MICROFINANCE INSTITUTIONS AND POVERTY REDUCTION IN UGANDA

A CASE STUDY OF MAKINDYE DIVISION

By

NANTONGO HUSINA
BBA / 36409 / 113 / DU

A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT SCIENCES IN PARTIAL FULFILMENT FOR THE REQUIREMENTS FOR THE AWARD OF THEDEGREE IN BACHELOR OF BUSINESS ADMINISTRATION OF KAMPALA INTERNATIONAL UNIVERSITY

June, 2014

DECLARATION

I **Nantongo Husina,** hereby declare that this research report is my original work and has never been submitted to any other institution for any award.

………………………………………… Date: 23rd | 6 | 2014……………………

Nantongo Husina

BBA / 36409 / 113 / DU

APPROVAL

This is to certify that this research report was done under my supervision as a university supervisor.

Signed .... Date 23/06/2014

Mrs. TUMWEBAZE LYDIA

DEDICATION

I dedicate this report to my loving parents for bringing me into the world and for their endless effort made for me to succeed in my education.

ACKNOWLEDGEMENT

I thank the Almighty God for the great gift of life he has blessed me with since my birth. May his light keep on guiding me and shining upon people who made me finish this course. This report would not have been possible unless God the almighty provided his intervention. The spiritual sincerity and encouragement has been my inspiration.

I am grateful to the institution of Kampala International University which has been supportive in terms of management, unfailing support and steadfast encouragement to complete this study throughout all the years spent at the institution.

My sincere appreciation goes to my supervisor Mrs. Tumwebaze Lydia for his precious time by going through my work and for guiding and encouraging me throughout my research. His encouragement, supervision and support from the preliminary to the concluding level enabled me to develop this report.

My sincere appreciation also goes to my family members; for the good moments we shared and the encouragement given to me during my studies.

I owe my deepest gratitude to my respondents for their bondless support and practical support they offered towards the completion of this report especially during the process of data acquisition.

I wish to strongly acknowledge the support of my friends and classmates who in one way or another provided me grateful encouragement for their courage, prayers and words of wisdom they contributed during my studies and research.

LIST OF ACRONYMS

CERUDEB	Centenary Rural Development Bank
DFID	Department for International Development
GDP	Gross Domestic Product
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
ILO	International Labor Organization
MFIS	Micro Finance Institutions
PEAP	Poverty Eradication Action Plan
PRSP	Poverty Eradication Strategy Papers
UBOS	Uganda Bureau of Statistics
UGX	Uganda Shillings
UNCDF	United Nations Capital Development Fund
UNICEF	United Nations International Children's Educational Fund
UN	United Nations
UNESCO	United Nations Education, Scientific and Cultural Organisation
USAID	United States Agency for International Development

LIST OF TABLES

LIST OF FIGURES

TABLE OF CONTENTS

ABSTRACT

The study sought to establish the extent to which Micro Finance intervention could be effective against poverty reduction in Uganda. The research was based on three objectives; to identify the various Micro Finance services provided by MFIs in the division, to establish whether MFIs provide entrepreneurial advice to their clients in the division and to examine the relationship between Micro Finance intervention and poverty reduction.

The findings revealed that MFIs provided insurance, loans and savings services to their clients. Insurance is a very crucial tool against poverty. Borrowers need to be protected against both fore seen and unforeseen financial risks that could hit and condemn them (borrowers) into more financial problems. Savings services are for the purpose borrowing since MFIs were not deposit taking institutions. The findings also indicated that MFIs provided entrepreneurial skills to their clients. The findings confirmed that goal orientation; financial skills, creativity and autonomy are the constructs of entrepreneurial skills. Findings show that Micro Finance services enhance investment or investment depends on Micro finance. Investment in turn influences the level of poverty. Also micro finance services significantly predict poverty reduction through acquisition and developing existing land, increased livestock and farm output, meeting education and health requirements for household members and improvement on housing facilities.

The conclusion of the study indicate that loans, savings and insurance are components of micro finance and that MFIs in the division provide entrepreneurial Skills in addition to Micro Finance services. It was concluded that the combination of micro finance services and entrepreneurial skills significantly predict poverty reduction.

Recommendation was that since there was a significant positive relationship between Micro finance services and poverty reduction, it is recommended that Micro finance outreach be deepened to enable the majority rural poor to access these services and make an effort to come out of poverty.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

In this chapter, special attention was given to the back ground of the study, problem statement under the study. This chapter further gives the purpose of the study, research objectives, research questions, scope of the study while also acknowledging the significance of the study.

1.1 Background

Uganda is among the developing countries of the world that are hit hardest by poverty (UNESCO, 2005). While reports indicate that the country had one of the highest economic growth rate world-wide (6% GDP) as well in Africa between 1990 and 1999, it still appears on the list of 50 poorest countries (UN, 2004). It is estimated that half or more of Uganda's population live at or below the absolute poverty line of US$1per day (UGX 1800). Uganda's Poverty reduction strategy paper 2005-2008 (IMF, 2005) explains that the number of people below the poverty line rose from 34% in 2000 to 38% in 2003. This trend seem not to have changed in the subsequent years of 2004-2006 since the same paper explains that if Uganda achieves 6% annual growth in real GDP the gap between the poor and the rich would be narrowed significantly.

Uganda's poor majorities (96%) live in rural areas (USAID, 2002) and in some parts of the country (north in particular) poverty has been rising at a high rate of 34% in 2000 to 38% in 2003. Makindye division district are found in the central region of the country which has the lowest levels of poverty (22.3%), (PEAP 2005-2008). Makindye division district has approximately 45% of its population living below the poverty line, (UBOS, 2005).

Khan (2001) and Toshiya & Stone (2005) advised that the reduction of rural poverty must be the dominant focus of the war on world poverty not only because a majority of the world's poor is rural but also because most of the urban poor are migrants trying to escape the rural poverty.
Dealing with rural poverty is tackling the problem at its source. Though the importance of poverty reduction has now been overwhelmingly acknowledged, inadequate attention is being

given to rural poverty reduction (IFAD, 2005). Morduch and Haley, (2001) point out that there are many tools that can be used to alleviate poverty. One such tool is the use of micro finance. (IMF country report on Uganda, 2005), views micro finance as a route out of poverty for Uganda's poor if they can access it. Binns (2001), Hindle and Dushworth (2000) and Seibel (2005) noted that micro finance is more effective when it follows a credit- plus approach. I.e. providing borrowers some training or education about financial and Business management skills. Many MFIs have been operating in the district of Makindye division for many years providing loans in an effort to alleviate poverty. Between 2002 and 2005, 1283 families in Makindye division benefited from MFIs' loans amounting to about UGX 655,750,000 (MFIs, reports).

1.2 Statement of the Problem.

MFIs have been involved in the struggle against poverty through the provision of loans and other services for a long time in Makindye division district. However, poverty levels are still high in the District. 45% of the population of Makindye division district still lives below the poverty line (UBOS, 2005). Since Micro Finance intervention has been identified as a possible tool for poverty reduction (Binns, 2001; Hindle and Dushworth, 2000; and Seibel, 2005), the researcher intended to assess whether Micro Finance Institutions could be more effective against poverty reduction in Uganda.

1.3 Purpose of the study.

The study sought to establish the extent to which Micro Finance intervention could be effective against poverty reduction in Uganda.

1.4 Research objectives

a. To identify the various Micro Finance services provided by MFIs in the division.
b. To establish whether MFIs provide entrepreneurial advice to their clients in the division
c. To examine the relationship between Micro Finance intervention and poverty reduction.

1.5 Research questions

a. What are the Micro Finance services provided by MFIs in the district?
b. Are MFIs providing Entrepreneurial advice to their clients in addition to Micro Finance services?
c. What is the relationship between Micro Finance and Poverty Reduction?

1.6 The scope of the study.

Geographical Scope

The study covered micro finance institutions' performance on poverty reduction in Kampala District, Makindye Division being the case study.

Subject Scope

The study was limited to the role micro finance towards poverty reduction in Makindye Division.

1.7 Significance of the Study.

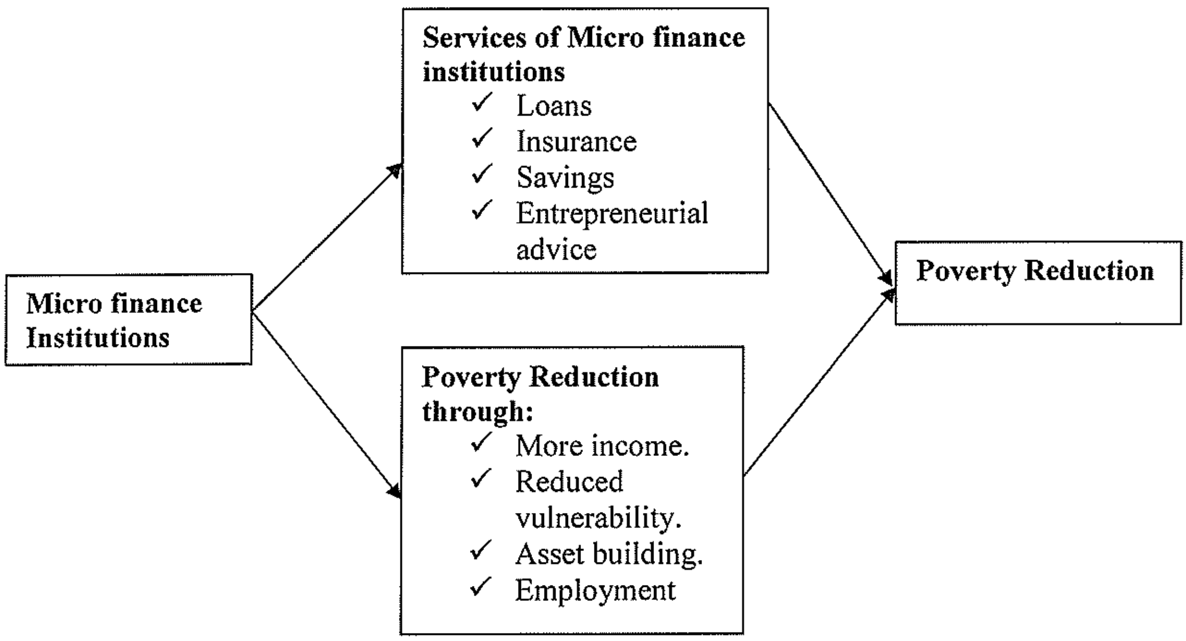
The study hopes to generate knowledge for poverty reduction policy makers in government and other players on the relationship between micro finance, entrepreneurial skills and poverty reduction.

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

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

1.8 Conceptual Framework

Independent Variables **Dependent variable**



Source: Researcher 2014

Micro finance is the independent variables. Poverty is the dependent variable. It is argued that through Micro finance the poor get loans and are encouraged to save their meager incomes. With increased incomes from loans and Savings, the poor are able to invest in farm and non-farm income generating activities.

The Independent Variables (I. V);Micro Finance; it is made up of Loans, Savings and Insurance. Loans and savings enable investment while Insurance provides protection to both the borrower and the lender against financial risks.

Dependent Variables (I.D). It is one- Poverty reduction. This variable is influenced by the dependent variables. Micro Finance may have both a positive and negative influence over poverty levels. People who have entrepreneurial skills can get engaged in commercial activities that lead to poverty reduction even without being members of micro finance Institutions.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter positioned the study within existing research and provides a framework for understanding micro finance and entrepreneurial skills help in poverty alleviation. The basis was made on different themes which have already been studied and which connect the aim and research questions in this study to a wider research perspective.

2.1 Micro Finance.

Micro finance has for many years been viewed as an important tool for poverty reduction by providing clients with needed capital to take advantage of economic opportunities that allow them to diversify and increase their sources of income. Micro finance and informal sector activities play an important role in protecting population segments against vulnerability. It allows them to build assets upon which they can draw during periods of economic downturn or crisis to smooth out dips in income, and maintain consumption levels for food and other services, like education and health care (Eileen, Margaret, Kiendel, and Marc, 2005).

Microfinance is a source of capital development through the provision of small loans and savings facilities (The World Bank, 2005; CIDA, 2009; IMF Country Report- Uganda, 2009; UN, 2005) defined Micro Finance as the provision of a broad range of financial services to poor, low income households and micro enterprises that usually lack access to formal financial Institutions. Such services include the provision of small loans, saving, insurance, transfer services and other financial products for micro enterprises, agriculture, educational and consumption purposes as well as housing. Micro finance involves financial activities conducted outside the formal financial system, with much smaller transactions than the formal financial sector. MFIs evolved out of the realization that a large proportion of economic activities are done by farmers, fishermen,

Micro entrepreneurs and casual income earners, most of whom have limited or no access to formal financial services. The enterprises are small both in size and capital outlays, but comprises a very vital economic force in the development process. It is this sector that provides

employment and income to the rural and urban poor, and leads to the production of basic goods and services used by low-income people (Kabban, Adrine, Krishnamurty& Daisy, 2004).
Ganesha (2004) views micro finance programs as a vehicle with potential to build local institutions and empower the poor, especially women. Facilitating women's access to independent income and financial services, providing cohesive structures of support through solidarity groups, and promoting self-employment, all enhance women's status in the family and their control over family resources. Such schemes promote the family's well-being, thus proving to be an important strategy to reduce poverty. According to Katantazi and Nasasira (2001),
Micro Finance has existed in Uganda for a long time in informal ways as self- help groups, cooperative unions and recently in forms of specialized institutions mandated with a task of manifesting and enabling the accessing of micro finance services by the poor who have hitherto been neglected by default or otherwise, by private formal institutions and government.

The Gou-PRSP, (2005-2008) has identified Micro Finance as a tool that will enhance financial deepening because financial institutions outreach to the rural areas specifically by the formal institutions is limited. As much as efforts are under way to encourage rural outreach by the formal banks, the socio-economic and cultural set ups in the rural areas do not favour the formal banking system because most rural clients are not bankable. To this extent, the micro finance institutions law was enacted in April 2003 to allow soundly managed and well- capitalised MFIs to intermediate resources in the rural areas. The defined legal status of these MFIs now puts them into a position that should forge links with the formal banking system. With the legal status of the micro finance deposit taking institutions now clearly defined, it is expected that the formal sector will increase their transactions with these institutions (MFIs). MFIs are expected to act as retail institutions for both deposit taking and loan extension to rural areas than the formal banks.
The role of the banks will be to wholesale both deposit taking (encouraging savings) and credit extension (loans) to the MFIs. Such a linkage should increase the provision of financial services to the rural areas (IMF200). The goal of micro finance is to improve the outreach of financial services to more of the poor, and poorest (CIDA, 2005).

2.2 Services provided by MFIs

2.2.1 Loans.

Loans are small amounts of money loaned by a bank or other institutions, to an individual or group, often without collateral (UN 2010). Loans can assist the poor in building assets and 'smoothing' the up-and- down nature of their income and can assist in converting very small, irregular incomes into a large lump sum which can augment livelihood and reduce vulnerability (Umrabulo,2005, DFID , 2001). Gou – PEAP, (2011) noted that Loans are essential for investment as they lead to increased income and for consumption smoothing in lean periods. Atieno, (2001) while quoting Hossain, (1988), observed that the provision of loans has increasingly been regarded as an important tool for raising the incomes of rural populations, by mobilising resources to more productive uses. As development takes place, one question that arises is the extent to which credit can be offered to the rural poor to facilitate their advantage of the developing entrepreneurial activities. The generation of self-employment in non-farm activities requires investment in working capital. However at low levels of income, the accumulation of such capital may be difficult. Under such circumstances, loans, by increasing family income can help the poor to accumulate their own capital and invest in employment generating activities.

2.2.2 Savings.

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

Seibel et- al. (2009) and Lennart (2012) supported the idea of savings that they are the core of self–help and self- reliance, especially among women who are less risk-prone and more savings oriented than men. Easy and convenient deposit facilities and collection services in the vicinity are the most important services for enterprise development and poverty alleviation. With savings available to them, the poor are able to accumulate cash surpluses which could be turned into productive assets and make a significant contribution to household livelihood strategies. Cash surpluses can also create a barrier for the foreseen expenses of the future, thus reducing vulnerability to debt traps (Umrabulo, 2005; Seibel, 2000 and DFID, 2000).

Millions of rural poor do not have access to the basic savings and credit services that most people take for granted. This makes it much harder for the poor to rise out of poverty. Traditional ways of saving, such as putting money into livestock or jewellery, can leave the poor in a weak position when they need funds. Liquid cash is far more convenient.
The rural poor need access to micro saving facilities in order that they can deposit money when they have it - after selling their harvested crops, for example – and withdraw it in times of need. Such basic facilities could help to smooth out consumption over the year and make the poor less vulnerable. A deposit account can help the poor to obtain insurance, giving a sense of security, and it can help them to take a loan when they need it. Credit facilities are generally not extended to the rural poor even for highly productive activities, because they have few or no assets to offer as collateral.

Savings are very important to poor people, but without a safe place to keep their money, they are vulnerable to losing their valuable savings. The need to find a safe place to keep savings is so strong that poor people are willing to pay others to take on the responsibility (IFAD, 2009).
Gustavo and Joao (2010) note that credit is only one of the many different products that MFIs are able to provide to those traditionally excluded from the financial sector. Savings, deposits and money transfers, can also play an important role in helping the poor manage their shocks, and to increase their income. A study on the expansion of PAHNAL, a Mexican Savings Institute targeted to low-income clients, revealed that when provided with credit and liquid savings instruments, households can increase their savings rates up to five percentage points- and by almost seven percentage points in the case of some of the poorest ones.

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

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

Unlike compulsory savings, voluntary savings are linked to loan approvals and repayments. With compulsory savings, institutions typically dictate the condition under which the clients may withdraw their savings, while voluntary savers usually have access to their savings as and when needed. Compulsory savings may be offered through groups or to individual, while voluntary savings is a strictly individual product. While the mobilization of savings seems an attractive way to find expansion of the loan portfolio and meet clients' needs, they place an incremental burden on operating systems and management. These include developing additional teller facilities and systems for safe keeping, treasury management, maintaining savings ledgers, and developing a state-of-the art accounting system. Given their volatility, and the likelihood that deposits and withdrawals will be made in large clusters, voluntary savings products require significantly greater management capacity than compulsory savings products. The more client-friendly a product is, the greater the management capacity required. In the case of a calamity, there may be a high level of withdrawals of voluntary savings. To prepare for liquidity shortages, MFIs can negotiate stand-by lines of credit in advance with a local commercial bank, or with a neighboring MFI.

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

2.2.3 Insurance.

Insurance is a system by which people; businesses and other organizations make payments to share risks. Access to insurance enables entrepreneurs to concentrate on growing their businesses while mitigating other risks affecting property, health or the ability to work. Insurance protects both the institution and borrower. Life and hospital insurance are for example important tools of loan protection for the institution and of individual risk management for household (UN, 2009; and Seibel et al. 2010).

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

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

2.3 Entrepreneurial advice

According to Kanter, entrepreneurs and entrepreneurial organizations "always operate at the edge of their competence, focusing more of the resources and attention on what they do not yet know than controlling what they already know. They measure themselves not by the standards of the past (how far they have come) but by visions of the future (how far they have yet to go). And they do not allow the past to serve as a restraint on the future; the mere fact that something has not worked in the past does not mean that it cannot be made to work in the future. And the mere fact that something has worked in the past does not mean that it should remain." (Cornwall & Perlman, 1990)

MFIs play a big role in educating their members on how to become successful entrepreneurs, the following are some of the steps given to members in order to make them fulfill their entrepreneurial dreams. The following steps were obtained from Buss, Terry (1999). Who put them in the following order;

2.3.1 Write a business plan. Form goals and objectives for your new company. Start with a detailed outline of what you plan to accomplish. This is the first of many steps to starting a business.

2.3.2 Obtain start-up capital. Whether you use your own savings or obtain loans, starting a business requires money. The loan process can take months to check off your business start-up checklist, so start early. Lenders often request a completed business plan prior to approval of funding.

2.3.3 Set up a legal business structure. Setting your company up as a corporation or LLC are popular entity structures for many small businesses. This protects owners' personal assets from business debts and liabilities. Additionally, incorporating can provide credibility and tax benefits. Let The Company Corporation help you cross this item off your business start-up checklist.

2.3.4 Satisfy business licensing requirements. Most state, county, and local governments require businesses to obtain licensing before they begin to operate. The Company Corporation provides a Business License Compliance Package to identify typical requirements for your business activities.

2.3.5 Develop business collateral. Businesses use customized letterhead, cards, and forms with their company name, logo and website for marketing and credibility. Vista Print makes "do-it-yourself" business cards, business identity products, advertising products, and signage a snap.

2.3.6 Identify where to get help. Know where and when to seek advice from other sources, such as attorneys and accountants, to assist you with specific questions about your business. Establish a board of advisors or mentors to help you along the way. This is one most entrepreneurs tend to leave off their new business checklist.

2.3.7 Follow government rules. Operating a business means satisfying ongoing government and legal requirements to maintain the company's good standing. Stay aware of the steps needed to maintain your company's status and take advantage of The Company Corporation's $50,000 Corporate Veil Guarantee, provided at no cost with our Registered Agent service

2.3.8 Get started. Schedule an opening day for your business. Giving yourself a goal helps keep things on track and can increase your productivity.

2.4 Micro Finance and Poverty Reduction.

2.4.1 Poverty.

There are many meanings of, as well as debates (Sachs, 2005) about the exact numbers of the poor. It is useful to distinguish between three degrees of poverty; extreme poverty, moderate poverty, and relative poverty. Extreme poverty means that households cannot meet basic needs for survival. They are chronically hungry, unable to access health care, lack the amenities of safe drinking water and sanitation, cannot afford education for some or all of the children, and perhaps lack rudimentary shelter- a roof to keep rain out of the hut, a chimney to remove smoke from the cook stove- and basic articles of clothing such as shoes. Moderate poverty generally refers to conditions of life in which basic needs are met, but just barely. Relative poverty is generally construed as a household income level below a given proportion of average national income. The relatively poor, in high-income countries, lack access to cultural goods, entertainment, recreation, and to quality health care, education, and other perquisites for upward social mobility (IFAD, 2004 and Alcock, 2005)

Weiss et al. (2004) defined poverty as an income level below a socially acceptable minimum. This definition poses a problem of finding out "the acceptable minimum." The World Bank uses US $ 1 a day for an individual (UXG 1800) and defined this state as extreme poverty, and living on less than $ 2 (UGX 3600) a day as moderate poverty. These definitions do not recognise the rural economies where people do not need to spend in monetary terms but meet their basic necessities through other means that may not be easily monetised.

Weiss et al. (2004) argued that in order to understand poverty a simple distinction can be drawn within the group " the poor" between the long-term or 'chronic poor' and those who temporarily fall into poverty as a result of adverse shocks, the 'transitory poor'. Within the core poor one can further distinguish between those who are either so physically or socially disadvantaged that without welfare support they will always remain in poverty (the destitute) and the larger group who are poor because of their lack of assets and opportunities. Furthermore, within the non destitute category one may distinguish by the depth of poverty (that is how far households are below the poverty line) with those significantly below it representing the 'core poor', sometimes categorised by the irregularity of their income.

Poverty is a global phenomenon; 75% of the world's 1.2 billion extremely poor live in rural areas but inadequate attention is being given to rural poverty reduction. Rural poverty must therefore be given special attention if the struggle against poverty is to succeed (IFAD, 2001;
PEAP, 2005 and Kabban et al. 2004), presented poverty in a Ugandan context as covering three aspects: Low incomes, limited human development and limited empowerment. They looked at people's incomes, the levels of education and how they are empowered. They observed that poverty in Uganda's case Poverty is taken to mean a lack of basic needs and services such as food, clothing, shelter, basic health care, education, markets, roads, information and communication. Lack of adequate productive assets such as land, poor access to credit and other inputs, a situation of powerlessness and social exclusion are other dimensions of poverty. Often, lack of adequate productive employment opportunities is a major cause of poverty, and this is reflected in income and other measures of poverty.

Alcock, (1997) affirms that poverty is a political problem, and therefore the nature of the problem is the result of the particular context within which it has developed. This inevitably means that discussion of the extent of poverty largely takes place within one particular political context, usually within one country, and that comparison of poverty across national political boundaries cannot easily be undertaken. In this case, poverty as defined from the Uganda perspective is adopted.

The poor need to be provided the chance to build individual and collective capabilities in order to gain access to economic opportunities and basic social services and infrastructure. (Strategic frame work for IFAD, 2002-2006).

Lennart (2004) argued that micro finance is one way of fighting poverty in rural areas, where most of the world's poorest live. It puts credit, savings, insurance and other basic financial services within the reach of poor people. Through MFIs such as credit unions, financial nongovernmental organisations and even commercial banks, poor people can obtain small loans; receive money from abroad as transfer earnings and safe guard their savings. These services are crucial tools against poverty. Many people however have to turn to informal money lenders who charge exorbitant interest rates there by condemning them to more financial constraints.
Lennart (2004) explained that micro finance is an effective way for people to increase their economic security and thus reduce poverty. It enables poor people to manage their limited resources, reduce the impact of economic shocks and increase their assets and income.

Generoso and Vineet (2005) noted that Micro finance was very instrumental in Bangladesh, Central America, Haiti and Rwanda in helping the poor get back on their feet after natural and man-made disasters. It has a great potential to help poor people out of natural disasters. While assessing the impact of micro finance on the Tsunami disaster, Generoso et al. (2005) noted that micro finance has a tremendous potential, largely still untapped, to play a critical role in helping people and communities. In the case of Tsunami disaster, Micro Finance helped;

- Fisher folk with loans to rebuild their boats and repair or replace equipment that was damaged or lost.
- Farmers with funds to reclaim flood-soaked lands and purchase livestock and equipment.
- Shopkeepers and traders with loans to replace depleted inventories and purchase food and items for resale; and
- Craftsmen with money for supplies, new sewing machines and money.

Gustavo and Joao (2002) noted that clients of Micro Finance in Peru presented an increase of 79% in their profit while clients in Guatemala presented an increase of 34% in monetary household income as a result of taking up and using loans.
Marilou and Carlos (2004) noted that the poor families with access to financial services eat better, keep their children in school longer, receive better medical care and live in safer housing than those who do not have such access, other factors being equal. Access to financial services hands the poor people the tools to solve their problems and to chart out their paths out of poverty.

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

Wright and Graham (2000) while Citing Hossain (1998), found that Grameen Bank borrowers had higher incomes than the target group in the control villages. While citing Mustafa et al, Wright et al (2000) noted that borrowers have better coping capacities in lean seasons. For example, an increase in assets of 112% for those borrowers who had been members for 48 months or more and increase in household expenditure.
Barnes, Carolyn and Erica (1999) and Buss and Terry (1999) confirmed that micro finance influences poverty reduction. For example In Zimbabwe, they found that there were major differences in income distribution between Micro Finance clients and non-clients. New clients and non-clients had a monthly income of less than Z$2,000. In contrast, half of the repeat clients had an estimated monthly household income of Z$4,000 or more. Dunn and Elizabeth (1999), in a Lima, Peru study, found that a few Micro Finance clients lived below the poverty line compared to non- clients. Clients spent more on Education than nonclient households.

Barnes, Carolyn, Gayle and Gary (1998) in a Uganda study found that client households on average spent 35% more than non-client households. Borrower households spent 38% more on Education than non- clients households and had an average an extra year of education. Khandker and Shahidur (1998), in their study, " Fighting poverty with Micro credit in Bangladesh'' noted that micro finance reduces poverty by increasing per capita consumption among program participants and their families. They found that poverty reduction estimates based on consumption impacts of credit showed that about 5% of the program participants could lift their families from poverty through borrowing every year.

Ganesha (2004), while quoting Hashemi et al (1996) said that access to micro finance services contributes to the magnitude of the economic contribution reported by women, to the likelihood of an increase in asset holdings in their own names, to an increase in their exercise of purchasing power, and in their political and legal awareness.

Weiss et al (2004) argue that if access to micro finance can be improved, the poor can finance productive activities that will allow income growth, provided there are no other constraints. This is a route out of poverty for the non-destitute chronic poor. For the transitory poor, who are vulnerable to fluctuations in income that bring them close to or below the poverty line, micro finance provides the possibility of credit at times of need and in some schemes the opportunity of regular savings by a household itself can be drawn on. The avoidance of sharp declines in family expenditures by drawing on such credit or savings allows 'consumption smoothing'- maintaining of a certain standard without having to sell off assets.

Okurut, Banga and Mukungu (2004), while quoting 'Bisangwer and Khandker,(1995)' and Hidhues (1995), argued that credit enables the poor to overcome liquidity constraints and undertake some investments, especially in improved farm technology and inputs, there by leading to increased agricultural production. While quoting the 'World Bank' (1989), they argued that improved consumption is an investment in the productivity of the labour force because credit helps people to smooth out their consumption patterns during the lean periods of the year. By doing so, credit maintains the productive capacity of the rural households.

Taber, Cuevas, Nanarrete and Zapata, (2005), argue that providing access to sound, efficient financial services clearly contribute to income generation and poverty alleviation at the household level. This is particularly true for the poorer rural households, which are expected to gain from access to adequate deposit instruments and an improved ability to take advantage of productive investment opportunities. This is in the analysis which has shown that transforming informal, non-earning financial assets, and monetizing even a fraction of the savings held in physical form by rural households, have substantial economic benefits in terms of safety and return. Informal means of savings that dominate the households' portfolios are, in principle, inferior to financial instruments in terms of safety and returns. For example, Tandas (as they are known in Mexico), or rotating savings clubs, report a 6 % rate of non-compliance (group members who cease to contribute once they have taken a turn); and the most common forms of livestock holding, pigs and chickens, have mortality rates of 40%. Since holding livestock as savings is more prevalent in poorer areas and among indigenous people than elsewhere, the transformation of these assets into financial savings would benefit the poorest segments of the populations by increasing returns and providing greater liquidity

Nteziyaremye, Anastase, Kathleen, Stack and NKNelly (2001), noted that members of Micro-Finance problems with loan repayment due to the weekly repayment schedule which was more difficult for the poor households because they lacked source of income from which they could repay loans. For the same reason, the poorer members were also at a particular risk if there was sickness or death.

Wright et al. (2002) in a Bangladesh study found that many clients did not use loans appropriately. Some of the loans were used fully or partly for purposes that were not directly related to production. In rural areas borrowed funds were used finance; subsistence household expenditures on food and clothing; housing improvements; loan repayments; tube wells for drinking water; purchase of homestead land; and the release of mortgaged land. In urban areas, these uses included payments of medical expenses, household expenses, and the purchase of furniture.

Marcus, Rachel, Porter and Harper (1999), while quoting Hulme and Hosley (1998) found that a significant proportion of enterprises financed by MFIs fail. For example 10-15% of enterprises supported by a MFI in Bolivia, and 25% of the early activities financed by another MFI in Malawi had failed. ILO (2000),in a study about clients in the informal sector noted that credit had a negative effect on their work load of social pressure to ensure loan repayment and that credit schemes could lead to unmanageable indebtedness, because of a few profitable ventures to invest in. This kept the clients in a deplorable situation. Garson and Jose, (2001) observed that two factors limit the use credit as an instrument for poverty reduction: (a) credit cannot be easily targeted to the poor, and (b) many poor people, especially (but not only) the poorest of the poor, cannot make use of credit because they are not in a position to undertake an economic activity-have no skills and innovativeness.

Gustavo et al. (2002) are in agreement with the above observation. They observed that some MFIs are not targeting the poor. The greatest promise of MFIs, namely positive impact with financial sustainability, has not yet been fully met. Most institutions committed with sustainability cover less than 90% of their adjusted financial costs. Moreover, the programs that are breaking even financially, throughout the region (Latin America and the Caribbean) and the world are not those celebrated for serving the poorest clients. In other words, the double bottom line, poverty reduction with financial profitability, remains a chimera.

Senoga and Najjemba (2001), cite rampant misuse of loan funds on consumption and luxury products and soliciting for loans from more than one institution as another reason for micro finance's failure to alleviate poverty. This puts the borrower under a lot of pressure to pay and leaves them with no time to concentrate on their work and in the end they fail to recover the operational costs. This practice discourages the lender and gives a poor image to the micro entrepreneur.

Weiss et al. (2004) and Malawi's PRSP (2005) indicate that micro finance loans with high interest may result into misery for the poor. They noted that if the poor could not afford high interest rates they would either not take up the service or take it up and get into financial difficulties. Also where group lending was used, the very poor could be excluded by other members of the group, because they were seen as bad credit risk, jeopardizing the position of the group as a whole. Alternatively, where professional staffs work as loan officers, they may exclude the very poor from borrowing, again on grounds of repayment risk.

Verluysen and Eugene (1999) argued that banking for the poor cannot be a surrogate social safety net. The aged, infirm, and totally indigent that are unemployable do not belong to micro finance.

Buss and Terry (1999) acknowledged the rapidly growing popularity of micro credit as a tool to reduce poverty but identifies some concerns as; Micro credit may force poor people or groups of borrowers into debt they cannot repay, or into businesses where they can barely subsist, and that those who receive subsidized credit in many cases do not need it. Not all poor people can operate businesses successfully or pay back loans obtained. Offering credit may make some people worse off by obligating them to debt they cannot repay. For others, they may already have access to credit, but are drawn to better terms offered by subsidized micro credit programs.
Conclusively, one is right to argue that micro finance has a great potential for the reduction of poverty but is not an overall solution to poverty.

2.5 Effects of MFIs

2.5.1 Investment

Definition: The word "investment" can be defined in many ways according to different theories and principles. It is a term that can be used in a number of contexts. However, the different meanings of "investment" are more alike than dissimilar.
According to **Economics**, investment is the utilization of resources in order to increase income or production output in the future.
In **Finance**, it is the purchase of a financial product or other item of value with an expectation of favourable future returns. In general terms, investment means the use money in the hope of making more money.

In **Business**, it is the purchase by a producer of a physical good, such as durable equipment or inventory, in the hope of improving future business.
Investment, thus defined, includes, therefore, the increment of capital equipment, whether it consists of fixed capital, working capital or liquid capital. Investment also means savings or savings made through delayed consumption.

Generally, for this study the definition adopted is "Investment is the application of money for earning more money". (Umrabulo, 2005; Seibel, 2000)

The poorest and poverty reduction have become the object of unprecedented attention at international summits in the 2000's. Canada, through the Canadian International Development Agency (CIDA), has committed to the targets set by both the OECD International Development Goals and most recently, the Millennium Goals which focus on poverty reduction for those living on less than a dollar a day.

Microfinance has proven to be an effective and powerful tool for poverty reduction. Like many other development tools, however, it has insufficiently penetrated the poorer strata of society. The poorest form the vast majority of those without access to primary health care and basic education; similarly, they are the majority of those without access to microfinance. While there is no question that the poorest can benefit from primary health care and from basic education, it is not as intuitive that they can also benefit from microfinance, or that microfinance is an appropriate tool by which to reach the Millennium goals.

Microfinance has been extensively examined over the past 10 to 15 years, and the resulting literature is now very large. A focused review of the literature was conducted to evaluate recent publications regarding the impact of microfinance on poverty reduction. The number of rigorous studies of client outreach and impact has grown considerably. Microfinance institutions (MFIs) show considerable diversity in their ability to reach poor populations. Excellent financial performance does not imply excellence in outreach to poor households. At the same time, reaching the poor is not at odds with maintaining excellent financial performance and professional business practices.

These lessons point to natural evolutions in the microfinance sector. Many MFIs have tended to focus foremost on their own financial survival, and have generally been reluctant to invest substantially in evaluations (World Bank 2008). Currently, the majority of MFIs neither determines the composition of their clientele upon intake nor evaluates the effectiveness of their program in terms of poverty reduction. The development and use of the new tools for market analysis and evaluation suggests that failure to monitor and evaluate can cut costs in the short-run at the expense of achieving long-term social and economic goals

Despite disagreement on specific definitions of levels of poverty, there is a general consensus That Microfinance is not for everyone. Most importantly, entrepreneurial skills and ability are necessary to run a successful microenterprise and not all potential customers are equally able to take on debt. While these points will be true across all strata of poverty, it is assumed that they will have a greater effect on the very poorest.

The sick, mentally ill, destitute etc. who form a minority of those living below the poverty line is typically not good candidates for microfinance. Most researchers agree that this group of people would be better candidates for direct basic assistance. More optimistically, microfinance can be effective for a broad group of clients, including those who are living in the *bottom half* of those below a country's poverty line (to use a categorization proposed by CGAP). We will call this strata the "*poorest*" and note that they constitute the group that generally intersects the various definitions of extreme poverty: landlessness, limited access to basic social services, average per capita income of less than $1 a day, and bottom third of a relative poverty ranking.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the methods that were used in carrying out the study. It analyses the research design, survey population, source of data, methods of data collection, reliability and validity of the instruments, data analysis and, limitations of the study.

3.1 Design

The study was conducted using a combination of Research designs particularly Surveys, Correlation and Case study. Survey (according to Oso and Onen, 2008) "present an oriented methodology used to investigate population by selecting samples to analyze and discover occurrences". The same Authors explain Correlation as the determination of whether or not and to what extent an association exists between two or more variables. They also note that case study is "an Intensive descriptive and holistic analysis of a single entity or a bounded case".

Survey was used for its economy, rapid data collection and ability to understand a population from a part (Oso and Onen, 2008). Correlation was used as a means of trying to examine the relationship between communication and employee performance. Case study was used since Makindye division is a representative of a community where results of the study can be replicated and applied to other communities.

3.2 Population

In this study, the target population was70 MFIs officials and residents in Makindye division. All these were involved because they helped the researcher to gather information from different sources.

3.3 Sample Size

From the total population of 70 respondents, they were all involved in the study and they were distributed as below;

Table 1: Distribution of Respondents

Respondent	Number
Officials	20
Residents	50
Total	**70**

Source: Primary Data

This means that **20** MFI officials will take part in the study and **50** members of MFIs

3.4 Sources of data

Data was collected using both primary and secondary data collection techniques. Primary data was gathered basically through structured questionnaires. Secondary data on the other hand was gathered through review of available literature from other authors

3.5 Data collection methods

Primarily, a self-administered questionnaire (SAQ) was used because of their nature of use of one time collecting device on the variables of interest in the study (Amin, 2005). Each item on the questionnaire was developed to cover the specific objectives, research questions and hypothesis under study (Mugenda & Mugenda, 2003:71)

3.6 Data collection instruments.

The questionnaires were directed to MFIs officials and residents in Makindye division. Each questionnaire consisted of title, and the introduction, questions on the dependent variable that is poverty reduction and questions on the independent variable that is microfinance and entrepreneurial skills

All questionnaires were a classification of item which helps to identify the respondents from the various divisions of Makindye division. There were open ended questions to obtain the in-depth feeling of respondents and close ended questions for easy administration

3.7 Validity and Reliability of the Research Instrument

The reliability of the instrument was concerned with the extent to which the research instrument yielded the same result. 10% of the questionnaires were used in pre-testing and the instrument yielded the same results on repeated trials it was hence proved that the instrument is reliable and valid

3.8 Data Analysis.

Data collected was analyzed quantitatively. SPSS computer statistical package for social scientists were used. Findings were expressed both in figures and words to answer the research questions in chapter one.

3.9 Limitations to the study.

The respondents were not willing to work for "free" because they thought the researcher was conducting the study for government or an organization that would pay her. The researcher had to convince the respondents that it is an academic research that was not to be funded and was not to generate any income for her.

Domestic and job demands always interrupted the researcher's efforts to complete the study. Generally, this kind of research is always an expensive venture that requires a lot of money yet it is not funded. The only source available for the researcher to use was the meager resources to complete the study.

CHAPTER FOUR

PRESENTATION AND DISCUSSION OF FINDINGS

4.1 Introduction

Findings of the study are presented in this chapter. The main purpose of this study is to establish the extent to which Micro Finance intervention could be effective against poverty reduction in Uganda. The selected targeted sample for this study was 20 MFIs officials and 50 residents in Makindye division.

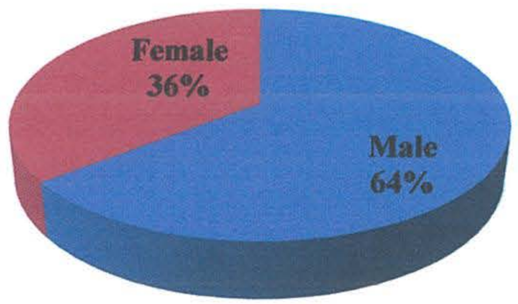
4.2 Background characteristics of respondents

Table 2: Sex of respondents

Gender	Frequency	Percentage
Male	45	64
Female	25	36
Total	**70**	**100**

Source: Primary Data 2014

Figure 1: Respondents' gender



Source: Primary Data 2014

Findings of the study as presented in Table 1 show that 64 percent of respondents were Males and females constituted the remaining 36 percent. This shows that females are relatively involved in programs of MFIs in the division. This has increased income of families since women are relatively involved in the struggle to fight poverty in the division.

Table 3: Distribution of respondents by age

Age	Frequency	Percentage (%)
18 – 25	6	9
26 – 35	10	14
36 – 45	18	26
46 – 55	20	29
56 – 65	12	17
66+	4	5
Total	**70**	**100**

Source: Primary Data 2014

As presented in Table above, the majority of respondents were in the age bracket of 46-55 years (29%). The age group of 46-55 being the most involved in programs of MFIs is as a result that they have enough collateral security to pledge in order to secure loans. Further the age group has responsibilities especially family which force them to get involved in income generating activities like businesses which need financing from such MFIs. 26% was in the age group of 36 - 45 years ,17% was in the group of 56 – 65,9% of respondents were 18 - 25 years, 5% was of those that were 66 years plus and 15% of the respondents were from 26 - 35.

This distribution shows that there are different age groups involved in MFIs in the division as a mechanism of reducing poverty in Makindye division.

Table 4: Level of education

Level of education	Frequency	Percentage (%)
None	10	14
Primary	10	14
Secondary	20	29
Tertiary	30	43
Total	**70**	**100**

Source: Primary Data 2014

The table above shows the level of Education of respondents. Total number of respondents was70 which included MFI employees and residents of which 14% of respondents had primary level and no level of Education, 29% with Secondary level, 43% with Tertiary level.

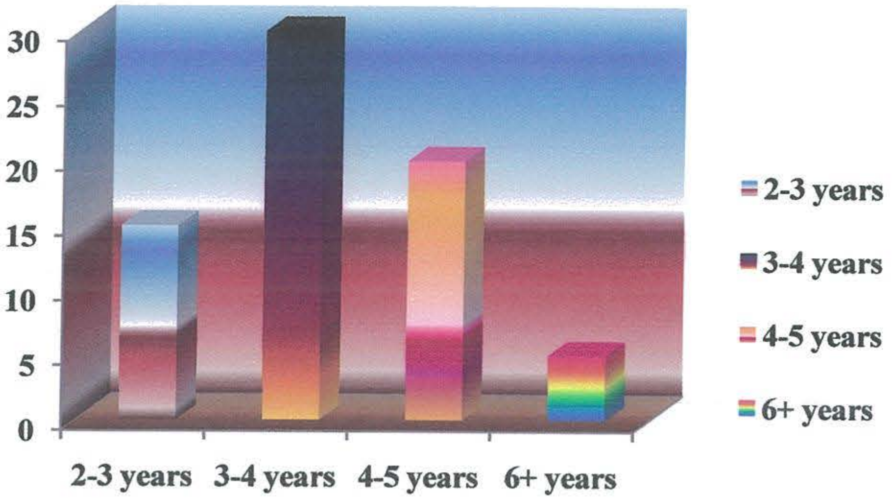
This level of education implies that the majority of respondents who have secondary and tertiary levels of education, 64% were in position to exploit the micro finance services and entrepreneurial skills provided by the MFIs to the maximum that may lead them out of poverty.

Table 5: Length of membership

Length of membership (years)	Frequency
2-3 years	15
3-4 years	30
4-5 years	20
6+ years	5
Total	**70**

Source: Primary Data 2014

Figure 2: Distribution of respondents by level of membership



Source: Primary Data 2014

Total count in the respondents was 70, 30 respondents had been members for 3-4 years, 36% had been members for 3 to years, and 17% had been members for 5 to 6 years while 20% had been members for 4-5 years, 15 and 5 respondents had been members for 2-3 and 6+ years respectively. The implication of the above information is that majority of the respondents had been members for a period long enough to give valid information about the performance of MFIs

Table 6: Annual average income of the respondents

Income (Ushs)	Frequency	Percentage
300,000-600,000	7	10
600,001- 1200,000	8	12
1200, 001- 2400,000	22	31
2400,000- 3600,000	28	40
3600,000 +	5	7
Total	**70**	**100**

Source: Primary Data 2014

40% of the respondents had their incomes falling between UGX 2400,001-3600,000. This means that most people in the division are able to cater for their basic needs and finally save amounts ranging fromUGX 2400,001-3600,000.About 31% had their incomes falling between UGX

1,200,001 and 2,400,000. About 12% of the respondents had their incomes between UGX 600,001 and 1,200,000, 10% had their incomes between UGX 300,001 and 600,000 while about 7% had their incomes above UGX 3,600,000.

This is a promising situation for the population to have such incomes. Respondents with 2,400,000 and above annual income are in the same category as some civil servants (Primary and Secondary School teachers, Nurses, police officers, businessmen) whose incomes are below or slightly above 2,400,000 but are able to meet the basic needs of their households.

Table 7: Amount of loan sought

Income (Ushs)	**Frequency**	**Percentage**
50,000-150,000	0	0
150,001-300,000	5	7
300,001-500,000	5	7
500,001-1,000,000	10	14
More than 1,000,000	50	72
Total	**70**	**100**

Source: Primary Data 2014

72% of respondents were willing to acquire loan amounts more than 1,000,000, 14% were able t acquire loan amounts falling between UGX 500,001 and 1,000,000, 7% had the ability to secure loan amounts falling between UGX 50,000 and 300,000,

This is in line with literature review (UN, 2004) that loans are small amounts of money given to clients, and that amounts loaned to clients depends mainly on the activity being undertaken, and the length of membership. Since the major objective of MFIs is to extend financial services to the members, from the study the greatest percentage of the respondent are willing to secure a loan more than UGX 1000000. This is a promising situation towards poverty reduction in the division.

4.3 Services provided by MFIs

Table 8: Micro Finance services in Makindye Division

Services		1	2	3	4	5
Loans	MFI encourages savings as a way of building up capital				18	32
	Collateral influences greatly the loan amount for borrowers needs			8	15	27
	Disbursement of credit by MFIs is done in appropriate periods for clients			20	12	18
	Savings are a condition for borrowing			7	17	26
	Repayment of loans can be suspended temporarily for clients experiencing adverse shocks			15	25	10
	MFI provided me with a chance to access credit				16	34
	Savings are as crucial as credit itself for people carrying on business or intending to start up one				9	41
	MFI Provides a number of individual loan products				2	48
	There is need for insurance services to guarantee repayment when clients are faced with shocks			7	18	24
	MFI gives an appropriate period of grace to clients		2	8	31	9
	Interest rates charged on loans of this MFI are reasonable			8	16	26
Insurance	MFI Provides a number of insurance products to clients			5	23	22
	The insurance products provided by this MFI have no added indirect costs to clients			6	18	26
	Insurance products provided by this MFI are suitable for my investment and household risks			2	31	17
	Clients have access to their savings any time they want especially in lean periods during a loan cycle				2	48
	Regular meetings for borrowers have a negative effect on clients businesses performance			9	18	23
	MFI provides me with adequate credit for my business			1	10	39

Savings	and household requirements					
	Default of payment by one member does not affect others				5	45

Source: Primary Data 2014

Three components were extracted in explanation of MFI services and these were;

A loan, insurance and savings, this question was meant to identify services provided by MFIs. The findings showed that MFIs provided Loans, Savings, and Insurance services to their clients. This therefore confirms the literature (UN, 2004, Akanji and Binns, 2001, Sander, 2000, Ahmed et al, and McCord, 2005) that savings, loans and insurance are components of MFI services as shown in the table above. The findings are also in agreement with objective one.

	1	2	3	4	5
MFIs save money for the members					20
The institution has enough loanable amount				8	12
Interest rates are favourable and affordable(2.5% Declining)				6	14
Members are taught on how to use the borrowed funds				9	11
Disbursement of credit by this MFI is done in appropriate period				10	10
Savings are as crucial as credit itself for people carrying on business or intending to start up one				6	14

Source: Primary Data 2014

Employees of MFIs concluded that the services provided by institutions to their clients were; 100% of the respondents strongly agreed that institutions save money for their members which is the primary function of MFIs. In addition giving out loan to members is also a major reason for the existence of MFIs. Employees agreed with the statement that the institutions had enough loanable amounts with them which make MFIs operate towards its main objective of poverty eradication.

Furthermore, the interest rate on which loans are secured are favourable and clients are given enough education on how to use such amounts which enhances investment as the drive towards poverty reduction in a community. Also employees said that credit is disbursed in time which enable members to effectively act as per planned.

4.4 Entrepreneurial advice

Table 9: Entrepreneurial advice

	1	2	3	4	5
I have the ability to forecast customer demand			2	12	36
I have the skill of making new unique products			4	18	28
I take advantage of micro finance services to improve my standards of living			10	15	25
I work for long hours to sustain my business growth				15	35
I make an effort to acquire new business skills			2	10	28
I know how to prepare the balance sheets to determine the financial position of my business			3	37	10
I know how to prepare the income statements of my business			3	22	25
I know how to draw a business plan to present to lenders- MFI			10	18	22
I know how to budget for the various activities of my business				12	38
I have the ability and skill to organise the resources required for a new business				18	32

Source: Primary Data 2014

The table above explains the Entrepreneurial Skills provided by the MFIs in addition to micro Finance Services. Four components were extracted and these were; Creativity, Autonomy, Financial Skills and Goal orientation. The four factors explained part of Entrepreneurial advice provided by MFIs. Findings showed that indeed MFIs provided some Entrepreneurial Skills to clients. Therefore this is in conformity with the literature (Eileen et al. 2005) and (Marcus et al., 1999) that these services are very crucial for the success of Micro Finance services. i.e., clients need know how to use Micro Finance services in order to enhance investment thus reduction in poverty.

	1	2	3	4	5
Members have improved the conditions in which they live by undertaking a business activity				4	16
Members have the courage and resilience to continue with business even after experiencing shocks				9	11
Members negotiate a grace period suitable for my borrowing				8	12
Members have the skill of making new unique products				16	4

Source: Primary Data 2014

On the other hand employees of MFIs answered questions about entrepreneurial advice provided by MFIs to their members. They concluded that members had improved their standards of living as a result of engagement in business activities. On top of that employees witnessed that members of MFIs had gained the courage to stay in business even when they are shocked by external forces, this is due to the financial advice given to them by MFIs. Although members had the ability to negotiate for the appropriate grace period they still had less innovation skill of making new product to the market according to the response of the employees

4.5 Poverty Reduction

Table 10: Poverty Reduction

Indicators		**1**	**2**	**3**	**4**	**5**
Asset building	I can use my new assets to negotiate and mortgage for bigger loans			5	18	27
	I have acquired more productive assets			6	10	34
	Have no asset under mortgage				20	30
	My livestock and farm output have greatly increased			3	28	19
	I have acquired more land or made the existing land more productive			7	18	25
Employment	I'm in position to provide employment to outsiders				18	32
Income	I ' m in position to finance education of my household members much longer than before				17	33
	I have greatly improved on my housing facilities			4	17	29
	I can get funds from formal financial institutions for my investment than before			3	12	35
	My business pays me adequately as its employee			3	15	32
	My income has greatly improved since I joined this MFI for investment				1	49
Reduced vulnerability	My business has attained sustainability			2	16	32
	My Business pays government taxes with easy			2	23	25
	My business is financially stable			3	27	20
	I have adequate food for home consumption				3	47
	Education of my household members is assured			3	15	32
	My household members are no longer vulnerable to Illnesses			2	17	31
	I meet the health requirements of my household			12	11	27

	members better than before					

Source: Primary Data 2014

The table above explains how Poverty is influenced by a combination of Micro Finance Services through Investment. This aimed to establish whether Micro Finance Services lead to Poverty reduction through Investment. Four components of poverty reduction variable were extracted namely; more income, reduced vulnerability, asset building and employment as shown in the table above. The findings revealed a strong relationship between Micro Finance and Poverty reduction. The findings are in line with literature review (UNICEF, 1995 and 1996, Khander, 1998, Gustavo et al, 2002) that Micro Finance services are more effective against Poverty.

	1	2	3	4	5
Members have access to general information				8	12
Most businesses are financially stable				9	11
Clients have acquired more productive assets				5	15
Clients have improved on their loan repayment patterns				3	17
Members have increased on their loan amounts				6	14

Source: Primary Data 2014

Findings from the study employees revealed that members had access to the information concerning the services provided by MFIs. They urged that this has helped them to be familiar with the borrowing procedure which eases the loan process. On the side of sustainability of members' businesses employees strongly agreed that they are financially stable. Furthermore as the result of MFIs services employees witnessed that members have acquired more productive assets.

The study also revealed that members of the institutions have improved on their loan repayment patterns and also increased on their loan amounts. This is a clear indication that members are using the borrowed funds productively.

4.5 Impacts

Mr. Bossa Moses, a capenter in Kansanga testified that he acquired his starting capital from Pride microfinance-Kabalaga Branch and stated his furniture workshop in Kansanga.

Source: Primary Data 2014

Mr. Micheal Ahimbisibwe a resident of Luwafu also gave MFIs a credit by saying that he managed to start his business of poultry farming on a small scale but he managed to expand after he was given management skills and expansion capital by Pride microfinance. This business earns him approximately Ushs 150000 daily.

Source: Primary Data 2014

Hajji Nasser Ibra a wholesaler in Makindye also appreciates the services of MFIs in the division. He acknowledged Uganda Finance Trust for giving him a grace period of 6 months when he acquired a Ushs 50,000,000 to start hardware in Makindye which he says that motivated him to work hard and recommends people to get involved in MFI programmes

Source: Primary Data 2014

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

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

5.2. Micro Finance Services Provided by MFIs.

The study found out that MFIs provided loans, savings and insurance services to their clients. This is in agreement with the literature review that Micro finance is the provision of a broad range of financial services to poor, low income households and micro enterprises that usually lack access to formal financial institutions. Such services are loans, savings, insurance etc (CIDA, 2005), (IMF, country report- Uganda, 2005), and (UN, 2004). There were differences regarding loans between the MFIs. The differences could be a result of differences in policies within the MFIs about loan amounts. But this does not affect the fact that MFIs provided loans to their clients and that loans are a component of micro finance, hence a service offered/ provided by MFIs in the division. This implies that MFIs are in line with the Gou PEAP (2005) to provide loans that are essential for investment leading to improved income or consumption smoothing. There is however need for more appropriate individual loan and insurance products, and more appropriate period of grace.

The study found out that the MFIs provided insurance services to their clients. Insurance is a very crucial tool against poverty. Borrowers need to be protected against both fore seen and unforeseen financial risks that could hit and condemn them (borrowers) into more financial problems. This is supported by the existing literature (UN, 2005) and (Seibel et al, 2005) that insurance is an important tool of loan protection for both the Institution and of individual risk management for household. Insurance services provided are quite good for the clients and don't seem to have added costs on borrowed funds. This is in agreement with Sander, (2002), Ahmed et al (2005), McCord (2005), Umrabulo, (2005), and DFID (2001).

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

5.3 MFIs Provide Entrepreneurial Skills

The study established that MFIs provided entrepreneurial skills to their clients. The findings also confirmed that goal orientation; financial skills, creativity and autonomy are the constructs of entrepreneurial skills. This is in line with literature review; (Chihmao, 2005 and (Jhingan, 1998).

The findings also confirmed that Micro finance providers realize the need for entrepreneurial skills for the success of Micro finance. This is in line with literature review (Bins, 2001 and Seibel et al, 2005) who argued that MFIs should follow a credit-plus approach (offering training or education of one sort or another) in addition to Micro Finance services.

The study established that borrowers were goal oriented with courage and resilience to continue with business even after experiencing shocks. Being able to work for long hours, making an effort to acquire new business skills by the borrowers were attributes the study established to be in conformity with literature review (Eileen et al., 2205; Marcus et al., 1999 and IFAD, 2002). But the provision of Entrepreneurial Skills may lead to additional costs which may affect borrowers who do not need such Skills (Eileen et al., 2005) and Marcus et al., 1999)

It was also established that clients had been assisted by the MFIs in the area of financial management; for example being able to record financial transactions, budgeting for various business activities, preparing financial statements and drawing of business plans. This is in agreement with literature review (Khander et al., 1998) who observed that utilizing loans in productive activities requires entrepreneurial skills that most people lack.

The study further revealed that clients had the ability to identify unexploited areas for investment, had the ability to forecast customer demand, could make new unique products to avoid competition, and had the ability and skills to organize the resources required for a new business. This is in line with Jhingan (1998) who observed that organization is complement to capital and labor and helps in increasing the entrepreneurial productivities. Successful clients of MFIs are also believed to be creative and autonomous. In line with that, the study established that clients of MFIs had the right to invest borrowed funds in the business of their choice. They (clients) could negotiate with their institutions for suspension of loan repayment when experiencing financial shocks and that they could negotiate a period of grace for their borrowing

5.4 Micro Finance Intervention and Poverty Reduction.

The study established a significant relationship between Micro Finance services and investment. This implies that Micro Finance services enhance investment or investment depends on Micro finance. Investment in turn influences the level of poverty. This is in agreement with literature review (Lennart, 2004), (Generoso and Vinee, 2005) who argued that Micro finance is one way of fighting poverty in rural areas where most of the poorest live through savings, insurance and other financial services.

It was also established that Micro finance services significantly predict poverty reduction. This is in line with literature review (Khander, 1998) who suggested that confronting poverty on a sustainable basis human capital services such as adult education and skills training were a must to make Micro Finance more effective. This was after the realization that some of the poor needed to be assisted on how to use the loans in wise investments. Gustavo et al, (2000) also supported the need for non- financial services especially training to supplement credit and other Micro Finance services. In line with this, the study findings revealed that Micro Finance services had enabled clients to acquire more productive assets which they could use for mortgaging for bigger loans.

The findings also revealed that acquisition and developing existing land, increased livestock and farm output, meeting education and health requirements for household members and improvement on housing facilities. Clients had adequate food for home consumption and their businesses had attained some level of stability, slight increase in incomes and provision of employment to outsiders.

5.5 Conclusions

It was established from the study that loans, savings and insurance are components of micro finance and that Micro Finance services significantly influence investment and poverty reduction. Therefore, if Micro finance outreach to rural areas is deepened, poverty will drastically be brought down.

The study findings also revealed that MFIs in the division provide entrepreneurial Skills in addition to Micro Finance services. Findings revealed that entrepreneurial skills significantly contribute to investment. This therefore implies that if all MFIs that operate in the division can provide entrepreneurial skills in addition to Micro finance services, it will be a big stride towards poverty reduction.

It was also revealed by research findings that Micro finance services, entrepreneurial skills significantly predict poverty reduction. That Micro finance services are more effective when combined with entrepreneurial skills. This therefore means that efforts should be made by all Micro Finance providers, especially those operating in poverty stricken area to expand their services to include entrepreneurial skills.

Furthermore, the study revealed that MFIs mainly target already existing enterprises, therefore giving little attention to young entrepreneurs who may lack initial capital for starting up businesses.

5.6 Recommendations

The study focused on Micro Finance services provision and how they influence investment leading to the reduction of rural poverty. The following recommendations are made;

Since there was a significant positive relationship between Micro finance services and poverty reduction, it is recommended that Micro finance outreach be deepened to enable the majority rural poor to access these services and make an effort to come out of poverty. The Government of Uganda has of recent identified Micro Finance as a tool to be in ensuring prosperity for all. For this case, government is expected to be a torch bearer in deepening Micro Finance outreach at affordable rates that will attract many of the poor who currently do not have the access to it.

A significant relationship between entrepreneurial services and investment was revealed by the study. It is therefore recommended that Micro finance providers do provide entrepreneurial skills in addition to Micro finance services. The Government of Uganda and other providers of Micro finance should team up with educational and Vocational Institutions to train people/ Micro finance beneficiaries in basic entrepreneurial skills. Students who are qualifying from high school should be prepared in entrepreneurial skills while still at school.

The Government should assess the activities of MFIs before licensing them. They should encouraged to finance those activities especially agriculture which employ the majority of the rural poor. This will ensure further Micro Finance penetration to reach all the poor.

Though group lending system is appropriate to ensure safety of funds for MFIs, it may impose a burden on some clients who group up with people they trust but are later let down by the same people they guaranteed. Some clients fail to repay their loans for genuine reasons but then the problem is pushed on to group members. This calls for serious screening of clients before credit is extended to them whether as groups or as individuals.

Micro Finance providers should expand their loan portfolios to take into account of potential clients with vast plans that need heavy investments. Many MFIs that operate in the division are not deposit taking institutions. Clients save some little money with them mainly for borrowing purposes. This means that building up capital through savings is very much limited in certain cases.

The Government should endeavour to have as many MFIs operating in rural areas as possible screened and authorised to take deposits so that clients who are not interested in taking up loans but are interested in the savings component are catered for.

5.7 Areas for Further Research.

The study concentrated on Micro finance services, entrepreneurial skills and rural poverty reduction. There is need for research in the following areas;

a) Small and Medium Enterprises and Poverty reduction
b) Reducing Poverty through mechanizing agriculture
c) Poverty reduction through Millennium development goals

REFERENCES

ADB Institute (2003). Poverty and micro finance; sharing development knowledge about Asia and the pacific.
http://www.adbi.org/researchpapers/2003/01/51/37.microfinanceand.poverty.reduction.in retrieved 10th April, 2014 14:35

Aahmed, M., Islam, S. ,Quashem, M. and Ahmed, N (sep2005). Health Micro Finance- A comparative study of Three examples in Bangladesh (Good and Bad practices case study No. 13) CGAP Working Group on Micro Insurance

Alcock Pete (1997): Understanding Poverty- London. 2nd Edition. Macmillan Press ltd.

AzizurRahman Khan (2001).The role of the state in rural poverty reduction. The Japan program working paper series on: Priorities and strategies in rural poverty reduction: experiences from Latin America & Asia.
Presented at the Japan program/INDES 2001 conference – Japan.

Barnes, Carolyn and Erica Keogh (19999).An assessment of the impact of Zambuko's micro enterprises program in Zimbabwe: Baseline findings. Working paper.
Management Systems International (MSI) http://www.mip.org.

Barnes, Carolyn, Gayle Morris and Gary Gaile (1998).Assessment of the impact of micro finance services in Uganda: Baseline findings. Aims paper Management systems international. Washington, D.C.

Buss, Terry (1999).Micro enterprise in international perspective: An overview of the issues. Journal of economic development. www.spaef.com/sample.html .

C.B Gupta and N.P Srinivasan (1997); Entrepreneurial Development. 4th edidtio
Sultan Chand and sons,23, Darya GanjNewDheli.

CIDA (2005); CIDA and Micro Finance: A Poverty Reduction Approach.

Chihmao Hsieh (2005); Entrepreneurship and Innovation Policy: How individuals train to become entrepreneurs? Washington University in St. Lovis.

Cohen, Monique (October 1999). Opening the Impact Assessment Agenda.Aims. Paper prepared for the Latin American micro finance meeting.

David H. Holt (2003); Entrepreneurship.New Venture Creation. Prentice- Hall of India private ltd.

Dorothy Katantazi&Naate N. Nasasira (2001). Is micro finance in its present form a vehicle for development ? The micro finance Banker (Journal) (June 2001). Makindye division

Donald R. Cooper and Pamela S. Schindler, 1999: Business Research Methods; Tata McGraw-Hill publishing company limited. NEW DELHI.

Dunn, Elizabeth (1999). Micro finance clients in Lima, Peru: Baseline Report for AIMS Core Impact Assessment.

Garson, Jose (2001). Micro finance and anti-poverty strategy.A donor Perspective. UNCDF.

Generoso G. Octavio and VineetRai (2005); Recovery from the Tsunami Disaster: Poverty reduction and sustainable development through Micro Finance.
Grameen Foundation USA.

Gustavo Yamada and JoaopedroAzevedo (200); Micro Finance and the Poor: Evidence from Latin America and the Caribbean.

Hans Dieter Seibel (2000).Poverty Reduction and Rural Finance: From unsustainable programs to sustainable Institutions with growing outreach to the poor.

Hans Dieter Seibel and Gloria Almeyda (2003).Women and men in Rural Micro Finance: the case of Uganda. University of Cologne.

Helen M. Binns(2001). Gendering Micro finance: Micro Finance Banker (Journal), Makindye division.

IFAD (2000).Strategy for rural poverty reduction in New East and North Ajuca. http://www.ifad.org/operations/regional/2000/pn/pn.htm

IFAD (2005); Strategic Framework for IFAD 2002-2006. www.ifad.org/sf/

IMF country report No.05/057, August (2005). Uganda: Poverty reduction strategy paper 2005-2008.

International Labor Organization.Women in the informal Sector and their access to Microfinance.http://www.ilo.org/public/english/employment/ent/papers/women.htm.

Jeffrey D. Sacks (2005): The end of Poverty. Economic Possibility of our time: Penguin Books.

John Weiss & Heather Montgomery (Sept 2004). Great expectations: Micro finance & Poverty reduction in Asia and Latin America: ADB Institute Discussion paper No. 15.

Jonathan Lashley (2005). Micro finance in the Eastern Caribbean: Demand and delivery options. http://www.uwichill.edu.bb/briccde/sug/conference/papers/lashley.html

Jonathan Morduch and Barbara Haley (2001). Analysis of the effects of micro finance on poverty reduction. Results Canada for the Canadian International Development Agency, November 2001.

Kabann I.B Kabananukye, Adrine E.K Kabananukye, J. Krishnamurty and Daisy Owomugasho (2000) Economic growth, employment, poverty and proposal policies in Uganda: Issues in employment and poverty discussion paper 16. Recovery and reconstruction department, ILO office, Geneva 2004.

Khandker, Shadur R. (1998). Fighting Poverty with Micro credit: Experience in Bangladesh. Oxford University Press, Inc. New York.

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

Lisa Taber, Carlos Guevas, Juan Navarrete and GarielaZapeto(2003). Integrating the Poor into the mainstream financial system: The BANSEFI and SAGARPA programs in Mexico.

Lutheran Word Relief Sustainable Rural Development (2005); The challenge of poverty. Lutheran world relief (700 Light street) Baltimore, Mary Land 21230/800-LWR-LWR-21.

Marcus, Rachael, Beth Porter and Caroline Harper (1999).Money Matters: Understanding Micro finance. Save the Children, London.

Appendix I: RESEARCH INSTRUMENT

QUESTIONNAIRES

Dear Respondent,

The researcher is a student of Kampala International University pursuing Bachelors of Business administration degree course. The questionnaire below is intended to facilitate the study entitled **"The role microfinance towards poverty alleviation in Makindye division"**

She is seeking for your view and responses being a member of MFI you have been identified as a stake holder in this study. The information you're going to give is purely for academic purposes and so will be treated and regarded as confidential. Your corporation will be highly appreciated.

Tick in the box corresponding to your answer

SECTION A:
Respondent's Profile.

1. Sex

i. Male ☐ ii. Female ☐

2. Age

i. 18-25 ☐ ii. 26 – 35 ☐
iii. 36 – 45 ☐ iv. 46 – 55 ☐
v. 56 – 65 ☐ vi. 66+ ☐

3. Level of Education

i. None ☐ ii. Primary ☐
iii. Secondary ☐ iv Tertiary ☐

4 Length of Membership

i. 1-2 years ☐ iii. 5-6 years ☐
ii. 3-4years ☐ iv. 6+ ☐

5. **Average Annual Income of Clients**

i. 300,000-600,000 ☐ ii 600,001- 1200,000 ☐

iii 200, 001- 2400,000 ☐ iv 2400,000- 3600,000 ☐

v More than 3600,000 ☐

6. **Amount of Loan Sought**

i 50,000-150,000 ☐ ii 150,001-300,000 ☐

iii 300,001-500,000 ☐ iv 500,001-1000,000 ☐

v More than 1000,000 ☐

SECTION B

Strongly Agree	**5**	Agree with no doubt
Agree	**4**	Agree with some doubt
Neutral	**3**	Not sure
Disagree	**2**	Disagree with some doubt
Strongly Disagree	**1**	Disagree with no doubt

Micro Finance services in Makindye Division

	1	**2**	**3**	**4**	**5**
MFI encourages savings as a way of building up capital					
Collateral influences greatly the loan amount for borrowers needs					
Disbursement of credit by MFIs is done in appropriate periods for clients					
Savings are a condition for borrowing					
Repayment of loans can be suspended temporarily for clients experiencing adverse shocks					
MFI provided me with a chance to access credit					
Savings are as crucial as credit itself for people carrying on business or intending to start up one					

MFI Provides a number of individual loan products					
There is need for insurance services to guarantee repayment when clients are faced with shocks					
MFI gives an appropriate period of grace to clients					
Interest rates charged on loans of this MFI are reasonable					
MFI Provides a number of insurance products to clients					
The insurance products provided by this MFI have no added indirect costs to clients					
Insurance products provided by this MFI are suitable for my investment and household risks					
Clients have a right to choose an appropriate insurance product					
Clients have access to their savings any time they want especially in lean periods during a loan cycle					
Regular meetings for borrowers have a negative effect on clients businesses performance					
MFI provides me with adequate credit for my business and household requirements					
Default of payment by one member does not affect others					

Entrepreneurial advice

	1	2	3	4	5
I have the ability to forecast customer demand					
I have the skill of making new unique products					
I take advantage of micro finance services to improve my standards of living					
I work for long hours to sustain my business growth					
I make an effort to acquire new business skills					
I know how to prepare the balance sheets to determine the financial position of my business					
I know how to prepare the income statements of my business					
I know how to draw a business plan to present to lenders- MFI					

I know how to budget for the various activities of my business					
I have the ability and skill to organise the resources required for a new business					

Poverty Reduction

	1	2	3	4	5
I can use my new assets to negotiate and mortgage for bigger loans					
Have no asset under mortgage					
My livestock and farm output have greatly increased					
I have acquired more land or made the existing land more productive					
I'm in position to provide employment to outsiders					
My business is in position to provide employment to my household members					
I meet the health requirements of my household members better than before					
I ' m in position to finance education of my household members much longer than before					
I have greatly improved on my housing facilities					
I can get funds from formal financial institutions for my investment than before					
My income has greatly improved since I joined MFI for investment					
My business has attained sustainability					
My Business pays government taxes with easy					
My business pays me adequately as its employee					
I have adequate food for home consumption					
Education of my household members is assured					
My household members are no longer vulnerable to Illnesses					

Dear Respondent,

The researcher is a student of Kampala International University pursuing Bachelors of Business administration degree course. The questionnaire below is intended to facilitate the study entitled **"The role microfinance towards poverty alleviation in Makindye division"**
She is seeking for your view and responses being an employee of MFI you have been identified as a stake holder in this study. The information you're going to give is purely for academic purposes and so will be treated and regarded as confidential. Your corporation will be highly appreciated.

SECTION A:

Respondent's Profile.

1. **Sex**
   - i. Male ☐ ii. Female ☐

2 **Age**
   - i. 18-25 ☐ ii. 26 – 35 ☐
   - iii. 36 – 45 ☐ iv. 46 – 55 ☐
   - v. 56 – 65 ☐ vi. 66+ ☐

3 **Level of Education**
   - i. None ☐ ii. Primary ☐
   - iii. Secondary ☐ iv. Certificate ☐
   - v. Diploma ☐ vi. Graduate ☐

4 **Length of Membership**
   - iii. 1-2 years ☐ iii. 5-6 years ☐
   - iv. 3-4years ☐ iv. 6+ ☐

5 **Average Annual Income of Clients**
   - i. 600,000-1,800,000 ☐ ii 1,800,001-2,400,000 ☐
   - iii 2,400,000-3,600,000 ☐ iv 3,600,001-6,000,000 ☐
   - v More than 6,000,000 ☐

6 **Average Annual Expenditures of Clients.**

ii. 300,000-600,000 ☐ ii 600,001- 1200,000 ☐

iii 200, 001- 2400,000 ☐ iv 2400,000- 3600,000 ☐

v More than 3600,000 ☐

7 **Amount of Loan Sought**

i 50,000-150,000 ☐ ii 150,001-300,000 ☐

iii 300,001-500,000 ☐ iv 500,001-1000,000 ☐

v More than 1000,000 ☐

SECTION B

Strongly Agree	**5**	Agree with no doubt
Agree	**4**	Agree with some doubt
Neutral	**3**	Not sure
Disagree	**2**	Disagree with some doubt
Strongly Disagree	**1**	Disagree with no doubt

Micro Finance services in Makindye Division

	1	2	3	4	5
MFIs save money for the members					
The institution has enough loanable amount					
Interest rates are favourable and affordable					
Members are taught on how to use the borrowed funds					
Disbursement of credit by this MFI is done in appropriate period					
Savings are as crucial as credit itself for people carrying on business or intending to start up one					

Entrepreneurial advice

	1	2	3	4	5
Members have improved the conditions in which i live by undertaking a business activity					
I have the courage and resilience to continue with business even after experiencing shocks					
I negotiate a period of grace suitable for my borrowing					
I have the skill of making new unique products					

Poverty Reduction

	1	2	3	4	5
Members have access to general information					
Most businesses are financially stable					
Clients have acquired more productive assets					
Clients have improved on their loan repayment patterns					
Members have increased on their loan amounts					

APPENDIX II: TIME TABLE

Activity	Time (Weeks)
Research Proposal	2
Data Collection	3
Data Analysis	1
Typing and Presentation	2

Appendix III: Budget

Activity	**Ushs**
Research proposal	70000
Data collection	150000
Data analysis	80000
Type setting	100000
Transport	65000
Airtime	10000
Total	**475000**