

MICRO FINANCE INSTITUTIONS AND ECONOMIC DEVELOPMENT:

A case study of Buyinja Sub-County

BY

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BBA/31633/102/DU

A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF APPLIED
ECONOMICS AND MANAGEMENT SCIENCES IN PARTIAL
FULFILLMENT OF THE REQUIREMENT FOR DEGREE OF
BACHELORS OF BUSINESS ADMINISTRATION
OF KAMPALA INTERNATIONAL
UNIVERSITY

SEPTEMBER, 2013

DECLARATION

I, Bwire Dennis, declare that this Research Report is my original and has not been presented for a degree/any academic award in any university/ institution of learning


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Date: 9/09/2013

APPROVAL

This is to acknowledge that this Research Report has been under the supervision of a University Supervisor and is now ready for submission.

Signed: 

MR. TUKUNDANE ADONIA

Date: 09/09/2013

DEDICATION

This Research Report is dedicated to, my parents and my dear friends who have helped me in the school times.

ACKNOWLEDGEMENT

Special thanks go to my supervisor Mr. Tukundane Adonia, the management of the college of Applied Economic and management sciences for the academic support and am also grateful to my brothers, sisters, relatives and friends.

ACRONYMS

GNP	:	Gross National Product
BUSACCO	:	Buyinja Saving and Credit Cooperatives
SACCO	:	Savings and Credit Cooperative Organizations
MFI	:	Micro Finance Institution
MFIs	:	Micro Finance Institutions
NGOs	:	Non Governmental Organization

ABSTRACT

The study was about Micro finance financial services to poor people in Buyinja Sub County Namayingo District. The purpose of this study was to investigate whether micro finance institutions contribute toward rural communities in economic development focusing at the range of services offered by MFIs. Assessing whether services offered by MFIs actually address the economic development of rural communities suggesting possible measures that should be adopted to enhance rural communities in economic development. This study targeted a population of 50 respondents of which 40 respondents were considered and used for the study. These were of two categories: 30 rural persons and 10 key informants especially MFIs staff. Gender balance was considered in the study. The purposive and simple sampling techniques were used to obtain the respondents. In the study, 5 parishes were chosen across the sub county especially those ones that were easy to reach by roads. From each of these 5 parishes, 10 respondents were chosen. These included; 6 rural women and 2 MFIs staff. These were used depending on knowledge, experience and opinions that supplemented the data got from secondary sources. The researcher found out the roles, effects and suggested the possible solutions. The study findings reveal that Micro Finance Institutions should come up with better skills, knowledge to impact in the beneficiaries so that the poor and the poorest can learn how to overcome the typical risks that are associated with these loans. However there is a need to provide for a productive design features to remove the challenges faced by the clients in making use of the Micro Finance such as loan size, repayment terms and interest rates.

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CHAPTER ONE INTRODUCTION

1.0 Background

Micro finance is a provision of financial services to poor people through a wide variety of institutions financial service includes savings, credits, pensions, and money transfer services.

Economic development is the process where by a nation real per-capita output or income (its gross national product or (GNP) increases over a long period of time. A nation's rate of economic development is thus measured by its long-run per capital rate of economic growth. Microfinance institutions are financial institutions that deals with the provision of loans, credits, saving services and other basis financial services to the economically active poor to enable them sustain their income generating activities with the aim of improving on their standards of living.

Over the last 25 years, microfinance has proven to be a significant intervention tool for poverty reduction, particularly in densely populated urban slums/townships and rural areas especially in Asia and Africa. Microfinance has also been globally acknowledged and recognized as an effective, efficient and a legitimate social and economic tool in the fight against poverty, it is appropriately designed and implemented. Microfinance institution has proven that the poor people especially women, youth in rural areas are bankable if appropriately reached and financed.

Microfinance institutions include in Uganda includes the following, Banks (Commercial banks), non governmental organizations, saving and credit cooperative organizations. And examples of microfinance in are Uganda Pride Microfinance Limited, Uganda Microfinance Limited, Pearl Microfinance Limited, and Microfinance Uganda. They offer products like Micro leasing, loan product and saving. Economic development means improving standards of living, improve the welfare of the people of the area. The rural areas of Uganda are still in a low development as compared to urban areas. That is to say people in urban areas enjoy better services or have improved standards of living than in rural areas.

Buyinja Saving and Credit Cooperatives (BUSACCO) Limited started in 2007 as a sub county SACCO. The members decided to form up a body will combine us together as poverty alleviators. The organization was named as Buyinja Saving and Credit Cooperative Society Limited for rural and urban development programs. The organization was opened up to operate as savings and credit cooperatives to empower the community to improve on the saving culture. Agricultural developmental as well as social development it was elected as sub country lead SACCO operating as a cooperative savings and credit society limited. BUSACCO started with 119 share holders who pulled out share capital of shs. 2,380,000/=. It was formed to serve members to generate income through savings and credit facilities. With the assistance of the fellow members with skills and experience in saving and credit cooperatives. They developed and promoted a culture of saving and credit as a way of alleviating poverty. The mobilization and sensitization increased the number of members from 119 to 300 share holders. It was registered with the registrar as saving and credit cooperative organization on 4th May 2007 as Reg. No. 8300/RCS and it was located in Namaingo Trading Centre in Buyinja Sub County, in Bukooli South in the District of Bugiri. The members developed a vision, mission and goal statement for the institution.

1.1 Statement of the Problem

A closer look at the situation of poverty in present days, Uganda reveals a much less encouraging picture. Recent surveys conclude that between 1998 up today, Uganda has made a little head way in fighting against poverty among rural communities. Although different agencies and organizations employ a host of different methodologies . to gauge the extent of rural communities development and poverty in Uganda . they all agree that at least 8% of the communities still have to exist below the poverty line (Adams: 1999). Despite the above, a good number of rural communities raise MFIs that their existence is a real blessing. They cannot imagine where they would be without them. for their businesses have grown bigger and much more profitable.

1.2 Purpose of the study

The purpose of the study was to investigate whether Micro Finance Institutions contribute towards rural communities in economic development.

1.3 Objectives of the study

The study was guided by the following objectives:

1. To find out the range of services offered by MFIs.
2. To assess whether services offered by MFIs actually address the economic development of rural communities.
3. To suggest possible measures that should be adopted to enhance rural communities in economic development.

1.4 Research questions

The study was guided by the following research questions:

1. What is the range of services offered by MFIs?
2. Do services offered by MFIs actually address the economic development of rural women?
3. What are possible measures that should be adopted to enhance rural communities' economic development?

1.6 Scope of the study

1.6.1 Content scope

This study was limited to the Micro Finance Institutions and economic development of rural communities. It was carried out a cross sub county of Buyinja Sub County Namaingo District located in Eastern Uganda.

1.6.2 Time scope

The study was done within only three months (March – May 2013)

1.7 Significance of the study

The results of this study will benefit the following people:

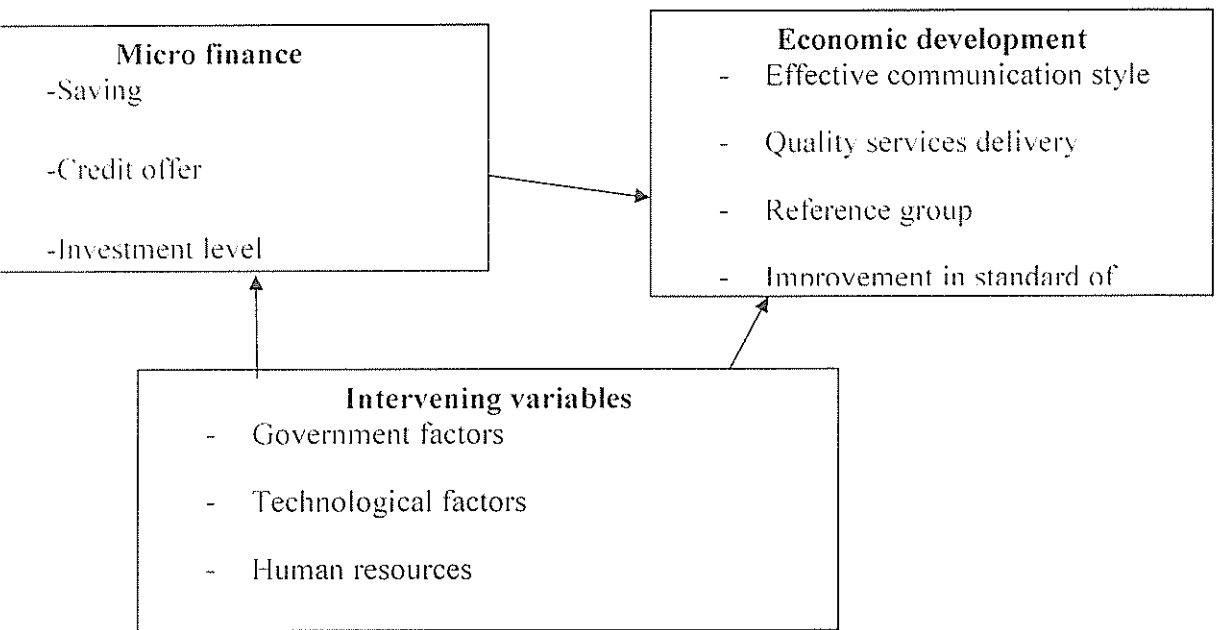
1. Government. MFIs policy and legal advisors and administrators like Managers and Credit Officers to realize the contributions of MFIs to the economic development of rural women, obstacles met by rural communities and perhaps identify solutions to the problem.

2. Rural communities and the general public, having full knowledge of the contributions of MFIs, it will be easy for them to devise means that will ensure access and appropriate use of MFIs services to attain sustainable rural communities development.

3. The future researchers, the study is an eye opener to future researchers in making more analysis and criticize the problems. The available data will be of great importance to the academicians interested in the field of the study phenomenon.

1.8 Conceptual framework

Independent variable microfinance institutions, dependent variable economic development



The independent variable here is microfinance institutions which deals in saving, loan offers, promotes investment and poverty eradication. The dependent variable economic development has factors like effective communication, improvement in standard of living and quality delivery. We also have the intervening factors that help the microfinance institutions achieve economic development like government, human resource, time factors and technological factors.

CHAPTER TWO

LITERATURE REVIEW

2.0 Microfinance

Micro finance refers to loans, savings, insurance, transfer services, micro-credit loans and other finance products targeted at low income clients. This according to (United Nations 2002 a:1)

Microfinance according to Menon (2005:1) is the extension of small loans to individuals who are too poor to qualify for traditional bank. loans. as they have no assets to be offered as guarantee. According to (Christen, Ronsenberg and Jayadeva 2004-2-3), Microfinance is the provision of financial services to low income clients, including consumers and the self employed, who traditionally lack access to banking and related services.

2.1 Microfinance institutions

A microfinance institution is the term that has been to mean institutions that provide microfinance services. Microfinance institutions offer financial services to underserved, impoverished communities and these services include savings accounts, insurance, health care and personal development (according to Brennan 2008:1)

In Uganda, the microfinance institutions are registered formal financial institutions that register depending on the legal statutes taken by the person/people registering the institution provided that fails in any of the tiers under the financial institutions statute (understanding the microfinance in industry in Uganda 2008:8)

2.2 Savings and credit cooperative organizations (SACCOs)

The saving and credit cooperative society is a form of financial institution formal in nature, owned, controlled, used and democratically governed by members themselves. It encourages savings and using pooled funds, to make loans to members at reasonable rates of interest and provide related financial services to enable members to improve their economic development (agriculture support programme 2010:1).

They are semi formal institutions, registered as limited companies not regulated by the central bank, its members based owned and allow members to save and borrow money. (Understanding the microfinance industry in Uganda 2008:9).

2.3 Economic development

According to development theorists, affect of capital accumulation on development play an instrumental role of national development. This is influenced by level of investment. Favorable factor contribute to the net increase in the level of income therefore generating capital required for development projects per capita income or output. (Gross nation product) increases over along period time. According to Burkenya (1993:36 rural development workers define economic development as a process by which people through their own individual and or joint efforts boost production for direct consumption and have a surplus to sell for cash.

2.4 How microfinance operates

The microfinance institutions have been found to have similar ways of operating in implementing heir programmes. According to the study in Bangladesh quoted by Meade (2001:2), the credit is argeted to the land less or asset less borrowers, the moderately to extremely poor. The borrowers are placed into groups of 10 to 20 people which meet regularly with the loan officer of the micro-credit program. It is further explained that these groups of borrowers substitute for collateral and take over he role of securing the loans disbursed. This is because each borrower in the group agrees to be held liable for the debts incurred by any member of the group. In the event that a borrower defaults, the other members of the group are required to make up the amount in default (Meade 2001:2).

Menon (2005:1) also explains that the size of micro-credit is small, the borrower is usually rattling against poverty, the repayment schedule simple and short and the activity for which the loan s taken is of a small nature. Menon (2005:1) further elaborates that it is the women at the forefront of the micro-credit movement and they use small loans to jumpstart a long chain of economic activity. With regard to loan repayment, Menon (2005:1) says that the women have enormous pride in their integrity and therefore pay quickly and reliably, not wanting to be seen as defaulters. And fier repayment, they begin again, this time with a bigger loan and keep expanding their profit base until they do not need the loans any longer.

2.5 Types of microfinance

There are basically the formal and informal types of microfinance services provided by specific institutions. According to Goodland, Onumah, Amadi and Griffith (1999:12), the formal sector comprises those institutions which are subjected to government and central bank regulation and include commercial banks and special agricultural financial organizations, savings and credit cooperative unions and finance programmes operated by NGOs. It is also explained by Goodland et al (1999:16), that the informal sector operates unofficially and escapes regulation and comprises a multitude of different institutions and activities that together play a significant role in Sub Saharan Africa. They include sophisticated but unregulated institutions (credit unions, indigenous banks, and pawn shops), money lenders, merchants, shopkeepers, pawnbrokers, loan brokers, landlords, friends and family, money guard, savings groups, rotating savings and credit associations, accumulated savings and credit associations and employers.

2.6 The range of services offered by MFIs to the performance of small businesses

The rapid growth of MFIs has attributed to the perception that providing financial services will alleviate poverty, facilitate financial independence and promote a sense of socio economic empowerment among the poor, particularly the rural women. Saving mechanism allows them to conveniently and safely accumulate surplus funds to create financial stability while credit services allow expanding their enterprises and improved earnings (Association of MFI of Uganda: 1999.)

MFIs also offer other non financial services such as training of clients in drawing business plans, book keeping, business management and marketing skills among others in order to help the clients improve on the capacity to manage their businesses efficiently. MFIs operate in order to provide regional balance, equal distribution of wealth and reduce the income gap that exists among the population of Uganda (Susan J. et al 1997).

According to Association of Micro Finance Institutions of Uganda (1999), MFIs act as efficient channels for other financial services. These services range from loan insurance cover that helps to safeguard clients from natural calamities, though it is more operational with agricultural,

consumption and housing loans. Specialized MFIs like Uganda Finance Trust was also opened to help the unprivileged race (female) to become independent business people.

World Bank (1999) considers MFIs to be NGOs, saving and loan co operatives, credit unions; government banks commercial banks, and non bank financial institutions. Their activities should include: small loans typically for working capital, informal appraisal of the borrowers and investments, secure savings product and collateral substitutions such as group guarantees or compulsory savings. This is a comprehensive view of services offered by MFIs on which this study is based.

2.7 The economic development of rural women

Women make up 51% of the economic development activities labor force worldwide and 80% in Uganda in particular, but in many countries women's expensive contribution of small scale enterprises remains largely unrecorded. The regional distribution of the economically active population in small scale enterprises is dominated by Asia, which accounts for almost 80% of economically active women are working in the small scale enterprises. The share of female laborers is rising rapidly in all countries, save in Eastern and central Europe where high levels are following (Adams: 1999).

In Uganda, women are major participants in small scale enterprises. For example 90% of the food consumed in the household is contributed by women: they provide 80% of the total agricultural labor force. They are responsible for 90% of crop processing, 80% for carrying crops home and to the market, 80% for storing crops, 70% of weeding and digging, 60% of harvesting, 60% of marketing and 50% of planting (Susan et al: 1997). All the above show that women contribute greatly to the rural economic development thus needs MFIs support.

Interventions have an impact on social relations partly through their economic effects. In many instances, implementers of credit schemes have claimed that the work will lead to progressive social change. For example by empowering women especially rural women and changing gender

relations in the household and in the community. It is important therefore to understand what happens to a loan in its disbursement to a female borrower (Susan et al; 1997).

Generally, lack of access to credit by women has been recognized as a major constraint the world over. EPRC (2007) identified the major constraints that lead to low participation of women to include: poor publicity of the credit schemes, lengthy procedures and formalities at the MFIs which made women to go to banks many times thus proving expensive in terms of transport costs, effort, time and other opportunity costs. The poor reception women get at MFIs and lack of profitability of enterprises due to these factors are the major constraints.

MFIs are the only kind of institution to give support to the financially handicapped poor to operate small holding so as to improve their businesses performance and development. Many small businesses owned by rural women in the country and the world at large have taken the opportunity of the availability of small and short term loans to make economic advancement never before thought possible by any body (Peter O: 1999). Financial services enable small business owners to maximize the benefits of cash income by transforming it into a usefully large lump sum - an asset that can be invested, borrowed against or used as insurance.

International NGOs introduced Micro Credit into Uganda both as a means to meet the financing gap for the poor and as a most viable strategy for economically empowering the poor. The apparent success of the intervention has since made Micro credit so fashionable among donors that is: lots of funds have been channeled into this noble activity. It is estimated that a total of 95 organizations offer Micro credit services (<http://www.lifeinafrica.com/ugandamicrofinance.htm-2007>). The rate of growth is high and fast but the weak shall die and survival will be for the fittest.

It is clear that Micro credit is not a panacea. Throughout the world, Micro finance is evolving from social development strategy through Micro enterprise development strategy to a financial sector development strategy. Right now in Uganda, the industry has greatly helped small businesses to expand. Small businesses no longer lack capital or funds for expansion and efficient services.

There is no doubt therefore that, rural women in rural areas particularly in Buyinja Sub County require credit facilities to invest in their enterprises and increase their standards of living. According to Buyinja Sub County three years Development Plan (2007 - 2009), area credit institutions have effective means of overcoming the many constraints, which have in past made it impossible for many poor people to access financial institutions for credit. Most women in Buyinja are involved in small scale enterprises and other agricultural activities like poultry. Credit institutions have brought saving culture to rural areas, which often are unable to provide with loan guarantee methods including joint responsibility and supervision of loan repayment and small groups' borrowers. The amount of credit which these institutions have made available to rural women represents a very significant achievement, which makes it possible for the marginalized women to get access to credit and greatly affects their economic development.

Sustainable MFIs are no longer philanthropic in approach, so they put their money where they expect a profit at a minimum risk. The active rural women are now viewed as a viable and vibrant market, and not as charity recipients. So micro entrepreneurs are targeted because they can generate income sufficient to cover financial costs on which providers of micro credit can survive. This sounds attractive but the truth is 'there is no gain without pain' and micro entrepreneurs are willing to suffer the pain in order to gain.

3.8 Possible measures that should be adopted to enhance rural women development

Uganda Gatsby Trust (2003) further explains measures for the rural women to develop and it attributed this to the following factors: most firms use new technologies which is absolute and unconditioned machinery usually resulting in frequent breakdowns worse still these are few spare parts, they need to look for knowledge on choice and source of lack of adequate technical capability skills and knowledge in different entrepreneurs resulting in products of good quality hence increased demand and subsequently market is increased and products should be standardized, operations

should read or interpret drawing, refuse supervision to produce products and find difficulty to adapt to no dangers.

There is need for better government policies. According to the World Bank (1998), the Ugandan government and Bank of Uganda deserve credit for they have been quick to recognize the value and significance of Micro Credit in economic development. They should come up with proper law for the Micro credit business. It's important that government should manage this transition very well by creating an enabling environment for lateral thinking, innovation that guarantees continued evolution of the Micro credit industry. What is required is therefore good law not quick reactionary law set in retrospect of the failures in the banking industry. Quick law may retard or kill this precious 'child'. MFIs have so far not failed so the law that is expected is one that enables and promotes greater efficiency and growth of the institutions towards supporting rural marginalized groups especially women in their development projects.

MFIs should also offer non financial services such as training of rural women in drawing business plans, book keeping, business management and marketing skills among others in order to help them improve on their capacity to manage their business efficiently and gain access to bigger loans. Besides offering and enlightening on possible successful business ventures and offering the accompanying advice on how to go about operations of the business. MFIs operate in order to provide regional balance, equal distribution of wealth and reducing the income gap that exist s among the population of Uganda (Foundation for credit and community assistance (FOCCAS) brochure).

There is need for special MFIs programme towards rural women and their development projects. Lack of access to credit by women has been recognized as a major constraint the world over. Kyokutamba (2000), identified the major constraints that lead to low participation of women to include, 'poor publicity of the credit schemes, lengthy procedures and formalities at the banks which made women to go to the banks many times thus proving to be expensive in terms of transport costs.

effort, time and other opportunity costs. The poor reception women get at MFIs and lacks of profitability of enterprise due to these factors are the major constraints'. Therefore, MFIs should start handling rural women carefully when handling their financial issues as a form of encouraging more rural women to access MFIs services.

According to the researcher's understanding, rural economic development to be acquired and sustained, there is great need for help from MFIs. MFIs must charge interest on a cost recovery basis so as to be sustainable and benefit rural populations. Rural populations are still ignorant about how to access MFI service thus forced the researcher to conduct the study in reference to Buyinja Sub County Namaingo District.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Research design

The study was both quantitative and qualitative in nature where research questions were used. It was also survey because it was carried out in a sub county, this helped the researcher to get a crucial data about the study phenomenon.

3.1 Target Population

This study targeted a population of 50 respondents of which 40 respondents were considered and used for the study. These were of two categories: 30 rural persons and 10 key informants especially MFIs staff. Gender balance was considered in the study. The study was carried out in only a cross the sub county of Buyinja in Namaingo district in eastern Uganda. Buyinja Sub County is one of the biggest sub counties located in Namaingo district in eastern part of the Uganda.

3.2 Sample size

The purposive and simple sampling techniques were used to obtain the respondents. In the study, 5 parishes were chosen a cross the sub county especially those ones that were easy to reach by roads. From each of these 5 parishes, 10 respondents were chosen. These included: 6 rural women and 2 MFIs staff. These were used depending on knowledge, experience and opinions that supplemented on the data got from secondary sources.

3.3 Research Instruments

The researcher used questionnaire and interviews to get the required data about the study problem. Semi - structured questionnaires were used to collect data from the MFIs staff. Then an interview guide with open – ended questions was also used to get data from the rural women. This was useful because it allows the researcher to do probing so as to get more information about the study problem. Secondary sources like reading brochures from MFIs, textbooks and magazines were also used so as to address the objectives of the study well.

3.4.1 Reliability

The research instrument used was questionnaire and interview guide to consistently provide reliable information that was used in this research. The research was done using a test method where a questionnaire was administered to few people in one week.

3.5 Data Analysis

The data was analyzed using tables, frequencies, percentages and use of descriptive statistics for easy presentation of the research findings.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Nature of the respondents

This section presents demographic characteristics of respondents that include; occupation, age and sex. This information was obtained from key informants and rural communities as shown in the table below:

Table 1: Respondents' summary

Respondents' category	Frequency	Percentages
Key informants like Micro Finance staff	10	25
Rural communities	30	75
Total	40	100

Source: Primary data 2013

From table 1, it is true that the largest sample of respondents was from rural communities (75%). This was because rural communities were found to be focal people mostly benefiting from Micro Finance Institutions, then key informants which were Micro Finance Institutions staff with 25%

Table 2: Frequency distribution of sex among the respondents

Gender	Frequency	Percentage
Male	8	20
Female	32	80
Total	40	100

Source: Primary data 2013

Out of 40 respondents, majority were found to be female (80%) and males were 20% as shown in table 2 above. The reason for this difference was that, female Micro Finance Institutions staff and rural communities were more willing to participate in giving the data about the study phenomenon.

Table 3: Respondents' age differences

Age range	Frequency	Percentage
18-27	10	25
28-37	18	45
38 and above	12	30
Total	40	100

Source: Primary data 2013

With regard to age, the majority of the respondents were in age range of 28 – 37 years (45%), with slight difference to those in age range of 38 years and above (30%). Other rural communities and key informants (Micro Credit staff) were in age of 18-27 years. These characteristics were very important in the study because it gives a background where one can build to critically to assess the study phenomenon.

.2 Research Question One

The first question stated that: *what is the range of services offered by MFIs?*

Various questions were set in relation to this research question and they were addressed to a cross section of 40 respondents who contributed primary data. Their responses were compiled into frequencies and percentage and then presented in tables. To get valid and reliable data to this research question, MFIs staff and rural communities were asked by the researcher with the aim of identifying the range of services offered by Micro Finance Institutions in the study area.

Question one in the first research question was aiming at finding out whether rural communities in Namaingo Sub County usually use Micro Finance Institutions services to achieve their targets in economic development. Responses to these question were given as its indicated in table below.

Table 4: Responses to whether rural communities use MFIs services to achieve their targets in economic development

Responses	Key informants (MFIs staffs)		Rural communities	
	Frequency	Percentages	Frequency	Percentages
Yes	5	50	20	66.7
No	5	50	10	33.3
Total	10	100	30	100

Source: Primary data 2013

Data from the field shows that, 50% of MFIs staff and 66.7% of rural communities agreed that rural communities in Namaingo Sub County usually use Micro Finance Institutions services to achieve their targets in development: where as the rest of the respondents never supported the idea. As one of the respondents was quoted saying that:

‘MFIs has greatly helped me to expand on my levels of business (poultry project) hence high profits have been realized and it has highly increased my standards of living’

(Kyarisiima J. Pers. Com 2013)

Therefore, those who mentioned that communities have not benefited from the Micro Finance institutions in Namaingo Sub county, it was concluded by the researcher that such communities may have misused loan money or diverted it into non productive ventures or luxurious ventures thus not benefiting from them.

From the study, the researcher used interview guide to ask 10 key informants and questionnaire to 30 rural communities whether rural communities usually get help in form of credit to add in their rural ventures in the study area. Responses to this question were given as it's clearly indicated in table 5 below:

Table 5: Responses to whether rural communities usually get help in form of credit to add in their rural ventures

Responses	Key informants (MFIs staff)		Rural women	
	Frequency	Percentages	Frequency	Percentages
Yes	10	100	25	83.3
No	0	00	5	16.7
Total	10	100	30	100

Source: Primary data 2013

From the field study, 100% of key informants and 83.3% of rural communities agreed that rural communities usually get help in form of credit to add in their rural ventures in the study area; whereas the rest of the respondents never supported the idea. Those who mentioned no were in a view that most Micro Finance Institutions give little loan money compared to the interests. Even, the loan term and the process that rural communities are required to pass through before getting the credit is too long and expensive to most of these illiterate women, which itself does not favor them.

From the study, respondents were asked whether Micro Finance Institutions give services to rural communities in form of goods to expand to their ventures/businesses. Various responses were given; it's clearly indicated in table 6 below;

Table 6: Responses to whether MFIs give services to rural communities in form of goods

Responses	Key informants (MFIs staff)		Rural women	
	Frequency	Percentages	Frequency	Percentages
Yes	5	50	5	16.7
No	5	50	25	83.3
Total	10	100	30	100

Source: Primary data 2013

From the field study, 50% of key informants and 16.7% of rural communities agreed that Micro Finance Institutions gave services to rural communities in form of goods to add in their rural; whereas the majority of the respondents never supported the idea. As one of the respondents quoted that;

‘These Micro Finance Institutions usually ask you for the loan purpose, but they do not carry out follow up to find out whether you used the money for that particular activity you mentioned when applying for a loan, they only mind on their loan recovery and nothing else apart from looking for more clients’ (Mujinya, Pers. Com: 2013).

Even, some of the respondents who accepted the idea, mentioned that they hear some Micro Finance Institutions advertising that they usually give services in form of goods like Motor cycles, bicycles and television sets, among others.

From the field study, other Micro Finance Institutions services they usually gave to rural communities were also given as mentioned in table 7 below:

Table 7: Responses to other forms of service MFIs give to rural communities

Other MFIs services	Frequency	Percentages
Non financial services	20	50
Loan insurance cover	5	12.5
Encourage savings	15	37.5
Total	40	100

Source: Primary data 2013

From the above table 7, non financial services like drawing business plans, sensitization of members on business management and marketing skills were mentioned by 50% of the respondents. Savings by 37.5% and loan insurance cover also by 12.5% of the respondents. One of the respondents quoted that:

'The benefits range from better living standards in that before acquisition of the loans, people were not able to pay for their children school fees but now they are, orphans can also go to school, improved shelter in a sense that to some clients before acquiring loans used to stay in grass thatched houses but now the loans helped them in buying iron sheets hence improved shelter. More so expansion of business, generation of more income, improvement of agriculture because in this case clients are able to buy fertilizers, good quality seeds' (Mwijukye, Pers. Com: 2013

Therefore, the above statement clearly shows that rural communities have greatly benefited from the services offered by the Micro Finance Institutions in the study area. The social status of communities has improved. They are able to up bring themselves without the help of their husbands like looking after the children, starting up income generating projects like piggery, poultry to mention but a few. In conclusion, Credit Financial Institutions Industry embraces several thousands of Micro Finance Institutions offering credit and other financial services to poor clients especially

rural communities. Almost all these institutions are concerned with poverty alleviation but relatively few of them are fundamentally committed to long financial sustainability.

4.3 Research Question Two

The second research question stated that; *Do services offered by MFIs address the economic development of rural women?*

Various questions were asked in relation to this research question. Questions were designed in form of questionnaires and interviews as shown in the appendices of this report. These questions were addressed to across section of 40 respondents comprised of 10 key informants (MFIs staffs) and 30 rural communities. Their responses were compiled in frequencies and percentages and then presented in the tables as shown below;

The researcher tried as much as possible to find out whether MFIs contribute to the success of rural communities in their business ventures in Namaingo Sub County. Responses to this question were given as its clearly indicated in table 8 below;

Table 8: Responses to whether MFIs contribute to the economic development of rural communities

Response	Key informants (MFIs staffs)		Rural communities	
	Frequency	Percentages	Frequency	Percentages
Yes	5	50	15	50
No	5	50	15	50
Total	10	100	30	100

Source: Primary data 2013

From table 8 above, 50% of MFIs staffs and rural communities agreed that Micro Finance institutions have contributed to the development of rural women; where as the rest of the respondents never supported the idea. One of the respondents said that:

'Most MFIs are characterized by high interest rates, short period of loan repayments and communities lack collateral security, thus most communities have ended up failing not paying back the borrowed loans and in turn property (collateral security) confiscated, which have greatly undermined the social economic growth of communities in Namaiyingo sub county' (Okoth sam . com 2013)

Though, to some extent, communities have benefited from loans got from these Micro Finance institutions as most of them are now aware of the impacts of MFIs.

From the study, the researcher used interview guide to ask 30 rural communities and questionnaire to 10 key informants about how Micro Finance Institutions have contributed to the success of rural community's development in the study area. Their responses are clearly indicated in table 9 below;

Table 9: Responses to how MFIs have contributed to the success of rural community's economic development

MFIs contributions	Frequency	Percentages
Encourages savings	15	37.5
Sensitization and awareness	9	22.5
Promote socio economic empowerment	5	12.5
Encourages credit services	6	15
Total	40	100

Source: Primary data 2013

From table 9, contributions were mentioned as how MFIs have contributed to the economic development of rural communities 37.5% of the respondents mentioned encouraging savings. Sensitization and awareness was mentioned by 22.5%, promotion of socio economic empowerment by 12.5% and encourages credit facilities by 15% of the respondents. Micro Finance Institutions

offer credit facilities (loans) to the clients and as result community's enterprises had developed or expanded out. One of the respondents said that,

'MFIs had played a big role in sensitizing and encouraging rural communities to save with the institution and as a result rural communities investments had increased and enterprises had expanded out of using their savings' (Besigye, pers. Com: 2013

Also, from the field study, it was mentioned that rural communities meet/experience some problems in accessing Micro Finance Institutions services as indicated in table 10 below;

Table 10: Responses to whether rural communities meet/experience any problem in accessing MFIs services

Response	Key informants (MFIs staff)		Rural women	
	Frequency	Percentage	Frequency	Percentage
Yes	6	60	18	60
No	4	40	12	40
Total	10	100	30	100

Source: Primary data 2013

From the table above, 60% of key informants and rural communities respectively agreed that rural communities meet/experience problems in accessing MFIs services: where as the rest of the respondents never accepted the idea. They usually meet problems in accessing and investing and repaying the credit got from Micro Finance Institutions. Those who agreed, mentioned some of the problems faced by MFIs members in accessing credit as its indicated in table 11 below

Table 11: Problems met by rural communities while accessing credit

Problems	Frequency	Percentages
High interest rates and MFIs bureaucracy	5	12.5
Shorter repayment schedules	15	37.5
Lack of security	9	22.5
Total	40	100

Source: Primary data 2013

From the results in the table above, it is apparent that the biggest and pressing problem of the MFIs users is short period to clients to pay back the borrowed loans (37.5%), high interest rates and MFIs bureaucracy were mentioned by 12.5% of the respondents. High interest rates had been a case of concern to rural communities involved in small enterprises whose profits are terribly eroded. Thus most of the clients were not happy because of interest rates charged on them which are considered to be excessively high.

Also, 22.5% of respondents mentioned lack of collateral security. Rural communities face the challenge of lack of collateral security as most of them do not own a family property like land. Thus some rural communities do not acquire loans to the highest ceiling because of the small size businesses that do not ensure recovery of large amounts of money or profits, which greatly affects their business ventures to develop.

1.4 Research Question Three

The third question states: *What are possible measures that should be adopted to enhance rural community's economic development.*

Various questions were asked in relation to the above research question. Questions were designed in form of questionnaires and interviews, which were addressed to across section of 40 respondents comprised of rural communities and key informants. Their responses were compiled in frequencies and percentages and then presented in the tables as shown below;

Table 12: Responses to whether there is a possible measure in place aiming at improving the success of rural community's economic development

Response	Key informants		Rural communities	
	Frequency	Percentage	Frequency	Percentage
Yes	4	40	12	40
No	6	60	18	60
Total	10	100	30	100

Source: Primary data 2013

It was found out that, 40% of key informants (MFIs staffs) and rural communities respectively agreed that there is a possible measure in place aiming at improving success of rural communities economic development; where as the majority of the respondents never accepted the idea. This was supported by an interview with majority of the respondents that, *'any policy or programme to be put in place to improve on rural communities development should be democratic, pro people and based of their priorities, which is not the case'*. (Ojambo j bosco. Com 2013) Therefore, it is clear that all policies in place are pro Micro Finance Institutions but not pro community's development.

From the field study, possible measures in place aiming at improving success of rural communities economic development were also suggested as mentioned in table 13 below;

Table 13: Responses to the possible measures in place aiming at improving success of rural community's economic development

Possible measures	Frequency	Percentages
Government support	15	37.5
NGOs support	20	25
Sensitization and mass awareness	5	12.5
Total	40	100

Source: Primary data 2013

From the study, 37.5% of the respondents mentioned government support in form of MFIs governing laws and protection as measures in place to enhance rural community's development. Most of the MFIs have been supported by the NGOs through giving them soft loans and grants. This was mentioned by 25% of respondents. The state should continue to provide credit to households below poverty line and finance them in their productive investments. It is most significant therefore that the best way to increase access of the rural communities to assets is to make institutional credit available to them. 12.5% of respondents mentioned mass awareness and sensitization to the rural communities by the MFIs bodies and other international organizations about the role of MFIs and other leadership mode, all these aiming at enhancing the role of MFIs in their support to rural women, to reduce ignorance and even to train clients on how to use well Micro Credits in order to reduce loan defaulters or loan defaults. More importantly, it is believed that providing the poor with credit can break the barrier to credit emancipation.

CHAPTER FIVE

DISCUSSIONS, FINDINGS, AND RECOMMENDATIONS

5.0 Discussions

The main problem of this study as indicated in chapter one was about MFIs and rural community's development in Buyinja Sub County, Namaingo District. The subsequent discussion in this chapter is based on the results presented in chapter four of this report as given by the respondents. From the socio-economic demographic characteristics respondents that is sex, age and occupation, majority of them were 28 - 37 years of age and were rural communities Most of them were females. These characteristics were very important in the study because it gives a background where one can build to critically to assess the phenomenon and suggest for possible suggestions.

From the field study, majority of the respondents agreed that rural communities in Buyinja Sub County usually use MFIs services to achieve their targets in development. It was mentioned that, rural communities usually get help in form of credit to add in their own ventures. Non financial services like drawing business plans, sensitizing its members on business management and marketing skills and savings from MFIs, which shows that rural communities have greatly benefited from the services offered by the Micro Finance Institutions in the study area.

This is in line with Susan J et al (1997) that, MFIs offer other non financial services such as training of clients in drawing business plans, book keeping, business management and marketing skills among others in order to help the clients improve on the capacity to manage their businesses efficiently. MFIs operate in order to provide regional balance, equal distribution of wealth and reduce the income gap that exists among the population of Uganda .

From the study, in reference to the research question two, it was agreed by the majority of the respondents that services offered by MFIs contribute to the development of rural community's development. From the study, it was revealed that, MFIs encouraging savings, sensitization and awareness, promotes of socio economic empowerment and credit facilities to rural communities It

also indicated that rural communities meet some problems in accessing credit from the MFIs. Some of these were high interest rates, shorter repayment schedule and ignorance of which contributes to the decline of rural community's economic development.

In support of the above, Peter O (1999) maintains that Micro Finance Institutions charge high interest rates. Thus most of the clients were not happy because of interest rates charged on them which are considered to be excessively high.

In reference to chapter four research question three, majority of the respondents mentioned that there is some possible recommendations that should be adopted to enhance rural women's development. Better government policies/support in form of MFI governing laws and protection and NGOs support in form of giving them grants.

Related with the above findings, AMFIU (1999) states that, the increasingly MFIs are developing innovative methodologies that offer sustainable forms of micro finance to the rural poor specially women, including lending to agricultural activities. Right now in Uganda, the industry is in a state of transition from philanthropy to a business orientation and the majority is caught in the middle of the continuum. Therefore, this has attracted MFIs members to actively get involved in the running of their business (MFI) as to equally benefit from it.

4.1 Findings

According the survey made in this research it was found that females support and benefit more from MFIs than the male respondents and majority of the population that uses microfinance is from the age of 28-37 years much as other age group also uses the services. This is so because most MFIs trust women than men in offering credits.

The findings showed that biggest pressing problem of the MFIs users is short period to clients to pay back the borrowed loans, high interest rates, lack of collateral security and bureaucracy. This has challenged some clients to enjoy the services of micro finance institutions.

The communities a greed that measures that can improve the success of rural communities economic development. These measures such as are lowering interest rates, introduce democratic policies in he measures to be adopted to enhance rural community's economic development. Operation, government support , non government organizations support and sensitization and mass awareness.

It was found out that the management of some of these MFIs in the rural communities is still poor to make the communities achieve economic development which can impact the beneficiaries.

5.3 Recommendations

From the findings of the study, it is contented that the following recommendations should be given due considerations by the government through the Ministry of Micro Finance. These include the following:

The MFIs should make intensive advertising in order to inform and sensitize the rural communities about the existence and role of MFIs in bringing about rural communities development. This should be done through putting up workshops, seminars and putting advertising in news papers and radios so that people can know how they can benefit more from such institutions. rural communities should also be educated on how to properly use credit acquired from institutions in order to avoid problems accruing from poor use of credit.

The government should encourage formation of MFIs to provide credit facilities to the rural communities This can be in form of subsidizing the existing MFIs and extending loan facilities to the newly formed ones. The government should also put a hand in the establishment of village Banks to provide services to the very poor people.

There is need for more frequent sensitization on the MFIs officers, and other individuals who deal with MFIs cases.

There is need for more research and recognition of these MFIs by the government. If these institutions are to be successful, the government of Uganda should support them socially.

economically and politically. And for their sustainability, these MFIs must charge an interest rate on a recovery basis.

5. Ministry of Micro Finance should endeavor to equip MFIs with recent and current laws (rules and regulations) to control MFIs defaulters so as to promote MFIs services and sustainability.

6. Loans given to borrowing clients are at times small compared to their needs, therefore, there should be room for adjustments in availing them with larger amounts according to their requirements as long as there are guarantors such that in case of defaulting, there is a way of recovering those loans.

7. Micro finance institutions should come up with better skills, knowledge to impart in the beneficiaries so that the poor and the poorest can learn how to overcome the typical risks that are associated with these loans. However there is a need to provide for a productive design features to remove the challenges faced by the clients in making use of the Micro Finance such as loan size, repayment terms and interest rates.

6.4 Area of Further Research

Factors hindering government efforts to develop and implement appropriate policies that can help to improve on MFIs services in rural areas.

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7. Have you given them services in form of goods to expand their rural ventures/businesses?

Yes
No

a) If yes, which ones?

b) If no, why?

3. Mention other forms of services you usually give to rural communities in Namaingo Sub County?

i) ii)

SECTION C: MFIs CONTRIBUTIONS TO THE rural communities ECONOMIC DEVELOPMENT

4. Do you think MFIs do contribute to the economic development of rural communities in Namaingo Sub County?

Yes
No

b) If no, why?

5. If yes, how does it contribute to the success of the rural women?

i) ii)

6. Do rural communities meet/experience any problem while accessing credit from MFIs services?

Yes
No

b) If yes, mention them?

SECTION D: POSSIBLE MEASURES TO BE ADAPTED TO RURAL COMMUNITIES ECONOMIC DEVELOPMENT

7. Is there possible measures in place aiming at contribute to the success of your rural communities' economic development?

Yes
No

b) If yes, mention them?

c) Any comment in relation to the above topic?

Thank you for your co-operation

INTERVIEW GUIDE

Dear Sir/ Madam,

I am a student from the college of applied economics and management sciences conducting a research aiming at finding out the MFIs and economic development of rural communities' economic development using a case study of Namaingo Sub County. I request you to give more information about the study problem and the information given will be confidential.

1. Do you usually use MFIs services to achieve in your targets in economic development?

2. Do you usually get help in form of credit to add in your ventures?

3. Have MFIs given you services in form of goods to expand your rural ventures/businesses?

4. Mention other forms of services you usually get from MFIs?

5. Do you think MFIs do contribute to the economic development of rural communities in Namaingo Sub County?

6. If yes, how does it contribute the success of the rural communities' development?

7. Do rural communities meet/experience any problem while accessing credit from MFIs services?

8. If yes, mention them?

9. Are there possible measures in place aiming at contribute to the success of rural communities' economic development?

10. If yes, mention them?

11. Any comment in relation to the above topic?

Thank you for your co-operation