Microfinance Institutions and Poverty Reduction in Rubirizi District, Western Uganda

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By

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DECLARATION A

"This thesis is my original work and has not been presented for a degree or any other academic award in any university or institution of learning".

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DECLARATION B

"We confirm that the work reported in this thesis was carried out by the candidate under supervision".

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APPROVAL SHEET

This thesis entitled "Micro Finance Institutions and Poverty Reduction in Lubirizi District." prepared and submitted by Asiimwe David in partial fulfillment of the requirements for the degree of Master of Development Studies has been examined and approved by the panel on oral examination with the grade of PASSED.

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DEDICATION

I dedicate this research to all my sisters; Ruth, Carol, Beatrice, Christine, Catherine, and Irene. Thank you for believing in me.

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Abstract

Microfinance has been one of the strategies for poverty alleviation in developing countries. Following the success of the Grameen Bank in Bangladesh, the microfinance revolution has stormed the developing countries today. Although micro credit programmes in Uganda date from 1980s, the proliferation of micro credit scheme or microfinance institutions began after restoration of economic freedom in the 1990s. Today, Uganda has several governmental and non-governmental organizations offering financial services to the poor. Most of these institutions operate localized and targeted programmes, and very few are operating at a national scale. Microfinance institutions in Uganda are largely unregulated and their programmes are not coordinated and accessibility to their services is not universal to the poor. With improvements in the policy environment, the Bank of Uganda (BoU) has been established as a formal association of microfinance institutions with the objective of developing, promoting, coordinating and regulating micro finance activities among member institutions. However, the financial performance of microfinance institutions and their impact on poverty reduction are not adequately documented and known in Uganda, although the increase in micro credit programmes has been remarkable. This thesis attempts to take stock of the microfinance or micro credit revolution in Lubirizi District including assessment of factors of success and failure in the delivery of financial services to the poor and the efficiency and effectiveness of the existing institutional framework on poverty reduction. The study based on the following objectives (1) to determine the demographic characteristics of the respondents (2) to determine the level of performance of micro finance in the area under study (3) to determine the level of poverty reduction and (4) to find whether there is a significant relationship between the level of micro finance and poverty reduction. The study was based on the "joint liability theory" by Fischer Ghatak (1999). A descriptive survey design was employed in the study which descried the different variables in the study. A research sample size of 151 was used selected using a random sampling technique. Chapter four presented the finding of the study revealing that men were composed of the highest number of respondents (58%), respondents aged between 35-51 composed of the highest numbers of respondents (53%), in terms of marital status married respondents emerged the highest (35%) while in terms of educational qualification certificate holders were the highest number of respondents (37%). The study revealed that MFIs enhanced the capacity of individuals to access financial needs ranked as 1 with a mean range of 3.42. The study also revealed MFIs reduced poverty through encouraging clients to be self employed. The study further rejected the null hypothesis "there is no significant relationship between MFIs and Poverty Reduction"; therefore proving that there was a significant relationship between MFIs and poverty Reduction.

Abbreviations

ADB	African Development Bank
ADC	Austrian Development Cooperation
AMFIU	Association of Micro Enterprise Finance Institutions of Uganda
BoU	Bank of Uganda
CBO	Community Based Organization
CERUDEB	Commercial bank providing microfinance services
CMA	Post bank and Capital Markets Authority as main partners
DREPS	District Resource Endowment Profile Survey
ERP	Economic Recovery Programme
EU	European Union
FSA	Financial Service Associations
FSD	Financial System Development Project
GoU	Government of Uganda
GTZ	Gessellschaft für Technische Zusammenarbeit
IMF	International Monetary Fund
IPC	International Project Consult
MCC	Microfinance Competence Centre
MDIs	Microfinance Deposit taking Institutions
MFIs	Microfinance Institutions
MFPED	Ministry of Finance, Planning and Economic Development
MSEs	Micro and Small Enterprises
NGO	Non-governmental Organization

PAP	Poverty Alleviation Project
PSDP	Private Sector Development Program
PEAP	Poverty Eradication Action Plan
PMA	Plan for Modernization of Agriculture.
RFSC	Rural Financial Services Component
RMSP	Rural Microfinance Support Project
ROSCAs	Rotating Savings and Credit Associations
SACCOs	Savings and Credit Associations
SPEED	Support to Private Enterprise Expansion and Development
SUFFICE	Support for Feasible Financial Institutions and Capacity Building Efforts
UCA	Uganda Cooperative Alliance
UCSCU	Uganda Cooperative Savings and Credit Union .
UIB	Uganda Institute of Bankers
UMU	Uganda Microfinance Union
UNDP	United Nations Development Program
USE	Uganda Security Exchange
UWFT	Uganda's Women Finance Trust
WOCCU	World Council of Credit Unions

CHAPTER ONE

THE PROBLEM AND ITS SCOPE

Back ground

Microfinance organisation and community development bank started in Bangladesh offering small loans known as Micro credit or "Grameen credit" to the impoverished without collateral. This banking system was based on the idea that the poor have skills that are underutilized (Rohman 2001). Formal credit and saving institutions for the poor have been around for decades, providing customers who were traditionally neglected by commercial banks a way to obtain financial services through cooperatives and development financial institutions. One of the earliest and longer-lived micro credit organisations providing small loans to rural people with no collateral was the Irish Loan Fund System, initiated in the early 1700s by the author and nationalist Jonathan Swifts the idea began slowly but the 1840s had become a wide spread institution of about 300 funds all over Ireland. Their principal purpose was making small loans with interest for short periods.

In the 1800s, various types of larger and formal savings and credit institutions began to emerge in Europe organised primarily among the urban and rural poor. These institutions were known as People's Banks, Credit Unions and Savings and credit cooperatives.

Between the 1950s and 1970s, government and donors focused on providing agricultural credit to small and marginal farmers in hopes of raising productivity and income. These efforts to expand access to agricultural credit emphasized supply-led government interventions in the form of target credit through state-owned development finance institutions or farmer's cooperatives in the same case that received concessional loans and on-lent to consumers at below market interest rates.

According to Philip (1962), in Ukraine Communities were given certain amounts of money to produce corn for the whole of Ukraine and later would pay the loan without interest to the state banks. In Africa, microfinance institutions are relatively new foundations which still need proper development. The most successful microfinance institutions in Africa were observed in South Africa, Zimbabwe with many Africans gathering themselves to form unions that would help African farmers produce agricultural products. The Women's Development Business (WDB) institutions in South Africa was a very prosperous micro finance institution that helped women gain capital and finance to invest in agriculture and their children's education. In many South African states, poverty was at its worst with thousands of people being killed in apartheid leaving their wives homeless and helpless. The only solution to the problems was an external hand of provision from micro finance institutions that would help them invest capital. According to the International Association of Microfinance Investors (IAMFI), the formation and management of Microfinance in Africa changed the trend of many rural African settings. Thousands of families in rural Africa have emerged to change their life styles through microfinance loans, investing in Agriculture and small scale businesses.

Since 2005, there has been a spurt of overall growth in sub Saharan Africa; for instance, in East Africa (especially in Tanzania, Uganda, Ethiopia, and Kenya), the number of borrowers increased by 58.4% in 2007 (IAMF). In Uganda, Microfinance institutions started as Non-governmental Organisations in the early 1990s lending community based projects however making profits. In 1996, many of these institutions transformed from their initial status to microfinance institutions/ units mainly found in urban areas and a few privileged rural areas. Today there are more than 29 registered and certified microfinance units in Uganda and many unknown financial institutions which work in many rural Ugandan villages. Since the inception of MFIs in Uganda, poverty levels especially in areas of housing, education, investments and agriculture increased with over 360,000 borrowers from different MFIs (IAMFI 2010). It is projected that by 2015, over thirty million (30,000,000) people in Sub Saharan Africa will have access to MFIs. This will help in fulfilling the United Nations Millennium Development Goals (MDGs) especially reducing poverty levels.

Statement of the problem

Lubirizi District is a new district in Uganda created from the great Bushenyi District. Micro finance units are relatively few with many of them unregistered by the Central Bank, Bank of Uganda (BOU). Like many areas of the country, Lubirizi has many enterprising and productive people but with no capital. The population is mainly composed of people in the agricultural sector but often produce on subsistence level. The district mainly depends on microfinance units from Bushenyi and Mbarara which are neighbouring districts. Initially, many farmers had to move long distances to Mbarara district to access microfinance services which would be accesses with some levels of collateral. After being labelled as a district in western Uganda, many enterprising local persons with ability invested in the microfinance institution though with very little income.

Initially, many of the microfinance units were formed through people centred contributions of some amounts of money to help the entrepreneurs have good foundations (Rohman 2001). Basing on the previous history of many microfinance institutions charging a lot of interest rates and collateral, Lubirizi MFIs were initiated on grounds of very low interest rates and no collateral in terms of land and live stock. For a long time, people had been cheated of their produces, money and land in relation to settling debts of MFIs.

Eight registered microfinance institutions actively operate in Lubirizi district and three unregistered operate in the same area. A population of 1693 persons are registered with various institutions (Andrew Obara 2001). The registered members either belong to a group loan boundary or an individual.

Purpose of the study

1) To test the hypothesis of no significant relationship between Micr finance and poverty reduction.
2) To validate the Joint Liability theory where the study is underpinned.
3) To generate new information on Microfinance and poverty reduction.
4) To bridge the gaps from the exiting review of literature.

Research objectives

General objective:

The study correlated between Microfinance and poverty reduction in Lubirizi District in Western Uganda.

Specific objectives:

1. To determine the social demographic characteristics of respondents in terms of;

1.1 Gender

1.2 Age,

1.3 Educational qualification

1.4 Marital status.

2. To determine the level of performance of microfinance in the area under study.
3. To determine the level of poverty reduction in Lubirizi district.
4. To establish if there is a significant relationship between the level of performance of microfinance and poverty reduction.

Research questions

The study sought to answer the following questions:

1. What are the social-demographic characteristics of the respondents in terms of age, educational qualification and marital status?
2. What is the level of microfinance institutions in the area under study?
3. What is the level of poverty reduction in the area under study?
4. Is there a significant relationship between the level of microfinance and poverty reduction?

Research hypothesis

There is no significant relationship between the levels of Microfinance and poverty reduction.

Scope of the study

Geographical scope

The study was carried out in Lubirizi District located in Western Uganda which was initially formed out of Bushenyi District.

Content scope

The study intended to examine the levels of performance of Micro finance and poverty reduction, it also established if there is independent and dependent variable. Other variables described in the study were the social-demographic characteristics of the respondents in terms of age, gender, educational level and marital status.

Theoretical scope

The study was based on the "Joint Liability Theory" by Fischer Ghatak (1999). The theory speculates the personal and group loan highlights from microfinance institutions and agitates that there are some efficiencies and inefficiencies when it comes to loan repayments. The theory stresses that failure for group members to re-pay loans creates a dilemma for other group members to access loans when they wish therefore all members are obligated to remind and encourage others to pay their loan dues or even find collective means of paying their group loans.

Time scope

The data was collected between July 2012 and August 2012.

Significance of the study

The findings of the study will benefit the residents of Lubirizi District in Western Uganda and the Microfinance institutions and governmental officials in charge of MFIs.

The residents of Lubirizi district will understand the important role or Microfinance institutions in enhancing/improving their status in life. They will also improve their responsibility towards microfinance institutions.

Microfinance institutions will be aware of their clients and provide a better service delivery so that their goal of assisting the under privileged will be attained.

Government officials in charge of MFIs will formulate policies and by-laws and other packages that will be beneficial to both the clients and Microfinance institutions. The government officials will also provide training and information to the MFIs and also the residents (who are clients) so that they will be aware of their respective responsibilities.

Operational definitions of the key concepts

Microfinance: Refers to the financial services to low-income clients; or Solidarity lending groups including consumers and the self-employed, who traditionally lack access to banking and related services.

Poverty reduction refers to the process intended to raise the material levels of living by people.

Social-demographic characteristics are attributes of the respondents as to gender, age, educational level and marital status

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Concepts, Opinions, Ideas from Authors/ Experts

Micro finance

Microfinance is usually understood to entail the provision of financial services to micro-entrepreneurs and small businesses, which lack access to banking and related services due to the high transaction costs associated with serving these client categories. The two main mechanisms for the delivery of financial services to such clients are (1) relationship-based banking for individual entrepreneurs and small businesses; and (2) group-based models, where several entrepreneurs come together to apply for loans and other services as a group.

In some regions, for example Southern Africa, microfinance is used to describe the supply of financial services to low-income employees, which however is closer to the retail finance model prevalent in mainstream banking.

For some, microfinance is a movement whose objective is "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also saving, insurance and fund transfers". Many of those who promote microfinance generally believe that such access will help poor people out of poverty. For others microfinance is a way to promote economic development, employment and growth through the support of micro-entrepreneurs and small business.

Microfinance is a broad category of services, which includes micro credit. Micro credit is provision of credit services to poor clients. Although micro credit is one of the aspects of microfinance, conflation of the two terms is endemic in public discourse. Critics often attack micro credit while referring to it indiscriminately as either 'micro credit' or 'microfinance'. Due to the broad range of microfinance services, it is difficult to assess impact, and very few studies have tried to assess its full impact (Feigenberg, Erica).

History and Current Status of the Microfinance Industry in Uganda

Compared to other well-advanced microfinance countries like Bolivia or Bangladesh, the microfinance industry in Uganda is fairly new. Informal financial arrangements like ROSCAs have existed in many forms in Uganda for several decades. From the mid-1980s on credit schemes started emerging as side components of social welfare programs. Like in all other parts of the developing world, these components usually followed a project-oriented approach, disbursed credit at subsidized interest rates, had very poor repayment rates and were therefore typically rather short-lived.

The first true microfinance institutions like FINCA and Uganda's Women Finance Trust (UWFT) appeared in the early 1990s. However, they did not start to expand in terms of significant client outreach and receive recognition until the mid 1990s. With increased interest from donors and NGOs discovering that they can make a lasting impact on poverty alleviation by offering sustainable financial services, the microfinance industry began to take shape. In January 1996, USAID sponsored a microfinance seminar that was considered to be an eye opener for many practitioners, who were exposed to best practice methodologies and the importance of sustainability for first time in earnest. At the same time, the government started to view the private sector as the most important contributor to economic growth and identified improving the access to financial services as one of the key strategies. Microfinance became an issue for the Ministry of Finance and Economic Planning (MFPED) as well as the BoU, as both made themselves acquainted with national and international experiences and practices in this field.

In early 1997, PRESTO/Center for Microfinance started to provide trainings and technical assistance to MFIs in key areas like loan tracking, interest rate setting, business planning, product development, and ownership and governance. Over the past years other projects and institutions also began to provide valuable capacity building to the microfinance industry. From 1997 onwards a strong collaborative effort emerged among donors, government, the central bank, practitioners and capacity building providers. What started in 1998 as a consultative working group has now developed into a full Microfinance Forum which meets monthly to discuss topics, exchange information and share ideas on key issues affecting the sector. In 1997, the Association of Micro Enterprise Finance Institutions of Uganda (AMFIU) was set up to serve as a practitioner platform to share experiences and technologies and act as a lobby and advocacy body for Ugandan MFIs.

In mid 1999 many key players of the Ugandan microfinance scene, especially among donors, left the country. After a brief period of less intense coordination, a microfinance workshop facilitated by AFCAP brought the donor community together again in April 2000. A joint vision for the development of the microfinance industry for the next five years was mutually agreed on as well as strategies needed to achieve this vision. Donors defined very ambitious outreach expansion plans and agreed on a coherent strategy for a demand driven capacity building initiative. Other workshops and seminars also including practitioners, government and the Bank of Uganda followed and further strengthened the microfinance community. At the moment, a number of initiatives like common donor guidelines, universal reporting standards, a rating system, guarantee funds, a capacity building initiative for MFIs graduating to formal status, etc. are discussed with broad participation from most stakeholders. As outlined earlier, the closure of banks and bank branches as well as the adoption of more stringent lending policies among commercial banks left almost all micro and small entrepreneurs and poor households without access to financial services.

The microfinance industry, which over the past years came under pressure to fill this gap and become self-sustaining, has to some respect succeeded in doing so. A significant number of MFIs have taken important steps towards professionalization and transformation into well organized, well-managed and commercially viable institutions that provide financial services to an increasing number of clients with proven poverty reducing impact. The environmental conditions in which the Ugandan microfinance industry has thrived over the past years can generally be described as favourable, including macroeconomic stability, strong and competent MFIs, practitioners and donors committed to best practices, MFIs with international alliances, a by and large supportive government and a constructive cooperation among stakeholders. The industry was also able to overcome the results of former instability and bad practices. The long-lasting civil strive has probably destroyed part of Uganda's social capital, the history of poorly managed credit schemes has damaged the credit culture in some parts of the country, and the closure of a great many banks has eroded the trust of clients into financial institutions. However, none of the bigger MFIs faced serious delinquency problems once they had embraced professionalism. This can probably be ascribed to the fact that these MFIs have applied their methodologies in a much disciplined way and put a lot of emphasis on building an effective repayment culture among their clients.

Currently, there is one commercial bank providing microfinance services (CERUDEB), one recently established privately owned credit institution (CML), about 15 larger MFIs and around 80 CBOs and NGOs providing savings and credit services on a smaller scale. The top five institutions (CERUDEB,FINCA, PRIDE, UMU, UWFT) have already surpassed or are close to full financial sustainability. New providers continue to enter the market and join a relatively mature and professional industry. Competition in Kampala and the surrounding region is becoming strong and some providers fear that some urban areas in these parts of the country may already be close to saturation for the types of products offered.

One of the most pressing challenges for a large number of MFIs in Uganda are high drop out rates, indicating that clients make use of increased competition and shop around, but probably also suggesting that clients are not satisfied with the products offered. In fact, a closer look at the methodologies reveals that the services and products offered by the majority of microfinance providers are very similar to each other and are not adjusted to the specific needs of different client groups. The following chapters will discuss microfinance clients, the role of the government, the new legislation, stakeholder coordination mechanisms and initiatives, microfinance providers and capacity building initiatives in more detail.

Clients of Microfinance Institution

Microfinance Providers in Uganda reach low-income households in both rural and urban areas, but not the poorest of the poor. The average client is female, married, between 30 and 39 years and sufficiently literate with an average household of 7 people, many of whom are dependents. Commerce is the main activity of clients, followed by agriculture, services and 1 Only CERUDEB, as a commercial bank, is entitled to mobilize savings, apart from savings and credit cooperatives and manufacturing. Clients of MFIs tend to cluster around the poverty line. Most users of MFI services appear to be non poor, but not wealthy: they tend to come largely from households that can usually meet their daily needs, have access to primary education and basic health services, and have accumulated some assets. They tend to spend a high proportion of their earnings on basic needs such as food and education of children. This group of clients are in the "comfort zone", they enjoy a relatively stable income source and sufficient livelihood diversification, allowing them to service regular repayments even when faced with small crises. However, they remain vulnerable to shocks, and access to microfinance has proven to play an important role in managing this vulnerability (AIMS 1998; COWI 2000; MFPED 2000c; Mutesasira et al 1999; Wright et al 1999a).

Those significantly below the poverty line do not seem to join Ugandan MFIs. This occurs for several reasons, including (CGAP 2000; Wright et al 1999b):

- Exclusion by the MFIs themselves due to their focus on micro entrepreneurs with sufficient repayment capacity;
- Exclusion by groups unwilling to take responsibility for the poor in case of delinquency;
- Self-exclusion due to a fear of credit;

- Product exclusion where the "one-size-fits-all" working capital loan on offer does not meet their needs; and
- Emphasis on credit delivery and little attention to the needs of the poorest for safe and accessible savings services

However, critics of microfinance based on "not reaching the poorest" tend to overlook the dynamic nature of poverty. Not so- poor households hit by severe crisis (fire in houses and businesses, theft of business assets and chronic illness including HIV/AIDS, etc.) may be transformed into "poorest" households with alarming rapidity. This is why microfinance's role in assisting in development and maintenance of robust household economic portfolios is so important for everyone who does not have access to formal financial services (Wright et al 1999a).

Presently, about 150.000 clients are served by MFIs in Uganda. Compared to an estimated 7.5 million economically active Ugandans living below the poverty line, this is still a relatively low outreach. Although many MFIs claim to serve predominantly the rural population, the participants of the two microfinance workshops in April and June 2000 estimated that 80% of the MFI clientele was urban and 20% rural. In these workshops, the microfinance community agreed on the vision to expand the rural coverage to 40% of the total MFI clientele within the next five years. Given that the microfinance industry is expected to grow by 50% per year in the same period, this estimate seems to be very optimistic. Although the population density in rural Uganda is much higher than in most other parts of Africa, rural outreach expansion still faces the challenges of insufficient infrastructure, low education levels, increased intermediation costs, greater risks due to higher exposure to agricultural production.

Community Based Organization (CBOs) and Savings and Credit Associations (SACCOs) operating in rural areas seem to be an appropriate vehicle to reach more rural savers and borrowers. However, most these institutions have displayed a formidable lack of systems, governance, ownership and management. Therefore, they will have to receive substantial amounts of capacity building until they will be able to serve large quantities of rural clients in an effective and sustainable way.

Poverty reduction

United Nations: Fundamentally, poverty is a denial of choices and opportunities, a violation of human dignity. It means lack of basic capacity to participate effectively in society. It means not having enough to feed and clothe a family, not having a school or clinic to go to; not having the land on which to grow one's food or a job to earn one's living, not having access to credit. It means insecurity, powerlessness and exclusion of individuals, households and communities. It means susceptibility to violence, and it often implies living in marginal or fragile environments, without access to clean water or sanitation (Greeley, M. (2003).

According to the World Bank, Poverty is pronounced deprivation in well-being, and comprises many dimensions. It includes low incomes and the inability to acquire the basic goods and services necessary for survival with dignity Harper, M. (1998). Poverty also encompasses low levels of health and education, poor access to clean water and sanitation, inadequate physical security, lack of voice, and insufficient capacity and opportunity to better one's life.

Poverty is the state of one who lacks a certain amount of material possessions or money (Paul, and Robin 2009). Extreme poverty is also called penury. Absolute poverty or destitution refers to the one who lacks, basic needs, which commonly includes, clean and fresh water nutrition, health care, education, clothing and shelter. About 1.7 billion people are estimated to live in absolute poverty today. Relative poverty refers to lacking a usual or socially acceptable level of resources or income as compared with others within a society or country (Kamau Moses 2006). For most of history poverty had been mostly accepted as inevitable as traditional modes of production were insufficient to give an entire population a comfortable standard of living. After the industrial revolution, mass production in factories made wealth increasingly more inexpensive and accessible. Of more importance is the modernization of agriculture, such as fertilizers, in order to provide enough yields to feed the population (Chaudhuri and Suryahadi 2002). People who practice asceticism intentionally live in poverty.

The supply of basic needs can be restricted by constraints on government services such as corruption, debt and loan conditionality and by the brain drain of health care and educational professionals. Strategies of increasing income to make basic needs more affordable typically include welfare, economic freedom, and providing financial services. Today, poverty reduction is a major goal and issue for many international organizations such as the United Nations and the World BANK.

Measuring poverty

Poverty is measured in various ways but the commonly known aspects of poverty are contained within absoluteness and irrelativeness.

Absolute poverty

Poverty is usually measured as either absolute or relative poverty (the latter being actually an index of income inequality). Absolute poverty refers to a set standard which is consistent over time and between countries. The World Bank defines extreme poverty as living on less than US$1.25 (purchasing power parity (PPP) per day, and moderate poverty as less than $2 or $5 a day (but note that a person or family with access to subsistence resources, e.g. sustainable farmers, may have a low cash income without a correspondingly low standard of living – they are not living "on" their cash income but using it as a top up). It estimates that "in 2001, 1.1 billion people had consumption levels below $1 a day and 2.7 billion lived on less than 2 dollars a day. "A dollar a day", in nations that do not use the U.S. dollar as currency, does not translate to living a day on the amount of local currency as determined by the exchange rate. Rather, it is determined by the purchasing power parity, which would look at how much local currency is needed to buy the same things that a dollar could buy in the United States. Usually, this would translate to less local currency than the exchange rate in poorer countries as the United States is a more expensive country.

The proportion of the developing world's population living in extreme economic poverty fell from 28 percent in 1990 to 21 percent in 2001(The World Bank, 2007). Most of this improvement has occurred East and South Asia. In East Asia the World Bank reported that "The poverty headcount rate at the 2 dollars-a-day level is estimated to have fallen to about 27 percent [in 2007], down from 29.5 percent in 2006 and 69 percent in 1990 (World Bank 2007). In Sub Saharan Africa, extreme poverty went up from 41 percent in 1981 to 46 percent in 2001 which combined with growing population increased the number of people living in extreme poverty from 231 million to 318 million (Aghion and Morduch 2005).

World Bank data shows that the percentage of the population living in households with consumption or income per person below the poverty line has decreased in each region of the world since 1990. This can be verified in the table below.

Other human development indicators have also been improving. Life expectancy has greatly increased in the developing world since World War II and is starting to close the gap to the developed world. Child mortality has decreased in every developing region of the world. The proportion of the world's population living in countries where per-capita food supplies are less than 2,200 calories (9,200) per day decreased from 56% in the mid-1960s to below 10% by the 1990s. Similar trends can be observed for literacy, access to clean water and electricity and basic consumer items.

The 2007 World Bank report "Global Economic Prospects" predicts that in 2030 the number living on less than the equivalent of 1 dollar a day will fall by half, to about 550 million. An average resident of what we used to call the Third World will live about as well as do residents of the Czech or Slovak republics today. Much of Africa will have difficulty keeping pace with the rest of the developing world and even if conditions there improve in absolute terms, the report warns, Africa in 2030 will be home to a larger proportion of the world's poorest people than it is today.

Relative poverty

Relative poverty views poverty as socially defined and dependent on social context, hence relative poverty is a measure of income inequality. Usually, relative poverty is measured as the percentage of population with income less than some fixed proportion of median income. There are several other different income inequality metrics, for example the Gini Coefficient or the Theil Index.

Relative poverty measures are used as official poverty rates in several developed countries. As such these poverty statistics measure inequality rather than material deprivation or hardship. The measurements are usually based on a person's yearly income and frequently take no account of total wealth. The main poverty line used in the OECD and The European Union is based on "economic distance", a level of income set at 60% of the median household income (Rohman Aminur 2010).

Income poverty happens when a household takes in less than one US dollar per day. This means that people will not have enough food or medicine and they will have poor clothes and houses. Income poverty is due to people not having access to money or other assets. If people do not have any other assets like land to grow their own food, then income poverty can result in stunted growth and early death.

The best way to reduce income poverty is to encourage and support the development of effective businesses (small, medium and large) which make good use of our natural resources and talents to create wealth and jobs

Non income poverty happens when people may have a little bit of money but otherwise the quality of their life is not good. They do not have access to affordable social and physical services (schooling, health care, medicines, safe water, good sanitation, good transport) and they may not feel safe in their homes either because they cannot trust the authorities or because they belong to some particularly vulnerable group

The best way to reduce non-income poverty it to make sure that people have access to affordable and good quality social services and infrastructure, that they feel secure in their homes, that they trust the authorities and, if they are vulnerable, that there are safety net programs to protect them.

Theoretical perspective

The study is anchored on the Joint Liability Theory by Fischer Ghatak (1999).

The first wave of theoretical work on microfinance focused exclusively on joint liability. The term joint liability can be interpreted in several ways, which can be lumped under two categories. First, under explicit joint liability, when one borrower cannot repay her loan, group members are contractually required to repay in her stead. Such repayments can be enforced through the threat of common punishment, typically the denial of future credit to all members of the defaulting group, or by drawing on a group savings fund that serves as collateral. Second, the perception of joint liability can be implicit. That is, borrowers believe that if a group member defaults, the whole group will become ineligible for future loans even if the lending contract does not specify this punishment. One form in which this can happen is if the microfinance organization itself chooses to fold its operations when faced with delinquency.

Ghatak and Guinnane (1999) review the key mechanisms proposed by various theories through which joint liability could improve repayment rates and the welfare of credit-constrained borrowers. These all have, in common, the idea that joint liability can help alleviate the major problems facing lenders — screening, monitoring, auditing, and enforcement — by utilizing the local information and social capital that exist among borrowers. In particular, joint liability can do better than conventional banks for two reasons.

First, members of a close-knit community may have more information about one another (that is, each other's types, actions, and states) than outsiders. Second, a bank has limited scope for financial sanctions against poor people who default on a loan, since, by definition, they are poor. However, their neighbours may be able to impose powerful non-financial sanctions at low cost. An institution that gives poor people the proper incentives to utilize information about their neighbours and to apply non-financial sanctions to delinquent borrowers can do better than a conventional bank.

The theory highlights the proportion of borrowers and lenders trust towards one another and the ability to pay as an individual or as a group. According to the theory, many members of society that borrow from MFIs will try as much as possible to influence other members to pay back their dues in order to prevent the institutions to refuse their demand of taking other loans when need arises in future as a result of one member failing to pay back. At times the theory also reveals that some members go ahead to pay for other members when they fail to pay as a way to strengthen their foundation with the MFIs.

On the basis of the individual loans, Ghatak reveals that individuals cannot pay their loans very well but can strengthen their ability through groups. However, if any member is able it is reliable to purchase reliable loans.

Related studies

The role of MFIs in promoting Rural/Urban Producers

The importance of Microfinance Institutions' improving access to credit for small rural or urban producers, landless farmers and other people with low or no income, with special attention to the needs of women and disadvantaged and vulnerable groups should also be underlined.

Governments are called on to review national legal, regulatory and institutional frameworks that restricts the access of people living in poverty, especially women to credit on reasonable terms; to promoting realistic targets for access to affordable credit, providing incentives for improving access to and strengthening the capacity of organized credit systems to deliver credit and related services to people living in poverty and vulnerable groups (Schreiner 2003); and to expanding financial net works, building on existing networks, promoting attractive opportunities for savings and insuring equitable access to credit at the local level.

It is generally recognized that Microfinance Institutions respond effectively to the ever changing needs of the people. For example, in response to the effects of globalization, people continue to choose Microfinance Institutions to address their needs. In a number of countries, people are starting new enterprises in such areas of social care and information technology because of benefiting from Micro-Credit. Women and youth are also choosing the Micro-Credit form to start enterprises of their own, thus creating new jobs and opportunities.

In some countries, Microfinance Institutions are seen as leaders in promoting food safety and security, and in protecting the environment (Morduch 2000). Still in others their group lending schemes are building peaceful societies by promoting understanding and collaboration among people of different cultural and income backgrounds. Though Microfinance Institutions have played a big role in poverty reduction in developing countries, there are still service gaps that need to be filled.

Microfinance and Poverty Reduction

Microfinance has become an important instrument for poverty alleviation in developing countries today. In many developing economies lack of savings and capital make it difficult for many poor to engage in self-employment and undertake productive employment-generating activities (Khandker, 1998). The widely held argument in the development economics literature is that formal credit markets tend to fail the poor due to the collateral requirements that the poor cannot satisfy and due to the belief that the incentives to repay for the poor are limited given the associated asymmetric information and high monitoring costs of micro individual borrowers (Hulme and Mosley, 1996; Ray, 1998). Often, the poor rely on informal financial markets such as moneylenders and rotating savings and credit associations that have simpler terms of credit. However, the high cost of credit from the informal sector implies that the poor cannot gainfully invest in productive income-increasing activities. Interest rates charged by moneylenders in developing countries are several times higher than those in the formal financial market. For instance, Chipeta and Mkandawire (1991) observe that interest rates in the informal financial market in Malawi range from 300 to 1200 percent per annum, much higher than the interest rates in the formal financial sector. Coleman (1999) also notes that moneylenders in developing countries often charge annual interest rates of more than 100 percent. Institutional credit or microfinance institutions provide a bridge between formal and informal financial markets in most developing economies by using innovative ways of delivering financial services to the poor. The innovations in the credit market introduced by the microfinance institutions include simpler delivery mechanisms and simple forms of collateral (or no collateral), the concept of peer group lending and joint liability, the promise of ongoing and increasing access to credit for borrowers who repay in time. Most institutions offer credit at highly subsidized interest rates, although in exceptional cases they match those of the informal markets.

Khandker et al. (1998) noted that the objective of micro-credit programs is to ease the credit constraints of households or to provide them with capital to invest in an activity; thereby increasing their income and consumption. Zeller and Sharma (2000) observe that there are three ways in which access to or lack of financial services can influence income and food consumption (food security) of households. The first is through income generation in which access to credit provides additional capital to enhance the level of the household=s existing human, physical and social capital so as to earn more income or by increasing the risk-bearing capacity of households by investing in more risky and more profitable income generating activities. Secondly, improved access to financial services may reduce the holding of assets with lower risk-adjusted returns through more cost-effective assets and liabilities that reduce the cost for self-insurance. Finally, credit can directly be used to finance immediate consumption needs of the household. Households may stabilize their consumption in bad states of nature by adjusting their disposable income or liquidity through borrowing for consumption or borrowing for investment with the fungibility of credit the borrowed funds may be diverted to immediate consumption. Hulme and Mosley (1996) also demonstrate the link that exists between credit and poverty reduction is from new investments to the pattern of income change to poverty alleviation. Such a positive relationship depends on the profitability of the projects financed by the credit and their ability to generate direct and indirect employment.

World Bank (2001) notes that access to credit may help the poor avoid distress sales of assets and replace productive assets destroyed in a natural disaster. Thus, microfinance programs help the poor households diversify their sources of income and reduce their vulnerability to income shocks. It is also noted that most of the micro-credit programs are targeted at women or households headed by women (Otero and Rhyne, 1994; Hulme and Mosley, 1996; Khandker, 1998; Murdoch, 1999b; World Bank, 2001). Although most microfinance institutions are far from achieving financial self-sufficiency, there is evidence that poor households participating in micro-credit programs are benefiting in terms of positive effects on incomes and poverty, but seem to have limited effects on employment and technology (Otero and Rhyne, 1994; Hulme and Mosley, 1996b; Khandker, 1998; Murdoch, 1999b).

In Africa, Microfinance Institutions have for the most part made their clients economically dependent due to cultural, political as well as social problem.

Considering the fact that their programs are designed to support clients to be engaged in micro and small businesses, which paves way to be self-employed, and in the mean time to contribute to the family income, their programs are recently focusing to support members in various forms (Morduch 2000).

Some of the programs are designed strictly to follow a credit system, while some are designed in an integrated manner by incorporating a package of programs on entrepreneurship, Microfinance institutions see the background of the clients' situation in the economy and conceptualize empowerment by emphasizing on the economical participation.

They also focus on the different approaches utilized to alleviate poverty starting from the objective and prospect of the respective clients.

The UN General Assembly resolution 52/194 of 18, (December 1997), emphasizes the relationship between micro credit and the eradication of poverty. It also reflects the success of small scale lending programs such as those provided by Microfinance

Institutions. These rely on lending (usually a few hundred dollars) to small enterprises in agriculture, distribution, crafts, trading and similar activities.

The participatory nature of these projects, together with the emphasis on women entrepreneurs and employment creation, has raised hopes of reducing poverty through this approach.

The research carried out on Microfinance Institutions' customer satisfaction in Uganda highlights the strengths and weaknesses of the micro credit approach, including the administrative difficulties and limited linkages with other services for the poor.

Suggestions for strengthening operations and a particular plea for ensuring that micro-credit projects are established in a broader context of support to the small enterprise sector should be emphasized if Microfinance Institutions are to achieve their aim of poverty eradication.

Gaps to be bridged

Poverty has become a global issue with almost all global programs coming up with strategies to reduce its impacts in the low developed economies of the world. The foundational purpose of MFIS was mainly to increase the chance of each individual in the societies mainly in poor areas like Bangladesh to acquire financial needs mainly to engage in development avenues.

However, MFIS still have a big gap to fill especially in reducing poverty to slightly low levels. These gaps include availing information to the general public and society as a whole to, including women in planning and helping them to access financial needs. The other gap is targeting the low income earners other than increasing the avenues to the rich to even generate more incomes.

CHAPTER THREE

METHODOLOGY

Research Design

This study employed the descriptive survey design specifically the descriptive corelational strategy. Descriptive studies are non-experimental researches that describe the characteristics of a particular individual, or of a group. It deals with the relationship between variables, testing of hypothesis and development of generalizations and use of theories that have universal validity. Descriptive surveys were used to discover causal relationships (descriptive corelational) between, microfinance and poverty reduction. The social-demographic characteristics of respondents were also included in the study.

Research Population

The target population included a total of 130 clients of microfinance institutions in Lubirizi District and 21 administrative staff of selected MFIs in Lubirizi. Sixteen (16) small scale and well established MFIs operate in Lubirizi District. The administrative staff were also involved because it is the planning body of MFIs and the implementers.

Sample Size

In view of the nature of the target population where the number for both borrowers and administrators are many, a sample was taken from each category. Table 1 below shows the respondents of the study with the following categories: county, target population and sample size. The Sloven's formula is used to determine the minimum sample size.

Table 1: Respondents of the Study

Counties	Number of MFIs	Total Target Population		Sample size	
		Borrowers	Admin	Borrowers	Admin
Ryeru	2	194	17	45	5
Ndangaro	4	398	26	70	12
Katerera	5	512	40	113	42
Bunyaruguru	5	472	34	91	31
Total	**16**	**1576**	**117**	**319**	**90**
Grand Total		**1693**		**409**	

Sampling Procedures

The purposive sampling was utilized to select the respondents based on these criteria:

1. Male or female respondents in any of the rural and urban Microfinance Institutions were included in the study
2. Microfinance staff with experience ranging from one year and above
3. An administrator of the Microfinance institutions under study

From the list of qualified respondents chosen based on the inclusion criteria, the systematic random sampling was used to finally select the respondents with consideration to the computed minimum sample size.

Research Instruments

The research tools that were utilized in this study included the following: (1) face sheet to gather data on the respondents' demographic characteristics (gender, age, Education qualifications); (2) researcher devised questionnaires to determine the levels of micro finance and poverty reduction. The response modes of the questionnaires in both variables were indicated as 4. Strongly agree, 3. Agree 2. Disagree and 1. Strongly disagree.

Validity and Reliability of Instruments

To ensure the validity and reliability of the instruments, the researcher employed the expert judgement method. After constructing the questionnaire, the researcher contacted experts in the study area to go through it to ensure that it measured what it was designed to measure and necessary adjustments were made after consultation and this ensured that the instrument was clear, relevant, specific and logically arranged. Alternatively, the reliability and validity of the instrument was established by Corn-bachs Co-efficient alpha variable. Variables with Corn-bachs, Co-efficient Alpha test value for less than 0.5 were mot used.

Data Gathering Procedures

Before the administration of the questionnaires

1. An introduction letter was obtained from the College of Higher Degrees and Research for the researcher to solicit approval to conduct the study from respective heads of Micro finance institutions.
2. When approved, the researcher would secure a list of the qualified respondents from MFIs in charge and select through systematic random sampling from this list to arrive at the minimum sample size.
3. The respondents would be explained about the study and would be requested to sign the Informed Consent Form (Appendix 3).
4. Reproduce more than enough questionnaires for distribution.

During the administration of the questionnaires

1. The respondents were requested to answer completely and not to leave any part of the questionnaires unanswered.
2. The researcher and assistants emphasized retrieval of the questionnaires within five days from the date of distribution.
3. On retrieval, all returned questionnaires will be checked if all are answered.

After the administration of the questionnaires

The data gathered was collated, encoded into the computer and statistically treated using the Statistical Package for Social Sciences (SPSS).

Data Analysis

The frequency and percentage distribution was used to determine the demographic characteristics of the respondents.

The mean and standard deviation was used to determine the level of microfinance and poverty reduction. All item strategies were established in terms of mean and rank. The following mean ranges were used to arrive at the mean of individual indications.

A. Microfinance

Mean range	**Response mode**	**Interpretation**
3.26-4.00	Strongly agree	Very satisfactory
2.51-3.25	Agree	Satisfactory
1.76-2.50	Disagree	Fair satisfactory
1.00-1.75	Strongly disagree	Unsatisfactory

B. For the level of poverty reduction

Mean range	Response mode	Interpretation
3.26-4.00	Strongly agree	Very High
2.51-3.25	Agree	High
1.76-2.50	Disagree	Low
1.00-1.75	Strongly disagree	Very Low

Pearson correlation coefficient was used to test the relationship between the levels of microfinance and poverty reduction at 0.05 level of significance.

Ethical Considerations

To ensure confidentiality of the information provided by the respondents and to ascertain the practice of ethics in this study, the following activities were to be implemented by the researcher:

1. The respondents and MFIs were coded instead of reflecting the names.
2. Soliciting permission was done through a written request to the concerned officials of the MFIs included in the study.
3. Request the respondents to sign in the *Informed Consent Form* (Appendix 3)
4. Acknowledge the authors quoted in this study and the author of the standardized instrument through citations and referencing.
5. Present the findings in a generalized manner.

Limitations of the Study

In view of the following threats to validity, the researcher claimed an allowable 5% margin of error at 0.05 level of significance. Measures were also indicated in order to minimize if not to eradicate the threats to the validity of the findings of this study.

1. *Extraneous variables* which were beyond the researcher's control such as respondents' honesty, personal biases and uncontrolled setting of the study.

2. *Instrumentation:* The research instruments on resource availability and utilization are not standardized. Therefore a validity and reliability test was done to produce a credible measurement of the research variables.

3. *Testing:* There was a likelihood of research assistants being inconsistent in terms of the day and time of questionnaire administration. There was thorough briefing and orienting the research assistants in order to address the threat.

4. *Attrition:* There was a likelihood of some respondents of not returning back the questionnaires and this was to affect the researcher in meeting the minimum sample size. To solve this threat, the researcher gave quit more questionnaire exceeding the minimum sample size.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

Demographic characteristics of Respondents

In the study, the researcher described the demographic characteristic of the respondents in terms of Gender, Age, Marital status and Academic qualification. Respondents were asked to state their demographic characteristic for purposes of classifying and comparing them thus. The study employed a closed questionnaire to categorise respondent's profiles and their responses were analysed using frequencies and percentage distribution as shown in table 2 below.

Table 2

Demographic characteristic of respondents

Gender	**Frequency**	**Percentage (%)**
Male	89	58.9
Female	62	41.1
Total	151	100
Age of respondents		
18-25	12	7.9
25-35	37	24.5
35-51	81	53.6
51 and above	21	13.9
Total	151	100
Marital status		
Married	53	35.1
Single	27	17.9
Divorced	31	20.5
Separated	7	4.6
Widow/Widower	33	21.9
Total	151	100
Educational Qualification		
Certificate	57	37.7
Diploma	27	17.9
Bachelors	46	30.5
Masters	21	13.9
Total	151	100

Source: *primary data*

Table four shows that majority of the respondents were Male (58.9%) and female (41.1%). The findings imply that men are the major clients of Micro finance institutions due to the fact that they hold a high advantage of owning property that can act as collateral in case of applying for the loans. As to age, majority of the respondents were age between 35-51 (53%), this was followed by respondents aged between 25-35 (24.5). respondents aged 51 and above were 13.9% and the least aged respondents were 18-25 (7.9%). This implies that the most active group of people in the community were the middle age people (35-51) who were actively involved in business and engaged themselves with Microfinance institutions for financial assistance to boost their business activities. it should also be noted that this group of people have more responsibilities than any other group hence dare need for loans and that is why they emerge the highest number respondents. On the other hand, the least aged respondents at 7.9% (age 18-25) were due to the fact that MFIS have low trust in this group of people and they have almost nothing to offer for collateral.

As of marital status, 35.1% of the respondents were married, 17.9% were single, 20.5% were divorced, 4.6% were separated and 21.9% were widows/widowers. This implied that the respondents that were actively involved with the MFIS were mainly the married due to the responsibilities they have. As to Education qualification, (37.7%) of the respondents were certificate holders, this implies that major clients of MFIS in Lubirizi District are certificate holders who are local entrepreneurs in simple businesses. Respondents hat had bachelor's degrees were (30.5%), those that had diplomas were 17.9% while those that had Masters Degrees were 13.9%. Most of the respondents that had Masters Degrees were work9ing in either Micro Finance Institutions or had offices in high ranking society.

Level of Micro Finance performance institution performance

The fifth objective of the study was to determine the level of micro finance performance in Lubirizi district. This study was broken in to 16 questions and were rated using the scale ranging from 1-4 (1-strongly disagree, 2- Disagree, 3-Agree 4-Strongly agree). Respondent's responses were analysed and described using means and standard deviations as shown in table 3 below.

Table 3

Level of Micro Finance Institution performance (n=151)

Items	**Mean**	**Interpretation**	**Rank**
Through enhancing my capacity to access financial needs	3.58	Very satisfactory	1
Through reaching my community with their different teams to train us on how we can acquire financial assistance and how can invest.	3.42	Very satisfactory	2
By providing reading information on specific MFIs through the local leaders.	2.70	Satisfactory	7
Through increasing their scope of operation to include other remote areas away from the trading centres.	2.71	Satisfactory	6
By sending their agents to my work place to sensitize me about MFIs loans and assistance.	2.63	Satisfactory	10
By starting up projects that promote community business e.g store that buy farmers produces.	2.65	Satisfactory	9
Through providing affordable loans	2.74	Satisfactory	4
Through increasing the chances of each individual to access loans	2.75	Satisfactory	3
By enhancing business initiates for the local people through supporting their business.	2.73	Satisfactory	5
Through providing jobs to the local people without favour	2.24	Fairly satisfactory	14
Through proving timely loans whenever the clients need them without collateral	2.73	Satisfactory	5
Though providing low interest loans to poor local people whenever they are starting up their business.	2.69	Satisfactory	8
By encouraging agriculture through buying their local produce.	2.34	Fairly satisfactory	12
Through operating consistently without cheating people's incomes.	2.56	Satisfactory	11
By supporting schools and promoting Government poverty reduction initiatives.	2.25	Fairly satisfactory	13
Through infrastructural development	2.18	Fairly satisfactory	15
Mean	**2.68**	**Satisfactory**	

Source: *primary data 2012*

Mean range	Response mode	Interpretation
3.26-4.00	Strongly Agree	Very satisfactory
2.51-3.25	Agree	Satisfactory
1.76-2.50	Disagree	Fairly satisfactory
1.00-1.75	Strongly disagree	Unsatisfactory

Table 3 shows that enhancing the respondent's capacity to access financial needs was ranked first with a mean of 3.58 interpreted as very satisfactory. This means that MFIS try to enhance the capacity of individuals to acquire financial needs through applying for loans.

Reaching the community with their different teams to train them on how they can acquire financial assistance and how they invest was rankled second with a mean of 3.42 interpreted as very satisfactory. This means that MFIS reach the community and train them how they can apply for group and individual financial assistance and also how they can invest the finances.

Increasing the chances of each individual to access loans was ranked third with a mean range of 2.75 interpreted as satisfactory. This means that MFIS maintain their position is allowing all members to access loans from the institutions.

Providing affordable loans was ranked fourth with a mean range of 2.74 interpreted as satisfactory. This means that MFIS provide affordable loans to the community members' payable with low interest rates.

Providing timely loans whenever the clients need them without collateral was ranked fifth with a mean range of 2.73 interpreted as satisfactory. This means that MFIS provide loans to their client's right on time minimal or no collateral.

Enhancing business initiates for the local people through supporting their business was also ranked fifth with a mean range of 2.73 interpreted as satisfactory meaning that MFIS enhance business initiatives.

Increasing their scope of operation to include other remote areas away from the trading centres was ranked sixth with a mean range of interpreted as satisfactory. This means that MFIS extent their services to the communities in remote areas not only focusing on the town dwellers.

Providing reading information on specific MFIs through the local leaders was ranked the seventh with a mean range of 2.70 interpreted as satisfactory. This means that MFIS have been providing reading materials to the people in order to avail information that can help everyone know how to obtain and access loans from MFIS.

Providing low interest loans to poor local people whenever they are starting up their business was ranked eight with a mean range of 2.69 interpreted as satisfactory. This means that MFIS provide low interest loans to the poor whenever they are starting up their business.

Starting up projects that promote community business e.g store that buy farmers produces was ranked ninth with a mean range of 2.65 interpreted as satisfactory. This means that some MFIS have either put in place projects that help in promoting the community projects or have supported individual and group projects.

Sending their agents to my work place to sensitize people about MFIs loans and assistance was ranked tenth with a mean range of 2.63 interpreted as satisfactory. This means that MFIS have tried to send their representatives to various organizations in the community to sensitize people about the loans and how they can access them.

Through operating consistently without cheating people's incomes was ranked the eleventh with a mean range of 2.56 interpreted as satisfactory. This means that MFIS operate consistently with respect of people's incomes.

Encouraging agriculture through buying their local produce was ranked twelfth with a mean range of 2.34 interpreted as fair meaning that respondents have not been helped by MFIS with their agricultural produces especially when it comes to market creation.

Supporting schools and promoting Government poverty reduction initiatives was ranked thirteenth with a mean range of 2.25 interpreted as fair meaning that MFIS have not been proactive in supporting government initiatives especially in supporting schools and government poverty reduction initiatives.

Through providing jobs to the local people without favour was ranked fourteenth with a mean range of 2.24 interpreted as fair meaning that the local people are not often given jobs by the MFIS.

Through infrastructural development was ranked fifteenth with a mean range of 2.18 interpreted as fair meaning that MFIS have not developed infrastructures.

Level of Poverty Reduction

The third objective of the study was to determine the level of poverty reduction in Lubirizi District. The level of poverty reduction was measured using 16 quantitative questions and respondents were requested to state the extent to which they agree or disagree with the statement by making the best explanation of their perception. All items on the success of MFIS were rated using 4 scales ranging from 1-4 (1- Strongly disagree,. 2- Disagree, 3-Agree, 4-strongly agree). Respondent's responses were analysed and described using means and standard deviations as shown in table 4.

Table 4

Level of poverty reduction (n=151)

Indicator	Mean	Interpretation	Rank
MFIs support it's clients to engage in micro and small scale businesses	3.45	Very high	2
MFIs encourage clients to be self employed	3.53	Very high	1
MFIs support it's members in various forms like agriculture, arts and crafts, trade and other activities	3.02	High	3
MFIs have contributed on my family incomes	2.64	High	4
MFIs allows small scale lending to it's members with minimal interests	2.48	High	5
I am able to pay medical treatment	2.30	Low	9
As a member of MFI our family income has increased	2.23	Low	12
As MFI member our family food provision has improved	2.25	Low	11
As MFI member, my children are attending school	2.34	Low	8
As a member of MFI some of my children have finished school	2.28	Low	10
As a member of MFI, my housing has improved from grass thatched to a roofed house	2.30	Low	9
I am able to pay transport	2.23	Low	12
As a member of MFI, I own land	2.39	Low	6
I own a car(s)	2.23	Low	12
As a member of MFI, I managed to buy live stock, cows, goats, sheep, or poultry.	2.38	Low	7
As a member of MFI, I have managed to go for a formal wedding	1.58	Very low	13
Mean	**2.48**	**High**	

Source: *primary data*

Mean range	Response Mode	Interpretation
3.26-4.00	Strongly agree	Very High
2.51-3.25	Agree	High
1.76-2.50	Disagree	Low
1.00-1.75	Strongly disagree	Very Low

Table 4 shows that encourage clients to be self employed was ranked first with a mean range of 3.53 interpreted as very high. This means that MFIS encourage people to create their own businesses.

MFIs support their clients to engage in micro and small scale businesses was ranked second with a mean of 3.45 interpreted as very high meaning that MFIS support both group and individual small scale and large scale businesses.

MFIs support it's members in various forms like agriculture, arts and crafts, trade and other activities was ranked third with a mean of 3.02 interpreted as high. this means that MFIS support their members in various activities speciously in agriculture, arts and trade.

MFIs have contributed on my family incomes was ranked fourth with a range of 2.64 interpreted as high meaning that MFIS have contributed to the house hold incomes of the respondents.

MFIs allows small scale lending to its members with minimal interests was ranked fifth with a mean of 2.48 interpreted as high meaning that MFIS allow small scale lending to their clients with low interest rates to enable them raise capital.

As a member of MFI, I own land was ranked sixth with a mean of 2.39 interpreted as low meaning that members of MFIS have not been in position to use loans to buy land.

As a member of MFI, I managed to buy live stock, cows, goats, sheep, or poultry was ranked seventh with a mean of 2.38 interpreted as low meaning that MFIS have not enabled the respondents to buy live stock.

As MFI member, my children are attending school was ranked eighth with a mean of 2.34 interpreted as low meaning respondent's children are not necessarily attending school due to MFIS.

I am able to pay medical treatment was ranked ninth with a mean of 2.30 interpreted as low meaning that respondents are not able to pay treatment even with the presence of MFIS.

As a member of MFI, my housing has improved from grass thatched to a roofed house was also ranked ninth with a mean of 2.30. This means that respondent's housing has not improved even with MFIS.

As a member of MFI some of my children have finished school was ranked tenth with a mean of 2.28 interpreted as low. This means that respondent's children have not finished school even with the presence of MFIS.

As MFI member our family food provision has improved was ranked eleventh with a mean of 2.25 interpreted as low meaning that house hold food provision still remains a problem even with the efforts of MFIS.

As a member of MFI our family income has increase was ranked twelfth with a mean of 2.23 interpreted as low. This means that the respondent's house hold income has not increased even with the work of MFIS.

I am able to pay transport was also ranked twelfth with a mean of 2.23 interpreted as low. This means that respondents are still not able to afford transport for their produces and themselves.

I own a car(s) was ranked twelfth with a mean of 2.23 interpreted as low meaning that respondents do not own car(s) as a result of MFIS.

As a member of MFI, I have managed to go for a formal wedding was ranked thirteenth with a mean of 1.58 interpreted as low. This means that respondents have not had formal weddings even with MFIS.

Relationship Between level of performance of Micro Finance Institutions and level of Poverty Reduction.

The fourth objective was to determine whether there exists a significant relationship between Microfinance and poverty reduction in Lubirizi District of which it was hypothesized that "there is no significant relationship between Microfinance institution and poverty reduction in Lubirizi District". To test the null hypothesis, and to get an overall picture of the relationship, the researcher combined all the means and computed them in table 3 and 4 above and two mean indices were correlated using Pearson's Linear Correlation Coefficient (PLCC) as shown in table 5 below.

Table 5a

Relationship between level of performance of MFIS and poverty reduction

(Level of significance=0.05)

Variable correlated	Computed r-value	p-value	Interpretation of Correlation	Decision on H_o
MFIS and poverty reduction	0.356	0.000	Positive and significant	Reject

Source: *primary data*

Using the Pearson Linear Correlation Coefficient at 0.05 level of significance, table 5 shows that the relationship between the level of MFS performance and level of poverty reduction is significant since the computed P-value is less than 0.05. the null hypothesis is rejected, therefore there is a significant relationship between the level of MFIS performance and level of poverty Reduction.

Table 5b

Regression Analysis between Micro Finance Institutions and Poverty Reduction in Lubirizi District.

Variables Regressed	Adjusted R^2	F	Sig.	Interpretation	Decision on H_0
Micro finance Institutions VS Poverty Reduction	.121	20.406	.000	Positive and Significant	Rejected

Source: primary data

The Linear Regression results in table 5b above indicates that MFIs role in poverty reduction (independent variable) on regression model contribute over 20% towards poverty reduction (dependent variable) in Lubirizi District as indicated by a high Adjusted R^2 of 0.121. This implies MFIs should be emphasized because they have been found to be instrumental in Poverty Reduction in Lubirizi District, Uganda.

Results further suggest that the independent variable (Micro Finance) include in the model significantly influences changes in the dependent variable (Poverty Reduction) (F=20.406, sig.=0.000). These results lead to a conclusion that Micro Finance Institutions in Lubirizi district significantly explains the high rates of poverty reduction in Lubirizi district, Uganda.

CAHPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSIONS, AND RECOMMEDATIONS

Profile of the respondents

The study indicated that the male respondents were the highest (58.9%), in terms of age; respondents aged between 35-51 provided a high response to the study. As of marital status, married people emerged the highest respondents of the study (35.1%), and in the education qualification, certificate holders ranked high among the respondents.

Level of Micro Finance Institutions performance

The second objective of the study which intended to find out the level of Micro finance performance revealed that the institutions have satisfactory enhanced people's capacity to access loans (at a mean of 3.45).

Level of poverty reduction

The third objective of the study which intended to find out the level of poverty reduction revealed that the level of poverty reduced highly with regards to MFIS support (at a mean of 2.48).

The Relationship between MFIS and poverty reduction

The fourth objective of the study was set to establish whether there was a significant relationship between Micro Finance Institutions and poverty reduction in Lubirizi District for which it was hypothesized that there is no significant relationship between micro finance institutions and poverty reduction. Basing on the findings, the null hypothesis rejected leading to a conclusion that micro finance institutions were of a positive and a significant influence to poverty reduction in Lubirizi District. The justification of this is revealed by the level of significant value that is less than 0.05 for example (r=0.356, sig=0.000). The same results were supported by the linear regression results which also indicate that all Micro finance institutions influence poverty reduction in Lubirizi district.

Conclusions

The hypothesis of there is no significant relationship between Microfinance institutions and poverty reduction was rejected. Therefore there is a significant relationship between Microfinance institutions and poverty reduction.

The study validated the "Joint Liability Theory" by Fischer Ghatak (1999), proving that individual loans are highly demanded but have a serious setback in paying back.

The study found out that men were the highest contenders in microfinance loans; however these loans did not increase their house hold incomes or facilitate them to improve the loved of their family member like taking their children to school, afford treatment or even go for formal weddings.

Under the related studies, it was revealed that microfinance and poverty reduction are synonymous and mutually exclusive. An improvement in microfinance institutions leads to reduction on poverty by a certain value.

Recommendations

Basing on the findings, the researcher made the following recommendations both to the management of Micro Finance Institutions and all the key stakeholders of Lubirizi:

Micro Finance institutions should encourage more women to apply for loans through a generated training program that will enable women get business loans that will help them reduce poverty among the female groups.

Micro Finance institutions should reduce interest rates in accordance to the Central bank (Bank of Uganda) as a way to enable individuals to access loans and start up businesses that will enable them move out of poverty.

MFIS should also increase their scope of operation to extend their services to the far rural based individuals who have the capacity to produce and engage in business. The scope should also be increased to participate in trade business besides money loaning.

The rural people should also formulate active groups that are willing to work in order for them to make it easy for MFIS to lend them money basing on their capacity to pay back since single individuals often find it hard to pay back loans within a specified time.

Areas for future Research

Notwithstanding the efforts made by the researcher, he could not exhaust entirely this particular area; therefore he recommends that the future researchers should focus on the following.

Owing the fact that the study concentrated on Micro Finance Institutions and Poverty Reduction in Lubirizi district, there is need to conduct a study similar but covering Micro Finance Institutions and raising the house hold income in Lubirizi District since there is still a huge gap between different households in terms of their incomes.

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APPENDIX 1 A

TRANSMITTAL LETTER

KAMPALA INTERNATIONAL UNIVERSITY

Ggaba Road - Kansanga
P.O. Box 20000, Kampala, Uganda
Tel: +256 - 414 - 266813 / +256 - 772 - 322563
Fax: +256 - 414 - 501 974
E-mail: admin@kiu.ac.ug
Website: www.kiu.ac.ug

OFFICE OF THE HEAD OF DEPARTMENT, ECONOMICS AND MANAGEMENT SCIENCES
COLLEGE OF HIGHER DEGREES AND RESEARCH (CHDR)

Date: 23rd July, 2012

RE: REQUEST OF ASIIMWE DAVID MDS/11653/111/DU
TO CONDUCT RESEARCH IN YOUR ORGANIZATION

The above mentioned is a bonafide student of Kampala International University pursuing Masters in Development Studies.

He is currently conducting a research entitled **"Microfinance and Poverty Reduction in Lubirizi District, Western Uganda."**

Your organization has been identified as a valuable source of information pertaining to his research project. The purpose of this letter is to request you to avail him with the pertinent information he may need.

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

Any assistance rendered to him will be highly appreciated.

Yours truly,

Mr. Malinga Ramadhan
Head of Department,
Economics and Management Sciences, (CHDR)

NOTED BY:
Dr. Sofia Sol T. Gaite
Principal-CHDR

"Exploring the Heights"

APPENDIX 1B

TRANSMITTAL LETTER FOR THE RESPONDENTS

BUSHENYI DISTRICT LOCAL GOVERNMENT
P.o. Box, 87 BUSHENYI

E REPUBLIC OF UGANDA

OFFICE OF THE CHIEF
ADMINISTRATIVE OFFICER
TEL, NO 0777913894

Our ref: **CR/583/220/01**

YOUR REF......... Date **20th June,**
2012

Mr. Asiimwe David

Student Kampala International University

Kampala

RE: ACCEPTANCE LETTER

This is to acknowledge receipt of your letter requesting the district to allow you conduct research on the topic "Micro finance institution and poverty reduction in Lubirizi District"

You are hereby accepted to carry out this research on the above topic and you are free to move to any local government of your choice and interview or administer questionnaires to any person of your interest. You are also requested to share with this office the findings of this study to help the district identify the policy gaps in this area.

By copy of this letter, the District Councilors sub Country Chairpersons and sub Country Chiefs are hereby informed.

20 JUN 2012

Rwegasha Armstrong

For: CHIEF ADMINISTRATIVE OFFICER

Copy: District Councilors

Sub County Chairpersons

Sub County Chiefs

Sub County Chiefs

District Notice Board

APPENDIX II

CLEARANCE FROM ETHICS COMMITTEE

Date_______________

Candidate's Data

Name______________________________________

Reg.# _____________________________________

Course ____________________________________

Title of Study ____

____

Ethical Review Checklist

The study reviewed considered the following:

____ Physical Safety of Human Subjects

____ Psychological Safety

____ Emotional Security

____ Privacy

____ Written Request for Author of Standardized Instrument

____ Coding of Questionnaires/Anonymity/Confidentiality

____ Permission to Conduct the Study

____ Informed Consent

____ Citations/Authors Recognized

Results of Ethical Review

____ Approved

____ Conditional (to provide the Ethics Committee with corrections)

____ Disapproved/ Resubmit Proposal

Ethics Committee (Name and Signature)

Chairperson ________________________________

Members _________________________________

APPENDIX III

INFORMED CONSENT

I am giving my consent to be part of the research study of Mr. Asiimwe David that will focus on microfinance and poverty reduction.

I shall be assured of privacy, anonymity and confidentiality and that I will be given the option to refuse participation and right to withdraw my participation anytime.

I have been informed that the research is voluntary and that the results will be given to me if I ask for it.

Initials: ______________________________

Date________________________________

APENDIX IV

CALCULATION OF THE SAMPLE SIZE USING THE SOLVENS FORMULEA

$$n = \frac{N}{1 + Na^2}$$

Where n= sample size

N= Study population/Target population

a= level of significance or margin of error (0.05)

The study population/ Target population is 1693

There fore

$$n = \frac{N}{1 + Na^2}$$

$$\mathbf{n= \frac{1693}{1+1693\ (0.05)_2}}$$

$$\mathbf{n= \frac{1693}{1+1693*0.0025}}$$

$$\mathbf{n= \frac{1693}{5.2325}}$$

n= 324 (sample size)

APPENDIX V

FACE SHEET: DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS

Gender (1) Male (2) Female

Age (a) 18 (b) 18-25 (c) 25-35 (d) 35-51 (e) 51 and above

Marital status (please tick) (1) married (2) single (3) divorced (4) separated (5) Widow/ widower

Educational Qualifications:

(1) Certificate___________________________

(2) Diploma ___________________________

(3) Bachelors ___________________________

(4) Masters ___________________________

(5) Ph.D. ___________________________

PART ONE: QUESTIONNAIRE TO DETERMINE LEVEL OF PERFORMACE OF MFIS IN LUBIRIZI

Direction: please tick your rating on the space under each column which corresponds to your best choice in terms of level of awareness of MFIs.

Rating	Respondents mode	Description	Interpretation
4	Strongly agree	You agree with no doubt at all	Very satisfactory
3	Agree	You agree with some doubt	Satisfactory
2	Disagree	You disagree with some doubt	Fair
1	Strongly disagree	You disagree with no doubt	Poor

MFIs have the following services availed to me as a member.		**Rating**			
		4	3	2	1
1.0	Through enhancing my capacity to access financial needs				
1.1	Through reaching my community with their different teams to train us on how we can acquire financial assistance and how can invest.				
1.2	By providing reading information on specific MFIs through the local leaders.				
1.3	Through increasing their scope of operation to include other remote areas away from the trading centres.				

1.4	By sending their agents to my work place to sensitise me about MFIs loans and assistance.				
1.5	By starting up projects that promote community business e.g store that buy farmers produces.				
1.6	Through providing affordable loans				
1.7	Through increasing the chances of each individual to access loans				
1.8	By enhancing business initiates for the local people through supporting their business.				
1.9	Through providing jobs to the local people without favour				
2.0	Through proving timely loans whenever the clients need them without collateral				
2.1	Though providing low interest loans to poor local people whenever they are starting up their business.				
2.2	By encouraging agriculture through buying their local produce.				
2.3	Through operating consistently without cheating people's incomes.				
2.4	By supporting schools and promoting Government poverty reduction initiatives.				
2.5	Through infrastructural development				

PART 2: QUESTIONNAIRE TO DETERMINE THE LEVEL OF POVERT REDUCTION

Direction: please tick your rating on the space under each column which corresponds to your best choice in terms of level of awareness of MFIs.

Rating	Respondents mode	Description	Interpretation
4	Strongly agree	You agree with no doubt at all	Very High
3	Agree	You agree with some doubt	High
2	Disagree	You disagree with some doubt	Low
1	Strongly disagree	You disagree with no doubt	Very low

As a member of the MFI		**Rating**			
No		4	3	2	1
1.0	MFIs support it's clients to engage in micro and small scale businesses				
1.1	MFIs encourage clients to be self employed				
1.2	MFIs support it's members in various forms like agriculture, arts and crafts, trade and other activities				
1.3	MFIs have contributed on my family incomes				
1.4	MFIs allows small scale lending to it's members with minimal interests				
1.5	I am able to pay medical treatment				
1.6	As a member of MFI our family income has				

	increased				
1.7	As MFI member our family food provision has improved				
1.8	As MFI member, my children are attending school				
1.9	As a member of MFI some of my children have finished school				
2.0	As a member of MFI, my housing has improved from grass thatched to a roofed house				
2.1	I am able to pay transport				
2.2	As a member of MFI, I won land				
2.3	I own a car(s)				
2.4	As a member of MFI, I managed to buy live stock, cows, goats, sheep, or poultry.				
2.5	As a member of MFI, I have managed to go for a formal wedding				

Microfinance providers in Uganda

MFI	Year of establishment	Methodology	No. of clients	**Sustainability**
CERUDEB	Transformed into a bank in 1993	Individual lending	14.000 borrowers, 45.000 savers	Full financial sustainability
FINCA	1992	Village banking	23.500	Full financial sustainability
PRIDE	1995	Adjusted village banking	24.500	Close to operational sustainability
UMU	1997	Solidarity group lending	10.000	Close to operational sustainability
CMF LTD	1999	Group and individual lending	13.000	Close to financial sustainability
UWFT	1985	Group and individual lending	35.000	Operational sustainability
FOCCAS	1995	Village banking with education	7.500	Approx. 50% operational sustainability
UWESO	1996	Group	8.000	Below 50% operational sustainability
FAULU	1995	Group and individual	8.000	Just below 50% operational sustainability

Source: *Andy, Hannes, Andrew, Reiter and Elisabeth (2001), Microfinance in Uganda.*

Decrease in the level of poverty in selected years

Region	1990	2002	2004
East Asia and Pacific	15.40%	12.33%	9.07%
Europe and Central Asia	3.60%	1.28%	0.95%
Latin America and the Caribbean	9.62%	9.08%	8.64%
Middle East and North Africa	2.08%	1.69%	1.47%
South Asia	35.04%	33.44%	30.84%
Sub-Saharan Africa	46.07%	42.63%	41.09%

Source: World Bank report 2007

RESEARCHER'S CURRICULUM VITAE

To document the details of the researcher, his competency in writing a research and to recognize his efforts and qualifications, this part of the research report is thus meant.

Personal Profile

Name	: Asiimwe David
Gender	: Male
Nationality	: Ugandan

Educational Background

Bachelor of Arts in Education (K.I.U)	(2009)
UACE (St. Francis S.S.S)	(2005)
UCE (St Francis S.S.S)	(2003)

Work Experiences

One and a half years teaching with Kampala International University (2011-2012)

One year volunteering with ACCI as the General Secretary (2011-2012).