

**THE IMPACT OF MICROFINANCE INSTITUTIONS ON THE
PERFORMANCE OF INVESTORS: A CASE STUDY OF
FINCA UGANDA.**

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**ARESEARCH REPORT SUBMITTED IN PARTIAL FULFILMENT OF THE
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DECLARATION

I HIJOMA NICHOLAS do hereby declare that this research report is my original work and to the best of my knowledge, it has never been published and submitted for the award of any academic qualification in this institution or university before.

SIGNATURE 

STUDENT

DATE.....10/08/2013.....

APPROVAL

This research report has been submitted for examination with my approval as the candidate's university supervisor.

Signed GAZand

Date 13/08/2013

Dr. Gulebyo muzamiru

DEDICATION

I dedicate this work to my loving parents for their continuous support and guidance throughout my life, my brother and sisters and my friends Robert, William, Ibra, Frank, Charity, Nusla, Deborah and many more for their support during my university study.

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LIST OF ACRONYNS

MFI:	Microfinance institutions
FINCA:	Foundation for international community assistance
UNDP:	united Nations development programme
GoU:	Government of Uganda
BoU:	Bank of Uganda
NGOs:	Non-Governmental Organization
MDIs:	Micro deposit taking institution
GNP:	Gross national product
PMA:	Plan for modernization of agriculture
IFAD:	International fund for agriculture development
NFBI:	Non-banking financial institutions
ILC:	Individual loan schemes
SBDGP:	Small business development Centre publication
LDCs:	Low developed countries
MFPE:	Ministry of finance, planning and economic development
UML:	Uganda micro finance limited
GEM:	Global entrepreneurship development
UIA:	Uganda investment authority
PEAP:	Poverty eradication action plan
MDGs:	Millennium development goals

ABSTRACT

The main objective of the study was to establish the impact of microfinance institutions to the performance of investors. This was through examining FINCA Uganda's operations especially the services it provides and the problem it faces. Questionnaires were given to its clients and staff in order to obtain the primary data from which it was observed that majority of the clients are female and they borrow under village banking groups with the major objective of increasing working capital.

CHAPTER ONE

INTRODUCTION

1.0 Background to the study

In 1992 the government of Uganda (GoU) and the East African Development Bank created Micro Finance Institutions as a poverty eradication action plan (PEAP). Microfinance institutions (MFIs) came up as a result of low-income people that were interested in running small-scale investments that were largely being ignored by the formal sectors. Many small scale firms could not obtain credit from commercial banks which have an average lending threshold of \$100,000(one hundred thousand US dollars) and generally deal with large firms. Ministry of finance publications (2004). However, these efforts have done less in promoting small scale investors because many investors are ignorant about the Micro Finance Credits Schemes the government is campaigning for, lack of knowledge and business skills amidst high illiteracy levels especially among rural investors has weakened the development of the country, majority are market followers, they just look for where there is space and copy others without scanning the environment. These inabilities not only block them from adequate decision making but also create a sequence of low incomes or no income at all. The initiation of credit schemes rotates around the development of local investors to enhance economic growth and development in relation to the objectives of millennium development goals(M.D.Gs,2015). With the low incomes earned especially in rural areas of Uganda; there's inability to access credit or loans offered by the MFIs.

In a study by the Uganda bureau of statistics (2005), it was found out that 39.9% of Ugandans could not access credit because of ignorance and inadequate collateral needed to obtain loans.

The problem is worsened by women entrepreneurs who cannot allow their assets to be used as security for loans. Also low levels of technology, lack of managerial skills and the absence of an enabling environment by Uganda Investment Authority(UIA), account for the low levels of investment in the country. MFIs claimed that they provide facilities to the poor with opportunities of enabling them have self-reliance through

entrepreneurship, cushioning them against economic shocks and paving a means of social empowerment hence improved standards of living.

1.1 Statement of problem

Microfinance institutions In Uganda is created with a strong interest of reducing poverty among individuals in the country regulated under the micro deposits taking institutions (MDIs) Act (2003). But the availability and outreach of microfinance institutions (MFIs) services have remained limited according to the budget. Microfinance institutions (MFIs) are concentrating their services in urban areas. Out of a potential clientele of 9.5 million people, MFIs reach only 13%. The bulk of institutions involved in micro finance services such as village banks are biased towards rural areas and even where services are available, the interest rates charged remain high which discourages borrowing. This has led to loss of household assets to meet loans repayment obligations which not only constrains their business but also creates a vicious circle of poverty, Ministry of finance reports(2004).

It is from this background that the study intends to establish the impact of microfinance institutions (MFIs) to the performance of investors.

1.2 Purpose of the study

The purpose of this study is to find out the relationship between microfinance credits schemes and the development of investors in Uganda.

1.3 Specific objectives of the study

The specific objectives of this study are;

- (i) To analyze the impact of interest rates on the performances of investors in Uganda
- (ii) To find out the roles of investors in the development of Uganda
- (iii) To establish the problems of investors in Uganda
- (iv) To show the relationship between MFIs and investors in Uganda

1.4 Research questions

The study was guided by the following questions;

- (i)What is the impact of interest rates on investors' performances?
- (ii) What are the roles of local investors In Uganda?
- (iii) What are the problems facing investors in Uganda?
- (iv)What is the relationship between MFIs and investors in Uganda?

1.5 Significance of the study

The study will be significant in the following ways;

- (i)To add more knowledge to the existing knowledge on MFIs lending rates.
- (ii)To evaluate the significance of MFIs on the performance of investors
- (iii)To help identify the roles of investors as a tool of poverty eradication.

1.6 Scope of the study

The study will be considered on the periods 2006-2011 and was focusing on the relationship between microfinance institutions and the development of small scale firms in Uganda.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter represents the literature review used in the study. It is divided into five sections. Section 2.1 defines local investors. Section 2.2 shows the impact of interest rates on investor's performance. Section 2.3 discusses roles of local investments. Section 2.4 deals with problems of local investment activities, while section 2.5 handles relationship between microfinance institutions.

2.1 Definition of local investors

Stoner et al. (2000) put small business as those locally owned and managed often with very few employees working at a single location. Freeman (2000) categorized investors by stating their characteristics that, small businesses are those with fewer than 500 employees. In 1992, people working in organization with less than 200 employees held 53% of all jobs in America. Uganda Investment Authority considered local investors to have an investment figure three hundred thousand dollars (\$300,000) and capital employed of up to fifty thousand dollars (\$50,000). Uganda Revenue Authority put investors by tax purposes as those with sale figures turnover of 20 million Uganda shillings. Assumption is that the sales turn over will be around 1,500,000 per month and daily turnover of 75,000 Uganda shillings.

The study signifies that local businesses are characterized by small amounts of capital invested and small operations managed by a small number of people.

2.2 The impact of interest rates on investors' performances

Lipsy (1983) defined interest rates from economic context as the price for capital. It is what an entrepreneur pays in order to use borrowed capital. Al port (1980) argued that interest rate is areward paid for the factor of production which is capital. Interest rate is payment for the use of a sum of money. Performance indicator shows that MFIs in the country charged interest rates of 3%-5% monthly, which comes to about 36%-60% per year. The study put that micro credit institutions to meet their operational costs need to charge 42% according to Uganda institute of bankers (2005)

2.2.1 Scale and outreach indicators

According to Microfinance journal (2002), outreach indicators demonstrate that MFIs are set to have an average growth of 50% of client's base per year with an estimated outreach of 1.3 million clients. The government of Uganda is currently recruiting microfinance specialist with an aim to promote the services at sub counties levels. These efforts are to enhance local investors in the rural areas.

2.2.2 Sustainability

According to Chilean social investment funds (1993), used auction system to subsidize the entry of commercial banks that offer to provide the largest number of micro loans for the smallest subsidy has fallen steadily from united states dollars 240 to about 80% on loans that averaged about 1,200 roughly 25% of gross national product (GNP) per capita. Plan for modernization of Agriculture (PMA) document (2002) supported access to credits as a vital catalyst for rural borrowers and entrepreneurship to move beyond hire labor and acquire basic necessities. In 2001 a three year rural microfinance outreach programme was launched to provide incentives to the private sector and lead microfinance institutions to spread financial services beyond urban areas to all districts. The programme target was to increase the current number of clients from 500,000 – 1.3 million clients by the year 2007 through MFIs. The government developed complimentary seven years rural finance services programme funded by international fund for agriculture development (IFAD) and its implementation started in (2003/2004) financial year. Government has already provided a conducive policy and regulatory environment through enactment of micro finance deposits taking institutions (MDIs) Act in 2003. Background to the budget (2002/2003) and the ministry of finance in 2006/2007 financial year for MFIs to expand their services to rural areas for proper sustainability of local investments.

2.2.3 Loans extension

The ministry of finance , planning and economic development (2000) demonstrated that the overall non-banking financial institutions (NFBI) sectors under which the MFIs lie , has registered a credit increase of 23%. These rose from 51.9 billion shillings at the end of year 2000 to 53.1 billion shillings and 5.4 billion shillings at the end of year 2002 to 71 billion at the end of year 2006.

2.2.4 Microfinance services to the poor

Montgomery (1996) stated that easy access to savings and provisions of emergency loans has enabled the poor clients copewith seasonal income fluctuations. Microfinance specialists increasingly view improvements in economic security and income protection as the first step in poverty reduction.

Druz and Sen.(1989) also revealed that access to reliable monetized savings facilities can help the poor to smoothen consumption over periods of financial crisis. However, Wright (2002) introduced Group guaranteed loan schemes (GGLs) where there are groups of between 5-9 people. A member can borrow from 150,000 shillings to 1 million. The interest paid is 30% but this rate later reduced to 25%. There are also individual loan schemes (ILC) that started in (2002)

2.2.5 Viability

Bank of Uganda publications (2004) indicated that MFIs viability can be measured by their capacity to manage sufficient levels of local investments to meet their long term goals as poverty reduction tools. To be viable, MFIs need to reduce their interest rates and increase access to loan finances. Even in rural areas MFIs are not sufficient enough to support the desired scale of operations, achieve an optimal balance of locally generated income and outside subsidies to support costs over long term and continued access to the outside sources of funds necessary for continued programmed growth.

2.2.6 Profitability

According to Balunywa (1995), profit is the end result of operation of an organization. Traditional economists take profits as the objective of a firm. Some scholars have taken a different view. They think this is not an inclusive goal as that of maximizing shareholders wealth. Boumol (1996) says that good performing organizations should be able to realize profits.

2.3 Roles of local investors

2.3.1 Employment

Michael (1996) argues that, firms with fewer than 100 employees account for 50% of employment. Moreover small firms are credited with being net creators of jobs. A Zoltan (1994) study revealed that, in many countries, local investments have outpaced large ones in innovations and job creation. It is time for economists to pay more attention to the roles of local small entrepreneurs in today's global economy. Ministry of Finance established that in low developed countries (LDCs) small scale investments by local entrepreneurs contribute up to 75% of the working population in terms of employment. Small business development Centre publications (SBDCP)(1999) established that micro and small investments are spread countrywide in both rural and urban areas. The sector employs about 90% of the total private sector workers. It is estimated that there are about 800,000 local investors employing 1.5 million people with an annual growth rate of 20%.

2.3.2 Local investors and poverty reduction

Poverty reduction paper (2000), highlighted that the poor can make productive use of small amounts of credit at commercial rates of interests, they also need reliable and accessible savings financial services among the poor. This revealed that loans act as a basis on which the poor can come out of poverty. A report by Ministry of Finance, Planning and Economic Development (MFPED)(2001) put that presently at least 500,000 poor clients are served by the larger number of growing MFIs, most of whom are women. Most MFIs operate in the urban areas and semi urban areas although recently more MFIs are increasing their rural outreach. Deniva (2003) indicated that microfinance

credit could be a very strong tool for poverty reduction. The impact is very strong and can achieve individual economic independence through MFIs services.

2.3.3 Economic growth

According to Druker (1993), small businesses are very important in the promotion of economic growth and development of any country. The UNDP paper (1996) demonstrated that the national strategy and programs of action for the informal micro and small enterprise sectors is a key means of bringing about development and economic growth of any country. Vickers (1993), stressed that the level of economic growth is seen from the small business performances in the country. Countries with high economic growth like United States, Britain, China and Japan have developed because the majority of them run small businesses.

2.4 Problems of local investment activities

The performance indicators will show that there are low levels of education, lack of collateral, poor investments plans by the government, economic cycles, poor accountancy , record keeping that subsequently lead to collapse of local investments.

2.4.1 Inadequate marketing

Uganda Bureau of Statistics (UBOS) (2005) observed that, in developing countries like Uganda effective demand is very low and this leads to low market opportunities, which deter the expansion of local investors. Incomes are low in Uganda and so is the purchasing power. Fragmentations of the Ugandan market both physically and culturally which makes the selling of products very difficult. The level of development itself imposes an additional burden because of low levels of technology; local small businesses cannot compete with large enterprises that have the benefits arising from the economies of scale. This makes third world products costly besides the quality being poor.

2.4.2 Inadequate finances

A study by Uganda Bureau of statistics (2005), further revealed that 39.9% of Ugandans could not access credit because of ignorance, lack of collateral needed to obtain loans.

The problem is worsened by women entrepreneurs who are very reluctant to allow their assets be used as security for loans, the absence of financial markets, this makes it hard for investors to obtain the required financial needs for their businesses even in the presence of Microfinance institutions and the new strategy of commercial banks to provide loan facilities.

2.4.3 Poor managerial skills

Murphy (1996) put forward that, many investors face managerial problems whereas at the formation stage, owners are able to run the business. As they progress their demand for managerial skills increases. However some owners are reluctant to acquire these skills or employ people with such skills in order to enable them meet the operational skills required like production, finances and sales. While a report by the institute of Accountants in England and Wales (1996) rejected the views given by Murphy et al. it demonstrates various barriers to growth of investors. It divided investors into two; micro business which employs up to 10 employees, small business from 11- 100 employees and medium sized businesses from 101- 500 employees. Each category was thought to be affected by different barriers to growth and yet they established that 101- 500 seems to be affected mostly by marketing problems, legislation and exporting issues.

2.4.4 Low levels of technology

According to Webster (1999) the study indicates that local investors use cheap technology which is not usually modern. This results into higher production costs and labor costs making it hard for them to stand stiff competition from already established firms. Missel (1987) continued to say that most of the technology used by the local investors originates from developed countries where it is very expensive, besides the limited knowledge to use the technology.

2.4.5 Inadequate enabling environment

The Ugandan budget (2001/2002) established that local investors prosper under a given environment and therefore, most of the plans the country adopted aimed at creating these conditions. Murphy (1996) put that, investors have to compete for finances, markets and

utilities with other business units which at times are paid relief services compared with other players in the market.

2.5 Relationship between MFIs and local investors in Uganda

The government of Uganda has recognized the immediate need to finance micro, medium and small investments in the country. It has introduced MFIs to strengthen the operations, this is to help concentrate on helping citizen Entrepreneurs, the operation is characterized by; loans of United States dollars 500- 20,000, short loans for maximum periods of 36 months for which application of loans is either individually or collectively. All borrowers first participate in one-day training programs before accessing their initial loans the microfinance institutions run the scheme independent of Government.

2.5.1 Microfinance industry in Uganda

According to microfinance deposits taking institutions (MDIs) Act (2003), microfinance businesses are defined as businesses carried on as a principle business of acceptance of deposits, employing such deposits by lending and transacting other businesses that may be prescribed by the central bank. The minimum capital requirement for these institutions in Uganda shillings 500,000,000/=(five hundred million). They are also licensed, supervised and controlled by the central bank. As a non-deposit taking NGO, the activities of FINCA Uganda have not been directly regulated by the Central Bank. Currently, commercial banks hold the savings of FINCA clients, and FU has limited its role to that of mobilizing and encouraging savings by its clients.

Most of the provisions of the MDIs Act are similar to those of financial institutions Act (FIA) and one wonders why MDIs are not included in the definition of financial institutions and the two laws be combined. Uganda's micro finance institutions include; FINCA Uganda, PRIDE Africa, Uganda microfinance limited (UML) among others.

2.5.2 Structure of microfinance industry in Uganda

These are defined under MDIs Act (2003) to mean Business carried on as a principal business of acceptance of deposits by employing such deposits by lending and transacting other businesses that may be prescribed by the central bank. The minimum capital requirements for these institutions is Uganda shillings 500,000,000/= (five hundred

millions). They are normally organized and operated by non-governmental organizations (NGOs) with a startup capital of 700 million Uganda shillings (MDIs Act, 2003). In Uganda, the microfinance industry has grown up rapidly in recent years. The micro lenders constitute an effective and large number of credit providers to people with limited or no access to banking services, for instance rural and the poor in urban areas. MDIs Act (2003) and bank of Uganda (BoU) in consultation with interested parties in microfinance sectors established a law regulating the operations and activities of MFTs in the country and the introduction of an appropriate legal frame work that has set standards for the industry and developed in a manner that sets standard and sound sustainable activities which led to their growth in the country. The government has gone ahead to set up a ministry of microfinance to enhance their development.

2.5.3 Geographical coverage of MFIs

Obonyo's (1997) study shows that throughout the world an increasingly large number of small businesses interact with other enterprises through a complex web of commercial relationship. Baker (2002) also argued that the development and performances of local investments have been of great interest to entrepreneurs and financial institutions, there are increased feelings that local investors should grow and increase their contributions through increased access to micro finance institutions (MFIs) services in rural areas. In Uganda, the microfinance sector has grown rapidly in recent years due to increasing numbers of clients. The micro lenders constitute an effective and large number of credit providers to people with limited or no access to banking services.

2.5.4 Categories of investors that benefit from MFIs services

Rutherford (1996) describes microfinance services as those that enable investors to profitably use smaller sums of cash to generate a return on investments. Majority are run on a single basis. MFIs consider women to be more credit friendly than men. They prefer offering services to female clients because women are kind and credit worthy, which means on average local investors, are dominated by women in the country of age bracket 21-40 years. Global Entrepreneurship management (GEM)(2003) supported this idea

which adds that most local investors are; school drop outs, retired, old age who do not get access to loans from formal banking.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter contains the methodology used in the study; it's categorized into eight sections. Research design, Sample procedure, Sampling size, Data sources, Instrument used, How data was processed, How data was analyzed, Limitation to the study.

3.1 Research design

The researcher will use a descriptive and qualitative research design involving systemic collection of data to give explanatory particular phenomena with emphasis to discover the extent of the problem. This was done to generate maximum data on the impact of MFIs to the performance of investors.

3.2 Sampling procedure

The researcher will use simple random sampling techniques for selecting the beneficiaries of FINCA Uganda from within the described radius. This was to help the researcher to get a diversified view on the impact of microfinance institutions on investments.

3.3 Sampling size

The structured questionnaires will give 50 respondents randomly selected from male and female clients and staff of FINCA Uganda. This was to get how FINCAs credit policy is perceived by both the clients and staff.

Table 3.1: Sample size of staff and clients

Respondents	Number of respondents
FINCA Management	5
FINCA Employees	15
FINCA Clients	30
Total	50

Source: Primary Data

3.4 Data sources

Both primary and secondary sources of data will be used as shown below.

3.4.1 Primary Sources

Beneficiaries and staff of FINCA will be used as the primary data sources. This data was collected through self-administered and interview guide questionnaires. This was used to help the researcher get original information about the research topic.

3.4.2 Secondary Data

This will involve the use of text books, journals and other relevant documents on MFIs. This was done with an intension of getting opinions of various authors on the subject.

3.5 Data Collection Methods and Instruments

The researcher will use self-administered questionnaires, interviews and convectional library research and observation during the study. This was to help the researcher at getting a diversified view on the impact of microfinance institutions on investors' performances.

3.5.1 Self-administered questionnaires

These will be used by respondents willing to give their comment in writing so as to get their opinion on the topic of research through related questions that were asked. Questionnaires included open and close ended questions. The open ended questions were intended to capture the respondents own opinion unlike the closed ended questions which required short direct answers.

3.5.2 Interviews

This will involve face to face interaction with selected clients of FINCA beneficiaries of the institution. This instrument gave confidence to personnel who were fearful to commit themselves. Nonverbal responses such as facial expressions were gathered from the respondents using this method.

3.5.3 Conventional Library Research

This will involve reading text books and journals and then sorting out those which cover microfinance institutions and local investments, the main source was KIU Library.

3.5.4 Observation

During the interviews, the researcher will be able to observe the surrounding environment in order to acquire visible data and information like the individual activities that respondents were involved in, that were supported by FINCA and also the various forms of development their activities have generated. This was done mainly to obtain primary data relevant to the study which the questionnaires did not cover.

3.6 Data Processing

From the field, data collected will be edited for errors and misinterpretation, data processing was important to conform that the data was in line to the study objectives. The researcher did this by thoroughly checking the field interview schedules immediately after the interviews. This was done in presence of the respondents so that any errors were clarified and after wards put in order. It involved first dealing with close ended questions which had preset categories and then later open ended questions were dealt with. Respondents for open ended questions were extracted by the researcher and coded according to common response to particular questions.

3.7 Data Analysis

Both quantitative and qualitative techniques will be used to analyze the collected data, it also involved the use of statistical techniques and management science methods like the MS Excel to obtain frequency tables for response rates to ascertain accuracy.

3.7.1 Data Presentation

The data will be then presented in form of tables, narrative so as to ensure clarity and precision of the study report.

3.8 Limitations to study

(i) Limited Finance Resources

The researcher incurred heavy costs which led to shortage of funds on especially word processing and photocopying, transport, phone calls and stationary.

(ii) Data Access

Some clients were reluctant in revealing information pertaining to the performance of their business.

(iii)Transport

This was another hindrance since the researcher had to move to clients within the radius of 5kms from the city center of Kampala.

(iv)Time Frame

The time frame allocated for submission of the proposal and conducting the research itself was very short.

CHAPTER FOUR

PRESENTATION, INTERPRETATION AND DISSCUSSION OF FINDINGS

4.0 Introduction

This chapter presents findings of the study with the main aim of providing answers to the questions and an interpretation of each in the light of the research questions which was guided by the research objectives, findings are generally organized basing on the research questions. It is divided into fifteen sections. Section 4.1 deals with Demographic characteristics of respondents. Section 4.2 tackles Educational level of Respondents. Section 4.3 presents Respondents businesses. Section 4.4 shows Respondents scale of operation. Section 4.5 discusses Respondents use of MFI loans. Section 4.6 deals with loan terms and conditions. Section 4.7 talks about borrowing objectives and status of clients. Section 4.8 presents findings on the credit policy of FINCA Uganda. Section 4.9 handles Respondents' securities surrendered. Section 4.10 shows collateral requirements. Section 4.11 presents interest rate. Section 4.12 handles loan period. Section 4.13 deals with Reasons for failure to pay. Section 4.14 mentions Respondents' rating on benefits from FINCA. Section 4.15 shows other findings.

4.1 Demographic characteristics of respondents

The demographic characteristics are in form of gender and age distribution and it has been presented in tables and pie-charts to reflect the characteristics of the clients from the sample study.

4.1.0 Gender Distribution

The demographic characteristics in form of gender is summarized in table 4.1

Table 4.1: Gender Distribution

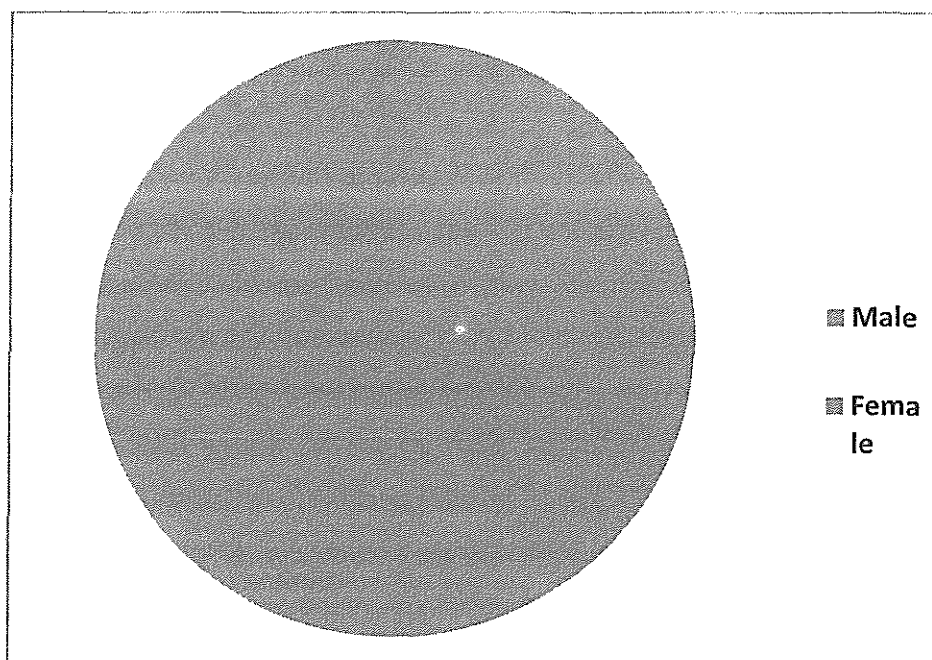
Gender	Frequency	Percentage (%)
Male	15	30
Female	35	70

TOTAL	50	100
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Source: Primary data

From the table 4.1, 30% of the people interviewed were male while 75% were female. This is an indication that majority of FINCA Uganda's borrowers are women. This can clearly be indicated on the pie-chart 4.1

Pie chart 4.1: Gender distribution of clients



This confirms FINCA Uganda's goal of focusing on empowering women by increasing their economic positions in the society. According to the World Bank report survey, experience shows that women generally have a higher sense of responsibility than men and are affected by social pressure. Women have also demonstrated a higher repayment and saving rate than the male clients.

4.11 Age Distribution

Table 4.2: Age distribution among respondents in FINCA and beneficiaries

Age	Frequency	Percentage(%)
20- 30	10	20.0
30- 40	20	40.0

40- 50	15	10.0
50 and above	5	10.0
TOTAL	50	100

Sources: Primary data

Table 4.2 shows that the majority of respondents that is 40% fell in the age bracket of 30-40 years, 30% of the respondents fell in the age bracket of 40 – 50 while 20% and 10% of the respondents fell in the age bracket of 20- 30 and 50 years and above respectively.

4.2 Educational Level of Respondents

Table 4.3: The level of education of respondents in percentage scores

Level of education	Frequency	Percentage (%)
Degree	15	30.0
Diploma	6	12.0
Certificate	4	8.0
O-Level	9	18.0
Primary Level	16	32.0
TOTAL	50	100

Source: Primary Data

As shown in the table 4.3, the majority of the respondents that is 32% had reached primary level of education, 30% of them had reached degree level, 18% represented those who had reached O-Level, 12% and 8% represented diploma and certificate holders respectively.

4.3 Respondents Businesses

Table 4.4: The businesses respondents were dealing in

Type of business	Frequency	Percentage (%)
Retail	30	60
Processing	5	10
Whole sale	12	24
Manufacturing	3	6
TOTAL	50	100

Source: Primary data

The results in table 4.4 helped the researcher to find out that 60% of the respondents were carrying out retail trade while 24% were engaged in wholesaling, 10% was in processing and only 6% of them were engaged in manufacturing. This shows that most of the respondents surveyed operated in retail trade.

Respondents Scales of operation**Table 4.5: The scale of operation of the client business**

Scale of operation	Frequency	Percentage
Small scale	33	66
Medium scale	16	32
Large scale	1	2
TOTAL	50	100

Source: Primary source

From table 4.5, 66% of the respondents operated on small scale, 32% were medium scale while 2% were large scale. This shows that most of the respondents surveyed operated small scale enterprises and therefore gave the best representation to achieve the research objectives and answer the research questions.

4.5 Respondents Use of MFI loans**Table 4.6: Number of years respondents have been using microfinance loans.**

Years	Frequency	Percentage	Valid (%)	Percentage
1—2years	19	38.0	51.4	
1—4 years	12	24.0	32.4	
Above 4 years	6	12.0	16.2	
TOTAL	37	74.0	100	

Source: Primary data

As seen from table 4.6, 51.4% of the respondents had used microfinance loans for 1-2 years, 32% 1-4 years and 16.2% had used the loans for more than 4 years.

4.6 Loan terms and conditions

These are the credit terms as stipulated under which credit is granted. These include interest charges, loan size, loan period and repayment schedules.

Table 4.7 shows the sizes in different amounts (shillings) and the numbers of cycles the clients have gone through to borrow those amounts.

Table 4.7: Loan amounts and cycles

Amount (Ugshs)	Number of times a client had acquired a loan				Σ row	%
	Once	Twice	Thrice	4 and more		
50,000-99000	7				7	20
100,000-149000	4	13	2		19	54.3
150,000-199000		3	1	1	5	14.3
200,000 & above				2	4	11.4
TOTAL	11	16	5	3	35	100

Source: Primary data

The results in table 4.7 shows that most disbursed loans to respondents in the sample fall between 100,000- 149,000 with a representation of 54.3% of the overall. It can also be noted that the amount of the disbursed loan increases with the number of times a client has acquired a loan, that is, loan cycles made by the client. The loan amount range between 50,000- 5,000,000 which are received on a graduating process as the loan grows bigger with subsequent loans. The initial loan which ranges between Uganda shillings. 50,000-5,000,000 for FINCA Uganda is viewed as too small to be useful to the business.

It is always diverted because it is considered too small to be worth the effort of saving. The repayment of the money may result into collapsing of the business especially if the

repayment is born by the business. On the other hand, too much money other than what the business requires leads to extravagance and creates a burden for the borrower during repayment.

Table 4.8 shows the loan terms offered by FINCA Uganda. These include the interest rates charged, the repayment periods and the maximum and minimum loan amounts.

Table 4.8: FINCA Uganda's loan terms

Category	Loan amount		Interest Rate	Re-payment period
	Minimum	Maximum		
Individual	500,000	5,000,000	3%	4-6 months
Group	50,000	500,000	3.5%	4-6 months

Source: *FINCA Uganda publication for May 2011*

From table 4.8, it can be seen that FINCA Uganda gives two different types of loans, that is , the group loans and individual loans. Individual loans have lower terms than group loans. This is because group loans do not have physical security attached to them and therefore chances of default are very low. The interest rates range between 3-3.5% and are charged on straight line basis. This method requires clients to pay the same amount of interest per month. FINCA Uganda still insists on using this method although other Microfinance institutions like Pride Microfinance have resorted to deducing balance method where the amount of interest to be paid decreases with the decrease in amount of money pending repayment. FINCA Uganda gives a grace period of 2-3 weeks basing on repayment period chosen by the clients. No person on this earth can guarantee that he/she cannot get any problem in his/her future. This grace period is meant to give more time to clients who experience some difficulties and are unable to repay their loans in time.

4.7 Borrowing objective and status of clients

Clients borrow money under two different statuses. That is, under village banking group or individual basis. They also tend to have different objectives as to why they borrow money from FINCA Uganda. These include; increasing working capital, savings and acquiring more assets.

Table 4.9 shows the different percentages of the clients in the sample who borrow either on individual basis or under village banking groups and their abilities to repay the loans under their different statuses.

Table4.9: Borrowing statuses and loan repayment

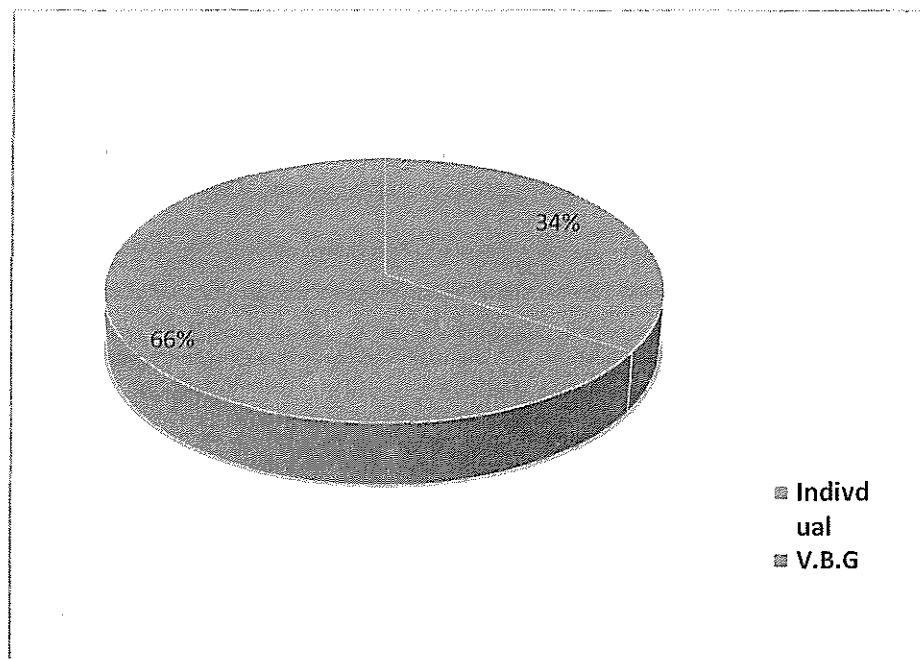
Status	Loan payment		Frequency	Percentage (%)
	Yes	No		
Individual	10	2	12	34
V.B.G ¹	14	9	23	66
TOTAL	24	11	35	100

Source: Primary data

Table 4.9 shows that 66% of the clients are members of village banking groups. Of the 66%, 61% paid back their loan while the 39% failed to repay their loans. 34% of the clients borrow on an individual basis. Of the 34%, 83% paid back their loans while 17% failed to pay their loans. This can be presented clearly in the pie chart4.9

¹ V.B.G- Village Banking Group

Pie chart 4.2 Borrowing status of clients



Most of these clients do not have property ownership, which they can offer as collateral security to get individual loans. Therefore, they form small groups which serve as back up for the loans they get. The results also show that loan repayments are highest in clients who borrow on an individual basis than those who use group back up. The borrowers who were assessed basing on collateral have better utilization than of those assessed using the group criterion mainly because of fear of losing the few assets they have in their names which were placed forward as collateral. The person who is assessed using physical security has the liability by him or herself. That is it's upon him or her to use the loan effectively while the other based on group members makes the liability fall upon group members making the members relaxed over the loan.

Table 4.10: Shows the different objectives for which clients borrow money from FINCA Uganda each with its respective percentages.

Table 4.10: Objective for borrowing

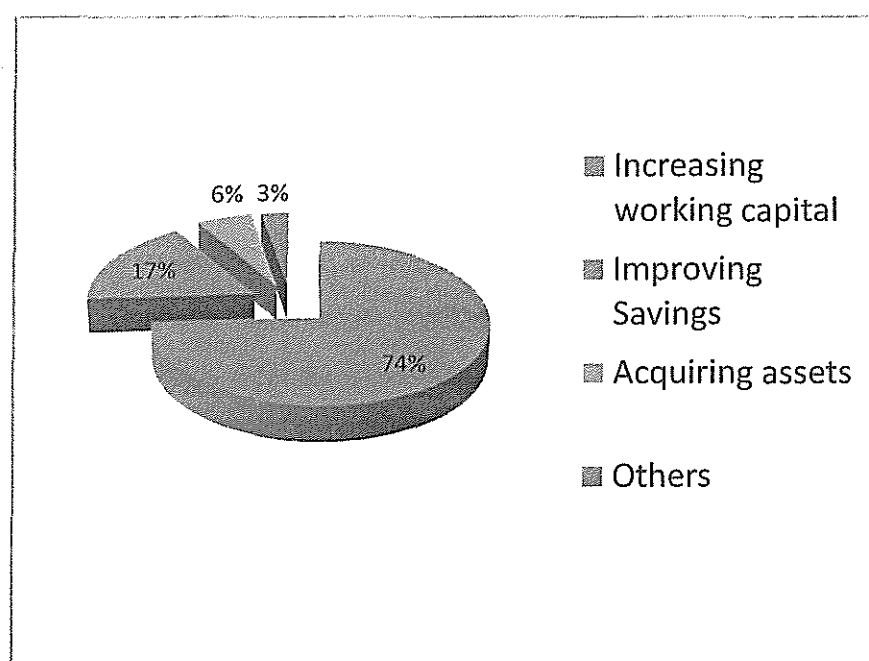
Objective	Frequency	Percentage (%)
Increase working capital	26	74

Improving savings	6	17
Acquiring assets	2	6
Others	1	3
TOTAL	35	100

Source: Primary data

Table 4.10 shows that 74% borrow to increase their working capital followed by increasing savings which is only 17% of the clients in the sample. This is clearly presented in pie chart 4.3

Pie chart 4.3: Objectives for borrowing



Thus the major objective for borrowing is increasing working capital. This is because as time goes on and the businesses pick up, there is increased customer demand for the goods or services provided. In order to cater for their customers and make more profits, FINCA Uganda's clients borrow more money from it.

4.8 Findings on credit policy of FINCA Uganda

The respondents were asked to examine the credit policy of FINCA Uganda and how good it is, the following were the responses.

Table 4.11: How good the credit policy of FINCA is

Response	Frequency	Percentage (%)
Very good	3	7.5
Good	11	27.5
Uncertain	15	37.5
Bad	9	22.5
Very bad	2	5.0
TOTAL	40	100

Source: Primary data

Table 4.11 shows that 37.5% of the respondents were not certain about the advantages of FINCA s policy, 27.5% were saying it was very good, 22.5% said it was bad 7.5% said it was very good and 5% said it was very bad.

4.9 Respondents securities surrendered

Respondents were asked the securities they surrender. Their responses were as shown in the table below.

Table 4.12: The types of securities surrendered to FINCA for loan.

Option	Frequency	Percentage (%)
Business assets	12	30.0
Land	20	50.0
House hold assets	3	7.5
Others	5	12.5
TOTAL	40	100.0

Source: Primary data

The table 4.12 shows that, according to the options given to the respondents, 50% surrendered their land for loans, 30% used their business assets, 12.5% surrendered

different assets like borrowed assets from friends and family, 7.5% surrendered their house hold assets and 5% had no option.

4.10 Collateral requirements

Respondents were asked how they rate the collateral requirements of FINCA. Their responses were as shown in the table below.

Table 4.13: How the clients found the collateral requirements of FINCA.

Responses	Frequency	Percentage (%)
Fair	11	27.5
Very fair	19	47.5
No opinion	7	17.5
Harsh	3	7.5
Very harsh	0	0
TOTAL	40	100.0

Source: Primary data

As shown in the table 4.13, the highest number of clients that is 47.5% said that collateral requirements were very fair, 27.5% said it was fair, 17.5% of the respondents had no opinion while 7.5% were saying it is harsh.

4.11 Interest Rates

Respondents were asked how they rate the interest rates of FINCA. Their responses were as shown in table 4.14.

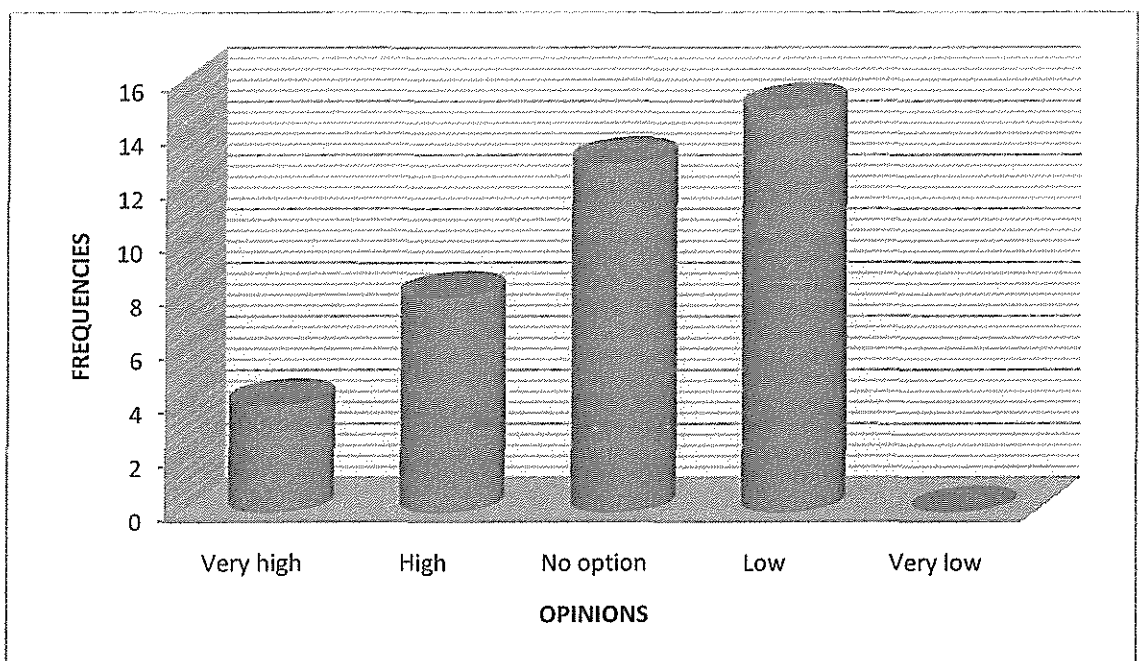
Response	Frequency	Percentage (%)
Very high	4	10.0
High	8	20.0
No opinion	13	32.5
Low	15	37.5
Very low	0	0
TOTAL	40	100.0

Source: Primary data

From the above table 4.14, 37% said the interest rates were low, 32% of the respondents had no opinion, 20% said it was high while 10% of the respondents said the interest rates were very high.

Interest rates at which clients were getting loans can be clearly presented in the bar graph 4.1

Bar graph 4.1: How respondents rated the interest rates



Source: Primary data

From the bar graph 4.1, 10% of respondents said that interest rate is very high, 20% say its high, 32% of respondents have no opinion, while 37.5% say interest rate is low.

4.12 Loan Period

Respondents were asked how they rate the loan period offered by FINCA. Their responses were as shown below.

Table 4.15: Respondents views on the loan given by microfinance institution.

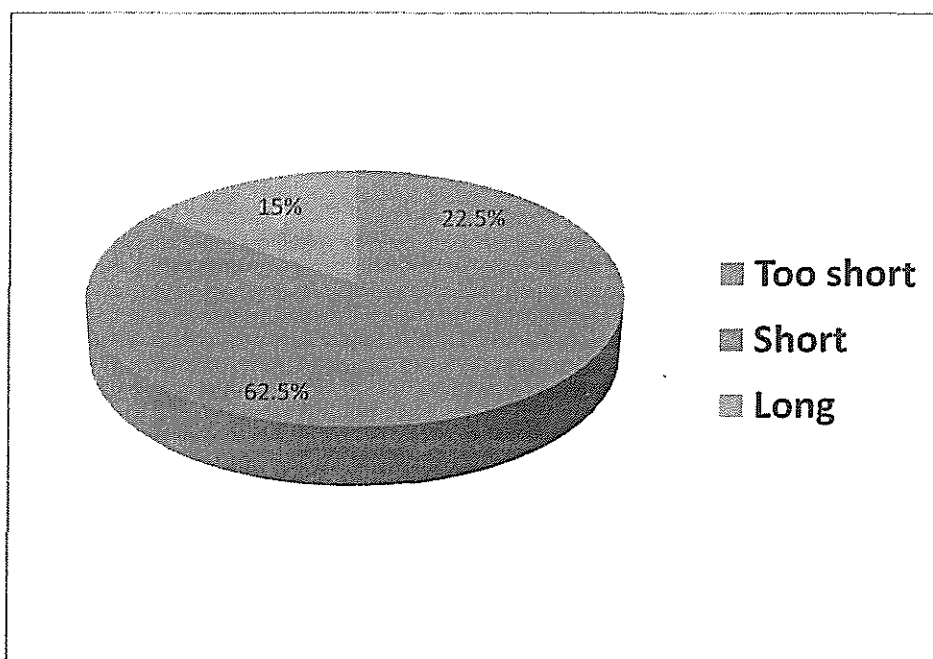
Response	Frequency	Percentage (%)
Too short	9	22.5
Short	25	62.5
Long	6	15.0
TOTAL	40	100.0

Source: Primary data

Table 4.15 indicates that most respondents (62.5%) are of the view that the loan period is short, whereas 22.5% say it is too short while 15% say it is long.

This indicates that the loan period is short, which makes MFI loans ineffective and inadequate. This information is further summarized in the pie chart below.

Pie chart 4.4: Shows respondents view on loan period given by FINCA.



Source: Primary Data

Respondents were also asked whether they managed to pay back and their responses were as shown in the table below.

Table 4.16: Whether clients managed to pay back on time

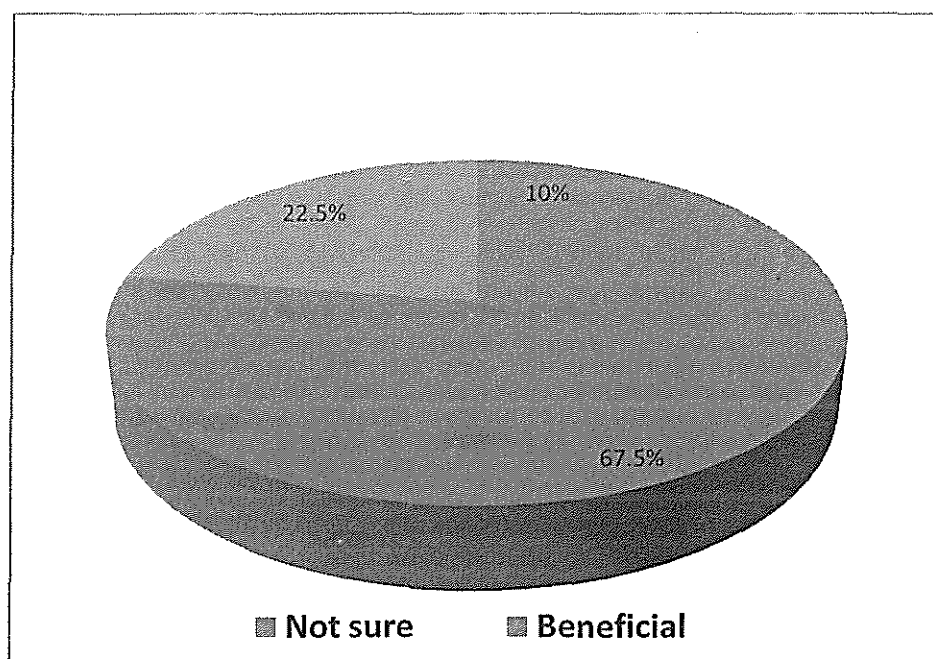
Response	Frequency	Percentage (%)
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Beneficial	27	67.5
Not sure	4	10.0
TOTAL	40	100

Source: Primary data

From the table 4.18, 67.5% said that FINCA loans were beneficial to their business, 22.5% said that the loans were not beneficial and 10% of the respondents were not sure. This indicates that there is a positive relationship between the variables. The information is further summarized in pie chart 4.5

Pie chart 4.5: Shows how respondents rated the benefits of FINCA loan benefits.



Source: Primary Data

From pie chart 4.5, shows that FINCA loans were beneficial, which is evidenced by 66% of the respondents interviewed.

4.15 Other findings

FINCA Uganda is an international non- governmental organization with over 19 branches. In giving out loans to the clients, they consider so many things for example the

level of education, the type of investment, the collateral security among others and they offer different services to their clients among which are loans, deposits, training etc. as said by the clients, it's the same reason for failure to pay back the loan, the clients interviewed said they fail because of failure, sometimes due to short credit period, loan diversification to family obligations especially children school fees, borrowing to pay other MFIs and death of their animals and birds.

The respondents also said that the loans have increased on due performance of local investments. Also the biggest percentage of FINCA Uganda's clients are from small and medium scale investments.

The clients who failed to pay on time noted that savings were always attached and defaulters would in turn pay back to group members if they wished to remain part of the group. However, sometimes, the defaulters could simply leave FINCA Uganda and leave the group members to meet his/her loan obligations.

Some sections of the population especially the poor without access to credit would rather not take credit for fear of the implications of being indebted. This is one of the major factors that hinder the spread of microfinance. This fear has been ignited by the so called big names in the country being forced to declare bankruptcy as a result of failure to pay back the loans. Therefore the poor opt to stay in their poverty in order to avoid such implications.

There is limited awareness about the advantages of FINCA Uganda's services to the poor. This is because microfinance is still a young concept in Uganda and thus needs more time to be recognized by the people.

Like any other type of business, FINCA Uganda also faced risk when carrying out its operations. These included targeting of a segment of the population that has no access to business opportunities because of lack of market, input and demand. Productive credit is of no use to such people without other inputs or sources of income.

Failure in some cases to manage its (FINCA Uganda) funds adequately enough to meet future cash needs, with the leading cause arising from defaulters and as a result confront a liquidity problem.

Replication of successful models has at times proved difficult due to the differences in social contexts and lack of adaptations for example, a given applied model can succeed in the United States but when used in Uganda it turns out to be a flop.

FINCA Uganda faces own supportive policy framework and daunting physical, social and economic challenge for example, Islam does not agree with the way FINCA Uganda provides its services especially the charging of interest on the loans disbursed thus Muslims are great advocates to the wiping away of microfinance in the economic sector. However measures are being taken to increase and improve services provided by FINCA Uganda and these include recording successful clients' testimonies and submitting them to the press to be published in the daily newspapers where they can easily be accessed by everybody. This is aimed at attracting more clients and removing the negative views the locals have on microfinance since the testimonies are got from people within their local communities.

Incentives are being put in place by FINCA Uganda to benefit their clients who take it to themselves to lure more clients to FINCA Uganda. The following incentives are earned by clients who bring new ones to FINCA Uganda as shown in the table below.

Table 4.19: Shows incentives given by FINCA Uganda.

Loan/ Account type	Amount per person you bring (Shs)
Working Capital	5000
Salary loan	5000
Village Group Loan	1000
Save as you earn savings account	500
Fixed deposit saving account	500

Source: FINCA Uganda's monthly publication for May 2011.

5.3 Conclusions

MFIs contribute greatly to the development and performance of local investments($r=0.73$). They offer loans for business needs, offer technical advice and also help clients to mobilize savings to build capital to sustain growth of their businesses. However, local investments still have the problem for more credit that needs to be addressed. The standard lending requirements like high interest rates, short repayment periods are still a major constraint to people's access to credit. In addition to this harsh credit policy of FINCA, the economic environment also greatly affects the performance of local investors.

5.4 Recommendations

From the study carried out, MFIs have achieved most of their objectives and have done a commendable job in empowerment of the poor thus improving the well-being of society at large. However, the research suggested the following recommendations on the problems discussed;

- (i) MFIs should increase on the loan sizes for beginners. This is due to the fact that the money applied for compared to that given is inadequate to fulfill the intended business activities.
- (ii) Reduction on interest rates charged given the business situation with low profit margins due to competition and high overhead costs.
- (iii) A grace period should be given to beginners and businesses that may not yield profit in the initial period of business.
- (iv) Major borrowers should be restricted and monitored so as not to divert loan money to other uses other than the one applied for. This will help on effectiveness and efficiency.
- (v) The loan period given should be considered I reference to the borrowers ability to pay back as obligations fall due.

5.5 Areas for further research

Further research should be carried out in:

- The evaluation of roles of MFIs on economic development of rural society
- The role of microfinance institutions in poverty eradication programs in Uganda.