MICRO-FINANCE AND POVERTY REDUCTION
A CASE STUDY OF UGANDA ADVANCE MICROFINANCE, KATIKAMU SUB-COUNTY, LUWERO DISTRICT

BY

KASOZI ENOCK
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DECLARATION

I, KASOZI ENOCK, declared that this Research work entitled "MICRO-FINANCE AND POVERTY REDUCTIONA CASE STUDY OF UGANDA ADVANCE MICROFINANCE, KATIKAMU SUBCOUNTY LUWERO DISTRICT" is my own original work and has not been presented for a degree, diploma or fellowship to this or any other university and that all the sources of materials used for the thesis have been duly acknowledged.

Signature: Kasozi

KASOZI ENOCK

Date: 30/03/2016

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LIST OF ABBREVIATIONS AND ACRONYMS

CDF............ Credit and Development Forum

C IDA.......... Canadian International Development Agency

CGAP........... Consultative Group Assisting the Poorest

KIU............ Kampala International University

LC.............. Local Council

LC.1............ Local Council One

MFIs........... Microfinance Institutions

NGO............ Non-Government Organization

SMEs........... Small and Medium Enterprises

UAMF: Uganda Advance Microfinance

UBOS........... Uganda Bureau of Statistics

UNDP.......... United Nations Development Program

UNICEF.........United Nations Children's Emergency Fund

ABSTRACT

The study was set to investigate Microfinance and Poverty Reduction which was guided by the following objective; to find out the nature of products and services offered by MFIs in Katikamu Sub-County, to find out the contributions of MFIs in Poverty reduction, and to find out the challenges faced by people when using Microfinance service in Katikamu Sub-County.

The study employed Purposive sampling and simple random sampling techniques to select 291 participants that constituted the sample size of the research.

The research used both primary and secondary data. The primary data was got from clients and from management. The data was obtained by use of semi structured questionnaire and interviews. Secondary data was obtained from published materials which included journals, text books, magazines and newspapers.

The findings of the study revealed that most of clients were male who constituted 64.6% of the sample size. Significant number of clients 58.42 % acknowledge positive contributions of MFIs loans towards poverty reduction like increase in income, improving education and acquisition of assets. The microfinance loan terms and conditions are stringent with high interest rate 65.6%, short grace period as well as high demand of collateral security. Yet rural poor beneficiaries engage in businesses which take long to mature (gestation period).

The study concluded that illiteracy, lack of collateral and inadequate management and capacity by clients are some of challenges facing microfinance in poverty reduction.

The study yielded the following recommendation; low interest ratio, lengthen the repayment period, sensitization of clients. Other than the financial support, it is recommended that MFIs should at all-time give professional advices to clients

CHAPTER ONE: BACKGROUND

1.1 Background

1.1.1 Historical Perspective

The origin of the current micro-credit model can be traced back to action research in the late 1970s carried out by academics as well as actioners in organisation that were created to deal with the relief and rehabilitation needs of post-independence of Bangladesh (CDF, 2006).

The 1980s witnessed a growing number of Non-Government Organisation (NGO) experimenting with different credit modalities to the poor, the pre dominant model become one of providing individual loans to a target group of poor households rather than providing loans for group projects which suffered from a free rider problem (World Bank,2004).

From the mid-1990s on ward, it became clear that the standardized model of providing micro credit with fixed repayment schedules and with standard floors and ceiling on loan size were not sufficient to merits the needs of the extreme poor(World Bank, 2004).

Micro-credit and Grameen Bank are inseparable concept for the discussion of the literature. Grameen Bank is the institutionalised version of micro credit model and Professor Muhammad Yunus the developer of micro credit concept and Grameen Bank become the symbol of pride for Bangladesh with the declaration of noble peace price in 2006.

Due to such recognition more care is warranted regarding the use, implication and effect of micro credit on the poverty level to keep its original essence intact. Monopolistic powers, excessive interest rates and exploitation through under valuation of collaterals were obstacles to access of credit to poor people for income generating and poverty reduction purposes (Bhaduri 1983)

In recent years the standard Grameen model has under gone greater refinement in order to cater to different niche markets as well as to different life cycle circumstances. The limitations of the informal financial sector in providing financial services especially crediten couraged the micro credit program to evolve. The micro credit program was initiated with the objective of providing poor people with credit without collateral (professor Yunus 1999).

1.1.2 Theoretical Perspective

The study employed the theory of joint liability advanced in 1974 by professor Mohammad Yunus in Grameen bank. This is when one borrower cannot repay her loan, group members are contractually required to repay in her stead and such repayment can be enforced through the threat of common punishment, typically the denial of future credit to all members of defaulting group or by drawing on a group savings fund that serves as collateral. Secondly the borrowers believe that if a group member defaults, the whole group will become ineligible for future loans even if the lending contract does not specify this punishment. The joint liability can help alleviate the major problems facing lenders for example screening clients, monitoring and enforcement by utilizing the local information and social capital that exists among borrowers.

1.1.3 Conceptual Perspective

According to schreiner and colombet (2001:339) micro finance is defined as "the attempt to improve access to small deposits and small loans for poor households neglected by the banks". This mainly applies to the commercial banks. On the other hand Otero (1999:8) microfinance is the provision of financial services to low income poor and very poor self-employed people. Microfinance is often used interchangeable with micro credit and connotes a financial venture with interest in rendering services to the poor although with profit making in view. However micro-credit and micro finance are two different concepts, according to Sinda (1998:2) state that micro credit refers to small loans , whereas microfinance is appropriate where NGOs and MFIs supplement the loans with other financial services (savings and insurance). This indicates that micro-credit is part of microfinance since it involves providing credit to poor.

1.1.4 Contextual Perspective

Within about 25 years, microfinance sector has grown from an insignificant side line to a key sector in the economy. The recent studies on microfinance and poverty reduction have shown a poor performance of MFIson povertyreduction. Studies like MFIs and growth of Small and Medium Enterprises (SMEs) by Nakato Mwuma (July, 2015), microfinance, rural livelihoods and women's empowerment in Uganda by Alfred Lakwa, and the contribution of MFIs to the activities of the youth and women in Luwero by Kyeyune Charles(July, 2007) revealed a low impact of microfinance on the people of Luwero including Katikamu Sub-County.

1.2 Problem Statement

According to UBOS (2014), Uganda National census (2014) show that the estimated population of 35 million people almost 19.5% live below poverty line and the evidence is even more worrying for rural areas including Katikamu Sub-County, Luwero district at 27%. Microfinance industry has become increasingly important as a major strategy in the development agenda for poverty reduction. Holcombe (1995) argue that microfinance has indeed many positive impacts. For example in Katikamu Sub-County the MFIs have played a critical role in providing a range of financial and non-financial services to low–income people of the community. However, much as microfinance services have existed in Katikamu Sub-County, the poverty rate has remained high at 16% as per the Luwero District Local Government Statistical Abstract June 2012. The fact that the poverty rate is still high in Katikamu Sub-County amidst the provision of microfinance services creates roam to establish the contribution of microfinance towards poverty reduction in Katikamu Sub-County, Luwero district.

1.3 Aim of the Research

The aim of this research has to determine the reasons / causes of the poor performance of micro finance to the poverty alleviation / reduction in Katikamu Sub-County.

1.3.1 Objectives of the Research

i. To find out the nature of financial products and services offered by MFIs in Katikamu Sub-County.

ii. To find out the contribution of micro finance institutions in poverty alleviation / reduction in Katikamu Sub-County.

iii. To find out the challenges faced by people when using Microfinance services in Katikamu Sub-County.

1.3.2 Research Questions

i. What is the nature of financial products and services offered by MFIs to the people of Katikamu Sub-County?

ii. What is the contribution of microfinance funding in the poverty alleviation / reduction in Katikamu Sub-County?

iii. What challenges are people are facing when utilizing the services of MFIs?

1.4 Scope of the Study

1.4.1 Content Scope

Microfinance was the independent variable and poverty reduction was the dependent variable. The study looked at microfinance activities and how these activities affected the poverty reduction.

1.4.2 Geographical Scope

The study was conducted on the people living in Katikamu Sub-County located in Luwero district.

1.4.3 Time Scope

The study was carried out in the period of 5 years that is 2010 to 2014.

1.5 Significance of the Study

The research was helpful to the researcher in understanding the causes of poor performance of microfinance on the poverty alleviation/ reduction.

The study was helpful to the researcher to gain confidence as it will enable me to apply the theory work and interact with the practicing members who will enable me gain the insight of the actual field.

The study was of vital use to me as it is a partial fulfilment for the Bachelor of Arts in economics at Kampala International University.

The study was of vital use to the micro MFIs as it will help them to understand the impact of microfinance on poverty reduction.

CHAPTERTWO: LITERATURE REVIEW

2.1.1 Definition of Microfinance

Microfinance is a form of financial development that has primarily focused on alleviating poverty through providing financial services to the poor people in the country (Sinha, 2008). Most people view microfinance as being about micro-credit(i.e. it is involved in lending small amounts of money to the poor) in order to uplift their living standard. Microfinance is not only this, but it also has a broader perspective which also includes insurance, transactional services, and importantly, savings (Brenna, 2008).

According to Schreiner (2010), microfinance is a bit of a catch all-term. In the broad perspective, it refers to the provision of financial products which are usually targeted at low-income groups. These financial services include credit, savings, payments & remittances and insurance products. A series of neologisms has emerged from the provision of these services, name micro-credit, micro-savings and micro-insurance. The Canadian International Development Agency (CIDA) defines microfinance as, the provision of a broad range of financial services to poor, low income households and micro-enterprises usually lacking access to formal financial institutions (Graheen,2000). Micro-credit, or microfinance, is banking the unbankable, bringing credit, savings and other essential financial services within the reach of millions of people who are too poor to be served by traditional banks, in most cases

2.1.2 Micro-Credit

It is a component of microfinance and is the extension of small loans to clients, who are too poor to qualify for traditional bank loans. Especially in developing countries, micro-credit enables poor people to engage in self-employment projects that generate income, thus allowing them to improve the standard of living for themselves and their families.

2.1.3 Microfinance Institutions (MFIs)

An MFI is an organization, engaged in extending micro-credit loans and other financial services to poor borrowers for income generating and self-employment activities.

2.1.4 Poverty reduction

Poverty reduction refers to strategies and policies that reduce the number or percentage of people living in poverty or the severity of that impact on the lives of poor people. Poverty reduction is often used as a short hand for promoting economic growth that will permanently lift as many people over poverty line. "Children and women can be Trojan horse for attacking the citadel of poverty" James. P. Grant former Executive Director of UNICEF, support for the process of improving access t and quality of health care, education, water and sanitation and child protection. In the world summit for social development held in 1995, called policy makers to prioritize the above in devising sustainable poverty reduction solutions

2.2 Microfinance Products and Services of Uganda Advance Microfinance

Microfinance came into being from the appreciation that micro-entrepreneurs and some poorer clients can be 'bankable', that is, they can repay, both the principal and interest, on time and also make savings, provided financial services are tailored to suit their needs. Microfinance as a discipline has created financial products and services that together have enabled low income people to become clients of a banking intermediary. The characteristics of microfinance products include (Murray, U and Boros, R, 2002):

- Small amounts of loans and savings and short- terms loan (usually up to the term of one year).

- Payment schedules attribute frequent instalments (or frequent deposits) and instalments made up of both principal and interest, which is amortized in course of time.

- Higher interest rates on credit (higher than commercial bank rates but lower than loan-shark rates), which reflect the labour-intensive work associated with making small loans and allowing the microfinance intermediary to become sustainable overtime.

- Easy entrance to the microfinance intermediary saves the time and money of the client and permits the intermediary to have a better idea about the clients' financial and social status.

- Application procedures are simple and short processing periods (between the completion of the application and the disbursement of the loan).

- The clients who pay on time become eligible for repeat loans with higher amounts and the use of tapered interest rates (decreasing interest rates over several loan cycles) as an incentive to repay on time. Large size loans are less costly to the MFI, so some lenders provide large size loans on relatively lower rates.

- No collateral is required contrary to formal banking practices. Instead of collateral, microfinance intermediaries use alternative methods, like, the assessments of clients' repayment potential by running cash flow analyses, which is based on the stream of cash flows, generated by the activities for which loans are taken.

Sinha (1998) states, "Micro-credit refers to small loans, whereas microfinance is appropriate where NGOs and MFIs supplement the loans with other financial services (savings, insurance)"; therefore micro credit is a component of microfinance in that it involves providing credit to the poor, but microfinance involves additional non-credit financial services such as savings, insurance, pensions and payment services (Okio Credit, 2005). The provision of microfinance services focuses on three core dimensions of poverty alleviation. These are centred on the terms "Promotion" (promotion of individuals and households out of poverty) and "Protection" (protection of people from vulnerability because of fluctuations of income) (Rogaly, (1999).

The MFIs offer Enterprise Development facilities by assisting people, individually and in groups, to access financial services to start and grow enterprises which can sustain them and their families above the poverty line. This is mainly done through the provision of access to

Microcredit services, for building up self-employment, in form of loans at interest free, low interest and market rates (Rogaly, 1999). Making inexpensive credit available to the rural poor has been the key to breaking the vicious circle of low capital, low productivity, and low savings thus overcoming poverty.

Other Microfinance services that are offered by MFIs include provision of: - Financial Literacy by training people to develop basic financial competencies which can be used to guard their assets from being eroded by misusing the already available resources. Counselling and Financial Management which help people develop debt management skills to avoid loan defaulting which can lead to loss of the securing assets or collateral security.

2.3 Impact of Microfinance on Poverty Reduction

MFIs offer several services to their clients who in most cases are the economically less privileged. According to Bennett (1994) and Ledger wood (1999) microfinance clients who are mostly men and women slightly below or above the poverty line can be able to access variety of products and services which are mostly financial. MFIs offer services to the low income earning groups because these groups are ignored by large financial institutions since they are considered less profitable (Olaitan, 2001).
The impact of microfinance can be described in a triangle where it has effect on financial sustainability, outreach to the poor, and institutional performance.

Income is one of the important elements of living standard of the poor people as well as saving. The Microfinance Banks are to provide loans to the poor not only the increase their income but also to mobilize their savings. According the report by the United Nations Development Program, microfinance has over the years proven to be a major development tool which is effective in alleviating poverty (UNDP, 2001). Microfinance therefore empowers those individuals who are financially disadvantaged.

According to Shahidur (1998), poverty is regularly the effect of low economic growth, high population growth, and exceptionally uneven spreading of resources. The determinants of poverty can be traced to unemployment and low productivity amongst the poor. This type of poverty requires to be solved by the creation of jobs. Poverty is as well a result of low productivity and low income which can only be alleviated by putting more investments on human and physical capital so as to be able to increase the productivity of the workers'

MFIs, such as such as:-Village Savings and Loan Associations (VSLAs), Rotating Savings and Credit Associations (ROSCAs), can meet the occasional financial needs of rural households in many societies, since micro-credit programs from MFIs are able to reach the poor at affordable cost (Webster and Fidler, 1995). The programs are in a position to ensure that the poor become self-employed. Micro-credit services are supported by MFIs so as to enable the poor access institutional credit hence playing an important role in alleviating poverty.

Microfinance programs do not have a positive impact on the poor household income and consumption level only but on their social wellbeing as well. The improvement in the social well-being is reflected on recipients' level of education, health and children nutrition. Furthermore it extends to women feelings of empowerment and independence.

Ghalib (2007) argued that tackling poverty points to multidimensional concepts that emphasizes on reducing unemployment, infant mortality, maintaining essential healthcare, sanitation, food, nutrition basic hygiene, and establishing gender equality. Microfinance programs have positive impacts on households' wellbeing which is indicated in the recipient of the micro-credit's children's education, health and household nutrition especially when the recipients are women.

2.4 The Conceptual Framework

In order to understand the challenges facing MFIs on poverty reduction, a conceptual framework has been developed Figure 2.1 below. This has been developed based on an initial literature review undertaken on the impact of microfinance. The conceptual framework consists; the micro-credit, saving services, nonfinancial services, clients' and small businesses characteristics and the clients' wellbeing.

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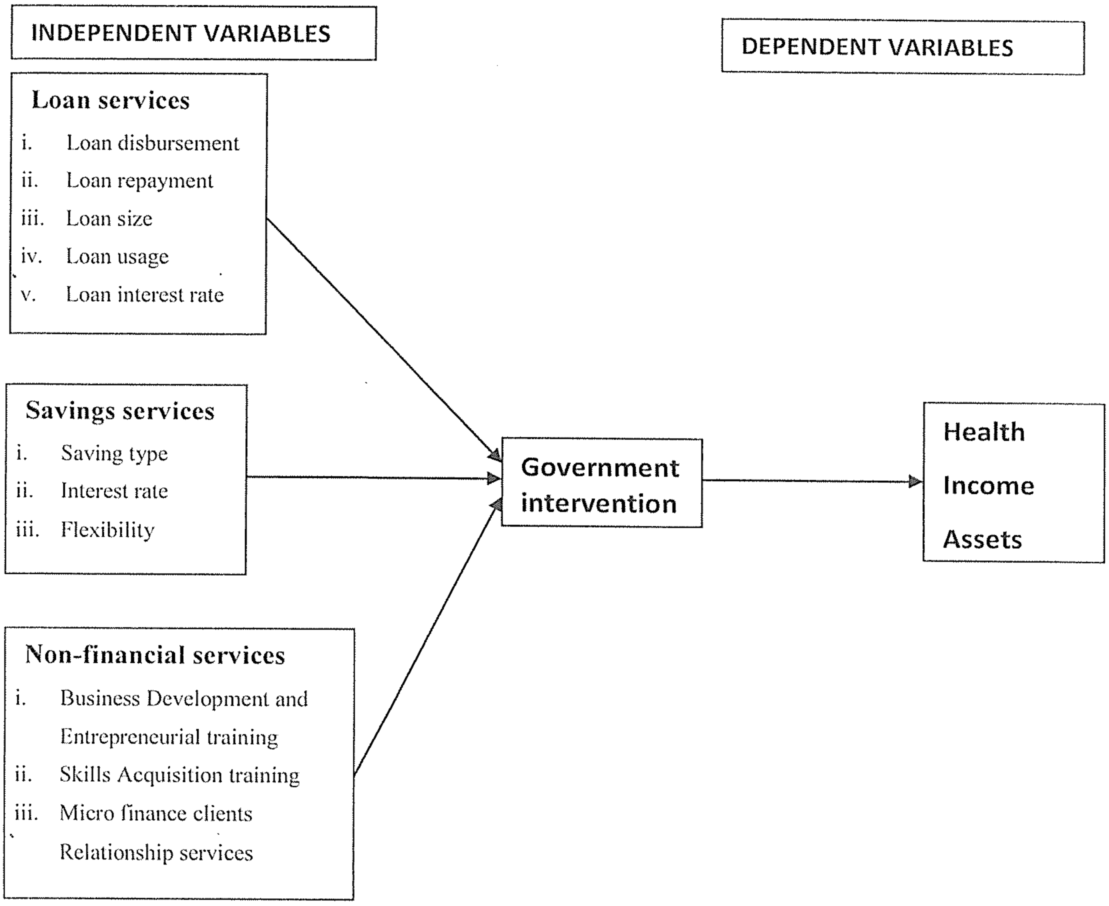
Figure 2.1 Conceptual Framework



Source: World Appl. Sci. J., 30: Innovation Challenges in Multi-disciplinary Research & Practice (2014): pp382-394

The financial services are the driving force of the socioeconomic development of poor people and poverty reduction. The financial services of microfinance are generally known as the credit and saving, insurance, payment and repayment services (Ledger wood, 1999). Loan is a main product of MFIs which refers to the small amount of credit given to poor people at reasonable interest for generating income through self-employment. The terms of the given loan are important determinants to the clients' wellbeing, household improvement and their businesses

The flexibility of loan disbursement which includes the facilities of easy access to services, time responsiveness and providing adequate information about the terms of service is important determinants for improving the clients' wellbeing. Moreover, the flexibility of loan repayment policy which includes loan grace period, repayment period, and interest rate all are critical factors for determining the role of microfinance services on clients' wellbeing.

Saving service is another product of microfinance which takes two forms of mandatory and voluntary savings. The mandatory saving is referred to the value of savings that the clients of microfinance are required to save as a condition of obtaining future loan; while the voluntary savings is referred to the amount of savings kept by MFI clients which is not required as a condition of an existing to loan. Both of mandatory and voluntary savings are important for enhancing the capability of poor to cope with the uncertainty shocks and reduce the financial cost of lending and secure a sustainable fund sources (Robinson, 2001). The interest rate on the deposited savings of the clients has the power to help poor in accessing to large size of loans and consolidate their financial position.

The non-financial services such as enterprises development trainings are important factors to effectively use the financial services and advance the clients' wellbeing and their businesses' performance. The entrepreneurial and business developments trainings have been recognized as the engine of effectively use the financial services which lead to enhance the performance of the clients. Thus, embedded financial services with entrepreneurial and business development training are inevitable for creating successful entrepreneurs.

Social mediation service has been known as an important factor for facilitating the process of accessing to the financial services without collateral through building social capital between the group members. Social intermediation has been defined as a process in which investments are made in the development of both human resources and institutional capital, with the aim of increasing the self-reliance of marginalized groups, preparing them to engage in formal financial intermediation (Hulme, 1996).

Group forming is important for both the lenders and the borrowers. The lenders attempt to reduce the cost of microfinance services through achieving a wide and deep outreach which required free physical collateral facilities while they want to mitigate the risk of asymmetry information. The group liability has shown to be a crucial approach to overcome the challenges of asymmetry information and mitigate the risk of adverse selection through peer monitoring and screening functions. The group members have the opportunities to easily access to loan services and extend the size of the required loan as well as sharing the information and improve the overall performance of the group members.

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 INTRODUCTION

This chapter presents the methods and techniques applied to gather the data or findings presented in chapter four. It describes the research design, study population, sample size, sample tools, research procedures, data collection methods, data management and poverty reduction

3.1 Research Design

Descriptive research design was used in this study because of its in-depth aspect of collecting personal data or attributes that helps in learning people attitudes, beliefs, values behaviour, opinions, habits and desires. It will also help in courage of a wide area using representative samples.

3.2 Study Population

The target population for this study is the MFI beneficiaries in Katikamu Sub-County. The population size is 1200 (UAMF, 2015).

3.3 Sample Size

A sample size of 291 respondents approximately 24% of the study population according to krejcie and Morgan table of 1970

3.4 Sample Selection Methods

The study employed simple random sampling and purposive sampling. Simple random sampling was used because the study intends to select a representative without bias from the accessible population. This ensured that each member of the target population has an equal and independent chance of being included in the sample.

Purposive sampling was used to select respondents, especially administrative employees in order to collect focused information, typical and useful information to avoid time and money wasting. The study was employ multi-instruments using both primary and secondary methods.

3.5 Data Source

The researcher used both primary and secondary data sources.

3.5.1 Primary Data

Primary data was obtained through interviews and the administration of questionnaires to the clients and staff of MFIs.

3.5.2 Secondary Data

The researcher used secondary sources with an aim of comparing secondary data with responses to the primary data that was gathered in order to get a meaningful and objective interpretation of finding. Secondary data involved review of existing literature such as previous research dissertations, journals, textbooks and the Internet.

3.6 Data Collection Methods

Data for the research was collected from both primary and secondary sources. Semi structured questionnaires were administered to the randomly selected respondents and focus group discussions with purposive Loan Officers to collect the primary data.
Additional secondary information/ data was obtained from relevant records kept by clients , public libraries and interest which included journals , text books , news papers and articles

3.7 Validity and Reliability of the Instrument

3.7.1 Validity

Validity refers to the extent to which a method of data collection presents what it is supposed to do, or the extent to which a method of data collection measures what it is supposed to measure (Bell, 1997).Content validity was ensured by subjecting the researcher devised methods of data collection on microfinance and poverty reduction by the judgments from the experts who estimated the validity on the basis of their experience such as microfinance officials.

3.7.2 Reliability of Instruments

Reliability according to Amin (2005) refers to the degree to which the instrument consistently measures whatever it is measuring. Hence, the researcher ensured reliability by constructing thorough conceptual framework in which the terms used in data collection instruments was analysed and explained. The researcher also requested his Supervisor in both quantitative and qualitative research from the department of Economics to review the instruments. The questionnaire was improved and adjusted according to the recommendations provided by the Supervisor.

3.8 Ethical Consideration

A letter of introduction from KIU was presented to the Manager and Local Council Ones (LC.1s) to facilitate the data collection for the research (Annex 2).
Contents of the research instruments were agreed upon with the KIU Supervisor.

3.9 Limitations

Since the study is conducted based upon limited poverty reduction indicators of beneficiaries, the conclusions are only indications of the impact UAMF has had towards this features. The result could not be generalized to the overall impact on poverty reduction of the beneficiaries. It is important also to note that because of the fact that microfinance services are perused with diverse socio economic, cultural and institutional environment, and its results could not be generalized to national level.

CHAPTER FOUR: PRESENTATION, INTERPECTION AND ANALYSIS OF THE FINDINGS

4.0 Introductions

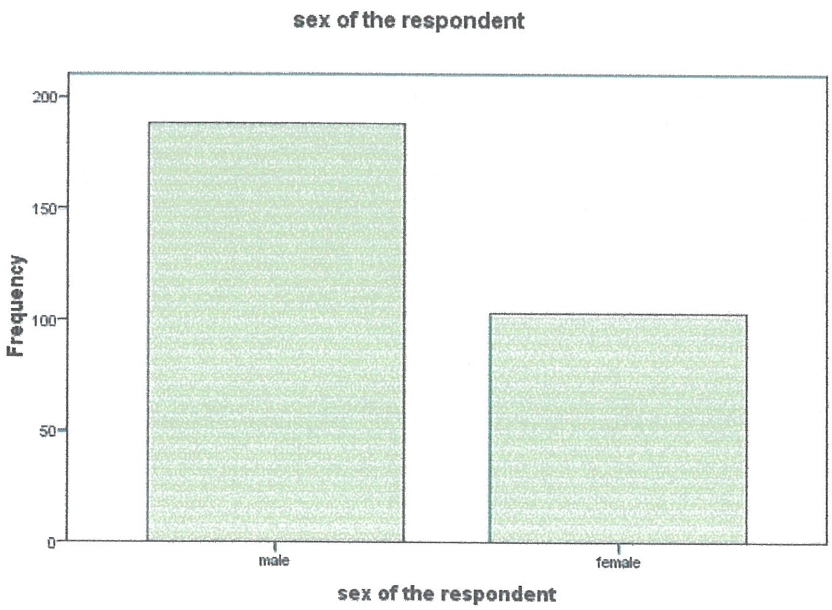
This chapter presents the findings of the research, the analysis and discussion of the findings. The findings wereanalysed in relation to the objectives of the study and the literature reviewed on the microfinance and poverty reduction.

The study particularly targeted 291 beneficiaries of MFIs who received financial and non-financial services in Katikamu Sub-County.

4.1 Demographic Characteristics of the Sample

The sample of MFIs beneficiaries shown in figure 4.1.1 presents the number of persons in terms of the sex of persons surveyed, there are more male than female participants who benefits from microfinance loans and services in Katikamu Sub-County.

Figure 4.1.1 Bar Graph showing the Gender



Source: Primary Data

The demographic factors presented in the survey results include sex, age, and marital status, level of literacy. A sample of 291 participants was randomly selected representing 24%of 1200 microfinance beneficiaries who represent just only 2.7% of the total Sub-County population of 43,671 persons.

Table 4.1.1 Sample Representation by Sex and Age of the Respondents

		Age of the Respondent				Total
		18 - 25	26 - 35	36 - 45	46 and Above	
Sex of the Respondent	Male	80	77	17	14	188
	%	27.5%	26.5%	5.8%	4.8%	64.6%
	Female	16	63	16	8	103
	%	5.5%	21.6%	5.5%	2.7%	35.4%
Total		**96**	**140**	**33**	**22**	**291**
		33.0%	**48.1%**	**11.3%**	**7.6%**	**100.0%**

Source: Primary Data

Table 4.1.1 shows the age and the sex composition of the people who accessed MFI services in Katikamu Sub-County out of the sample size of 291 participants 188 (64.6%) were male and 103 (35.4%) were female.

In the age group of 18- 25 years 80 (27.5%) were male against 16 (5.5%) female accessed the services.

In the group of 26-35 years 77(26.5%) were male compared to 63 (21.6%) female who accessed MFI services . while in the age group of 36-45 years17 (5.7%) were male in relation to 16 (5.5%) females did benefit from the MFI services . the same applies to the age group of 46 and above years 14 (4.8%) were male and 8 (2.7%) were females.

In all the age group, male participants dominated access to MFI services. This would mean that male participants are more enlightened or have collateral security required to enable them access MFI services especially loans, than their female counterparts. Since loans accessibility and utilization requires know how, it would also mean that male participants have higher level of education hence know how than females.

Table 4.1.2 Marital Status of the Respondent

		Marital Status of the Respondent				Total
		Single	Married	Divorced	Widowed	
Sex of the Respondent	Male	79	84	12	13	188
	%	27.1%	28.9%	4.1%	4.5%	64.6%
	Female	36	53	7	7	103
	%	12.4%	18.2%	2.4%	2.4%	35.4%
Total		**115**	**137**	**19**	**20**	**291**
%		**39.5%**	**27.1%**	**6.5%**	**6.9%**	**100.0%**

Source: Primary Data

Drawing conclusion from the above sex, age group and percentage performance, one would say that males have on edge over the female in accessing credit hence personal socio economic development and welfare thus more poverty reduction on the males than on the females.

In Uganda financial loans are secured against one's collateral security which securities are usually land, buildings and sometimes animals and bank accounts. Traditionally property ownership is male dominated hence the inability for females to use collateral security to access MFI services especially loans

Also in Uganda and for that matter in Katikamu Sub-County fewer women are educated than men thus denying women chance to form independent decisions / opinion as to whether borrow or not borrow and even to be able to repay the loan and interest. Male dominance hinders the development of family and notion.

As Schwartz (2013), depicts lonely women (single, widowed and divorced), have a better tendency to become beneficiaries of microfinance, in terms of marital status in this study 39.5% of the participants were single, about 47.1% married, 6.5% were divorced whereas 6.9% were widowed as shown be table 4.1.1

The relationship of children to parents in either married , divorced or widowed categories hinders the ability to develop (for example ; paying school fees, maintenance and other family obligations) the family through loan acquisition as it would be hard to repay if one has large family to cater for.

Table 4.1.3 presents data on education status of the clients who benefited from the MFI services in Katikamu Sub-County. The level of education enables participants to fully access services, well aware of the implications.

Table4.1.3 Sampled Clients by Educational level and Employment

Educational level		Sex of the Respondent		Total
		Male	Female	
	Primary level %	4 1.4%	5 1.7%	9 3.1%
	"O"level %	19 6.5%	10 3.4%	29 10.0%
	"A"level %	51 17.5%	12 4.1%	63 21.6%
	Certificate %	21 7.2%	35 12.0%	56 19.2%
	Diploma %	25 8.6%	22 7.6%	47 16.2%
	Bachelors %	68 23.4%	19 6.5%	87 29.9%
Total %		**188** **64.6%**	**103** **35.4%**	**291** **100.0%**
Employment	Farming %	51 17.5%	57 19.6%	108 37.1%
	Employed in Government %	51 17.5%	13 4.5%	64 22.0%
	Employed in Private %	52 17.9%	17 5.8%	69 23.7%
	Trading %	34 11.7%	16 5.5%	50 17.2%
Total %		**188** **64.6%**	**103** **35.4%**	**291** **100.0%**

Source: Primary Data

As Feleke (2011) indicates microfinance creates a much better positive effect on beneficiaries equipped with a better education and skill training on business administration, income generating and loan repaying than on beneficiaries have no education and training skills.

According to table 4.1.3 , clients who attained to table primary level of education and below only 9 (3.1%) accessed the MFI services meaning the less one is educated the less he / she is able to access the MFI services. While clients who attained "O" level were 29 (10%) of whom 19 (6.5%) were male and 10(3.4%) were female.

Those who attained "A" level were 63 (21.6%) of whom 51 (17.5%) were male and 12 (4.1%) were female. For the certificate a total of 56 (19.2%) accessed MFI services and 21 (7.2%) were male compared to 35 (12%) female.

Those who had attained diploma qualification, a total of 47 (16.2%) accessed MFI services of whom 25 (8.6%) were male and 22 (7.6%) were female while clients with bachelors who accessed MFI services were 87 (29.9%) of whom 68 (23.4%) were male and 19 (6.5%) were female.

From the above data one would conclude that people who accessed MFI services were on average those with bachelors followed by those who attained certificates.

In all cases males were more than females apart from certificates as male children are more favoured in education than female children.

There are sufficient reasons as to why there were fewer (1200) people out of a population of 43,671 who accessed MFI services especially loans in Katikamu Sub-County. The reasons are ignorance, inability to utilize loans and there are more illiterates who fear to borrow.

With regard to employment, there were 227 (78%) in Non-government compared to 64 (22%) in government employment of those in private employment 137 were male and 90 were female and for government 51 (17.5%) were male and 13 (4.5%) were female.
It is again the level of semi-illiteracy that hinders government employment especially for women.

This indicates that microfinance services in Katikamu Sub-County were accessed by few illiterates and mainly left to the elites as financial services industry requires a lot of paper work and skills to utilize loans for the intended economic production.

In rural area like Katikamu Sub-County literacy rate is low; this leads to lack of sufficient information to determine one's credit worthiness which in most cases uses incorrect and misleading information which is risky (Churchill, 1997).

This is consistent with what Pitt and Khandker (1998) noted that illiteracy becomes an obstacle to most people in obtaining and utilizing financial services which requires written application and other paper work.

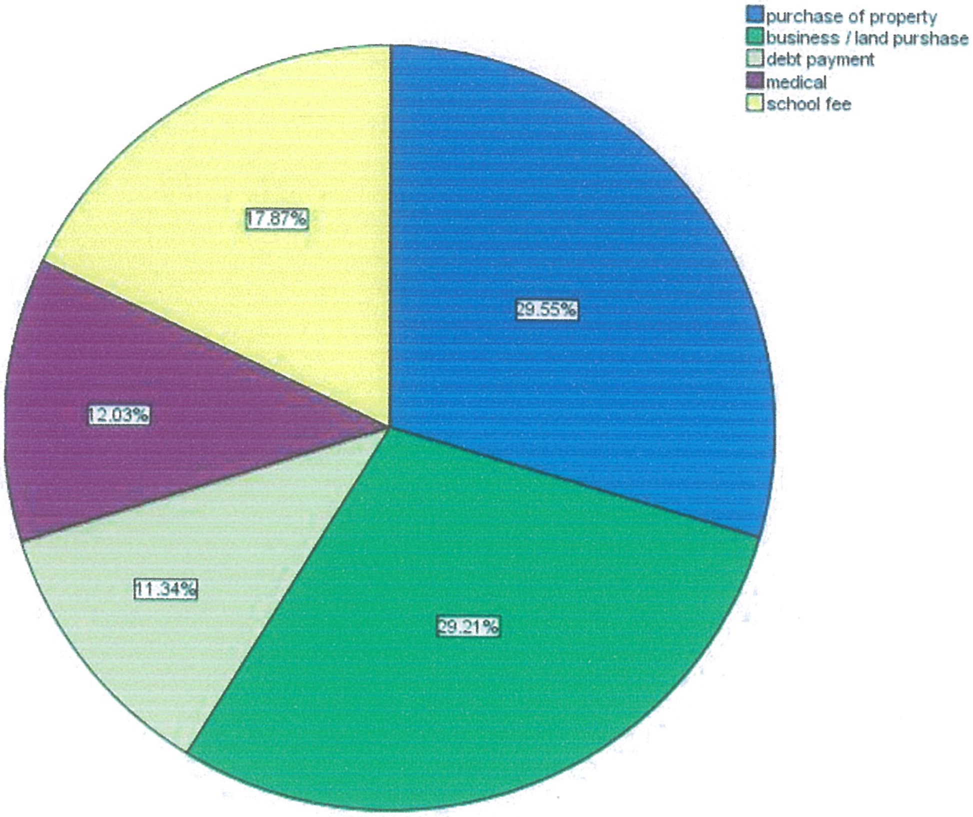
Illiteracy leads to small amounts of credit being given to illiterate clients. Hence small impact on poverty reduction as the loans is too small to attract higher returns to the capital.

In so doing the MFIs have adopted innovate techniques which include continuous screening, oral and pictorial training, group guarantees, and use of thumb print instead of signatures and dissemination of market information. Through such processes the MFIs can improve on the clients' capacity and character to enhance the determination of clients' creditworthiness.

4.2 Objective One: To find out the Nature of the Product and Services of MFIs

The study identified the types of products and services offered by MFIs and included loans, business counselling and insurance among others.

Figure 4.2.1. Purpose of the Loan



Source: Primary Data

The implication is that most of the clients in MFI mostly go for loan purposely to purchase properties, expand or open up business ventures as one of the pillars for offering a loan and other services are coincidental. Others are for debt payment, school free and treatment.

Table 4.2.1 Type of Program and Source of Information

Type of Program		Sex of the Respondent		Total
		Male	Female	
	Group %	116 39.9%	78 26.8%	194 66.7%
	Individual %	72 24.7%	25 8.6%	97 33.3%
Total %		**188** **64.6%**	**103** **35.4%**	**291** **100.0%**
Sources of Information				
	Through Friends %	119 40.9%	103 35.4%	222 76.3%
	Through Society %	52 17.9%	0 .0%	52 17.9%
	Through Media %	17 5.8%	0 .0%	17 5.8%
Total %		**188** **64.6%**	**103** **35.4%**	**291** **100.0%**

Source: Primary Data

Table 4.2.1 assesses that group access to credit was 194 (66.7%) as opposed to individual access to credit of 97 (33.3%) respondents. One could conclude that .the group methodology is used out of the believe that they are able to reduce the cost borrower improve the loan repayment through shared liability create better access to information on the character of the borrower and in finding out the creditworthiness of potential borrowers.

This also partly because groups once formed offer guarantee and screening/ selection criteria than individuals and resource saving in terms of time, supervision and monitoring

Table 4.2.1 indicates that 222 (76.3%) of the clients were quite aware of the MFI services existence through group friends , while 52 (17.9%) got information through society and only a negligible number of 17 (5.8%) got the information through media reason being that illiteracy is still high in rural settings or that poverty does not encourage access to media. On other hand awareness through friends / group participation is an old tradition through which rural development can be enhanced.

Financial institutions prefer leading to co-operative groups which do not require collateral securities .and through co-operatives, loan interest rates could be reduced as well as grace period raise.

Table 4.2.2 Government Involvement in Microfinance Activities

		Sex of the Respondent		Total
		Male	Female	
Government involvement in Microfinance	Yes	51	48	99
	%	17.5%	16.5%	34.0%
	No	137	55	192
	%	47.1%	18.9%	66.0%
Total		**188**	**103**	**291**
%		**64.6%**	**35.4%**	**100.0%**
Reward for Supporting the Government	Yes	36	35	71
	%	12.4%	12.0%	24.4%
	No	152	68	220
	%	52.2%	23.4%	75.6%
Total		**188**	**103**	**291**
%		**64.6%**	**35.4%**	**100.0%**
Reason for not repaying the loan	Yes	24	33	57
	%	8.2%	11.3%	19.6%
	No	164	70	234
	%	56.4%	24.1%	80.4%
Total		**188**	**103**	**291**
%		**64.6%**	**35.4%**	**100.0%**

Source: Primary Data

In Uganda, Katikamu Sub-County inclusive government play a leading role in stimulating development. However development programs initiated by government attract less attention as such programs are introduced by politicians and viewed as government propaganda. In the table 4.2.2 99 (34%) perceived MFI services as government projects while 192 (66%) who viewed it as private initiative when asked their views regarding whether it is reward for supporting the government only 71 (24.4%) agreed while 234 did not see it as a reason for not repaying the loan.

This misinformation is as a result of politicians who go round confusing people that government will avail money if people vote it in to power.

Government involvement in rural credit programs through MFIs misleads the rural people who at times through confusing political views do regard such services a payback for support given in so doing borrowers do not pay back what they borrow.

Government need only to provide enabling environment that is capable of creating conducive for utilization of the MFIs services for poverty reduction.

Table 4.2.3 Supervision

Friendly	**Frequency**	**Percentage (%)**
Yes	187	64.3
No	104	35.7
Total	**291**	**100.0**
Visits		
None	63	21.6
Every three Months	121	41.6
Monthly	54	18.6
Every two Weeks	18	6.2
Every week	35	12.0
Total	**291**	**100.0**

Source: Primary Data

According to table 4.2.3 187 (64.3%) of the borrowers reported perceiving the Loan Officers to be friendly while 104 (35.7%) viewed the Loan Officers unfriendly.

Loan Officers help in disseminating information that enables borrowers to access loans and properly utilize them for prosperity. Table 4.6 details the frequency Loan Officers supervise /visits their clients 121 (41.6%) reported having been visited / supervised every three months 54 (18.6%) were visited one a month , 18 (6.2%) were supervised every after two weeks 35 (12%) once a week and 63 (21.6%) reported never supervised.

As can be seen above, there is inadequate loan supervision. Lack of supervision means lack of information about loan application, repayment techniques and poor utilization of the loan. The missing of required technical information leads to inability to attain recommended yields hence difficulties in repaying loans and developing themselves.

Table 4.2.4 Advices from MFIs Officials

Advice	Frequency	Percentage (%)
Yes	205	70.4
No	86	29.6
Total	**291**	**100.0**
Benefits		
Yes	187	64.3
No	104	35.7
Total	**291**	**100.0**

Source: Primary Data

Out of 291 clients 205 (70.4%) received advices and 187 (64.3%) reported having benefited from the advices. For 86 (29.6%) reported never having received any advice subsequently only 104 (35.7%) reported never having benefited from the advices.

This indicates that the Loan Officers were never clear in disseminating the technical information required by the clients or that the clients never understood the Officer's message and could not respond to the techniques given.

In most cases officers visits benefits more to clients who are able to entertain them with gifts and other social benefits. Those reporting never having benefited from the Officers advices are likely to be the poor who cannot afford entertaining Loan Officers.

4.3 Objective Two: To Find out the Contribution of MFIs in Poverty Reduction

Table 4:3.1 Utilization of the Loan

		Frequency	Percentage (%)
Valid	Purchase of property	86	29.6
	Business /	85	29.2
	Payments of debts	33	11.3
	Treatment	35	12.0
	School fee	52	17.9
	Total	**291**	**100.0**

Source: Primary data

According to table 4.3.1, 85 (29.2%) reported utilizing loans in business. Apart from retail and produce buying this makes business turn over in a short period, agro-business which is common in Katikamu Sub-County take long to materialize. Their gestation periods are long and are prone to more hazards/ risks. However they repay well if longer grace periods and loans are given at low simple interest rate.

Equally loans used to acquire assets and paying school fees are the best investment ventures in the long run. Low and simple interest rates and longer grace periods would be the best means to develop rural populations. Some 86 (29.6%) reported using the loans to acquire assets / property and 52 (17.9%) reported using the loans for paying school fees.
Loans used for payments of debts and medical treatments are low at 11.3% and 12% respectively.
The high interest rates begin to count as soon as the clients sign for the loans and before the loans are actually given and utilized due to no grace period given.

Table 4.3.2 Places for Medical Treatment

		Frequency	Percentage (%)	Valid Percentage (%)
Valid	Private Health Care	239	82.1	82.1
	Public Health Care	52	17.9	17.9
	Total	**291**	**100.0**	**100.0**

Source: Primary Data

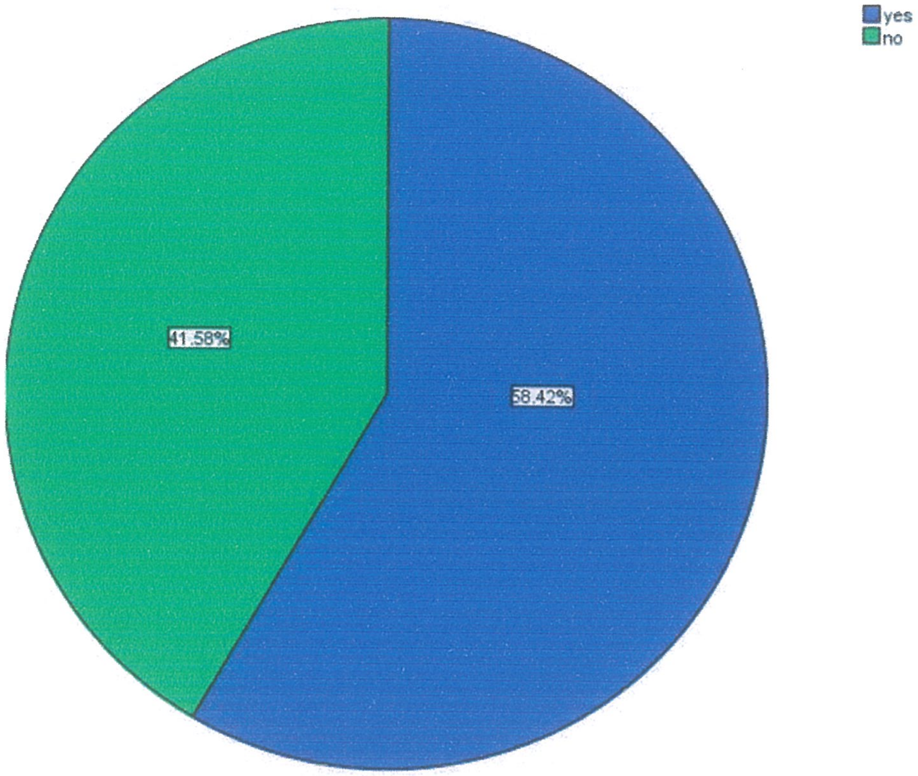
Health is an important ingredient for productivity of the household's effective use of the household resources. The data shows that at least all the households had a sick person in the household in the last three months. All the clients could attain the treatment by private 82.1% and by government means 17.9% as by table 4.3.2. And 76.3% could afford to pay the associated expenses every time a member of family could fall sick as table 4.3.3

Table 4.3.3 Can you Afford the Costs

		Frequency	Percentage (%)	Valid Percentage (%)
Valid	Yes	222	76.3	76.3
	No	69	23.7	23.7
	Total	**291**	**100.0**	**100.0**

Source: Primary data

Figure 4.3.1 Clients' View on MFIs" Contribution



Source: Primary Data

Respondents were asked how they feel about the contribution of micro financing. Various aspects were used to determine whether MFI has helped in up lifting the standards of living of the poor plus their development ventures. 58.42 % admitted that there is an effect that MFI has made in Katikamu Sub-County and the respondents identified the areas where they feel the impact is more.

This included:

i. Business expansion

ii. Ability to pay local taxes in time

iii. Improvement in farming practices

iv. Meeting customer demands in time

v. Meeting financial obligations in time

4.4 Objective Three. To find out the Challenges facing the Microfinance in Poverty Reduction.

Table 4.4.1: Terms and Conditions

	Frequency	Percentage (%)
High Interest Rate	191	65.6
Loan Money Too Little	52	17.9
Low / No Grace Period	48	16.5
Total	**291**	**100.0**

Source: Primary Data

In table 4.4.2, 191 (65.6%) of the respondents reported interest rate to be very high, putting in to account the nature of business/ utilization , the loans are put to use interest rate charged by MFIs is beyond the dream of the rural population utilizing MFI funds hence the low impact of poverty reduction in Katikamu Sub-County.

The clients of MFIs funding are charged interest rate as soon as they sign for the loans without actually taking possession, a factor that make borrowing from MFIs quite expensive and unaffordable.

This confirms what Binswanger and Rosewieg (1999), Odwongo (1996) and Von Pische (1999) noted that disbursement and repayment of interest as well as loans are not synchronized with production.

As for affordability of payment of the interest rate and loans, only 171 (58.8%) reported to be affordable while 120 (41.2%) reported to be unaffordable.

Also the clients 52 (17.8) reported a short grace period. This grace period does not encourage but hinder borrowing. The crucial incentives in borrowing are interest rate and grace period which impacts the ability to utilize loans.

The nature of businesses involved in the rural areas like Katikamu Sub-County are:- petty trade, agro-business, crop and animals production. These business ventures do not yield a quick turn over hence very difficult to utilize the loans with a short grace period and high interest rate and make an economical profit which can have an impact on poverty reduction.

Loan beneficiaries can only discharge their assets and make more loans. This is evidenced by table 4.4.2 where 170 (58.8%) and 127 (41.6%) respectively. This poverty than they were before borrowing if ever they under take the risk of borrowing.

Table 4.4.2 Solution for Recovering the Loan

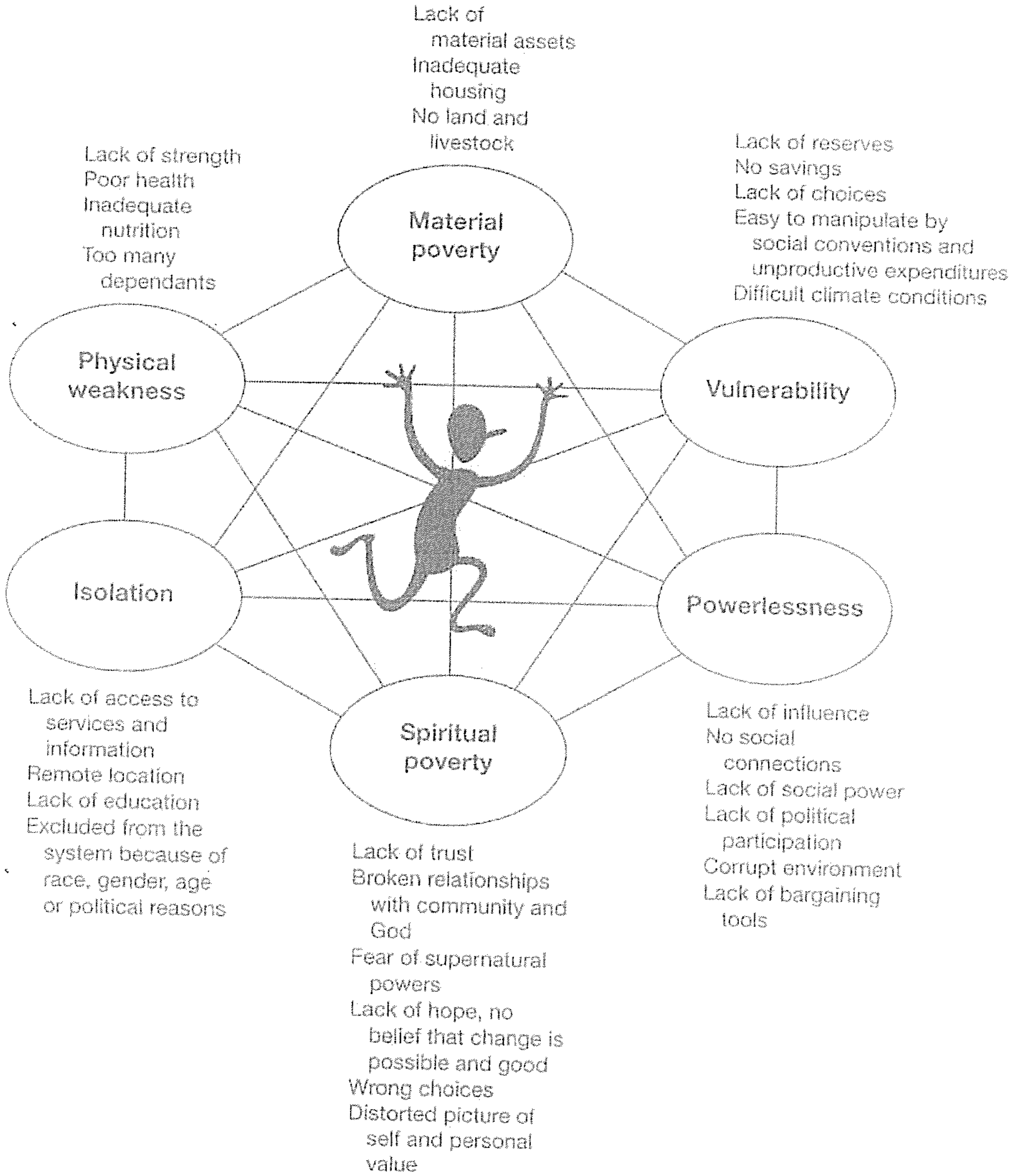
	Frequency	Percentage (%)
Borrowing	121	41.6
Selling Assets/ Collaterals	170	58.4
Total	**291**	**100.0**

Source: Primary Data

Capital in terms of microfinance is just one factor which requires other factors access to markets, information, and training of any kind, business development skills and business networks and entrepreneurial skills. Indeed, microfinance is not a panacea to the problem of poverty but improved access to capital and other financial services are significant to the poor. The problem is that market failures weaken the effectiveness of microfinance.

According to Ferrand, et al (2004:11) he argues that functioning markets is critical for poverty alleviation. The danger is that it does not work effectively for the poor. Ferrand outlines three steps for the markets to work namely, understanding markets, focusing on factors that inhibit their improved performance and opportunities for their development, developing a vision of the future, a picture of how markets can work effectively, and acting to build markets, to make markets more effective and inclusive. According to Copestake (2002) microfinance has a polarizing effect as there is discrimination in favour of richer clients, who benefit from better access to credit, and exclusion of poorer people. If one of the aims of microfinance is to assist the "poorest of the poor" the microfinance is not always the most appropriate intervention.

Figure 4.4.1 POVERTY TRAP



Source: Roth James (1997) The limits of Micro-Credit as a Rural Development Intervention

Marek Markus (2003:236) in his research on how the social capital findings relate to micro-Enterprise development and specifically to microfinance used Robert Chambers (1983) literature to help him to put together the "poverty trap". Marek argues that poverty is a complex web of disempowering relationships, which don't work. Households trapped in this spider's web suffer from material poverty, vulnerability, powerlessness, physical weakness, isolation and spiritual poverty. Therefore, addressing the problem of material poverty through microfinance services is vital and critical, but it will not be enough for the poor households to escape from the poverty trap. Marek argues that it is not possible to neglect other aspects of human nature and the multi-sided nature of poverty.

When respondents were confronted with the questions as to how they would like MFI services to be improved, varying responses were given and the respondents view included long grace period, low interest rate, timely delivery of loans and increased loan amounts /size.

These suggestions appear in line with the difficulties encountered/ identified facing the rural / urban poor who access financial credit. This common occurrence is widely experienced in Uganda and is why Uganda rural population that comprise 81.56% is predominately on subsistence farming irrespective of many socio - economic infrastructures evident in the area. The only way to alleviate or reduce the current poverty in Uganda and stimulate sustained development and meaningful standards of living is for MFIs to avail loans at lower interest rate with longer grace periods.

CHAPTER 5: DISCUSION, CONCLUSIONAND RECOMMENDATIONS

5.1 DISCUSION

Microfinance is a key strategy for poverty reduction, inequality access to credit by the poor has been identified as one of the contributing factor to poverty.
The aim of this research is to explore the contribution and challenge of microfinance intervention on poverty reductions. I should emphasize thus I have been more interested in the challenge of the microfinance in poverty reduction.

5.1.1 Objective one: To find out the Nature of the Products and Services of MFIs to People of Katikamu Sub-County.

The study examined the nature of the products and services of MFIs to customers of Katikamu Sub-County paying particular attention to the basic intermediation functions of funds mobilization, credit allocation and distribution among respondents. MFIs loans are more readily available for development related purposes.

The findings revealed that loan is the most used services offered by MFIs for different needs like small business, purchase of property, school fee among others though they offer a number of others services which include insurance, business counselling. This is in agreement with Sinda (1998) who provided the composition of MFI services as stated above. This finding is also support by Rogaly (1999) who suggested that MFI services are for promotion of individuals and households out of the poverty and protection of people from vulnerability of fluctuations of income.

By financing more SMEs the MFI have made a significance contribution to the creation of employment and improving household income. According to the study, loans are given for business, school fees and debt payment among others.

Access to education (primary, secondary and university) enables rural population to access financial services especially loans and be able to utilize them. Because of the level of education attained, more male participants were employed in private sector (17.9%)and government employed (17.5) than female 5.8% and 4.5%respectively.This indicates that microfinance services male beneficiaries are by far better off than their female counterparts in terms of credit worthless to access the loans and ability to utilize loans to be able to reduce on the poverty.

Assets play a significant role in enabling loan applicants to access and quality for borrowing facilities .Without loan accessibility, fewer and fewer rural people (Katikamu Sub-County) access financial services hence unable to develop economically and socially. Also among the incentives that enabled the sampled member to access financial services and reduce on the poverty. Group access was 66.7% compared to 33.7% individual access.

Group participation increases bargaining power for interest rate and grace periods. The more people are united the easier and cheaper they access the necessary information and facilitates need to effectively utilize the financial services to reduce on poverty.

The data shows that kind of response of high interest rate and short grace period hinder borrowing as identified by the sampled clients, hence no poverty reduction.82% depend on subsistence farming borrowing at an interest rate of 60% or 70% per annum makes life harder for the rural people to earn quality living to reduce poverty. The same data shows that there is low grace period of one week according to rural petty traders and subsistence farmers who engage in borrowing from MFIs.

Nearly all rural people engage in crop and livestock businesses all of which require longer grace periods to produce results given the gestation period. Availing small grace period and loans at higher interest rate (60%) per annum prohibits rural people's ability and willingness to borrow from MFIs. The study also indicates that those who fail to the loans there either borrow more to settle the first debts or sell the assets which increase more chances of worsening the poverty conditions. Also penalties imposed on loan defaulters discourage the would be borrowers.

It was also found that most of the would be interested clients to borrow from the MFIs and have no collateral securities especially female clients cannot easily access the financial services (credit available).

According to the study, because of the government politicizing of microfinance, through prosperity for all .Many people viewed/perceived such microfinance services as political programmers rather than incentives to develop and poverty reduction, in general these conflicting interests: political and socio-economic factors which hinder the would be interested borrowers from accessing the financial services for development. There is a need to separate the role of political dispensation from private economic undertakings.

5.1.2 Objective two: To find out the Contributions of MFIs towards Poverty Reduction.

This study examined the contributions of MFIs to poverty reduction in Katikamu Sub-County using both primary and secondary data collected from randomly selected respondents.
The study employed different performances indicated such, the income, education, health and assets.

The study findings deduced that out of selected attributes for the contribution of MFIs funding to the rural poor, business expansion, improvement of farming practices and meeting financial obligations in time increased peoples' income. This therefore implies that MFIs play a vital role in boosting up the incomes of their clients.

This is supported by Brau James Gary, Waller (2005) who conceded that growth was also different by business etc. However a few clients harbour a different view about MFI charge high interest rates coupled with the very short repayment period which culminates into confiscation of property, imprisonment and general impoverishment and hence they see no positive contribution at all. This argument is supported by Otero and Hatt (1993).

The income status result suggested that the loans provided by the MFIs shows a positive relation in beneficiaries' income as it indicates that about 47.1% clients improved their income. It is these incomes that can help clients to solve some problems of poverty trap isolation and physical weakness as they can afford a good diet.

Powerlessness as now they acquire social connections .Vulnerability as they can save and now be able to deal with crisis and as a consequence break the poverty trap (figure 4.4.1)
The evidence points the fact that the training and advices provided by the MFIs had a positive contribution relating to the improved utilization of the loans and business management capacity of the business.

Education is a human right and an important ingredient for any progress in any society .It contributes to the accumulation of human capital. Education is one of the important components to fight poverty, diseases and ignorance. Critical is also the health ingredient for the wellbeing of the client since a healthy client is more productive in society and resources that got to health if a client is not side sick can be saved invested in the income generating activities hence progress in society and out of the poverty trap. The data shows that the clients can get funds to finance their children's education and they can afford to treat their members every time a member of the family could fall sick.

5.1.3. Objective Three: To find out the Challenges facing MFIs in Poverty Reduction.

This study further examined the challenges facing the performance of MFIs in poverty reduction.

One of the biggest challenges in the provision of financial services remains that of designing appropriate financial products and delivery mechanisms that reflects an understanding of the reality of the poverty reduction. MFIs need to understand the finance needs of the poor. This enable them develop and match the products and delivery methodologies to the diverse needs of these poor.

Shortage of funds for on lending and capacity building has been cited as a challenge to MFIs. This is due to scarce donor resources and lack of conventional security to borrow funds from the commercial sector. The law prohibits institutions from taking public deposits unless they are licensed under the banking act. This is evidenced by the long gestation period for the loan to mature.

High transaction costs are one of the major challenge limiting MFIs in poverty reduction. They require high charges for loan processing which cannot be affordable to the poor thus limiting the poor from accessing the financial services.

Interest rates affect the nature of the transactions such as the size of the loan accessed by the clients. Respondents asked about the interest rates and other changes incurred while servicing loans, indicated that costs were high. Other charges included insurance charges, membership renewal fees, pass books and LC recommendation letter fee. This confirms with Lehman et al

(2004) who revealed that MFIs charge higher interest rates where their sustainability comes from the poor paying high interest rates.

The study identified illiberally and inadequate skill as an inhibiting factor towards effective performance of microfinance in poverty reduction as majority of clients of MFIs is engaged in very traditional low paying business. Clients do not have knowledge of alternative marketable skills that can benefit them when their businesses do not function properly.

Providing financial services to this category without market linkage and other business development services increases the risk of credit which makes it difficult for microfinance programs to perform in poverty reduction. The clients lack business records on which to base loan decision.

Majority (66.7%) uses the group based model as a channel for financial services provision. The group methodology is used by MFIs out of the believe that they are able to reduce the cost of gathering information about the borrowers, improve the loan repayment through shared liability for default. Create better access to information on the character of the borrower. When the group becomes weak and the group pressure (collateral) shrinks, this affects the performance of the microfinance in poverty reduction since this increases the credit risk to microfinance programs and after times leads to loan default. When loan default occurs, good clients usually resent the application of joint liability because they feel that they are being overburdened by debts of other people over and above their own especially in a situation where an individual pledged some collateral besides the group liability. This affects the performance of microfinance in poverty reduction.

In addition, a client has to be with guarantors from the clients who are already accessing loan service. This concurs with Atieno (2009), who indicated that MFIs do not insist on physical collateral the group guarantee loan act as collateral for group borrowers. Findings by Wonner (2006), physical collateral were a requirement for borrowing, most MFI clientele would be unable to participate.

The loan sizes of the microfinance institutions are quite small and are usually for workings capital and rarely for asset or capital investment. These loans are considered costly and a real challenge to poverty reduction.

The loan size in most cases affects the nature of business and type of investment for the clients. The small loan size advanced by the MFIs as a way of minimizing risks , However when the clients are not given adequate funds to cater for their business needs , they tend to resort to multiple borrowing . This in turn affects their repayment and increases the risks of the loan. This is in line with the findings by George (2008) who indicated that some time the loans issued by MFIs are too small to make an impact on clients business.
The view of the respondents on whether the loan period given by MFIs is appropriate to their business needs indicated that members were not satisfied with loan period of five mouths.

Many of MFIs operational staff and management either do not appreciate or are not well trained to handle financial services requirements of the poor. The poor themselves also lack entrepreneurial skills and management capacity to run profitable businesses. Majority of them undertake farming simply as a way of life and not as a business, thus for such programs to succeed in poverty reduction both the MFIs staffs and the poor must be well trained.

Microfinance as a development tool is just a drop in the sea regarding poverty reduction. It is treating the symptoms and not the real causes of poverty. This calls for more state intervention to strengthen itself and have the dynamism to create the necessary infrastructure, institutions (legal and financial) good governance and invest heavily in rural development infrastructure where the majority of the poor struggle with biting poverty.

Microfinance is not a blue print for poverty reduction but Uganda especially katikamu Sub County requires her own mix of policies local realities, economic, political and cultural context of the country as well as individual communities

Poverty once again is a very trickery issue. It requires a deep understanding both at a micro and a macro level. The causes of poverty and in particular rural poverty are many, difficult and complex and cannot simply be reduced through microfinance intervention alone.

5.2 CONCLUSION

On the side of nature of products and services, the reason for the high utilization of the loan service as compared to the rest of the services is that most small entrepreneurs require funds for standing up ventures, reinvesting in the existing businesses or overcoming various financial obligations. Due to complexity of insurance, it is not easily adaptable to even people of recognized degree of literacy. The general poverty level with the illiteracy rate in Katikamu Sub-County are the major causes of the higher rate in the use of loans as compared to the rest of the services. MFIs should for that matter put more effort on the improvement of this service than any other service.

The research assessed the contribution of MFIs to poverty reduction in Katikamu Sub-County. The study enables to see the contribution in terms of income, health and assets. It is apparent that the majority of poor had registered increased incomes. It is these incomes that can help them to solve some problems of poverty like isolation, physical weaknesses and they can afford a good diet, can deal with vulnerability as they can save and now able to deal with crisis, have the capacity to send their children to school and to pay for their health which is critical for their continued wellbeing and as a consequence break the poverty trap.

In spite of the progress made so far by MFIs in Katikamu Sub-County, they face real challenges in their attempt to extend financial services to the poor. A general challenge for MFIs serving the sector is that they are operating without an agreed upon definition of what poverty is in the microfinance context. The question is how they then can deepen and maintain outreach to a target that they do not truly know. The challenges are categorized into program capacity and client capacity.

The study identified shortage of funds for on lending and capacity building by the MFIs, inadequate capacity to assess risk. The loan sizes especially at the initial stage are quite small and costly with minimal returns.

The study respondents identified high illiteracy levels, lack of collateral, low level of business development skills, inadequate management and capacity by clients, shrinking solidarity group pressure, sickness (HIV & AIDS) and death, and lack of technology appreciation are as the client capacity.

5.3 RECOMMENDATIONS

Based on the results of this study, the following recommendations are made:

1. MFIs should match loan size to the poor clients' needs, repayment period to the size and needs of loans and on the whole broaden the range of products and services beyond credit.

2. The government needs to create a supportive and favourable environment (legal, socio-economic, political and fiscal) that will promote the development of the microfinance industry in the rural people.

3. Government should also define the priority areas to fight poverty and provide incentives for MFIs that would be willing to work in those areas. Forexample, they could improve on the infrastructure such as road network communication systems as well as providing most of the funds required for lending and program support. This will however only happen if the government will take the front line responsibility of fighting poverty. If it assess and show appreciation for the work under taken by the MFIs.

4. The management of MFIs should endeavour to sensitize their clients about the need to secure loans from one source other than multiple sources so as to encourage them acquire loans they can afford to pay.

5. The management of MFIs should stretch further to rural areas so as to be able to serve the needs and wants of the rural business population. Cost-benefit analysis should be considered when such a decision is being embanked on so that both parties can equally benefit from the venture.

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Appendix1: RESEARCH QUESTIONNAIRE

KAMPALA INTERNATIONAL UNIVERSITY

SCHOOL OF ECONOMICS

RE: QUESTIONNAIRE ON ASSESSMENT OF CAUSES OF LOW IMPACT OF MICROFINANCE INSTITUTIONS ON POVERTY IN KATIKAMU SUB-COUNTY, LUWERO DISTRICT

Dear respondent, I am **KASOZI ENOCK** student of Bachelor of Arts in Economics at Kampala International University (KIU). You are kindly requested fill/tick questionnaire as honesty as you possibly can. This information obtained will be used for academic purposes only.

NB *TICK WHERE IS APPLICABLE*

Background information

1. Sex of the respondent: Male [ ] Female [ ]

2. Age of respondent: 18-25 [ ] 26-35 [ ] 36-45 [ ] 46 and above [ ]

Educational level attained: Primary level [ ] "O" Level [ ] "A" Level [ ]

Certificate [ ] Diploma [ ] Degree (Bachelor) [ ]

Other specify..

3. Marital statuses: Single [ ] Married [ ] Divorced [ ] Widowed [ ]

4. If married, how many children do have?...............................

Access to credit

1. Have you ever participated in any microfinance /bank SACCO program? Yes [ ] No [ ]

2: If yes, did you participate as a group or individual? Group [ ] Individual [ ]

3. How did you learn about MFI / bank SACCO programs?

Through friends [ ] Through society [ ] Through new papers/ radio/ T.V [ ]

4. Does the government involved in the MFI / bank SACCO programs like loans/ borrowing process? i.e. do you think the money is government money? Yes ☐ No ☐

5. Do you think the money is a reward for your support given to the government?

Yes ☐ No ☐

6. If yes is that the reason why people do not want to repay? Yes ☐ No ☐

7. Dose the Loan Officer visit you? Yes ☐ No ☐

8. If yes, how often does the loans officer visit you?

Every three months ☐ Monthly ☐ Every two Week ☐ Every week ☐

9. Are the loan officers friendly? Yes ☐ No ☐

10. When the loans officers visits you does he /she given any technical advice?

Yes ☐ No ☐

11. If yes do you benefit from such advice? Yes ☐ No ☐

Products and services

1. What finance product/ services have you ever utilized?

Short term loan ☐ Medium term loan ☐ Long term loan ☐

Business counselling ☐ Health insurance ☐

2. If loan product, what was the purpose of the loan

Debt payment ☐ Business ☐ Land purchase ☐ Purchase of property ☐

Housing ☐ School fee ☐ If any other specify.........................

3. If business which activities do / did you engage in?............................

4. Were you sensitized / trained on the terms and conditions of the loan? Yes ☐ No ☐

5. Are the terms and conditions of borrowing friendly? Yes ☐ No ☐

6. If No, specify: Interest very high ☐ Loan money too little ☐

Low/no grace period ☐ High cost of processing a loan ☐

7. At what interest rate did you borrow?..

8. What grace period were you given?...

9. Have you been able to repay the loan and the interest ....

10. If yes did you have any money left to run your business after repaying the loan?

Yes ☐ No ☐

11. If no did you fail to repay the loan because of high interest rate? Yes ☐ ☐

12. Other reasons which made you not to repay? ....
....

13. What were the penalties imposed on you?

....

14. How do you propose to repay the loan and interest?

Borrowing more ☐ Selling assets/ Collaterals ☐

15. Have you benefited from the microfinance services? Yes ☐ No ☐

Health and medical services

1. In the last two months did you have any sick person in your house hold / family?
Yes ☐ No ☐

2. How often do members of households/ family fall sick?

Once in three Months ☐ Once in Month ☐ Once in two Weeks ☐

Other specify...

3 Where do you get treatment when members of the house hold/ family fall sick?

Private Health Care ☐ Public Health Care ☐

4. Do you afford to pay the expenses associated with the sickness like transport and medical bills?

Yes ☐ No ☐

5. If no, what did you do?..
....

Income

1. What do you do for a living?

Farming ☐ Employed in government ☐

Employed in private organization ☐ Trading ☐

2. What is your income per month?

10,000- 100,000 ☐ 110,000- 250,000 ☐ 260,000-500,000 ☐

510,000 and above ☐ No income at all ☐

3. How do you spend your income?

Looking after your family ☐ Educating children ☐

Invest in business ☐ Other specify ☐

4. How many persons in your household / family are active (generating some income?)

....

5. If yes, who controls the income?

Husband ☐ Wife ☐ Jointly ☐

6. Have your income changed after joining microfinance program?

Increased ☐ Reduced ☐ Unchanged ☐

7. If reduced or unchanged why?

....

....

Assets

1. Do you o wn any of the following assets? Land ☐ House ☐ Bicycle ☐

Motor Cycle ☐ Motor Car ☐ Television ☐ Radio ☐

2. Have you increased on your assets after joining microfinance programs?

Yes ☐ No ☐

3. If yes, have you bought any assets?

Items	Cash	Payment not Completed

In your view has microfinance helped you to improve your status?

Yes ☐ No ☐

If yes, how?...

....

If no, why?...

....

Can you suggest how you would want to improve microfinance delivery programs?

....

....

....

Please note that your insight answers are crucial to our understanding the low impact of microfinance in Katikamu Sub-County.

Thank you in advance for your effort.

APPENDIX: 2: LETTER OF INTRODUCTION

KAMPALA
INTERNATIONAL UNIVERSITY

Ggaba Road, Kansanga
P.O. Box 20000 Kampala, Uganda.
Tel: +256 (0) 777 094955
Website: http://www.kiu.ac.ug

OFFICE OF THE HEAD OF DEPARTMENT
ECONOMICS AND APPLIED STATISTICS

Date: 24th July, 2015

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

SUBJECT: PERMISSION TO CONDUCT A RESEARCH STUDY IN YOUR ORGANIZATION.

With reference to the above subject, this is to certify that Mr. KASOZI ENOCK REG.NO. BEC/ 43688/143/DU is a bonafide student of Kampala International University pursuing a Bachelors Degree of Arts in Economics.

He is currently conducting a field research entitled "Microfinance and Poverty Reduction in Katikamu Sub County.

This area has been identified as a valuable source of information pertaining to his research project. The purpose of this letter therefore is to request you to avail him with the pertinent information as regards to his study.

Any data shared with him will be used for academic purposes only and shall be kept with utmost confidentiality.

Any assistance rendered to him will be highly appreciated.

Yours in truly,

MUHEREZA FRANKLIN
HOD - Economics and Applied Statistics.
Mobile: 0777094955 Email: muherezaf@yahoo.com.

Appendix 3: A MAP OF LUWERO DISTRICT