KAMPALA INTERNATIONAL UNIVERSITY

ROLE OF MICROFINANCE INSTITUTIONS IN PROMOTING SAVINGS IN UGANDA:

(A case study of Pride Microfinance Mukwano Arcade Branch)

BY

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A RESEARCH REPORT SUBMITTED TO THE FACULTY OF SOCIAL SCIENCE IN THE DEPARTMENT OF ECONOMICS AS A FULFILLMENT OF THE AWARD OF BACHELORS DEGREE OF ARTS IN ECONOMICS OF KAMPALA INTERNATIONA UNIVERSITY

DECLARATION

I, Ahmed Abdi Jama, the undersigned, declare that this project is my original work and has never been presented to any other university before.

Signature

....

DATE : 03/08/2009 .

APPROVAL

This research entitled "the role of microfinance institutions in promoting savings in Uganda" has been under my supervision as a university supervisor.

Signature..Sseruyange John

DATE: ....03/08/2009...

LIST OF ACRONYMS

MFIs	Microfinance institutions
MQL	Medium-quality Land
ERP	Economic Recovery Program
BOU	Bank of Uganda
AMFI	Association of Microfinance Institutions
LDCs	less Developed Countries
GDP	Growth Domestic Products
NGOs	Non-Governmental Organizations
KREP	Kenya Rural Enterprise Bank
PPPCR	Le Project de Promotion du Petit Credit Rural
RPE	Rural Poor Empowerment
MF	Micro-Finance

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ABSTRACT

This study was aimed at examining the role of Microfinance institutions in promoting savings.

The objectives of the study were to determine the impact of micro finance programmes on the household welfare of rural poor; Find out if micro finance programmes savings reduce vulnerability and risks of rural poor; and to find out how micro finance promotes empowerment of rural poor.

Qualitative and Quantitative Designs were employed where convenient sampling was applied to select the respondents used for the study

The main instruments used in the data collection were the questionnaires; the data collected was analyzed manually where the researcher used descriptive and quantitative analysis, which included percentages and frequencies.

The findings of the study included among others the fact Micro finance schemes had a positive impact on the welfare of the youth; Savings helped the you overcome some of the vulnerable conditions that they found them selves in and that Micro finance actually empowered the rural poor.

This research recommended among other things the need for more future research that must focus on a deeper understanding of poverty alleviation since microfinance is only treating the symptoms than attacking the real causes.

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

The micro finance business embraced today arose in Bangladesh in 1976 with the founding of the Grameen Bank. It became popular in the 1980s s a response to doubts and research findings about a state delivery of subsidized credit to the poor farmers. According to Ledgerwood (2001), prior the 1980s government agencies were the predominant avenue for providing productive credit to those with no previous access to credit facilities. Their services had and still have limited access, because they need collateral as a requirement for getting a loan and the transaction costs are so high.

Governments and international donors assumed that the poor required cheap credit and saw this as a way of promoting agricultural production by small landholders.

Since the 1980s the field of Micro finance (MF) has grown substantially. Donors actively support and encourage micro finance activities focusing on micro finance institutions (MFIs) that are committed to achieving substantial outreach and financial sustainability.

In Uganda, the health of the financial sector has been impaired by political and social turmoil. Kasekende (2004) indicates that the troubles of the 1970s and early 1980s produced a severe contraction of Uganda's monetary economy, a decline in financial intermediation and a loss of financial depth. In addition to that, the concentration of financial services lay in the hands of a few commercial banks, of which two banks; the then Uganda commercial bank now STANBICK Bank and cooperative bank which controlled 70% of the banking business. During the same year, the two big banks mentioned above became insolvent, and significant risks posed by a weak banking sector began to emerge.

In order to address weaknesses in the economy and the financial sector in particular, the government of Uganda embarked upon the economic recovery program (ERP). It put in place to improve the incentive structure and business climate so as to promote savings, mobilization and investment as well as the rehabilitation of the country's economic, social and institutional infrastructure.

Despite these efforts, the financial sector remained weak and government sought more funding from the World Bank and international monetary fund (IMF). Bank of Uganda (BOU) also embarked on a number of measures to revamp the entire financial system in the country, which include among others, promoting the growth of micro-finance institutions (MFIs), in this respect, According to Kasekende (2001), indicated that BOU developed a policy on microfinance business in the country, which supports approaches that will increase access to financial services by the majority of the poor but in a state, sound and sustainable way.

Recognizing all these financial sector constraints, and in particular credit constraints, donors and government agencies have sought to make credit available to small borrowers and have committed millions of dollar to micro credit activities. Sarno, [2002)

1.2 Statement of the problem

Micro finance as an economic development approach intended to benefit low- income earning people especially women. In Uganda, micro finance has spread across new market areas including rural areas where commercial banks have not reached. They are growing rapidly, some at a rate greater than 100% and stand at over 500 MF outlets. They are serving over 550, 000 active clients with outstanding loans of ug.sh.53 billion but are only reaching about 5.9% of the estimated potential market Duursma, (2001) their services are highly demanded by micro entrepreneurs. Therefore, MF activities cannot be undermined and calls for sustainability to meet the micro entrepreneur's demand.

Despite their importance and growth the savings culture of their clients is questionable as shown by a high drop out rate, a high delinquency rate that has even forced some micro-finance institutions to jail clients, poor financial management that is prone to risk, continued relevance on donors and minimal operational efficiency below 100%. This therefore raises concern as to whether micro-finance institutions will fulfill their campaign, and even become sustainable so as to meet the future demands of their clients. Therefore there is need to examine the role of Microfinance institutions in promoting savings.

1.3 Objectives of the study:

1.3.1 General objectives

The study was aimed at examining the role of Microfinance institutions in promoting savings in Uganda.

1.3. 2 Specific Objectives of the study

- To assess the role and impact of micro-finance institutions on the livelihood of rural poor.
- To assess factors that hinder the rural poor from participating in Micro finance Institutions
- To draw conclusion and give some policy recommendations for the successful implementation and development of micro financing programs.

1.4 Research Questions

- What is the role and impact of micro-finance institutions on the livelihood of rural poor?
- What are the factors that hinder the rural poor from participating in Micro finance Institutions?
- What are some of the policy recommendations for the successful implementation and development of micro financing programs?

1.5 Scope of the study

The study was limited to only registered micro-finance institutions in Uganda and look at Pride Micro Finance Mukwano shopping arcade Branch as the case study.

1.6 Significance of the study

- At the macro level, informed decisions in policy formulations and in the building of the institutional regulatory framework will be made basing on the findings from research.
- At the macro level, a number of micro-finance institutions will adopt the recommendations put forth, and use the findings to address issues pertaining savings so as to attain sustainability.
- The study will also open up areas for further research, for example the effect of growth on the sustainability of micro-finance institutions.
- The government will use the findings to regulate the activities of the Microfinance institutions in order to carry out their activities effectively.
- The study will be used by the public to understand the use of microfinance institution in ensuring that they learn how to make savings.

CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

This chapter contains theoretical literature review, micro-finance institutions, the need for micro-financing, country experiences on micro-finance institutions, factors for efficient micro-finances in Uganda, and the importance of the institution, etc.

2.1 Theoretical Literature Review

Earlier studies about micro-financing have evaluated whether micro-credit programs such as the popular Grameen Bank in Bangladesh reach the relatively poor and vulnerable in their operations. They found out that while micro-financing is successful at reaching the poor, it is less successful at reaching the vulnerable. The results also suggested that micro-financing is unsuccessful at reaching the group most prone to destitution, the vulnerable poor (Amin; Rai; Topa, 2003). The Grameen Bank is one of the first banks operating with micro-financing. The bank's initiative to uplift the socioeconomic conditions of the rural poor in poor countries is not the first of its kind.

During the past decades, several attempts have been made to alleviate rural poverty and expedite the pace of development in the country. However, most of these initiatives have come under government patronage (Wahid & Hsu, 2000). Over the years the Grameen Bank has become a well-known financial institution that offers tiny loans to the poorest of the rural on a group lending basis. The definition of poor, that the Grameen Bank started to reach out to, were those who possessed less than half an acre of land of assets not exceeding the value of one acre of medium-quality land (Ibid.) .

The study of the Grameen Bank has showed some positive results. Historically, the Grameen Bank has been able to recover 98 per cent of the principal including interests. Evidence suggests that the fast horizontal expansion of the bank has not diminished the loan recovery rate in any significant way. Other evidence shows that Grameen Bank is a marketing-oriented financial organization. The Bank targets a homogenous group of rural poor. In general, these people feel comfortable with petty loans and they invest the money in small business and trade such as small-scale poultry raising, cooking puffed rice, making bamboo stools, weaving floor mats with date-tree leaves, and paddy husking. Consequently, the Bank can rely on a degree of solidarity (Ibid.).

A study about the Grameen Bank (Hossain, 1993) has found that the Bank appeared to be quite effective in creating jobs. Some may argue that the sample size is not big enough to reflect the reality. Given that Grameen Bank is the youngest of the studied five programs, however, the fact that it stands second in job creation, may help to clarify the issue. Another study (Hossain, 1985) with Grameen Bank as a target, show that the bank experienced the second highest average per capita income rise. It is also generally believed that the Grameen Bank has significantly increased the productivity of its members. The micro-financing even helps the borrowers to improve their living and housing conditions.

Studies about micro-financing in Kenya (Kithinji, 2002), shows that the Kenyan government in the beginning of May 1999, recognized the importance of the micro-finance sector in the nation's financial community. In March the same year, an Association of Micro-Finance Institutions (AMFI), was formed, were a total of eleven large micro-finance institutions (MFIs) together served over 97 000 clients. Its mission is to develop a micro-finance industry and an institutional framework that serves poor and low-income people in Kenya. Its long-term objectives are to ensure that the micro-finance legislation is passed by parliament and to increase membership in the network among MFIs. Most Kenyan micro-credit programs have been slow to embrace more commercial practices and to make the transition to financial sustainability. With the increase of demand on these institutions to become financially, there has been a shift on emphasis from the very poor to the entrepreneurial poor. This shift has totally left out the very poor, which has defeated the initial goal of micro-finance for poverty alleviation.

2.2 Micro Finance Institutions

According to Ledgerwood (2001), Microfinance institutions rose in the 1976 as a response to doubts and research findings about state delivery of subsided credit to poor people. Traditional credit sources included money lenders and cooperatives, but charge extremely high interest rates, have limited accessibility, high transaction costs and high collateral requirements, which micro-entrepreneurs find hard to cope with.

According to Ver Suluysen (2004), on the eve of the third millennium, the world had more accumulated wealth, resources and knew how than ever before, yet more than one billion people live in absolute poverty. They are trapped in a condition of life so degraded by diseases, illiteracy, malnutrition and squalor as to deny its victims basic human necessities. (Namara, 2005)

For lack of other means, the poor and those who can not find jobs are increasingly resorting to self-employment in order to survive (Versuluysen, 2004). Their small businesses have grown into a huge parallel economy that is altering the social geography of cities, towns and villages in developing countries. The growing role of self employment and the fact that the poor are considered "unbankable" has also given rise to new generation of financial intermediaries that are willing to work with poor and self employed, thus micro finance institutions (MFIs)

Ledgerwood (2001), further notes that MFIs can be NGOs ,savings and loan cooperatives, credit unions, Government banks, commercial banks or non banking financial institutions. They are characterized by low coverage loan size, large number of transactions, innovative lending methodologies and character based lending.

Hossain (2001),gives the characteristics of MF clients as; having tiny businesses usually employing 1-10 people, informal usually women operated, do not keep formal books, do not separate business income and house hold income, lack access to bank loans, source credit from family suppliers or informal money lenders and are able and willing to pay cost covering interests.

2.3. The Need for Micro-Financing

According to Khandker (1998), the alleviation of poverty requires diverse measures. The most important being those, which expand the income and employment opportunities of the poor, enabling them to enhance their living standards providing the poor with access to financial services is one of the many ways to increase their income and productivity.

Binswanger and Landell-Mills (1995), states that constraints in relation to suppliers.i.e. Private Banks excludes the poor because small transactions are unprofitable. Providing financial services to the poor and women is not easy. Many borrowers are not credit worthy and don't have profitable projectors. Thus, that the need for micro financing is an undeniable fact.

According to Yanor, Benjamin and Pipren (1997), the issue that should be raised in this context is the importance of the informal sector in LDCs economy and its constraint to develop by lack of credit. On top of that, Salad vine and checkering (1991) confirmed this fact by noting that, "the informal sector" which contributed about 35% to 65% and 20% to 40% to employment and GDP in most LDCs respectively, is constrained by lack of credit.

Micro financing programs are developed to fill this gap. The rural poor in LDCs are in desperate needs of credits, microfinance programs are supposed to make available this credit needs and keep the poor to increase their living standard. Lack of saving and capital make it difficult for many poor people who want jobs in the formal and informal sectors to become self employed and to undertake productive employment generating activities, providing credit seems to be a way to generate self-employment opportunities for the poor.

In this regard, MFIs in relation to other financial intermediaries has special role and distinguishing features which are given as follows:

The primary objective of MFIs is to address the credit needs of those who are willing and ready to reduce their chronic poverty by engaging in farming and small scale production and service activities (Getahun, 2001).

Besides provisions of credit facilities, MFIs render managerial, marketing technical and administrative advise to borrowers by reaching borrowers at there place of work.(ibid)

MFIs do not require collateral to extend credit in cash or kind to peasant farmers and small entrepreneurs. Instead peer group-leading scheme, character based loans and the promise of subsequent loans is main motivations for repayment (Marguerite, 2001).

Saving requirement is introduced as a compulsory feature of lending activity and this saving requirement seems to serve as a motivator for repayment of loan since borrowers choose to repay the loan than losing the amount they saved (Getahun, 2001)

2.4 Country Experiences on Micro-financing

2.4.1 Experience of Bangladesh

Why it is that micro-finance becomes a great concern for the whole world as an instrument for poverty reduction in rural areas? It seems because it has recorded success in countries where it has been implemented (Abiy, 2000). A brief look at this success stories is as follows.

One of the most successful countries often mentioned in the development of microfinance is Bangladesh. Micro finance organizations like Grameen Bank, Bangladesh Rural Advancement Committee (BRAC), Proshika (PK), Association for Social Advancement (ASA), largest 20 credit NGOs (not including Grameen Bank), and Bangladesh Rural Development Board (BRDB) are operating in the country mentioned

For instance, the Grameen Bank, which was established in 1983 as a challenge to existing collateral-based financial system, has had a promising result. It operates exclusively for the poor on the promise that rural people, who won too little land, support themselves as farmers, can never the less make productive use of small loans and repays them on time.

The bank also promotes social development by making the poor accountable to individually and socially. Such intermediation improves productivity and income of the poor. This, in turn, also improves their loan payment rate and hence contributes to the Grameen Bank's financial Viability. As the result it is the most successful credit program for poor and this may be seen from the outreach status and loan recovery so that the bank's loan recovery rate has consistently remained above 90 percent Pit and Khandker (1998).

2.4.2 Experience of some African Countries

Formalized micro finance institutions' in Africa is a more recent phenomenon. The 1950s and 1960s led to a proliferation of rural leading programs that focused on the provision of subsidized credit by government development banks. After this period in 1980s, the replication of Bangladesh's Grameen Bank began to be tested using primary donor funds to provide credit to a wide number of solidarity group members (Paxton and Fruman, 1998).

For our purpose, however, we will look only two countries Kenya and Burkina Faso- the former representing relatively densely populated region and the latter is less densely populated.

For example, in Kenya KREB (Kenya Rural Enterprise Bank) is a micro finance institution serving the poor in rural and urban areas of Kenya. It was established as an intermediary NGO to provide financial and technical assistance to NGOs in Kenya that are involved in developing or promoting the development of micro and small enterprises.

Since 1990, KREB has successfully transformed grants from its development partners into loan capital for nearly 30,000 businessmen and women. It has been able to do so at a positive return since 1994. KREB has distributed over Kenyan shilling 300 million each year since 1995 and has never run short of new customers.

The PPPCR (Le project de promotion du petit credit rural) has been particularly innovative in adopting the Grameen style of group lending to the conditions in Burkina

Faso. Certainly the Sahelian region represents one of the most challenging environment for micro finance due to the combinations of failed prevails efforts low population density, poverty and illiteracy. To overcome some of these obstacles, PPPCR has departed from a pure Grameen replication and has adapted its own financial services and organization.

Like the Grameen Bank, PPPCR has grown quickly, but cannot be compared in member of clients. By the end of 1994, PPPCR had served 10,000 clients, and two years later it had reached about 25,000 clients. Despite all of the careful modifications of the Grameen model to the Burkina Faso context, the provision of micro finance services has proved to be quite costly in the Sahel. The reasons for these high costs are more related to the environment (low population density, poor infrastructure, poverty, illiteracy etc.) than to the methodology of group lending itself. The PPPCR has experienced greater efficiency in the past couple of years as it continues to learn from its early experience & achieves economies of scale.

Generally, the results in this study have shown that none of the institutions have been able to cover the cost of subsidies despite in roads towards financial viability. Most of micro finance institutions limit their ability to achieve high volumes of loan advances and savings. In sum, the most important lesson is that a wide variety of market niches exist in the field of micro finance.

2.5 Factors for efficient micro-finances in Uganda

The development of the micro-finance industry is dependent on a number of factors and its success depends on the combined impact of the different stakeholder actions on those factors. The factors influencing micro-finance operations include economic opportunities, rural infrastructure, sectional development policy, demographic factors and social set-up. Others are financial infrastructure and institutional capacity of both the supply and demand side (Bank of Tanzania, [2001]). Using these conditions for assessing the institutions embedding the micro-finance sector of Tanzania is more a matter of discretion. Thus, in this report the listed criterions are looked upon as devices that you compare them with the ones the authors call vulnerably poor. If the very poor are being left out, the initial goal of micro-finances for poverty alleviation is defeated.

2.6 The Importance of the Institutions

"Institutions are the constraints that human beings impose on human interaction. They consist of formal rules (constitutions, statue law, regulations) and informal constraints (conventions, norms and self-enforced codes of conduct) and their enforcement characteristics. Those constraints define (together with the standard constraints of economics) the opportunity set in the economy." (North, D, [1993b]).

Institutions are the same thing as the rules of game in a community. The institutions help to reduce the insecure by giving structure to their daily basis. They give guidance to the teamwork between humans, so we know how to behave. The institutions give a structure for human co-operation. Different organizations like for example political parties, economic units and social units, affect the development of the institutions.

Institutions are human creatures. The human creatures develop and change by people, because of that our theory has to begin with the individuals (North, D, [1993a]).

An organization is a complex set of communications, power relationships and relationships of other kinds within a group of human beings pursuing one or more common goals. Internally to this organization, information is produced and exchanged, and goals and attitudes are formed which influence its decisions and give predictability and uniformity to behavior within it. In short, routines are established which create stable and reasonably sure expectations concerning behavior internal to the organization (Dallago B 1993). An organization is not an institution, even if you may think so; it is what happens within an institution that affects the organization.

Organizations are not solely the entities which incorporate the institutions, defining and concretizing their role in society and in the economy. They also perform an essential function in the formation, growth and change of the institutions. They are therefore the fundamental constitutive component of the economic system. This latter, in fact, is the set of all the major institutions in an economy which pursue, in a socially co-coordinated manner, the ends of economic activity. All these factors have an important part to play in the decision process, but what is decisive is the presence of authority relationships (Dallago B 1993).

Political, legal, economic rules and contracts are all different formal rules and can complete and raise the efficiency at the informal restrictions. The formal restrictions can bring lower costs for information and supervision and through this enable solutions for a more complicated change. The informal rules come from information in the community and are a part of the heritage that we call culture. Informal restrictions are not only appendages to the formal rules, they are important themselves. The same formal rules and/or constitutions introduced in different communities give rise to different results. In interaction with other people on daily basis, apart from internal or external relations or in businesses, they all mainly consist of rules of behavior and conventions. The difference between formal and informal restrictions is exceedingly fine. The long and uneven transition from unwritten traditions and customs to written laws have only had one direction, as we have developed from smaller to more compact societies of today (North, D, [1993a]). Formal rules, which are the rules that the clients act under, take a long time to change. These are already impressed upon the people and in the human consciousnesses. The formal rules are important because they control the whole micro-finance sector.

In the study we have found both formal and informal rules. Among the clients within the groups studied, the informal rules are widely used. Group members have a vested interest in the success of the enterprise and therefore exert strong moral pressure on borrowing members to repay on time. There is a high risk of being frozen out if they are not having possibility to repay their share of the loan.

Institutional conditions must be economically sustainable. The formal restrictions must be fulfilled; the MFIs must lend enough capital and reach out to the poorest in order for poverty reduction. Informal restrictions, like exclusion and confiscation of personal and family members' belongings, must exist within the groups if the group members mismanage. Because of this, the informal restrictions lower the risk for free-riding.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter contains the methods that the researcher used to select the geographical areas, from which research was carried out and methods of selection of respondents. It also contains the methods that were used to collect process and analyze data.

3.1 Research design

The quantitative and qualitative designs were used. The qualitative design involves the administration of a structured questionnaire developed in order to capture the findings and attitudes of respondents. The qualitative design involves the use of semi-structured interview schedules that will be administered to managers.

3.2 Area and Population of the study

The study was carried out in pride micro finance located at Mukwano shopping arcade in Kampala. The branch has twenty six employees out of which eight are on the managerial level while the rest are workers helping out to distribute loans to clients. The study was also carried out with a sample of the clients of pride micro-finance institution.

3.3 Sample size and selection

A total of 56 respondents were drawn from the all staff of pride micro finance and their clients in the Mukwano shopping arcade branch. The respondents fell in the categories of top management, direct-service providers (staff) and service beneficiaries (clients) as illustrated by the table 1 below;

Table 1: Categories of Sample

Categories of expected Respondents	Sample
Top managers	4
Other staff	12
Clients	40
Total	56

3.4 Data Sources

3.4. 1 Data collecting instruments.

This research will use the following techniques in collecting data;

- **Questionnaire method**: A total of 40 questions were administered to the 40 clients. These contained open ended and closed ended questions.
- **Interview guides**: A total of 16 questions were administered to the 16 members of the staff. 4 of them were the top managers, 12 were among other staffs. This makes a total of 40 clients plus 16 members of the staff.

3.5 Data processing and analysis

This involved three sets of activities which include editing, coding and frequency tabulations. Editing was done by looking through each of the field questionnaire ascertaining that every applicable question has an answer and all errors eliminated for the completeness, accuracy and uniformity.

The researcher then proceeded and coded various responses given to particular questions that lack coding frames, he then established how many times each alternative response category was given an answer using tally marks which were later added up. Data was then presented in frequency tabulations rendering it ready for interpretation. Quotations and field notes made from interviews will also be included.

CHAPTER FOUR

PRESENTATION INTERPRETATION AND DISCUSSION OF THE FINDINGS

4.0 Introduction

This chapter discusses the presentation, interpretation and discussion of the field results. Results are presented in tables and in form of frequency counts and percentages.

4.1 Demographic Characteristics of Respondents

Sex of Respondents

During the survey 44 male respondents (78.6%) were given the instruments, while 12 female respondents (21.4%) were given the instruments. This selection was aiming at fair gender coverage. Out of 56 instruments distributed, 44 were returned by males giving 78.6% while females returned only 12 which are 21.4% as illustrated by table 2 below.

Table 2: Distribution of the Respondents by Sex

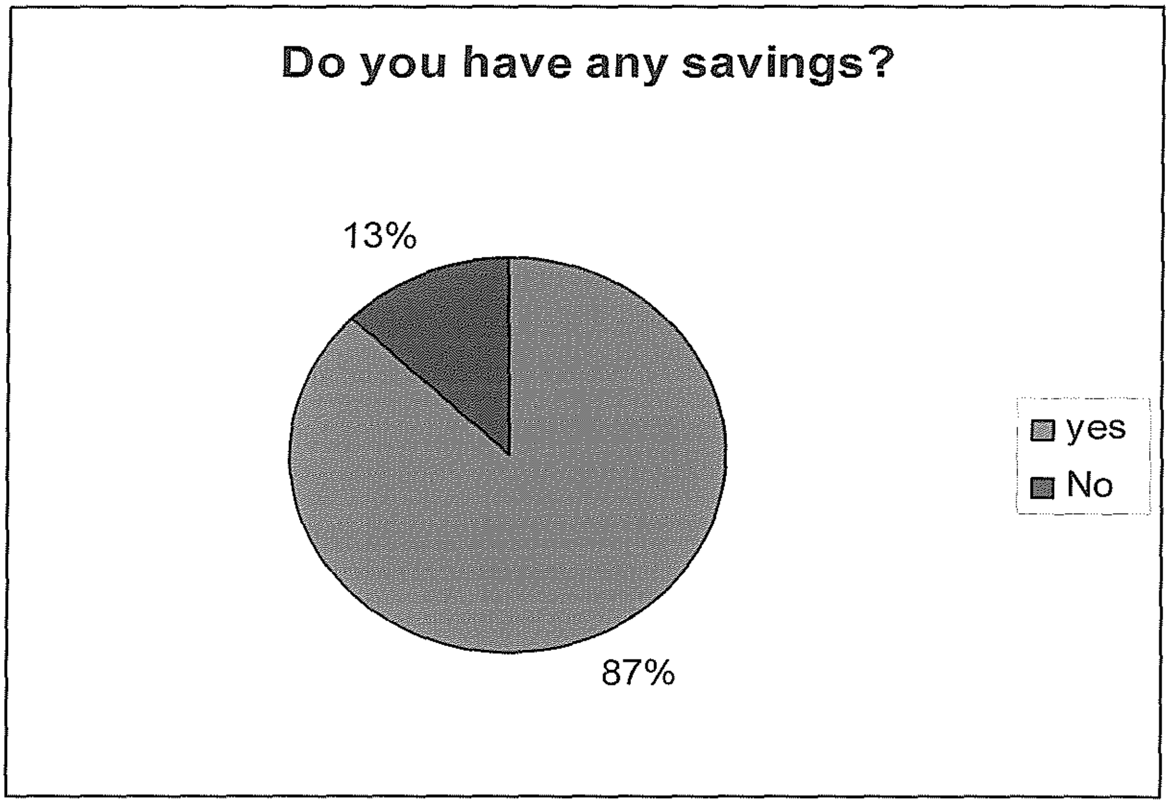
Sex	Respondents	Percentage
Males	44	78.6
Females	12	21.4
Total	56	100

Source: Fieldwork (2009)

4.2 Impact of Microfinance on Household Welfare

The impact of the micro finance program was manifested in education, health, nutrition, accommodation and in savings mobilization. One of the components of the program was a requirement to save on a regular basis. The clients were asked if they had personal savings excluding the forced loan guarantee. The figure below reflects that the majority of the clients (87%) responded to have personal savings while 12% said they had no savings. The loan guarantee savings was15% of the loan amount partly contributes to savings. If a client get a loan of 250 000 Ushs, the client will deposit a loan guarantee of 37 500 Ushs.

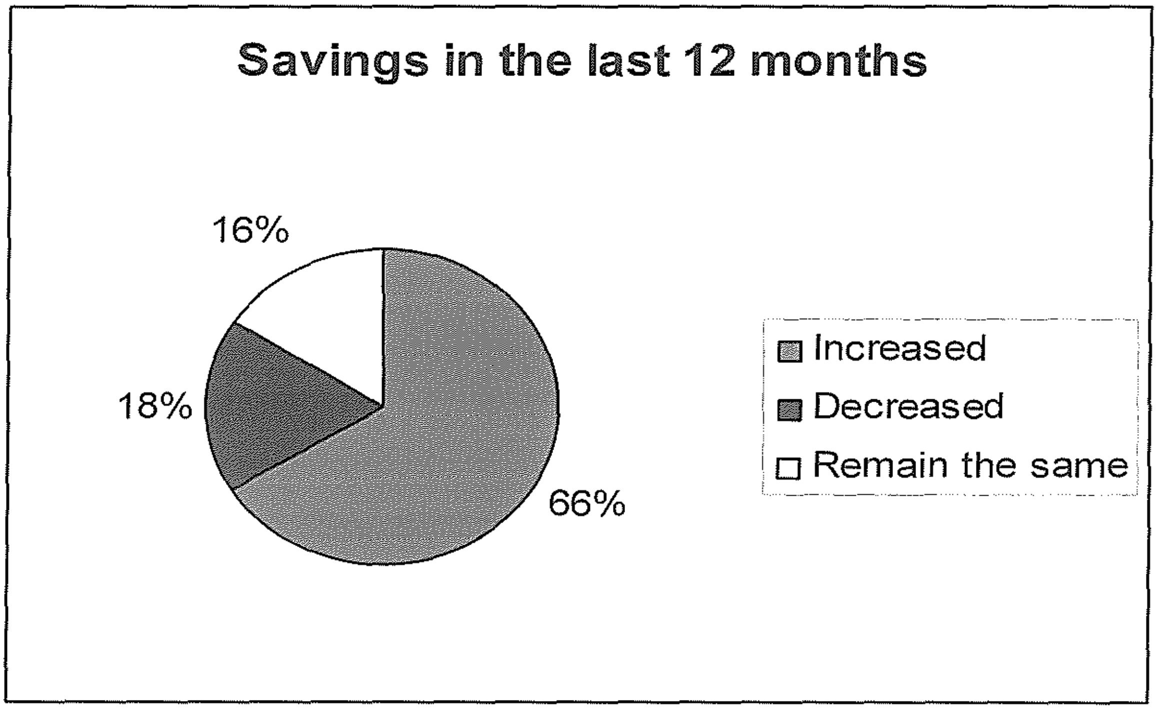
Figure1. Personal Savings



Source: Fieldwork (2009)

With regard to savings, the clients were asked whether their savings in the last 12 months had increased, decreased, remained the same and the response is demonstrated in the figure 2.2 which shows 66% having increased savings while 18% said it decreased and 16% said it remained constant. The loans acquired by clients are mainly short term loan and to avoid accumulated interest, the clients are encouraged to make regular savings and this partly explains the increment because they work hard. The main reason given as to why people save is to enable women in case of severe crisis and to cope up with the shocks; savings can provide protection against risks, used to acquire another microfinance cycle and also to expand the existing economic activities. However some clients preferred to save in physical assets such as land, TV, radio, sofa set, houses and other valuables after the obligatory loan guarantee savings.

Figure2. Savings in the last 12 months

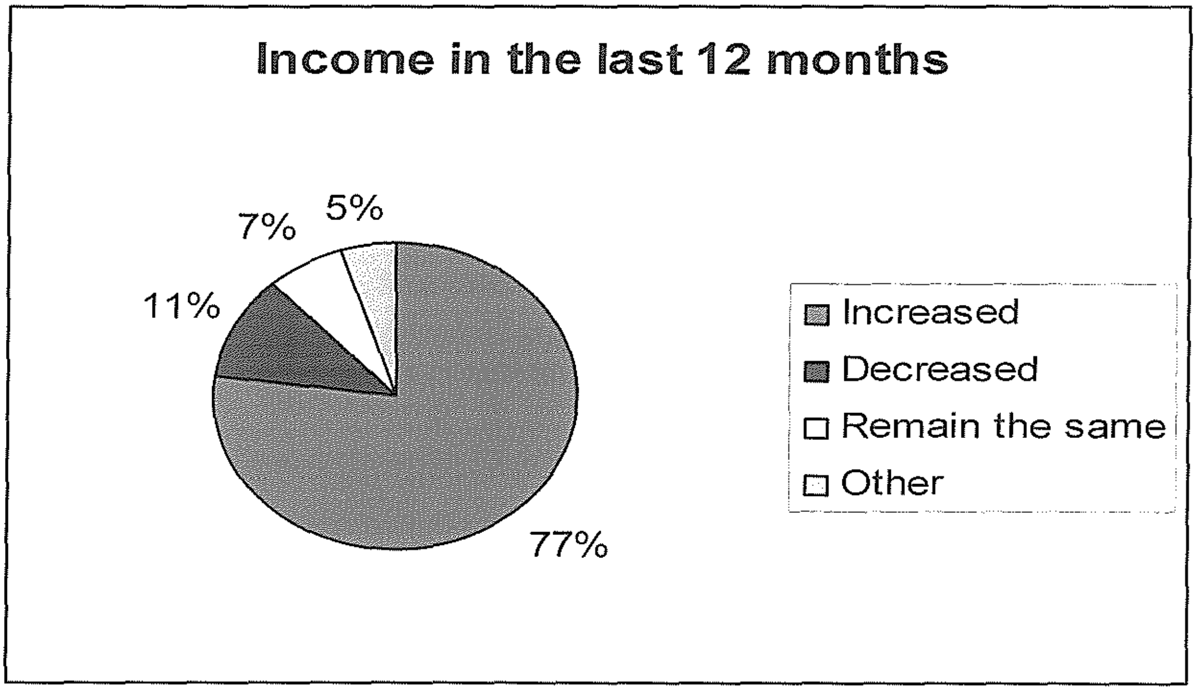


Source: Fieldwork (2009)

4.3 Microfinance and Income Generation

The generation of income is another ingredient and the majority of the client's interviewed responded positively that they had registered 77% increment in incomes as shown in the figure below while 11% noted a decrease, 7% remained the same and the 5% never answered to this question or gave another answer. The clients were asked if their incomes had increased, decreased, remain the same or any other; the majority responded that their incomes increased. Business profits are an important income source for all groups. Those who run big businesses like traders have higher incomes than for example those selling fish in the market.

Figure3. Income over the last 12 months

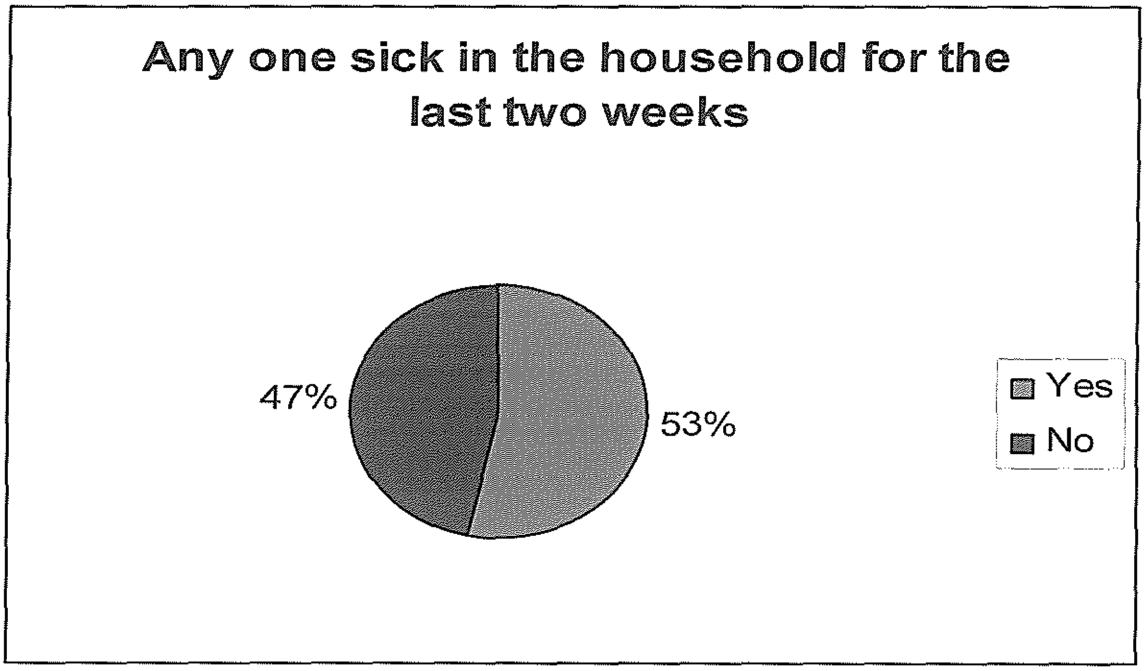


Source: Fieldwork (2009)

4.4 Microfinance and Health

Health is an important ingredient for protecting the productivity of the household's effective use of the household resources. It is evident that most clients interviewed took household health as a critical issue for their continued well being. At least some of the households had a sick person in the household in the last two weeks of the interview and the most prevalent illness in the household was malaria. This could have been because of the rainy season. Some of the clients could afford to visit health clinics and hospitals and also could afford to pay the medical expenses every time a member of the household could fall sick.

Figure4. Sick in the Household for the last two weeks



Source: Fieldwork (2009)

A question was asked to the clients if the household had a sick person in the previous two weeks of the interview and 53% of the households responded that they had a sick person in the household and the majority mentioned malaria as a common sickness. This could have been due to the rain season. A question was asked to the clients if they can afford to pay their medical expenses. All the respondents answered 100% that they had the capacity to meet their medical expenses.

4.5 Microfinance and Rural Empowerment

The Rural poor clients were asked whether participation in microfinance programmes has empowered them. The majority who answered to this question felt that their position in the family had been strengthened, had attained a real change in their lives and self–esteem when they compare themselves to that period before they joined microfinance. Many felt that they can look after their children and educate them, afford a nutritious diet to the household and are no longer dependents on their husbands. Some women said that with the income they get, have managed to buy a plot of land and build a house while others said that their voices are heard in the household, their contribution in terms of income, their involvement in the decision making process has increased. On a business level, several young women have managed to set up their businesses and run them. As a consequence of this their leadership and business skills have been enhanced. Generally, access to microfinance resources tends to improve people's bargaining position within and outside the household.

4.6 Microfinance Savings Reduce Vulnerability and Risks

Risks and Shocks are the quantifiable likelihood of loss or less-than-expected returns. These are common features in any business undertaking. Therefore the poor households have to deal with this challenge. It is in this vein a question was asked to the clients how they respond to the risks and shocks and if they had faced any major unexpected challenge within the household in the last 12 months that led to a financial burden in the household. The clients affected by shocks were 38% of which 33% used their cash savings to deal with crises, 7% borrowed from relatives, 5% sold their assets, 2% reduced their expenditure and 15% gave no answers.

Table3: Strategies to cope with Risks and Shocks
(Total Clients=60)

Clients affected by loss	23	38%
Used savings	20	33%
Borrowed	4	7%
Sold assets	3	5%
Reduced expenditure	1	2%
Others (never answered)	9	15%
Total	**60**	**100%**

Source: Fieldwork (2009)

On the above table, a total of 60 clients were administered to the shocks and risks they had incurred. 23 clients (38%) were affected by the loss, 20 clients (33%) had risks on used savings, and 4 clients were on borrowing, 3(5%) were sold assets, etc.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of the major findings

The first objective sought to investigate Impact of microfinance on household welfare of the rural poor. The findings revealed that micro finances impacted positively on the welfare of the Rural poor as it improved there savings and hence they Rural poor were able to take care of there homes

The second objective sought to investigate the role of Microfinance savings in reducing vulnerability and risks of the rural poor. The findings revealed that micro finance savings had helped the rural poor overcome some vulnerable situations which had threatened the lively hoods of the rural poor by solving those problems with the savings which they had in the micro finance.

The third objective sought to investigate how micro finance institutions empower the rural poor. The findings revealed that when the Rural poor save enough money which can help them take care of there problems they become economically empowered to handle their problems.

5.2 Conclusion

The aim of this report was to investigate the role of Microfinance institutions in promoting savings.

The objective of the report is to investigate the role and impact of micro-finance institutions on the livelihood of rural poor. According to research findings, it is apparent that the majority of clients had registered increased incomes. It is these incomes that can help them to solve some problems of poverty like isolation, physical weaknesses and they can afford a good diet, can deal with vulnerability as they can save and now able to deal with crises, has the capacity to send their children to school and to pay for their health which is critical for their continued wellbeing and as a consequence break the poverty trap.

There is also the objective of Microfinance savings in reducing vulnerability and risks of the rural poor. The findings reported that clients had increased incomes which enable them to save and to buy property. The savings enables clients to deal with severe crises and to cope up with the shocks and reduce vulnerability and bought property can be sold also to deal with the crises; savings can be used to acquire another microfinance cycle and also to start and expand the existing economic activities.

The report also investigated how micro finance institutions empower the rural poor. The majority of rural poor felt that their position in the family had been strengthened, set up businesses and run them, could occupy a political office at local levels and had attained a real change in their lives and self–esteem when they compare themselves to that period before the program. Many felt that they can look after their children, educate them, afford a nutritious diet to the household and are no longer dependents on their parents.

5.3 Recommendations

- Micro-finance institutions should increase interest rates to attract potential depositors. Potential depositors interest high rates of interest in the micro-finance institutions.

- They should also decrease the interest rates on loanable funds in order to attract more and more borrowers.

- Micro-finance institutions should provide on-the-job training to improve the services of the institution and attract more clients.

- .Micro-finance institutions should reduce the risks and vulnerability of the rural poor.

- Micro-finance institutions should also improve their credit worthiness. Clients must be confident with the services and the credit worthiness of the micro-finance institutions.

- Rewards should be given to potential clients either borrowers or depositors. Rewards should also be given to the shareholders of the micro-finance institutions. This will inspire clients and also stakeholders of the micro-finance institutions.

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APPENDICES

APPENDIXA: QUESTIONNAIRE FOR STAFF

Dear respondent,

I am a student of Kampala International University carrying out an academic research on the role of Microfinance institutions in promoting saving. You have been randomly selected to participate in the study and are therefore kindly requested to provide an appropriate answer by either ticking the best option or give explanation where applicable. The answers provided will only be used for academic purposes and will be treated with utmost confidentiality.

Put a (Tick) where appropriate

Individual level: Basic Information

2.2 Sex:_______________

2.3 How old are you? _________

2.4 Marital status

Single/never married______

Married_______

Widowed ________

Divorced/separated _______

Other (specify) _________________

2.7.1 When did you join microfinance programmes?

____

2.7.2 How did you know about microfinance?

____

Individual Savings and Income

3.1 Do you have personal savings?

YES________

No _______

3.2Have your savings in the last 12 months

Increased? _____

Decreased? ___________

Remained the same? ____________________________________

3.3 Has your income in the last 12 months

Increased? ____

Decreased? ____

Remained the same ___________________

Other (specify) _____________________________________

Health and medical services

4.1 In the last two weeks did you have any sick person in your household?

YES ________

NO ______________________

4.2 Where do you get treatment when a member of the household falls sick?

____

4.3 Do you afford to pay the medical expenses every time a member of the household falls sick?

YES ___________________________

NO ________________________________

4.4 If NO, what do you do? ____

____

Coping with shocks and risks

6.1 Have you had any major any major unexpected event within your household in the last 12 months that lead to an increased financial burden for your household?

YES _____________________

NO ______________________________

6.2 How long did this period last?

Number of month's ______________

Don't know________-

6.3 How did you respond to the shocks?

Used my savings_______________________

Borrowed________________

Sold my household assets ___________________________

Reduced my expenditure _____________

Any other (specify) _______________________

Empowerment

7.1 Has your role in terms of income contribution in the household after joining microfinance programmes increased? YES______________

NO __________

If YES how?

___

7.2 Does your role in decision making and your position in the family increased after joining microfinance?

YES _________

NO ________________

7. In your view have the Micro finance Institutions helped you?

YES _________

No __________

Thank you very much

THE END

APPENDIX B: TIME FRAME OF THE STUDY

Activity	**Time**	**In**	**Months**	
	1	2	3	4
Proposal writing				
Data collection				
Data analysis				
Submission				