COOPERATIVE MICRO LOANS AND INDIVIDUAL STANDARDS OF LIVING, A CASE STUDY OF KIHONDO SACCO BUNDIBUGYO DISTRICT

BY

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DECLARATION

I Biira Doreen, declare that the information presented herein is original and has never been presented and submitted to any institution of higher learning for award of degree. Therefore, this work is out of my intellect.

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APPROVAL

This research report under the topic "Relationship between micro loans and standards of living, a case study of KIHONDO SACCO Bundibugyo district has been done under my supervision and is now ready for submission.

MR. TWINOBUHUGIRO MEDARD

Signature:..

(SUPERVISOR)

Date.......02/10/2018.........

DEDICATION

This research report is dedicated to my dear parents.

ACKNOWLEDGEMENT

My sincere gratitude is accorded to the Almighty God for the gift of life that he gave me throughout my studies.

Am deeply indebted to myresearch supervisor, MR. TWINOBUHUGIRO MEDARD for his patience with his inadequacies as he guided me throughout the research process. Without his parental and professional input, this research would have been difficult to elevate to its current level.

I also acknowledge the authors whose works have been referenced in this study.

Last but not least, I the researcher acknowledge the contributions of my parents, siblings, relatives and friends for their support financially and emotionally during the course of my study.

LIST OF ACRONYMS

AMFIU	Association of Microfinance Institution of Uganda.
ESC	Entandikwa credit Schemes.
MDI	Micro finance Deposit Taking Institution.
MFI	Microfinance Institution
MFPED	Ministry of Finance, Planning and Economic Development.
MLS	Micro loans
PAP	Poverty Alleviation Program
SOL	Standard of living.
UN	United Nations
UNBOS	Uganda National Bureau of Statistics
YES	Young Entrepreneurs Scheme.

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ABSTRACT

The research report was entitled "Cooperative Micro Loans and Individual Standards of Living, A Case Study of Kihondo SACCO Bundibugyo District". The study resaech was guided by the following research objectives; to determine whether poor people improve standards of living through accessing micro loans, to explore benefits of accessing micro loans on the standard of living of poor people and to determine challenges faced by borrowers. The researcher used both open and closed ended administered questionnaires in order to obtain first-hand information. The open ended questions was used because it saved time, helped the researcher to easily compare the responses from different groups, permit greater depth of response. Closed questions, the researcher used closed questions because they were economic to use in terms of money and time and were also easy to administer since each item was followed by alternative answers. From the field study respondents revealed that accessibility to credit facility gives chance to borrowers to start business by accessing business loans. These respondents were in agreement with,(Bajwa. 2001) who elucidated that easy accessibility to credit facility from a micro credit institution enables the borrowers to engage in businesses that can increase their productivity and ownership of assets. Basing on data from the field the researcher concludes that accessibility to credit facility is a tool for improving the standard of living of people, if used well for the intended purpose by the borrowers because most of the respondents who said that they had used the loan for the intended purpose said that they had improved their standard of living through various ways such ways such as attainment of basic needs, construction of houses, expansion of their businesses, taken their children to school. Therefore if all people most especially the poor are given the chance to access credit facility and when the interest rate is user friendly the researcher believes credit facility can improve standard of living and the general welfare of all people at large if used well. The researcher further recommends that the time financial institution such as SACCOS and micro finance institution take to process loans should be reduced because clients go to access loans after planning for what to do with the funds but at times they are delayed hence this affects clients in repaying the loan back because they end up using the loan not for the intended purpose they borrowed for due to the delays caused by financial institutions.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter presents the back ground of the study, problem statement, purpose of study, objectives, research questions, significance of the study, scope of study and conceptual frame work.

1.1 Background to the study

1.1.1 Historical perspective

Micro loans are small loans granted to the poor and low-income, on the basis of the borrower's cash flow and other loans granted for their microenterprises and small businesses to enable them to raise their income levels and improve their living standards. These loans are typically unsecured but may also be secured in some cases. Robinson (1998) has defined microfinance as an organization that grants or provides financial services and products such as very small loans, savings, micro-leasing, microinsurance and money transfer to assist the very or extraordinarily poor in establishing Loans are defined as funds lent for borrowers temporary use. A loan refers to a sum of money that alender gives to the borrower for a certain period of time and the borrower makes a commitment to repay the money with interest (AMIFU,2008). Micro loans is the extension of very small loans to un employed small entrepreneurs and others living in poverty who are not bankable (Daley,2002). Micro loan is defined as a loan provided to the poor free of collateral (the only collateral is the peer collateral) through institutionalized mechanism. This loan is made available as and when needed at the door step of a client (Bajwa,2001).

The origins of micro loan in its current practical incarnation can be linked to several organizations found in Bangladesh, especially the Grameen Bank .The GrameenBank, which is generally considered the first modern micro credit institution, was founded in 1976 by Muhammad Yunus.Yunus began the project in a small town called Jobra, using his own money to deliver small loans at low interest rates to the rural poor. His first loan consisted of $27 from his own pocket which he lent to a woman who made Bamboo furniture, which she sold to support herself and her family. However, traditional banks were not interested in making tiny loans to the poor people who were considered poor repayment risks.Grameen bank was followed by organizations like BRAC in the 1972 and ASA in the 1978. Micro loans reached Latin America with the establishment of PRODEM in Bolivia in 1986, a bank that later transformed in to the for profit Bancosol (Armendariz, et al 2005). Micro loan quickly became popular tool for economic development, with hundreds of institutions emerging throughout the third world. Though the Grameen Bank was formed initially as a non- profit organization dependent upon government subsidies, it later became a corporate entity and was renamed Grameen 11 in 2002. In 2006 MuhammadYunus was aawarded the Nobel prize for his work of providing micro loan services to the poor.

Micro loan is now widely used in Africa, where among its pioneers is Care International UK, Barclays partner in developing financial services while Grameen Bank is an institution that makes rigorous demands on its borrowers. New borrowers sign up groups to the 16 Grameen decision "(a range of pledges on everything from vegetable growing to no dowries). Care International builds on traditional village savings and loans association where a group saves a small amount each month and lends it out for immediate needs at high interest rates. At the end of each year the VSLA's account is reckoned and profits paid out to investors before the group reforms. It is small scale finite and an important tool in helping very poor people meet daily challenges such as the un foreseen medical bills, or an item of school uniform .At its lowest level micro finance sees people through the worst times, it is a form of insurance of pooled risk among a group villagers or neighbors where repayment is high because the borrowing is from friends and acquaintances. Dropout rates in East Africa have been as high as 60%, although they are much lower than in Bangladesh where Grameen programs which operates in a more intensively structured manner, (Anna,2013).

Uganda is one of the poorest countries in the world. In 2007, per capita income was about US$340 per annum, life expectancy at birth was around 50 years and its population growth at about 3.2 percent, remains one of the highest in the world. According to the World Bank World Development Indicators of (2002), 55% of the Ugandan population lives on less than $2.00 per day,(World Bank, 2007).

Here in Uganda formal micro loans started in the late 1980s through the foreign funded NGOs and during the 1990s Government developed interest in this sector and actively participated in loan delivery through a number of programs such as Entandikwa credit Scheme(ECS), and Young Entrepreneurs scheme (YES) from 1993-97 and Poverty Alleviation Program(PAP) from 1994-98. Although these programs had noble objectives of providing seed money for the beneficiaries to undertake sustainable development activities, they were grossly misused, misdirected and had little or no impact,(AMIFU,2008).

In the last few years, it has become evident that there are high interest rates prevailing in Uganda on borrowing from financial institutions and banks. This has had a direct impact on the people's welfare because the contraction of credit availability and loss of borrowing opportunities perpetuates negative effect,(Ahimisibwe,2010).

1.1.2 Theoretical perspective

The research based on Neoclassical economic theory. Neoclassical 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 behavior: opportunities (or constraints) and individual preferences (Pollak 1998). Preferences are generally assumed to be stable and exogenous (e.g., unaffected by opportunities and constraints). Many economic models also assume that individuals have perfect knowledge and access to perfect markets. Individual utility (i.e., 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.

The Keynesian theory assumes a close economy and a perfect competitive market with fairly price- interest aggregate supply function. The economy is also assumed not to exist at employment equilibrium and also that it works only in the short run because as Keynes aptly puts it '' In the long run, we also will be dead''. The Keynesian theory is rooted on one notion of price rigidity and possibility of an economy setting at a less than full employment level of output, income and employment. The Keynesian macro economy brought into focus the issue of output rather than prices as being responsible for changing economic conditions. In other words, they were not interested in the quantity theory per say. From the Keynesian in the mechanism, monetary policy works by influencing interest rate which influences investment decisions and consequently, output and income via the multiplier process. Thus, the Keynesian theory is a rejection of Say's Law and the notion that the economy is self-regulating.

Micro theory has undergone a vast and complex evolution since the study of the economic phenomenon first came into limelight. It has drawn the attention of many researchers with different views on the role and dimensions of money in attaining macroeconomic objectives. Consequently, there are quite a number of studies aimed at establishing relationship between micro and small scale enterprises and employment.

In Uganda, the level of unemployment has both economic and social implications. From the economic point of view, the overall unemployment rate remains one of the key measures of Uganda's economic performance. However, the unemployment rate is not only of economic implications but of social significance as well since it is also a key variable in accelerating poverty. Development cooperation report (2004/2005).

1.1.3 Conceptual perspective

Micro loans are the money got from among the group members and rise a certain amount of money to begin small and medium business. The micro and small scale enterprises are used by the group of people who stay and keep together to collect money that is shared and or given to the group members to improve their incomes. The role of micro and Small scale businesses in boosting the economic growth of a country cannot be underestimated. SSBs are seen to be the largest employer of workers. Initiatives have been undertaken to promote SSBs by various governments. In 2005, the Growth and Poverty Reduction Strategy (GPRS II 2006-2009) reported that the private sector competitiveness should be promoted in order to direct the economy towards achieving middle-income economy by 2015.

According to the World Bank/ IMF'S Annual Business Report in 2008, Uganda was ranked in the top ten global reformers for two consecutive years in 2006 and 2007. This rankings is based on the diversified nature of state-owned enterprises and the increasing number of private businesses. As stated earlier, report from the National Industrial Census (NIS) concluded that approximately 70% of industrial establishments are in the sector of SSBs which contributes to 22% of GDP as well as accounting for nearly 92% of businesses in Uganda. Various private and public institutions with the aim of serving as a catalyst to SSBs growth have been established. These institutions provide assistance to SSBs comprising of entrepreneurship development, training, good management advisory services, placing emphasis on the usage of made in Uganda goods and protection of their interest.

The broad picture that emerges from the various surveys of micro and individual standards of living "strongly suggest that business owners in the rest of the world view access to financing as a significant problem for business activity" (Turner et al, 2008: 15), i.e. that there might be a "financing gap" despite the various public and private sector initiatives to facilitate access to financing. Respondents to the Scope Small Business Survey (2010), however, when asked to identify the single most significant obstacle to growth, access to finance ranked third with 8.7% of small business owners citing the lack of access to finance as a reason. Credit financing was measured in terms of collateral, loan period, loan repayment schedule, interest rates and loan size, where as the dependent variable was measured in terms of return on capital employed, net profit margin, capital size and employment of people.

1.1.4 Contextual perspective

The Ugandan private sector has three main leading sectors in it. These are sub-sector of agriculture, sub-sector of industry and sub- sector of micro- business. The micro business sub-sector is the component of the Ugandan economy about which least is known. Wheelen and Hunger (1998), a micro business enterprise is an independently owned and operated, not dominated in its fields and does not engage in innovative practices.

According to the World Bank's Global Findex, only one-third of the adult population had an account with a formal financial institution as of 2011, while the most recent FinScope survey of Uganda from 2008 shows more than half of the Ugandan population as financially excluded. Both surveys indicate that when compared with the rest of East Africa (Kenya, Uganda, Tanzania, Burundi), Uganda was second to only Kenya for the percent of the population financially served. For the 2008 survey, more than half of those participating in financial services did so through informal arrangements. However, formal banking services are expanding with new clients and new products (Global Findex results for Uganda, 2009).

SACCOs, on the other hand, are a more informal type of institution with a particular focus on reaching poor clients in rural areas. Unlike banks and MFIs, Kampala actually has the fewest SACCO members and the lowest member savings of all provinces. The Central Bank is mandated to supervise SACCOs nationwide and has created a grassroots savings mobilization scheme called Ikongo SACCO. SACCOs are recognized as widely accessible and have been a fundamental part of the expansion of the provision of financial services to rural areas. The Minister of Trade and Industry, Francois Kanimba, expressed optimism regarding the recent healthy growth of Ikongo SACCOs. He stated that it will translate into rural financial inclusion, increase credit needed to support rural-based micro businesses and projects, and play a key role in the support of the agricultural industry. In fact, Ikongo SACCOs triggered increased credit extension to rural based agro-business agro-businesses to UgX5.2 billion (US$8.7 mil) by November 2011 from UgX 818 million (US$1.4 mil) in 2010 (Global Findex results for Uganda, 2009).

Micro loans are part of an informal sector which helps to fill the gap of slow growth of the informal sector in the development of the country.There is no Universal definition of MSE (Opio, 2006), MSE, definition depends on the number of employees, business turnover, assets and may vary from one economy to another.

As for Uganda's case, it is based on the number of employees because this is a paucity of comprehensive data on enterprises turnover and assets. Small scale enterprises employ more than four workers but less than nineteen workers, medium enterprises employ more than nineteen workers but less than one hundred workers and the large enterprises employ more than one hundred workers.MSE make up 67% of Uganda's business sector and if we add the micro businesses which employ less than 5 people, it becomes 99% (Uganda Bureau of Statistics, 2007).

Corporative Micro loans and individual standards of living play a big role in the economy especially in the developing countries like Uganda. That is, they provide employment breeding ground for innovation in all sectors of the economy like the agriculture, mining and others, MSE however much they have contributed to the economy, the growth is still slow.

1.2 Problem statement

Here in Uganda formal micro loans started in the late 1980s through the foreign funded NGOs and during the 1990s Government developed interest in this sector and actively participated in loan delivery through a number of programs such as Entandikwa credit Scheme(ECS), and Young Entrepreneurs scheme (YES) from 1993-97 and Poverty Alleviation Program(PAP) from 1994-98,(AMIFU,2008).KIHONDO SACCO has 450 members it is providing financial services to, it disbursed Ugx.120,853,000 in 2016 and the outstanding loan portfolio as at 31 DEC 2016 was Ugx.52,113,600 and the number of borrowers in 2016 were 330 clients.Despite the access of credit facility by people from KIHONDOSACCO the standard of living is still low, and so this prompted the researcher to assess if there is relationship between micro loans and standard of living of people.

1.3 Purpose of study

The purpose of the study was to assess the relationship between micro loans and standards of living of KIHONDO Sacco clients.

1.4 Research Objectives

1. To determine whether poor people improve standards of living through accessing micro loans.

2. To explore benefits of accessing micro loans on the standard of living of poor people.

3. To determine challenges faced by borrowers.

1.5 Research Questions

1 Do poor people improve standards of living through accessing micro loans?

2. What are the benefits of micro loans on standards of living of people ?

3. Whatare the challenges borrowers face?

1.6 Scope of the study

1.6.1 Geographical scope

The study was conducted at KIHONDO Sacco located in Hoima municipality,Hoima district behind centenary bank along kafu road kolping building.

1.6.2 Content scope

The study covered only KIHONDO Sacco clients in order to assess the relationship between micro loans and standard of living.

1.6.3 Time scope

1.7 Significance of the study

1. This study will provide a better understanding to micro finance operations and how it is related to standard of living.

2. It will contribute to the body of knowledge and existing literature for future researchers with interest in micro finance.

3. This study will benefit policy makers and users of micro credit since it will have looked at operations of the MFIs and suggested possible areas of improving and maintaining.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter contains the literature about relationship between accessing credit facility and standard of living,benefits of accessing credit facility, challenges faced by borrowers.

2.1 Theoretical review

2.1.1 Neo-classical growth models

This theory emphasizes the importance of saving in order for a country's economy to grow. Todaro et al. (2003) found out that one of the main constraints for poor households in developing countries is the lack of access to financial services, which is a consequence of poorly developed financial markets and commercial banks tending to offer their services almost exclusively to medium and large companies that are thought to be credit worthy. Hence, implying that the accumulation of capital is hampered and the growth of the country's economy is restrained.

2.1.2 Welfarist theory

The Welfarist theory focuses on credit as a tool of reducing poverty. According to Robinson (2001) credit is provided to poor borrowers at below market interest rates in order to reach the extremely poor to help overcome poverty and empower them. The performance of the Microfinance institutions are measured through household studies with focus on the number of saving accounts, number of loans, productivity improvement, incomes, capital accumulation, social services such as education and health as well as food expenditures. (Congo, 2002).

2.1.3 The institutionist theory

This theory focuses on creating financial institutions which serve clients who are underserved by the formal financial institutions. The aim of this theory is to achieve institutional self-sufficiency. The theory, suggest that the Micro financing Institutions should operate according to the conditions of the market, where by high interest rates are charged due to high costs in order to operate in a sustainable manner. (Elsa and Stina, 2006).

2.1.4 Empowerment Theory

The empowerment theory has a more bias view since it advocates for empowerment of women. Proponents of the theory argue that women account for nearly 74 percent of the 19.3 million of the world's poorest people who are being served by microfinance institutions. Most women are able to access credit in order to invest in businesses that they own. Most of them have good credit history, in spite of the challenges they face,hence they have come out strongly to show that it is a good idea to lend to the poor (Cheston and Kuhn,2002).

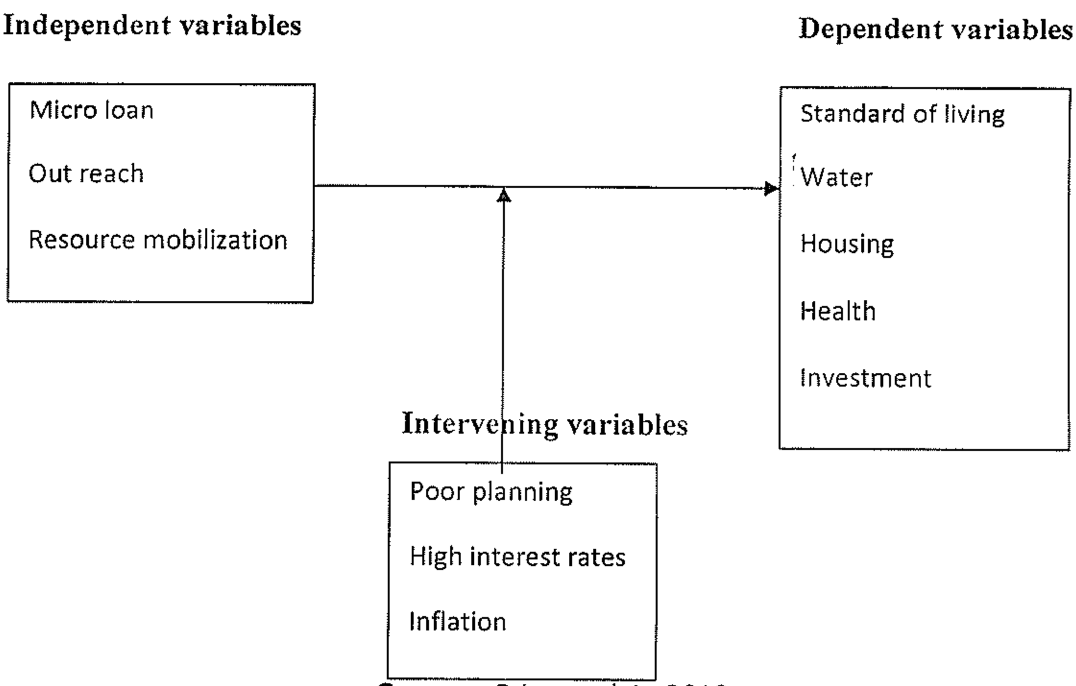
2.1.5 Uniting theory

This theory advocates for joint liability in the repayment of microfinance loans. The aim of this theory is to improve repayment rates and the welfare of credit-constrained borrowers. In joint liability, when one borrower cannot repay a loan, group members are contractually required to repay for one of their members if he or she defaults to pay for his or her monthly installment. Borrowers believe that if a group member defaults, the whole group will not be allowed to access future loans even if the lending contract does not specify this punishment (Ghatak and Guinnane, 1999).

2.2 Conceptual Review

According to UBOs (2003), the informal sector is that sector which comprises of all sorts of small and micro businesses usually with self-employed activities, with or without hired labor. They operate with low levels of organization, low capital and low technology and often on temporary basis. The informal sector is gaining prominence in Uganda and according to UNHS (2005/06), about 2.2 million households operated a non-crop farming informal businesses employing about 4.4 million people.

2.2.1 Conceptual Frame work



Source: Primary data,2018

Micro and small scale enterprises have been widely described by various researchers. According to Burns (1998), a Micro and small scale enterprise is defined as that enterprise that employs 1 to 10 people and is managed by its owners or part owners in a personalized way and not through the medium of a formalized management structure. The owner has overwhelming influence of the firm and his views determine activities of the organization.

In support of the above view, Balunywa 1998 says that small scale enterprises are usually sole proprietorships, which are legally owned by one person, who controls the business and they have unlimited liability, where it is difficult to separate the owner from the business.

However, Arteetey (2000) adds that Micro and small scale enterprises are those enterprises that employ one to twenty (1-20) people largely operating locally, and depend on internal resources of capital. They range from manufacturing, retail trade, and construction to commercial services.

Empirical evidence indicates that small scale enterprises find it very difficulty to diversify their risks, have divergent financial constraints, are very vulnerable to losing their customers and the risk of failure is very high (Murphy 1990).

In Uganda small scale enterprises have been separated into broader categories of micro-enterprises and small enterprises. Micro enterprises are defined as those employing less than five people, often family members, while small scale enterprises are those that employ a maximum of 50 people (Kloot.L 1999) however, notes that this distinction is not fixed as businesses often move from one level to another.

But In a report by Ugadev/Accord (2000), small scale enterprises were defined as enterprises whose investment in plant and machinery does not exceed $10000 and whose number of permanent employees is less than 10 people, however, O'mara.C. et al 1995, In study of medium sized manufacturing firms found that ownership and the size of the organization had an impact on the performance of the organization. He found out that as a firm increased in size in terms of stock, sales, level of assets and more skilled employees, economies of scale in creating a positive impact on performance and employment of creation.

Research depicts that like any other business, the financial decision is the one of the most crucial decisions for most small scale enterprises. Dixon J.R (1990), argues that the financial decision of any business is vital determinant of its performance and directly affects other decisions of the business like the investment decisions and working capital decisions as well as employment creation decisions. However, I agree with the findings of a report by Ugadev/Accord (2000) hence we can conclude that for the purpose of this research, small scale enterprises are those enterprises employing 1-10 people, as these are the ones that are trying to reduce fundamentally on unemployment problem.

2.3 Review of related literature

The term micro loan was first introduced in 1990 with the specific connotation of encompassing microcredit and micro savings as well as other financial services, in response to Robert Vogel's claim that savings were the forgotten half of rural finance. While the term is new, the concept is old if not ancient, with institutional origins for instance in European countries in the 18th and 19th century, Nigeria in the 16th century and India around 1000 BC (Sygenta, 2007).

The Sygenta Foundation (2007) indicates that microfmance is that part of the financial sector which comprises formal and informal financial institutions, small and large, that provide small-size financial services in theory to all segments of the rural and urban population, in practice however mostly to the lower segments of the population. This bias is partly due to self-selection of clients and partly to the mandate of institutions according to the will of their owners or donors. Worldwide formal and semiformal Rural Micro financing Institutions (RMFIs) are in the hundreds of thousands; informal institutions are in the tens of millions. Sustainability is nothing new; without it the large numbers of informal MFIs could not have survived.

Microfinance institutions can offer their clients, who are mostly men and women who are slightly below or above the poverty line, a variety of products and services. The most prominent of their services is financial, that they often render to their clients without tangible assets and these clients mostly live in the rural areas, a majority of whom may be illiterate. Formal financial institutions do not often provide these services to small informal businesses run by the poor as profitable investments. They usually ask for small loans and the financial institutions find it difficult to get information from them either because they are illiterate and cannot express themselves or because of the difficulties to access their collateral (farms) due to distance (CIDA, 2002).

2.4 Empirical review

Sengsourivong (2006) conducted a study on the impact of microfmance on Household welfare in Lao. The research was a case study of a savings group in Lao PDR. The study was carried out on understanding that the government of Lao considers microfmance as the main strategy towards improving household welfare. The study was conducted in six villages in a semi urban area of Laos between 2005 and 2006. The villages had savings groups that had been in operation for some period of time. The study included members of the savings groups and non-members as respondents for the study. The findings indicated that there was an increase in household income, expenditure, and education expenses for the households participating in the saving group programme.

Tilakaratna (2005) also conducted a study on the impact of Microfinance in Sri - Lanka. The study was an analysis of outreach of microfinance and impact on poverty in Sri- Lanka. The study found out that microfinance in Sri-Lanka has a wide outreach to low income people. It was also established that microfinance has assisted the poor people to smooth their income and expenditure. It was also clear that even though microfinance is meant to assist the poor, majority of those who had positively benefited from microfinance were non poor people from Sri-Lanka.

The ADB (2007) carried out a special evaluation on the effect of microfinance operations on poor rural households and the status of women. The main objective of evaluation study was to assess the extent to which selected Asian Development Bank (ADB) microfinance projects have reduced the poverty of rural poor households and improved the socioeconomic status of women in developing member countries. Bangladesh, Philippines, and Uzbekistan were selected for the study, representing three of the five operational regions of ADB. The projects selected for in-depth review were: Rural Microenterprise Finance Project in the Philippines; Participatory Livestock Development Project in Bangladesh; Second Participatory Livestock Development Project in Bangladesh; Rural Livelihood Project in Bangladesh; and Small and Microfinance Development Project in Uzbekistan. The results of the evaluation study show that the availability of microcredit loans had positive and mildly significant impacts on the per capita income of the beneficiaries. The income of those that received microcredit loans increased compared with those that did not receive a loan (ADB, 2007).

Nghiem et al., (2007) conducted a quasi-experiment survey on the welfare effects of microfinance in Vietnam. The study analyzed the effects of microfinance programs upon household welfare in Vietnam. Data on 470 households across 25 villages was collected using a quasi-experiment survey approach to overcome self-selection bias. In the study's econometric analysis, the welfare effects of microfinance are substituted using measures of household income and consumption. The empirical results indicate that participation in microfinance has a positive effect upon household welfare, with the size of the effect increasing at a decreasing rate as a household spends more time in the microfinance program.

Another study was also carried out by Kondo et al., (2008) on the impact of microfinance on rural households in the Philippines. The study established that the impact of the availability of microfmance loans on per capita income is shown to be positive and marginally significant. This is also true for per capita total expenditure and per capita food expenditure. But it was also found that this impact is insignificant for poorer households and becomes only positive and increasing with richer households. It was also established that microfmance kept clients economically active with more enterprises and more employees. The study recommended that for microfmance to be an effective poverty-alleviation tool there is a need to review targeting procedures to know whether these are correctly identifying the intended beneficiaries.

Mahjabeen (2008) conducted a study on the micro financing in Bangladesh. The objective of the study was to assess the impact on households, consumption and welfare. The main findings of the study indicate that MFIs raise income and consumption levels of households reduce income inequality and enhance welfare. This implies that microfinance is an effective development strategy and has important policy implications regarding poverty reduction, income distribution and achievement of millennium development goals.

2.5 Relationship between credit facility and standard of living

In many rural areas of developing countries, lack of access to formal financial services has been seen as a sever constraint that prevents low income households from improving their income/welfare,(Diagne et al, 2001).

Mohammad, 2001 observed that over 500 million poor people in developing countries with small businesses have often cited limited access to formal financial institutions for credit as the biggest challenge to their business growth. With the success of Grameen bank a micro loan institution in Bangladesh where the low income households have been able to access loan and as a result their standards of living improved, accessing micro loans by the poor is therefore a viable option for the poor to use while improving their welfare.

The accessibility to credit is all aimed at improving the household incomes of the poor people .The accessibility to loans by the poor people enables them to mobilize capital which supports them in starting businesses .this leads to increased productivity and ownership of assets which eventually improves their household incomes. Theaccessibility to loans is made easy by the credit institution s defining their credit limit which refers to the amount of loan that an institution is willing to give out to the potential borrowers (maximum and minimum).it is a determinant in assessing loans by the potential borrowers since most often they know their credit needs better than anybody else,(okurut,2004).

A borrower knows in advance what he or she is able to assess because of this borrowers can always plan well in advance on how best they want to assess the credit,(diagne, et al, 2001).

It further enables the credit institution to know how much money and borrowers it can give out at a particular timethis planning translates into improving standards of living and householdincome. Loan limit enables the institutions to be more realistic in setting out its target towards potential borrowers assessing credit,(AMFIU,2008).

According to Mohammad, (2001) developing countries and donors have intensified resource mobilization in order to boast the activities of the micro credit institution. This is done through allocating more funds to the activities of MCIs,looking for grants and encouraging household to start saving. Increased activities of MCIs have helped the poor people engage in business that enable them to save and live good life.

CGAP, (2003) observed that effective resource mobilization by micro credit institution require reasonable levels of credit needs projection for the potential borrowers.

Micro credit institutions increased resource base enables the borrowers to access credit easily, (Robinson, 2001).The easy accessibility to credit from a micro credit institution enables the borrowers to engage in businesses that can increase their productivity and ownership of assets,(Bajwa,2001).Otero,(1999)noted that micro credit institutions with limited resources affect the borrowers chances of accessing credit since the funds might be limited or not available at the time borrowers need it.

It is therefore crucial for a micro credit institution to successfully mobilize resources if borrowers must continue accessing credit. For this to have an impact on the target groups the resources mobilized should be tilled towards benefiting those who are saving. Savings by potential borrowers creates a sense of responsibility in them as they know how hard it's to put money together for an activity,(Delay,2002).

Micro credit institutions do improve standards of living .if they reach out to target population through knowing and reaching out to potential borrowers, when the MCIs reach out to the potential borrowers, it becomes easy for them to get credit and later engage in businesses which will improve the household'sincome,(Binswanger et al 1995).

According to Rodrigues (2000) one of the important ways of improving standards of living is through providing appropriate credit opportunities to the poor which will enable them engage in productive activities and generate income.

Loan portfolio of a micro credit institution is considered to be the most important asset, income earner and the largest source of potential risk,(AMFIU, 2005).

The micro credit institutions have come up to micro credit services to the poor, the marginalized and the deprived, with the main focus on women living below the poverty line. This is done through encouraging women to join groups and identify businesses that can easily enable them access credit,(Muhammad,1999).

Sawyer,(1995) noted that, it is essential for the lender to take active interest in the borrower and monitor his continuing ability to repay the debt which has a direct relationship with the institutions loan portfolio and eventually eases accessibility to credit.

The total worth of the credit institution in regard to the funds available to the potential borrowers is a critical factor in enabling borrower's access funds. Loan portfolio of institution shows how much capacity in terms of money they have and can handle. Micro credit institutions with a good loan portfolio will most often serve its potential borrowers since most of the time they have funds of credit,(AMIFU, 2006).

Also AMIFU,(2008) puts it that strict monitoring of the quality of loan portfolio of any MCI is crucial for its viability and sustainability.

Yunus,(2001)noted that outreach is the social value of the output of a micro credit institution in terms of depth, quality and worth to uses, breadth, length and scope. If these are fulfilled it is easy for the poor people to access credit as a result. When micro credit institutions go near to the target groups with flexible terms in regard to credit the borrower's find it easy to access credit.

The poor have started small businesses with a clear direction on how it can help them improve on welfare. Micro credit institutions have their main objectives as improving the social – economic conditions of the poor people's families through increasing their access to credit,(Daley,2002).

2.6 Benefits of Accessing Micro Loans

It is believed that access to micro credit boosts income level, increases employment at house hold level and there by improves standards of living, (Robinson,2001).

Micro loans enable poor people to smooth out their consumption patterns during the lean period of the year after they have received the loan. By so doing credit maintains the productive capacity of the poor households,(Binswanger el at, 1995).

The benefits of micro credit are ambiguous. Its effects on savings and consumption depends on how long it takes for the project returns to be realized and on how patient the household is, on how much utility they obtain from current rather than future consumption. If the households borrow to consume today or to invest in projects that will generate immediate return, then we will observe an increase in consumption. But if they borrow to invest in projects with delayed returns, be it an enterprise or education and health, then we may observe a decrease in consumption as well as an increase in short term investments, (Banerjee et al 2010).

Micro loan access enables a person to strength a sense of dignity through provision of material capital and this empowers the person to participate in the economy and society at large,(Yunus,2001).

Micro finance interventions such as access to micro loans has shown to have a great positive impact on the education of client's children. One of the first things the poor people do after accessing new income from micro enterprise activities is to invest in their children education. Studies show that children of micro finance clients more likely go to school and stay longer in school than for children of non clients, (Littlefield el at, 2003).

Micro credit institutions provide loans which leads to self employment and business services to the poor people. It has enabled them to get rid of poverty and improve welfare,(micro credit summit,2004).

According to Robinson, (2001) access to micro loans leads to an enhancement in the quality of life of clients, an increase in their self confidence and has helped them diversify their livelihood security strategies and their by increase their income.

By empowering low income households financially through micro loans. The micro enterprises run by low income households provide employment to many un employed people thus improving their lives as well as those of their immediate dependants,(Yunus,2001).

Bagchi et al,(2002) indicates that micro finance loans have the ability to the level of education for the participating households that utilize micro finance loans is also improved by this facility.

Robinson,(2001) asserts that access to micro finance loans assist low income households to improve enterprises and household management, increased productivity, smoothens income flow of households, enlarges and diversifies their micro enterprises as well as increase their income .

The micro loans obtained from the micro finance institution assist the poor household to run their micro businesses and smoothen their consumption. By giving micro finance loans to the poor it assists them in bridging the financing gap that is created by convectional banking institutions that require collaterals of huge value, (Diagne et al, 2001)

Theoretically, credit increases income of households and as income of household increases more resources are available for expenditure, savings, and investment in assets. Studies have shown micro credit improves capacity to cope with economic difficulties because there is a positive influence of micro credit on well being of those accessing it,(Hoque, 2008)

According to UN report, (2005) micro finance loans assists household to expand small and medium enterprise thus propelling the growth of micro enterprises but also fueling the expansion of suppliers and vertical infrastructure needed by larger businesses.

2.7 Challenges faced by borrowers

Rejection at the first stage, many of the micro loan applications do not pass even the first test. They are out rightly rejected due to incompatibility between the borrower's qualifications and lenders requirements. It could be at the age criteria, income criteria, proper documents not being submitted, the bank not being able to verify your detail properly, not passing the field investigations conducted by the bank, (Okurut,2004).

Processing fee not refunded and financial institutions requirements require 0.25% to 1% of the loan amount to be submitted as the processing fees. This processing fee is generally not refundable. In simple words this means that for whatever reasons, if the MFI finds that you don't deserve the loan, these fees won't be returned. This is the cost of applying for some micro loans. If in any case, the bank doesn't sanction you the home loan, it is better to get any such declaration in writing and make sure that the clause is enforceable, (mohammad,2001).

Many borrowers are required to secure their loan with collateral. This collateral is typically the borrower's owners' home or property. If payments are not made after accessing the loan, the loan holder risks losing his/her home,(Valadez et al ,2012).

According to Ahimisibwe,(2010) whether to go for a fixed rate or floating rate interest for micro loans is a dilemma which almost every loan borrower faces. Even after deciding on a particular loan regime, the loan terms and condition fine prints can create havoc with your interest rate.

Bank loans are very difficult to obtain unless a client has a substantial track record or valuable collateral such as real estate. Banks are careful to lend to people that can clearly repay their loans, and they also make sure that they are able to cover losses in the event of default. Borrowers are required o provide personal guarantees, which means that the borrower's personal assets can be seized in the event of failure to repay the loan, (John,2013).

The title deeds and documents have to be furnished in the financial institution's format and borrowers who don't provide such documents in proper format, will ruin the entire exercise and won't get access to micro loan,(Bagchi et al 2002)'.

According to valadez, (2012) some MFIs require down payment and the borrower to fund at least 10% to 20% (varying from bank to bank) of the entire loan amount as the down payment for the loan. This amount has to be deposited before the disbursal of the loan. In the absence of such down payment the bank will refuse to access a loan to the borrower. This amount must be readily available with the borrower.

The bank has itsown experts for legal, technical and financial appraisal of the property in question. It evaluates the property on its own established parameters and assigns a value to it. This value can be significantly lower than the price you quoted for the property. Thus the bank will only lend you up to the amount it valued. This can cause a significant gap between what you need and what the bank is willing to lend.(Hermes et al,2009).

2.8 Conclusion

Most studies have linked microfinance with positive impact on household welfare. This explains the reason why it is gaining popularity in most countries as one of the strategies of uplifting household welfare. However, there are also negative effects of the same. Some recipients of microfinance loans have indicated that the loans were used for consumption instead of directing the funds to income generating activities. Loans are also taken from one lender to repay another thus creating a vicious circle. The loans have also left most women in abject poverty especially where they have been used as conduits by male counterparts who run away with the funds leaving the women to pay (Odell, K. 2010).

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter covered the research methods that the researcher used to carry out the study. This includes research design, study population, sampling procedure, source of data, data collection instrument, data collection procedures and data analysis and presentation.

3.1 Research design

The researcher used case study design basing on the use of qualitative approach that was adopted to assess if there is a relationship between micro loans and standard of living. This design was used for profiling, defining, estimating, predicting and examining associated relationships.

3.2 Study population

The study involved clients of KIHONDO Sacco clients. The study population was 330 clients of KIHONDO Sacco out of those 110 clients have loans taking a sample of 58 respondents.

3.3 Sampling design

The researcher used purposive sampling technique because with this technique the researcher was able to purposively select people who have the information required in the study for example borrowers.

3.4 Sampling procedure

The researcher used simple random sampling to obtain information from KIHONDO Sacco clients.

3.5 Sample size

The researcher used asample size of 58 respondents to represent the entire clients of KIHONDO Sacco clients. This was arrived at by the use of a sample size calculator,(Krejcie,et al,1970).

3.6 Source of data

3.6.1 Primary data

The researcher used self-administered questionnaires which enabled the study to cover a large population within a short period of time.

3.6.2 Secondary data

The researcher also used secondary data to gather information which is already reported on by some other scholars, and other sources like libraries, records of selected standard of living statistics, text books.

3.7 Data collection instrument

Questionnaires

The researcher used both open and closed ended administered questionnaires in order to obtain first-hand information.

The open ended questions was used because it saved time, helped the researcher to easily compare the responses from different groups, permit greater depth of response.

Closed questions, the researcher used closed questions because they were economic to use in terms of money and time and were also easy to administer since each item was followed by alternative answers.

3.8 Data collection procedure

The researcher visited the respondents, introduce himself and explain to the respondents the purpose of carrying out the study before requesting them to respond to the questionnaire.

The researcher also read questions to the respondents who were unable to read and write and filled the responses in the questionnaire on their behalf.

3.9 Ethical consideration

The researcher followed ethical code of conduct by first obtaining an introductory letter from the University authorities which helped the researcher to move freely in the respective places.

The researcher seeked permission from the chairperson and manager of KIHONDO Sacco.

The researcher kept ethical standards by ensuring confidentiality of respondent's information that made the study a success. The researcher also ensured privacy and confidentiality by not including names of the respondents in the questionnaire.

Quality control

Validity

Validity is the extent to which an instrument measures what it claims to measure. It is the degree to which the results obtained from analysis of the data actually represents the phenomenon under the study. To ensure validity, the researcher will pretest the questionnaire with some people who have accessed loans whose results will be included in the final analysis of data.

3.10 Data analysis and presentation

The researcher used excel to analyze data which helped to assess the relationship between micro loans and standards of living.

Editing was done by the researcher to ensure that the questionnaires are completed and also desire statistical meaning of the collected data for easy interpretation. The researcher will also have to test the questionnaire on a few individuals to ensure reliability and validity of the data.

3.11 Limitations of the study

The researcher met a challenge of hoarding of information and un co-operative respondents and the researcher will overcome this by explaining to respondents that there information was held confident and that it is for research purposes.

The researcher met a challenge of high transport costs because KIHONDO clients were scattered in different areas from which the researcher intended to get information from, the researcher overcame this by soliciting funds from parents, relatives and friends.

CHAPTER FOUR

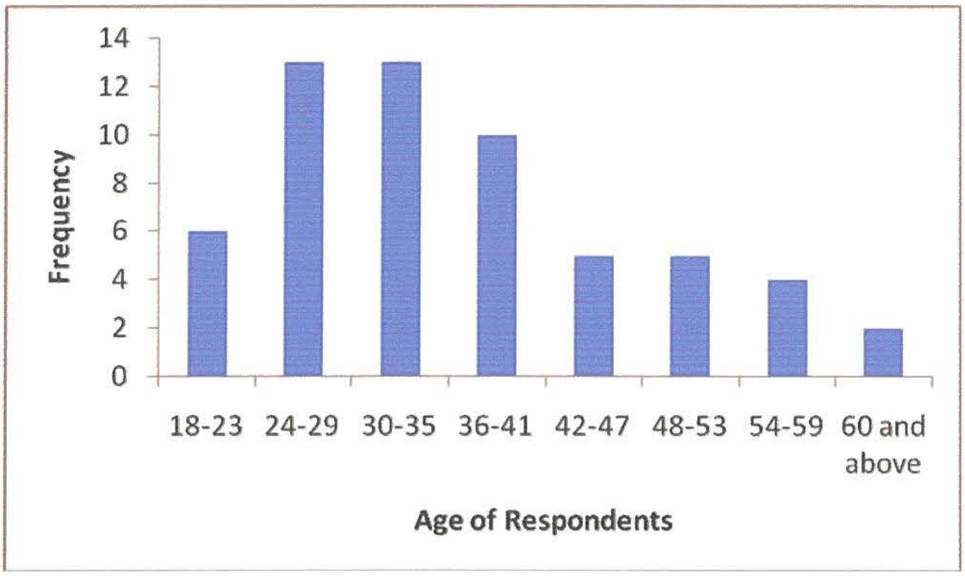
DATA ANALYSIS, INTERPRETATION AND PRESENTATION OF FINDINGS.

4.0 Introduction.

This chapter presents the analysis, interpretation and findings of the study objectives. The findings are presented in frequency tables, percentages and figures.

4.1 Demographic characteristics of the respondents.

4.1.1 Diagram 1.0 A bar graph showing age of respondents.

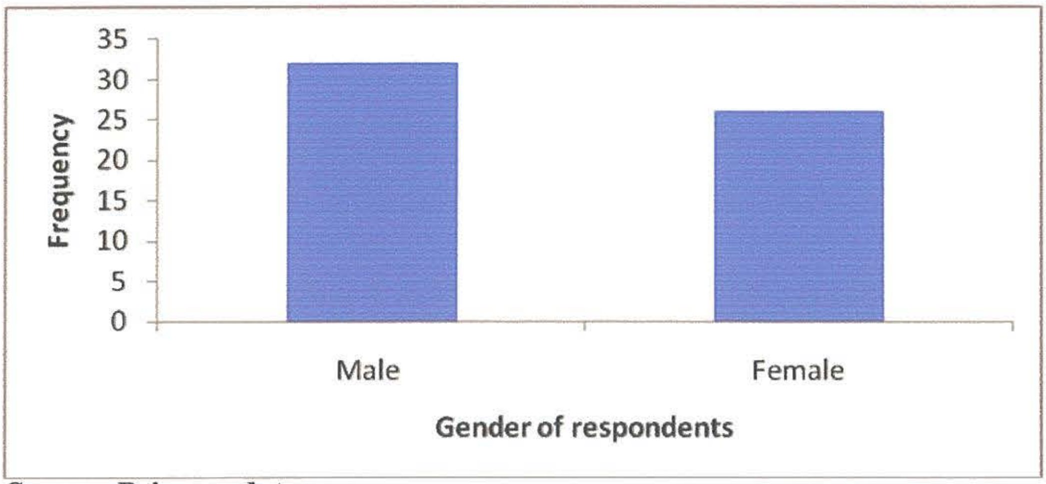


Source: Primary data.

The above shows that majority of the respondents are middle youth and elder youth with age bracket 24-29 and 30-35 both registering (22.4%), followed by adults 36-41registering (17.2%) and the young youth group of 18-23 registered (10.3%),older group of 42-47 and 48-53 registered (8.6%), the much older group of 54-59 registered (6.9%) and the elder group of 60 and above registered (3.4%). This shows that HEDA Sacco clients mostly are youth and middle aged people.

4.1.2 Sex of respondents.

4.1.2 Diagram 2.0 A bar graph showing gender of respondents.

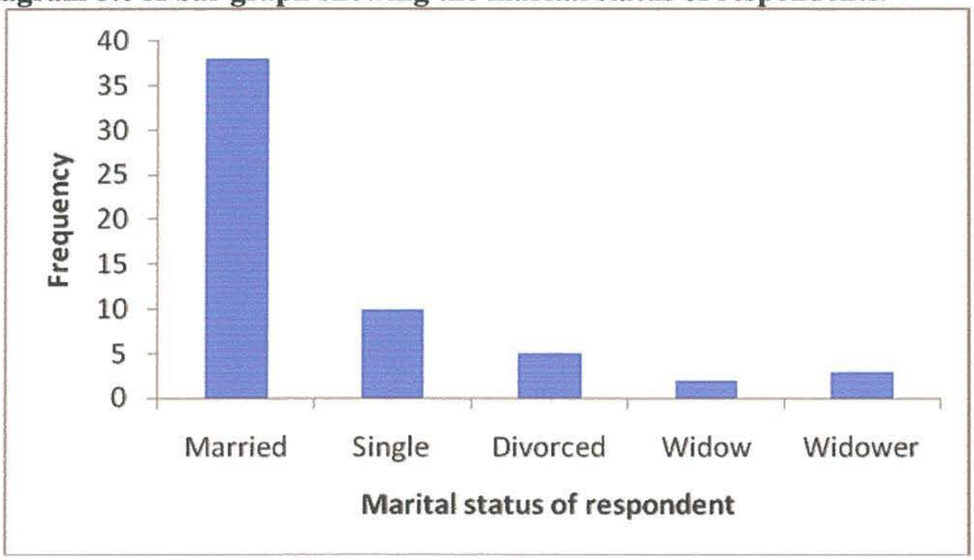


Source: Primary data.

Diagram2.0 above shows that most of the respondents were male numbered 34(58.6%) out of the total respondents. Their female counter parts took up the remaining 41.1% with 24 respondents.

4.1.3 Marital status of respondents.

4.1.3 Diagram 3.0 A bar graph showing the marital status of respondents.

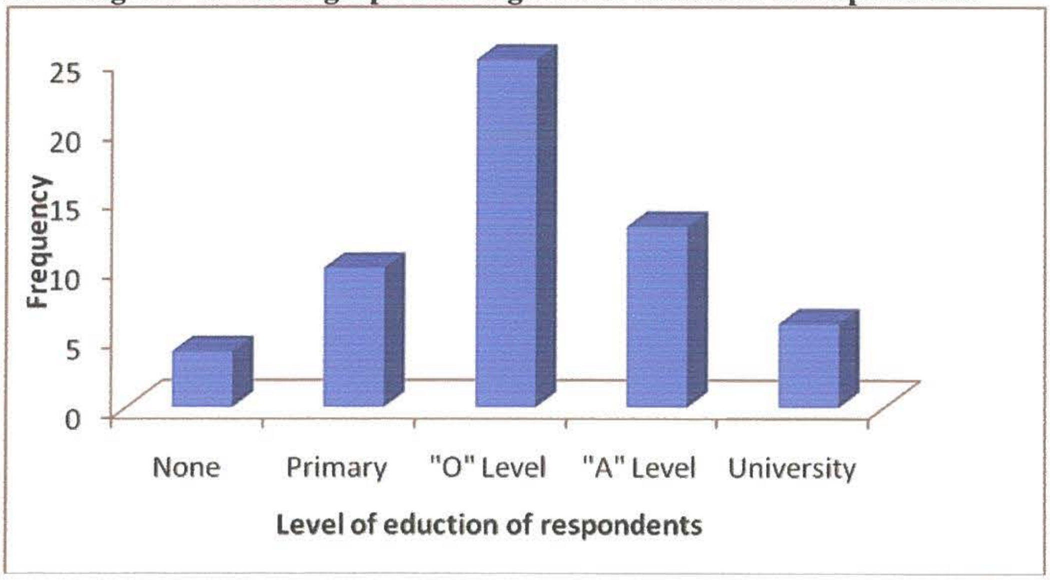


Source: Primary data.

The above graph shows the marital status of respondents, most of the respondents were married taking up 38 (65.5%), single were 10(17.2%), followed by divorced 5 (8.6%), widow took 2 (3.4%) and widower took 3 (5.2%). From the field it shows that most of the respondents were married.

4.1.4 Level of education.

4.1.4 Diagram 4.0 A bar graph showing level of education of respondents.



Source: Primary data.

The above graph shows that most of the respondents are educated with ordinary level of education topping with 25(43.1%), A level registering 13(22.4%), primary registered 10(17.2%), 6 admitted that they had reached university level representing (10.3%) and 4(6.9%) admitted had never attended school.

4.2.1 Accessibility to credit facility.

4.2.1 Table 1.0 Shows results about accessibility to credit facility by respondents.

Access of credit	Frequency	Percentage%
Yes	58	100
No	0	0
Total	**58**	**100**

Source: Field data

Table 1.0 shows respondents response on accessibility to credit all the 58 respondents (100%) admitted that they accessed credit.

4.2.2 When did you receive your first loan

4.2.2 Table 2.0 shows results of when respondents received their first loan.

Year	Frequency	Percentage%
2009	3	5.2
2010	2	3.4
2011	5	8.6
2012	9	15.5
2013	10	17.2
2014	9	15.5
2015	11	19
2016	9	15.5
Total	**58**	**100**

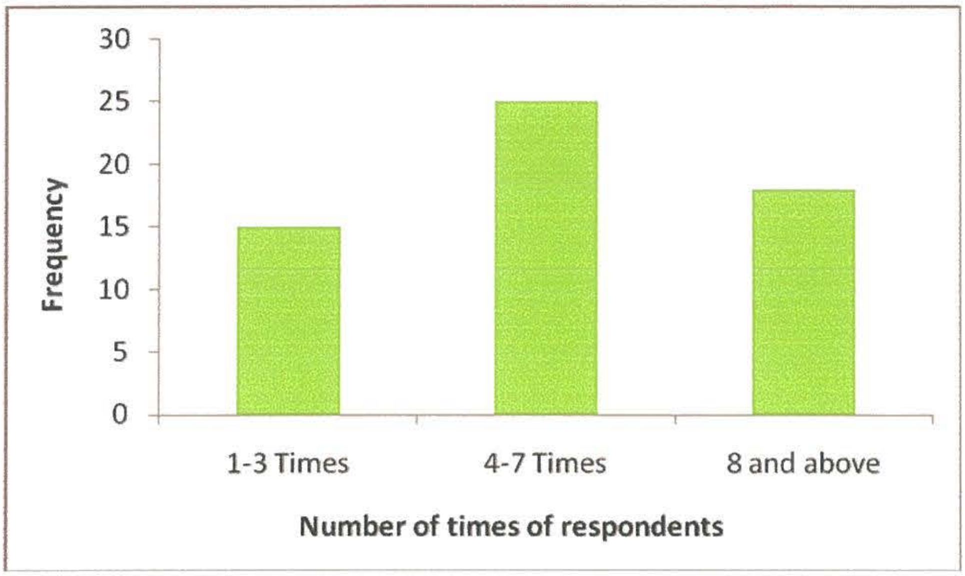
Source: Field data

From the table above it shows when clients received their first credit facility. 3 respondents (5.2%) said received their first loans in 2009,2 respondents (3.4%) said that they received their first loans in 2010, 5 respondents (8.6%) said that they received their first loans in 2011, 9 respondents (15.5%) said that they received their first loans in 2012, 10 respondents (17.2%)

admitted that they had received their first loans in 2013, 9 respondents (15.5%) admitted had received their first loans in 2014, 11 respondents (19%) said that they received their first loans in 2015, 9 respondents (15.5%) said that they received their first loans in 2016.

4.2.3 How many times have you borrowed from HEDA Sacco

4.2.5 Diagram 2.0 A bar graph showing the number of times respondents have borrowed.

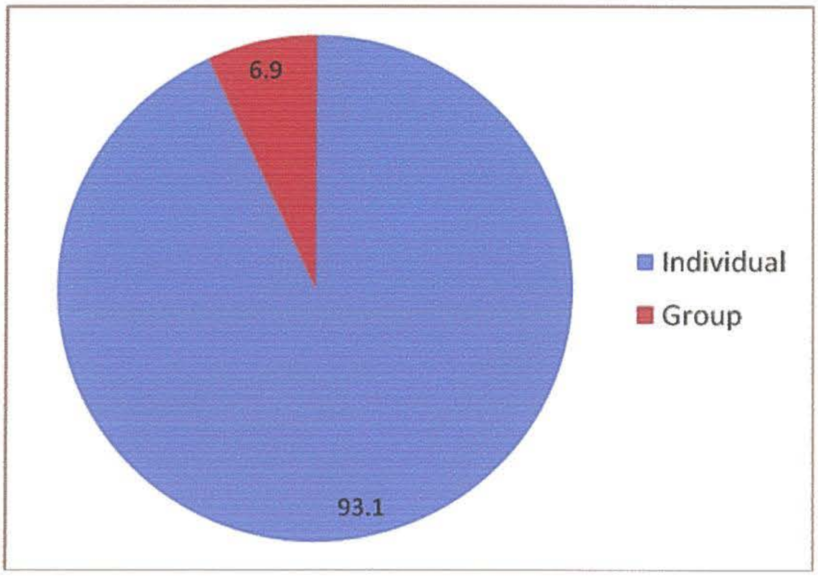


Source: Field data

Out of the 58 respondents who were sampled 15 admitted that they had received loans for 1 to 3 times registering a percentage of 25.9%, 25 respondents (43.1%) admitted that had received loan for 4-7 times and 18 respondents (31%) admitted that they had received loans for 8 and above times.

4.2.4 How did you borrow?

4.2.6 Diagram 3.0 A pie chart showing how respondents borrowed.



Source: Field data.

Out of the 58 respondents who were sampled out, 54 said they had received credit facility as individuals registering 93.1%, 4 out of the 58 respondents admitted that they had received credit facility in groups and this constituted a percentage of 6.9%. The findings in this study indicated that most respondents borrowed individually giving reason that it is easy to access a loan individually than in a group because there are many requirements required such as to register a group, provide certificate, constitution.

4.2.5 Are there collaterals required to access a loan.

4.2.5. Table 2.0 shows results of respondents response if there is collateral required to access aloan from HEDA Sacco.

Response	**Frequency**	**Percentage%**
Yes	58	100
No	0	0
Total	**58**	**100**

Source: Field data

From table 2.0 above all the 58(100%) respondents who were sampled admitted that it is required by HEDA Sacco to have collateral in order to access credit facility.

4.2.6 What collateral did you give to HEDA.

4.2.6 Table 3.0 shows collateral respondents gave to HEDA Sacco in order to receive creditfacility.

Type of collateral	**Frequency**	**Percentage%**
Land	30	51.7
Motor cycle/Motor vehicle	11	19
Home property	8	13.8
Animals	5	8.6
Building/House	4	6.9
Total	**58**	**100**

Source: Field data

When asked on the type of collateral given to HEDA Sacco to receive the loan, responses were as indicated in the table 3.0 above, 51.7% said they gave their land tittles/ agreements to HEDA Sacco, was followed by those who said they gave motorcycle/motor vehicle log book registering 19%, 13.8% said that they gave home property as their security, 8.6% admitted that they pledged animals like cows, goats, pigs while 6.9 admitted that they pledged buildings as their security.

4.2.7 Which loan product did you receive.

4.2.7 Table 3.0 shows respondents response on what loan product they had received.

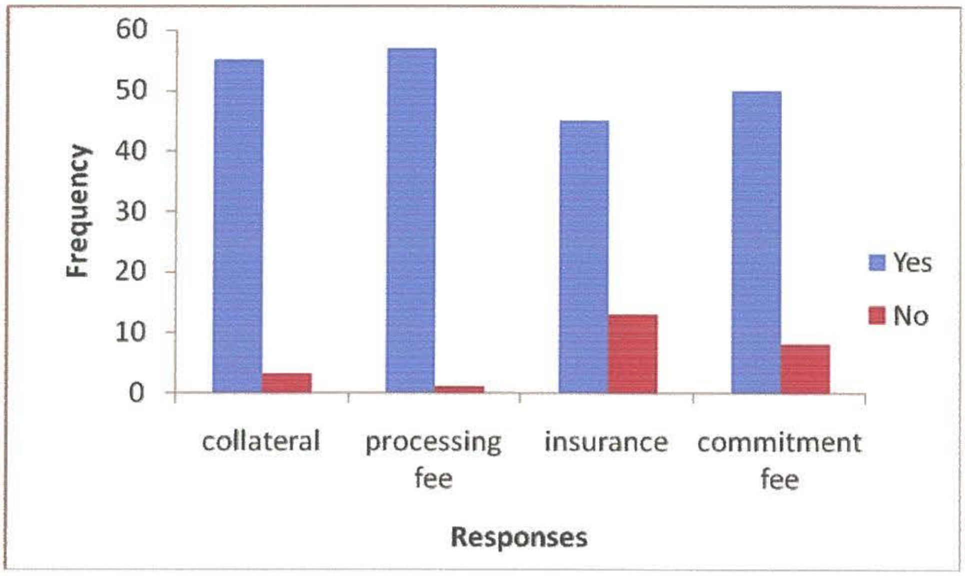
Loan product	Frequency	Percentage%
Micro loan	29	50
Agriculture	13	22.4
Home improvement	8	13.8
School fees	6	10.3
Salary	2	3.4
Total	58	100

Source: Primary data

When asked on the type of loan product respondents had got from HEDA Sacco 29 said that they had received micro business loans registering 50%, 13 admitted that they had received agriculture loans registering 22.4%, 8 admitted that they had received home improvement loans registering 13.8%, 6 admitted that they had received school fees loan registering 10.3%, followed by 2 respondents who said that they had received salary loan registering 3.4%.

4.2.8 Do you know anything about use of the following?

4.2.8 Diagram 5.0 A bar graph shows respondents view on whether they know anything about collateral, processing fee, insurance, commitment.



Source: Primary data

Out of the 58 respondents 55(94.8%) said they know about the use of collateral, while 3(5.2%) of the respondents said that they don't know about use of collateral, 57(98.3%) respondents admitted that they know about use of processing fee, while 1(1.7%) admitted don't know the use of processing fee,45(77.6%) said they know about insurance, while 13(22.4%) admitted that they don't know about use of insurance, 50(86.2%) admitted that they know of commitment fee while 8(13.8%) said that they don't know about commitment fee.

4.3.0 Benefits of accessing credit facility

4.3.1 Did you use the loan for the intended purpose.

4.3.1 Table 1.0 shows results of respondents on if they used credit facility for the intended purpose.

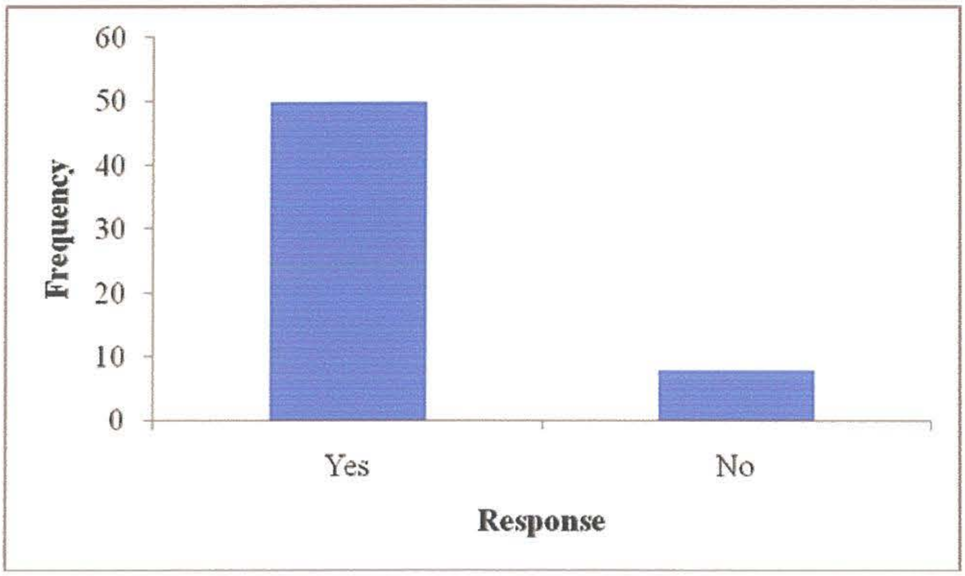
Responses	**Frequency**	**Percentages%**
Yes	50	86.2
No	7	12.1
Some times	1	1.7
Total	**58**	**100**

Source: Field data

When asked on whether the respondents used the loan for the intended purpose response are indicated in the table 1.0 above, 86.2% admitted that they used the loan for the intended purpose registering 50 respondents out of 58, 7 respondents said did not use the loan for the intended purpose constituting a percentage of 12.1%, 1 respondent admitted that sometimes uses the loan for the intended purpose and at times does not.

4.3.2 Has the loan facility improved your standard of living.

4.3.2 Diagram 1.0 A bar graph shows respondents results pertaining If credit facility had improved theirstandard of living.



Source: Field data.

From the graph above out of the 58 respondents who were sampled, 50 admitted that the loan had improved their standard of living constituting a percentage of 86.2%, 8 out of the 58 respondents admitted that the loan facility had not improved their standard of living registering a percentage of 13.8%.

4.3.3 If yes? How has the credit facility improved your standard of living.

4.3.3 Table 2 shows results of how credit has improved respondents standard of living.

Response	Frequency	Percentage%
Constructed house	9	15.5
Paid school fees	6	10.3
Expansion of farm	9	15.5
Increase capital in business	15	25.9
Bought land	4	6.9
Bought house property	5	8.6
Gained skills on how to use money	2	3.4
Motor cycle	5	8.6
Gained saving skills	2	3.4
Said nothing	1	1.7
Total	**58**	**100**

Source: Field data

Table 3.0 above shows respondents response about the importance of the loan facility to them, 15.5% admitted that loan facility has enabled them to construct houses commercial and residential, 10.3% admitted that they have managed to pay school fees for their children and others for their own studies, 15.5% cited that they have expanded their farms, 25.9% cited that they have increased capital in their businesses,6.9% admitted that they had bought land, 8.6% admitted that they have bought house property, 3.4% admitted that they have gained skills on how to use money very well, 8.6% cited that they have bought motor cycles, 3.4% admitted that they have gained saving skills,1.7% of the respondents did not fill any thing pertaining that question.

4.3.5 How have you managed to pay back the loan facility.

4.3.5 Table 4 shows results of how respondents have managed to pay back the loan

Response	**Frequency**	**Percentage%**
From business profits	27	46.6
From sell of agric /poultry products	13	22.4
From savings	8	13.8
From rent paid to them by their tenants	5	8.6
From their salary	4	6.9
Didn't fill	1	1.7
Total	**58**	**100**

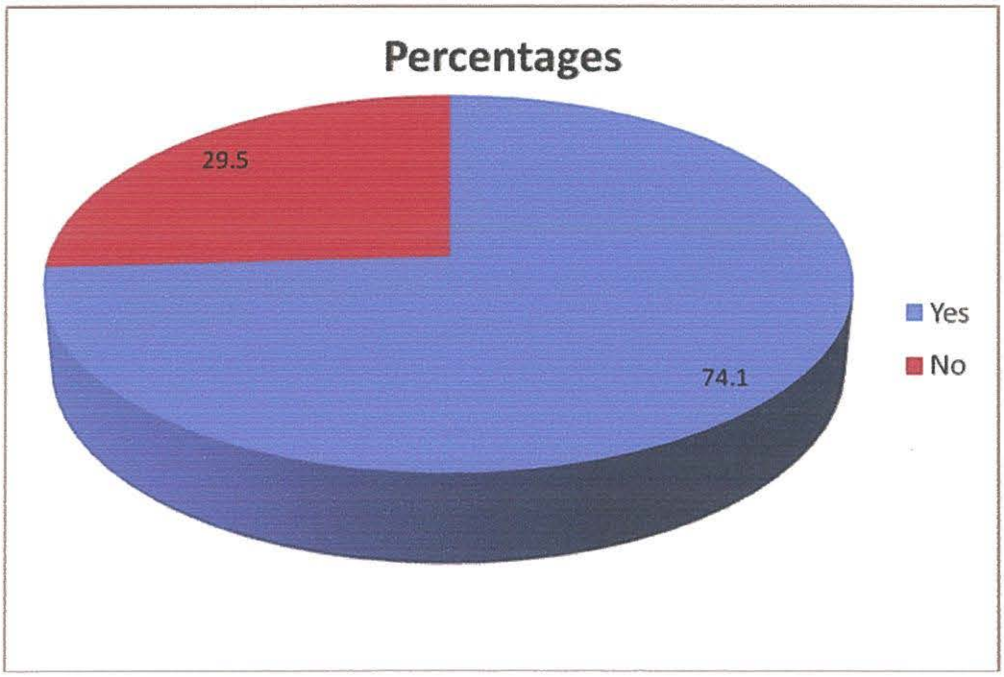
Source: Field data

From table 4 above respondents gave out ways how they have managed to pay loan facility 44.6% admitted that they have managed to pay using profits from their businesses, 22.4% admitted that they have managed to pay back using money got from selling their agricultural products, 13.8% cited that they have managed to pay using their savings, 8.6% admitted that they have managed to pay using rent they earn from their commercial houses monthly,6.9% cited that they have managed to pay back the loan using their salary they earn while 1.7% of the respondents didn't fill any thing on that question.

4.4.0 Challenges encountered by borrowers

4.4.1 Have you ever encountered any challenge as a result of borrowing from HEDA Sacco.

4.4.1 Diagram 1.0 A pie chart showing result of respondents on whether they have encountered challenges or not.



Source: Field data

The pie chart above shows that, most of the respondents have encountered challenges as a result of borrowing registering 43(74.1%) out of the total respondents, 15(25.9%) of the respondents admitted that they have not encountered any challenges as a result of borrowing from HEDA Sacco.

4.4.2 If yes, what challenges respondents have encountered as a result of borrowing.

4.4.2 Table 1.0 shows results of challenges respondents have encountered a result of borrowing.

Challenge	**Frequency**	**Percentage%**
High interest	14	24.1
Delay in Loan processing	7	12.1
Low loan funds	6	10.3
Low payment periods	4	6.9
Grabbing of collateral	6	10.3
Under valuation of asset	5	8.6
High penalty	4	6.9
Lack of collateral	6	10.3
Harshness of loan officer	3	5.2
No challenge	3	5.2
Total	**58**	**100**

Source: Field data

When asked on the challenges facing borrowers responses are indicated in the table 3.0 above 24.1% cited high interest rates, 12.1% cited delay in processing the loan, 10.3% admitted low loan funds they receive instead of what they applied for and yet had applied for huge sums of funds, 6.9% cited short loan payment periods given to them, 10.3% admitted grabbing of collateral after they failed to pay back, 8.6% admitted under valuation of their assets lower than the value they attach to the asset, 6.9% cited high penalty charges after they pass on due date without paying 10.3% citied lack of collateral, 5.2% admitted that loan officers are harsh to them while 5.2% cited that there was no challenge which they had so far encountered as a result of borrowing.

4.4.3 What do you think should be the solution should be the solution to the above challenges?

4.4.3 Table 2.0 shows results of solution suggested solutions by respondents to the challenges they have encountered in borrowing.

Response	Frequency	Percentage%
Reduction in interest rate	16	27.6
Reduce time taken to process loan	11	19
Increase on the loan funds given out	1	1.7
Increase on the payment intervals	4	6.9
Government set interest for Sacco's	6	10.3
Value asset according to current value	2	3.4
Improve efficiency and service delivery	1	1.7
Encourage politeness of loans officers	3	5.2
Give real money clients apply for	3	5.2
No response	10	17.2
Total	**58**	**100**

Source: Field data

Table 2 shows how respondents reacted when they were asked on how to overcome challenges they had encountered, 27.6% cited reduction of interest rates, 19% cited that time taken to process loan should be reduced, 1.7% cited that loan funds given out by HEDA Sacco should be increased, 6.9% cited increase on payment interval they are given since others take agriculture loans take long to bring returns, 10.3% cited that government should set standard interest rate for all SACCO's, 3.4% suggested that assets should be valued according to current prevailing value, 1.7% admitted that HEDA Sacco should improve service delivery and efficiency, 5.2% suggested that loan officers should handle clients in a humble way, 5.2%suggested that clients should be given the real money they apply for while 17.2% cited nothing since they had not faced any challenge so far.

CHAPTER FIVE

DISCUSSION, SUMMARY OF FINDINGS, CONCLUSION, RECOMMENDATIONS.

5.0 INTRODUCTION

This chapter presents the discussion, summary, conclusion, recommendation of the findings and the areas for further studies.

5.1. Discussion of findings.

5.1.1 Relationship between accessibility to credit facility and standards of living.

From the field study respondents revealed that accessibility to credit facility improves standard of living. This view was supported by, (okurut, 2004) who said that accessibility to credit is all aimed at improving the standard of living of the poor people. The accessibility to credit by the poor people enables them to mobilize capital which supports them in starting businesses. This leads to increased productivity and ownership of assets which eventually improves their house hold income

From the field study respondents revealed that accessibility to credit facility gives chance to borrowers to start business by accessing business loans. These respondents were in agreement with,(Bajwa. 2001) who elucidated that easy accessibility to credit facility from a micro credit institution enables the borrowers to engage in businesses that can increase their productivity and ownership of assets.

5.1.2 Benefits of accessing credit facility.

From the field study respondents revealed that access to micro credit increases income level thus increasing employment at house hold level. These respondents were in agreement with (Robinson, 2001) who elucidated that access to micro credit boost income level, increases employment at household level and their by improving standards of living.

UN report, (2005) elucidated that micro finance loans assist households to expand small and medium business enterprises. This was in agreement with some respondents who said that micro finance loans assist household to expand small and medium business enterprises thus propelling the growth of micro enterprises.

Other respondents in the study revealed that access to credit facility had great positive impact on education of the client children as they managed to pay school fees for their children. This is in agreement with, (Littlefield el at, 2003), who stated it clear that access to credit has shown to have a great positive impact on the education of clients children. One of the first thing that the poor people do after accessing new income from micro enterprises activities is to invest in their children education.

5.1.3 Challenges faced by borrowers

From the field study, respondents revealed that high interest rate was a challenge they faced as borrowers. These respondents were in agreement with,(Ahimisibwe , 2010) who elucidated that whether to go for a fixed rate or floating rate interest for micro loans in dilemma because they are high which almost every borrower faces. Even after deciding on a particular loan regime, the loan terms and condition fine prints can create havoc with your interest rates.

Study findings revealed that lack of collateral is among the challenges faced by respondents (borrowers). These respondents were in agreement with, (World Bank Report, 2007) which elucidated that lack of collateral limits access to rural credit and this is related to poorly defined property, land use rights, weak land and property markets. Procedure intended to limit their exposure. This is largely due to weak institutional capacity.

Some respondents in the study revealed grabbing of collateral as a challenge they have encountered as a result of using credit facility. These respondents were in agreement with, (Valdez et al,2012),who argued that many borrowers are required to secure their loan with collateral. This collateral is typically the borrower's owner's home or property. If payments are not made after accessing the loan, the loan holder risks losing his/her home.

Lastly some respondents in the study revealed that under valuation of asset was among the challenges they faced as borrowers in accessing credit facility. These respondents were in agreement with, (Hermes et al, 2009) who showed it that banks and micro finance institutions have their own experts for legal, technical and financial appraisal of the property in question. It evaluates the property on its own established parameters and assigns a value to it. Thus the bank will only lend you up to the amount it valued. This leads to a significant gap between what you need and what the bank is willing to lend.

5.2 Summary of findings.

Of the responses received from the survey, 58(100%) said that they had accessed micro credit facility, most of the respondents admitted that they had received business loans registering 29(50%), followed by those who said had received agriculture loans registering 13(22.4%).

50(86.2%) accepted that they had benefited from credit facility by improving their standards of living while 15(25.9%) admitted having said that they expanded their businesses using the loan facility they received, followed by respondents who said attained basic needs and farm expansion both registering 9(15.5).

43(74.1%) admitted that they had encountered challenges as borrowers citing high interest rate as the greatest challenge registering 14(24.1%) and delay in loan processing was second to high interest rate registering 7(12.1%) of the respondents.

5.3 Conclusion.

Basing on data from the field the researcher concludes that accessibility to credit facility is a tool for improving the standard of living of people, if used well for the intended purpose by the borrowers because most of the respondents who said that they had used the loan for the intended purpose said that they had improved their standard of living through various ways such ways such as attainment of basic needs, construction of houses, expansion of their businesses, taken their children to school. Therefore if all people most especially the poor are given the chance to access credit facility and when the interest rate is user friendly the researcher believes credit facility can improve standard of living and the general welfare of all people at large if used well.

5.4 Recommendations.

Since the most pressing challenge facing borrowers was high interest rate the researcher recommends that government in line with the central banks should set a standard interest rate for banks and SACCO'S to charge which is low and user friendly as this will help to improve standard of living of users of credit facility. The standard rate set should be good and fair to both the client receiving the credit facility and the organization giving out the loan for either party to benefit.

The researcher further recommends that the time financial institution such as SACCOS and micro finance institution take to process loans should be reduced because clients go to access loans after planning for what to do with the funds but at times they are delayed hence this affects clients in repaying the loan back because they end up using the loan not for the intended purpose they borrowed for due to the delays caused by financial institutions.

The researcher further recommends that MFIs such as SACCOs should value clients assets very well according to the real current value they have simply because under valuation of client asset by MFI experts reduces amount receivable by client which at times does not full fill the real intended purpose for borrowing hence affecting a client in paying back.

5.5 Areas for further study.

In relation to the study of credit facility, the researcher suggests the following areas.

- Effects of micro credit fund accessibility, borrowers' characteristic and house hold income.
- Role played by credit facility in poverty reduction.
- Effect of interest rate on the growth and development of MFI customers

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APPENDICES

APPENDIX I

RESEARCH QUESTIONNAIRE

PART A: Demographic information of Respondents

1. Have you ever taken a loan from a Microfmance institution?

i.) Yes

ii.) No

2. Your Gender

a) Male

b) Female

3.Age

a) 21-30 years

b) 31-40 years

c) 41- 50 years

d) Above 50 years

4.Sex

a) Male

b) Female

5. Level of education

a) Primary

b) secondary

c) Diploma

d) Degree

PART B: Relationship between credit facility and standards of living
Kindly rate the following statements according to the micro loans contribution to standards of living.

No	Relationship	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1	Microfmance loans assist in improving education standards.					
2	MFI loans assist people to improve their healthcare.					
3	VIFI loans financially empower women in the society.					
4	MFI loans have made it possible for the accessibility of basic needs such as; food, clothing and shelter.					
5	Consumption of households is enhanced by MFI loans.					
6	MFI loans assist families to earn extra income.					
7	Through MFI loans, the living standards of households have been enhanced.					
8	MFI loans have enablec farmers to produce more thus alleviating hunger.					
9	MFI loans have assistec households to access better sanitation.					
10	Households are better off with microfinance loans than without.					

PART C: Benefit of accessing micro loans on individual standards of living of people

To what extent do microfinance loans enhance the following factors to improve on individual standards of living of the people?

Use a scale of 1-5 where 1= Very great extent and 5= not at all

No	Benefit	1	2	3	4	5
1	VIFI loans enable rural households to start businesses hence earning extra income.					
2	Training offered by MFI assists people to start and manage income generating activities.					
3	MFI loans enable women earn some income.					
4	The youth are able to start income generating activities through MFI loans.					
5	MFI loans have no effect on household incomes.					
6	MFI loans assist families to earn extra income.					
7	It is not possible to confirm the impact of MFI loans on Household income.					
8	MFI loans make households more richer than before.					

APPENDIX II

PROPOSED BUDGET

NO	ACTIVITY	AMOUNT (SHS)
1	Transport to and from the University, Source of data, Site booking for interviews and other necessary appointments	800,000=
2	Allowances for research assistants	400,000=
3	Stationary i.e pens, exercise books, reams of papers	100,000=
4	Secretarial services	200,000=
5.	Data treatment and analysis	100,000=
6	Miscellaneous	160,000=
	TOTAL	**1,760,000=**

APPENDIX III

TIME FRAME

MONTH	DESCRIPTION	OUTCOME
April - May	Exclusive reading and review of related literature	Literature review
June	Compilation of research proposal	Presentation of draft
July-August	Writing of research report	Presentation of first draft
August-September	Final draft submitted	Feedback

APPENDIX IV

INTRODUCTORY LETTER FROM THE UNIVERSITY

KAMPALA INTERNATIONAL UNIVERSITY

Ggaba Road, Kansanga* PO BOX 20000 Kampala, Uganda
Tel: +256 777 295 599, Fax: +256 (0) 41 - 501 974
E-mail: mugumetm@gmail.com,
* Website: http://www.kiu.ac.ug

COLLEGE OF ECONOMICS AND MANAGEMENT
DEPARTMENT OF ACCOUNTING AND FINANCE

August, 16th 2018

To whom it may concern

Dear Sir/Madam,

RE: INTRODUCTORY LETTER FOR BIIRA DOREEN REG NO 1153-05014-02112

This is to introduce to you the above named student, who is a bonafide student of Kampala International University pursuing a Bachelor's Degree in Business Administration, Third year Second semester.

The purpose of this letter is to request you avail her with all the necessary assistance regarding her research.

Topic: - **COOPERATIVE MICRO LOANS AND INDIVIDUAL STANDARDS OF LIVING**

Case Study: - **KIHONDO SACCO BUNDIBUGYO**

Any information shared with her from your organization shall be treated with utmost confidentiality.

We shall be grateful for your positive response.

Yours truly,

16/08/2018

DR. JOSEPH B.K. KIRABO
HOD – ACCOUNTING AND FINANCE
0772323344