FINANCIAL MANAGEMENT AND PRODUCTIVITY OF MICRO FINANCE INSTITUTIONS IN UGANDA CASE OF PRIDE MICRO FINANCE LIMITED KABALAGALA BRANCH

BY

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Declaration

I, Nabiryo Betty, declare that the content of this document is my original work and has never been presented or submitted to any university college or any instruction of learning for any award.

Signed: ____________________

Nabiryo Betty

Date: 04/05/09

Approval

This is to certify that this research work was supervised and is now ready for submission to the academic board for consideration and approval.

Signed: ____________________

Mr. Rutagenda Michael
Supervisor

Date: 5th 5\2009

Dedication

This work is dedicated to my mother Ms. Nakande Teopista and grand parent Ms. Nakalema Norah.

Acknowledgements

I would like to express my gratitude to my Mother for what she has made me what I am and to the entire staff of Business Accounting KIU.

My mother who has been paying my fees since I started schooling and my wife for her financial support towards the production of this research. And last but not least to the management of Pride Micro Finance Kabalagala Branch, in Kampala district for their co-operation they gave me when I was interviewing them and my friends who have helped me Namubiru Daniel and Beatrice.

In the words of Von Hon. the unknown teacher who imparts knowledge to the young deserves special consideration and on this note, utmost appreciation goes to my mentor and supervisor as well Mr. Rutagenda Michael for the courage, advice and support accorded to me in the course of this entire study.

Abstract

This research is about the financial management and productivity of micro finance institutions in Uganda.

Its objectives are

(i) To identify financial management measures used by micro finance institutions in Uganda.
(ii) To establish productive measures of micro finance institutions in Uganda.
(iii) To identify factors influencing low/high productivity of micro finance institutions in Uganda.
(iv) To find the relationship between financial management and the productivity of micro finance institutions in Uganda.

It was found out that most of the respondents were females, educated and business women.

Among the recommendations given are: Micro Finance Institutions should shift from a flat rate, to reduce the interests rate Micro Finance Institutions should mobilize savings which provide a sustainable source of funds at lower cost also has the social benefit of motivating Micro Finance Institutions to encourage savings other than borrowing from commercial banks which charge high interest rates which are passed on to the customers and Better education on when to borrow not to borrow and when saving is a better strategy, better information to clients by requiring financial institutions to disclose interest rates and fees.

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Acronyms

CBOs	:	Community Based Organisations
FINCA	:	Foundation for International Community Assistance
MED-net	:	Micro Enterprises Development Network
MFIs	:	Micro Finance Institutions
MFPED	:	Ministry of Finance, Planning and Economic Development
NGOs		Non-government organisations
PEAP	:	Poverty Eradication Action Plan
PMA	:	Plan for Modernization of Agriculture
PRDP	:	Peace, Recovery and Development Plan

CHAPTER ONE

1.0 Introduction

By Financial Management we mean efficient use of economic resources namely capital funds. Financial management is concerned with the managerial decisions that result in the acquisition and financing of short term and long term credits for the firm. It deals with the situations that require selection of specific assets, or a combination of assets and the selection of specific problem of size and growth of an enterprise. The analysis deals with the expected inflows and outflows of funds and their effect on managerial objectives. In short, Financial Management deals with Procurement of funds and their effective utilization in the business.

From the cost point of view equity capital is the most expensive source of funds as dividend expectations of shareholders are normally higher than that of prevailing interest rates. Financial management constitutes risk, cost and control. The cost of funds should be at minimum for a proper balancing of risk and control. In order for an organization to be assured of high of financial performance there is need for effective and efficiency financial management and if financial management is poorly done, it will lead to poor performance Szremeta (2001)

Financial management optimizes the output from the given input of funds. In a country like India where resources are scarce and the demand for funds are many, the need of proper financial management is required. In case of newly started companies with a high growth rate it is more important to have sound financial management since finance alone guarantees their survival.

Financial management is very important in case of non-profit organizations, which do not pay adequate attentions to financial management.

1.1 Background of study and case study

According to Farlex (2006), financial management is the management of a business in order to achieve financial objectives.

According to Wananda (2005), productivity, in economics, is a relationship between output and input, the output being goods and services, the input the factors of production (resources such as land, capital, and labour) used to produce those goods and services. In common usage, productivity generally refers to labour productivity: output per worker, output per worker hour, or some other yardstick. It is usually measured using index numbers (relating to, for example, output and worker hours) to give the ratio of change in productivity. The most reliable data comes from manufacturing industry; it is easier to measure the output from a production line than it is from, say, a financial services business.

According to New Vision, Friday 16th September 2005, page 4, financial management schemes used by microfinance institutions such as a credit and savings require effective and efficient management so as to achieve high levels of productivity like setting up moderate interest rates on loans. If the interest rates are favorable, it may lead to high productivity levels in micro finance institutions and if the interest rates are high compared to that of financial institution Act (2004), it will lead to low productivity.

Micro financing in Uganda has gained momentum since the early 1990's as a means of assisting the poor to fight against poverty and achieving development.

Micro finance institutions developed to fill the gap that was created after restructuring Uganda Commercial Bank. According to PRESTO study (1997), the organisations are performing more in urban and peri-urban areas than in rural areas. This poses a question of eradication of poverty as most people live in rural areas.

The current banks and other credit institutions fear risk involved in micro lending. Micro borrowers are considered risky and commercial banks do not consider them credit worthy or capacity to utilize productively the funds given and it is expensive to administer and recover (Christen P. 1997).

1.2 Problem Statement

According to Jaonina (1998), micro- finance started in 1970's and early 1980s such as opportunity international in 1971 and FINCA international in 1985 in Europe and other parts of the world. Micro finance institutions have existed in Uganda for more than 15 years undertaking a process of providing financial services to low-income earners including the self employed

Small and micro enterprise development has been identified as important if Uganda is to achieve sustainable economic development and poverty reduction. Most micro and small scale enterprises have got a number of difficulties in accessing credit to expand their activities. Despite the focus put on micro financing, there exists high risk in small enterprises and rural lending yet there is serious need for credit.

Over the year, micro finance According to the study done by Ntimba (1995), there's need for performance statistics in any modern economy especially with increasing human insecurity. Because of the rise in risks and their complication in man's daily activities there's an inevitable requirement for micro finance institution hence research appraisal of the various parties in the industry. And this should mainly involve the economic analysis of the performance of their parties. Over the year, micro finance institutions in Uganda have experienced low productivity and there is suspicious that this could be due to lack of proper financial management Mugisha (1996).

1.3 Objectives of the Study

1.3.1 General Objective

To establish the effects of financial management on the productivity of micro finance institutions in Uganda.

1.3.2 Specific Objectives of the Study

(v) To identify financial management measures used by micro finance institutions in Uganda.

(vi) To establish productive measures of micro finance institutions in Uganda.

(vii) To identify factors influencing low/high productivity of micro finance institutions in Uganda.

(viii) To find the relationship between financial management and the productivity of micro finance institutions in Uganda.

1.4 Research Questions

(i) What are the financial management schemes used by micro finance institutions in Uganda.

(ii) What are the measures of productivity of micro finance institutions in Uganda

(iii) What are factors influencing the low/high productivity of micro finance institutions in Uganda.

(iv) What is the relationship between financial management and productivity of micro finance institutions

1.5 Scope of the Study

The study will be to identify financial management schemes used by micro finance institutions in Uganda, measures of productivity and the effect of financial management to the productivity of the micro finance institution. The study will be carried out at Pride Micro Finance, Kabalagala Branch, the staff and some clients who will be in the institution will be interviewed.

1.6 Significance of the Study

(i) The study will help the management of micro finance institutions to design financial management schemes that will lead to improvement of their productivity.

(ii) The study will help future researchers and academicians by acting as a baseline literature that can assist in filling the gaps that are not addressed by this study.

(iii) The study will help the researcher to attain a Bachelors degree in Business Administration.

(iv) The results will also help in determining the performance of other firms in the micro finance industry.

(v) Using this study's findings the other firms or micro finance institutions will be in position to identify the limiting factors of their productivity.

(vi) The study will be useful to the academicians who may want to expand and acquire more knowledge on financial management and productivity among different communities.

CHAPTER TWO

2.0 Literature Review

Micro finance refers to the lending of very small sums of money to individuals under the security of group involvement for small business start up at a very low lever; (Johnston, 1997), the idea is to assist small-scale entrepreneurs that cannot access credit in the formal financial sector.

Micro finance institutions as we know began in the 1970's with the Gramen Bank in Bangladesh and Accoin International in Latin America (christen 1997). These institutions have developed lending methodologies that have ensured recovery rates of more than 95% in situations where the poor were considered as high risk individuals without formal finance practice.

Girma (1996) says that the lower literacy levels of education hinder the borrower's utilization of loan money. She goes further to say that the basic training in the areas of small business management and book keeping is thought of improving the loan utilization and overall management of the small scale enterprises. So the educational attainment of borrowers is believed to have an impact in loan utilization this becoming a risk to micro finance hence increased rate of poverty.

As required and as is the practice in other countries Government of Uganda has national strategies that take care of the people such as pension scheme and social security fund for employees retiring from the public and private sectors. It has also put in place national Policy frameworks like the Poverty Eradication Action Plan (PEAP), Plan for Modernization of Agriculture (PMA) and the Peace, Recovery and Development Plan (PRDP) for Northern Uganda to deal with Post conflict reconstruction only these very beautiful policy documents do not give due consideration to the people.

2.1 Micro Finance in Uganda

Although almost every district in Uganda has an organisation in micro credit, their operations and coverage are still limited to urban centres and rural trading centres

(MFPED, 1998). Currently micro finance institutions are targeting small and micro entrepreneurs engaged in off farm activities. A few micro finance institutions are extending credit to farmers but have had to adjust their operations to suit the needs of their clients while not having the fundamental principles in their operations.

In Uganda's economy, access to credit is a major factor in development processes at all levels and Micro Finance Institutions (MFIs) play a critical role in filling the credit gap in the provision of readily available credit. This however requires collateral which the elderly lack therefore limiting their access to credit. In addition MFI money lending institutions have prohibitive interests which would borrowers can not afford.

2.2 Categories of Micro Finance Institutions in Uganda

Micro finance in Uganda has a wide range of legal status, scale and scope of their operations. A large number operate informally and lack capacity. Broadly in Uganda they can be categorized as government supported institutions, formal financial institutions, Non-government organisations and community based organisations (CBO) and co-operative societies. There are several Non-government organisations involved in the credit delivery targeting small and micro enterprises. Non-governmental organisations involved in micro credit are mainly foreign like pride Uganda, Foundation for International Community Assistance (FINCA), Micro Enterprises Development Network (MED-net), which is an affiliate of world vision.

Credit provision to informal and small scale sector has been noted as important for the development of the economy and ensuring sustainable growth MFPED, 1997). The development of micro financing has been as the cost effective way of advancing credit to the small scale sector hence eradication of poverty.

Micro financing refers to lending of small sums of money (between US$20 to US$2000), to individuals under the security of community involvement. For small business start-ups at a very low level (Johnson, 1997).

Often micro business are often located in and around markets, trading centres, often are housed in semi-permanent structures of have no fixed business premises (MC Cord, 1998) most of them are labour intensive and their products are of simple technologies through utilization of available simple inputs. This contributes highly to the reason why the sector employs a lot of people, hence eradication of poverty, and few tools with little working capital needed to begin.

Micro financing institutions often base their methodologies on the borrower's willingness and ability to pay other than the quality of their collateral. Often their risk assessment is on prior credit performance, starting new clients with small loans graduating to bigger loans and often involves the community knowledge in the process of selection, administration and collection (Christen, 1992). Social capital is the major basis for micro finance institutions success hence poverty eradication. Micro finance institutions are community based where creditors and borrowers know each other very well. This makes defaulting socially costly and difficult.

World Bank (1990) noted that farmers were not selling their produce at profitable prices resulting in the farmers failing to benefit from these credit programs. Often there is lack of storage facilities forcing farmers to sell off their produce at give away prices lest they loose their total harvest. Poor transport facilities, poor markets and inadequate credit extended were found to hinder effective and good utilization resulting into poor loan repayment.

Support for microfinance goes beyond access to financial services for poor people. It also builds human capital and institutional capacity in developing countries at many different levels: the micro enterprises, the microfinance institutions (MFIs), and among policymakers. In addition, a favorable policy environment is crucial for the development of a thriving microfinance industry. The World Bank Group has a comparative advantage in addressing policy issues based on its long-standing relationships with government officials in its client countries.

World Bank (1999), since initiating its involvement with the Microcredit Summit, the World Bank Group has committed over US$200 million in concessional loans and investments to enable microfinance institutions to build their portfolios and extend outreach to the poor. Important, in Africa, loans have recently been approved for microfinance work in Benin, Eritrea, Madagascar, and Mali. Many smaller efforts are supported through social funds, which are intended to build the skills of grassroots organizations made up of low income clients.

Innovative microfinance activities are underway in several post-conflict countries and transition economies, including Bosnia, Tajikistan, Armenia, and Moldova. In Albania, the World Bank Group has 2 played a key role in the development of both rural and urban microfinance operations. Even when a political and economic crisis engulfed the country, these institutions continued to finance micro entrepreneurs, achieving rapid growth and a high repayment rate.

According to Ijuka Kabumba and Samwiri K. Sebuufu observed that survival of industry depends on favourable factors, insurance thrives best under conduction of economic growth and financial stability and it survives with difficulty in situations characterised by economic depression and suffers greatly from inflation and erosion of money value, as it was observed by Habib Maker in his paper of Trade and Development in UN conference.

Dorthea (2003) says that an agency is responsible for monitoring efficiency, effectiveness and profitability in its cash management practices. The monitoring includes a methodology to ensure that an agency review is completed for receipts and disbursements. Management has to co-operate during audit and give explanation on different issues, avail books and schedule as and when needed, no collusion through third party, this may lead to fraud which may be hard to detect and they take the advice of the auditor or only implement it in part.

Wananda (2005) maximizing productivity is the key to economic success. It is total factor productivity that should be focused upon and not just labour. Increasing capital inputs (investing in machinery) in order to reduce labour inputs (and therefore increase labour productivity) should be done with the aim of increasing total factor productivity.

In practice, total factor productivity is difficult to calculate because it is hard to determine what the contribution of individual inputs is in respect of changes in output. Furthermore, those inputs do not remain constant but vary over time. Because of the difficulties of measuring productivity accurately, the statistics relating to it should be interpreted with care. Short-term improvements in productivity indices may reflect capacity utilization rather than a real trend. In general, strict comparisons should not be made between countries because methods of computing productivity data vary from one country to another.

2.3 Financial Management

Financial management is the management of the finances of a business in order to achieve financial objectives such as profit maximization and profit wealth maximization (Farlex, 2006)

2.4.1 Financial management schemes used by micro finance institutions in Uganda.

2.4.1.1 Credit scheme.

This is the scheme used by micro finance institution to allow poor people to take advantage of economic opportunities to increase earnings. Credit schemes have two types.

2.4.1.1.1 Types of credit scheme

2.4.1.1.1.1 Credit guarantee scheme: This seeks to help overcome the problem of loan applicants who have good projects and are in very credit worthy, but cannot offer adequate collateral securities to satisfy the normal requirement of a lending institution. In credit guarantee scheme when borrowers default on a loan, the guarantor has to share risk with the lending institution on the loss incurred (Nanyonjo & Nsubuga 2004). In other words, the objective of the scheme is to alleviate the problems of collateral security or third party guarantee and remove implements to flow of credit in the handicraft sector.

2.4.1.1.1.2 Micro leasing scheme: Is a medium to long-term financing that deals with acquisition of produce equipment or business assets by micro-entrepreneurs, where the lessee generates extra income from the use of leased asset and the lessor receives income while retaining the security of ownership (Harnes, 1995).

Micro-lending as a technique may not only give opportunities to individuals but also remove them collectively if it creates a ghetto economy. Micro-lending may not only create income individually but take it away collectively if such schemes are used to withdraw welfare resources from its clients. Micro-lending may not only give access for otherwise excluded people to banking services but also create very underdeveloped and outdated banking services with less skilled and less paid agents for poor people, which may in the end give rise to more hardship than opportunities for them.

Organisations which are directly or indirectly involved in credit provision for social purposes argue that banking legislation is inadequate and that they are hindered by bureaucratic obstacles from carrying out their task.

2.4.1.2 Saving scheme

This is used by Micro-finance institutions as the only way for the people to keep some money for security purpose or for other activities like financing their business.

2.4.1.2.1 Types of saving scheme

Life course saving scheme: It is the saving for leaves, which gives the employees the right to save for unpaid leave. In a calendar year savings scheme, an employee can save a maximum of 12% of the gross annual salary for leave.

Saving accounts: These are used to influence customers to save through savings groups and will only give loans to those who can save with them. This helps the financial institutions to meet the day to day obligations through using client's savings (Webster, 1997).

A savings scheme is a diversified fixed-income investment, designed for private customers only that provide every saver with an appropriate solution to his needs.

2.4.1.3 Deposit taking scheme

Micro finance uses it to take deposit of their clients account according to the specific accounts of the customers, for example savings account, current account to charge every clients account differently as per the conditions attached to the particular account. For example fixed account has an interest charge according to the institutions requirement some charge 1% and 2% interest with a stated withdraw charge and monthly service charge. The deposit taking scheme is used for the purpose of loan demand so as to meet customer loan demand and the institutions to meet their day today activities (Liew, 1997).

2.4.1.4 Informal savings group

This is where a group of 5 to 15 people under a leader of their choice sis formed to obtain loans from micro finance. This scheme is used to improve on the incomes of the people in rural communities.

The member group is supposed to pay back the principal with interest and if one of the members fails to pay, members of the group have to contribute (Kasi, 2006)

2.5 Objectives of Financial Management

According to Farlex efficient Financial management requires the existence of some objectives, which are as follows;-

2.5.1 Profit Maximization:

The objective of financial management is the same as the objective of a company which is to earn profit. But profit maximization alone cannot be the sole objective of a company. It is a limited objective.

If profits are given undue importance then problems may arise as discussed as the term profit is vague and it involves much more contradictions.
Profit maximization must be attempted with a realization of risks involved. A positive relationship exists between risk and profits. So both risk and profit objectives should be balanced.

Profit Maximization fails to take into account the time pattern of returns.

Profit maximization does not take into account the social considerations.

2.5.2 Wealth Maximization

It is commonly understood that the objective of a firm is to maximize value and wealth.
The value of a firm is represented by the market price of the company's stock. The market price of a firm's stock represents the assessment of all market participants as to what the value of the particular firm is. It takes in to account present and prospective future earnings per share, the timing and risk of these earning, the dividend policy of the firm and many other factors that bear upon the market price of the stock. Market price acts as the performance index or report card of the firm's progress and potential.

Prices in the share markets are affected by many factors like general economic outlook, outlook of the particular company, technical factors and even mass psychology. Normally this value is a function of two factors:

The anticipated rate of earnings per share of the company, the capitalization rate, the likely rate of earnings per shares depend upon the assessment of how profitable a company may be in the future.

The capitalization rate reflects the liking of the investors for the company.

2.6 Productivity

2.6.1 Measures of productivity of micro finance institution in Uganda

Nasar (2005), defines productivity as the amount of output per unit of input. It is a basic yardstick of an economy's health when productivity is growing living standards tend to rise.

2.6.1.1 Check lists

A checklist is used as an aid to memory. It helps to ensure consistency and completeness in carrying out a task. A basic example is the "to do list." A more advanced checklist would be a schedule, which lays out tasks to be done according to time of day or other factors.

At the start of each day, micro finance institutions compile a check list of the activities that need to be done that day. At the end of the day's work, the check list is examined to determine whether the activities have been accomplished. The more activities are accomplished, the higher the productivity level of the micro finance institutions (Bakenhol, 2007).

2.6.1.2 Operating expenses

Operating expenses is a category of expenditure that a business incurs as a result of performing its normal business operations. One of the typical responsibilities that management must contend with is determining how low operating expenses can be reduced without significantly affecting the firm's ability to compete with its competitors.

Micro finance institutions measure productivity by comparing costs incurred and returns of the activities performed. For example, using a loan, when the costs used during lending process are greater than the interest rate or return, it shows that productivity level is low and when the costs are low and returns high hence productivity level is high (Bakenhol, 2007)

2.6.1.3 Output quality and quantity

Basing on the product quality and quantity, the productivity can be measured when the required quality of product or service is attained and the quality level is high and vice-versa. The same to the quantity output, productivity is based on the quantity produced by a certain number of input, when output is high, productivity is also high (Bakenhol, 2007).

2.7 Relationship between financial management and productivity of micro-finance institutions

2.7.1. Contribution to program sustainability in micro-finance institutions

On a 127,500/= loan, a client will pay about 4% per month which is $\frac{1}{10^{th}}$ of what lending institutions charge. This amounts to 5,100 per month, this build capital that lead to high productivity of micro finance.

2.7.2 Increase customer and product

Due this scheme there is a high productivity in the institutions because everything is organized and easy to follow. Associations form the platform in which these institutions increase their customer and income to facilitate the day to day running activities due to less collateral security required by the lending institutions (Amnes, 2000)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methods that were used during the study. These included the target population, sample size, methods of data collection, data editing and analysis plus the collection of the sample. It addressed the area of study, the population to be covered and the problems to be encountered.

3.2 Area and Geographical scope

The research was conducted in Makindye Division using Kabalagala Branch of Pride Micro Finance Limited. The population of interest consisted of all clients of Pride Micro Finance Limited in Kabalagala branch, whereby the researcher got a complete list.

3.3 Sample Design

A stratified sampling technique was used and this method is chosen because there was presence of frames (lists of clients)

3.4 Sample size

The researcher was interested in two senior staff members, 63 clients

3.5 Procedure for data collection.

The researcher was obtained an introductory letter from the faculty of social sciences Kampala International University. This was presented to the manager of micro finance in Kabalagala Pride micro finance, who introduced the researcher to the respondents.

3.6 Data collection

This study was adopt various methods of data collection

3.6.1 Instruments

Questionnaires

These administered questionnaires were used to get data or to collect data and they were built on the theme "knowledge, attitude and practice"

Focused group discussion

This was used to answer opinion questions like "what should be done by micro finance in improving their productivity?", and "what should be done to reduce credit risk in micro finance institutions?"

3.6.2 Sources of Data Collection

Primary source of data

The data was got from the clients, staff who were found in the premises of Pride Micro finance Kabalagala branch.

Secondary sources of Data

The data was got from the library of publications, articles found in Micro finance other books which gave me good idea about management.

3.7 Data Analysis

Data was edited before leaving the respondent, this is to ensure uniformity. The data collected using self administered questionnaire was coded and cross tabulated. The questionnaires were coded and cross tabulated and analyzed using Statistical Package Social Scientist (SPSS) programmes.

3.8 Analyzing data

In analyzing the data collected the researcher will sort, code, edit and present using tabulation method which was characterized by findings which was expressed and described. The test of data analysis was in rejection or acceptance of the questionnaire and interview method which was basically relied observation made by researcher.

Qualitative method of data analysis was preferred to other statistical tests because it is easy to analyze the findings and above all it brings up the relationship clearly between the variable being analyzed.

3.9 Limitations

Much as a lot of care was taken by the researcher, the study had some hindrances whereby during the interview, there was a problem of revealing information because of fear by some officials to be quoted inefficient this was overcame by informing them that the research was confidential and one would be quoted by name.

By use of questionnaire method some of the questions needed thorough explanation in order to get the clear information yet it was hard. This was overcome by being patient while explaining the different terms meant for research purposes.

There was another major problem of availability of money to process this study right from the beginning to the end. Working with the budget was the ultimate solution.

CHAPTER FOUR

DATA PRESENTANTION AND ANALYSIS

4.1 introduction

In this section, a core of the study is presented. Data collected from the respondents is analysed. The discussion is presented in accordance with research questions and objectives of the study

4.2 Demographic Background of the Respondents

4.2.1 Sex of the Respondents

Table 1: Showing the sex of the respondents

Sex	Frequency	Percentage%
Female	40	61.5
Male	25	38.5
Total	**65**	**100.0**

Source: fieldwork 2009

From the table above, female were more than Males that is to say females 40 (61.5%) and male 25 (38.5%). This was like this because there are more small business' set up by females and they don't have enough capital thus they end up borrowing or going for loans from microfinance institutions.

4.2.2 Marital status of the respondents

Table 2: Shows the marital status of the respondents

Status	Frequency	Percentage (%)
Single	5	7.7
Married	35	53.8
Divorced	15	23.1
Never married	10	15.4
Total	**65**	**100.0**

Source: fieldwork 2009

From the above table, it is shown that most of the respondents were married with 35 (53.8%), followed by divorced, never married, single with 23.1%, 15.4%, and 7.7% respectively.

4.2.3 Education Background of the respondents

Table 3: Shows the education background of the respondents

Education Level	Frequency	Percentage (%)
Primary	3	4.6
Secondary	17	26.2
Tertiary	30	46.2
University	15	23.1
Total	65	100.0

Source: fieldwork 2009

From the table above most of the respondents were diploma and certificate holders they were from tertiary institutions with 30 responses (46.2%) followed by secondary certificates with 17 responses (26.2%) and degree holder were only 15 with 23.1%. and only 3 respondents (4.6%) were primary drop outs.

4.2.4 Occupation of the respondent

Table 4: Shows the occupation of the respondents

Occupation	Frequency	Percentage (%)
Farmer	3	4.6
Business Woman/man	40	61.5
Civil Servant	9	13.8
Others	13	20.0
Total	**65**	100.0

Source: Fieldwork 2009

Most the respondents were business women and they were 40 with a percentage 61.5% followed by others, civil servants and farmers with 20%, 13.8%, and 4.6% respectively.

4.3 Financial Management Schemes

One of the objectives of the study under review was to know what financial schemes are being used.

Table 5: Shows financial scheme

Financial Scheme	Frequency	Percentage (%)
Credit Scheme	30	46.2
Saving Scheme	13	20.0
Deposit Taking Scheme	7	10.8
Informal Savings Group	15	23.1
Total	**65**	100.0

Source: fieldwork 2009

4.3.1 Credit scheme

Credit is a term used to denote transactions involving the transfer of money or other property on promise of repayment, usually at a fixed future date. The principal function of credit is to transfer money or other assets from those who own them to those who wish to use them, as in the granting of loans by banks to individuals who plan to initiate or expand a business venture.

The transfer is temporary and is made for a price, known as interest, which varies with the risk involved and also with the demand for, and supply of, credit. From the proposed study it is commonly used scheme in finance institutions as it comprised of 30 respondents with 46.2%.

4.3.1.1 Types of credit

When the respondents interviewed about the different types of credit they gave the following types: -

Commercial credit - Which merchants extend to one another to finance production and distribution of goods;

Investment credit -Used by business firms to finance the acquisition of plant and equipment and represented by corporate bonds, long-term notes, and other proofs of indebtedness;

Bank credit - Consisting of the deposits, loans, and discounts of depository institutions;
Consumer or personal credit- It comprises advances made to individuals to enable them to meet expenses or to purchase, on a deferred-payment basis, goods or services for personal consumption.

Mortgage credit- It is when a loan is secured by property;

Public or government credit- which is represented by the bond issues of national, state, and municipal governments;

International credit - which is extended to a particular government by other governments, nationals of foreign countries, or by international banking institutions, such as the World Bank).

4.3.2 Saving scheme

Savings Institutions, banks or organizations originally established to encourage personal savings through the deposit by individuals of money that accrued earnings in the form of interest. In case of micro finance they use this money as a security when giving out a loan. Customers open accounts with the micro finance institutions called saving accounts. From the proposed study 13 (20.0%) gave it as it the most commonly used scheme among loan takers.

4.3.3 Deposit taking scheme

In the broadest sense, banking consists of safeguarding and transfer of funds, lending or facilitating loans, guaranteeing creditworthiness, and exchange of money. These services are provided by such institutions as commercial banks, savings banks, trust companies, finance companies, and merchant banks or other institutions engaged in investment banking. A narrower and more common definition of banking is the acceptance, transfer, and, most important, creation of deposits. This includes such depository institutions as commercial banks, savings and loan associations, building societies, and mutual savings banks. All countries subject banking to government regulation and supervision, normally implemented by central banking authorities.

4.3.4 Informal saving groups

Here a group of 5 to 15 people under one leader of their choice is teamed up to obtain a loan. 15 (23.1%) gave it as the most commonly used scheme more especially in rural areas.

4.4 Objectives of a Financial Management

Table 6: Objectives of financial management

Objectives	Frequency	Percentage%
Profit Maximization	42	64.6
Wealth Maximization	23	35.4
Total	**65**	**100.0**

Source: fieldwork 2009

4.4 Measures of Productivity

4.4.1 Profit maximization

According to the respondents the most considered objective of the financial management is to maximize profit as 42 respondents (64.6%) gave it.

Profit is the monetary difference between the cost of production and marketing of goods or services and the prices subsequently received for those goods or services. Profit is an essential competitive feature of buying and selling in the economic system. The opposite of profit is loss, whereby the cost of producing certain goods or services is higher than the price a buyer is willing to pay for them. In free market economy, the will to make and function by profits is termed the profit motive.

4.4.2 Wealth maximization

Wealth maximization was least considered objective of the financial management as 23 respondents 35.4% mentioned it.

Wealth is an accumulation of goods having economic value. Economic value has several characteristics. First, an object must have utility. It must have, or be suspected of having, the capacity to satisfy some human want.

4.5 Productivity

4.5.1 Measures of productivity

When the two senior officials were interviewed they gave the following as the main measures of productivity.

Check lists

This helps to ensure consistency and completeness in carrying out a task.

Output quality and quantity

Productivity can be measured when the required quality and quantity has been attained

Operating expenses

This concern about how much is incurred in producing something productive. Micro finance measures productivity by compared costs incurred and returns o the activities performed.

4.5.2 Factors influencing productivity of micro finance

Operating Activities

High operating activities results into low productivity and low operating activities results in high productivity. This is in terms when the company employs few energetic, dynamic, self motivated, qualified personnel.

Investing Activities

Productivity is shown as cash flow from all investing activities, which generally include purchases or sales of long-term assets, such as property, plant and equipment, as well as investment securities. If a company buys a piece of machinery, the cash flow statement would reflect this activity as a cash outflow from investing activities because it used cash. If the company decided to sell off some investments from an investment portfolio, the proceeds from the sales would show up as a cash inflow from investing activities because it provided cash.

Financing Activities

Typical sources of cash flow include cash raised by selling stocks and bonds or borrowing from banks. Likewise, paying back a bank loan would show up as a use of cash flow.

CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSIONS

5.0 Introduction

This chapter consists of the summary of the major findings, recommendations and conclusions

5.1 Summary

From the study it was found out that more females were 40 responses with 61.5% and the rest (25) were males with 38.5%. It was because women do have feelings of starting up business that can help them to sustain the lives and take care of their children.

Most the respondents were married with 35 responses (53.8%) followed by divorced with 15 responses (23.1%), followed by never married with 10 (15.4%), and lastly single with 5 respondents (7.5%). Married status was the most since married people have more responsibilities.

From the proposed study, most of the respondents were diploma and certificate holders they were from tertiary institutions with 30 responses (46.2%) followed by secondary certificates with 17 responses (26.2%) and degree holder were only 15 with 23.1%. and only 3 respondents (4.6%) were primary drop outs.

Most the respondents were business women and they were 40 with a percentage 61.5% followed by others, civil servants and farmers with 20%, 13.8%, and 4.6% respectively.

From the study it was found out that the most financial scheme used was credit scheme with 30 respondents (46.2%), followed by informal savings group with 15 (23.1%), followed by saving scheme with 13 (20%), followed by deposit taking scheme with 7 (10.8%)

From the study many companies put profit maximization first as this was shown by 42 responses (64.6%) and wealth maximization lastly with 23 responses (35.4%).

Measures of productivity were found to be check lists, output quantity and quality, and operating expenses.

Factors affecting productivity were found to be operating activities, investing activities, and financing activities.

Increase in customer and product: there is a high productivity in the institution because everything is organized and easy to follow. Institutions forms platform in which they increase their customer and income to facilitate the day to day running activities due to less collateral security required was found as a relationship between financial management and productivity of micro finance institutions.

5.3 Recommendations

The government should provide further support to the exchange of experience and good practice between member states and promote international networking between organisations, research institutions and other agencies active in the field of the finance of multicultural populations.

Micro Finance Institutions should shift from a flat rate to a declining balance as a basis for change to encourage more savings and reduce faults.

To reduce the interests rate Micro Finance Institutions should mobilize savings which provide a sustainable source of funds at lower cost also has the social benefit of motivating Micro Finance Institutions to encourage savings other than borrowing from commercial banks which charge high interest rates which are passed on to the customers.

Better education on when to borrow not to borrow and when saving is a better strategy

Better information to clients by requiring financial institutions to disclose interest rates and fees.

5.4 Conclusion

Interest rates must cover operational and financial costs and growth, to achieve the objectives of a sustainable, healthy, growing micro fiancé industry reaching increased number of the poor, especially in the rural areas. Micro finance interest rates cannot be expected to fall below the minimum costs necessary for MFI's to survive, so they will not be affordable for some purposes for which alternative approaches are need.

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Neccessities – Poverty and Deprivation in Australia Today, June 2003.

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APPENDICES

Appendix A: Questionnaires

Dear respondent,

I am a student of Kampala International University, in final ear I am carrying out a research study on the topic financial management and productivity of microfinance institutions in Uganda, a case study of Pride Micro Finance Kabalagala branch.

The purpose of this study is to collect data on the topic. Your response will be treated with confidentiality and the information obtained is strictly for education purposes.

BASIC DATA

SECTION A: PERSONAL DATA

Instruction: This section concerns you on please tick the most appropriate boxes of your choice and fill in the space provided

1. Sex (a) Male ☐ (b) Female ☐
2. marital status (a) Married ☐ (b) Single ☐ (c) Divorced ☐
   (d) never married☐
3. Education background (a) Primary ☐ (b) secondary ☐
   (c) university ☐ (d) tertiary ☐

SECTION B SOCIAL ASPECTS

4. What is your post in this Micro finance company?

5. When did micro finance star its business in Uganda?

6. What services are being provided by Pride Micro Finance?

7. What is the structure of your company?

8. How has been the financial management

SECTION C: FINANCIAL MANAGEMENT AND PRODUCTIVITY

9. What are the schemes used by micro finance in Uganda?

   credit scheme ☐

   Saving scheme ☐

   deposit taking scheme☐

   inrfomal group schemes ☐

10. What are the objectives of the financial management?

    ……………………………………………………………………………………………

    ……………………………………………………………………………………………

    ……………………………………………………………………………………………

    ……………………………………………………………………………………………

    …

11. What are the measures used by micro finance?

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    ……………………………………………………………………………………………

    …

12. What should be done to improve the productivity of micro finance?

    ……………………………………………………………………………………………

    ……………………………………………………………………………………………

    ……………………………………………………………………………………………

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    ……………………………………………………………………………………………

THANKS FOR YOUR COOPERATION

Appendix B: Curriculum Vitae

Bio Data

Name	:	Nabiryo Betty
Date of birth	:	10th/10/1986
Marital status	:	Single
Nationality	:	Ugandan
Contact	:	0759-072189
Profession	:	Accountant

Academic Background

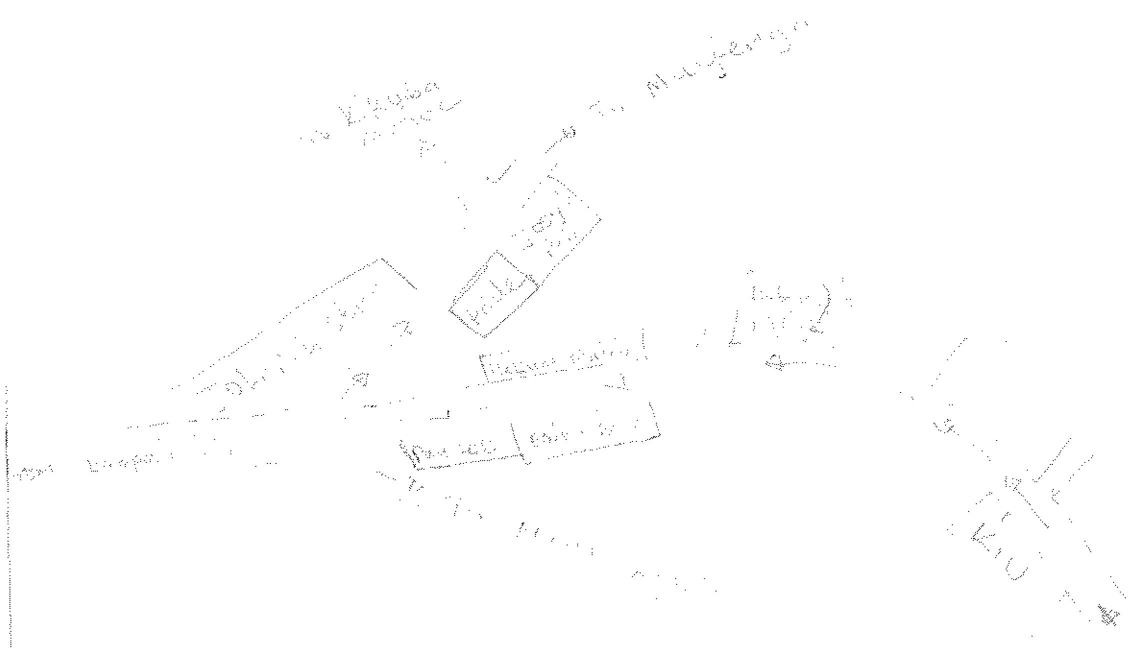
Year	Institution	Award
Mar 2006 – Nov 2009	Kampala International University	Bachelor of Business Administration
2003 – 2004	St. Aloysious Bwanda	Uganda Advanced Certiicate of Education
1999 – 2002	St. Balikudembe Lwabenge SSS	Uganda Certificate of Education
1992 – 1998	Christ the King Ssala	Primary Leaving Examination

Responsibilities during my O'level I was Head girl

Referees

1. Ms Nakimwero Annet
   Accountant Action Aid
   Kalangala district
   0772-394024
2. Namubiru Ramurah
   0775-376979

Appendix C: Map of study area



Appendix D: Proposed Budget

ITEMS	COSTS IN UGX
Stationary	50,000
Printing / binding	70,000
Facilitation /meals	70,000
Transport	100,000
Miscellaneous	30,000
Total	**370,000**

Appendix E: Work plan

January	**1^{st} week**	**Development of proposal**
	2^{nd} week	approval
	3^{rd} & 4^{th} week	Collection of data
March	1^{st} & 2^{nd} week	Presentation, analysis of data collected
	3^{rd} & 4^{th} weeks	Submission

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OFFICE OF THE DEAN
SCHOOL OF BUSINESS AND MANAGEMENT

Date: 23rd March, 2009

Our Ref: KIU/SBM/RL/002-23/03/09-4

THE HUMAN RESOURCE MANAGER
UMEME,
KABALAGALA BRANCH.

Dear Sir/Madam,

RE: NABIRYO BETTY REG.NO.BBA/7423/51/DU

The above mentioned is a bonafide student of Kampala International University pursuing a Bachelor of Business Administration programme in the School of Business and Management of the University.

She is currently conducting field research and the title of the Research project is " FINANCIAL management AND PRODUCTIVITY OF MICRO FINANCE INSTITUTIONS IN UGANDA" A CASE STUDY OF UMEME As part of his studies (research work) he has to collect relevant information through questionnaires, interviews and other relevant reading materials.

The purpose of this letter is to please request you to avail him with the necessary information he may need.

All and any information shared with him will be used for academic purposes only and we promise to share our findings with your institution.

Any assistance rendered to him in this regard will be highly appreciated.

Yours Sincerely,

DR. NUWAGABA ALFRED
DEAN SCHOOL OF BUSINESS AND MANAGEMENT