

**TAXATION OF MICRO FINANCE INTTUTIONS IN UGANDA
(ACASE STUDY OF PRIDE MICROFINANCE LTD- KABALAGALA BRANCH)**

BY

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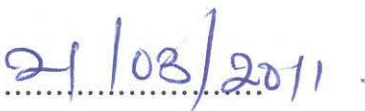
DECLARATION

aryachamu Andrew do hereby declare to the best of my knowledge that this
earch is my original work and is from my personal findings and has never been
mitted to any university for the same award.

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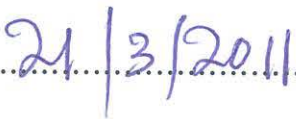
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APPROVAL

This research dissertation has been done under my supervision and submitted for examination with my approval

in 

SUPERVISOR: DR. KINYATTA STANLEY (Ph.D)

on 

DEDICATION

I dedicate this work to my beloved guardian Mrs. Kamusiire Mable for the valuable support and financial advice during the course of the study. My almighty God bless her abundantly.

ACKNOWLEDGEMENT.

would like to acknowledge the wonderful and constructive comments received from my friends and colleagues, special thanks to my guardians more especially Mrs. Kamusasiire Mable Musebeni for the work she did to light my way through this education may God bless her a lot.

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Special thanks to Aunt Lillian for financial support she contributed and all the people who contributed to finish my dissertation academically and financially, I am grateful to them.

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Do not forget God the almighty for keeping me alive and more through this course now.

ABRVIATION AND ACRONYMS

MFI	-	Micro finance institution
AMFIU	-	Association of micro finance institution of Uganda
ADB	-	Asian Development Bank
BOU	-	Bank of Uganda.
ICCA	-	Foundation of international community Assistance
GDP	-	Gross National product
MFDIT	-	Micro finance Deposit Taking institution
NGO	-	Non Governmental Organization
PEAP	-	Poverty eradication Action plan.
PRIDE	-	promotion of rural initiative Development Enterprise
UNDP	-	United National Development Program
UFTL	-	Uganda finance Trust limited
UWFT	-	Uganda women finance trust
NSSF	-	National Social security Funds.

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ABSTRACT

Micro finance institution in Uganda seeks to provide clients from poor households with an arrangement of money management and banking services. Micro finance is important to the well being of the society because it improves on the welfare, wealth and general standards of living for those people involved in micro finance activities. In spite of the finance institution's effort to support income earners by providing financial services, there is a high taxation problem. The problem arising out of these excessive levels of taxation is that they are likely to have negative effects on the financial performance of micro finance institutions.

In view of the above problem, the study was set to assess the impact of taxation on the performance of micro finance institutions in Uganda and also to determine factors responsible for the taxation in micro finance institutions in Uganda. The research was based on a qualitative case study design of descriptive nature and analytical design based on structured questionnaires where the source of data for this research was primary and secondary source.

The findings of the study revealed that taxation are the most important factor that leads to losses, which in the long run lead to capital erosion. The analysis of the findings indicates that the structure of various programs has influenced the high interest rate significantly. The lack of grace period, high interest and poor taxation implications are structural problems that need to be addressed seriously.

The research recommends that micro finance institutions should design possible solutions for micro finance institutions in Uganda by introducing exit surveys for better performance.

CHAPTER ONE

1.0 Introduction

In this chapter, special attention was given to the back ground of the study and statement of the problem under the investigation. This chapter further gives the purpose of the study, research objectives, research questions, scope of the study, conceptual frame work of the study while also acknowledging the significance to the general body of knowledge

1.1 Background of the study

The phrase “taxation” comes from the word tax which refers to legal and compulsory transfer of money and resources from the public to the government. According to (Ddumba S. 2004) a tax is a non quid proquo compulsory payment to the government by the concerned parties. That is there was no direct exchange of service for such payment. Manker V (2001) stresses that the aim as to why the government levy taxes is to collect or reduce the income in equity gap by taxing highly the well of people or high income earners. In real sense according to [Manker 2001], the appropriate tax for business especially micro finance institutions should be only pays as you earn. But in Uganda micro finance institutions are paying a lot of taxes a concern that has propelled the researcher to carryout the investigative research

Micro finance refers to the provisions of credit and saving services to the economically active but poor individuals, to enable them start up or expand small income generating activities with a view to improve people’s livelihood (*World bank 1999*) *UNDP report 1997*, on credit services in Africa defines “micro” as a business with a net worth of (US \$ 200-500) and “finance” as the provision of financial advisory services.

The field of Microfinance is both old and new, this is because people have always been borrowing, lending and saving as there has been money. One

thing that has made the sector new is that it has primarily developed a response to the failure of the first attempts or the inability of commercial banks and the formal financial system to serve the needs of low income house holds and micro enterprises

[Abbink etal, 2002)

According to *Adams and Frechett (1992)*, the first Microfinance institutions appeared inn south Asia almost thirty years ago but have since spread to Latin America, south East Asia and more recently Africa, china south pacific. The most famous and possibly most successful Microfinance institutions are Germen of Bangladesh (GB) and the (BRAC)

Both of which started as pilot projects in the 1970s but later finalized in the 1980s with the Grameen bank becoming a private sector bank and Bangladesh Rural Advancement Committee, a non government organization

Microfinance institutions (MFIs) be it a bank, cooperative, credit union, an NGO of some other form of non bank financial intermediary seek to provide clients from poor house holds with arrange of money management and banking services which include financial advisory service credit, deposits services (savings)

The above objectives of MFIs are always translated by the taxation policies of counties like Uganda, a factor that forced the researcher to go for investigative and field research

Kikonyogo (1997) argues that, Microfinance in Uganda has evolved on economic development approach, intended to benefit low income earners and more especially women and men. Microfinance in Uganda is fairly new with approximately less than 30 years old,

The government of Uganda has over the past decade initiated, implemented and or supported various micro-credit schemes aimed at fighting poverty in the

country. But the problem is that at the same time it frustrates its programs by poor taxation policies

The government of Uganda has introduced schemes like Uganda rehabilitation project (URP) program from poverty alleviation and social costs of structural adjustments, Boona Bagagawale (prosperity for all). However, due to the liberalization of the economy most Micro finance institutions are privately initiated, owned and funded and a good example is pride Uganda being the pioneer organization

Pride Micro finance Kabalagala, is a branch of pride in Uganda. Pride micro finance in Uganda is one of the MFIs legally operating in Uganda

It's located in the heart of Kabalagala trading centre. Like any other MFI it offers various services such as running various accounts for its clients, accepting micro deposits or savings, individual loans and group loans and targets small business owners but high taxes are its challenge today

1.2 Statement of the Problem

Micro finance institutions in Uganda mushroomed in 1990 and they seem to help the low income earners to get to their feet economically. The challenges facing them is that the government taxation policies do not favor them, different taxes such as corporation tax levied directly to them and other taxes levied to their clients which directly reduces their incomes as well as their capacity to borrow such taxes include VAT, income taxes such as payee. Thus affecting the performance of Micro finance institutions

1.3 Purpose of the Study

To establish the impact of taxation on the performance of Micro finance institutions

1.4 Objectives of the Study

- i. To establish the relationship between taxation and performance of Micro finance institutions.
- ii. To examine the services offered by Micro finance institutions in Uganda.
- iii. To identify the obstacles / challenges faces by Micro finance institutions in Uganda apart from taxation, and the possible solutions there after.
- iv. To examine the contribution of Micro finance institutions to the Uganda' economy.

1.5 Research Questions

- i. What is the relationship between taxation and the performance of Micro finance institutions?
- ii. What are the services offered by Micro finance institutions in Uganda?
- iii. What are the obstacles / challenge s faced why Micro finance institutions in Uganda apart from taxation?
- iv. What is the contribution of Micro finance institutions to the Uganda' economy?

1.6 Scope of the Study

Geographical Scope

The study was carried out in Makindye division – Kampala city in central Uganda, in Kabalagala – Muyenga road that is at parish taking a sample size of 50people selected from 80 people.

In order to establish the impact of taxation on the performance of Micro finance institutions, the researcher was conduct research on pride Micro finance limited Kabalagala branch, as a case study, to represents a true picture of what is happening within the mentioned organization and similar situations within the same industry. The researcher believes that study was given a similar outlook of what is happening within other Micro finance institutions in the Uganda setting.

Content Scope

The study focused on the impact of taxation on the performance of Micro finance institutions in Uganda –pride micro finance.

Time Scope

The study took a period of 6-8 weeks. That is from October to December 2010.

1.7 Significance of the study

Help to inform the government of republic of Uganda especially the ministry of finances how taxation affects the performance of Micro finance institutions and what should the government do to improve the situation of Micro finance institutions

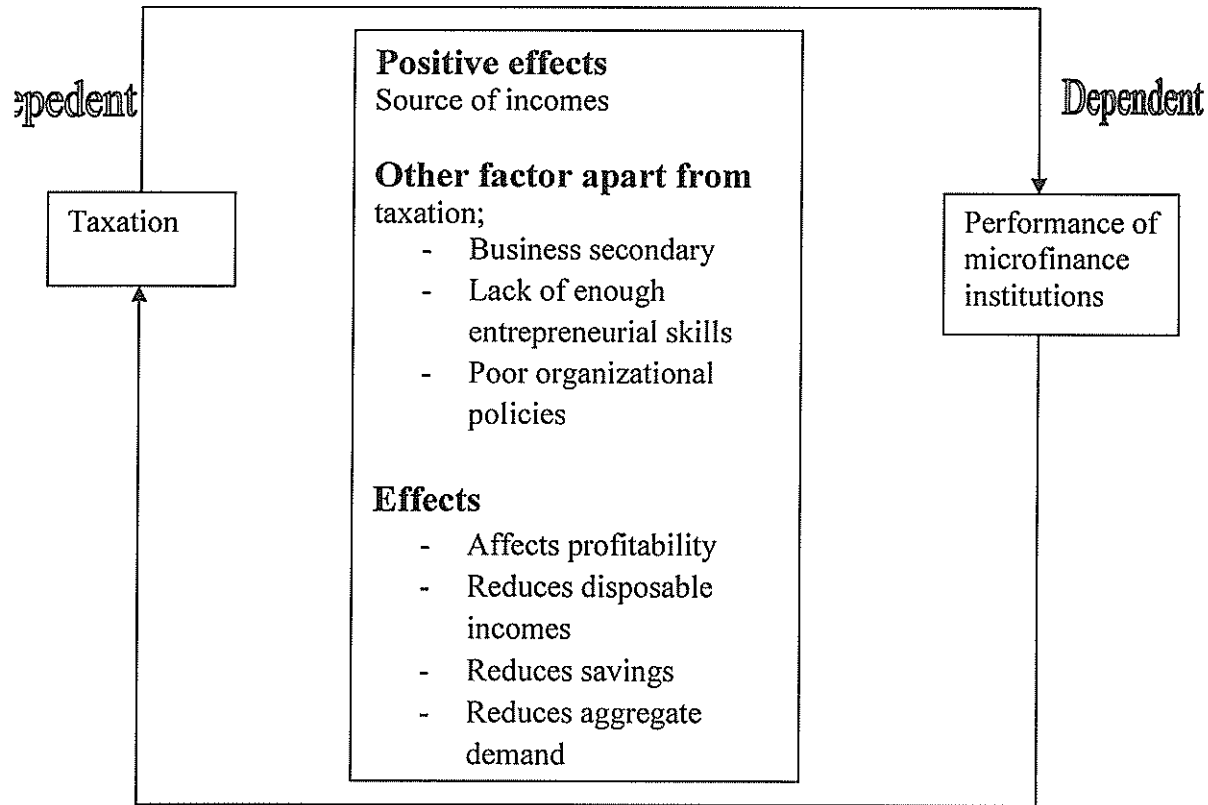
It provide a valuable source of information about the impact of taxation on the performance Micro finance institutions

Helped to provide up to date literature for academicians, administrator of pride micro finance Uganda ltd and the government of the republic Uganda

Contributed to the researcher's fulfillment of the requirements for the award of Bachelors Degree in Business Administration

The researcher's findings will be used by other KIUS, lecturers and decision makers at the University for Further References

1.8 Conceptual Frame Work



Source: Primary Data

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter looks at various literatures from different scholars. Various studies have been carried out on the subject of taxation on performance of Micro finance institutions. Mustafa (1996) and Mugwanya (1990) in their study of taxation on the performance of micro business in Kenya, conclude that taxation affects micro business in a multi dimensional manner

2.1 Definition of key concepts

Taxation refers to the compulsory transfer of money from the public to the government as its means of raising revenue (Tayebwa b (2003). According to *Ddumba S. (2005)* taxation is a no quid proquo compulsory contribution made to the government by either an individual or a company. It is a charge for administering and delivery of social services by the government to the public which is carried out indirectly. Definition by Khalist Okello

According to *Adams (1999)*, the term Micro finance institutions is only used to refer to institutions and enterprises whose goals include both profitability and reducing the poverty of their clients. World Bank (1999) stated that due to increasing poverty across the world especially among the marginalized groups which are women and children, Micro finance institutions were formed to alleviate poverty, facilitate financial independence and promote a sense of social economic empowerment among the poor

2.2 The Relationship between Micro Finance Taxation and Performance of Institutions

According to Ddumba s (2005) taxation reduces capital accumulation. Capital accumulation is discouraged by direct taxes such as corporate tax and PAYE. These forms of tax they discourage Capital accumulation; in that they reduce aggregate demand of the consumers which ultimately affect the performance of business both macro and micro business including Micro finance institutions such as pride microfinance Uganda. Therefore, given such a scenario, there is a big relationship between taxation d performance of Micro finance institutions since high taxes reduce on their clients (lead to drop outs) and Lower taxes favor their clients. This is because low taxes lead to increase savings and increased aggregate demand in the general public

According to Okech, [1999], recent development in Micro finance institutions aha sled to offer non financial services such as training their customers in drainage business plan, bookkeeping and other managerial skills. For instance in Tanzania micro credit schemes were established to boost he popular socialist plan UJAMAA. They assisted people in purchasing of acquiring seeds, fertilizer, education facilities to name the few

2.3 Services Offered By Micro Finance Institutions in Uganda.

Micro finance institutions (MFIs) be it a bank, co-operative credit unions, an NGO or some other form of non bank financial intermediary seek to provide client from households with a range if money management and banking services which may include;

Financial advisory service; where the views and the needs of the poor are given a voice and right attention of policy makers, regulators and those with the authority to influence he environment I which poor household and informal

sector institution operate Micro finance institutions provide information that influences the community especially on compulsory savings [Hashemim, 1997]

Deposit Services [Savings]

They are deigned to offered poor households alternatives savings options to he hoarding of cash or other forms of store of value

This helps to encourage them to save, hence developing a savings culture or discipline among the poor for the overall benefit of the community. Other services offered by Micro finance institutions in Uganda include;

- i) Offering credit services to their clients
- ii) Training of clients on how they can efficiently utilize the borrowed funds

Micro Finance Institutions Train Their Clients in the Following;

- Budgeting an costing
- Planning and monitoring
- Financial accountability
- Insurance facilities and employment facilities

Loans Insurance Cover

According to AMFIU (1999), Loan insurance cover helps safeguard clients from natural calamities. However it is more operational with agricultural; consumption and housing loans

Empowering marginalized people specialized Micro finance institutions like Uganda pride finance limited was also has helped and privileged race (female) to become independent business owners or shareholder

Micro finance institutions are the only kind of institutions to give support to the financially handicapped (poor] to operate small holding business so as to improve their business performance

2.4 Contributions of micro finance institutions.

Poverty alleviation

According to bank of Uganda report (2001) the impact of Micro finance in poverty eradication is evidence from the fact that there has been a tremendous reduction in general poverty from 80% in 1992 to 58% in 2000. Household poverty is estimated to reduce to 3.40% by the end of financial years 2010 in rural areas

Increased investment savings schemes (Hanning, 1999) through the activities of Micro finance institutions, people have learnt how to save their money which in turn is used for investment

For instance those institutions that build up cash reserves through forgoing income, saving is possible by making deposits out of income by avoiding current use in order to draw a sum of these savings in their future for development purposes

Empowerment

According to Kikonyogo, C (1997), people in Micro finance institutions have in particular created opportunities for millions of poor people to become active participants in economic activities and to attain new roles as which income earner and managers of household income. It is the new found access to financial services, poor women is found to be more confident, assertive and better equipped to overcome cultural inequalities. Micro finance has caused a shift in values and expectations that affect women's role in society

Many rural people have been able to access loans which in turn have led to development in much areas and reduction in poverty. Grumpe B (2002), For instance the overall non banking institutions (NBFIs) sector under which Micro finance institutions has registered credit increases of 2.3%

If 200 for 51.9 billion shillings at end of September 2000 to 53.1 billion shillings at end of December 2000

The bulk of total credit registered in this quarter was on secured and an unsecured loans, which rose by 0.8 billion shillings at the end of December 2000 (ministry of finance department, 20000 mortgage loans are by 0.6 billion shillings from 17.5 billion to 1 billion over the same period. However, Uganda currently is executing to have more has 50% increases by the end of 2006 as a result of increased outreach of Micro finance institutions to include rural area

Education and Health

Access to micro credit and micro finance has been forced to promote increased expenditure on education and related improvements in health among poor clients and in this respect, it can enhance human capital. A number of studies have shown that poor people tend to invests their income from micro enterprises in their children education and the children of micro finance clients are more likely to go to school, stay in school loner and they also lower drop out rates

Development of Small Scale Enterprises

Through micro credit schemes, small scale enterprises have developed and are playing a significant role in almost all economic that had been acknowledged before, statistics shown that between the year 1970 and 2000, the average growth national product (GNP) contributed perform rose by nearly two thirds (which is 67%, (Bow 2001)

2.5 Obstacles/Challenges Faced By Micro Finance Institutions in Uganda

High costs of administering services

Traditionally, Micro finance institutions have usually not served poor clients. Banks must incur substantial costs to managing clients account regardless of how small the sum of money involved for example the total revenue form delivering one hundred loans worth US dollars 1000 each will not different from delivering one Loan of %100000 but it nearly hundred times as much work and costs to manage a hundred loaned sit does to manager one. A similar equation resists efforts to deliver other financial securities to poor people, there is a break even point in own and deposits sizes below which banks loss economy on each transaction they marked. Poor people usually foul, below it [World Bank]

Lack of Collateral Security

Most Micro finance institutions aim at improving socio-economic standards of living among the marginalized people. Most of these people lack security, they have few assets that can be used on collateral even if they happen to own land in the developing world, and they maybe not have a land title to it. Also untrustworthy clients make group guarantee lending difficulty as they disappoint their fellow members. This means that the bank will have little resources against borrowers (AMFIU, 1999). Seen from a broader perspective, it has long been accepted as the development catalyst for the broader goal of national economic developed but national planner and deport focus their attention mainly on developing commercial banking sector dealing in high value transactions an often neglected the delivery of services to household of limited means even though there households comprise the majority of their populations

People's Ignorance / Illiteracy

According to Matovu (1996), the ignorance of people has reminds as a bigger challenge where by the poorest will not come forward themselves to apply for a loan or any financial advisory service as they do not know or believe that the service are theirs. Even they are informal many are likely to fee that it would be too risky to borrow

[FINCA-Uganda, 2002]

Transport and Communication Barriers

Bahadura (1997) states that one of the challenges that Micro finance institutions face is transport a communication to reach to the targeted areas. There is poor road network in most of rural areas where Micro finance institutions operate

It is uncertain whether the targeted percentage of millennium development goal that is eradication of poverty and hunger, empowerment of women and ensuring environmental sustainability will be achieved through Micro finance institutions by 1015 or not due to poor transport and communication networks especially in the villages; According to the act of micro deposit talking institution (MDI),

Section 19: subsection 20; 19:20 in 2003, Micro finance institutions face the challenges like less savings, deposit coupled with high operating expenses expanding out reach outside the urban thus lowering or reducing the interest rates

Role of government in encouraging Micro finance institutions in Uganda

Sserwadda (2002), Point out the activities of Micro finance institutions should put in more effort to educate the local people both savings and the importance of savings and encourage them to use Micro finance institutions (MFIs)

According to the ministry of state for finance Agard Didi, promoting the efficiency of Micro finance institutions and expanding their best is a critical factor in enhancing development through savings and acquire a savings culture. He further narrates that Micro finance institutions are in line with the poverty eradication action plan (PEAP) given that they are there and increases incomes and livelihoods

The government is to encourage the expansion f micro finance services. It s acknowledging hat as the world communicates a decades of micro finance and the patent rerecords, the majority of Ugandans have no been part of this programmed given that most of these institutions are instituted in the urban and pre urban areas.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter includes various sections that portray how the study was carried out. It presents the methods, techniques and procedures that were used in order together the requirements data for the study. It comprises the several subsections such as; research design, research population, sampling methods, data collection method and instruments and challenge anticipates

3.1 Research Design

The researcher used both qualitative an quantitative methods of data collection, interpretation and analysis

Due to the nature of the study, the researcher was used a case study which is an intensive descriptive and holistic analysis of a single entry that aims at studying a single entity in-depth in order to gain insight into larger cases

3.2 Study Population

The population under study was comprised of 80 people all working at pride microfinance limited, Kabalagala branch

3.3 Sampling Design

The researcher used simple random sampling techniques in a sense that whether one is on probation of confirmed was put into consideration. Respondents were identified deepening on their willingness and availability to take part in the study. Different departments were formed some where, were respondents was selected at random

3.4 Sample size

The sample size was comprised of 50 respondents selected from the 80 people and was identified basing on their available and willingness to take part in the study. Where different departments were formed, and by selecting people at random.

3.5 Data Collection Instruments

The researcher used observation interviews and self administered questionnaires which comprised of open and close ended questions that was requires respondents to answer all questions

Questionnaires

There was a carefully deigned instrument for data collection in accordance with specifications of the research questions and it consists of a set of questions to which the subject responds in writing. It is also described as a self report instrument used for gathering information about the variables of interest in an investigation (research study). Questionnaires administered personally or mailed to respondents. For this case study, the questionnaires were self administered to the targeted respondents. The questionnaires were used because they save time and they are convenient that is the respondents were filled the at his convenient time

Interviewer.

This research dissertation interviewing was used to collect the data from the selected people. The direct interaction between the selected people and the researcher were involved plus direct questions with answers from the people.

Observation

The researcher was also use observation as an instrument of data collection. Observation is a qualitative tool of data collection that employs vision as its main man of data collection (Amin M (2006). In this process of data collection the researcher examines what is happening in the real life situation and then classified and records. Pertinent happening which are relevant to the study.

The researcher used observation method because it gives first hand information and also it helps to get unexpected but vital information relevant to the study

3.6 Research Procedure

Research topic was handed to the supervisor at the school for business and management of Kampala international university (KIU) for approval. The researcher then obtained the introductory letter from relevant authorities at KIU that was introduces the researcher to the field of study for seeking for the permission from the case study administrators to allow the researcher conduct research

Participants who were willing to provide information guided in the questionnaires filling process and questions was asked by the researcher for more classifications / explanation

3.7 Data Analysis

The data was analyzed using tables, frequencies, percentages, pie charts. And descriptive statistic for easy presentation of the research findings

3.8 Challenges / Limitations

- Difficulty in accessing respondents was anticipated due to their busy schedules
- Difficulty in getting information some employees was not willing to give out information due to the fear of telling the trust and then loosing heir jobs. The researcher anticipates the issue of confidentiality to be a challenge

CHAPTER FOUR
PRESENTATION AND ANALYSIS OF FINDINGS

4.0 Introduction

This chapter discusses the analysis and presentation of findings to achieve the over all objectives of the research study.

4.1 Demographic responses

Back ground characteristics of the respondents were considered in this analysis because they directly affect the operation and performance of micro-finance institutions. Such background information considered gender, age and level of education.

Table 1 A gender /sex composition during the study

Sex	Frequency	percentage
Male	14	28
Female	36	72
Total	50	100

Source: primary data

The findings indicate that the majority of the respondents were female (72%) and male were only 28% during the study. This implies that female employees are more than male employees at pride micro finance Kabalagala branch. The implication of the study is that there are more women in micro-finance institutions than man thus meeting target of microfinance institutions in the world because they target poor households through women.

Table 2. Age composition

Age bracket	Frequency	Percentage
21- 25	7	14.4
26- 30	15	29
31-35	21	42.2
36-40	0	0
41 and above	7	14.4
Total	50	1000

Source: primary data

From the study, it was discovered that majority of the respondents were in the age bracket of 31-35 and most of them they first got loans (they because customers before working with pride micro finance.

Figure 1

The histogram showing the age composition of respondents

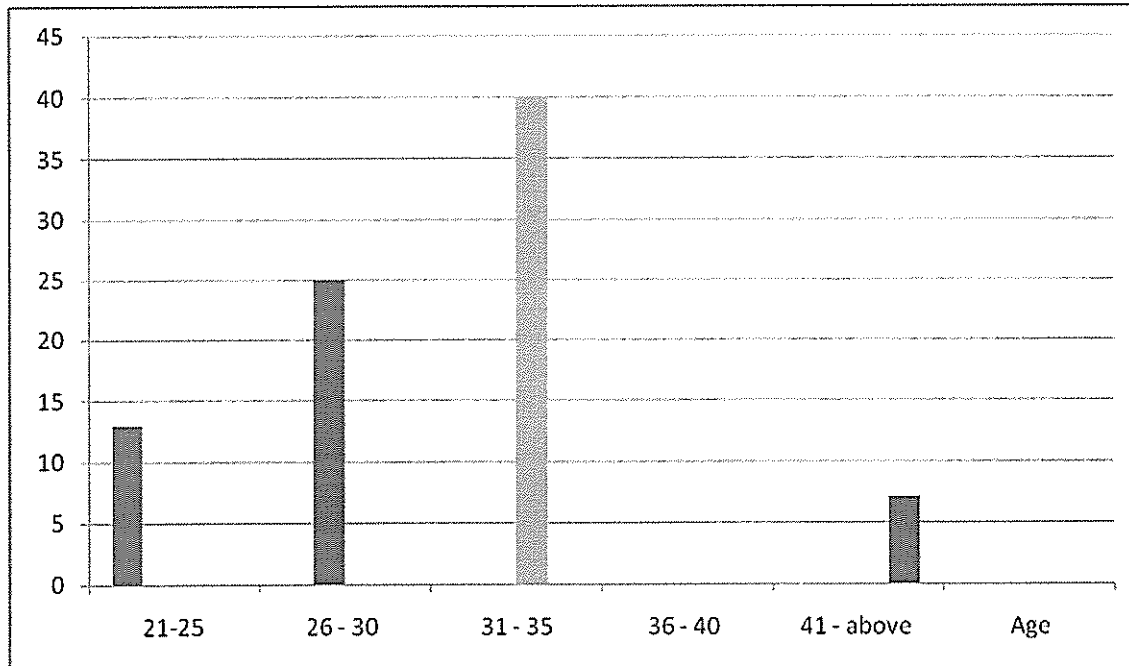


Table 3. Level of education of the respondents

Education level	Frequency	Percentage
O- level	0	0
A- level	7	14.4
Diploma	15	29
Tertiary	21	42.2
degree	7	14.4
Total	50	100

Source: primary data

The findings indicate that majority of the staff / a respondent has certificates of recognized tertiary institutions represented by 42.2%. This shows that their training gives them high degree of integrity in preparing books of accounts where the Govern bases to tax the organization. The study also indicates there was “o” level employee, but there were only 13 employees with advanced certificate of evaluation (UACE).

TABLE 4: Marital status of the respondents

Marital status	Frequency	Degree
Married	36	259.2
Single	14	100.8
Total	50	360

Source: primary data

From the study, the researcher discovered that majority of the respondents were marked that is (260) this shows that they are mature and they can prepare sound financial statements of which the government can should be basing on to a charge affair tax to the organization.

Figure 2; Pie chart for table 4

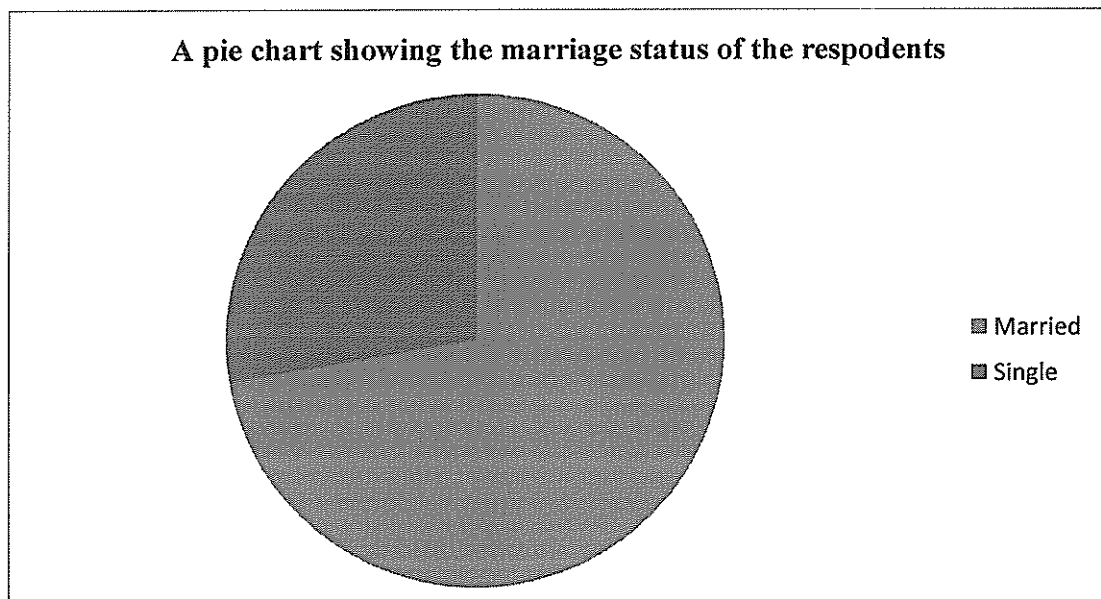


Table 5; Reasons for joining working with pride micro-finance

Reasons	Frequency	percentage
Development of business	6	11
Increase investment	16	33
Education\$ health	22	44
Increase capital	6	11
Total	50	100

Source: primary date

The findings reveal that the responds have economic portfolios that include various types of enterprises, rental income and salaried income reflecting the reasons why the joined microfinance institution. In some cases the respondents were managing arrange of different activities, each contributing to the goals of the household in different ways. They tend to be differentiated in

terms of their demand on the household member's time and management capability.

4.2 Relationship between taxation and performance of micro finance institutions.

Table 6. Is there any relationship between taxation and performance of microfinance institutions?

Responses	Frequency	Percentage
Yes	27	55
No	0	0
Not sure	23	44
TOTAL	50	100

Source: primary data

The findings reveal that majority of the respondents agreed with the topic that there is a big relation ship between the tax the organization pays and its performance , reflected by the 56% of the respondents who agreed with the question. Respondents said tax such as corporate tax, reduce the organizations Net income and it is from the Net income that an organization can decide to increase their pay.

The head of tellers (chief cashier) said that taxes reduce their payments directly examples of the taxes he gave include payee (pay as you earn) which deducts their salary from the source, which rater alone reduces their performance because it de -motivates them.

Further researchers such as Kikonyogo C. (1999) agree that there is relationship between taxation and performance of microfinance institution, high rates discourage business growth due to reduced savings whereas low taxes are an incentive to the growth of organizations, pride micro finance limited Uganda inclusive.

4.3 What are contributions of pride micro-finance institutions in Uganda?

Table 7. Services offered pride microfinance institution

Responses (services)	Frequency	Percentage
Poverty alleviation	16	33
Increased investments and savings	12	22
Empowerment	22	44
Total	50	100

Source: primary source

The findings reveal that 44% of the respondents said that pride microfinance has empowered people. 34% of the respondents revealed to the researcher that people who have benefited a lot are women. Women have been empowered to start their own business through soft loan and also providing jobs to those quality to do such jobs. This is in line with Grimpe, B (2002) who wrote many rural people have been able to access loans for empowerment. However, taxes on both the institution and its clients have been a challenge to mention.

During the study, 33% of the respondents revealed that pride microfinance has contributed in the struggle against poverty (poverty alleviation by availing loan to its clients and on educating the people on how to use loans and 22% of the respondents revealed that pride microfinance has helped in increasing investments and savings especially the owners of small and medium enter prices.

The bar graph showing the contributions of pride microfinance institutions

Figure. 3

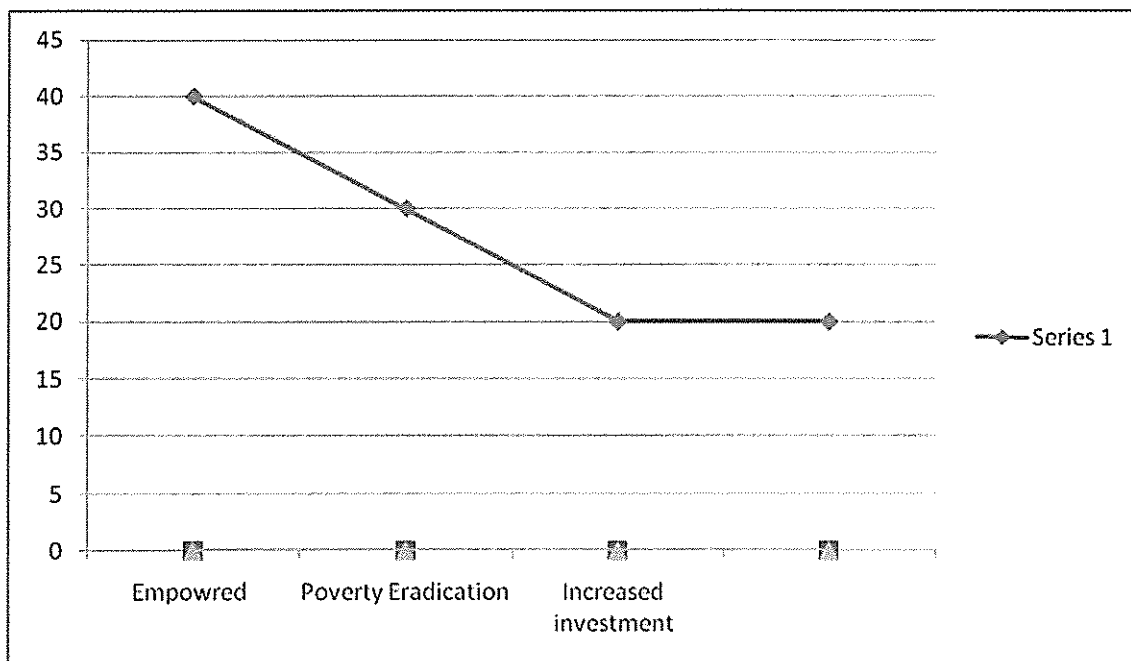


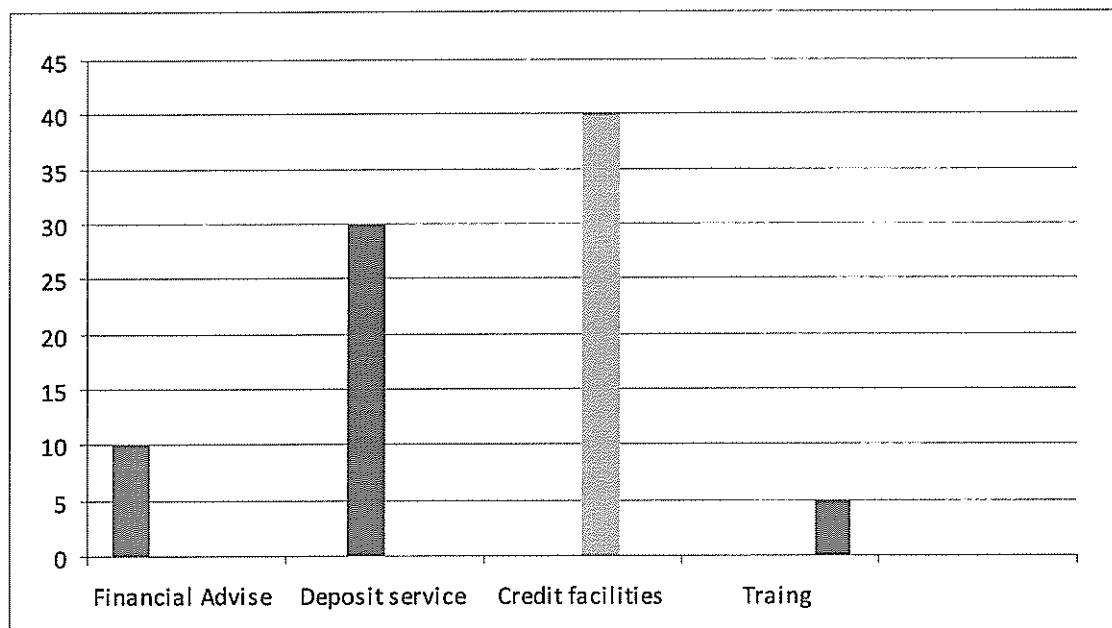
Table 8. Services offered by pride micro-finance institutions

Responses	Frequency (x)	Percentage
Financial advisory	6	11
Deposits services	16	34
Offering credit services	22	44
Training clients	6	11
Total	50	100

Source: primary data

From the study 44% of the respondents agreed that pride micro-finance offers credit services, 34% revealed that pride micro finance offers deposit services for its customers that in to keep its clients money and 11% respondents said that it offers financial advisory and training to its clients.

Figure 4 ; As shown on the histogram below



4.4 What are other challenges faced by pride microfinance institutions apart from taxation

Table 9

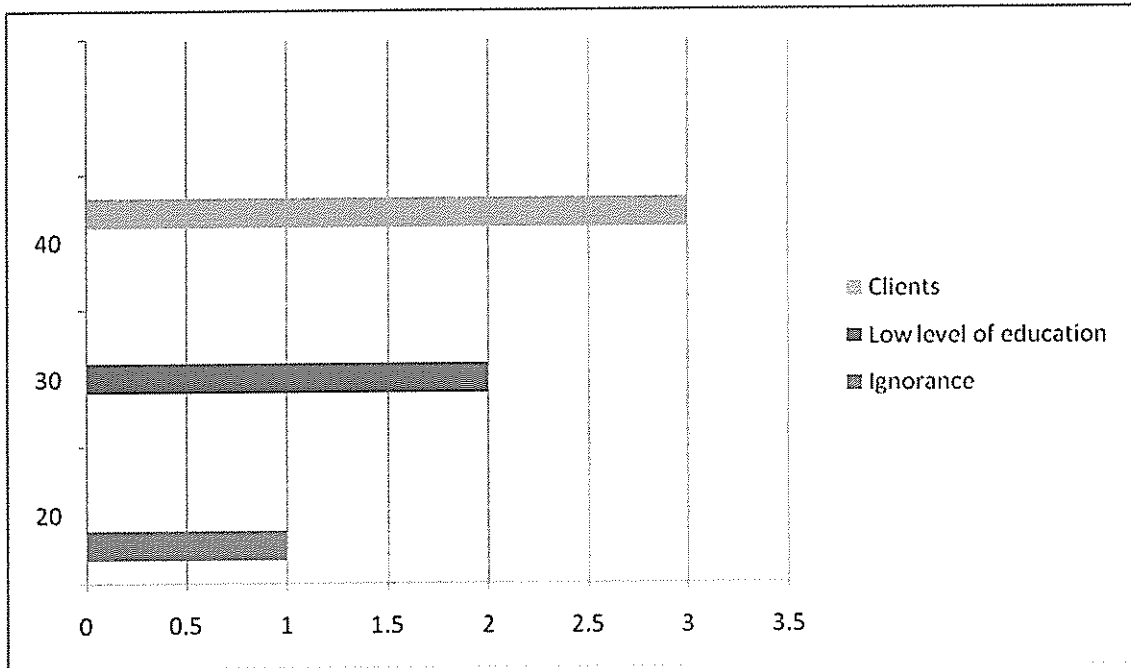
Responses	Frequencies	percentage
Clients drop out	22	44
Low levels of income	17	34
Ignorance (low levels of education)	11	22
Total	50	100

Source: primary data

From the findings of 44% researcher discovered that clients drop put is also one of the challenges facing pride microfinance, client drop out refers to the fall in the number of clients , the respondents revealed that the number of their clients is dropping due to various factors ranging from poverty to poor government policies; 34% of the respondents revealed low levels of income and

high levels of poverty to be another challenge facing pride micro finance institution as it targets low income earners.

The horizontal bar graph showing the challenges faced by pride microfinance institutions



CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS.

5.0 Conclusions and recommendations

This chapter provides conclusions from the findings discussed in chapter four and provides recommendations and areas for further study

5.1 Summary of the findings

The study set out to establish impact of taxation on performance of microfinance institutions, to catabolism the relationship between the two variables, and the services contribution of micro-finance institutions. Thus, this chapter presents the summary of major findings.

The study found out that it's the taxation has impact on the performance of microfinance institutions basing on the finds discussed in chapter four (4) the study found out that taxes reduces the incomes not only for the organization but also for its clients scene that lead to client drop out, and organization reduces incomes that reduces on the loans that are meant for the public those giving a clear impact of taxation on the performance of micro-finance institutions

The study also found out that the limit set up by the bank of Uganda for the microfinance institutions to operate also affected the performance of microfinance institutions. Apart from taxation, respondents revealed that the bank of Uganda setup minimum amount microfinance institutions supposed to keep with bank of Uganda and below which the microfinance institutions cannot continue in operation.

The researcher also found out that majority of the employees at pride microfinance were females, a scenario that showed that the microfinance institution is striving to empower ladies, however, the researcher found out that due to low levels of income lack of collateral security amount the ladies they take less sending loans compared to men.

5.2 CONCLUSION

The study based on the findings in chapter four draws the following conclusions.

Taxation aims at regulating the economy and therefore, reduces the major macro-economic problems like inflation. High taxes are bad and are the ones that affect the performance of microfinance institution and even other organizations low taxes are desirable and can boost the economy. The researcher concludes that from findings majority of respondents complained of payee (pay as you learn) that there is no direct way claiming it and more over they are forced to save with NSSF (national social security fund).

In Uganda, micro finance institution are increasing in number day by day, this will result into competition. With competition in Uganda expected to intensity, pride microfinance will final of self at an increasing competitive disadvantage, unless operating expenses are drastically reduced.

Recommendations

i. Basing on the assessment above, the study recommends the following in line with the objectives a research questions.

Pride microfinance should respond to the problem of high dropout rates. It should incorporate drop out rate monitoring into its management information system, by analyzing trends, conducting market research with clients and former client and modifying policies and products. There is a clear need for the micro-finance institutions to record and analyze drop out rates as a performance mediator.

ii The government of the republic of Uganda should make changes in its tax structure there by scrapping off some taxes such PAYE (pay as you earn) which employees or respondents at pride microfinance limited kabalagala branch called theft by the government. The employees /respondents revealed that the tax is not directly beneficial to them as they do not claim it, at retirement. the

researcher, therefore recommends NSSF- contribution, because employees /respondents were regarding it as their money at a fixed deposit account, this does not affect their performance and there after the performance of local governments.

iii The researcher recommends pride microfinance to introduce clients exit surveys microfinance institutions.

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APPENDIX I: RESEARCH INSTRUMENTS

I am called **Aryachamu Andrew** a student of Kampala international university conducting research on the impact of taxation on the performance of micro finance institutions in Uganda. A case study of Pride Micro Finance – Kabalagala Branch; the intention of this study is to fulfill my academic requirement. Therefore, I kindly request you to answer fro me the following questions.

Note: Your response was treated with the highest degree of confidentiality.

Background Information (Please Tick the Most Appropriate Box]

1. Age

- | | | | |
|------------|--------------------------|-----------------|--------------------------|
| a) 21 – 25 | <input type="checkbox"/> | d) 36 – 40 | <input type="checkbox"/> |
| b) 26 – 30 | <input type="checkbox"/> | e) 41 – 45 | <input type="checkbox"/> |
| c) 31 – 35 | <input type="checkbox"/> | f) 46 and above | <input type="checkbox"/> |

2. Sex

- a) Male
- b) Female

3. Marital Status

- a) Married
- b) Single
- c) Divorced

4. Level of Education

- | | | | |
|-----------------------------|--------------------------|---------------------|--------------------------|
| a) Primary level | <input type="checkbox"/> | d) Diploma | <input type="checkbox"/> |
| b) Secondary level | <input type="checkbox"/> | e) Degree | <input type="checkbox"/> |
| c) Professional certificate | <input type="checkbox"/> | f) Non of the above | <input type="checkbox"/> |

5. Department

- a) administrator
- b) accounts
- c) finance
- d) sales
- e) human resource

Other questions

1. How long have you been employed at Pride Micro Finance – Kabalagala Branch?

.....

2. What is your current position at this institution?

.....

3. How do you understand the phrase “taxation” and how does it affect the performance of this institution?

.....

4. Is there any relationship between taxation and performance of micro finance institutions in Uganda?

.....

5. What are the services offered by pride micro finance institutions in Uganda?

.....
.....
.....

6. What are the challenges faced by micro finance institutions in Uganda, apart from taxation?

.....
.....
.....

7. How does pride micro finance institutions contributed to the in Uganda economy?

.....
.....
.....

8. What are possible or likely solutions to the challenges mentioned in (6) above?

.....
.....
.....

Interview guide

- 1) What forms of finance management methods are used at the institution.....
.....

- 2) What are indicators of performance of financial institution management do you know at pride micro finance institution (Kabalagala).....
.....

- 3) Is there a requirement for collateral security before accessing micro finance services.....
.....

- 4) If the respondents is no, what is used as collateral security.....
.....

- 5) What advice or recommendation would you propose so that people (client) improve their well being through micro finance institutions.....
.....

APPENDIX II: TIME FRAME

Proposal	October	2010
Data collection	November	2010
Dissertation	January	2011
Submitting	February	-March 2011

APPENDIX III: BUDGET

Item	Amount in shilling
Data collection and analysis	100,000
Typing and printing	150,000
Stationery	40,000
Miscellaneous	10,000
Total	300,000