

**MICRO FINANCE CREDIT AND POVERTY ERADICATION
IN EAST AFRICA A CASE STUDY OF UGANDA**

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**A RESEARCH PROPOSAL SUBMITTED TO THE SCHOOL OF BUSINESS
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DECLARATION

I Kadowe Nicholus, hereby declare that this report is my original work and it has never been submitted to any university or other tertiary institution for any award before.

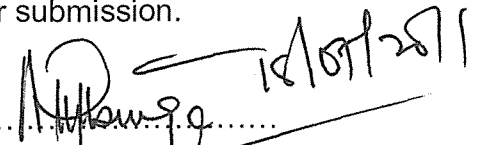
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Date .. 6/07/2011

APPROVAL

I certify that this work is original and has been done under my supervision and it is ready for submission.

Signature .. 

HAJJI KIBIRIGE ALLY R.

Date .. 

DEDICATION

This research work is a special dedication to my lovely parents Mrs. Namwase Florence and Mr.Kange James.

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LIST OF A BBREVIATIONS AND ACRONYMS

MDG	- Millennium Development Goal.
MFI	- Micro Finance Institutions
UNAIDS	- United Nations Aids Agency
ADB	- African Development Bank
PAP	- Poverty Alleviation Projects
AMFIU	- Association For Micro Finance Institutions in Uganda
RMSP	- Rural Micro Finance Support Project.
MDI	- Micro Finance Deposit
CGAP	- Consultative Group to assist the poorest.
PWA	- People With disabilities.
NGOs	- Non Government Organization.

ABSTRACT

The purpose of the study seeks to examine the relationship between micro financed and poverty eradication in Uganda. The study is guided by research objectives of examining the causes of poverty in Uganda, examining the contributions of micro finance credit services provided to the poor and establishing the relationship between micro finance credits and poverty eradication .this is accomplished using secondary data sought from sources such as journals news papers reports publications from institutions periodicals which are found in Kampala international universities library public libraries internet surfing and other universities and tertiary institution.

The findings reveal that there is a positive link between the micro finance credit and poverty alleviation in Uganda .For instance the findings reveals that micro finance credit to a certain extent has contributed to poverty alleviation to the population of Uganda below the poverty line. Therefore in order to reap the full benefits of micro finance credits, government policy makers and other stake holders should properly channel the resources so as not to be misused, device means of educating people monitoring system to alert them if they are reaching very poor people to the extent intended to them and consequently adjust their programs monitoring social performance , visionary leadership, subsidizing and transparency of micro finance to poor people

CHAPTER ONE.

INTRODUCTION

1.0 Introduction.

This chapter focuses on the back ground, the statement of the problem research questions scope of the study, significance of the study and purpose of the study

1.1 Back ground to the study.

Poverty has been a major hindrance to social-economic development in developing countries. In fact, it is recognized internationally as the first Millennium Development goal (MDG) of the decade UN, 2000). A according to poverty eradication and alleviation programmes (PEAP) ,2002-2003 , poverty is a human condition characterized by low standards of living and serous deprivation of the necessities of life, that is shelter ,water, and clothing. Poverty is represented in two main models that is absolute and relative poverty. Copenhagen declaration defines absolute poverty as a condition characterized by severe deprivation of basic human needs, including food safe drinking water. Whereas relative poverty is based on a comparison of poor people with others in the society. In Uganda poverty has remained the key challenge to the country's development efforts. Its concentration is not only a national problem but also varies considerable across regions. In the overall at national level ,poverty has been as high as 56% in 1992,it dropped to about 35% in 1999-2000.Un fortunately, it again rose to 38% in 2002.currently poverty prevalence stands at to 31.5 present (World bank ,may 6th 2008).

In the course of the alleviating poverty, MFI has been the most prominent programme in this decade. According to Nkundabanyanga (2007) ,Micro finance is the provision of banking services for the individuals engaged in small business and those with small needs, largely in the informed sector

(initially referred to as the poor). In Uganda, there are over 500 micro finance institutions operating all over the country and the major players in the market include; FINCA, commercial micro finance limited Uganda Finance limited Faulu Uganda, MEDENT, Uganda Micro Finance Union limited, and pride micro finance.

Uganda revolutionized as dozens of micro finance institutions have emerged and some have demonstrated the feasibility of delivering such services on a financially sustainable basis (especially the major player) micro finance reach out to the poor and deliver micro finance services to the client daily. They educate the local communities about the opportunity to improve their lives with micro finance, make a micro loan and other financial services such as savings account and insurance, collect weekly loan payment and assist client in solving source of life challenges they may face, many also provide social services such as basic health care for clients and their children micro finance performs this through monitoring systems to alert them if they are reaching poor people to the extent intended and consequently adjust their programme monitoring social performance, visionary leadership and transparency of microfinance to support poor people.

Micro finance support poor people to protect diversity and increase their sources of income the essential path out of poverty. The ability to borrow a small amount of money to take advantage of a business opportunity and to pay for school fees among others is a first step in breaking the vicious cycle of poverty. Similarly, poor household will use a safe and convenient saving account to accumulate enough cash to buy assets, to fix a leaky roof to pay for the health care or to send more children to school more over micro finance programme help to safeguard households against the extreme vulnerability that characterize their every day existence. The availability of finance loans in easy repayment terms act as a buffers for sudden emergencies, business risks, seasonal slumps or events such as death in the family that can push a poor family into destitution.

Micro finance therefore helps not only smoothen consumption but also create jobs for un employed. Since there are many ways by which the poor benefits from micro finance programmes ,for the government and donors ,the issue is clear if it is evident that micro finance programs do not benefit the poor in a sustainable way, then Perhaps the resources channeled to the micro finance are miss used

1.2 Statement of the problem

Micro finance credit, as part of its vision to extend the financial credit frontier to include the vast majority of un- served people, has deliberately focused on poverty specifically to increase the depth of outreach and to insure impact on the lives of the poor section of the community (Nathana etal, 2005). In addition to the 2005/2006 budget speech, the population of the people living below the poverty line has been reduced on the long term basis from 56% in 1992 to 35% in 1999/2000.

Despite the conventional of the vibrant micro finance credit concentrating on providing micro enterprise credit to micro entrepreneurs, up to 31.5% of Ugandans, an equivalence of about 9 million still below the poverty line Sunday Monitor, September. 2007. This rises curiosity and hence the need to investigate the link between credit and poverty alleviation in Uganda.

1.3 Purpose of the study

The study seeks to examine the relationship between micro finance credit and poverty eradication in Uganda

1.4 Objectives of the study.

1.4.1 General objective.

To establish the relationship between micro finance credit and poverty eradication.

1.4.2 Specific objectives.

- To examine the causes of poverty in Uganda
- To examine the contribution of micro finance credit service provided to the poor

1.5 Research questions

- What is the relationship between micro finance and poverty eradication?
- What are causes of poverty in Uganda?
- What is the contribution of micro finance service provided to the poor?

1.6 Scope of the study.

1.6.1 Subject scope.

The study covered the relationship between micro finance credit and poverty eradication in Uganda.

1.6.2 Time scope.

The study covered a period of four (4) months and it was as follows;

In the first month it covered chapter one that included the introduction to the study. In the second month it covered the literature of the study by reviewing the relevant data that was related to the study and in the third month it covered the methodology that included the types of data collected, finally in the fourth month it covered chapter four which is the presentation and discussion of findings where the research findings were discussed and chapter five where the summary of the findings purpose and objectives of the study were drawn and recommendations in the area that may require solutions were made.

1.6.3 Geographical scope

Geographically the study was restricted to all parts of Uganda especially in rural areas where the majority of people are below the poverty line.

1.7 Significance of the study.

- The study helped the researchers to recognize the role of micro finance credit on poverty eradication.
- The study also helped the researchers to understand the problems that the poor people face and recommended solutions.
- The research provided other researchers with information for further research
- It also increased on the knowledge and the benefit to other academicians interested in the review of micro finance poverty eradication.

1.8 Justification of the study.

In what follows, the remainder of the study is structured in 5 chapters. Chapter two discusses the literature review while the methodology is given in chapter three that has been adopted in the study. The study findings are drawn in chapter 4 while the conclusion, policy recommendation are discussed in chapter 5

1.9 Conceptual frame work.

The conceptual frame work, theories the inter relationship among the independent variables, intervening factors and the dependent variables of the study. The study specifically conceived along the conceptual frame work of the relationship among the accessibility and of micro finance component by women's micro entrepreneur and poor people arising there in.

The linkage of independent variable examined include micro services accessed and utilized (ie micro loans saving and business skills training, business activities carried out)

The intervening variables focused on problems encountered in accessing and utilizing micro finance (MF) and expenditure patterns all of which affects people's economic welfare.

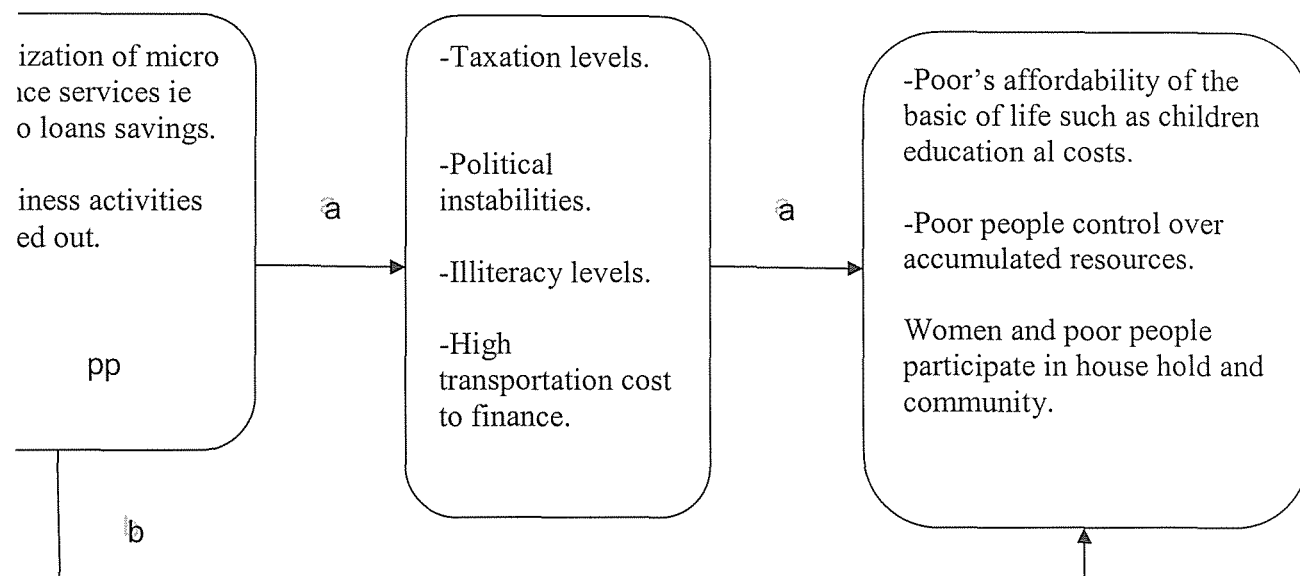
The independent variables under poverty eradication focus is put on poor's ability to earn, save, invest, affordability of basic needs of life such as family feeding ,education ,healthy care. This is clearly illustrated in figure pone as follows

Figure 1: Conceptual frame work.

Independent variable

Intervening variable

Dependent variable.



Where, a- Indirect influence.

b- Direct influence.

CHAPTER TWO LITERATURE REVIEW

2.0 Introduction

The chapter presents literature review focusing on micro finance credit and poverty eradication. The chapter covers, poverty, micro finance credit and the relationship between micro finance credit and poverty eradication.

2.1 Definition of terms.

Poverty; poverty is a human condition characterized by low standards of living and serious deprivation of key necessities of life that is water, shelter and clothing according to PEAP (2002-2003).

Absolute poverty: This is a condition characterized by severe deprivation of basic human rights including food safe drinking water, sanitation and information.

Relative poverty. This is a poverty that is based on compulsion of poor people with others in society.

Micro finance. According to Nkandabanyanga (2007), microfinance is the provision of banking services for individuals engaged in small business and those in small needs largely in the informal sector (referred to as the poor).

Micro finance institutions; these are organization that provides savings and credit facilities to micro and small scale business.

Micro finance credit; is the existence of very small loans to the employer, poor entrepreneurs and others living in poverty that is not bankable.

Poor people; are people living below the poverty line, that is living on less than 1 US \$ per day.

Rural micro finance project. These are country wide project with funding totaling to Ush 36 billion from African Development

2.2 Poverty

According to PEAP, (200-2003), poverty is a human condition characterized by low standards of living and serious deprivation of key necessities of life, that is, shelter, water, and clothing. Poverty in Uganda continues to be one of the greatest challenges faced by the country. Despite the increased cross national product, increased growth rate and inflation.

The World Bank report (1992), noted that with per capital income of under US \$170, **Uganda** today is one of the poorest countries in the world. This is mainly attributed to a long term period of social and political turmoil and economic decline of the 70s and 80s

The World Bank report 1992, further reported that there are two relative poverty lines in Uganda. The first poverty line is drawn at Uganda shillings 6000 per month which is approximately US \$110 per capita per year. The second line is drawn at Ug. Shs. 6000 poverty line are characterized as the poor and those below Ug. Shs 3000 poverty line "as the poorest" or core poor

Omara 1992, further states that absolute poverty is overwhelmingly concentrated in rural areas, although a significant proportion of urban population also fails to meet their basic needs

The World Bank report 1993 note that poverty is more dominant in rural areas than is the case in urban centers, because 96% of the core poor lives in rural areas, particularly in the Northern and Eastern parts of the country.

2.2.1 Indicators of poverty in Uganda

Poverty is comprised of multiplicity indicators. To understand the poverty position in sub Saharan Countries, Uganda in particular, living standards/methods can be subdivided into the following.

Education: Education review Commission report 1989 noted that by 1989 only about 60% of the children of primary age were able to receive education. More than a few years schooling and the total enrolment in secondary schools areas about 11.4% of the national age (14-19) as against the sub-Saharan average of 20%

Health and nutrition. The World Bank report (1993) observed that due to poor conditions of living, life expectancy around 47 years for men and 50 years for women, which is one of lowest in the world. The mortality rates are (with expectation of that caused by AIDS) which rates to generally unhealthy environment and lack of routine medical intervention.

Poor feeding and nutrition has resulted into producing people who are sickly, thin, weak, lazy especially those in rural setting who are also characterized by poor sanitation. Only 11% of households are with in 15 minutes of safe water source and 28.6% of households have no toilet facilities (Makumbi, 1997)

Income: According to the World Bank report (1992) the majority of the people (55%) have inadequate income (of less than Ug Shs 6000 per month as the income). This means that they hardly meet basic needs (food, shelter clothing's, and water). Their marginal propensity to consume is very high, their purchasing power is very low and in some extreme cases they are unable to pay tax.

Material possession: Omara(1992) observed that most of the people in both rural and urban settings have land, majority have poor or housing, do not have livestock, dress in rags or a third hand cloths, Some no food reserves.

Thus there are several affected by famine especially when the whether conditions turn up to be hard to cattle and such backward livestock as goats, sheep pigs and poultry about 58.2% have a poor material basis.

Social indicators: most of the poverty stricken households are characterized by a larger household's size, a high dependence ratio and higher illiteracy. They have limited social interactions, some have neither wives nor children yet others have social and others have resorted to crime while others are unable to meet their social obligations, (E.A Brett, 1992).

Employment: due to limited skills, majority of the people are jobless, for they are job seekers rather than job makers. Majority who work are in low paid jobs and lack promotion opportunities. The majority are employed on subsistence agriculture.

The common Wealth expert group report (1987) notes that in the developing world, unemployment is wide spread and deep seated. It further notes that over 30 million people are under employed in the common wealth countries and a bigger number is uncouncted and the majority live villages and cities of the third word.

2.2.2 Causes of poverty

Omara (1992), states that poverty in Uganda is mainly attributed to long period of social/ civil strive, political and economic decline of the 70's and 80's. In addition to physical factors are also responsible for persistence poverty in Uganda.

Economic forces and changes in the labor requirements, inflation contributes to poverty by reducing the amount of goods that a given amount of money can buy and increasing the cost of living and food prices on international market have caused 3.5% increased in Uganda core inflation of 18.8% in may 2008, (Adebs, quest speaker, Daily Monitor Monday June 16, 2008). Economic down fall adds to poverty by forcing business firs to lay off workers. Advancement to technology sometimes causes unemployment and poverty among workers whose jobs are taken over by machines like ATM in Banks.

Welfare: The material and human destruction caused by welfare is a major development problem. For example from 1990 to 1993, the period encompassing desert storm, per capita GDN in Iraq fell from \$3500 to \$76.

Natural disasters: Such as drought, earthquakes, hurricanes, floods have devastated communities throughout the world. Third world countries like Uganda often suffer much more extensive and acute crisis at the hands of natural disasters because limited resources inhibit the construction of adequate housing infrastructure and mechanism for responding to crisis.

Structural adjustment conditional ties like retrenchment of civil servants, privatization are yet other causes of poverty in Uganda. The conditional ties increase employment, reduce savings, leading to low investment, low output and low economic growth rates, several forces contribute to poverty, some employers purposely avoid employing women or pay them less than men.

Poor pricing and services coupled with poor marketing system have also contributed to poverty. Subsistence production including crude methods of production leads to poor quality of output, which is lowly priced and fetch very little from world markets and worsen balance of payment position.

Large family size and extended family also cause poverty. African culture promotes very many children as a sign of wealth and as such people tend to produce very many children with a few resources to depend on hence increasing poverty. The children cannot be well fed, educated, sheltered, and clothed, with the existing scarce resources.

Political environmental causes of poverty.

Political instability dating from 70's and to date has caused insecurity of life and property heavily in the northern close 20 years. Power struggle and strives makes the people affected to keep on running so as to save their lives instead of

concentrating on saving and investment. This explains why the northern parts of the country have the wide spread of core poverty with 13 % and with poor indication of development.

Biological/other causes

Adverse viability in rainfall conditions leading to drought which affect crops and livestock country. An example was the (1998) unexpected long drought which spell in various parts of the.

Pests and diseases also cause pre and post harvest crop loses. Since most of the developing countries depend on agriculture as the leading sector, biophysical causes of poverty play a significant role in poverty accumulation and promotion.

Although Ms Fahlem (2002) state that violent conflicts spread of HIV and AIDS and environmental degradation has pushed millions back into poverty in the past 20 years ago. The United Nations Agency (UNAIDS) director, Fahlem further says that "As the cost of AIDS mount, more people particularly in developing countries will become poorer.

2.2.3 Effects of poverty

Poverty affects the country in various ways: Fahlem 200, indicate that poverty through diseases such as AIDS had wiped out 50 years of global development gains and significantly reduced government revenue and GDPA. That the adverse effect of AIDS on tax revenue is already affecting national budget and planning. Inadequate food, medical care and education reduced the economic and social contribution of the poor. A sick or poorly educate person is less likely to become a productive worker or an active citizen.

Poor people are more vulnerable to many diseases, become seriously and die at a young age than other people do many of their families are orphan headed, window headed, live in crowded , random buildings, with low wage jobs available for them and little opportunity for advancement.

Financial medical and motional problem often string formally ties among the poverty stricken which bring about social unrest.

Local government and state significant portion of revenue collections are spent on needy or credit schemes.

Omara 1992, observed that it is generally believed that the level of literacy influences the degree to which one understands government policies, adopt new techniques and a mess arrange alternative strategies for survival. poverty causes crime, urban shows with their associated problems and a riot, all of which keeps the country un stable and may cause civil strives.

Poverty, in addition causes despair, anger lack of interest except one's own worries.

Poor people have less economic and political influence that other people have. For example influencing others to vote in for him, what to produce or having power to make decision, the poor being socially and politically marginalized.

According to the World Bank Encyclopedia 1984, environmental degradation, pollution, unexploited or misused resources occurs in societies which are poverty stricken.

In conjunction to the above, poor people suffer from the consequences of pollution, environmental degradation, including sanitation and clean water indoor pollution. Thus human poverty becomes a condition as abhorrent as slavery and as repugnant as violent. This evil (poverty) in itself is a source of finance, trade and development, 2002

2.2.4 Measuring poverty

Milena /Abr argue that although poverty is in developing world, there is evidence of poverty in every region. In developed countries, this condition results in wandering homeless people and poor suburbs and ghettos.

Poverty may be seen as a collective condition of people, or poor group and in the sense entire nation states are regarded as poor. But to avoid stigma, these nations are usually called developing countries when measures of poverty may be absolute or relative poverty.

According to the World Bank, absolute poverty is where people are living on less than US \$, 1 per day and moderate poverty is where people live on less than US \$2 TO SAY. It has been estimated that in 2001, 1.1 billion people and consumption level below US\$1 a day and 2.7 billion live on less than \$2 a day.

In addition, absolute poverty can be defined to mean a set of standards which is consistent, for example measuring absolute poverty would be the percentage of the population eating less food than is required to sustain the human body. Approximately, 2000-2500 kilo calories per day. Absolute poverty is also a condition that applies to people with lower incomes, least education, lowest social status and fewest opportunities.

2.3 Micro finance Credit

According to Nkundabanyanga 2007, Micro finance is the provision of banking services for the individuals engaged in small business and those with small needs, largely in the informal sector (initially referred to as the poor). In Uganda there are over 500 micro finance institutions operating all over the country and the major players in the market include, FINCA, Commercial Micro Finance Limited, Uganda Finance Trust Limited, Faulu Uganda, MEDINET, Uganda Micro Finance Union Limited and Pride Micro Finance Uganda revolutionized as dozens of micro finance institutions have emerged and some have demonstrated the feasibility of delivering such services on a financially sustainable basis especially the major players. Micro finance reaches out to the very poor and delivers micro finance services to local clients daily. Micro finance institutions are organizations that provide savings and credit facilities to micro and small-scale business people. These institutions provide financial services to poor people who

have experienced difficulties in obtaining these services from most formal financial institutions because their business, savings level and credit needs are small (Directory of finance Institutions in Uganda, 2000).

In addition, micro credit is the extension of very small loans to the unemployed, the poor entrepreneur and other living in poverty that is not bankable.

The society members lack security, steady employment and verifiable credit history, making them not to gain access to the tradition financial intuitions.

Credit as a service offered by micro finance closer to the poor or low income earners enable them to generate their own incomes on a sustainable basis.

Although it started from a humble beginning, IMFIU has seen the rise of micro finance credit to be formally recognized as provider of financial service that is integrated into the financial system. We have succeeded in convincing people that micro finance is a business and it can be done on a sustainable basis (Baguma, 2006)

2.3.1 Background of MFIUs

The origin of micro finance institutions in Uganda dated in the 1980s as a response to research findings about the state of subsidized credit to poor families especially farmers' agencies which were the predominant method of providing proactive credit to those with no previous access facilities.

Government and International donors assumed that poor required cheap credit and this as a way of promoting agricultural production by small land holders.

Since 1994, Uganda has witnessed rapid advances in the development of the institutions that provide savings and credit services to the poor in rural urban areas. In recognition of these positive results, African Development Bank (ADB) funded the poverty Alleviation Project (PAP) which was implemented during the period 1994-1998. The success of PAP and the need to tackle rural poverty in

areas not covered by PAP encouraged both the government of Uganda project GOU

The rural micro finance support MRSP to consolidate PAPs achievement. Even though RMSP was a contribution of PAP problem of sustainability of financial service delivery in the country as well as that of increasing access Deepings the put each in rural areas.

Rural micro finance support project RMSP, is a country wide project with funding totaling to Ushs. 36 billion from Africa Development Bank and Government of Uganda over 5 year predict (micro support publication 2003).

2.3.2 How the government is supporting Micro Finance Industry

The government of Uganda is facilitating the provision of financial services to the poor through promotion of financial institutions MIFs and rural Banks through provision of appropriate legal and capacity building, according to MSE policy unit, ministry of finance 2003

The latest developments include the following:

Micro finance taking institutions MDI bill which was passed by parliament in November 2002. This will enable MIFs to become licensed to mobilize and intermediate savings from public (CLOSSE and BRAUN, 2003)

A three year strategic plan for the expansion of sustainable micro finance also known as out-reach plan, has been developed under the auspices of the national micro finance forum channel by the ministry of finance. Cabinet has already approved it and it was implemented from financial year 2003/4. This program was funded by the consortium of donors at total cost of Sh 1.6billion.1.6 billion (Hansen, 2003).

Complementary IFAD funded rural financial services program has improvised and successfully negotiated, although effectiveness has been delayed by the failure of cabinet to submit it for passage by parliament. The seven financial

years, these will assist in capacity building of MIFs especially in rural areas, demand driven training of MIFs staff and customers, productivity increased access to rural financial services by more rural people and building a business culture amongst rural borrowers.

The government has also signed a partnership arrangement with Uganda cooperative savings credit societies and Uganda cooperative alliance to assist starting many Sacco in areas.

The matching Grant facility fund was set up on a condition that MFC should demonstrate that they are outside town to access these supports expend.

All these efforts will till the present concentrate of financial credit service from urban rural areas they are badly needed.

2.3.3 Impact of Micro Finance Credit on Millennium Development Goals

(MGD)

Eradication of extreme poverty and hunger. Extensive evidence demonstrates that MFC help to reduce poverty by increasing incomes, allowing the poor to build assets consultative group to assist the poorest CGAP, (2002)

Promotes gender equality and women's empowerment. Micro finance credit clients are overwhelming females. MFC has been credited for empowering women by increasing their contributions to household income, (CGAP, 2002)

Enable people with disabilities, to access loans so that they start their own income generating activities (Baguma 2006)

Achieve Universal Education; households that have access to credit spend more on education than non clients. Improvement in school attendance and provision of educational materials are widely reported due to credit participation. It has enabled households send several children at a time to school and reduced

dropout rates in higher primary grades (CGAP,2002). Reduced child motility, material health and micro finance contribution to improved nutrition, housing, and health among women clients.

2.3.4 Objectives of MFIs

The major objectives of most MIFs are poverty reduction and often target the poorest segment of the population (Aitcher, 1999) selecting the target market depends on the objectives of micro finance services (Lesger Wood, 2002). The goal of MIFs is to create and integrate package of credit and savings facilities for members of low income earners particularly women and youth who have been marginalized by the formal financial sector (instant financial relief publications, 2003).

The development finance objectives of MFIs according to Ledger wood 2000 include;

To reduce poverty, training 10 small enterprises in record keeping, create a culture of saving in the community, empower women and other disadvantaged population, encourage the development of new business, create employment and income opportunities, reduce rural families dependence on drought prove crops through diversifications on their income generating activities and help existing business grow, and diversify.

2.3.5 Increasing access to micro Finance Services

According to the MSE policy unit, ministry of finance (2003), Uganda micro finance today, is large, dynamic and growing industry catering for the financial services needs of all over 0.5m people throughout the country.

In addition, key initiatives are being taken to ensure exchange of information and experience, training and international contacts with micro finance industries abroad so that a steep learning curve can be maintained.

According to the National Survey (2002), of MFIs conducted to increase. It uses, revealed that 43% of Uganda's population has no access to financial services with the un met needs being greatest in the rural areas. The survey which visited at least four micro finance groups or institutions at sub country level in each of the 56 districts in Uganda indicated that women access most of the active borrowers in the sampled institutions. It was however, noted that even women were served by MFIs industry the objectives of poverty reduction in relation to gender quality have not yet been met because;

The average loan is quite small for engagement in large income generating activities and saving is limited. This average loan size in all categories of groups and institutions was Ug Shs. 533 and the average saving volume was Shs. 160.713 per person.

Most of the MFIs surveyed 63.7% were small groups (category F) and small institutions, including multipurpose NGOs, cooperatives and informal organizations.

MFIs (category A) are limited by liquidity hence unable to provide their clients with big sums of credit for longer period, a fact which affects the ability of non activities to expand.

Most MFIs are located in urban centers with good infrastructure which implies that the majority of women living in rural areas are not served.

In other words, if these institutions are to operate effectively they need capacity building in areas of book keeping, financial and business management, product development and diversification, improving their management information system, building their asset base applying micro finance best practice.

2.3.6 Activities of MFIs and Nature of Target of Market.

Ledger wood (2000) puts it that micro finance is not for banking, it is for development tool and covers the activities like;

Access to repeat and larger loan, based on repayment performance, small loans, typically for working capital, stream lined loan disbursements and monitor collateral substitutes such as group guaranties or compulsory savings.

According to Lapem, (1998) the characteristic of the population groups served by MFIs take into account various social-economic characteristics including gender, poverty level and geographical focus. A number of MFIs focus on women Churchill (1998) puts it that this is intended to empower by increasing their economic position in society; experience has also shown that women have generally a high sense of responsibility. Micro finance clients are typically self employed Ledger wood (1998). Low income entrepreneurs in both urban and rural areas, clients are usually traders, street vendors, small farmers, and services providers like hair dressers, small producers and black smith.

2.4 Relationship between Micro Finance and Poverty eradication.

CGAP (2002), annual report, poor people need use micro finance credit services all the time to protect diversity and increase their services of income the essential path out of poverty. The ability to borrow a small amount of money to take advantage of business opportunity and pay for small school fees, among others is a first step in breaking the viscous cycle of poverty.

Similarly, poor households will use a safe, convenient saving account to accumulate enough cash to buy assets, to fix leaky roof, pay for health care or to send more children to school, moreover micro finance helps to safeguard households against the extreme vulnerability of finance loans in easy repayment terms act as a buffer for sudden emergencies, business risks, seasonal slumps or events such as death I the family that can push a poor family into destitution.

Micro finance programs therefore help not to smoothing consumption only but also create jobs for the unemployed. Since there are many ways by which the poor benefit from micro finance programs. For the government and donors, the issue is clear if it is evident that micro finance programs do not benefit the poor in sustainable way, then perhaps the resource channeled to the micro finance are misused.

Credit services for the poor have found to make positive impact on household income. Some borrow for investment, leading to increase in income, and others for consumption smoothing n periods of hardship, thus maintaining their consumption levels without running down productive assets. To promote economic developments, there is need for both short term and long term financing for the formal sector. For the informal sector, the fast expanding micro finance industry is very effective at financing investment with quick and high returns.

Micro, small and medium scale enterprise tends to be more attractive to MF Is because most of them have quick returns and owners can begin to pay back loans in a relative short time. The micro finance industry has hitherto been less effective at financing agricultural activities, whether for marketing or seasonal credit or loans for small agricultural investment. Government is therefore exploring an initiative with the International Funds for Agricultural Development (IFAD) and other development partners to provide better access to agricultural credit for small holders, as well as promoting the expansion to rural areas of micro finance services through the micro finance outreach plan.

Micro finance has grown considerably in recent years in Uganda. A survey, by the ministry of finance, planning and economic development in 2002, of over 1,000 micro finance institutions revealed that MFIs had just under 1 million members, and a total loan of shs 86.5 billion, the average loan size was shs 262.533. The majority loans are to non-agricultural enterprises in urban or per-

urban areas. Micro finance institutions have been supported by a variety of donors and NGOs. Mapping of micro finance institutions has revealed informally institutions even in areas reached by formally constituted MFIs.

Micro finance institutions fill an important gap in the financial market. International experience shows that many goods institutions need support for a sustained period of time before becoming self sustaining and that public resources devoted reduction than those devoted to other public interventions.

The grants are designed to favor delivery of innovation products in relatively remote areas. The plan is intended to promote an average growth of 25% over the entire period on the client base, so that there should be 1.3 million clients and 9 million indirect beneficiaries by 2006, of which micro finance institutions are able to meet the need of agriculture so that where necessary, changes in strategic can be made to better serve borrowers in the sector.

CHAPTER THREE

METHODOLOGY

3.0 Introductions.

The chapter will cover study area, research design, type of data , data collection method , data analysis, presentation and processing and limitations.

3.1 Study area

The target group was those people in Uganda living under the poverty line lacking the essential needs like waters, shelter and clothing and those business men with small businesses and those who wants credit facilities to start up small businesses.

3.1 Research design

The study adopted descriptive, analytical, type C research under KIU methodology and co-relational design establishing a relationship between micro finance and poverty eradication.

3.2 Type of Data.

The research is based on secondary data involving existing theoretical and empirical literature which is a review of the previous findings.

3.3 Source of Data.

The source of data was obtained from published studies, reports, academic journals and magazines, news papers, internets, budgets etc

3.4 Data collection methods.

There was a comprehensive review of work of different scholar's similarities and differences on specific concepts as given different scholars, text books, interest mere checked.

Table 1: The table shows the secondary data sources , their definition , advantages and disadvantages .

METHOD	DEFITION	SOURCES	ADVANTAGE	DISADVANTAGE
Document/ research.	Systematic reading of data compiled by secondary sources.	Libraries, school offices specialized agencies	-Already collected. -Low level of effort to analyze	-Not always available topics needed. -can be outdated. -Usually incomplete
Statistics and panning.	Sorting and analyzing information from existing data bases.	-Ministry data bases planning departments. -Statistic center.	-Available in most line ministries. -easy to obtain -can be comprehensive	-may contain gaps usually aggregated. -requires specialist to analyse it.
Key informant approach.	Interview of knowledge secondary sources.	People or agencies that are in position to know about the subject.	-economic -relies on knowledge informants.	Informants may be biased.

3.5 Data processing and Analysis

After collecting the data it was compiled, edited, sorted to ensure consistency, classification and accuracy lastly conclusions were made.

3.6 Presentation of Findings.

The findings were in descriptive format and data was titled to ensure accuracy and consistence, it was qualitatively represented using computer like, MS word.

3.7 Ethical considerations

The research was carried out with a high degree of honest and the study exercises academic freedom to discuss any findings. The data collection method used was also fairly free from anxiety.

3.8 Limitation of the study.

In the course of the study various constraints were encountered.

The time in which the research was completed was limited and therefore not enough to carry out effective study.

The cost of printing, typing and photocopying, surfing was high.

Access to literature relating the two variables were too difficult to be accessed.

The research was limited to secondary data and such the merit of primary data were forgone.

CHAPTER FOUR

PRESENTATION AND DISCUSION OF FINDINGS

4.0 Introduction

.This chapter contains the research findings. It summarizes the findings of poverty eradication, microfinance credit and the relationship between the two variables in respect to research objectives and question.

4.1 Findings on the relationship between micro finance credit and poverty eradication

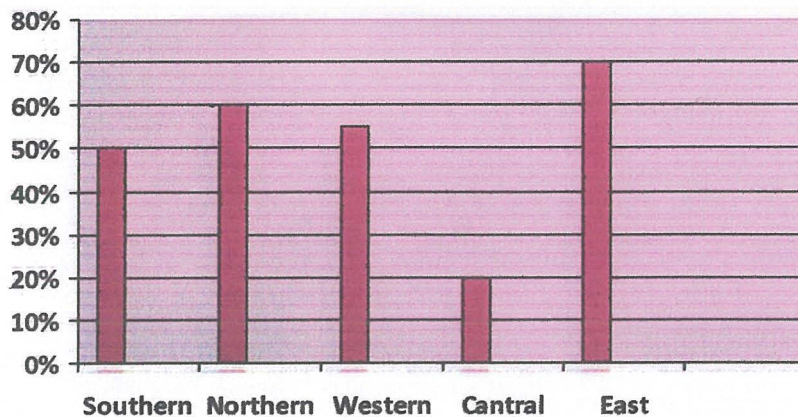
The first research question sought to establish the relationship between micro finance credit and poverty eradication.

CGAP (2002), have noted that the poor enter into a variety of financial relationship the formal systems of loan and informal systems like money lenders, credit association among others.

They further noted that the poor can repay their loans and that poor people are willing and able to pay interest rates and this permits microfinance credit achieves long term sustainability.

Micro finance credit fosters a social responsibility in reaching the poor and under privileged. We are a business driven by social consideration. Microfinance take credit services close to people with low incomes and that is why they got to the rural areas where such are “ (Baguma 2006) all this is geared towards empowering people to borrow to develop savings and business culture. Okecho (2003), state that available evidence support the argument that microfinance plays a significant role in poverty reduction and financial system development.

Figure 2: THE GRAPH SHOWING THE RELATI ON SHIPS BETWEEN MICROFINANCE CREDIT ON POVERTY ERADICATION IN DIFFERENT REGIONS OF UGANDA IN PERCENTAGE (%).



4.2 Findings on level of poverty eradication.

The second question sought to establish the causes of poverty in Uganda and the following were the findings

According to the World bank ,extreme poverty means livings on less than US \$(PP)1 per day and moderate poverty as less than \$ 2 a day Mbeyangaza (2002) noted that there was some reductions in poverty but it was not sufficient for emphasis, he went ahead to say that despite of an increase in consumption in urban areas by 42% the rural areas only witnessed 15% increased. This poverty reduction attribution to the bread based approach but only benefits 3% of the rural homestead engaged in agricultural activities (2001/2002).

Milena/Abr, noted that the proportion of the developing world's population living in extreme economic poverty has fallen from 28% in 1990 to 21% in 2001.

C GAP (2002) report on poverty alleviation had shown that poverty can be reduced through focusing and addressing millennium development goals that is to say achieve universal education, reduce child mortality, women

empowerment, promote gender equality, improve maternal health and combat disease.

From the overall house hold consumption data between 1992 and 1997 indicated that the overall poverty is decreasing in Uganda faster in the central region than in other regions. However, as explained by the poor themselves ,poverty is about more than income and expenditure when the poor farmers were consulted they commented that relatively poor are getting poorer and the rich are getting more richer although in some communities and for some group of people poverty was reported to be decreasing.

Long term trends as well as external shocks influences poverty and appear to shape common perceptions of change in poverty. In Uganda, poverty was seen to decrease under conditions of peace market availability, livelihood opportunities, increasing effective investments, improved housing and dressing standards, improved access to education and health care good road connections, strong social cooperation and community participation in governance and development.

Despite the conventional of MFC has concentrated on providing micro entrepreneurs rather than meeting the diverse financial needs of much under range of client groups of very poor and vulnerable people as a result have remained marginalized and excluded from financial services (Begum 2006)

4.3 Findings on micro Finance Credit Services.

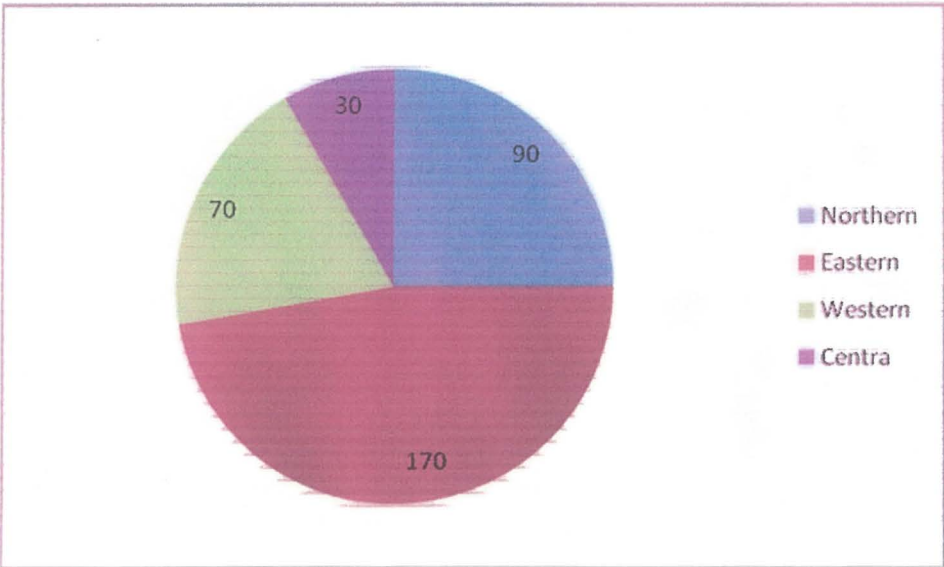
The third research question sought to establish the micro finance credit services provided to the client the findings are as follows.

Micro finance is a facility that makes it possible for the poor people to get a small loan to start or facilitate an existing business pay for school fees buy a house or receives health care (komaketch, 2005).

Baguma (2006) argues that micro finance have committed their server to partners with the government in effectively delivering credit which is a better option in providing financial services to the society.

Agadi (2005), the former state minister for micro finance argues that micro finance credit have created a big impact on lives of the poor people with special focus on the government priority through poverty eradication action Plan (PEAP). Despite of the above argument, it ought to be noted that the increase in the income of the poorest is directly proportional to their starting level of income The poorer whose starting income is below the poverty line end up with less increment income after getting a loan (Routledge 2002)

Figure 3: THE PIE CHART SHOWIN THE USE OF MICRO FINANCE SERVICES BY POOR PEOPLE IN DIFFERENT REGIONS INUGANDA IN DEGREE



CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.0 Introduction.

Under this chapter, the summary of the findings, purpose and objectives of the study is drawn and the recommendations in the areas that may require solutions are made.

5.1 Conclusion.

The conclusion represents summaries of the researcher's analysis of the data that was collected.

The results of the research indicated that micro financé credit in partnership with the government is committed to fund to the poor as the only alternative of poverty reduction. These findings conserved research questions 2 (section 1.5) and objective 2 (section 1.4) of the study was achieved.

The results obtained from the study showed that there exist a strong relationship between micro finance credit and poverty eradication.(CGAP,2007). Annual report revealed that the poor utilize credit financial services although in most cases they lack access to formal financial system. These findings answered research question (section 1.5) and achieved the objectives (section 1.4)

5.2 Recommendations.

In light with the researcher fills there should be improvement in respect of the following.

In order to reap the benefit of microfinance credit , government, policy makers and other stake holders must assemble ,discuss and understand operations of micro credit disseminate and commonly agreed procedures of publishing the importance and the need as poor people still lack awareness on the operations and accessibility of their facilities.

Donors and government should always subsidize micro finance records so as to reduce high interest rate charged on the poor to enable them access loans at a reasonable rate.

Government and microfinance credit should design mechanism that will encourage and the poor get loans. For example, village seminars, advertisement.

Microfinance should struggle to attain autonomy to encourage long term sustainability.

In light with their coverage and scope of operation, there is need to design a programme of multi diversity. That is should go deep up to the rural population since poverty can only be reduced first by focusing on them who form the greatest percentage of the poor in most economies.

Monitoring of performance of micro finance .this can be done by developing performance tool with support from SPEED project under USAID and SUFFIC

5.3 Areas for further studies.

The researcher recommended the following for further research.

- . Assessment of credit policies by micro finance institutions.
- . A further study to be conducted to establish why poverty is on the increase despite the available alternatives.
- . Assessment of other services offered by MFIs

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APPENDIX 1
TIME SCHEDULE.

NO	MONTH	PERIOD	SCOPE
01	February	3 weeks	Chapter one
02	March	4 weeks	Chapter two
03	April	3 weeks	Chapter three
04	May	3weeks	Chapter four
05	June	3weeks	Chapter five

**APPENDIX 2;
RESEARCH BUDGET**

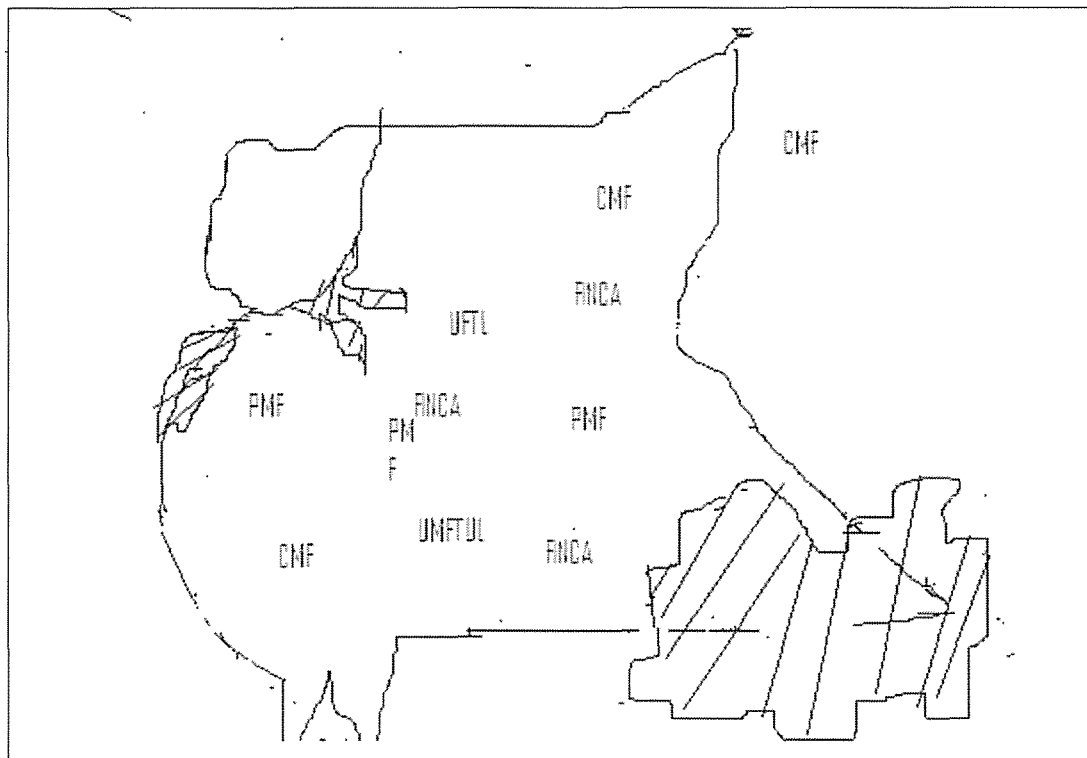
ITEM	COST
Transport	80000
Air time	30000
Typing and printing	140000
Internet cost	50000
Total	300000

**APENDIX 3;
WORK SCHEDULE.**

Time	Data collection	Data analysis	Data compiling	Submission
Febuary and march				
April				
May				

APPENDIX 4;

ASKETCH MAP OF UGANDA SHOWING DIFFERENT MICRO FINANCE INSTITUTIONS THAT PROVIDE CREDIT FACILITIES TO THE POOR TO ERADICATE POVERTY IN DIFFERENT REGIONS



KEY

FINCA	Finca Uganda
CMF	Commercial Micro Finance
PMF	Pride Micro Finance
UMFTL	Uganda Micro FinceTrust Limited
UFL	Faulu Uganda Limited