# MICROFINANCE INTERVENTION AND POVERTY REDUCTION IN UGANDA: A CASE OF MOROTO DISTRICT

LOTEE EMMANUEL

BEC/36422/113/DU

A RESEARCH DISSERTATION SUBMITTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT SCIENCES IN PARTIAL FULFILLMENT FOR THE REQUIREMENTS OF THE AWARD OF THE DEGREE OF BACHELOR OF ARTS IN ECONOMICS OF KAMPALA INTERNATIONAL UNIVERSITY

JANUARY, 2015

## DECLARATION

I, LOTEE EMMANUEL declare that this proposal is my original work and has not been published and / or submitted for any award in any University before.

Signature..............................................................................................

LOTEE EMMANUEL

Date..12TH|03|2015.......................................................................................

## APPROVAL

This proposal has been submitted with the approval of my supervisor.

Sign.........................................................................

MUTUMBA GEOFREY

Date... 15th march 2015 ...........................................................

## DEDICATION

I dedicate this piece of work to my beloved father Mr. Emuron, my mother, Ms Kuri, my Siblings, Loitakol, Logit, Nakiru, and Nawati, my cousins, Lotee and Lokii and lastly my close friends, Lochap and Teko.

**ACKNOWLEDGEMENT**

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

I am deeply indebted to my research supervisor, Mr. Mutumba Geofrey for his patience with my inadequacies as he guided me through the research. Without his parental and professional input, this research would have been difficult to elevate to its current level.

Furthermore, I acknowledge with gratitude the contributions and co-operation made by the respondents from the two selected microfinance institutions for their willingness to provide the necessary information, during the research process. Without their cooperation, this study would have been impossible to accomplish.

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

I would like to deeply thank all my lecturers at the College of Economics and Management Sciences of Kampala International University. They adequately guided and equipped me with both theoretical and practical skills. I would also like to acknowledge the contribution of my colleagues from whom I enjoyed fruitful discussions on challenging topics.

Lastly, I appreciate my parents for both the financial and emotion support they accorded during the course of my studies. May God reward them abundantly.

## LIST OF ACRONYMS

| | |
|---|---|
| **CERUDEB** | Centenary Rural Development Bank |
| **GDP** | Gross Domestic Product |
| **IFAD** | International Fund for Agricultural Development |
| **ILO** | International Labor Organization |
| **IMF** | International Monetary Fund |
| **MFLS** | Microfinance Institutions |
| **PEAP** | Poverty Eradication Action Plan |
| **PRSP** | Poverty Eradication Strategy Papers |
| **SCS** | Savings and Credit Society |
| **UBOS** | Uganda Bureau of Statistics |
| **UGX** | Uganda Shillings |
| **UN** | United Nations |
| **UNCDF** | United Nations Capital Development Fund |
| **UNESCO** | United Nations Education, Scientific and Cultural Organisation |
| **UNICEF** | United Nations International Children's Educational Fund |
| **USAID** | United States Agency for International Development |

TABLE OF CONTENTS

## LIST OF FIGURES

## LIST OF TABLES

**ABSTRACT**

This study investigated the impact of microfinance intervention on poverty reduction in Moroto district. The following objectives guided the study: i) to examine the various microfinance services provided by MFIs to the beneficiaries in Moroto district; ii) to establish the effects of microfinance interventions on poverty reduction among the beneficiaries in Moroto district; iii) to examine the relationship between microfinance services and poverty reduction in Moroto district.

This study employed a descriptive survey design. A sample size of 108 respondents from among microfinance beneficiaries was determined using Krejcie and Morgan table (1970 from a target population of 150 participants. The research instrument used was questionnaires while quantitative data was analyzed using SPSS data editor version 17.0. Pearson correlation coefficiency was used to determine the relationship between microfinance intervention and poverty reduction.

The study established that between the two microfinance institutions surveyed in Moroto district, both of them had loans, savings and insurance as some of their services to their clients. Furthermore, the study findings revealed that microfinance intervention had to a lesser extent reduced poverty among the beneficiaries. In addition to that, there was a significant positive correlation between microfinance intervention and poverty reduction ($r=.694$, $p>.032$).

The study concluded that loans, savings and insurance are components of microfinance and that microfinance services significantly influence poverty reduction. However it was argued that microfinance services are more effective when combined with entrepreneurial skills. Furthermore, microfinance intervention improved and increased income of the beneficiaries thus improving their housing facilities and having adequate food for consumption, however it did not stop them from being vulnerable to illness. The study recommended that there is need for microfinance institutions to put in place loan products that allow individual borrowing. This would encourage more borrowing since sometimes it is very difficulty to form groups to borrow a loan in rural areas among the illiterates. There is also need for the microfinance institutions to provide different types of loans that covers education loans so that the beneficiaries can educate their household members.

# CHAPTER ONE
# INTRODUCTION

## 1.1 Background of the study

Poverty remains a matter of growing concern in many developing countries of the world. Today, as other continents continue to register sustainable economic growth and development, Africa is not only lagging behind but is trapped in a vicious circle of borrowing and donor dependency syndrome which some critics point out as one of the causes practically sabotaging real development. Africa has perpetually failed to focus its development efforts on the optimum utilization of the immense natural resources that many countries are endowed with to turn it into wealth to propel their economies and people towards a high level of economic and social development and as a consequence eliminate pervasive poverty (Geldolf, 2005).

Although Africa is not the poorest continent, it is the only region where poverty is constantly on the increase. As a result millions of people live each day in abject poverty. Children go without food, their bodies stunted by malnutrition which is wide spread. The commission for Africa finds the conditions of the lives of the majority of Africans to be deplorable and an insult to their dignity (Geldolf, 2005). Therefore, there is need to change these conditions in order to make poverty history in Africa. Lufumpa (1999) points out that in the mid 1990s close to 50 percent of Africa's population of 700 million lived in absolute poverty and the majority of the poor live in rural areas. In both urban and rural areas, women as a group comprise of a high disproportion number of people in absolute poverty.

One of the biggest problems of Uganda like many other countries in Africa is poverty. The country ranks 158 out of 174 poorest countries in the world (UNDP). Using international poverty measures, 82.2 percent of the population lives below US$1 a day, 96.4 percent live below US$ 2 a day (Garbus, 2003). The majority of the people who live in rural areas are women and children and many are dependent on agriculture. However, a large sector of agriculture is still subsistence and women are dominating using poor technology. The poor in rural areas are in most cases not reflected in the macroeconomic interventions and because of this scenario poverty is growing. Society holds women responsible for all the key actions required to end hunger, family nutrition, health, education, and increasing family income. Yet women are still enslaved by customs and traditions which systematically deny those resources and freedom of action to carry out their responsibilities. The rural women operate mainly in the informal economy where the whole context for their lives and economic activities do not produce enough surpluses to lift their standard of living. As a consequence they lack the ability to generate incomes, to save, to start economic activities and to access credit from the formal sector which is heavily restricted due to lack of collateral. The poor are traditionally disregarded as "unbankable" and "uncreditworthy" (Hossin and Zahidur, 2001).

Therefore the problem of microfinance to enable the poor to pull out of their poverty situation is critical. Although microfinance is a vital component in poverty alleviation, there is a general consensus among its proponents that it is not for everyone (Khandeker, 2001). One wonders who these poor are to benefit from the intervention. In order for microfinance to produce results, it requires the support of other factors, most importantly, entrepreneurial skills, proper functioning infrastructure like capital markets, financial services like insurance, and working institutions. This study investigated the impact of microfinance institutions on poverty elevation in Moroto district.

## 1.2 Statement of the Problem

Microfinance Institutions (MFIs) have been involved in the struggle against poverty through the provision of loans and other services for a long time in Moroto district. However, poverty levels are still high in the District. 76% of the population of Moroto district still live below the poverty line (UBOS, 2014). Since Microfinance intervention has been identified as a possible tool for poverty reduction (Binns, 2001; Hindle and Dushworth, 2000; and Seibel, 2005), the researcher intends to assess whether Microfinance intervention could be more effective against rural poverty reduction in Moroto district.

## 1.2 Purpose of the study

The study sought to establish the extent to which Microfinance intervention is effective in poverty reduction in Moroto district.

## 1.3 Research Objectives

i. To examine the various microfinance services provided by MFIs to the beneficiaries in Moroto district.

ii. To establish the effects of microfinance interventions on poverty reduction among the beneficiaries in Moroto district.

iii. To examine the relationship between microfinance services and poverty reduction in Moroto district.

### 1.4 Research Questions

i. What are the various microfinance services provided by MFIs to the beneficiaries in Moroto district?

ii. What are the effects of microfinance interventions on poverty reduction of the beneficiaries in Moroto district?

iii. What is the relationship between microfinance service and poverty reduction in Moroto district?

### 1.5 Scope of the Study

#### 1.5.1 Geographical Scope

This study was carried out among microfinance institutions in Moroto district. The district is located in North Eastern Uganda and inhabited by the Karamojongs. The district is bordered by Nakapiririt on the South, Amudat on the North, Kotido on the East and Napak on the West.

#### 1.5.2 Subject Scope

This study was limited to microfinance intervention (independent variable) measured using loans, savings and insurance while poverty reduction (dependent variable) was measured using increase in income, reduction in vulnerability, and employeement.

#### 1.5.3 Time Scope

This study was limited to a period of 2 years, that is, from 2012-2014.

### 1.6 Significance of the Study

The study hopes to generate knowledge for rural poverty reduction policy makers in government and other players on the relationship between microfinance, entrepreneurial skills and poverty reduction.

The study will provoke more research in the area of microfinance and entrepreneurial skills provision as tools for poverty eradication.

The study will add to existing literature in the area of microfinance and entrepreneurial skills since it will identify the factors that have led to poverty among Microfinance beneficiaries and those factors which seem to be hindering the achievement of poverty reduction objective.

### 1.7 Definition of Key Terms

**Microfinance institution:** refers to programs that extend small loans and other financial services to the very poor people for self employment projects that generate income, allowing them to care for themselves and their families.

**Poverty:** refers to a deprivation which includes issues such as hunger, lack of shelter and clothing, health care, education and access to policy making processes. Poverty connotes the lack of access to resources necessary to achieving a decent standard of living.

**Poverty Reduction:** refers to a condition for investment and wealth creation.

# CHAPTER TWO
# LITERATURE REVIEW

## 2.0 Introduction

This section covers literature reviewed from different authors/scholars in accordance to the objectives of the study. The section begins with theoretical review, followed by conceptual framework and finally related studies.

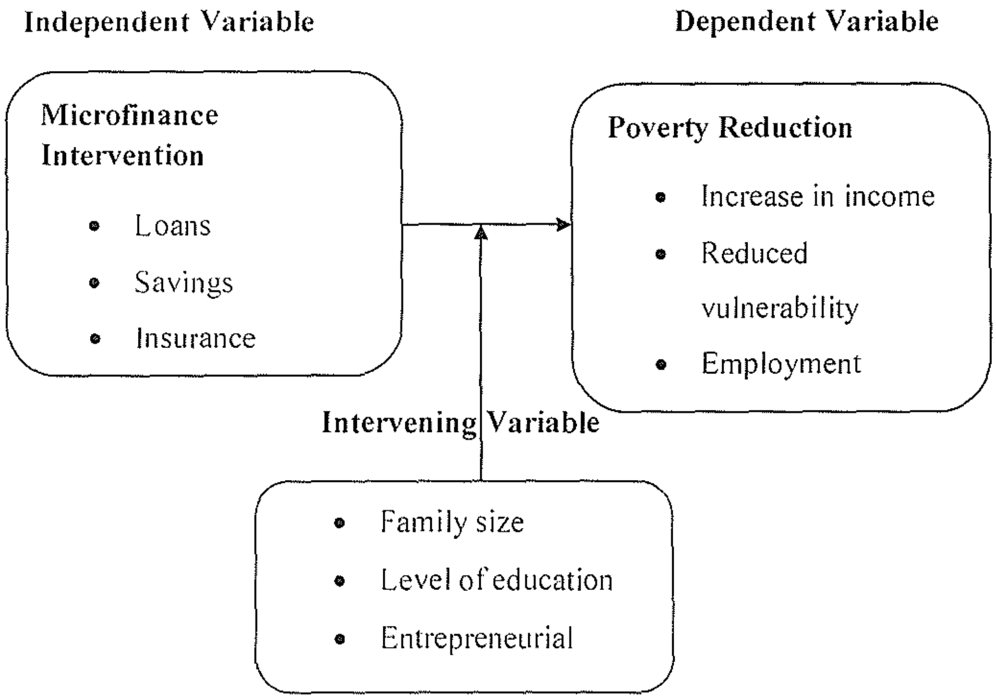
## 2.1 Theoretical Review

This study will be guided by Ricardo's (1937) theory of growth. The theory states that the increase in capital will determine the increase in labour. David Ricardo asserts that the rate of capital Accumulation depends on the ability to save (which intern depends on net income) and the will to save (which depends on the rate of profit). Net income, according to Ricardo, refers to the surplus over the total product required for maintaining labour's subsistence level. Disagreeing with Smith, Ricardo believes that the people's willingness to save and invest "will diminish with every diminution of profit, and will cease altogether when profits are so low as not to afford them an adequate compensation for their trouble, and the risk which they must necessarily encounter in employing their capital productively (Adelman, 1962). This means that if the local people borrow loans from financial institutions and later put it into good investments, there be increase in profits which eventually will lead to increase in income, which income can be saved (accumulated) in financial institutions and will therefore improve the financial level of the borrowers hence reducing poverty however if no investments are made, there will be no capital accumulation hence poverty persistence.

According to Ricardo, capital accumulation, an increasing function of excess profits (which means that as profits increase, capital accumulation would increase) will entirely be given up under two circumstances. One, if surplus above subsistence level falls to zero and two, if the rate of profit falls to such a low level that it is only sufficient to compensate the risk.

### 2.2 Conceptual framework

**Figure 1: Showing the Relationship Between Microfinance Intervention and Poverty Reduction in Moroto District, Uganda.**




**Source: (Ahsan 2005; Marrr 2002)**

According to figure 1, borrowing loans from microfinance institutions can reduce poverty among the borrowers if the investments are viable and guarantee increase in come. Proper savings knowledge can also influence increase in income and reduce vulnerability. However if these loans are borrowed with poor entrepreneurial skills it can easily be put to waste hence increasing poverty level. On the other hand, if the family size is large and is dominated by low level of education among members, it can also affect poverty reduction attempts.

### 2.3 Related Literature

#### 2.3.1 Microfinance

Microfinance has evolved as an economic development tool. It involves the transfer of capital resources and the provision of other financial services such as micro insurance, education, simple business record keeping and technical assistance to small scale entrepreneurs and other poor but economically active clients (Zeller & Sharma, 2008). Holt and Ribes (2011) argue that access to microfinance raise the incomes and productivity of the rural poor to engage in micro and small entrepreneurial activities. With increased income in the hands of the rural poor they are able to save and invest in household consumption and human capital development.

Dalencey (2013) in a study on savings pattern in Cameroun found that savings among low income rural poor at a tea plantation applied about 36 percent of their wages to investment and development, especially in educating their children. A study by Gabianu (1997) in Ghana revealed that the poor rely on indigenous money collectors known as "susu collectors" in their bid to save to raise working capital to invest in their small businesses to improve household incomes.

Microfinance as a development tool involves short term loans with collateral substitutes such as group guarantors or compulsory savings. In Uganda the provision of microfinance services is usually accompanied with the provision of other non financial services such as business development training, advisory services, extension services, etc, aimed at building the capacity of clients. Institutions including the Uganda Women Trust Bank, and Pride Microfinance have greatly influenced the methodology of microcredit delivery in Uganda. These institutions have revolutionized the methodologies and approaches to the delivery of Micro-finance. Microfinance services were measured using loans, savings and employments.

#### 2.3.1.1 Loans

Loans are small amounts of money loaned by a bank or other institutions, to an individual or group, often without collateral (UN 2004). Loans can assist the poor in building assets and 'smoothing' the up-and- down nature of their income and can assist in converting very small, irregular incomes into a large lump sum which can augment livelihood and reduce vulnerability (Umrabulo,2005,DFID , 2001). Gou – PEAP, (2005) noted that Loans are essential for investment as they lead to increased income and for consumption smoothing in lean periods.

Atieno, (2001) while quoting Hossain, (1988), observed that the provision of loans has increasingly been regarded as an important tool for raising the incomes of rural populations, by mobilizing resources to more productive uses. As development takes place, one question that arises is the extent to which credit can be offered to the rural poor to facilitate their advantage of the developing entrepreneurial activities. The generation of self-employment in non-farm activities requires investment in working capital. However at low levels of income, the accumulation of such capital may be difficult. Under such circumstances, loans, by increasing family income can help the poor to accumulate their own capital and invest in employment generating activities.

**2.3.1.2 Savings**

Savings services are needed by people to protect their incomes and to serve as an alternative to the assumption of debt (Akanji, 2005 and Binns, 2001). Savings are a requirement for borrowing by some credit unions because they encourage financial discipline among borrowers and provides funds for on-lending which substantially increase the depth of outreach of microfinance (Lashley, 2005).

Seibel et- al. (2005) and Lennart (2004) supported the idea of savings that they are the core of self–help and self- reliance, especially among women who are less risk-prone and more savings oriented than men. Easy and convenient deposit facilities and collection services in the vicinity are the most important services for enterprise development and poverty alleviation. With savings available to them, the poor are able to accumulate cash surpluses which could be turned into productive assets and make a significant contribution to household livelihood strategies. Cash surpluses can also create a barrier for the foreseen expenses of the future, thus reducing vulnerability to debt traps (Umrabulo, 2005; Seibel, 2000 and DFID, 2000).

Millions of rural poor do not have access to the basic savings and credit services that most people take for granted. This makes it much harder for the poor to rise out of poverty. Traditional ways of saving, such as putting money into livestock or jewellery, can leave the poor in a weak position when they need funds. Liquid cash is far more convenient.

The rural poor need access to micro saving facilities in order that they can deposit money when they have it - after selling their harvested crops, for example – and withdraw it in times of need. Such basic facilities could help to smooth out consumption over the year and make the poor less vulnerable. A deposit account can help the poor to obtain insurance, giving a sense of security, and it can help them to take a loan when they need it. Credit facilities are generally not extended to the rural poor even for highly productive activities, because they have few or no assets to offer as collateral. Savings are very important to poor people, but without a safe place to keep their money, they are vulnerable to losing their valuable savings. The need to find a safe place to keep savings is so strong that poor people are willing to pay others to take on the responsibility (IFAD, 2005).

Gustavo and Joao (2002) note that credit is only one of the many different products that MFIs are able to provide to those traditionally excluded from the financial sector. Savings, deposits and money transfers, can also play an important role in helping the poor manage their shocks, and to increase their income. A study on the expansion of PAHNAL, a Mexican Savings Institute targeted to low-income clients, revealed that when provided with credit and liquid savings instruments, households can increase their savings rates up to five percentage points- and by almost seven percentage points in the case of some of the poorest ones.

Eileen et al., (2005) noted that savings are both forced and voluntary. MFIs require that borrowers deposit savings to collateralize loans. These deposits sometimes called forced savings or compulsory savings, generally cannot be withdrawn at will during a loan cycle and sometimes cannot be withdrawn until a client exits. Forced (or compulsory) savings can be adapted so that clients have access to their savings at specified (but limited points) during the loan cycle or following a natural disaster. Allowing clients to withdraw savings at certain times of the year or agricultural season when income is scarce, or when a disaster has occurred can help mitigate the impact of a disaster.

There is need for voluntary savings. Generally clients feel a cash crunch during times of crisis. They may hesitate to increase their debt burden in an uncertain disaster stricken environment. Rather, they may wish to decrease their debt burden by paying off a loan, or prefer to find the additional expenses from cash as opposed to more debt. Providing access to voluntary savings products therefore, is one of the best ways to assist clients in smoothing out consumption expenses by allowing them to save money when they have extra, and then permit ready access to it when they need it.

Unlike compulsory savings, voluntary savings are linked to loan approvals and repayments. With compulsory savings, institutions typically dictate the condition under which the clients may withdraw their savings, while voluntary savers usually have access to their savings as and when needed. Compulsory savings may be offered through groups or to individual, while voluntary savings is a strictly individual product. While the mobilization of savings seems an attractive way to find expansion of the loan portfolio and meet clients' needs, they place an incremental burden on operating systems and management. These include developing additional teller facilities and systems for safe keeping, treasury management, maintaining savings ledgers, and developing a state-of-the art accounting system.

Given their volatility, and the likelihood that deposits and withdrawals will be made in large clusters, voluntary savings products require significantly greater management capacity than compulsory savings products. The more client-friendly a product is, the greater the management capacity required. In the case of a calamity, there may be a high level of withdrawals of voluntary savings. To prepare for liquidity shortages, MFIs can negotiate stand-by lines of credit in advance with a local commercial bank, or with a neighboring MFI.

Experience has shown however, that MFIs offering voluntary savings products have not experienced massive withdrawals of savings, especially following natural disasters. Clients may still withdraw some of their savings but may also choose to maintain their savings and take out emergency loans instead. For MFIs that have uncertain capital resources, lack treasury management skills, or have insufficient accounting structures, offering voluntary savings products is not recommended.

#### 2.3.1.3 Insurance

Insurance is a system by which people; businesses and other organizations make payments to share risks. Access to insurance enables entrepreneurs to concentrate on growing their businesses while mitigating other risks affecting property, health or the ability to work. Insurance protects both the institution and borrower. Life and hospital insurance are for example important tools of loan protection for the institution and of individual risk management for household (UN, 2005; and Seibel et al. 2005).

Micro insurance on the other hand is the protection of low income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved (Sander, 2000; Ahmed et al., 2005; McCord, 2005; Umrabulo, 2005; and DFID, 2000).

Insurance allows a lump sum to be received at some specified future time if needed in exchange for a series of savings made both now and in the future. Insurance also involves income pooling in order to spread a risk between individuals, on the assumption that not all those who contribute will necessarily receive the equivalent of their contribution (DFID, 2001). Insurance enables a client to make premium payments towards a fund. In the event of a predetermined crisis, the client will have access to payment from the fund. Generally speaking, the successful introduction of insurance products demands that events ensured against are not subject to covariant risks. This means that the insurance policy does not cover a risk that affects many of the policy holders at the same time (Eileen M, 2005).

### 2.3.2 Poverty Reduction

According to Sida (2005), poverty has a multiple and complex causes. The poor are not just deprived of basic resources. They lack access to information that is vital to their lives and livelihoods, information about market prices for the goods they produce, about health, about the structure and services of public institutions, and about their rights. They lack political visibility and voice in the institutions and power relations that shape their lives. They lack access to knowledge, education and skills development that could improve their livelihoods. They often lack access to markets and institutions, both governmental and societal that could provide them with needed resources and services. They lack access to and information about income-earning opportunities.

Hulme and Mosley (2006) define poverty as not purely about material conditions. It also refers to other forms of deprivation, and the effects of innovative financial services on those who suffer from social inferiority, powerlessness and isolation are considered.

According to Chambers (2003) the poor are poor because they are poor. Their poverty conditions interlock like a web to trap people in their deprivation. Poverty is a strong determinant of the others. The causes of poverty are many and must be attacked from all fronts to save the poor from the poverty trap. Poverty contributes to physical weakness through lack of food, small bodies, malnutrition leading to low immune response to infections and inability to reach or pay for health services. Chambers has recorded the many forms of deprivation that very poor people identify themselves as experiencing that are not captured by income-poverty measures. These include:

Poverty is a strong determinant of the others. Poverty contributes to physical weakness through lack of food, small bodies, and malnutrition. There are inability to pay for health services, to isolation because of inability to pay school fees for children to go to school, to vulnerability through lack of assets to pay expenses or to meet contingencies and powerlessness because of lack of wealth goes with low status.

*The physical weakness* of a house hold contributes to poverty in several ways: through the low productivity of weak labour through an inability to cultivate larger areas or work long hours, through lower wages paid to women and to those who are weak. It sustains isolation because of lack of time or energy to attend meetings.

*Isolation* (lack of education, remoteness, being out of contact) sustains poverty, services do not reach those who are remote, illiterates cannot read information of economic value, and find it difficult to obtain loans. Isolation means lack of contact with political leaders and therefore misses government development policies.

*Vulnerability* is part of the many links. It relates to poverty through the sale or mortgage of productive assets, to physical weakness because to handle contingencies, time and energy have to be substituted for money, to isolation through withdrawal.

*Powerlessness* contributes to poverty in many ways, not least through exploitation by the powerful. It limits or prevents access to resources from the state, legal redress for abuses and ability to dispute wage or interest rates, and only feeble influence on government to provide services for the poorer people and places. They are powerless to demand what is meant for them and cannot attract government aid, schools, good staff or other resources.

According to Ismawan (2000) the real idea of microfinance is to help the weakest member of civil society who in this case is the poor. However Roth (1997) has another view. He argues that microfinance programmes often treat the symptoms and not the causes of poverty. Poverty is frequently the result of powerlessness. The proponents of microfinance programmes as a panacea of poverty ignore the complex matrix of power relations that circumscribe the capacities of the poor to run micro enterprises.

However Roth (1997) argues that credit is only one ingredient in the mix of factors necessary for a successful enterprise. He is critical of the microfinance evangelists who create a vision of the rural poor as a collection of budding entrepreneurs, waiting for salvation from credit agencies, which on receipt of credit, will develop successful micro enterprises and leave poverty forever. Their promotional activity gives rise to worrying spectre of a return to a "blueprint", implicit in the new microfinance approach to development. To respond to a potential demand for a good or service, a rural micro-entrepreneur may need access to one or more of the following: transport, communications, power, water, storage facilities, a legal system for enforcing contracts and settling disputes. Apart from infrastructure, micro entrepreneurs need access to information about market trends and skills to run their macro enterprises. Roth cites Weber (1958) who argues that hard work, skills and enthusiasm are essential ingredients for an enterprise to be successful. Non-numerate people struggle to start enterprises by themselves as it is extremely difficult for them to keep track of the flows of income in their enterprise.

The International Monetary Fund (IMF) introduced the Poverty Reduction Strategy Programs in the 1990's to assist poor nations to fight poverty. This was an initiative that established a poverty fund with the active participation of the countries who voluntarily signed up to it to ensure adequate funding and support for total eradication of extreme poverty as set out in the Millennium Development Goals. The program involved a moratorium on the repayment of a country's debt and the application of the funds accrued from the moratorium to fund specific poverty reduction projects that directly affect the well being of the poor especially in poor marginalized communities. Many countries in Sub-Saharan Africa including Uganda and Ghana signed up to the initiative (Ashun, 2010).

Uganda also signed up to the poverty reduction strategy program and in June 1997 launched its Poverty Eradication Action Plan (PEAP) which provide national priorities for poverty reduction and guide various sector polices. The Poverty Eradication Action Plan directly fed into the Uganda Participatory Poverty Assessment Project (PPAP) which consulted directly with poor rural communities on their priorities, needs and perceptions of the quality of service delivery and government policies. The Uganda PEAP program saw to the provision of domestic water for communities where such communities identified clean water as a priority (Ashun, 2010).

Microfinance program is one of the poverty reduction strategies that have been adopted by developing nations. Microfinance or microcredit is defined by the Microcredit Summit (1997) as programs that extend small loans and other financial services to the very poor people for self employment projects that generate income, allowing them to care for themselves and their families.

Microfinance has thus become very strategic in poverty reduction strategies because of the recognition worldwide that conventional lending institutions do not provide avenues for the advancement of small and micro financial intermediation for micro enterprises and poor non collateralized rural dwellers (Mihyo, 2012). Conventional banking institutions do not lend to down market to serve the needs of low income households. These financial institutions require borrowers to have a steady source of income out of which repayments are made according to agreed terms and conditions. However the incomes of many micro enterprises are not stable and so are unable to meet these requirements. A large number of small loans are needed to serve the poor, but the conventional lending institutions prefer lending large loans in small numbers to minimize administrative costs. They also ask for collateral with a clear title which many low income poor rural families do not have.

Holt & Ribes (2011) suggest that the poor can be good borrowers and savers but the big conventional banks by their processes are unable to serve that segment of the economy. This, according to Mihyo (2012), is because they are unable to give unsecured loans to small clients. The poor are generally excluded from the formal financial sector of the economy and so rely on informal alternatives such as family loans, savings clubs, or money lenders, but these are limited by amount, rigidly administered, or available at exorbitant interest rates. There is also a misconception about the ability of the rural poor to save and use credit for economic activities which thus affect their repayment behaviour (Holt & Ribes, 2011).

Recognizing these problems microfinance institutions have emerged to provide the needed financial intermediation to that neglected sector of the population. Microfinance is recognized as an appropriate alternative method of providing the needed financial services to the rural poor who are excluded from the mainstream banking sector. It is attractive as a tool to help the poor since it is widely seen as improving the livelihoods of the rural poor, reducing their vulnerability, and fostering social as well as economic empowerment. This is because entrepreneurs need timely access to appropriate credit facilities to invest; households also need access to savings and credit products to improve their living conditions.

Microfinance enables the poor to leverage their initiatives, accelerating the process of building incomes, assets, and economic security. Microfinance gives the poor access to financial services in an honest way. According to Otero (1999), microfinance creates access to productive capital for the poor who together with human capital achieved through education and social capital and local organization building enables the poor to move out of poverty. Microfinance is recognized as a successful development tool because it makes available small loans for people who cannot get loans from the mainstream banks (Sadoulet, 2002). It applies innovative mechanisms to ensure repayment despite the lack of business records and absence of collaterals: group lending, progressive lending, regular repayment schedules and substituted collaterals.

Access to finance enables the rural poor to engage in small and micro entrepreneurial activities which lead to increased productivity and income. Insufficient capital may lead to inefficiency that could lead to the collapse of small scale ventures embarked on by the poor (Holt & Ribes, 2011). Microfinance impacts positively on incomes and reduces vulnerability due to deprivation as a result of poverty. Children's education, health outcomes of women and children, and empowerment of women are some of the important outcomes of microfinance schemes (Murdoch, 2002).

**2.4 The Relationship Between Microfinance and Poverty Reduction**

Morduch and Haley (2001), Remenyi and Quinones (2000) found that incomes of Microfinance clients were significantly higher than for comparable non-clients household. For example, in Indonesia it was found that there was 12.9% annual average rise in income from borrowers while only 3% rise was reported from non-borrowers (control group). In Bangladesh, a 29.3% annual average rise in income was recorded and 22% annual in income from non-borrowers. In Srilanka, a 15.6% rise in income from borrowers and a 9% rise from non-borrowers. In India, 46% annual average rise in income was reported among non- borrowers with 24% increase reported from non-borrowers. The effects were higher for those just below the poverty line while income improvement was lowest among the very poor.

Wright and Graham (2000) while Citing Hossain (1998), found that Grameen Bank borrowers had higher incomes than the target group in the control villages. While citing Mustafa et al, Wright et al (2000) noted that borrowers have better coping capacities in lean seasons. For example, an increase in assets of 112% for those borrowers who had been members for 48 months or more and increase in household expenditure.

Barnes, Carolyn and Erica (1999) and Buss and Terry (1999) confirmed that microfinance influences poverty reduction. For example In Zimbabwe, they found that there were major differences in income distribution between Microfinance clients and non-clients. New clients and non-clients had a monthly income of less than Z$2,000. In contrast, half of the repeat clients had an estimated monthly household income of Z$4,000 or more.

Barnes, Carolyn, Gayle and Gary (1998) in a Uganda study found that client households on average spent 35% more than non-client households. Borrower households spent 38% more on Education than non- clients households and had an average an extra year of education.

A World Bank midterm review of the Poverty Alleviation and Microfinance Project in Bangladesh (1994/1995) showed that overall incidence of poverty decreased from 52 percent to 50 percent. Data on 675 microcredit borrowers surveyed showed that there had been a positive change in their economic and social status. The survey indicated that there had been an increase in income for 98 percent of borrowers; 89 percent of the borrowers accumulated new assets and 29 percent of the borrowers had purchased land either to put up their own house or for agriculture. Food intake, clothing, and housing conditions had improved hovering around 89 percent, 88 percent, and 75 percent respectively and child education had improved for 75 percent of borrowers. These had been achieved due to an increased level of self-employment for women.

Zaman (2000) in a study in Bangladesh found that those poor households who subscribed to the microfinance program had lessened vulnerability which had led to income and consumption smoothening. Another researcher in Bangladesh (Khandker, 2005) found that for every 100 taka (the Bangladeshi currency unit) lent to a female borrower, household consumption rose by 18 taka. Nutritionists argue that even small increases in consumption and increased regularity in consumption lead to better health and nutrition and enhance the ability of the poor to make long term plans for the family. Increased consumption combined with 33 investment opportunities opened up by microfinance programs created a stabilizing effect on the participating households.

# CHAPTER THREE
# METHODOLOGY

## 3.0 Introduction

This chapter focuses on the steps or procedures that have been carried out to gather data relevant for the study. The procedures covered are research design, population, sample and sampling techniques, research instrument, data collection procedure and method of data analysis.

## 3.1 Research Design

This study employed a descriptive survey design. A descriptive survey according to Babbie (1990) and Gay (1992) is useful for investigating a variety of problems including assessment of attitudes, opinions, conditions and procedure. Descriptive data are usually collected through questionnaires, interviews and observations. The descriptive survey design was considered by this researcher as the most appropriate for analyzing the improvement or otherwise in the poverty levels of the rural dwellers before, during and after the introduction of microcredit interventions in the rural economy.

## 3.2 Target Population

The target population for the present study comprised the microfinance groups in Moroto district. There are six (6) microfinance groups operating on Moroto district as of December 31, 2014. The researcher targeted a total of 150 beneficiaries from two microfinance institutions.

## 3.3 Sample Size and Sampling Technique

The researcher used Krejcie and Morgan (1970) table to determine the sample size. According to Morgan, for a population of 150, a sample of 108 respondents is appropriate. Table 3.1 gives the summary of the sample size and target population. The researcher used purposive sampling technique to select two (2) active microfinance institutions. This is because out of the six (6) microfinance institutions targeted in Moroto district, two (2) have not been active in the past three years while the other two (2) are still new and have not yet started giving loans to the local beneficiaries, so this left the researcher with only two active (2) microfinance institutions that were included in the study.

**Table 3.1: Summary of Target Population and Sample Size**

| Microfinance Group | Target Population | Sample Size Computation | Sample Size |
|---|---|---|---|
| Group A | 90 | $\frac{90 \, x \, 108}{150}$ | 65 |
| Group B | 60 | $\frac{60 \, x \, 108}{150}$ | 43 |
| **Total** | **150** | | **108** |

### 3.4 Research Instruments

Questionnaires were used. Close-ended and open-ended items were used to elicit more information. This was done with the help of the researcher. The questionnaire was developed according to guidelines suggested by Creswell (2002) and Payne & Payne (2005). All the items were generated from the research questions. The questionnaires were structured to solicit information on the background of respondents and the effects of the microfinance program on their livelihoods and businesses.

### 3.5 Pre-testing of the Instruments

Fifteen (15) microfinance clients were used in the pre-testing of the instrument. These clients were not part of the sample used for the study. The instruments were pre-tested to enable respondents give their comments on the clarity, weakness, inadequacies, ambiguities and problems in the items in the instruments. Pre-testing was also important to test the validity or otherwise of the final data collected. As a result of such comments ambiguous questionnaires were either removed or revised to allow for clarity before the actual data collection commenced.

### 3.6 Data Collection Techniques

Data was gathered from two main sources: primary and secondary. The secondary data was gathered from books, journals, reports and publications from institutions such as the World Bank, International Monetary Fund, the UN and Microfinance reports in Uganda. Field surveys were used in collecting the primary data.

Before undertaking the primary data collection exercise, the researcher made initial contacts with the groups and also the microfinance institution selected for the study. The researcher sought permission from the leadership of the groups concerned. The researcher was introduced to the groups by the microfinance promoters. He then had a meeting with the leaders of the groups selected and microfinance promoters to explain the items to them. This was to ensure appropriate responses from the respondents and minimize the effect of the presence of the researcher on the behavior of the respondents. The respondents were assured of confidentiality of the information being solicited in order for them to respond to the questionnaire without any inhibitions. The researcher administered the questionnaires personally to the clients sampled for the study. A minimum of three weeks was used for the administration of the questionnaires.

### 3.7 Data Processing and Analysis

The data collected were edited to ensure that responses were suitable. The editing also helped to exclude questionnaires which were not completely answered. The questionnaires were serially numbered for easy identification. All responses for each item in the questionnaires was entered into excel and analyzed with the Statistical Package for Social Scientists. Frequencies and percentages were used to describe the responses.

### 3.8 Limitation to Data Collection

During the fieldwork the major problem faced was the absence of some of the sampled respondents during their meetings. This necessitated the visiting of some of the groups two or three times in order to have the full complement of the sampled respondents.

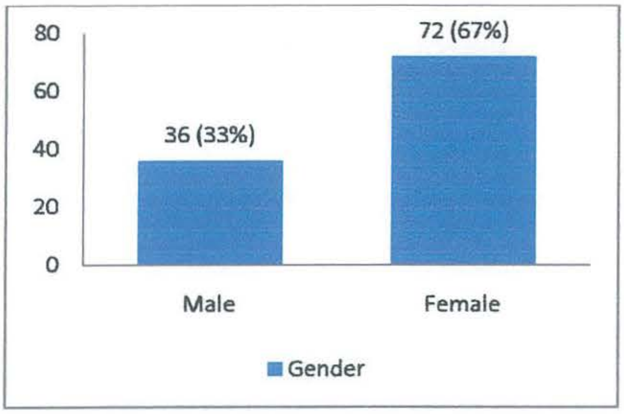
## CHAPTER FOUR
## RESULTS AND DISCUSSION

### 4.0 Introduction

This chapter discusses the three main sections of the study. The first section covers the analysis of the background information of the respondents of the study. The second covers the various microfinance services provided by MFIs; the third covers the effects of microfinance interventions on poverty reduction among the beneficiaries in Moroto district; and the last second covers the relationship between microfinance services and poverty reduction in Moroto district.

### 4.1 Characteristics of Respondents

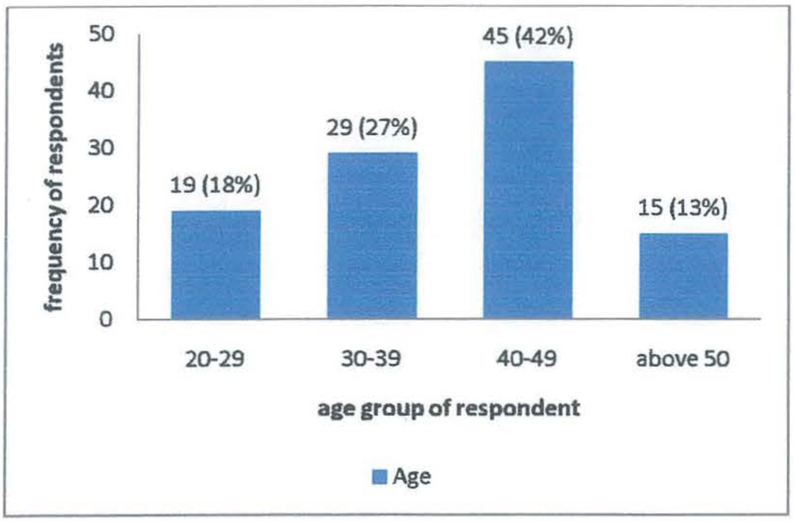
**Figure 4.1: Gender of Respondents**




***Source: primary data, 2015***

Figure 4.1 revealed that 67% of the respondents were female while 33% of the respondents male. This indicates that even though majority of microfinance program participants are women there is a growing male participation in the microfinance programs as well. Furthermore, microfinance is an effective tool in improving women's status and the overall household welfare is likely to be higher when MF is provided to women rather than men.

**Figure 4.2: Age Group Of Respondents**




***Source: primary data, 2015***

Figure 4.2 revealed that majority, 42% of the respondents were within the age group of 40-49 years old followed by 27% of the respondents who belonged to the age group of 30-39 years. Furthermore, 18% of the respondents belonged to the age group of 20-29 years while 13% of the respondents were above 50 years of age. This implies that the age group of 40-49 years were dominant in the study. This could be attributed to the fact that this age group involves itself in some businesses to help raise their families or contribute to household expenses. This also implies that more females are engaged in income generating activities to help in the improvement of their households.

**Figure 4.3: Level Of Education**

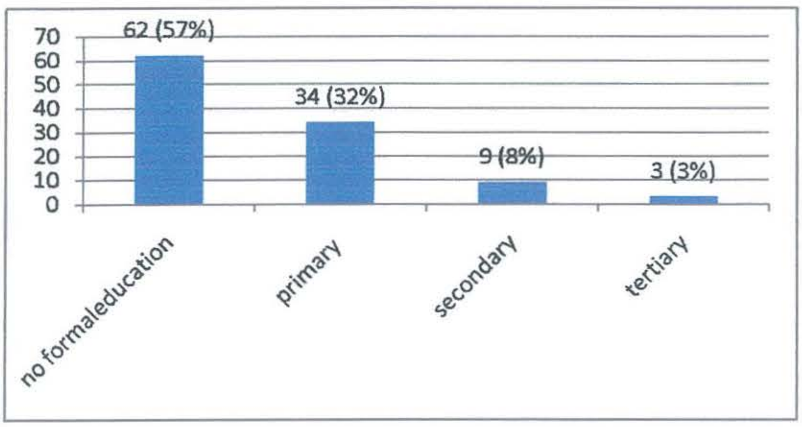
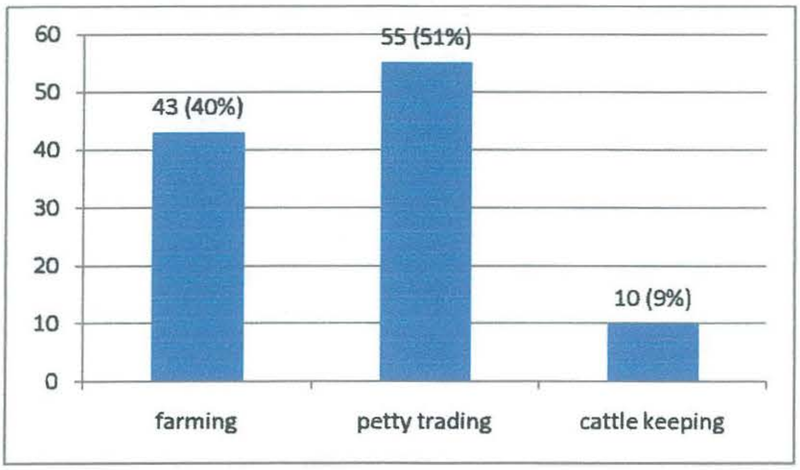


Figure 4.3 revealed that majority (57%) of the respondents did not have formal education while 32% of the respondents had achieved primary education. Furthermore, 8% of the respondents had secondary education and only 3% of the respondents had achieved tertiary education. This implies that none educated respondents were dominant in the study. This could be because of the low education level in Karamoja with women contributing the highest percentage of illiteracy in the region.

**Figure 4.4: Occupation Of Respondents**




***Source: primary data, 2015***

Figure 4.4 revealed that majority 51% of the respondents were involved in petty trading while 40% of them were into farming and only 10% of the respondents were cattle keepers. This means that respondents who are involved in petty trading were dominant in the study. This could be because this is the only way women can be involved in poverty alleviation in their households.

### 4.2 Microfinance Services Provided by MFIs to the Beneficiaries in Moroto district

The first objective of this study was to examine the various microfinance services provided by MFIs to the beneficiaries in Moroto district. Tables 4.1, 4.2 and 4.3 give the summary of the findings.

**Table 4.1: Microfinance Service in Terms of Loans**

N=108

| **Loans** | | |
|---|---|---|
| MFI encourages savings as a way of building up capital. | **Frequency** | **Percent (%)** |
| strongly disagree | 10 | 09 |
| disagree | 17 | 16 |
| neither agree nor disagree | 02 | 02 |
| agree | 32 | 30 |
| strongly agree | 47 | 43 |
| **Total** | **108** | **100** |
| Collateral influences greatly the loan amount for borrowers needs. | | |
| strongly disagree | 43 | 40 |
| disagree | 52 | 48 |
| neither agree nor disagree | 00 | 00 |
| agree | 08 | 07 |
| strongly agree | 05 | 05 |
| **Total** | **108** | **100** |
| Repayment of loans can be suspended temporarily for clients experiencing adverse shocks. | | |
| strongly disagree | 00 | 00 |
| disagree | 03 | 03 |
| neither agree nor disagree | 04 | 04 |
| agree | 38 | 35 |
| strongly agree | 63 | 58 |
| **Total** | **108** | **100** |
| MFI Provides a number of individual loan products. | | |
| strongly disagree | 69 | 64 |
| disagree | 35 | 32 |
| neither agree nor disagree | 04 | 04 |
| agree | 00 | 00 |
| strongly agree | 00 | 00 |
| **Total** | **108** | **100** |

**Source: Primary Data, 2015**

Table 4.1 revealed that majority (43%) of the respondents strongly agreed that MFI encourages savings as a way of building up capital while 58% also strongly agreed that repayment of loans can be suspended temporarily for clients experiencing adverse shocks. However 48% of the respondents disagreed that collateral influences greatly the loan amount for borrowers needs. Furthermore, 64% of the respondents strongly disagreed that MFI provides a number of individual loan products.

**Table 4.2: Microfinance Service in Terms of Savings**

**N=108**

| **Savings** | | |
|---|---|---|
| MFI provides me with adequate credit for my business and household requirements. | **Frequency** | **Percent (%)** |
| strongly disagree | 00 | 00 |
| disagree | 07 | 06 |
| neither agree nor disagree | 00 | 00 |
| agree | 66 | 61 |
| strongly agree | 35 | 33 |
| **Total** | **108** | **100** |
| Savings are a condition for borrowing. | | |
| strongly disagree | 00 | 00 |
| disagree | 00 | 00 |
| neither agree nor disagree | 00 | 00 |
| agree | 108 | 100 |
| strongly agree | 00 | 00 |
| **Total** | **108** | **100** |
| Savings are as crucial as credit itself for people carrying on business or intending to start up one. | | |
| strongly disagree | 00 | 00 |
| disagree | 03 | 0 |
| neither agree nor disagree | 01 | 01 |
| agree | 08 | 07 |
| strongly agree | 99 | 92 |
| **Total** | **108** | **100** |

**Source: Primary Data, 2015**

Table 4.2 revealed that majority (100%) of the respondents strongly agreed that savings are a condition for borrowing, 92% of the respondents strongly agreed that savings are as crucial as credit itself for people carrying on business or intending to start up one and 61% of the respondents also agreed that MFI provides them with adequate credit for their business and household requirements.

**Table 4.3: Microfinance Service in Terms of Insurance**

**N=108**

| INSURANCE | | |
|---|---|---|
| MFI Provides a number of insurance products to clients. | **Frequency** | **Percent (%)** |
| strongly disagree | 00 | 00 |
| disagree | 00 | 00 |
| neither agree nor disagree | 00 | 00 |
| agree | 07 | 06 |
| strongly agree | 101 | 94 |
| **Total** | **108** | **100** |
| The insurance products provided by this MFI have no added indirect costs to clients. | | |
| strongly disagree | 00 | 00 |
| disagree | 00 | 00 |
| neither agree nor disagree | 00 | 00 |
| agree | 08 | 00 |
| strongly agree | 108 | 100 |
| **Total** | **108** | **100** |
| Insurance products provided by this MFI are suitable for my investment and household risks. | | |
| strongly disagree | 00 | 00 |
| Disagree | 03 | 03 |
| neither agree nor disagree | 04 | 04 |
| Agree | 38 | 35 |
| strongly agree | 63 | 58 |
| **Total** | **108** | **100** |
| Clients have a right to choose an appropriate insurance product. | | |

| | | |
|---|---|---|
| strongly disagree | 00 | 00 |
| Disagree | 00 | 00 |
| neither agree nor disagree | 00 | 00 |
| Agree | 46 | 43 |
| strongly agree | 62 | 57 |
| **Total** | **108** | **100.0** |

**Source: Primary Data, 2015**

Table 4.3 revealed that 100% of the respondents strongly agreed that the insurance products provided by the MFI have no added indirect costs to clients while 94% of the respondents also strongly agreed that MFI provides a number of insurance products to them. Furthermore, 58% of the respondents strongly agreed that insurance products provided by this MFI are suitable for their investment and household risks. In addition to that, 57% of the respondents strongly agreed that they have a right to choose an appropriate insurance product.

### 4.3 Poverty Reduction among Microfinance Beneficiaries in Moroto Districts

The second objective of this study was to establish the effects of microfinance interventions on poverty reduction among the beneficiaries in Moroto district. Table 4.4, 4.5 and 4.6 give the summary of the findings.

**Table 4.4: Poverty Reduction in Terms Of Increase in Income**

N=108

| **Increase In Income** | | |
|---|---|---|
| I meet the health requirements of my household members better than before. | **Frequency** | **Percent (%)** |
| strongly disagree | 00 | 00 |
| disagree | 00 | 00 |
| neither agree nor disagree | 00 | 00 |
| agree | 31 | 30 |
| strongly agree | 77 | 70 |
| **Total** | **108** | **100** |
| I ' m in position to finance education of my household members much longer than before. | | |
| strongly disagree | 00 | 00 |
| disagree | 15 | 14 |
| neither agree nor disagree | 00 | 00 |
| agree | 38 | 35 |
| strongly agree | 55 | 51 |
| **Total** | **108** | **100** |
| I have greatly improved on my housing facilities. | | |
| strongly disagree | 00 | 00 |
| disagree | 00 | 00 |
| neither agree nor disagree | 00 | 00 |
| agree | 88 | 81 |
| strongly agree | 20 | 19 |
| **Total** | **108** | **100** |
| My income has greatly improved since i joined this MFI for my business. | | |
| strongly disagree | 00 | 00 |
| disagree | 05 | 05 |
| neither agree nor disagree | 04 | 03 |
| agree | 94 | 87 |
| strongly agree | 05 | 05 |

| Increase In Income | | |
|---|---|---|
| I meet the health requirements of my household members better than before. | Frequency | Percent (%) |
| strongly disagree | 00 | 00 |
| disagree | 00 | 00 |
| neither agree nor disagree | 00 | 00 |
| agree | 31 | 30 |
| strongly agree | 77 | 70 |
| **Total** | **108** | **100** |

**Source: Primary Data, 2015**

Table 4.4 revealed that majority (70%) of the respondents strongly agreed that they can now meet the health requirements of their household members better than before and 51% of the respondents also strongly agreed that they are now in position to finance education of their household members much longer than before. Furthermore, 81% of the respondents agreed that they have greatly improved on their housing facilities while 87% of the respondents also agreed that their income had greatly improved since they joined MFI for their business.

**Table 4.5: Poverty Reduction In Terms Of Employment**

N=108

| Employment | | |
|---|---|---|
| My Business has employed other people. | Frequency | Percent (%) |
| strongly disagree | 00 | 00 |
| disagree | 89 | 82 |
| neither agree nor disagree | 00 | 00 |
| agree | 19 | 18 |
| strongly agree | 00 | 00 |
| **Total** | **108** | **100** |
| My business is financially stable. | | |
| strongly disagree | 00 | 00 |
| disagree | 71 | 66 |
| neither agree nor disagree | 00 | 00 |
| agree | 37 | 34 |
| strongly agree | 00 | 00 |

| Employment | | |
|---|---|---|
| My Business has employed other people. | **Frequency** | **Percent (%)** |
| strongly disagree | 00 | 00 |
| disagree | 89 | 82 |
| neither agree nor disagree | 00 | 00 |
| agree | 19 | 18 |
| strongly agree | 00 | 00 |
| **Total** | **108** | **100** |
| My business pays me adequately as its employee. | | |
| strongly disagree | 00 | 00 |
| disagree | 00 | 00 |
| neither agree nor disagree | 00 | 00 |
| agree | 27 | 25 |
| strongly agree | 81 | 75 |
| **Total** | **108** | **100** |

**Source: Primary Data, 2015**

Table 4.5 revealed that majority (82%) of the respondents disagreed that their business has employed other people while 88% of the respondents disagreed that their business is financially stable. However 75% of the respondents strongly disagreed that their businesses pay them adequately as their employees.

**Table 4.6: Poverty Reduction in Terms Of Reduced Vulnerability**

N=108

| Reduced Vulnerability | Frequency | Percent (%) |
|---|---|---|
| I have adequate food for home consumption. | | |
| strongly disagree | 00 | 00 |
| disagree | 19 | 18 |
| neither agree nor disagree | 00 | 00 |
| agree | 51 | 47 |
| strongly agree | 38 | 35 |
| **Total** | **108** | **100** |
| My household members are no longer vulnerable to Illnesses. | | |
| strongly disagree | 00 | 00 |
| disagree | 93 | 86 |
| neither agree nor disagree | 00 | 00 |
| agree | 15 | 14 |
| strongly agree | 00 | 00 |
| **Total** | **108** | **100** |
| Education of my household members is assured. | | |
| strongly disagree | 00 | 00 |
| disagree | 60 | 56 |
| neither agree nor disagree | 00 | 00 |
| agree | 27 | 25 |
| strongly agree | 21 | 19 |
| **Total** | **108** | **100** |

**Source: Primary Data, 2015**

Table 4.6 revealed that majority (47%) of the respondents agreed that they have adequate food for home consumption while 86% disagreed that their household members are no longer vulnerable to illnesses and 56% of the respondents also disagreed that education of their household members is assured.

### 4.4 The Relationship Between Microfinance Services and Poverty Reduction in Moroto District

The third objective of this study was to examine the relationship between microfinance services and poverty reduction in Moroto district. Table 4.7 presents the summary results of the study.

**Table 4.7: The Relationship Between Microfinance Services and Poverty Reduction In Moroto District**

| Variables Tested | Pearson (r) Value | Level of Significance | Interpretation |
|---|---|---|---|
| Microfinance Vs Poverty Reduction | 0.694 | 0.032 | Significant |

**Level of Significance, 0.05**

Table 4.7 revealed that there is a significant positive correlation between microfinance and poverty reduction in Moroto district ($r=.694$, $p>.032$). this means that microfinance intervention reduces poverty among beneficiaries.

# CHAPTER FIVE

# DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

## 5.1. Introduction

This chapter presents discussion of findings shown in chapter four. It is divided into four sections namely; Discussions, Conclusions, recommendations and areas of future research.

## 5.2 Discussions

### 5.2.1 Microfinance Services Provided By MFIs to the Beneficiaries in Moroto District

The study found out that all the two MFIs provided loans, savings and insurance services to their clients. This is in agreement with the literature review that microfinance is the provision of a broad range of financial services to poor, low income households and micro enterprises that usually lack access to formal financial institutions. Such services are loans, savings, insurance etc (CIDA, 2005). The study also established that all the two MFIs provided loans to their clients since it is a component of microfinance. This implies that MFIs are in line with the GoU PEAP (2005) to provide loans that are essential for investment leading to improved income for consumption smoothing. There is however need for more appropriate individual loan and insurance products, and more appropriate period of grace.

The study found out that the MFIs provided insurance services to their clients. Insurance is a very crucial tool against poverty. Borrowers need to be protected against both foreseen and unforeseen financial risks that could hit and condemn them (borrowers) into more financial problems. This is supported by the existing literature Seibel et al (2005) that insurance is an important tool of loan protection for both the Institution and of individual risk management for household. Insurance services provided are quite good for the clients and don't seem to have added costs on borrowed funds. This is in agreement with Ahmed et al (2005).

The study also established that the two Institutions provided savings services to clients. However, savings services are for the purpose of borrowing since the two MFIs were not deposit taking institutions. This is in line with literature review (Seibel et al, (2005) and Lennart, (2004) who supported the idea of savings that they are the core of self help and self-reliance. They argued that easy and convenient deposit facilities and collection services in the vicinity are the most important services for enterprise development and poverty alleviation. This is in agreement with research findings.

### 5.2.2 The Effects of Microfinance Interventions on Poverty Reduction among the Beneficiaries In Moroto District

According to the study, respondents revealed that they could meet the health requirements of their household members better than before and that they are now in position to finance education of their household members much longer than before. Generally their involvement in microfinance programs have greatly improved on their housing facilities. According to Marilou and Carlos (2004), the poor families with access to financial services eat better, keep their children in school longer, receive better medical care and live in safer housing than those who do not have such access, other factors being equal. Access to financial services hands the poor people the tools to solve their problems and to chart out their paths out of poverty. Furthermore, the study revealed that respondents' businesses are not yet financially stable, do not employ other people other than them the owners and can only manage to pay them some handsome money. Furthermore, the study revealed that microfinance beneficiaries have adequate food for home consumption. However it does not imply that their household members are no longer vulnerable to illnesses. Zaman (2000) in a study in Bangladesh found that those poor households who subscribed to the microfinance program had lessened vulnerability which had led to income and consumption smoothening.

### 5.2.3 The Relationship Between Microfinance and Poverty Reduction

The study revealed that there is a significant positive correlation between microfinance and poverty reduction in Moroto district ($r=.694$, $p>.032$). this implies that involvement in microfinance reduces poverty among beneficiaries. This study is in line with a World Bank midterm review of the Poverty Alleviation and Microfinance Project in Bangladesh (1994/1995) which showed that overall incidence of poverty decreased from 52 percent to 50 percent.

## 5.3 Conclusions

It was established from the study that loans, savings and insurance are components of microfinance and that microfinance services significantly influences poverty reduction. Therefore, if microfinance out reach to rural areas is deepened, poverty will drastically be brought down. It was also revealed by research findings that microfinance services significantly predict poverty reduction. However microfinance services are more effective when combined with entrepreneurial skills.

Furthermore, the study revealed that microfinance intervention improved and increased income of the beneficiaries thus improving their housing facilities and having adequate food for consumption, however it did not stop them from being vulnerable to illness. The education of the household members was also not assured among the beneficiaries.

Last but not least, there was a significant positive correlation between microfinance intervention and poverty reduction. This implies that microfinance play a vital role in eradicating poverty among the beneficiaries, however this can only be possible if entrepreneurial skills are put in play.

## 5.4 Recommendations

### 5.4.1 Microfinance Intervention

The study established that MFI does not provide individual loan products. There is therefore need for microfinance institutions to put in place loan products that allow individual borrowing. This will encourage more borrowing since sometimes it is very difficulty to form groups to borrow a loan in rural areas among the illiterates.

There is also need to train microfinance beneficiaries on how best they can put the money they have borrowed to good use before they can end up miss using it.

### 5.4.2 Poverty Reduction

The study revealed that the level of income of microfinance beneficiaries have increased, however most of them can not still afford educating all their household members. There is need for the microfinance institutions to provide different types of loans that covers also education loans so that the beneficiaries can educate their household members.

The study revealed that the current businesses can not employ more than its owners. There is need for microfinance institutions to provide beneficiaries with bigger loans so that they can set up bigger businesses that can provide employment to other vulnerable people.

### 5.5 Areas for Further Research

The study concentrated on microfinance intervention and poverty reduction in Moroto district. There is need for research in the following areas;

i. Microfinance intervention and poverty reduction in the whole of Karamoja region.
ii. Microfinance intervention and entrepreneurial skills among women in Karamoja region.

**References**

A World Bank Policy Research Report.Washington D.C.: The World Bank.

Aahmed, M., Islam, S. ,Quashem, M. and Ahmed, N (2005). *Health Microfinance-A comparative study of Three examples in Bangladesh (Good and Bad practices case* study No. 13) CGAP Working Group on Micro Insurance.

Adelman, I. (1962). *Theories of Economic Growth and Development.* California: Stanford University Press.

Ashun, F.A. (2010). Reducing Rural Poverty Through Microfinance Intervention. University Of Cape Coast.

Babbie, E. (1990). *Survey research methods.* Belmont, California: Wordsworth.

Chambers, R. (2003). *Rural Development, Putting the Last First*: Longman Group (FE) Ltd, Printed in Hongkong.

CIDA (2005). CIDA and Microfinance: A Poverty Reduction Approach.

Dalencey, V. (2013). *Women at the Cameroon development corp: How their money works.* Baltimore: Johns Hopkins Press.

Gabianu, S. (2007). *The susu credit scheme: An indigenous way of financing business outside of the formal banking system.* Special Economic Office, Technical Department. Africa Region, World Bank, Washington DC.

Garbus, L.M. (2003). Aids Policy Research centre, university of California, p 7.

Gay, R. L. (1992). *Educational research: Competencies for analysis and application.* New York: Merrill/Macmillan.

Geldolf, B. (2005). Commission for Africa Report: Our common Interest.

Holt, S. L. & Ribes, H. (1991). *Developing financial institutions for the poor and reducing barriers to access.* Washington D.C: World Bank.

Holt, S. L., & Ribes, H. (2011). *Developing financial institutions for the poor and reducing barriers to access.* Washington D.C: World Bank.

Hossin F., & Zahidur, R. (2001). Microfinance & poverty: Contemporary perspectives, p 13 .

Hulme, D. & Mosley, P. (2006). *Finance against Poverty* Vol. 1 Routledge, London.

Khandeker, S. R. (2001). Does Microfinance benefit the poor?

Khandker, S. (2005). Microfinance and Poverty: Evidence Using Panel Data from Bangladesh. *Journal of Microfinance*, 3(2), 263-286.

Lennart Barge (2004). *Microfinance : Macro benefits. Savings- the forgotten half of Micro Finance.* http://www.ifad.org/events/micro credit/op.htm.

Lufumpa L. (1999). The African economy (ed) by Kayizzi-Mugerwa, p 265.

Micro Credit Summit (1997). *Declaration and plan of action.* Educational Fund, Washington DC.

Mihyo, P. (2012). *Credit and employment activities: A case study of Ghana.* Policy Seminar on confronting the challenges of poverty and employment in Accra. Accra: GIMPA.

Murdoch, J. (2002). *Consumption smoothing across space: Testing theories of risk sharing in the ICRISAT study region of South India.* WIDER Discussion Paper, UNU-WIDER, 2002(55), Helsinki, Finland.

Ricardo, D. (1937). *The principles of Political Economy and Taxation.* London. p. 73.

Roth, J. (2007). *The Limits of Micro Credit as a Rural Development Intervention*: Prepared for the Institute for Development Policy and Management-Manchester University.

Sadoulet, L. (2003). *Reputation as insurance? Extending the range of financial services for the poor.* ECARES, Free University of Brussels.

Seibel, H. D., and Dolores, T. (2005). Are Grameen Replications Sustainable,and do they reach the poor? The case of CARD and Rural Bank in the Phippines. *Journal of Microfinance.* 1(10).

UNDP Human development index, (1999) cited by Beijuka (1999) MF in post conflict countries.

World Bank, (2008). *Finance for All? Policies and Pitfalls in Expanding Access.*

Zaman, H. (2000). *Assessing the poverty and vulnerability impact of micro-credit in Bangladesh: A case study of BRAC.* Office of the Chief Economist and Senior Vice-President (DECVP), Wahington DC: World Bank.

Zeller, M., & Sharma, M. (2008). *Rural finance and poverty alleviation.* Food Policy Report. International Food Policy Research Institute. Washington, D.C: World Bank.

## APPENDICES
## APPENDIX A

**Dear Respondents,**

I am a Bachelors student of Arts in Economics of Kampala International University carrying out a study on **Microfinance Intervention and Poverty Reduction In Uganda, A Case Study Of Moroto District.** Please respond to the questionnaire by filing in as appropriate. The content of this study is purely academic and your response will be treated with utmost confidentiality. Thank You.

### PART I: BACKGROUND INFORMATION

Please kindly respond as honestly and truthfully as you can. Tick (√) where appropriate

1. Sex

   a) Male [ ]
   b) b) Female [ ]

2. Age

   a) 20-29 [ ]
   b) 30-39 [ ]
   c) 40-49 [ ]
   d) Above 50 [ ]

3. Highest educational attainment.

   a) No formal education [ ]
   b) Primary Level [ ]
   c) Secondary Level [ ]
   d) Tertiary [ ]

4. Occupation

   a) Farming [ ]
   b) Petty trading [ ]
   c) Cattle Keeping [ ]

**PART II: MICROFINANCE INTERVENTION**

**Instruction:** To complete the questionnaire, read and then rate each statement according to the following scale: 5=Strongly Agree; 4=Agree; 3=Neither Agree nor Disagree; 2=Disagree and 1=Strongly Disagree

| # | **Microfinance Intervention** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|---|
| **A** | **Loans** | | | | | |
| 1 | MFI encourages savings as a way of building up capital. | | | | | |
| 2 | Collateral influences greatly the loan amount for borrowers needs. | | | | | |
| 3 | Repayment of loans can be suspended temporarily for clients experiencing adverse shocks. | | | | | |
| 4 | MFI Provides a number of individual loan products. | | | | | |
| **B** | **Savings** | | | | | |
| 1 | MFI provides me with adequate credit for my business and household requirements. | | | | | |
| 2 | Savings are a condition for borrowing. | | | | | |
| 3 | Savings are as crucial as credit itself for people carrying on business or intending to start up one. | | | | | |
| **C** | **Insurance** | | | | | |
| 1 | MFI Provides a number of insurance products to clients. | | | | | |
| 2 | The insurance products provided by this MFI have no added indirect costs to clients. | | | | | |
| 3 | Insurance products provided by this MFI are suitable for my investment and household risks. | | | | | |
| 4 | Clients have a right to choose an appropriate insurance product. | | | | | |

## PART III: POVERTY REDUCTION

**Instruction:** To complete the questionnaire, read and then rate each statement according to the following scale: 5=Strongly Agree; 4=Agree; 3=Neither Agree nor Disagree; 2=Disagree and 1=Strongly Disagree

| # | Poverty Reduction | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| **A** | **Increase in Income** | | | | | |
| 1 | I meet the health requirements of my household members better than before. | | | | | |
| 2 | I ' m in position to finance education of my household members much longer than before. | | | | | |
| 3 | I have greatly improved on my housing facilities. | | | | | |
| 4 | My income has greatly improved since i joined this MFI for my business. | | | | | |
| **B** | **Employment** | | | | | |
| 1 | My Business has employed other people. | | | | | |
| 2 | My business is financially stable. | | | | | |
| 3 | My business pays me adequately as its employee. | | | | | |
| **C** | **Reduced Vulnerability** | | | | | |
| 1 | I have adequate food for home consumption. | | | | | |
| 2 | My household members are no longer vulnerable to Illnesses. | | | | | |
| 3 | Education of my household members is assured. | | | | | |

**THE END**

**THANK YOU FOR YOUR TIME AND COOPERATION**