MICROFINANCE INSTITUTIONS AND ECONOMIC GROWTH IN UGANDA

A CASE STUDY OF KAMPALA DISTRICT

BY

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A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT SCIENCES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS OF THE AWARD OF A BACHELOR'S DEGREE IN BUSINESS ADMINISTRATION OF KAMPALA INTERNATIONAL UNIVERSITY

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DECLARATION

I, Namunjako Moureen declare that this research report on the "Microfinance institutions and economic growth in Uganda: a case study of Kampala District," is my original work and to the best of my knowledge, has not been submitted for any award at any academic institution.

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Signed: .... **Date:** 17th / 07 / 2017.

APPROVAL

This Research report on "Microfinance institutions and economic growth in Uganda: a case study of Kampala District," has been done under my guidance and Supervision as an academic Supervisor and is due for submission to Kampala International University, college of economics and management sciences in partial fulfillment of the requirements of the award of a bachelor's Degree in Business Administration.

Signature: ....

Date: 17/02/2017 ....

TWINOBUHUNGIRO MEDARD

SUPERVISOR:

DEDICATION

I dedicate this book to my parent Mr. Ssesanga John Bosco and mummy Mrs. Namuleme Dorothy, grandfather. Bulega Yowasi sisters; Nassozi Winnie, Nasanga, Nanteza, Nampeewo, brothers; Ssekimpi, Ssemakula and not forgetting friends; Prossy and Nabirye.

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ABSTRACT

This study was set to examine the effect of Micro-financial institution towards economic growth in Uganda Kampala district. It answered three study objectives that included: identify the contributions, examine the challenges facing MFIs and relationship between micro finance and economic growth. Purposive sampling and Random sampling were used in the study, the study applied an explanatory research design. Both interview and questionnaires were used in data collection. Data was analyzed by use of frequencies and percentages and sketchy and generalized summaries of the findings and conclusion.

In addition the study examined the challenges facing MFIs that is to say; Difficulty in measuring social performance of MFIs had 15 respondents strongly agreed this was indicated by 30%.followed by inadequate funds for MFIs to pass on poor. 12 of respondents agreed with it presented by 24%.

In conclusion therefore micro financial institutions and economic growth and this could be positively or negatively depending on how it has been done. It was established that resources were in place but there was need for more follow-up by management to ensure the sustainability of MFIs and recommendations were; The financial, accounting and reporting procedures need to be enhanced this can be made possible by allowing further training for the staff in the accounts sections and close supervision of the audit department on the activities of accounts and finance through regular audits and checkup.

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LIST OF ACRONYMS

MFIS	Micro finance institutions
ROSCA	Rotating Savings and credit associations
SMES	Small and medium Enterprises
MIS	Management Information Systems
UNCDF	United Nation community development Fund
NPA	Norwegian Peoples Aid
NGO	Non governmental organizations
WB	World Bank
IMF	International Monetary Fund

CHAPTER ONE

1.0 Introduction

This chapter dealt with the background of the study, statement of the problem, general objectives of the study, and Specific objectives of the study, research questions, scope, Significance of the study and conceptual frame work about the microfinance institutions and economic growth in Uganda a case study of Kampala district.

1.1 Background of the Study

A microfinance institution was a semi-formal organization. It can be non-governmental or community development initiative. It is a subset of flexible structures and system which provide a wide range of financial and saving needs of small scale enterprises in developing countries where top-town formal financial institutions have failed to address the credit need of the real sector of the economy

Over the years, microfinance has globally emerged as an effective strategy for enhancing economic growth across developing countries. Micro, small and medium enterprises are turning to Microfinance Institutions (MFIs) for an array of financial services. Credit allocation has been one of the powerful instruments to fight poverty, increase productivity, output and enhance economic growth. Access to financial services enable poor households to move from everyday-for-survival to planning for the future, investing in better nutrition, their children's education and health and empowering women socially (Ehigiamusoe, 2005).

In Africa, micro-financing is not a new phenomenon as evidenced by such cultural economic activities for instance in Nigeria, activities such as "Esusu", "Adashi", "Otataje", etc, which were practiced to provide funds for producers in the rural and urban communities. What operates at present however is the effort of governments in Nigeria to modernize micro-financing in rural and urban communities to improve the productive capacity of the rural and urban poor, enhance their economic standing which alleviates the level of poverty and enhances economic growth and development in the economy.

Most scholars argue that microfinance institutions simply focus on the provision of very small loans (micro–credit) to the poor, to help them engage in new productive business activities and/or to grow/expand existing ones. However, overtime, microfinance in Uganda has come to include a broader range of services. These include mainly credit, savings opportunities, insurance and money transfer, as practitioners came to realize that the poor, who lacked access to traditional formal financial institution, needed and required a variety of financial products to achieve meaningful improvement in their business activities thus boost the economic growth of Uganda beautiful landscapes full of varieties of living things. The land is rich in minerals some of which are available in Uganda only like the 'Uganda.' But, surprisingly, despite of all those opportunities more than 50 years after its independence its people are still sinking in the deep pool of poverty. Its government lacks the sufficient capacity of investing on technology, offering basic infrastructures and services like good transport systems, reliable power supply, water, education and health. The lack of employment in formal sector pushes a huge population into the informal sector while the education system has not prepared them for that purpose.

In that connection, this big group of people which move into self-employment has one common needs 'initial capital' therefore they need financial support. It is this need of capital which has resulted into the mushrooming of different forms of microfinance institutions like SACCOs and individual money lenders all over the country. The major aim is to establish the capital linkage between formal financial institutions and the huge group of financially alienated small entrepreneurs who are also considered to be poor (SMEs policy, 2002).

Along with the above economic changes, the Tanzanian government established "the Government Economic Structural Adjustment Program" which aims at the withdrawal of the government from direct involvement in the economy. This policy enabled the private sector to grow and take much involvement in the provision of micro loans to micro entrepreneurs(Kessy, 2011).

To achieve these goals a broad range of strategies and actions in production and marketing need to be adopted. The NSGRP has indicated that the development of small and medium enterprises (SMEs) as one of the key strategies to attain the goals. Many studies have indicated that broad-based SMEs development provides an effective means for both reducing poverty and accelerating economic growth.

This is normally achieved not only by increasing incomes for entrepreneurs and workers, but also by creating demand for non-tradable goods, namely services and local products through links. It is this indirect effect on demand, and the associated employment creation in the small businesses in rural and urban areas, that appears to be the main contributing factor to the reduction of poverty (Mnenwa and Maliti, 2005).

As a result, many micro finance institutions with a view to provision of credits to micro entrepreneurs have been established. These include CARE International. The Promotion of Rural Initiative Development Enterprises (PRIDE 1994), Small Enterprises Development Agency (SEDA1994), Finance and Advance in Development Association (FAIDA1994), FINCA, Presidential Trust Fund (PTF). The banks include Akiba Commercial Bank (ACB), The National Microfinance Bank (NMB), The Dar es Salaam Community Bank (DCB), Mufindi Community Bank and Mwanga Community Bank.

The lending and borrowing activities from microfinance institutions have become popular throughout the country. However, it is still not clear from the research findings whether there is remarkable social and economic progress attained by the microfinance borrowers. It is from this controversy where the problem and the need for this study originated.

Millennium Development Goals are centered on the reduction of extreme poverty, promoting gender equality and empower women and the development and implementation of strategies for decent and productive work for the youth. It is hoped that micro finance institutions will assist in the achievement of these goals as they are a viable tool used in the eradication of poverty thus improving social and economic welfare of the people. The concept has become a top agenda item at the international fora and thus the United Nations has enlisted micro finance as one of the surest ways of meeting its millennium development goals if it is carefully implemented through sustainable institutions (Mawadza, 2005). It can be argued that the services provided by MFIs should promote livelihood by creating wealth or assets, increasing food security, reducing risk and variance in income and realize a reduction in rural to urban migration. Fisher et al (2002). In light of the above this paper seeks to establish whether the increase in the number of micro finance institutions has had an impact on the socio economic lives of people in Uganda.

Kampala District is capital city of Uganda with many micro finance institutions and banking institution. Microfinance in Uganda particularly in Kampala District began with NGOs and SACCOs (Savings and Credit Cooperative Organizations) in 1995 and has continued to grow with the increased success of microfinance internationally. However microfinance is still a relatively new concept in Kampala District, Uganda. Beginning in 1995, it was mainly linked to women and poverty alleviation. The government tried to convince commercial banks to support small and medium businesses within the district. It is against this background, the researcher attempts to examine the impact of microfinance institutions on the economic growth of Uganda.

1.2 Statement of the Problem

Microfinance institutions had been identified to be the major component to economic development. Betty, (2006) stresses that micro financing institutions have in a large extent help the development of the Ugandan community since microfinance institutions continue serving the rural people and transform themselves into community based microcredit units. Development practitioners and policy makers have as well identified efficient services of microfinance institutions as important for a variety of reasons; helping the poor to save manage their families, build their assets, enhance their income earning capacity, be able to develop small enterprises to generate income, increase on the Gross Domestic Product and thus leading to economic growth. Despite the availability of microfinance and the establishment of microfinance institutions in Uganda, a number of scholars argue that very little success has been yielded in terms of economic growth especially in Kampala District. Due to facts that many people borrow to start up business and fail to ever celebrate one year in business and therefore fail to pay back, loss their properties. It has been therefore the role of government and other stakeholders to address the challenges faced by microfinance institutions and improve on the economic growth within Uganda. It was in this regard that the researcher was motivated to carry out research about microfinance institutions and economic growth in Uganda.

1.3 Purpose of the Study

This study was to examine the impact of microfinance institutions on economic growth in Uganda in Kampala district in Uganda.

1.4. Objectives of the study

i. To establish the contributions of microfinance institutions towards economic growth
ii. To identify the challenges facing microfinance institutions in regard to economic growth
iii. To examine relationship between microfinance institutions and economic growth

1.5 Research Questions

i. What are the contributions of microfinance institutions towards economic growth?
ii. What are the challenges facing microfinance institutions in regard to economic growth?
iii. What is the relationship between microfinance institutions and economic growth?

1.6 Scope of the study

1.6.1 The geographical scope of the study was Kampala district in Uganda.

1.6.2 The Content Scope focused on microfinance institutions and economic growth.

1.6.3 The Time Scope covered a period of three months from February to May 2017.

1.7 Significance of the Study

The study will also help different stakeholders to develop and implement better strategies to improve on the performance of the microfinance institutions and overcome the challenges facing these institutions

It is expected that when this study is carried out and accomplished successfully, it will contribute substantial awareness on role played by microfinance towards economic growth

The study will also serve as a future data base for further researches that will be carried out as researchers can draw data from the findings which will have narrowed the existing gaps in microfinance institutions and economic growth

The study will be significant to the researcher in fulfilling one of the requirements for award degree of Bachelors in Business administration.

1.8 Definitions of Key terms

Microfinance institution

This was a financial institution specializing in banking-services for low-income groups or individuals. A microfinance institution provides account services to small-balance accounts that would not normally be accepted by traditional banks, and offers transaction services for amounts that may be smaller than the average transaction fees charged by mainstream financial institutions.

Economic growth

This referred to an increase in the capacity of an economy to produce goods and services, compared from one period of time to another. Economic growth can be measured in nominal terms, which include inflation, or in real terms, which are adjusted for inflation. For comparing one country's economic growth to another, GDP or GNP per capita should be used as these take into account population differences between countries.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The study reviewed literature from various scholars on the major variables of the study included; the contributions of microfinance institutions towards economic growth, challenges facing microfinance institutions in regard to economic growth, possible solutions to overcome the challenges facing microfinance institutions in regard to economic growth and relationship between microfinance institutions and economic growth.

2.1 Conceptual framework showing independent and dependent variable

The conceptual framework diagrammatically shows the relationship between the different variables in the study. The independent variable was perceived as microfinance institution and dependent variable was the economic growth.

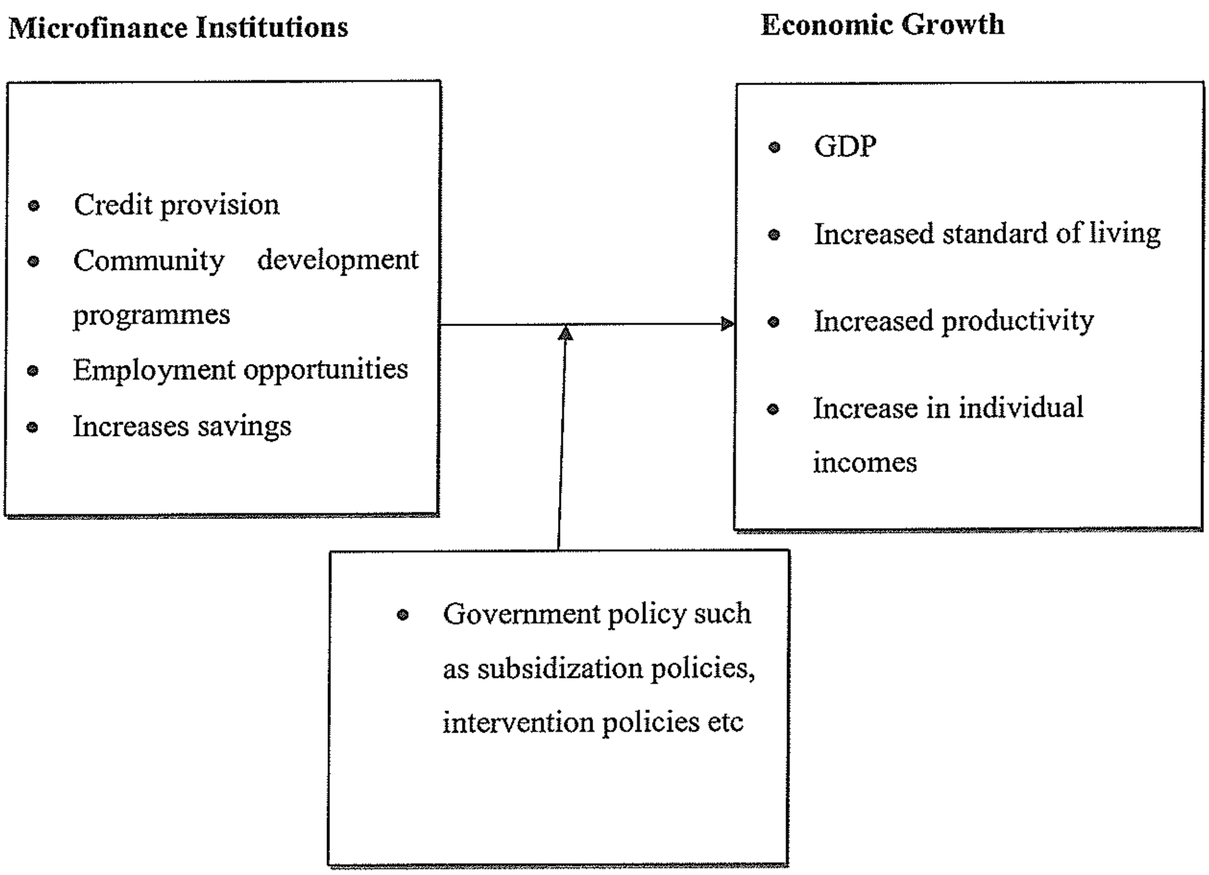


Figure1.1: Conceptual Framework

The independent variable was the microfinance institutions and it focuses on credit provision, community development programmes, employment opportunities and increases savings whereas the dependent variable concerns the economic growth and this involves GDP, increased standard of living, increased productivity, increase in individual incomes. Conceptually, economic growth is associated with microfinance institutions.

2.2 Definition of Concepts

This part reviewed the basic concepts of poverty as implied by small entrepreneurs and microfinance. The first part starts with the concept of poverty. The second part deals with the concept of microfinance and approaches of microfinance. The third part highlights on the link between microfinance and small entrepreneurs in the poverty reduction process. Finally, the conceptual framework is discussed based on three major components namely capital delivery and flow, achievements and impacts.

The Concept of Poverty

World Bank broadly defines poverty as a "pronounced deprivation in well-being (Khandker & Haughton, 2009). The poor are deprived of basic necessities in life, such as food, shelter, clothing, and clean drinking water. It also includes lack access to health care, quality education, and employment opportunities that are important in improving their human capital and facilitating social mobility. Due to the profound impact that poverty has on the poor's well-being, efforts have been made by various multilateral organizations, such as the United Nations, to address these problems and combat poverty. Through the years, different poverty reduction strategies and instruments have been developed in order to improve the poor's standard of living and help the people break the vicious cycle of poverty.

Whenever the issue of small entrepreneur is discussed in Tanzania, it inevitably talks about poverty because the small entrepreneurship is done by mostly poor people especially those who have no formal employment.

The definition of poverty has become ever controversial. According to Amis and Rakodi (1994), there are two main approaches to define poverty one which emphasizes on the absolute nature of poverty, while the other focuses on relative deprivation. In the absolute approach a minimum or basic poverty level is established and individuals below this level are designated to be in conditions of poverty. The second approach the relative deprivation approach defines poverty in relation to either average levels or societal norms. This approach attempts to relate the definition of poverty to its potential causes such as economic exploitation, vulnerability and problems of social marginality

2.3. Micro finance defined

Various definitions of micro finance have been given which give an insight to their aim, scale and nature of financial services provided by MFIs and those which describe the characteristics of the users of these financial services. Micro finance is defined as a range of financial services that seek to meet the needs of poor people both protecting them from fluctuating income and other shocks and helping promote their income and livelihoods (Rogaly, 1999). It has also been defined as the provision of financial services dealing with very small deposits and loans (Johnson & Rogaly, 1999). Adams and Graham (1984) define micro finance as the provision of financial services to low income clients who traditionally lack access to banking and related services. Micro finance involves the provision of financial services that aim to improve and protect the livelihoods of active economic agents who have limited access or are denied access to normal financial services as provided by banks and other formal financial sector institutions because of the small nature of their operations, geographical location, limited sources and volumes of their income base.

2.4 Meaning and Indicators of Social and Economic Growth

It was important to define the meaning of growth because the performance of the SMEs is going to be measured by their growth and sustainability, which means change from poor stage to a better stage. Sebstad et al.(1995) cited in Amina (2011) that there are different ranges of indicators of growth of SMEs. This study will use income of the SMEs employees, accumulation of their assets, ability to support their families and employment as indicator of socio-economic growth for the individuals while household income, household expenditure on food, education and health and fixed assets accumulation will be used as indicator of socio-economic growth of owners of SMEs. In this study the above parameters will be explored as criteria for the progress of SMEs and owners.

2.5 Contributions of microfinance institutions towards economic growth

Micro finance is a movement whose objective is a world in which as many poor and near poor households as possible have permanent access to an appropriate range of high quality financial services (Adams & Graham, 1984). Traditionally banks have not provided financial services such as loans to clients with little or no cash income mainly because costs incurred in processing loans are too high. In addition poor people have few assets that can be secured by a bank as collateral. One may argue that they have land but most of them do not have title to it so that they can pledge it as collateral. This leaves banks with no recourse against defaulting borrowers. Because of the difficulties when poor people borrow, they often rely on relatives or local money lenders whose interest rates are high and are accused of usury. It is therefore the role of micro finance institutions to ensure that the poor also have access to finance for productive purposes. Thus the role of micro finance institutions can be summarized as follows:

- ✓ Improve financial security
- ✓ Facilitate growth of enterprises
- ✓ Allow storage of excess liquidity for future use
- ✓ Improve the livelihoods of low income earners and those of their dependants
- ✓ Help people of low income reduce risk, improve management, realize high return on investments.

Social change through empowering women and changing gender relations in the community and households (Robinson, 2001)MFIs can help poor people to work their way out of poverty by delivering financial services through appropriate mechanisms (Fisher, et al., 2002). He argues that micro credit is necessary but not sufficient for micro enterprise development and promotion. They state that the success of micro enterprises depends on the whole range of resources for example natural resources, human, and financial.

Wooler (2004) states that financial intervention has an impact on social relations partly through their economic effects. In many instances implementers of credit schemes have claimed that their work will lead to progressive social change, for example empowering women and changing gender relations in the households and in the community.
Robinson (2001) state that financial services are not the panacea for poverty alleviation but other strategies are needed for the very poor who need food and employment before they can make use of financial services. Formal financial institutions are regulated and supervised, offer a wide range of financial services and control a branch network and can extend across the country and internationally. However they have proved reluctant to adopt social missions and due to their

high cost of operation often cannot deliver services to poor or remote populations (Karlan & Valdivia 2009).

Social Intermediation

Fisher et al.(2002) describes social intermediation as the means to enable delivery of a technical solution. Ledgerwood (1999) regards social intermediation as a way of building the human capital required for sustainable financial intermediation with the poor. Social intermediation helps in poverty reduction because it develops the

economy, empower individuals, building democratic peoples' organizations and changing wider systems within the society.

This is supported by Johnson and Rogaly (1997) who state that in order to design services which are relevant and useful to the poor people, NGOs should understand local economic and social structures and also macro level trends. This means that social intermediation help those who structure and deliver services to understand better the services needed and that can be of benefit.

Provides access to funding

Ashe, J. (2000) argues that typically, the less privileged acquire financial services such as loans through an informal relationship, which might prove to be costly and unreliable. In addition, most banks do not view the unprivileged as viable clients due to employment history or unstable credit and lack of financial security. Microfinance institutions often dismiss such requirements by providing small loans at flexible rates.

Encourages self-sufficiency and entrepreneurship

Campion, A. & White, V. (1999) note that unprivileged people might have profitable business plans, but they lack sufficient funds to meet the start-up costs. These loans give clients enough capital to get their plans off the ground and then begin turning revenue. They can pay off their loans in time then continue to gain revenue from the business indefinitely.

Manages risk

Christen, R. (2000) stresses that microfinance can give unprivileged people enough capital stability, which gives them financial security from sudden monetary problems. Also, savings allow for improved nutrition, reduced illness, better living conditions and educational investment.

Empowers Women

McKean, C. (2005) argues that microcredit also empowers women since they are the major beneficiaries. In the past, women were not able to participate in economic activities. Microfinance institutions now provide women with the capital they require to start business projects. This gives them more confidence and allows them to participate in decision making, thereby encouraging gender equality.

Increased Well-Being

When individuals have greater access to financial resources and services, they obtain greater decision-making power regarding money and their households. Where this power lies may have significant implications for families and communities. Cheston and Kuhn (2002) argue that while households typically contribute all of their financial resources to their families. Further evidence of this distinction is provided by a World Bank report that indicates individuals contribute approximately 60 percent of their income to their families. According to Mayoux (2001), when individuals are given decision-making power, they generally make decisions that will be optimal for their families. As a result, individuals will tend to make financial decisions that will promote nutrition, health and literacy within their families, whereas some may allocate some of their resources towards activities that are not helpful (and sometimes harmful) to the family.

Social and Political Empowerment

Mayoux, (2001) cites that social and political empowerment provides the most indirect benefit to individuals. It is a result of individuals' increased economic opportunity and control over their own finances, which in turn provides individuals with new skills, information and organizational capacity building (i.e. an expanded network of people). As a result of social and political empowerment, they are able to improve their status within their community. Together with other microfinance group members, they are able to work together to promote increasing levels of gender equality

Economic Empowerment

According to UNCDF Report (2002), the ability to create their own, better, employment opportunities increases the income of individuals. This increased income enables them to secure greater levels of decision-making power within the family unit (UNCDF Report, 2002). Furthermore, increasing their income also increases overall household income, allowing families to consume items and purchase services that they previously would not have been able to afford.

2.6 Challenges facing microfinance institutions in regard to economic growth

Structural challenges.

Robinson (2001) claims that subsidized rural credit programmes often do not reach the poor. The credit subsidies become transformed into political pay offs for rural elites and the programmes typically have high defaults and high losses. It is also within Robinson's view that programmes provide loan products which are not appropriate for the needs of the poor.

Sharif et al. (2001) warns against this and recommends that a proper market research and intelligence review be carried out to avoid intervention that will displace and contradict available financial services.

They also point out that the informal finance poses a threat to formal structures because of their innovativeness and adaptability.

Karlan and Valvidia (2009) argues that in the developing countries and particularly in the rural areas many activities that would be classified in the developed world as financial are not monetized. Poor people have very little money but circumstances often arise in their lives in which they need money or things that money can buy. Thus micro finance will be considered as a tool for correcting such problems.

Policy and regulatory challenges.

Policy and regulatory environment also poses problem to MFIs. White (2006) noted that although there is general consensus on the need for favourable policy environment, there is no current consensus on how to create this environment. They suggest that the framework should be flexible enough to permit unregulated MFIs to evolve.

It is argued that while much progress has been made in developing a viable, commercial microfinance sector, several issues remain which need to be addressed before the industry will be able to satisfy massive worldwide demand. Challenges include:

- ✓ Inappropriate donor subsidies
- ✓ Poor regulation and supervision of deposit taking MFIs
- ✓ Few MFIs that meet the needs for savings or insurance
- ✓ Limited management capacity in MFIs

Perceived High Risk of Micro Entrepreneurship and Small Businesses

Churchill, C. (2007) notes that because micro entrepreneurs usually have no collateral to offer microfinance providers, no alternate source of income, and little if any formal education or training in the area of their business, micro entrepreneurs are considered high risk ventures and microfinance institutes (MFIs) are forced to compensate for this by charging interest rates . This issue harms the microfinance sector because MFIs will be reluctant to enter the market. Fortunately, the challenge can be resolved through the idea of group lending (social collateral), which is practiced by Grameen Bank (a leading microfinance bank).

High Costs Involved in Small Transactions/Microlending

Fernando, (2006) argues that the small size of micro enterprises increases the transaction cost for MFIs because they cannot process micro loans in bulk (unless good management information systems are in place). Since the disparate nature of these borrowers denies MFIs the benefit of economies of scale, they are forced to cover their costs through high interest rates. According to a study conducted by Asian Development Bank, microfinance providers in the Asia-Pacific region charge interest rates ranging from 30 to 70% a year, which is much higher than rates offered by commercial banks However, there are instances where the interest rates charged were too low for the MFIs' sustainability.

There is, however, a possible solutions to this problem by improving the technology model used by microfinance institutes, their operational costs can be significantly lowered and plenty of other advantages can be gained.

Lack of Funds for MFIs to Pass on to the Poor

Clark, J. (2001) notes that capital availability for microfinance is hardly a problem owing to the rapid growth in the microfinance sector, which has been fueled by attention from the media and development agencies. Even though there are plenty of financing options available for MFIs, there is an emerging shortage of money because of the current economic crisis across the globe. Another reason for this shortfall is the lack of awareness of funding sources by MFI managers.

Difficulty in Measuring the Social Performance of MFIs

Dichter, T. (2007) argues that microfinance is delivering the economic returns its proponents promised, but there are only a handful of tools available that measure the social return of microfinance. To add to the problem, the tools use proxies to estimate the amount of poverty and social change surrounding micro entrepreneurs. This makes the gathering of funds a challenge because donors may question the actual impact made my microfinance.

Mixing Charity With Business

Since credit without strict discipline is nothing but charity (Professor Yunus), if microfinance providers fail to protect themselves against loan delinquency, they will, in effect, prioritize social objectives at the expense of financial sustainability. Improper delinquency management is a result of inadequate implementation of corporate governance principles, and formal as well as semi-formal microfinance providers often suffer from this. As a result, looser controls over microfinance deals will lead to higher default rates. Read more about the difficulty in mixing charity with business.

Lack of Customized Solutions for the Poor

Inappropriate targeting of poor households by microfinance programs is a common problem because MFIs fail to understand the varied needs of micro entrepreneurs. MFIs must spend time in the field with their clients and his/her business, and then use this research to develop customized microfinance tools for each micro entrepreneur. Generalized solutions may work in banks, but microfinance providers need to serve the varied needs of individuals in each micro market segments.

Lack of microfinance training for Human Resource in Microfinance Institutions

Gulli, H. (2008) argues that working in the microfinance sector is a different ball game compared to the traditional financial sector. For instance, microfinance officers and volunteers need to talk a different language, build lasting relationships with individual micro entrepreneurs, understand the unique needs of the poor, evaluate the borrower's sustainability, and grasp the cultural nuances of the borrower's communities. Of course, all this needs to be done by large financial firms as well, but the needs and characteristics of the two markets are very different. It's no surprise microfinance providers need special training to ensure they avoid problems such as intimidating or under-serving clients.

Poor Distribution System of Microfinance Institutions and lack of information about microfinance investment opportunities

Hatch, J. (2002) notes that microfinance providers may be complacent with their client base in certain cities and feel no economic need (ignoring the social need to eradicate poverty) to spread out their distribution system to cater to the poorest of households. Secondly, micro entrepreneurs are sprawled over large geographical areas, often in remote places, which often makes them inaccessible to MFIs. This is a slight problem because even though there are over 10,000 MFIs around the world, they may not know about the existence and needs of certain micro entrepreneurs.

Dual mission of Microfinance Institutions to be Financially Sustainable as well as Development Oriented

Howes, M. & Sattar, M. (2002) note that microfinance providers tend to forget their main objective is social development and not profit creation. The principle of 'one micro entrepreneur one micro loan' is overlooked by profit-hungry MFIs who end up targeting the same individual for many loans and cause multiple borrowing(also known as credit pollution). This is a major problem because at the end of the day, that individual gets burdened by mounting interest payments and is pushed deeper into the folds of poverty. Poor governance on the side of MFIs as well as the micro entrepreneur are to blame for this.

2.7. Measures to reduce challenges

MFIs make use of social collateral to reduce lending risk. According to Johnson and Rogaly (1997) Grameen Bank in Bangladesh pioneered peer group monitoring. The peer group monitoring is characterized by people selecting themselves into groups that are characterized by similar economic background. The group is ultimately responsible for repayment if the individual defaults.

In Indonesia government sponsored banks have used character reference and locally recruited lending agents. Johnson and Rogaly (1997) assert that both methods can be seen as attempts to lower screening costs by using local insider information about credit worthiness of the borrowers.

Micro loans are given for a variety of purposes but frequently for micro enterprise development. Because of the industry's focus on the poor, MFIs often use non-traditional methodologies such as group lending or other forms of collateral not employed by the formal financial sector (Microfinance Information exchange, 2010).

2.8. Criticisms of micro finance

Researchers suggest that research on the effectiveness of micro finance as a tool for economic development remains mixed in part owing to the difficulty in monitoring and measuring its impact. It is also criticised on the grounds that micro finance is delivered in the absence of other micro finance services such as savings, remittances and insurances which are also critical measures of the well being of society.

Dean Karlan of Yale University studied the impact of micro finance. The results of his study suggest that many of the benefits from microcredit are in fact loaned to people with existing businesses and not to those seeking to establish new ones. He also discovered that the increase in income that went up in business was true only for men and not for women.

2.9 Relationship between microfinance institutions and economic growth

The study is guided by Nimal Fernando (2006) theory on Microfinance and the theory of Dunn, Elizabeth (2008) on micro-enterprises and risk impacts. Nimal does not recognize lasting peace as achievable unless large groups find ways to break out of poverty. To Nimal, micro-credit is one such means. Development from below serves to advance democracy and human rights. This makes micro-credit an important liberating force in societies where the vulnerable have to struggle against repressive social and economic conditions. The prospect of achieving both reparation and development is realistic if micro-credit or microfinance is indeed as salutory as its many admirers believe. That individuals benefit from receiving money is axiomatic. When financial institutions profit from such transactions with individuals, they too regard themselves as better off. When enough people and individuals join this new expansion of the banking business, gains spread beyond parties to the deals and for this, many observers continue to believe that gains rooted in small banking transactions change the world. Microfinance institutions counter poor access to credit from conventional banks by the poor, thus should not charge high interest.

According to Dunn (2008), if well planned and well resourced with long lead times microfinance frameworks are explicitly developmental. Behind all microfinance programs is the assumption that intervention will change human behaviours and practices in ways that lead to the achievement or raise the probability of achievement of desired outcomes. Microfinance programmes and institutions have become an increasingly important component of strategies to reduce poverty or promote micro and small enterprise development, although their achievements remain partial and contested. At one extreme, microfinance has very beneficial economic and social impacts, Hulme (1996) but on another extreme, microfinance does not assist the poorest, as was so often claimed.

Microfinance Institutions subsequently provide different services to clients, most commonly in the form of loans. These services lead clients to modifying micro-enterprise activities resulting into increased or decreased micro-enterprise income. The modified level of household economic security leads to modifications in social and political relations and structures. The complexity of such chains provides the assessor with a range of choices about which link to focus. Microfinance, distinguishes between two main schools of thought, the intended beneficiary school and the intermediary school.

The intended beneficiary school, building on the ideas of conventional evaluation, seeks to get as far down the impact chain as is feasible in terms of budgets and techniques and to assess the impact of interest on intended beneficiaries. The intermediary school focuses purely on the beginning of the chain and in particular on changes in the MFI and its operations. Generally, two key variables are focused on: institutional outreach and institutional sustainability (Yaron, Benjamin and Piprek, 1997). If both outreach and sustainability have been enhanced then the intervention is judged to have a beneficial impact as it has widened the financial market in a sustainable fashion as interest is relatively affordable. This is based on the assumption that such institutional impacts extend the choices of people looking for credit and savings services and that this extension of choice ultimately leads to improved micro-enterprise performance and household economic security.

While this assumption can be supported by theoretical frameworks, if a set of further assumptions are made about perfect competition and other factors, it is an assumption which has proved invalid in a number of experiences. In addition, it will not reveal borrower cross-financing' of loans which may threaten the long term viability of an MFI.

The intended beneficiary school makes fewer assumptions about the impact chain and is better able to distinguish 'who' benefits and 'how'. It is, however, demanding in both methodological and cost terms. The intermediary school usefully incorporates notions of sustainability and provides a methodological framework that can be operated largely with pre-existing data. It is, though, very weak on 'who' benefits and 'how'. Possible ways of strengthening the intermediary school approach have been suggested by Feinstein (1997) through the analysis of borrower transaction costs. He proposes the collection of longitudinal data on borrower's transaction costs, to assess whether an MFI has benefited borrowers, has reduced their total costs for accessing finance. This offers a potential bridge between the two main schools, if data on 'who' borrowers are is also collected.

Following on from the design of a model of the impact path comes the choice of the unit(s) of assessment (or levels of assessment). Common units of assessment are the household, the enterprise or the institutional environment within which agents operate. Occasionally studies have attempted to assess impact at an individual level (Gometz and Gupta, 1995), but this is relatively rare and has to take a qualitative focus. Through a household economic portfolio model (HEPM) the latter seeks to assess impacts at household, enterprise, individual and community levels and thus produce a fuller picture of overall impacts.

2.10 Related Literature

Laws, regulation and supervision

Microfinance activities in Morocco are regulated under the Loi relative au Micro credit N° 18-97 of 1 April 1999 and its modification of 6 Mai 2004, the Loi N° 58-03. MFIs operate in Morocco as NGOs under the corporate law of Dahir N° 1-58-376 from 3 joumada 1378 (15th November 1958) accredited by the Ministry of Finance. Besides Morocco, there is only Tunisia in the MENA region which has special microfinance laws and regulations. The law defines that micro credits are considered as any loan granted to help people with limited economic resources to set up and develop their own production or service activity, with the aim of ensuring their economic viability.

The modification of Article 2 of 2004 adds that these micro credits could be used to buy, build or renovate housing and to make electric installations or to ensure the supply of drinking water in homes. Regarding the credit amount, a limit of 50,000 MDH (ca. 4.500 Euro) is set. Moreover, Morocco has regulated that MFIs may charge interest rates for their credits. Currently the interest rate lies at 14.19% in Morocco (for comparison, the interest rate of Bangladesh lies around 40%). Article 3 defines the range of microfinance products and services, as it prohibits MFIs from taking any deposits. The development of micro savings – as observed in other countries – is therefore still missing in Morocco. Furthermore, the law prescribes that financial projections of all Moroccan MFIs have to be sustainable and viable after a period not exceeding five years from the date of authorization. Article 6 also stipulates the social and financial orientation of MFIs, as long as they are not against national programs of economic integration.

The law clear prohibits any labor union or political action from MFIs. The Moroccan Government plays an important role in the microcredit sector, both through the law and in terms of important financial support. The government fund Hassan II facilitates the funding of many

MFIs in addition to international donor support such as from USAID, the European Commission or the KFW. MFIs and their activities are monitored by the Ministry of Finance, responsible of the promulgation of necessary decrees. The central bank, the Bank Al- Maghrib (BAM), has supervised the sector since 2007. "A unique characteristic of the Moroccan microcredit sector is the commitment of local banks: Commercial banks are important backers of the industry, having created two of the largest MFIs and funding 85% of the sector's assets in 2008". MFIs are obliged to adhere to regular accounting practices and to conduct a yearly external audit, reporting its outcomes to the Ministry of Finance. In addition it is mandatory to have also internal committee monitoring the activities and being responsible for the annual report of the MFI. This should increase the transparency of the sector. Furthermore since 2006, MFIs are allowed to grant credits, but in contrast to traditional financial institutions, these exclude VAT (Article 17 of the microcredit law) in order to support the development of the sector and to create new jobs. Another important part of the microfinance sector in Morocco is the Conseil Consultatif du Microcrédit (advisory council), established under the law N°18-97, Article 19 and 20 which has to be consulted on all matters related to the provision and development of microcredits.

The law had been adapted further according to developments of the microfinance sector. The most important modifications in the law took place in 2003's alterations regarding the purpose of the loan (e.g. for housing), in 2007 through the introduction of micro insurance products, and in 2011 due to additional changes in the legal form of MFIs which allowed them to convert into limited liability companies. Since 2012 MFIs may also operate as for profit non-banking financial institutions.

Since 2001 the Féderation Nationale des Associations de Microcredit (FNAM) has played a major role in the microfinance sector in Morocco. MFIs are required to join the FNAM, who is responsible for the coordination of the microfinance sector. Further objects of the FNAM following Article 5 of its Constitution are:

• Establishing rules of conduct related to any microcredit activity and submission for approval by the Minister of Finance

• Ensuring compliance of the microcredit law and rules of conduct by its members as well as informing the Ministry of Finance of any breach

• Proposing to the Ministry of Finance any action to promote the development of microcredit

• Creating and managing any common service and conducive to the development of microcredit's.

The FNAM has however faced internal problems and limited resources. Especially during the crisis, they were not successful in representing the microfinance market and its MFIs.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Research Design

The study applied an explanatory research design to reflect aspects of perception, feelings, experiences, facts and emotional feelings of the study respondents in finding out the relationship between micro finance institutions and economic growth in Kampala District Uganda. Both quantitative and qualitative methods were used in data collection and analysis and general information on the subject matter was collected from the different stakeholders involved in the study. Qualitative design involved in-depth interviewing of the top authorities of Kampala District. On the other hand, the quantitative design involved use of close-ended questionnaires which were issued to the selected microfinance officials as the method is convenient for them to fill during thier free time.

3.2 Target Population

The study took place in Kampala district, Uganda. The district was purposely selected because of its' convenient location and also bore the necessary and required study elements. The study population involved 58 participants where 10 top authorities of the Institution, 15 officials from selected microfinance institutions , 8 officials from the Ministry of Trade and 25 local people who were found available.

Table 1: Showing Research Population and Sample Size

Type of population	Population Target	Sample Size
Top authorities of Kampala district	10	8
Officials from selected Microfinance institutions	15	14
Local people or community members	25	22
Ministry of Trade officials	8	6
Total	**58**	**50**

Primary data (2017)

3.3 Sample Size

A sample size of 50 respondents was determined through purposive and random sampling methods. This was so because the nature of data to be generated required different techniques for better understanding of the research problem under investigation. Besides this the approach was also commonly known for achieving higher degree of validity and reliability as well as elimination of biases as per Amin (2005).

The Sloven's formula (1978) was used to determine the minimum sample size.

$$n = \frac{N}{1+Ne^2} = n = \frac{58}{1+58(0.05)^2} = 50 \text{ respondents}$$

n = sample size

N = the population size

e = level of significance, fixed at 0.05

3.4 Sample Technique

The sample were purposively and randomly selected. The Officials from selected Microfinance institutions was purposely selected because they head the selected departments and thus had knowledge about the relationship between microfinance institutions and economic growth in Uganda. The local people or community members were randomly selected to give each an equal chance of representation. All respondents are assumed to have vital information on the subject matter of the research. Respondents who are willing to participate were approached.

3.5 Sources of Data

3.5.1 Primary Data

This was obtained through use of self- administered questionnaires and interviews to the respondents.

3.5.2 Secondary Data

This was acquired from text books and other related works of outstanding scholars such as published magazines, written data sources including published and unpublished documents, company reports and internet sources which are all referred to, to provide more information on the impact of marketing strategies on organizational performance.

3.6 Research Instruments

3.6.1 Interviews

The researcher organized key informant interviews with the top authorities of Kampala district who will enrich the study findings. The researcher therefore has to interact with the respondents, face to face and ask them relevant questions to the study. The method was used purposely because it provides for a systematic flow of information due to the order of questions and it also helped in covering information that would have been skipped in the questionnaires.

3.6.2 Questionnaires

Both open and close ended questionnaires will be used in the collection of data and these will be distributed to the selected local people or community members and other respondents to provide answers. The instrument is purposely selected because it seeks personal views of the respondents and thus enabled the respondents to use their knowledge in providing a wide range of data as they would never shy away in any way.

3.7 Data Analysis

The study explained, described, and presents the findings basing on the specific objectives of the study and research questions, where data analysis were initially done through sketchy and generalized summaries of the findings from observation and conclusions in the process of data collection. Data analyses was done using simple statistical percentages and frequencies and thereafter were presented in charts.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.0 Introduction.

This chapter covered the analysis, presentation and discussion of the findings. The data is presented in form of Tables and graphs. Where data could not be quantified, it is explained. Presentation of findings has been organized in accordance with the study objectives.

4.1 Demographic factors.

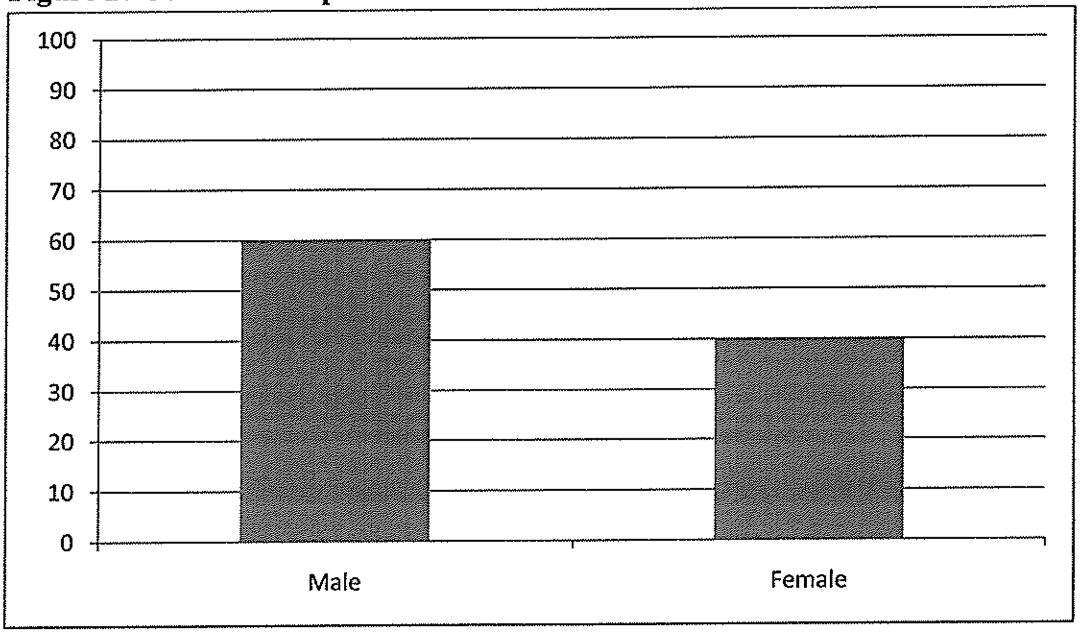
Table 2: Gender of respondents

Gender	Frequency	Percentage
Male	30	60
Female	20	40
Total	50	100

Source: Field data 2017

Out of the 50 respondents 30 (60%) were males and 20(40%) were females. This shows that the male respondents formed the majority. In contacting a few of the employees the researcher discovered that the statistics above corresponds to the current situation in the microfinance.

Figure 2: Gender of respondents



Out of the 50 respondents represented in the figure, 30(60%) were males and 20(40%) were females. This shows that the male respondents formed the majority. In contacting a few of the employees the researcher discovered that the statistics above corresponds to the current situation in the business.

Table 3: Age of respondents

Age	Frequency	Percentage
20-30	7	14
30 – 40	15	30
40 – 50	18	36
Above 50 years	10	20
Total	**50**	**100**

Source: Field data 2017

In the above table, 18(36%) were between the age group of 40-50, and then 15(30%) were between 30 – 40 age group, followed by the above 50 years of age with 10(20%) and finally those between 20-30 years with 7(14%). This implied that the majority of the respondents were between 40–50 and the minorities were between 20- 30 years.

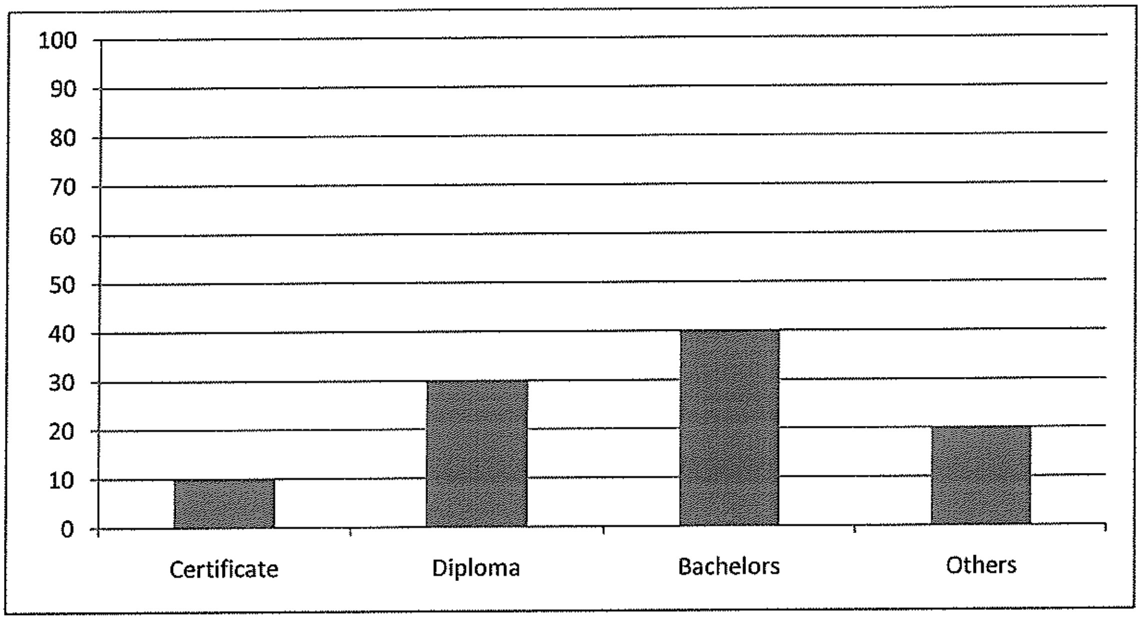
Table 2: Level of education

Level of education	**Frequency**	**Percentage**
Certificate	5	10
Diploma	15	30
Bachelors degree	20	40
Others	10	20
Total	**50**	**100**

Source: Field data 2017

From the table above, it can be observed that 5 (10%) of the respondents had a certificate, 15 representing 30% had diploma, 20 representing 40% had bachelors degree, while 10 representing 20% belonged to other qualification. It can therefore be concluded that to be employed or participate in the microfinance institution need have at least a qualification.

Figure 2: Level of education



In the figure above, it can be observed that 5 (10%) of the respondents had a certificate, 15(30%) had diploma, 20(40%) had bachelors degree, while 10(20%) belonged to other qualification. It can therefore be concluded that to be employed in microfinance institution you need have at least a qualification.

Table 3: Work experience

Working experience	**Frequency**	**Percentage**
1-4 years	10	20
5-9years	20	40
10-14years	12	24
Above 15 years	08	16
Total	50	100

Source: Field data 2017

In above table, the respondents who had working experience of 1-4 years were 10(20%), those with working experience of 5-9years were 20(40%), then those with 10-14years working experience were 12(24%) and those with above 15 years working experience were 08(16%). This implies that the majority of the respondents had a working experience of 5-9years and the minority had a working experience of above 15 years.

4.2 The contribution(s) of micro-finance institutions towards economic growth.

The first objective of the study was to examine the contribution of micro-finance institution towards economic growth.

Table 6; Shows the contribution of micro-finance institution

Contributions	Strongly Agree (%)	Agree (%)	Disagree (%)	Strongly Disagree (%)	Total (%)
Provide access to funding	55	25	13	07	100
Encourages self-sufficiency and entrepreneurship.	50	26	14	10	100
Empowers women.	45	25	20	10	100
Increased well-being	40	35	15	10	100
Social, political and economic empowerment.	47	23	16	14	100

Source: Primary Data, 2017.

55% of the respondents strongly agreed, 25% agreed, 13% disagreed and 7% of respondents strongly disagreed that provide access to funding.

Encourages self-sufficiency and entrepreneurship.50% of the respondents strongly agreed, 26% agreed to this. 14% disagreed and 10% strongly disagreed.

45% of the respondents strongly agreed, 25% agreed, 20% disagree and 10% of respondents strongly disagreed with empowers women.

From the table above, 40% of the respondents strongly disagree, 35% agree that increased well-being, this enables central government to fund the item listed in entire plan, 15% disagreed and 10% strongly agree.

Social, political and economic empowerment, 47% of the respondents strongly agreed,23% disagreed, 16% disagreed and 14% strongly disagreed.

4.3 Challenges facing MFIs towards economic growth.

The second objective of the study was to examine the challenges facing MFIs towards economic growth in Uganda Kampala City.

Table 1: Showing response on the challenges facing MFIs in Kampala.

Challenges facing MFIs.	**Frequency**	**Percentage (%)**
Perceived high risk of micro-entrepreneurship and small business	08	16
High costs involved in small transactions	10	20
Inadequate funds for MFIs to pass on poor	12	24
Difficulty in measuring social performance of MFIs	15	30
Poor distribution systems of MFIs and lack of information about micro finance investment opportunities	05	10
Total	**50**	**100**

Sources: Primary data, 2017

From table 4.4.1 above, 08 of respondents supported Perceived high risk of micro-entrepreneurship and small business that is indicated by 16% .According to Churchill, C. (1997) notes that because micro entrepreneurs usually have no collateral to offer microfinance providers, no alternate source of income, and little if any formal education or training in the area of their business, micro entrepreneurs are considered high risk ventures and microfinance institutes (MFIs) are forced to compensate for this by charging interest rates. This issue harms the microfinance sector because MFIs will be reluctant to enter the market.

High costs involved in small transactions had 10 of respondents indicated by 20% who agreed with it. Micro lending. Fernando, (2006) argues that the small size of micro enterprises increases the transaction cost for MFIs because they cannot process micro loans in bulk.

Inadequate funds for MFIs to pass on poor. 12 of respondents agreed with it presented by 24%. Clark, J. (1991) notes that capital availability for microfinance is hardly a problem owing to the rapid growth in the microfinance sector, which has been fueled by attention from the media and development agencies.

Difficulty in measuring social performance of MFIs had 15 respondents supporting it presented by 30%.Dichter, T. (1997) argues that microfinance is delivering the economic returns its proponents promised, but there are only a handful of tools available that measure the social return of microfinance.

Poor distribution systems of MFIs and lack of information about micro finance investment opportunities 05 of the respondents strongly agreed presented by 10%.According to Hatch, J. (2002) notes that microfinance providers may be complacent with their client base in certain cities and feel no economic need (ignoring the social need to eradicate poverty) to spread out their distribution system to cater to the poorest of households.

4.4 Solutions to the challenges facing MFIs

Table 2: Showing response on the challenges facing MFIs towards economic growth.

Solutions to the challenges facing MFIs	**Frequency**	**Percentage (%)**
Ensure the quality of MFIs	20	40
Proper training for human resource in management and leaderships	10	20
Improved technology	04	08
Appropriate loan size	06	12
Launching of regulatory frame work and supervisory	10	20
Provide financial services to large numbers of low-income persons.	**50**	**100**

Sources: Primary data

From table 4.5.1 above, presents the findings on the solutions to the challenges facing MFIs. Ensure the quality of MFIs had 40% presented by 20 of the respondents who strongly agreed,

.Markowski (2002,) states they have a dual mission: a social mission “to provide financial services to large numbers of low-income persons to improve their welfare”, and a commercial mission “to provide those financial services in a financially viable manner”.

Proper training for human resource in management and leaderships 20% agreed indicated by 10 of respondents. According to (Morduch, 2004). If MFIs are to meet their overall development objectives then they need to ensure their human capital are trained about financial sustainability and outreach of financial services designed to meet the needs of those most in need of such services.

04 of respondents agreed with improved technology to solve their challenges in MFIs this was indicated by 8%. “it is now time to innovate and design services that maintain high standards of financial performance, but which set new standards in poverty impact” (2002,). Markowski (2002) states that CGAP29 estimates that only about 5% of MFIs worldwide are financially sustainable while the IMF (2005) puts the figure at only 1%, so this is a huge issue for the microfinance sector to deal with risk in MFIs.

Appropriate loan size had 12% of the respondents who strongly agreed, indicated by 06 respondents. (Havers, 1996) for clients matching their needs, realistic interest rates, savings as a prerequisite, regular, short and immediate repayment periods and achieving scale can contribute to sustainability If these measures to achieve sustainability are put in place, while focusing on the needs of the poorest, then both the social and financial objectives can be achieved.

Launching of regulatory frame work and supervisory.10 of the respondents strongly agreed, indicated by 20%.Acha. A.I. (2012), maintain that the point of divergence between the community banks and their microfinance successors is in those which the regulatory guideline allows to own them.

In addition to individuals, group of individuals, community development associations, private corporate entities which could own community banks, commercial banks and foreign investors could also own microfinance bank.

4.5 The relationship between micro-finance and economic growth.

The third objective of the study was to identify the relationship between micro-finance and economic growth in Uganda Kampala city.

Table 9; Showed the relationship between micro-finance and economic growth.

Relationship	Strongly Agree (%)	Agree (%)	Disagree (%)	Strongly Disagree (%)	Total (%)
Helps to achieve long term goal and development.	60	20	10	10	100
Increases the profit level.	50	20	15	15	100
Modifies micro-enterprise.	40	25	20	15	100
Helps to reduce poverty among households.	40	30	12	18	100
Easy Resource access and mobilization.	40	32	16	12	100

Source: Primary Data, 2017.

Helps to achieve long term goal and development had 60% strongly agree that its one of link between micro-finance and economic growth, 20% agreed, 10% disagreed and 10% strongly disagreed.

50% strongly agreed with Increases the profit level, 20% agreed, 15% disagreed, 15% strongly disagreed with it as one of relationship between micro finance and economic growth in Uganda Kampala city.

Modifies micro-enterprise had 40% of respondents who strongly agreed, 25% agreed, 20% disagreed and 15% strongly disagreed.

40% of respondents strongly agreed, 30% agreed that Helps to reduce poverty among households, 12% disagreed and 18% strongly disagreed with it.

40% strongly agreed, 32% agreed that easy resource access and mobilization then16% disagreed, 12% strongly disagreed as one of relationship between micro finance and economic growth.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter dealt with the conclusion and presents recommendations of the study. Conclusions are made on the Micro-financial institutions on economic growth in Uganda Kampala city. It also suggested areas for further research.

5.1 Summary of findings

The study was to identify the contributions of MFIs, 34% strongly agreed that provide access to funding as main source of contribution of micro finance followed by, 26% agreed with Encourages self-sufficiency and entrepreneurship followed by empowers women had 24% of respondents who agreed with it, then increased well-being had 10% of respondents who agreed with it as social, political and economic empowerment had 6% of respondents who agreed with this.

In addition the study was to examine the challenges facing MFIs towards economic growth were; Difficulty in measuring social performance of MFIs had 15 respondents supporting it presented by 30%.followed by inadequate funds for MFIs to pass on poor. 12 of respondents agreed with it presented by 24%.followed by High costs involved in small transactions had 10 of respondents indicated by 20% who agreed with it then 08 of respondents supported Perceived high risk of micro-entrepreneurship and small business that is indicated by 16% and lastly Poor distribution systems of MFIs and lack of information about micro finance investment opportunities 05 of the respondents strongly agreed presented by 10%.

Different solutions were identified to overcome the above challenges these included; Ensure the quality of MFIs had 40% presented by 20 of the respondents who strongly agreed, followed by Proper training for human resource in management and leaderships 20% agreed indicated by 10 of respondents and Launching of regulatory frame work and supervisory.10 of the respondents strongly agreed, indicated by 20%.then Appropriate loan size had 12% of the respondents who strongly agreed, indicated by 06 respondents and lastly 04 of respondents agreed with improved technology to solve their challenges in MFIs this was indicated by 8%.

5.2 Conclusion

The study assessed the effect of micro-finance on economic growth in Uganda. It answered three study objectives that included: identify the contributions of micro finance, examine the challenges facing MFIs and relationship between micro finance and economic growth.

As regards challenges, Difficulty in measuring social performance of MFIs and Inadequate funds for MFIs to pass on poor both had 30% of respondents followed by, High costs involved in small transactions with 24%, Perceived high risk of micro-entrepreneurship and small business with 20% and Poor distribution systems of MFIs and lack of information about micro finance investment opportunities with 16% of respondents respectively.

It was established that resources were in place but there was need for more follow-up by management to ensure MFIs contributes towards economic growth.

5.3 Policy Recommendations

The financial, accounting and reporting procedures need to be enhanced this can be made possible by allowing further training for the staff in the accounts sections and close supervision of the audit department on the activities of accounts and finance through regular audits and checkup.

There is need for more resources to be mobilized and improvement in the performance of MFIs and emphasis should be made on procedures already in place this requires the active involvement of both the internal Auditors and the procurement manager.

There is need to emphasize the budgetary control measures to enable proper financial reporting in Uganda Kampala city.

There is need for periodic auditing and inspection on how duties are performed by staff at MFIs.

There is also need to change on management of institution to help in bring new ideas at work place that is based on information technology and innovations at micro-financial institutions.

Coming up with risk mitigating strategy to overcome that risk of default by clients.

5.4 Areas for Further Research

The role of Internal controls on the performance of MFIs.

The impact of internal Auditing on financial management in an organization.

The roles of microfinance institution on the economic development.

The impact of risk management on performance of MFIs.

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APPENDICES

Appendix A: Questionnaire

I am **Namunjako Moureen** a finalist Bachelor of Business administration of Kampala International University carry out a study at this District. Your feedback is very important as your inputs will be used for academic purposes only. I greatly appreciate if you could take a few minutes to provide me with information. Your response will be kept confidential and it will not be divulged to any person or institution outside this corporation.

Thank you in advance

1. SECTION A: GENERAL INFORMATION

1. Gender

   Male ☐ Female ☐

2. In which age bracket are you?

   20-30 ☐ 40-50 ☐

   30-40 ☐ 50+ ☐

3. Education level

   Primary ☐ Diploma ☐

   Secondary ☐ Degree ☐

   Certificate ☐

4. Professional qualification

   CIPS ☐ ACCA ☐

   CPA ☐ CILT ☐

5. Level of experience

   1-4 years ☐ 10-14 ☐

   5-9 years ☐ 15 and above ☐

Direction: please respond to the options and kindly be guided with the scaring system below. Please write your rating in the space provided.

Rating	Score response	Description	Legend
1	strongly agree	you agree with no doubt	SA
2	Agree	you agree with some doubt	A
3	Not sure	you doubt	NS
4	Disagree	you disagree with some doubt	A
5	Strongly disagree	you disagree with no doubt at	SD

Under the following sections, please tick according to your level of agreement.

SA	Strongly Agree
A	Agree
NS	Not sure
D	Disagree
SD	Strongly Disagree

Please evaluate the statement by ticking in the box with the number that best suits you.

SECTION B: **What are contributions of micro finance institution towards economic growth?**

NO	SCALE	1	2	3	4	5
1.	Provide access to funding					
2.	Encourages self-sufficiency and entrepreneurship					
3.	Empowers women					
4.	Increased well-being					
5.	Social, political and economic empowerment					

SECTION C; **What are the challenges facing MFIs in regards to economic growth**

NO	SCALE	1	2	3	4	5
1	Perceived high risk of micro entrepreneurship and small business					
2	High costs involved in small transactions/micro lending					
3	Inadequate funds for MFIs to pass on poor					
4	Difficulty in measuring social performance of MFIs					
5	Lack of micro finance training for human resource in MFIs.					
6	Poor distribution systems of MFIs and lack of information about micro finance investment opportunities.					

SECTION D; Solutions to the challenges facing MFIs in regards to economic growth.

NO	SCALE	1	2	3	4	5
1	Ensure the quality of MFIs					
2	Proper training for human resource in management and leadership					
3	Improved technology					
4	Appropriate loan size					
5	Launching of regulatory frame work and supervisory					
6	provide financial services to large numbers of low-income persons					

SECTION E; **What is the relationship between micro finance institution and economic growth.**

NO	Scale	1	2	3	4	5
1	Helps to achieve long term goal and development					
2	Increases the profit level					
3	Modifies micro-enterprise					
4	Helps to reduce poverty among house holds					
5	Coverage, reach and marketing					
6	Easy Resource access and mobilization					

Interview Guide

What are the contributions of microfinance institution towards economic growth?

What are the challenges facing microfinance institutions?

What is the link between microfinance institutions and economic growth?