the descriptive research design to facilitate the collection of data and analysis from a cross section of small scale business enterprises and the microfinance institutions to understand if there was a significant relation between micro finance and the performance of business using Nakawa as the based area for data collection.

#### 3.2 Research Population

This refers to the total number of respondents that the researcher is interested in collecting data from during the certain preferred characteristics of interest to him/her. A total population of 65 small and medium scale enterprises and micro finance institutions were considered to determine if there was a relationship between business performance and microfinance. Microfinance were selected because they are the ones directly involved in providing these services to these enterprises and the small-scale enterprises are selected because they are the consumers of these services for their business growth.

#### 3.3 Sample size

This researcher used the Slovene's formula to determine the sample size.

$$\text{Given as} \quad n = \frac{N}{1 + N(e^2)}$$

Where  $n$ =Sample size

$N$ =Population Size

$e$ =Level of Significance which will be 0.05

Using the formular, the sample size is arrived at as follows

This can be derived as follow

The population size  $N$  was 65 respondents who engaged in business in Nakawa Division and the sample size was 56 respondents calculated using the above formula.

### **3.4 Sampling technique**

The researcher used simple random sampling technique because it gives the opportunity to all members of the population to have an equal chance of being selected

In addition, purposively sampling used for the few selected Microfinance Institutions and business ventures around Nakawa Market.

### **3.5 The Research Instrument**

This study was conducted using questionnaire and cleaning done right in the field to ensure that the data collected was complete.

### **3.6 Methods of Data collection/Data collection Procedure**

After the approval of my Research Proposal, I sought for the Introductory Letter from the Head of Department of Economics and Statistics who granted the Permission for data collection and confirming me as a research student of Kampala International University. The data was collected by distributing questionnaires to the research Assistants and they were later collected back for data cleaning, analysis, Presentation and Interpretation.

### **3.7 Data Analysis**

The data collected from the field was cleaned and edited to ensure quality and analysis to be done by the use of SPSS and Excel.

## CHAPTER FOUR

### DATA PRESENTATION ANALYSIS AND INTERPRETATION

#### 4.0 Introduction

This chapter comprises of the bio data of the respondents, the level of growth of microfinance institutions, the level of business performance in Nakawa Division-Kampala Uganda.

#### 4.1 Age of respondents

The research concluded that the majority of respondents are between the age of 41 to 50 years, followed by those between the age of 31 to 40 and 18 to 30 years and lastly those above the age of 50 years. The percentage scores for those between 41 to 50 years is 48, followed by 29 percent while 16 and 7 percent were between 18-30 and 51 years and above respectively.

**Table 4.1: The table showing age of respondents**

Age of respondents		Frequency	Percent	Valid Percent
	18-30 Years	9	16.1	16.1
	31-40 Years	16	28.6	28.6
	41-50 Years	27	48.2	48.2
	51 Years and above	4	7.1	7.1
	Total	56	100.0	100.0

(Source: Researcher 2018)

#### 4.1.1 Gender of respondents

It was necessary to find out the distribution of respondents in Nakawa Division, Kampala by gender. The findings on the respondents' distribution by gender indicated that the majority were females with 57 percent compared to male comprising of 43 percent as shown on the subsequent illustration.

**Table 4.2: Gender of respondents**

Gender of respondents		Frequency	Percent	Valid Percent
	Male	24	42.9	42.9
	Female	32	57.1	57.1
	Total	56	100.0	100.0

(Source: Researcher 2018)

#### 4.1.2 Level of education of respondents in Nakawa Division

It was also necessary to find out the distribution of respondents in Nakawa division, by level of education. The findings indicated that majority of respondents had secondary education as their highest level of education as shown on the subsequent table with 37 percent.

**Table 3: Education level of respondents**

Education level of respondents		Frequency	Percent	Valid Percent
	Secondary	21	37.5	37.5
	Diploma	19	33.9	33.9
	Bachelors'	13	23.2	23.2
	Others	3	5.4	5.4
	Total	56	100.0	100.0

**(Source: Researcher 2018)**

#### 4.1.3 Number of years in business for the respondents

It was also necessary to find out the distribution of respondent's number of years in doing business since the impact of microfinance on business performance is felt more at a later time of the business. The findings are shown on the subsequent table.

**Table 4.4: Number of years in business for the respondents**

Number of years in business		Frequency	Percent	Valid Percent
	Below 2 Years	6	10.7	10.7
	3-5 Years	26	46.4	46.4
	6-8 Years	19	33.9	33.9
	9 Years and above	5	8.9	8.9
	Total	56	100.0	100.0

**(Source: Researcher 2018)**

#### 4.2 The level of growth of Microfinance Institutions in Nakawa Division

The researcher asked respondents on the first objective about the growth level of microfinance institutions in Nakawa division. To achieve this, questions were asked and the response were as indicated on the subsequent table with the ratings and description.

**Table 4.5: The level of growth of Microfinance Institutions in Nakawa Division**

<b>Growth levels of MFIS</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Rating</b>	<b>Description</b>
I always receive over draft facilities from my bank for my business	56	3.23	1.009	3	Satisfied
I always acquire short term loans for supplementing my working Capital	56	2.21	.756	2	Satisfied
I always receive goods on credit from my suppliers and pay later	56	2.34	1.195	2	Very satisfied
I seem to be doing the business I truly love and what am good at	56	1.63	.1054	1	Very satisfied
I have positive mentality and determination for my business finances	56	1.45	.630	1	Very satisfied
The business I own or work for was based on my personal ideas	56	2.61	1.056	2	Satisfied
I use mobile money to save my money instead bank	56	2.04	.738	2	Satisfied
I save my money because they give interest	56	2.23	1.044	2	Satisfied
I deposit money collected from my business monthly in the bank	56	2.89	1.246	2	Satisfied
Valid N (listwise)	56				

**(Source: Researcher 2018)**

The mean of 3.23 falls under 3 which indicated that respondents are satisfied that they always receive over draft facilities from their banks. In addition, the mean of 2.21 also falls under description satisfied meaning that respondents are very satisfied that they acquire short term loans from the financial institutions for supplementing their working capital. However, the mean of 1.63 on credit sales implies that respondents are very satisfied they always receive goods on credit from suppliers and pay later which is similar to 1.45 on mentality and determination for business finances.

### 4.3 The level of business performance In Nakawa division

The researcher also examined the indicators of the level of business performance in Nakawa division by asking respondents questions and the responses are recorded on the subsequent table.

**Table 4.6: Level of business performance in Nakawa Division**

Business Performance level	N	Mean	Std. Deviation	Rating	Description
I earn some normal profits to run this business	56	2.95	.862	3	Satisfied
I earn more than enough profits because of less competition	56	2.30	2.960	2	Satisfied
My operating cost is sometimes higher than the returns	56	3.25	.919	3	Somewhat dissatisfied
I only sell products on cash	56	1.86	.819	1	Very satisfied
I offer after sales services for our prime customers	56	2.07	.988	2	Satisfied
Our returns are high because of business diversification	56	2.34	.880	2	Satisfied
I employ more capital than labour	56	1.68	.974	1	Very satisfied
I employ only people with some skills	56	2.37	.648	2	Satisfied
I have not created any job since the business begun	56	2.71	.706	2	Satisfied
The loans we receive the size of our business	56	2.21	1.022	2	Satisfied
I always labour to find out what consumers want	56	3.46	.852	3	Somewhat dissatisfied
I always charge our customers based on the value of the products they purchase	56	2.20	1.119	2	Satisfied
Valid N (listwise)	56				

**(Source: Researcher 2018)**

According to table 6 above, the mean of 2.95 falls under rating 2 which indicates that respondents were satisfied that they earn normal profits to run their businesses where the marginal cost is equal to the marginal revenue and this shows that they are able to sustain the business in the short run. As well the mean of 2.30 falls under rating 2 for competition which indicates that respondents were satisfied that earning more than enough profits was due to less competition. On the other hand, the mean of 3.25 on the operating cost falls under rating 3 which indicates that respondents were somewhat dissatisfied that their operating cost is sometimes higher than the returns. However, the results indicated that respondents were very satisfied that they only sell their products on cash basis under rating 1 and the mean of 1.86.

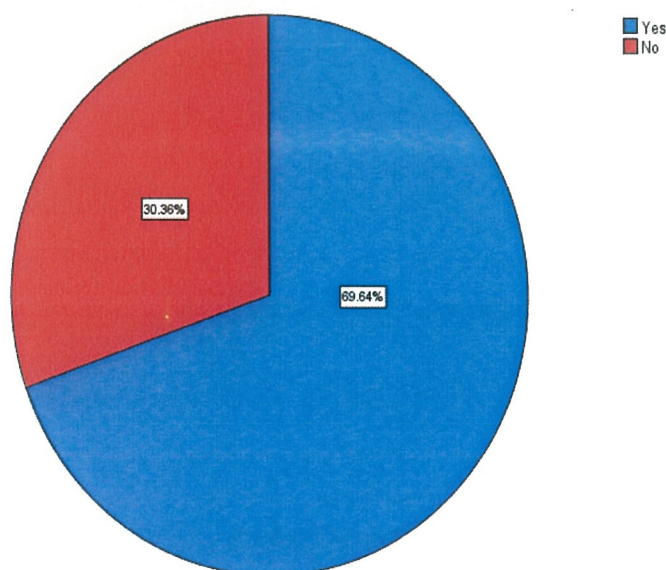
#### **4.4 The effects of Microfinances on business performance in Nakawa Division**

On the same study, the researcher examined the effect of microfinance on business performance by asking respondents whether the loans acquired always help them acquire sufficient inventory and asset, whether they are always able to purchase the equipment for business operations, the levels of sales volume and the significance of loans to the performance of their business.

##### **4.4.1 Does the loan help you to acquire sufficient inventory and increase your business asset**

The research revealed that the majority of respondents that is 70 percent said that the loans have helped them acquire sufficient inventory and increase their business asset and only 30 percent of the total respondents said that the loans have not been in a position to help. This has confirmed the study that there is a significant relationship between microfinance indicators and business performance as shown on the subsequent pie chart.

**Figure 4.1: Does the loan help you to acquire sufficient inventory and increase your business asset**



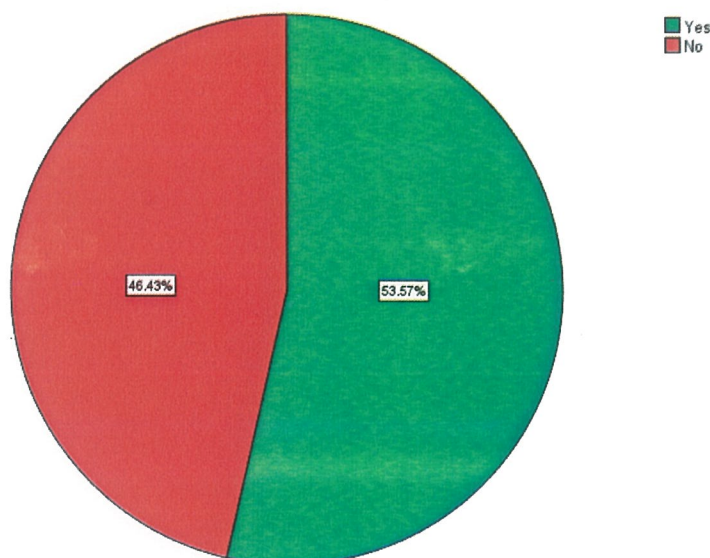
**(Source: Researcher 2018)**



#### 4.4.2 Are you always able to purchase the required equipment for your business operations from the loans.

It was also revealed that majority of the respondents said that they are able to purchase their equipment to run the business from the loans acquired and this shows that the loans have helped to improve on the performance of these people's businesses as shown on the pie chart below. A total of 54 percent of the respondents said yes and only 46 percent said no most especially those businesses that do not depend direct on the loans.

**Figure 4.2: Are you always able to purchase the required equipment for your business operations from the loans.**

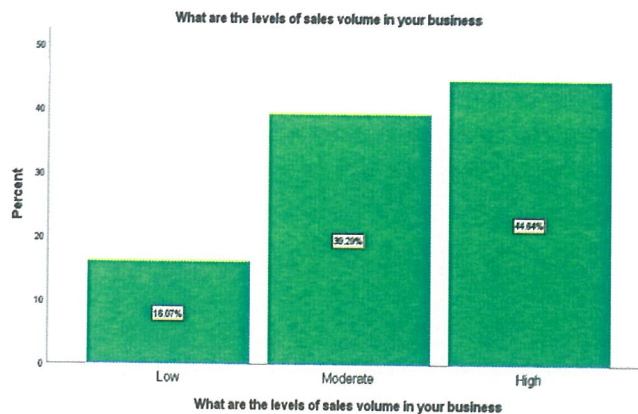


**(Source: Researcher 2018)**

#### 4.4.3 What are the levels of sales volume in your business

The study revealed that sales volume for most of the respondents were high as a result of loans and other facilities that they have access to a total of 45 percent of respondents reported high volume, followed by 39 percent for moderate and 16 percent said low sales volume as a result of loans acquired. This is shown on the subsequent graph.

**Figure 4.3: Are you always able to purchase the required equipment for your business operations from the loans.**



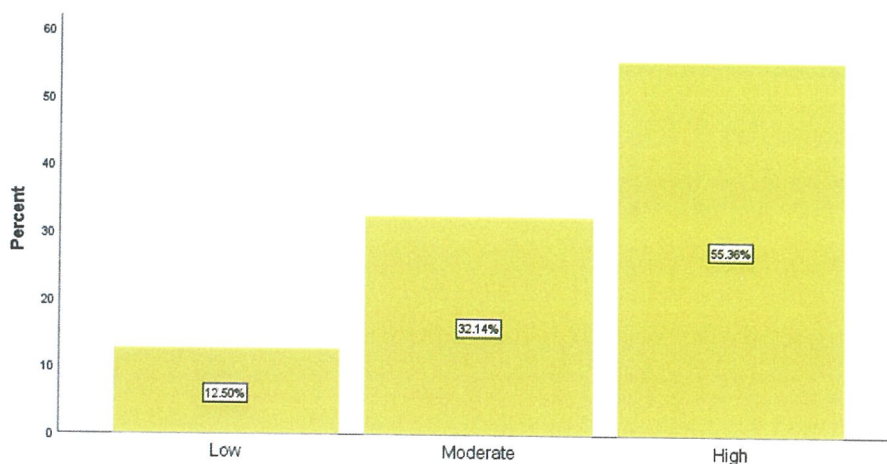
**(Source: Researcher 2018)**

#### **4.4.4 How would you rate the significance of the loans provided to your business performance.**

To find out the how big the businesses are, the researcher asked question on the size of the products that are sold and they were rated as low, moderate or high.

The majority of respondents stated high significance of loans to the performance of their business, followed by 32 percent on moderate and only 12 percent stated low levels most especially those who get money from money lenders or they do not plan for the loans they receive. This is shown on the subsequent graph.

**Figure 4.4: How would you rate the significance of the loans provided to your business performance.**



**(Source: Researcher 2018)**

## **CHAPTER FIVE**

### **DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.0 Introduction**

This chapter comprises of the findings, conclusions, recommendations and suggested areas for further research by policy makers and other researchers.

#### **5.1 Discussion of key research findings**

##### **5.1.1 Findings on bio data of the respondents collected in Nakawa Division Kampala District.**

The findings on the age of respondents indicated that the majority of were between the age of 31-40 years (48 percent), followed by 31-40 years (29 percent). The rest of the respondents were between the age of 18-30(16 percent) and 51 and above years (7 percent) respectively. In table 2 on the gender of respondents, the majority were females comprising of 57 percent and the rest were males comprising of 43 percent meaning that there are more females in Nakawa operating businesses than males while the highest level of education attained by these respondents was secondary education with 38 percent, followed by diploma with 34 percent and bachelor's degree with 23 percent while others mainly those who either did not go to school or stop in primary was 5 percent of the total number of respondents.

The research findings in addition indicate that the majority of the respondents had businesses which had lasted between 3-5 years (46 percent), followed by 6-8 years (34 percent). The rest had businesses that lasted 2 years below (11 percent) and 9 years and above (10 percent) respectively.

##### **5.1.2 The level of growth of Microfinance Institutions in Nakawa Division-Kampala**

The objective was achieved by subjecting number of questions to provide answers to the research questions derived from this objective. The questions asked aimed at finding how respondents would respond to the research objective. The analysis findings revealed the following results.

About receiving over draft facilities from banks, the mean was 3.2 which falls under rating 3 hence indicating that the respondents were satisfied that they always receive over draft facilities. In addition, on the acquisition of loans as being the owners of the businesses, saving money in mobile money instead of the bank, saving money because of interest earned and depositing money in the bank on a monthly basis all had means ranging between 2 to 2.9 indicating that respondents were satisfied with them. These are indicators of the level of growth of microfinance institutions and the extent of support being offered to businesses located in Nakawa Division.

However, receiving goods on credit, the love for the businesses owned and positive mentality and determination for business finances had ratings between 1 to 1.9 indicating that respondents were very satisfied with the statements showing that they strongly agreed with the changes being experience due to the existence and support from Microfinance Institutions in Nakawa.

### **5.1.3 The effects of microfinance on business performance in Nakawa division-Kampala district.**

The result of the data analysis on this revealed that 69 percent of the respondents stated that the loans they acquire are sufficient enough to increase inventory and business asset. This is an indicator of good performance of business. In addition, they also reported that the services most especially loans they get from finance institutions are enough for them to purchase the required equipment for their business. In regards to the volume of goods sold, the majority stated a high rate at 47 percent followed by 39 percent moderate and 16 stated low sales volumes. In looking at the rate of significance of the loans provided and business performance, a total of 55 percent stated high performance, followed by 32 percent moderate and only 12 percent stated low significance.

## **5.2 Conclusions**

From the findings of the study, on respondents' background information the researcher concluded that the majority of respondents in this sample were in the age group of 41-50 years; that there are more females than males in Nakawa division who have been assisted by microfinance institutions; that most of the respondents in Nakawa division are generally not well educated since they have secondary education as the highest level of education; that majority of respondents in this sample were not fully experienced in business since they are operating businesses that had lasted between the 3-5 years.

It can also be concluded that the growth level of Microfinance institutions in Nakawa division, are satisfied, this is shown by the overall mean of 2.37 which falls under satisfied.

## **5.3 Recommendation**

The researcher recommends to financial institutions to always provide loans to community members in rural areas to improve on their standard of living.

The researcher recommends to the Microfinance institutions to make sure that they provide loans to community members to invest in agriculture.

## **5.4 Limitations of the study**

**The following were challenges faced during the research study:**

- Most of the respondents were too busy, so less time was posed to the researcher.
- Some of the business men and women in Nakawa division were not willing to give out information due to lack of trust between the researcher and the respondents.
- Confidentiality, in that, there was some information not supposed to move out of the division to the researcher, this limited the research study.

- Some respondents were hesitant to give information since it does not benefit them, thus they needed to have some funds committed to them and there were transport costs that limited the study.

## **5.5 Areas for further research**

Prospective researchers are encouraged to research on the following areas;

1. Micro-finance institutions and rural development in Uganda
2. Microfinance institution and economic growth
3. Contributions of microfinance on African economy

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## **APPENDICES**

### **APPENDIX I: RESEARCH INSTRUMENT**

#### **SECTION A: BIODATA OF THE RESPONDENT**

##### **1. Age**

- a) \_\_\_\_18-30 years, b) \_\_\_\_31-40 years, C) \_\_\_\_41-50 years and d) \_\_\_\_51 years and above

##### **2. Gender**

- a) Male\_\_\_\_\_  
b) Female\_\_\_\_\_

##### **1. Level of education qualification**

- a) Secondary\_\_\_\_\_  
b) Diploma\_\_\_\_\_  
c) Bachelor's Degree\_\_\_\_\_  
d) Master's degree\_\_\_\_\_  
e) Others\_\_\_\_\_

##### **2. Number of years in business**

- a) Below 2 years\_\_\_\_\_  
b) 3-5 years\_\_\_\_\_  
c) 6-8 years\_\_\_\_\_  
d) 9 years and above\_\_\_\_\_

In the Preceding Sections, the respondent is required to follow the direction given below.

**Direction 1:** Please given below is the response mode and their rating to guide your experience and understanding of how to answer.

Kindly use the scoring system below:

Response Mode	Rating	Description
Strongly Agree(SA)	4	Very Satisfied
Agree (A)	3	Satisfied
Disagree (D)	2	Somehow dissatisfied
Strongly Disagree (SD)	1	Dissatisfied

## SECTION B MICRO FINANCE INSTITUTION

No.	Indicator	A			D
<b>A</b>	<b>Credit Facilities</b>				
	I always receive over draft facilities from my bank for my business				
	I always acquire short term loans for supplementing my working capital				
	I usually receive goods on credit from my suppliers and pay later				
<b>B</b>	<b>Business Advice</b>				
	I seem to be doing the business I truly love and what am good at.				
	I have positive mentality and determination for my business finances				
	The business I own or work for was executed from my personal ideas				
<b>C</b>	<b>Small Scale Savings</b>				
	I use mobile money to save part of my earnings instead of the bank				
	I save my money in the bank because banks give interest				
	I have deposited the money collected from my business in the bank monthly for the past one year				
<b>D</b>	<b>Business Ideas</b>				
	The success of this business is due constant support from my bank				
	I have learnt a lot of lessons and experience from my friends with similar business most especially financial in nature				
	I always attend business workshops and trade shows				

### SECTION C EXTRANEIOUS VARIABLE

NO	INDICATOR	SA	A	D	SD
<b>A</b>	<b>Market Knowledge</b>				
	Internet has helped me acquire new information for my business				
	I advertise my products on social media to create awareness				
	I receive almost new customers everyday				
<b>B</b>	<b>Level of Competition</b>				
	I can increase the prices of my products at my own will				
	My business is specialised on sale of one product				
	The existence of other business around my premises does not affect the size of my business profits.				
<b>C</b>	<b>Managerial Skills</b>				
	We employ only professionals in our business				
	We offer free transport and discounts to customers who purchase goods in large quantity.				
	The growth of this business is due to the good skills that we posses				

### SECTION D BUSINESS PERFROMANCE

No	Indicator	SA	A	D	SD
<b>A</b>	<b>Profit Levels</b>				
	I earn some normal profits to run this business				
	I earn more than enough profits because of less competition				
	My operating cost is sometimes higher than the returns				
<b>B</b>	<b>Sales Returns</b>				
	We only sell products in cash				
	We offer after sales services for our prime customers				
	Our returns are high because of business diversification				
<b>C</b>	<b>Job Opportunities</b>				
	We employ more capital than labour				

	We employ only people with some skills				
	We have not created any job since the business begun				
<b>D</b>	<b>Quality of Goods</b>				
	The loans we always receive fit the size of our business				
	We always labour to find out what our consumers want				
	We always charge our customers based on the value of products they purchase from us				

### ***SECTION E: THE EFFECTS OF MICROFIANCE ON BUSINESS PERFORMANCE***

1. Does the loan help you to acquire sufficient inventory and increase your business assets?

***a) Yes***

***b) No***

2. Are you always able to purchase the required equipment and machinery for your business operation from the loans acquired?

***a) Yes***

***b) No***

3. What are the levels of sales volume in your business

***a) Low***

***b) Moderate***

***c) High***

4. How would you rate the significance of the loans provided to your business performance

***Thank you so much for your time***

## APPENDIX II: RESEARCH BUDGET

The budget was estimated at **287,000/=** as illustrated below

S/NO	PARTICULARS	AMOUNT
1	Airtime	25,000
2	Transport	80,000
3	Hard cover Binding	32,000
4	Typing and Printing	120,000
5	Internet	30,000
	<b>TOTAL</b>	<b>287,000/=</b>

### APPENDIX III: RESEARCH TIME FRAME

Jan	Topic selection					
February		Literature & Research				
March			Proposal writing			
April				Corrections		
May					Data Collection	
June						Analysis & submission