MICRO FINANCE AND DEVELOPMENT OF SMALL SCALE BUSINESSES

CASE STUDY MARKET STREET.

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2011-B021-10306

A RESEARCH REPORT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION AND MANAGEMENT OF UGANDA MARTYRS UNIVERSITY NKOZI

APRIL 2013

DEDICATION

I wish to dedicate this project to my beloved Family for their motivation, my parents and my supervisor for the guidance she has accorded me. Above all I do thank almighty God for his love and grace.

ACKNOWLEDGEMENT

I wish to thank the almighty God for keeping me alive and providing me with wisdom, capacity and courage to go through the three year course successfully.

I appreciate and also humbled to give my special thanks to my supervisor Ms. Rita Bisaso. Thank you for your guidance, advice and time you accorded to me during the completion of this report.

I would like to also give my profound gratitude to the customers and employees of Pride Micro Finance for agreeing to work with me.

Special thanks to, Linda, Martha, Joan, Mallon, Grace, Clare, and all those other friends and relatives who supported me during the course.

GOD BLESS YOU ALL

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LIST OF ABBREVIATIONS

NGO	nongovernmental organisations
MFIs	Micro Finance institutions
AMFIU	Association of Micro Finance Institutions in Uganda
MFPED	Ministry of Finance and Economic planning
USAID	United States Agency for International Development
CGAP	Consultative Group to assist the poorest
SME	Small and medium enterprise
INICO	United Nations Industrial Development Organization
GDP	Gross Domestic Profit
NAADS	National Agriculture Advisory Services

ABSTRACT

The study aimed at assessing the role of micro finance institutions on the development of markets, case study being Market Street in Kampala and Pride Micro Finance Institution. The study was mainly looking at micro finance and development of small scale business and how these have helped the business owners to develop their businesses .

The researcher used a cross sectional research design with both qualitative and quantitative methods with a population study of 100 people out of which a sample size of 50 clients and employees of the micro finance was chosen. Using simple random sampling respondents were chosen along market Street. Both the primary and secondary data was used during collection of dat by use of questioners, interview guides and observation methods and analyzed in form of tables, graphs and pie charts.

Findings revealed that savings is a condition for credit as indicated by all 50 respondents. It was also discovered that the credit facilities given to the clients are favorable and these have helped the clients to expand on their businesses. The loans given carry a 17% interest rate which the clients indicated was normal. It was also revealed to the researcher that training is also offered to the clients of the micro finance but this is not done frequently.

The Micro finance should introduce frequent training facilities to their customers because this would help the clients to participate in the other services being offered like group loans. They should also introduce new saving packages like long term savings for their customers who are not in a hurry to use their money. Finally the researcher recommends that the micro finance should give its clients bigger sums of money in form of loans.

KEY TERMS DEFINED

1. Micro finance defined

It refers to the provision of financial services, primarily but not exclusively savings and credit to the poor households that do not have access to formal financial institutions (white& Ledgerwood 2006). MFIs have activities like small loans, typically for working capital informal appraisal of borrowers and investments. In addition to the above collateral substitutes, such as a group guarantees or compulsory savings, access to repeat and larger loans, based on repayment performance, streamlined loan disbursement and monitoring, secure savings products. All these are activities done by MFIs.

2. Micro finance institutions (MFIs) defined.

These are organisations that provide financial services to the poor. These can be in form of nongovernmental organisations(NGOs), Savings and loan cooperatives, credit unions, government banks, commercial banks, or non bank financial institutions.

3. Savings

According to Keynesian economics, savings are the amount left over when the cost of a person's expenditure is subtracted from the amount of disposable income that he or she earns in a given period of time.

4. Credit

Credit these are borrowed funds with specified terms for repayment. (waterfield& Duval 1996)

5. Training

Ledgerwood(1999) defines training as the increasing the knowledge and skill of a client on financial services.

CHAPTER ONE

GENARAL INTRODUCTION

1.0 INTRODUCTION

In this chapter the researcher looks at the back ground of the study and the statement of the problem basing on the case study. The researcher goes ahead and states the purpose of the study .In addition to the above the objectives and the research questions are stated. The researcher goes on to show the significance of the study. This is immediately followed by the hypothesis and the conceptual frame work finally, this is followed by the definition of key terms . The above make up chapter one which is the introductory chapter of the study.

1.1Background of the study

Micro finance movement started in the early 1970s in Bangladesh with the help of an economist Muhammad Yunus. This was when the country had been hit by famine. He began making small loans to the poor families in neighbouring villages in an effo+rt to break their cycle of poverty. This was successful and with Yunus getting timely repayments and observing significant changes in the quality of life of the loan recipients. (Johnson &Rogaly 1999)

Due to his inability to finances the expansion of the project he sought governmental assistance and the Grameen Bank was born. This bank only lent to households owing less than half acre of land. The repayment rates remained high and the bank began to spread its operations to other regions of the country. The success of Grameen bank did not go unnoticed. Institutions replicating its model sprang up in virtually every region on the globe between 1997 and 2002 the number of MIFS grew from 618 to 2572 and these institutions have 65 million clients and they are still growing in every part of the world. (Ledgerwood 1999)

Along with the explosion of micro finance industry there has been a steady growth in private financing MIFS. The bulk of micro finance funding is still provided by development oriented international financial institutions and nongovernmental organizations (NGOS). These focus on MFIS that are committed to achieving substantial outreach and financial sustainability.

Most recently micro finance NGOS like K-REP in Kenya have begun transforming into formal financial institutions that recognise the need to provide savings services to their clients and to access market funding sources rather than rely on donor funds. (Ledgerwood 1999)

Compared to countries like Bangladesh the micro finance industry in Uganda is fairly new (Rhyne et al 2001). The first true micro finance institutions like FINCA and Uganda's women finance trust (UWFT) appeared in the early 1990s. These did not start to expand in terms of significant client outreach and receive recognition until the mid 1990s when they got interest from donors and NGOs who discovered that they can make a lasting impact on poverty alleviation by offering sustainable financial services. Then the industry started to take shape in January 1996 when USAID sponsored a seminar that was considered to be an eye opener for many practitioners. It also became an issue for the ministry of finance and economic planning (MFPED) as well as the Bank of Uganda (BOU).

In the early 1997 PRESTO/centre for micro finance started to provide training and technical assistance to MFIs in key areas like loan tracking, interest rate setting, business planning, product development, ownership and governance. From then on a strong collaborative effort emerged among donors, government, the central bank, practitioners and the capacity building providers. In the same year the association of Micro Enterprise finance institutions of Uganda (AMFIU) was set up to serve as practitioner plat form to share experience and technologies and act as a lobby and advocacy body for Ugandan MFIs. With this in place MFIs like pride micro finance, Micro Uganda and others came into existence.

Pride micro finance was founded in 1995 and 2005 it attained the tutus of an MDI according to the banking act of 2003. It is licensed and supervised by the bank of Uganda. Its headquarters are located at Metropole house on Entebbe road. It location is on the western slopes of Nakasero hill close to the junction between Entebbe road and market street but it also has branches around the country but the Kampala branch is at Mukwano arcade. It is put in place to help the lives of the business people around it working in the arcades and shops around by offering them credit and saving facilities with which they are able to expand their businesses and better their lives.

1.2 Statement of the problem

Micro finance institutions offer loans, saving and client training facilities to low income earners and the illiterate people. These also go ahead to provide the youth with start up capital for their businesses. Although the micro finances are offering such facilities there is still very little recognized development with the market and the lives of the vendors. This is due to the fact that the loans given to these people carry very high rates of interest rate which is a turn off for the business men and women. In addition the risk that these loans carry is sometimes very big for the business men and women so this reduces their chances of borrowing money hence causing low levels of business growth and development.

Micro finance institutions also offer saving facilities that have enabled the business men and women accumulate their money and increase their capital enabling them to have enough capital to expand their businesses. Some business men and women do not take the opportunity to use the services offered by the micro finance institution because they fear that their money may not be given back by the micro finance institution. Yet most of them have poor saving habits and prefer to keep their money with their stock which is not good. This is because their stock may catch fire for example when Owino market caught fire so many people lost millions in the fire.

This study seeks to investigate how the loans, savings and training given to the business men and women can help them develop, grow their businesses.

1.3 Purpose of study

The study seeks to examine the role of micro finance services towards the development of small scale businesses.

1.4 Specific objectives

- To establish how client training has improved the performance of small scale businesses.
- To examine how the savings lead to the development their businesses.
- To establish how the loan lead to the growth of businesses.

1.5 Research questions

- How does the training of clients improve their businesses?
- How do the savings affect the development of small scale businesses?
- How does the effectiveness of loan schemes offered affect the growth of their businesses?

1.6 Scope of the study

1.6.1 Geographical scope

The study investigated the impact of microfinance on the development of business that was conducted along Market Street in Kampala. Like the small hotels, steel rolling shops, glass welding shops and market vendors

The study covered clients of who mainly work in the area.

1.6.2 Content scope

The study covered the role of micro finance and the development of small scale business. These services offered include training, savings, loans and low interest rates.

1.6.3 Time scope

This study focused on a time period of three years from 2010 to 2013.

1.7 Justification of the study

Business in Uganda are still under developed and this can be seen through their state of having poor infrastructure in which they operate. This study helps to show how these micro finance and the services they offer help in the development of the businesses.

1.8 Significance of the study

The study will help microfinance institutions to improve on the credit facilities that they offer to their clients so as to increase on their customer base. This will be done by setting low interest rates for the clients. This will encourage them to borrow money and also encourage the micro finance institution to get a wider cliental base.

The research will help future researchers who want to find out more information on the topic above like students who want to carry out research on the same topic in other areas around the country or world.

Lastly the researcher will get more skills in doing research

1.9 Conceptual frame work

Independent variable

Micro finance institutions

- Client training
- Saving
- Credit/ loans

Dependent variable

Development of small [illegible]le businesses

- Increased profits
- Expansion of the business.
- Increased market share

Intervening variable

- Political stability
- Government policies

Source: (Ledgerwood 2000).

1.9.1 Variables Interrelated

Client training, savings and loans schemes are all related in one way or the other this can be seen as below.

For credit to be offered to customers they have to save it is from these savings that customers are given credit to develop their businesses. This credit carries a repayment rate which is the interest rate that is levied on the loans and this rate is the profit that the micro finance institutions get for lending out their money. The interest rate helps to increase the capital of the micro finance institution hence, creating more money for borrowing.

Client training is related to all the above in a way that clients are trained and taught on how the micro finance works and on the services and facilities that it offers to its customers. This can be seen in the ways in which micro finances teach their clients on how much is levied once one gets a loan, the use of the pass books.

All the above variables are related in the development of small scale business in a way that savings, loans help in the expansion of businesses hence development of markets. interest rates help the micro finance institutions get more capital which is given to customers in form of loans hence the development of businesses and hence development of their livess.

Above are related to the intervening variables which include political stability, government policies. This is because for micro finance institutions to exist the country should be stable and the government policies should be favorable.

1.10 Conclusion

This chapter is the introductory chapter on which the rest of the research is based. This chapter shows the background of the study, problem statement, objectives, research questions, scope of the study justification, significance and the conceptual framework. All these will help the researcher to build the literature review.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter will analyse and provide a background on the existing literature relating to the history of microfinance institutions and the pioneers in the noble cause that had over the time alleviated the micro credit barriers face by the poor who would do well with small loans. This literature review combines research from various sources like books, journals and online sources. It provides general research information on the history of microfinance institutions and how they have contributed to the development of small scale businesses.

Various scholars have documented diverse literature on the birth and gradual growth of microfinance institutions and the roles they have played in the development of small scale business such as offering training services, saving facilities, microcredit/loans. All this as well as the gap between the existence micro finance institutions why they are still under developed despite the services that they are being offered.

2.1 Client training and Development of small scale businesses

Ledgerwood (1999) defines training as the increasing the knowledge and skill of a client on financial services. Training according to the business dictionary is referred to an organised activity aimed at imparting information and/or instructions to improve the recipients' performance or help him/her attain a required level of knowledge and skill

Training is an independent variable that had significant influence on the growth and development of small scale businesses. This training acts as an eye opener on the way the business men and women can go about daily business affairs and account for every penny gained and spent. This acts ass the starting point to equip the business men and women with financial skills which would lead to increased investment in business activities and repayment of the loans taken. Kauflmann(2005) points out the concept of microfinance union developed by Fredrich Wilhelm Raifteisen and his supporters as aimed at bringing entrepreneurship consciousness of the masses. Raifteisen and company knew that if the masses were enlighten on business it would definitely lead to increased investment in the business activities given the microfinance institutions give a low interest rate.

Their action was motivated by concern to assist the rural population to break out of their dependence money lenders and to improve their welfare by investing in business.

Meanwhile, starting in the 1970s, the MFIs experimental programs in Bangladesh, Brazil, and a few other countries extended tiny loans to groups of poor women to invest in micro-businesses after assisting them with business idea generation and training. Microfinance banks right from inception endeavored ingenerating the viable business ideas for the willing small scale entrepreneurs. The business training is an independent variable aimed at increasing entrepreneurial (business) growth through ensuring the entrepreneurs venture in viable business so that they eventually prosper and repay the loans taken from MFIs. According to Yunus (2007), this type of micro enterprise credit was based on solidarity group not only in lending to every member of a group but also on giving viable business ideas so that the micro-credit loans could be repaid. These "micro enterprise lending" programs had an almost exclusive focus on credit for income generating activities (in some cases accompanied by forced savings schemes) targeting very poor (often women) borrowers. Scholars and academicians claim that with the diversification on the other sectors rather the agricultural sector led to the emergence of small scale businesses sparred on by the micro credit organizations (Esipisu, 1996).

Training may be offered "free" (or paid through loan fees) if the training is deemed crucial to success of all members. Simple bookkeeping techniques, for example, may be taught to all members prior to receiving a loan. (Seibel 2007)

Before giving a loan to a client, the client is trained and educated of the membership, saving requirements and penalties of late payments. The client is also trained or educated of entrepreneurial skills, book keeping, accounting and loan deposit and administration as well as how to optimise and exploit his loan, savings and deposits. This has helped so many business men and women in making decisions concerning their business enabling them to make more profits and expand their business.

Micro finance institution like FINCA-Peru that sponsors village banks for poor, female micro entrepreneurs. Using the credit with the education model, the experiment assigned clients randomly to either treatment or control groups. Treatment groups received thirty to sixty minute entrepreneurship training sessions during their weekly group banking meeting. This activity was sustained for a period of one to two years. Control groups meet weekly with the group banking program solely for making loan and savings payments. The training programs include general business skills and strategy training but not client specific problem solving.

Hanning (1997) states that clients that undergo training are considered more sustainable compared to those that don’t go under training.

In agreement to the above, Pagura (2004) states in her paper on client exit in micro finance states that education will have a positive effect on the borrowers hazard rate of exiting. Those with education have more outside opportunities than those without education. For example, an individual that can read and write will have the knowledge advantage over someone that is not literate and be able to access other (semiformal and formal) financial sources more than someone who is illiterate. In addition to being able to access other financial services, a more educated person has ability to access business training courses, e.g., bookkeeping/accounting, marketing, feasibility studies, cash flow management, technical trainings, etc., more than her less educated counterpart.

This training programmes have a played a major impact on the performance of small scale businesses in a number of ways.

Through this training business men and women are encouraged to save by requiring weekly or monthly saving deposits that correspond to the size of the loan the business men and women are also encouraged to carry out additional voluntary savings for which they receive interest.

Training offered by the micro finance institutions has enabled the business men and women learn entrepreneurial skills. These skills are more about personality than just skills, teaching an individual to engage in activities similar to those of a success full enterprise may lead to improved business practices such as how to treat clients, how to use profits, where to sell, use of special discounts, credit sales. These improvements should lead to more sales.

In countries like Peru the impact of training is on two sets of household outcomes: household decision making and child labour. The link to household decision making is straight forward and one of the off-cited motivations of such training: improved business success could empower female micro entrepreneurs with respect to their husbands/partners in business and family decision by giving them more control of their finances. The link of child labour is ambiguous, however since many children work in family enterprises; this is an important outcome to observe. The training may lead to changes in the business which increase or decrease the marginal product of labour, hence increase or decrease of child labour through the substitution effect. If the training increases business income then we expect increased wealth to lead to a decrease in child labour.

The training services offered by the micro finance institutions has enabled their clients to learn about credit and cash flow management, how to retain a portion of their profits for savings and determine whether they have a capacity to expand or not.

Through these training programmes the micro finance institution clients are taught how to manage their own businesses. They are educated on how to run and maintain their businesses. This is done through teaching them the principles of management and how to bring them to life. The training instructor use case studies and hands-on-projects to show clients how things can go right or wrong depending on how the business is managed.

Through training the micro finance clients are taught how to manage and supervise employees effectively. They are taught what to expect from employees and how to respond to employee grievances and issues and how to motivate their work force.

In addition to the above through this training the Micro finance institution clients are taught how to manage different kinds of customers and lead to customer satisfaction in the long run. This is done through developing ways to increase productivity and higher quality results.

In conclusion training for the clients is very important and micro finance institutions should put it into practice. This is because it helps the clients get to know about the various products that these micro finance institutions are offering and also make them aware of the rules that govern these institutions like the loan repayment period. And with all this information the client is able to come up with new productive ideas.

2.2 Savings and the Development of small scale Businesses

2.2.1 Types of savings offered by MFIs

There are two types of savings that are offered by MFIs these include compulsory savings and voluntary savings.

Compulsory savings are funds that must be contributed by borrowers as a condition of receiving a loan. Most times compulsory savings are considered to be part of a loan product rather than an actual saving product. (Ledgerwood1999) these are important because they demonstrate the value of savings practices to borrowers, they also sever as an additional guarantee mechanism to ensure the repayment of a loan.

However, these savings are often seen as a fee that the clients must pay to get credit and this limits the ability of the clients to get loans since some of them do not have compulsory savings. And this limits the development of small businesses that are willing to expand. However, MFIs are now allowing their customers to withdraw some of their savings if they do not have a loan outstanding.

Voluntary savings are not an obligatory part to accessing credit. These are provided to both borrowers and non borrowers. There are conditions that and MFIs considers when mobilizing voluntary savings these include the environment in which the MFIs is operating should be politically stable and should have suitable demographic conditions. Then also there should be adequate and effective supervisory capabilities to protect depositors. Then the MFIs funds should be well managed (CGAP 1997).

According to (Yaron et al 1997) there are requirements for effective voluntary savings mobilisation and these include high level of confidence in the institution, security, easy access to deposits for clients, flexibility and diversity of savings instruments. Through this the clients financial intermediation will be improved through providing clients with secure a place to keep their savings, smooth consumption patterns, hedge against risk, and accumulate assets while earning higher real returns than they might by saving in the house hold or saving in kind.

According to Keynesian economics, savings are the amount left over when the cost of a person's expenditure is subtracted from the amount of disposable income that he or she earns in a given period of time. It can also be defined as the portion of disposable income not spent on consumption of consumer goods but accumulated or invested directly in capital equipment or in paying off a home mortgage, or indirectly through purchase of securities. **(**while Howells and Bain (2007) agree that saving is the difference between current income and consumption.

Throughout the world and across many cultures and income groups people save for varied purposes. These may include emergencies, investment, and consumption, social obligations education of children, pilgrimages, sickness, disability and retirement. (Mphulo 2004). These savings may be in form of money, animals, jewellery, and stock pile of inventory this is because some of these people lack good formal deposit services in areas where they stay.

In many countries only a fraction of the population has a bank account. Most people have no suitable option for saving money. Large sums of money can often not be kept at home since protection from thieves is lacking people there for save inform of material assets for example they buy stock. The advantages of money-versatile usability and divisibility are there by lost. A bank account allows people to save money in a secure and sustainable form. Microfinance institutions are often the only place where people with very low income can open such an account.

Ledger wood (2000) states that savings mobilization has long been a controversial issue in microfinance. In recent years there has been increasing awareness among policy makers and practitioners that there is a vast number of informal savings schemes and MFIs around the world have been very successful in mobilizing savings. These developments attests to the fact the low income clients can and do save. Furthermore, institutions operating with donor funds generally were found to have a high rate of loan portfolio growth, while deposit based programs grew more slowly (probably due to lack of funds). Also, institutions that mobilized deposits were found to have higher average loan sizes and more likely to work in urban areas than institutions providing only credit.

Ledger Wood (2000), further acknowledges that savings is an issue that has to be handled carefully by these micro finance institutions. This is because these savings always act as a basis for these small scale businesses and is also the life safer for them. These savings also act as the base for these micro finance institutions in that without them, they are not there.

The financial systems approach to small business recognises that savings are as important a service to the poor as credit and that savings are crucial in building self sufficient businesses. Well crafted saving services can encourage a move from nonfinancial savings into financial savings, with the advantage of safety and liquidity for entrepreneurs and the provision of funds for investment for society (Vogel 1984).

Policy makers and development planners were long convinced that poor people do not have a significant saving capacity. The neglect of saving mobilization in poor population segments of developing countries was explained by low income resulting in a low savings capacity for rural households and a high propensity to spend economic surplus on social and religious activities or consumption (Adams 1978). (Hannig et al 1999) cited (Von Pischke1984; Robinson1994) formerly, the perception of low savings capacity was grounded in the limited funds deposited by the poor in formal financial institutions. For the past several years, however, practitioners have realized that this is attributable to inappropriate deposit facilities and institutional structures

(Hannig et al 1999) cited (Von Pischke 1984) stating that the old perception was shattered, however, by research on rural financial savings and reports on informal savings mechanisms and in kind savings as well as experience from saving banks, cooperatives and deposit taking MFIs such as BRI in Indonesia. RoSCAs can be found in almost every developing country, saving groups, money-keepers and in kind savings absorb a great portion of the poor's savings capacity. Particularly rural households are induced to save during harvest periods when income streams are higher than consumption levels.

Successful mobilization of institutional savings can, therefore, only be ensured by the existence of demand driven savings products offered by appropriate institutional structures. A broader understanding of savings decisions of poor households has shown that appropriate supply can attract significant volumes of savings. Furthermore, a much larger number of clients can be reached through savings mobilization than through credit granting. (UMU Microfinance and Community Economic Development)

In addition to the above authors (Hannig&Katimbo 2000) agree that saving is a critical issue for microfinance organisations to be sustainable without donor funds. For savings to be allowed, safe guards must be put in place. Although most MFIs in Uganda continue to be heavily dependent on external grants and or subsidised loans, the overall trend appears to be one of a move towards other more sustainable sources, private capital and deposits. With regard to the implications that a wide expansion of saving would have on the system as a whole, the Bank of Uganda decided that those who will be taking savings should be supervised. The issue of saving is neither size nor volume but the safety of savers money.

(Hannig et al 1999) cites (Goetz&Gupta 1996) who states that micro savings also have strong gender implications. Experience indicates that women are very reliable microfinance clients, demonstrating more discipline than men in making regular savings deposits and loan repayments This can also be seen in St Balikuddebe saving and credit cooperative where the women save more than the men and are quick to pay back the loans that they have been given

(Ledgerwood 1999) also states that women have demonstrated higher repayment and savings rates than male clients. This is because women generally have a high sense of responsibility and are affected by social pressure.

Women use two methods to save and these include the following. The first is safe-deposit boxes that allow women to maintain independent savings. This boosts their freedom and bargaining power within the household and cushions the shock of divorce or abandonment.(Schreiner andVonderlack2001)

The second is matched-savings accounts structures saving, promotes peer support among women savers, and subsidizes savings targeted to women-specific concerns such as health care or school fees. (Schreiner and Vonderlack 2001).

2.2.2 Methods of saving

In addition to the above different business men and women have found many ways on how to save money in their small scale business. These include;

One of the ways to save is to understand the business need and want. This enables the business men and women to only spend on what the business needs, this enables the business to save money by not spending it on items that it can do without.

Savings can be carried out in small scale businesses by asking for pricing incentives. Most people never actually ask for discount or ask the person they are buying from if they could better on the price. Asking for the discount allows the seller to come up with the price, which usually is lower than you would have asked. If they do come back with a less than Stella's offer, then you can ask for a specific price. Buying on discount enables the buyer to buy spends less than what he or she would have paid.

Savings can b acquired by employing relatives for example wife, husband, sons, and daughters. This way the small scale business owner saves on salaries. Since family members can work for less or even for free. For example in a business owner by a business man he can decide to employ his wife as the manager who may not need to be paid hence enabling him to save the money he would have used to pay someone else as salary.

Savings can also be carried out in small scale business by investing in quality instead of quantity. One may be spending less money when you first buy the product/equipment for the business but one usually spends much more on it in the long run on fixings than if one had bought a more high quality item in the first place because it would lead to saving in the long run since less will be spent on repairs it being of good quality.

Saving can be done in small scale businesses by avoiding over staffing. Business owner should only hire employees only when he or she has to. If one person can do the work of two effectively there is no need to employ another person.

Saving can also be done in small scale business by the business owner doing things himself. For example the business owner may be the manager and the same time can do the cashing himself instead of wasting money hiring another person to act as a cashier.

Saving in small scale businesses can be got by cutting extraneous employee expenses such as meals. Instead of offering two meals a day the business owner can decide to offer only one meal either breakfast or lunch.

2.2.3 Impact of savings on the development of small scale businesses

These savings have been an impact on the small scale businesses in a number of ways which has led to their development and goo performance. This is explained below;

Saving has enabled the business owners to accumulate their working capital. This is used to run the day to day activities. These savings have protected the business owners from running out of capital to run their businesses that’s to say savings have enabled some businesses to keep running.

Savings have enabled business owners to accumulate enough capital to expand their business. Through savings the business owners can afford to expand their business and also their market share. The savings have enabled the business owners to increase on their inventory enabling the to serve a bigger market and hence acquire more profits.

In addition to expanding the business saving have enable business owners to renovate and upgrade their business which attract more customers enabling the business owners to increase their market share as well as profits.

When starting up a new business the business owners may not afford the best equipments for their business but by saving for a certain period of time enables the business owners to have enough funds to acquire new and better equipment for the business which increase productivity and customer satisfaction.

Savings have saved some business owners from having to borrow money from finance institutions again. This is because through this saving the business owner as enough money to do whatever he wants and doesn't need to borrow money and pay high interest.

Savings have enabled the business owners to have enough funds to employ more people in the business which increases productivity and customer satisfaction.

Savings have saved business owners in times of emergencies or uncertainties such as theft, fire out breaks. After all these uncertainties business owners can still start up their businesses with their savings.

In conclusion savings are a very important part of a microfinance institution they contribute income for the daily running of the micro finances and this money is also used to provide loans for the members and this in the long run helps in the development of markets and the businesses within these markets.

2.3 Credit and the Development of small scale Businesses

2.3.1 Types of credit loans offered by the micro finance institutions

Individual loans these are delivered to individuals based on their ability to provide the MFIs with assurances of repayment and some level of security. This is a combination of formal lending and informal lending. the formal lenders are the financial institutions these base their lending decisions on business and client characteristics like cash flow, debt capacity, historical financial results, collateral and character. The informal lenders like the money lenders these approve loans based on a personal knowledge of borrowers rather than on a sophisticated feasibility analysis and they use informal collateral sources.

The group based loans here loans are given to groups that is either to individuals who are members of a group and guarantee each other's loans or to groups that then sub loan to their members. This kind of lending frequently builds on or intimate existing informal lending and savings groups such groups are known as rotating savings and credit associations but in most market areas such groups do not exist due to lack of co-operation among the market vendors.

This limits their capacity to develop since the individual loans may be hard for them to pay back since the interest rates may be too high. Since with group loans the effect may not be felt since it is group effort and the interest rate are shared among the group members

Credit these are borrowed funds with specified terms for repayment. When there are insufficient accumulated savings to finance a business and when the return on borrowed funds exceeds the interest rate charged on the loan, it makes sense to borrow rather than post pone the business activity until sufficient savings can be accumulated, assuming the capacity to service the debt exists (waterfield& Duval 1996).

For a growing small business the main consequence of this valuation process is that the faster the rate of growth the more rapidly the gap grows between the funds required to purchase additional plant and equipment and the collateral value of the business assets to secure additional debt. As a result many small businesses which are attempting to grow will be required to provide personal collateral and thus erode the limited liability status which they may enjoy. In the event that personal collateral to the levels required is unavailable then debt finance will not be forthcoming and the growth will be constrained.

Borrowing money from a bank allows individuals to access money at relatively low interest rates so that they can pay for necessities or pursue opportunities such as job skill development or opening up new businesses. As every on with low income knows though banks want to lend money to borrowers that have enough resources to pay back the loan. Carletti et al. (2004) shows that banks may prefer to share lending to SMEs even if this implies free-riding and duplication of monitoring efforts. They predict a greater use of multiple- bank lending not only when banks are small relative to investment projects, but also when firms are less profitable and monitoring costs are high.

Lenders typically refuse to lend money to people with small or no income because of the fear they won't pay back. Micro finance institutions offer loans that attempt to correct this problem, so that less affluent people can pull themselves out of their situation and start new businesses by giving them start up capital they need to jumpstart their businesses that's to say provide the starting capital to provide for the necessary products and tools required for the business.

Often these loans are necessary to allow people become self employed or to significally improve on their income situation. $50-$500 can open up completely new perspectives for an individual however traditional banks do not grant such small loans because the administration cost would be so high and the profits so low. Microfinance institutions have developed instruments that allow such small loans to be granted since these microfinance institutions are often the only options for low income individuals to receive a loan.

Most loans are made to generate revenue with in a business, though some MFIs make loans for consumption, housing and special occasions. while many MFIs insists that only productive loans be made, any loan that increases the liquidity of house hold fees up enterprise revenue which can be put back into the business (Ledgerwood 1999).

Informal and small scale lending arrangements have long existed in many parts of the world, especially in the rural areas, and they still survive. Scholars like Muhammed Yunus, Joseph Blackford and Friedrich Wilhelm Raiffesien came up with the idea of village banks that offered the solution to provision of finances(Yunus, 2007). The idea of mobilising savings and lending them in microcredit loans went well with a spring of entrepreneurs thus it helped in business growth thus making MFI future for increase investment in small scale businesses.

According to oyatoya, 1983, loans provide a basis for increased production efficiency through specialization of functions bringing together hardwork. This shows that with the help of the micro loans small scale businesses will alleviate efficiently.

In addition to the above Mesah, 2003 states that the loans contribute a lot to the growth of these small scale businesses because they ensure stability of these businesses. With the inflow of finances through loans, these businesses are always assured of stable growth which hence helps them.

Microfinance institutions have for the past years proved quite crucial in the provision of formal loans for the poor, giving customers who were empirically and traditionally neglected by commercial banks. The MFIs' contributions are the independent variables for the achievement of the entrepreneurial growth (dependent variable). Provision of finances fall under the independent variables and it was where the MFIs came to the rescue of potential small scale entrepreneurs influencing them to venture in business investment. Entrepreneurial growth was here a dependent variable in the sense that it reflected on the influence of the independent variable (provision of finance by MFIs) to stimulate its growth.

Both savings and loans have a place, but saving is often a better choice for poor women. As stated by (Johnson and Kidder 1999), not all poor people are "budding entrepreneurs.. . . for people living in poverty, perhaps it is access to a savings account . . . that needs to be the core service on offer."

2.3.2 Impact of microloan schemes on the development of small scale businesses

Micro credit has played a major impact on the development of small scale businesses as explained below;

Micro credit acts as start up capital that is to say it's used to pay for start up costs. Microcredit is granted to both new and existing businesses. There for a promising entrepreneur can finance the start up costs of his/her business by obtaining or applying for credit. This is particulary help full if one simply doesn’t have the cash to finance these costs him/herself and needs to boost to get the business going. Start up cost may include start up materials, equipment or hiring premises.

Many businesses are cyclical in nature and there is often a gap between accounts receivables (cash coming in) and accounts payable (cash going out). If one knows this is temporary situation and that the receivables will be coming soon he/she may go in for credit to bridge the gap without falling behind on the bills.

Micro credit can be used to cover any short-term operational costs. For example in case one needs to hire a particular piece of equipment to finish a job and yet it costs less one can turn to micro finance institution for a micro loan to help him/her acquire money to hire the equipment.

Micro credit can be used to purchase inventory. Business owners can go to micro finance institutions to acquire small amounts of money they can use to buy inventory. Some small scale businesses are seasonal in nature, particularly retail business. These mostly sale during the holiday season so they want to purchase most of their inventory prior to the holiday season.

Micro credit increases working capital. This is money used to manage the day to day operations. Small businesses some times need credit to meet their daily operation needs until their earning assets are sufficient to cover their working capital needs. This credit is used to get the business to grow.

In conclusion credit facilities offered to the poor and the market vendors help them to expand and develop their businesses. Although, there are interest rates attached to the loans that they are offered which may affect the rate at which they borrow. These do not stop them from borrowing money to help them develop and start up their businesses and hence leading to business development in the long run. This will encourage economic development within the country at large.

2.4 Conclusion

A lot of research has been done on micro finance and eradication of poverty though this is not the same for micro finance and development of markets. However, it has been noted that with the provision of the different micro finance services to the market vendors their businesses will grow and in the long run the markets will develop. This is shown by the literature view that has been presented by the researcher.

However, despite the fact that microfinance institutions have played a major role in the development of small scale businesses their other factors that have also contributed to their development like political stability, economic factors, government policies. These are refered to as the intervening variables in the conceptual frame work.

Political stability has enabled many low income earners run stable businesses. Due to the fact that there are no more wars in the country it has enabled and encouraged many low income earners to start up business with no worry of them abandoning the business.

Government policies have also encouraged many people to start up business. Governments in many countries today have founded projects to help the low income earners to start up businesses. For example in Tanzania the government has provided the low income earners with loan services at a low interest enabling them to start up businesses. In Uganda today the government has come up with programs such as NAADS that have helped many low income earning Ugandans to start up businesses. Although these organisations main aim is to eradicate poverty in the country they have done this by encouraging the people to start up small scale businesses.

2.5. Challenges faced by small scale businesses.

Microfinance institutions have offered training, saving and loan services to the people but still the businesses are under develop this is evidenced by the low income generated from them, the small and poor infrastactures in which they operate. This low development is due to the challenges the small scale businesses face that have made it difficult for them to develop further. These challenges to mention but a few include;

They suffer from weak entrepreneurial skill as well as deficiencies in accounting, production management and business planning. As these businesses grow they increasingly need connectivity to export markets and the world economy. So far lessons of international experience show that very few government initiatives has succeeded in implementing sustainable strategies for small businesses. To succeed these small scale businesses will require concerted efforts among the various parties concerned including commercial banks, rural banks(microfinance institutions), leasing companies and equity providers, consulting and training firms.

They face a challenge in proper record keeping. Most of the small scale business owners especially those in rural areas have not gone to higher level of education where they teach proper book keeping some have never gone to school at all n they face a problem of improper record keeping. This has made their businesses to lose track of its cash flows and in turn leading to cost control and liquidity problems just to mention but a few. If the transaction records are poorly kept then growth of the business cannot achieved since the business loses track of where its heading.

These small scale businesses face a challenge of high competition. Today there are so many small scale business coming up which has led to competition amongst themselves for customers. And as a result so many have shut down due to lack of customers.

These small scale business also face a challenge of unfavorable economic factors such as inflation, fluctuation. This rise in prices has led to poor performance of the small business since the customers are not willing to pay the high prices for the commodities hence the businesses staying small.

Management is another challenge to small scale businesses. This is simply because the owners have little knowledge about managing the business and thus have to go for training. In addition to that its hard for small scale businesses to market their goods since they cannot afford marketing expenses and so they rely on their customers to market for them by mouth which does not cover a many people making them stay underdeveloped.

Personnel resources are a challenge to small scale businesses. These businesses being small lack the financial resources to hire experienced specialists. Which has made them settle for the uneducated cheap labor making them prone to mistakes leading to losses and eventually the collapse of these businesses since a business cannot keep on operating on losses.

2.6. Roles of small scale businesses

Small scale businesses play an essential role as sub contractors in the downsizing, privatization and restructuring of large companies (Qimiao, 2003), while in Canada for instance, the small scale businesses contribute about fifty nine percent (59%) of the employment to the labour force and forty six percent (46%) in the united states. Small scale businesses constitute nearly ninety percent (90%) of all the enterprises in Pakistan; employ eighty percent (80%) of the non-agricultual labour force and their share in the annual GDP is forty percent (40%) approximately. (Bashir 2008)

Small scale businesses play an important role in the development of the country. They contribute to economic development in various ways by creating employment for a rural and urban growing labour force and providing desirable sustainability and innovation in the economy as a whole. In addition to that a large number of people rely on the small and medium businesses directly or indirectly.

According to the United Nations Industrial Development Organization (UNICO), for developing countries, integration into the global economy through economic liberalization, deregulation and democratization is seen as the paramount way to triumph over poverty and inequality. Important to this process is the development of an animated private sector, in which small businesses can play a central role.

Small scale businesses have a propensity to employ more labor intensive production process than large businesses. Consequently they contribute significantly to the provision of productive employment opportunities the generation of income and eventually the reduction of poverty.

Small scale businesses are a starting point of development in the economies towards industrialization. However, small scale businesses also have a significant effect on income distribution, tax revenue and stability of family income.

Small scale businesses make a significant contribution of the agriculture economies to industrial ones, furnishing plain opportunities for processing activities which can generate a sustainable source of revenue and enhance the development process. They show up the expansion of systematic productive capability. They help to absorb productive resources at all levels of the economy and add to the formation of flexible economic systems in which small businesses are linked. Such linkages are very crucial for the attraction of foreign investment. Investing trans-national corporation look for sound domestic suppliers for their supply chains (Bashir,2008)

Small scale businesses are the major growing force behind the fastest growing economy of China. In terms of contribution to the national GDP, scale of assets, diversification of products and the creation of employment, similarly, the role of small scale businesses is well acknowledge in their countries such as Japan, Korea and all other industrial economies in terms of creating employment, reducing poverty and increasing the welfare of the society. (Bashir,2008)

Small scale businesses lead to effective utilization of local resources and affordable technology to a large extent they add value to the resources. In addition to that the facilitate distribution of economic activities within the economy thus promoting equitable distribution of resources.

2.7. Conclusion

Various scholars have brought forth different perspectives concerning micro credit institutions but all point to their ability to inspire rural entrepreneurial development. Though, as the study had to depend a lot on the existing body of literature for the identification of variables as well as for developing a rigorous logical argumentation for the interrelationships among different variables in the contributions of MFIs to small scale business development. The theoretical and empirical literature pointed to practical cases of micro-finance institutions and how they have been influential around the world leading to empowerment in small scale investment. The relationships between the dependent and independent variables indicated the factors that have been important leading to availability of MFIs and consequently influencing small scale business development in general.

CHAPTER THREE

METHODOLOGY

3.0 INTRODUCTION

This chapter shows how the research study was conducted that's to say it presents the methodology that was used in conducting the research study. This chapter focuses on the methods of data collection the study population, sampling techniques, the validity and reliability of the data and the data analysis.

3.1 Research design

Research design is a plan used while conducting a research study. In other words it's a conceptual structure with in a research study can be carried out.

The research had both qualitative and quantitative approaches of data collection. These were supposed to help the researcher collect as many views as possible. This was to examine the role of micro finance on the development of small scale businesses.

3.2 Population of the Research Study.

The study population consisted of the business owners, small scale retailers and the officers of pride microfinance. The micro finance had over 450 clients but not all these are active clients. So the researcher mainly paid attention to the active clients and the workers who made a number of 50 respondents in total. This was done to establish how they benefited from the existence of the microfinance on market street in areas of saving, credit provision and training and how they have led to the development of small scale businesses in that area..

3.3 Area of study

The research took place along Market Street because of the big number of small scale businesses located in that area. It is one of Uganda's busiest streets with very many market vendors and other business men and women who mainly use micro finance institutions as there banks.

3.4 Sample Size

Sample size is the total number of individuals randomly selected and assigned from a given population (Amin,2005). During this research study, a cross section of individuals were selected to draw research data and responses that give a true picture of the role of micro finance on the development of small scale businesses.

50 respondents were selected using the random sampling method. These are the small scale business men, women and employees of the micro finance institution.

$$n = \frac{N}{1+N(e^2)}$$

n=sample, N=Population, e=confidence level (0.05).

Source (Taro 1973.)

$$n = \frac{N}{1+N(e^2)}$$

n = N

$1 + N(0.05^2)$

$n = \underline{50}$

$1+50(0.05^2)$

$= 44$ n = sample, e= confidence level is 0.05, Population is 50

Sample size will be 44 respondents.

3.5 Data Collection Techniques/methods

Questionnaire

This technique refers to a compilation of questions which helped the researcher gather the necessary research data for the study. The questionnaire was a closed type of questionnaire which consisted of a set of questions to which the respondent answered by ticking.

Interviews

This involves oral questioning of the research respondents during the research study. This method may comprise of a focused group discussion with the researcher or a single face-to-face interaction between the researcher and the respondent.

The researcher used structured questions/ interview guide.

Observations

This method was used by the researcher with the help of just bare eyes. It enabled the researcher to find out the impact of MFIS on the development of the small scale business along market street.

Secondary Data

Secondary data that was used by the researcher contains information from other authors who have discussed the topic at great lengths. This information helped the researcher to find the gap that this research helps to solve. These may include books, articles, journals, online books and online articles.

3.6 Reliability and Validity

3.6.1 Validity

The validity of the data collection instruments will be done with the help of an Expert (the Researcher's supervisor) to edit the questionnaire and the Interview guide. The Researcher will therefore forward the structured Questionnaire to Supervisor who is an expert in the area covered by the research for editing and reviewing.

3.6.2 Reliability

The collection of data was done in many ways to make sure it was reliable like through interviewing, observation so as to get information to compare and present the best results. Though collection of this data was hard because the customers thought the researcher was a credit collector and they were running away. It was also hard because they thought the researcher was a tax collector from the government and most people do not have business licences.

3.7 Ethical Consideration

Ethical considerations refer to the research principles that are adhered to while conducting the research study. Amin (2005) points out that it is always important to conduct research studies in accordance with higher moral values. For that reason, the following were the ethical considerations that were adhered to while carrying out the study. The identity of individuals from whom information was obtained in the course of the research was strictly confidential. No individual became a subject of the research without his/her freely given consent that he/she will participate in the study. In general, the researcher agreed to comply with the above principles aimed at protecting the dignity and privacy of the research participants.

3.8 Limitations of the study.

During the research there was a problem insufficient funds especially when it came to transport and printing costs this was over came by relaying on other people for lifts and printing the work in smaller fronts to reduce on the costs.

The researcher had insufficient time to carry out her study since there were other courses to study. So the researcher decided to carry out her study during the weekend when she is free form other courses.

The researcher had difficulties communicating with some respondents because of language barrier that to say they did not know how to speak English. Due to this the researcher had acquire an interpreter to easen the communication.

CHAPTER FOUR

PRESENTATION, ANALYSIS, AND INTERPRETATION OF THE FINDINGS

4.0 Introduction

This chapter focuses on the presentation and discussion of findings on the role of micro finance and development of small scale businesses. It is based on demographic and objectives of the research which includes how client training has improved the performance of small scale businesses. To examine how savings offered to the business owners has lead to the development of their businesses. To establish how the loan schemes given to the business owners can lead to the growth of businesses. This chapter is to be presented in form of tables, pie charts and bar graphs of percentages and frequencies. The information in this chapter was obtained mainly using questionnaires and interview guides which were issued out the customers of the micro finance and the staff members of the micro finance.

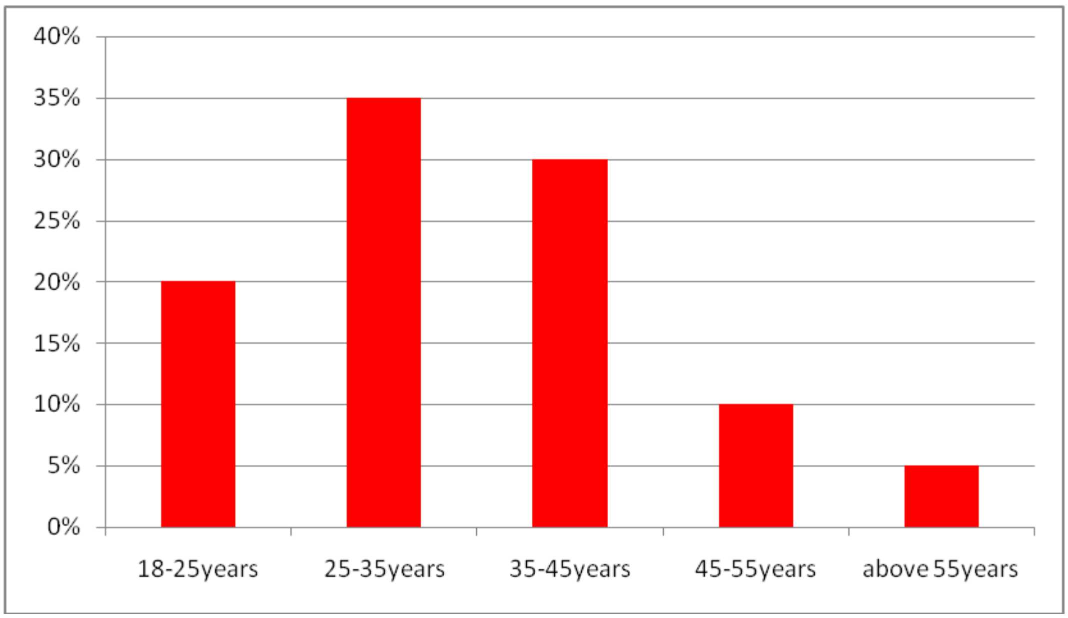
4.1 Background information of respondents

The back ground information included the age of the respondents, nature of businesses and how long their businesses had been in existence. This information was discussed with the help of tables, graphs and pie charts as shown below.

4.1.1 Age of the respondents

During the research study respondents of different ages were involved as shown in the figure below;

Figure 1 Age



Source: primary data

From Figure 1, 35% of the respondents (the majority) lay between 25-35 years; a percent of 20% lay between 18-25 years and30% lay between 35-45 years while 10% and 5% showed the minority respondents between 45-55 years and above 55years respectively. This means that those participating in small businesses are mainly mature youth in the age bracket of 25-35 years who have the zeal and physical strength of running a business and also have more responsibilities.

4.1.2 Nature of the business

During the research the researcher interviewed different respondents that had different types of businesses.

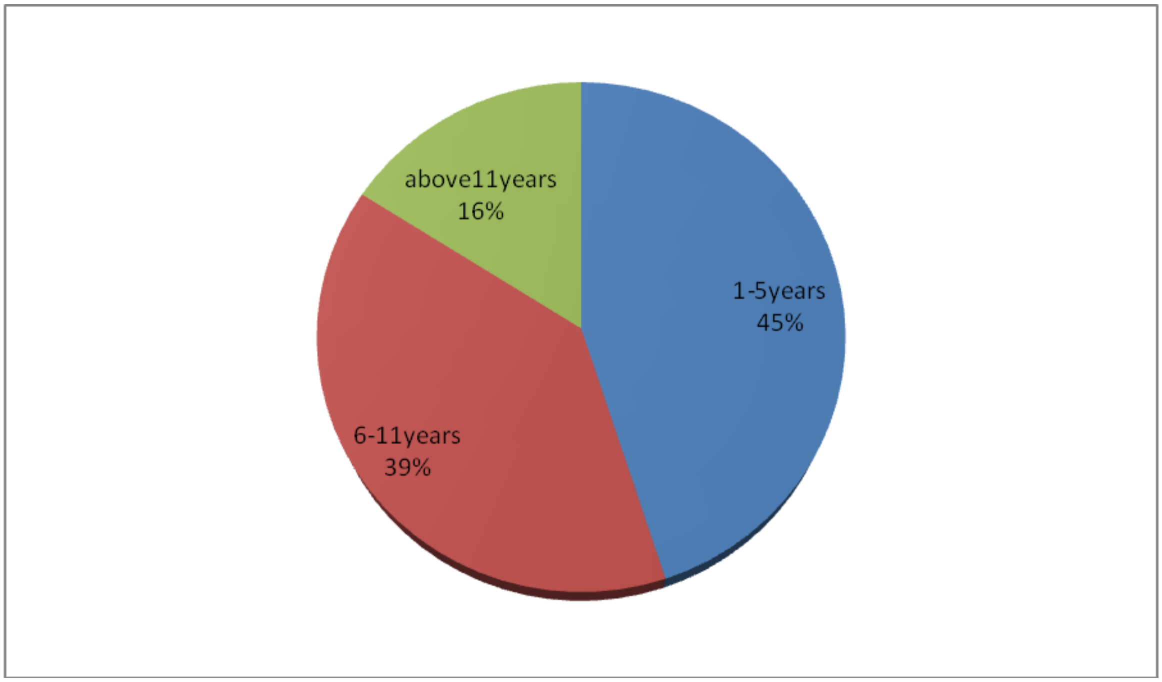
Figure 2: Nature of the business

Source: primary data

From Figure 2 above 45% of the respondents (the majority) dealt in retail businesses. 20% of the respondents owned plumbing shops, 15% owned electrical shops, 12% owned restaurants, the 8% of the respondents owned other businesses. From these findings it was noted that most clients of Pride micro finance located on Market Street owned retail shops because they are easy to monitor and cost less to start up.

4.1.3 Respondents experience of running business

Figure 3: Respondents experience of running business



Source: primary data

From Figure 3, 45% of the respondents (the majority) had their businesses in existence for a period of 1-5 years, a percentage of 39% of the respondents had their businesses in existence for 6-11years while 15%   had their businesses in existence for more than 11years. This implied that the average experience of the small scale business owners was 1-5years and there for this was not adequate experience for most of the small scale business owners thus the micro finance institution presence in that area is a great boost to offer the business owners with special training and advice in business areas. This lack of experience among the business owners was a weal point that micro finance institutions should workout to make a strong point by ensuring mobilization of the training programs that would empower the small scale business owners.

4.1.4 Response on Services offered

Table 1 : Response on Services offered

Category	Frequency	Percent
Training	22	10.0
Savings	22	30.0
Micro Credit	44	60.0

Source: Primary data

From the table above the majority being 60% enjoyed the micro credit offered by the microfinance institution, 30% enjoyed the savings facilities while 10% enjoyed the training. The response on the services offered by the micro finance institution was clear many business owners enjoyed the micro credit service more than any other service offered. This micro credit acts as provision for capital for the business owners small scale businesses. Many of the businesses owners favor these micro loans from the micro finance institutions because of the benefit that come with them like low interest. Small scale business owners agree that micro credit loans from micro finance institutions have helped them in areas like startup capital, asset or equipment acquisition, business expansion.

4.2 Discussion of findings based on research objectives.

4.2.1 To establish how client training has improved the performance of small scale business.

Under this objective the researcher asked the respondents how they have benefited from the training provided by the micro finance.

4.2.2 Response on Training Acquisition.

Table 2: Response on Training Acquisition.

Category	Frequency	Percent
Yes	35	80
No	9	20

Source: primary data

From the figure, above 67%% of the respondents indicated that they underwent training these being the majority. This training is compulsory, before giving a loan to a client; the client is trained and educated of the membership, saving requirements and penalties of late payments. The client is also trained or educated of entrepreneurial skills, book keeping, accounting and loan deposit and administration as well as how to optimise and exploit his loan, savings and deposits. This has helped so many business men and women in making decisions concerning their business enabling them to make more profits and expand their business.

4.2.4 Response on acquiring the training

Table 3: Response on acquiring the training

Category	Frequency	Percent
Individually	22	40.0
In a group	22	60.0
Total	44	100.0

Source: Primary Data

From the table above 60%beig the majority got their training as a group. This is because it was easier for the microfinance employee to train them as a group than individually and it was time saving. 40% being the minority got their training individually. This training groups enabled the business owners discuss there different experiences and learns more from each other. This training acts as an eye opener on the way the business men and women can go about daily business affairs and account for every penny gained and spent.

4.2.4 Response on how was the training carried out

Table 4: Response on how was the training carried out

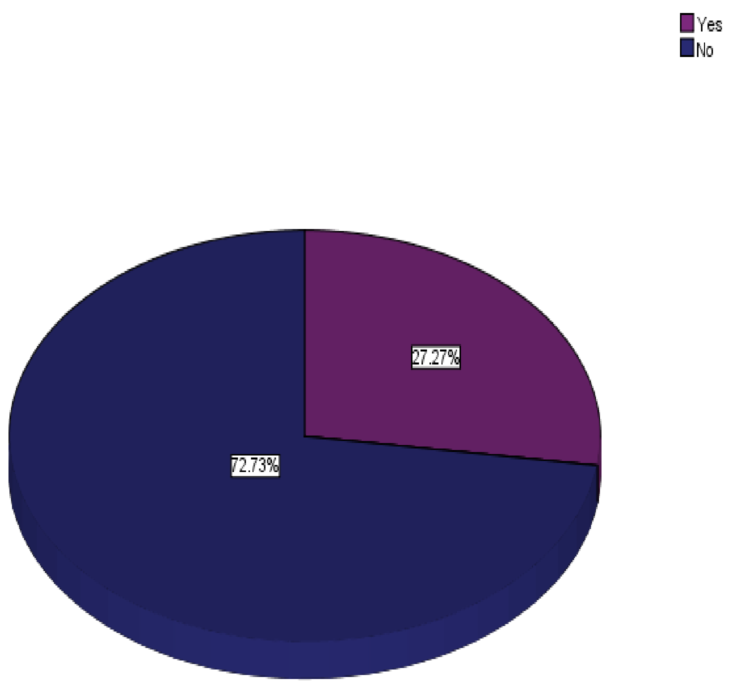
Category	Frequency	Percent
Theoretically	22	10.0
Practically	22	10.0
Both	44	80.0

Source: Primary Data

From the figure above, 80% being the majority acquired both theoretically ad practical training. The micro finance institutions handed with books and also carried out exercises with them. Through these training programmes the micro finance institution clients are taught how to manage their own businesses. They are educated on how to run and maintain their businesses. This is done through teaching them the principles of management and how to bring them to life. The training instructor use case studies and hands-on-projects to show clients how things can go right or wrong depending on how the business is managed.

4.2.5 Respondents satisfaction with the micro finance training

Figure 4: Respondents satisfaction with the micro finance training

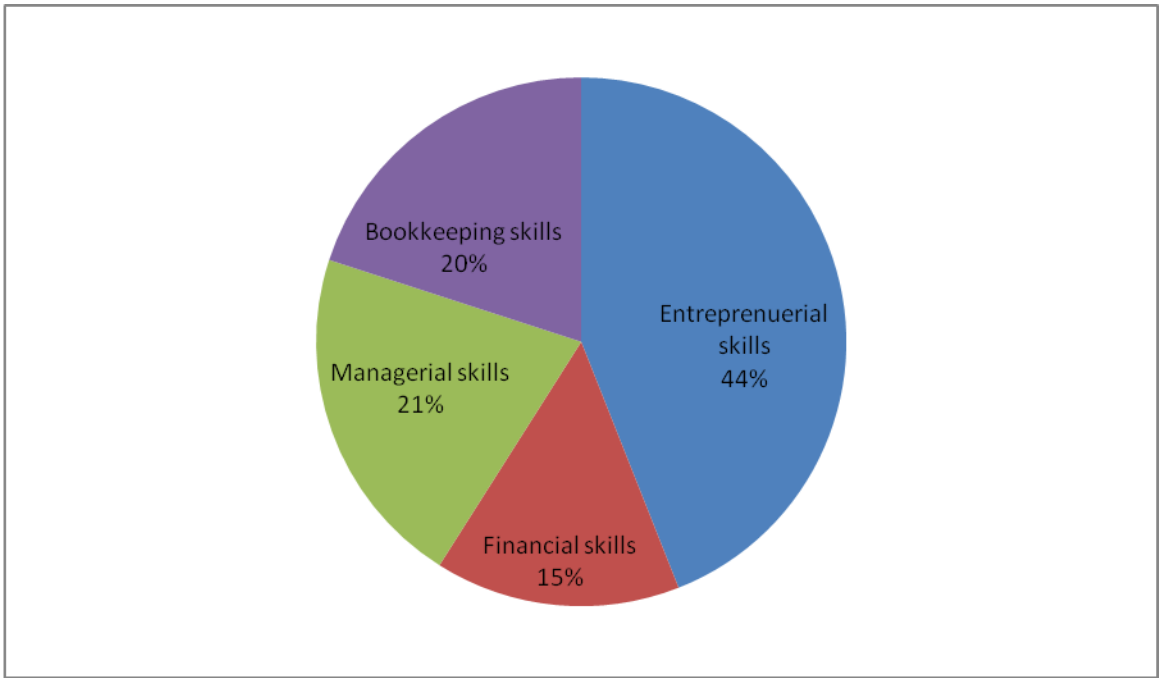


Source primary data

From Figure 4, 72.73% of the respondents indicated that they are satisfied by the training offered by MFI. Then 27.27% indicated that they are not satisfied with the training from the MFI. In agreement to the above, Pagura (2004) states in her paper on client exit in micro finance states that education will have a positive effect on the borrowers hazard rate of exiting. Those with education have more outside opportunities than those without education. For example, an individual that can read and write will have the knowledge advantage over someone that is not literate and be able to access other (semiformal and formal) financial sources more than someone who is illiterate. In addition to being able to access other financial services, a more educated person has ability to access business training courses, e.g., bookkeeping/accounting, marketing, feasibility studies, cash flow management, technical trainings, etc., more than her less educated counterpart.

4.2.6 Response on benefits of the training.

Figure 5: Response on benefits of the training.



Source: Primary Data

From the figure above, 44% of the respondents (majority) have benefited mostly from the entrepreneurial skills such as dealing with customers. 15% benefited from the financial skills such as budgeting, 21% benefited from the managerial skills while 20% benefited from book keeping skills.

Through this training programme the business owners are taught how to manage their own businesses. They are educated on how to run and maintain their businesses. This is done through teaching them the principles of management and how to bring them to life. The training instructor use case studies and hands-on-projects to show clients how things can go right or wrong depending on how the business is managed.

4.3 To examine how the savings service offered to the business owners can lead to the development of their businesses.

Under this objective several questions were asked by the researcher and their findings were shown by a table and a pie chart.

4.3.1 Response on ownership of a savings account

Table 5: Response on ownership of a savings account

Category	Frequency	Percent
Yes	44	100.0

Source primary data

Table 5 above shows that all the 44 (100%) respondents said yes since saving is a condition for acquiring micro credit.Compulsory savings are funds that must be contributed by borrowers as a condition of receiving a loan. Most times compulsory savings are considered to be part of a loan product rather than an actual saving product. These are important because they demonstrate the value of savings practices to borrowers; they also sever as an additional guarantee mechanism to ensure the repayment of a loan. They also help to build the asset base of the clients. (Ledgerwood1999). According to (Yaron et al 1997) there are requirements for effective voluntary savings mobilisation and these include high level of confidence in the institution, security, easy access to deposits for clients, flexibility and diversity of savings instruments. Through this the clients financial intermediation will be improved through providing clients with secure a place to keep their savings, smooth consumption patterns, hedge against risk, and accumulate assets while earning higher real returns than they might by saving in the house hold or saving in kind.

4.3.2 Response on categories of saving

Table 6: Response on categories of saving

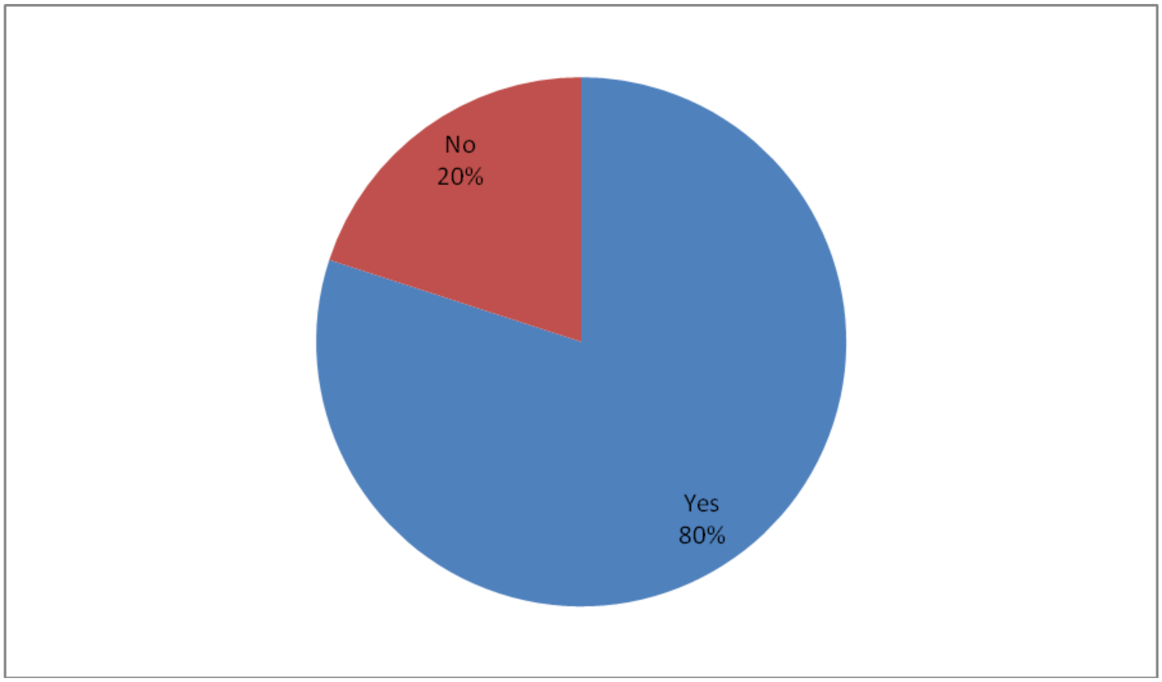
Category	Frequency	Percent
Individual	32	72.7
Group	12	27.3
Total	44	100.0

Source: Primary data

From the table above, 72.7% being the majority have individual saving accounts while 27.3% the minority have group saving accounts. It was also found out that most f the individual savings accounts are owned by women. This is because women generally have high sense of responsibility and are affected by social pressure(LedgerWood,1999). Although majority of them have individual savings accounts some mostly the married also have matched savings accounts or joint savings accounts with their spouses or partners which has enabled them overcome some issues like health care and school fees for their children.

4.3.3 Response on savings satisfaction

Figure 6: Response on savings satisfaction

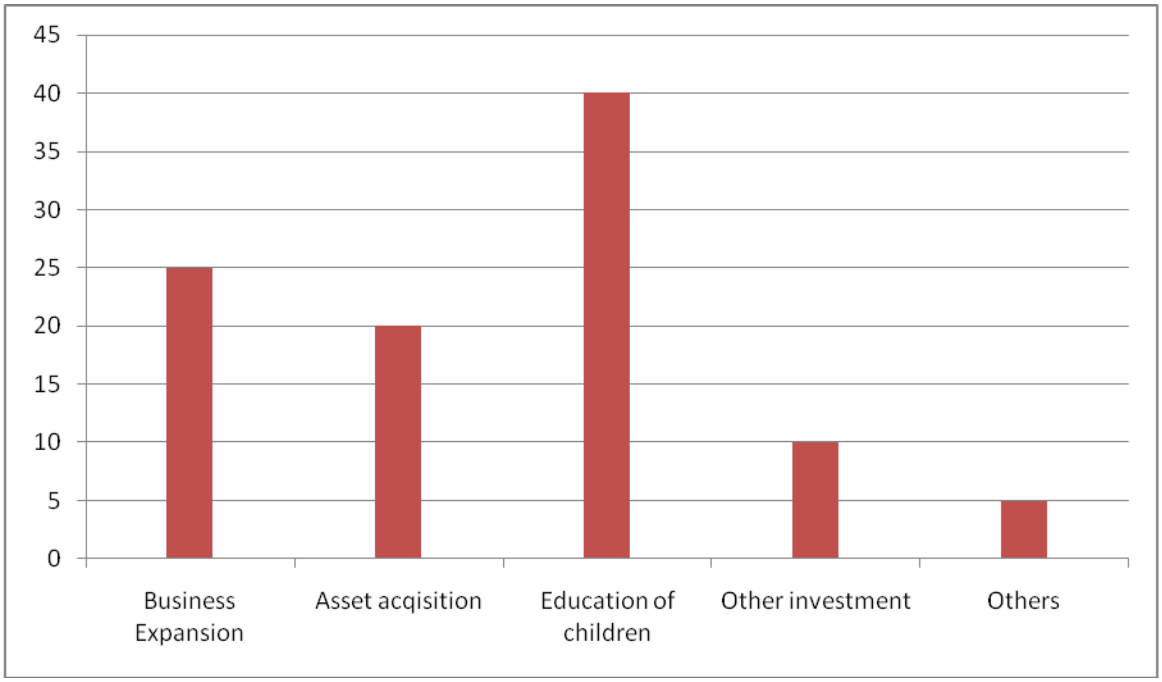


Source primary data

From, Figure 6, 80% who are the majority agreed that they were satisfied with the savings services being offered by the micro finance, While 22% of the respondents were not satisfied with the services being offered by the micro finance. In agreement with these findings,Vogel (1984) asserted that financial systems approach to small business recognises that savings are as important a service to the poor as credit and that savings are crucial in building self sufficient businesses. Well crafted saving services can encourage a move from nonfinancial savings into financial savings, with the advantage of safety and liquidity for entrepreneurs and the provision of funds for investment for society.

4.3.4 Response on benefits of savings.

Figure 7: Response on benefits of savings.



Source: Primary Data

Majority of the business owners are in the age bracket of 25-35years and 35-45years. Most of them (40%) are married with children. These savings have enabled them to provide for their children in form of food, school fees. These savings have enabled the business owners with families be able to have enough finances to leave a happy life with their families. 25% of the business owners have been able to expand their businesses and also their market share,20% are able to acquire new assets such as equipment due to savings. These savings have help business owners afford the best business equipments or other assets such as personal deliver trucks that has made the businesses run smoothly. Others due to savings they are able to invest in other business ventures and widen their sources of income.

4.3.5 Response on favourability of Interest rates on savings

Table 7: Response on favourability of Interest rates on savings

Category	Frequency	Percent
Yes	35	79.5
No	9	20.5
Total	44	100.0

Source: Primary Data

From the figure above, 79.5% the majority say the interest rates on the savings are favourable while 9% feel they are not favourable. The interest rates placed on the savings has enabled the account holders to increase their capital or funds over a period of time. Due to the favourable interest rates put on the savings the business owners working capital has increased enabling them be able to employ more people in the business which increases productivity, customer satisfaction and also increase profits in the long run.

4.4 To establish how the loan schemes given to the business owners can lead to the growth of their businesses.

Under this objective the researcher inquired from the clients of the micro finance if the loan schemes provided to them by the micro finance were favorable in relation to their interest rates.

4.4.1 Response on loan acquisition.

Table 8: Response on loan acquisition

Category	Frequency	Percent
Yes	35	80
No	9	20

Source: Primary Data

From the table above the majority 80% have ever acquired a loan from the micro finance institution while 20% the minority have never acquired a loan from the microfinance institution. Micro finance institutions have for the past years proved quite crucial in the provision of formal loans for the poor, giving customers who are empirically and traditionally neglected by commercial banks. Most loans are made to generate revenue with the business, though some micro finance institutions make loans for consumption, housing and other special occasions. While some insist that only productive loans be made. Any loan that increases the liquidity of house hold fees up enterprise revenue which can be put back into the business (LedgerWood 1999).

4.4.2 Response on how micro credit loans are acquired

Table 9: Response on how micro credit loans are acquired

	Category	Frequency	Percent
	Individual	**32**	**72.7**
	Group	**12**	**27.3**
	Total	**44**	**100.0**

Source: Primary Data

Are the interest rates favorable?

From the table above, 72.7% the majority acquired the loan individually while 27.3% the minority acquired the loan as a group. Individual loans are delivered to individuals based on their ability to provide the MFIs with assurances of repayment and some level of security. The group based loans are given to groups or to individuals who are members of a group and guarantee each other's loans or to groups that then sub loan to their members. Individual loans limit the business owner's capacity to develop since the individual loans may be hard for them to pay back since the interest rates may be too high while with group loans the effect may not be felt since it is group effort and the interest rate are shared among the group members.

4.4.3 Response on favorability of the interest rates

Table 10: Response on favorability of the interest rates

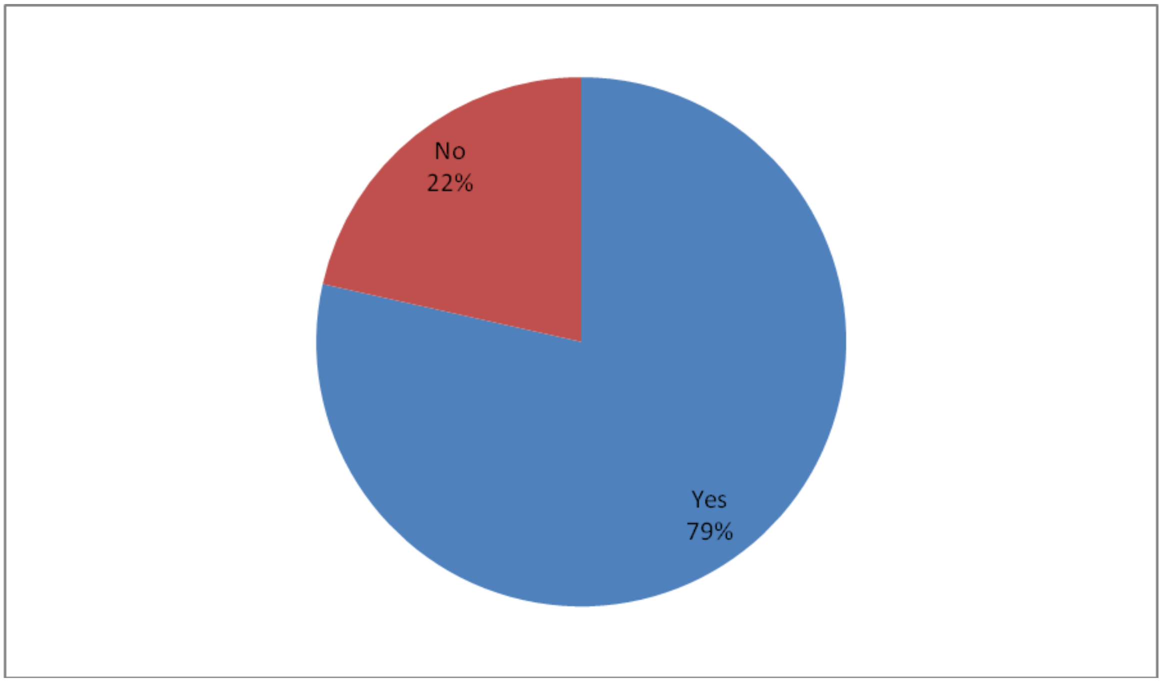
Category	Frequency	Percent
Yes(Favorable)	35	70.0
No(un favorable)	9	30.0
Total	44	100.0

Source primary data

From table 3, 70% of the respondents indicated that they were offered favorable credit inters rate. A percentage of 30% of the respondents indicated that they were not offered favorable credit interest rates. Credit these are borrowed funds with specified terms for repayment. When there are insufficient accumulated savings to finance a business and when the return on borrowed funds exceeds the interest rate charged on the loan, it makes sense to borrow rather than post pone the business activity until sufficient savings can be accumulated, assuming the capacity to service the debt exists (waterfield& Duval 1996).

4.4.4 Response on micro credit services satisfaction.

Figure 8: Response on micro credit services satisfaction.



Source: Primary Data

From figure 8 above 78%(majority) of the respondents are satisfied with the micro credit services. This micro credit is given at low interest and enough time is given to the business owners to pay back the loans. These loans provide a basis for increased production efficiently through the specialization of the functions bringing together hard work. 22% (minority) say they are not fully satisfied with the micro credit facilities this is because the loans are too small to cover up all the capital requirements of the business.

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary findings of the research objectives, conclusions, recommendations and areas of further study. The objectives of the study were examining the role of micro finance in the development of Small scale businesses along Market Street. These include how client training has improved the performance of small scale businesses, how saving services offered to the business owners has led to the development of their businesses, how micro credit loan schemes given to the business owners has led to the growth of their businesses.

5.2 Summary of findings

Below are the summarized findings of the study according to the study objectives. These show the key findings that the researcher found out.

5.2.1 Client training and development of small scale businesses

From the research findings, the respondents revealed that the micro finance institution offers client training though it is not taken seriously by most of the clients. Most of the staff as well as positive response from those small scale entrepreneurs who had previously attended training programs organized by the MFIs were in agreement that the training sessions had been important to equip the participants with the know-how not only on running the businesses but also on financial management. Having acquired skills on financial management coupled with business management would certainly guarantee the loan repayment since the business owners can budget and repay the loans with ease. Therefore, the fast growth of small scale businesses was thus attributed to the training programs MFIs offered to the business owners along Market Street.

Findings from the MFIs staff responses showed positive reception of the microfinance institutions services as well as the programs offered to enhance more business investment. The MFIs were also launching more outreach programs to enlighten the small scale business owners so that they would benefit from the loans advanced to them, reap benefits from the business ventures and repay loans via a process of wise financial management in their businesses. Creating awareness through the programs was a key breakthrough for the MFIs to market

5.2.2 Savings and development of small scale businesses

From the research findings, the respondents revealed that savings are a condition for credit this was represented by 100% response. And that the most type of saving is the compulsory saving which are often seen as fee that the clients must pay to get credit and this limits the ability of the clients to get loans since some of them o not have compulsory savings. However MFI also offer voluntary savings to both borrowers and non borrowers. These type of savings are not obligatory part to accessing credit.

5.2.3 Credit and development of small scale business

From the research findings, majority of the respondents revealed that the Micro finance offers favorable credit facilities. This was represented by 79% response.

From the data collected and analyzed, the small scale business owners' response was that they would prefer to microfinance institutions as opposed to the commercial banks. The findings strongly indicated that the presence of microfinance institutions had significant impact especially in provision of micro credit for the business owners to start or boost their businesses thus leading to increased business development. The study further found out the effect of provision of finance by MFIs was to be praised because with accessible micro credit loans many of the small scale business owners tended to borrow loans and become self-employed. About eighty percent (80%)

of the MFIs staff believed that with the provision of finance to the business owners was a great feat and formulation of the policies that make the allocation of loans favorable for conducive business ventures for the small scale businessmen and women.

5.3 Conclusions

This study was aimed at investigating the contributions of microfinance institutions to entrepreneurial development of small scale businesses along Market Street.

The provision of micro credit was the greatest feat the microfinance institutions have so far been able to achieve making most of the business owners to prefer the loans from MFIs rather than from commercial banks. About all the respondents concurred that microfinance institutions offered them a better deal than banks would of people of their status leading to increased business development in the area. No other way would empower the people and increase business development better than giving them accessible loans as provided by MFIs to start or boost their small scale businesses.

The study also concluded that training programs had been a big boost given that many of the business owners lack the business knowledge and got it from MFIs training programs to manage their businesses wisely. Even though many of them learn in the process how to effectively manage businesses, the training programs would invariably equip entrepreneurs with business skills which they would not have got in formal education given the programs contextualize the information and content to be relevant to the area of the business and its setting.

In conclusion, the study was able to arrive at informed conclusions that microfinance institutions have greatly influenced the development of small scale businesses along Market Street and the country at large. This conclusion had been statistically and scientifically arrived at through analyzing the responses of small scale business owners and MFIs staff concerning the services like provision of training programs, savings services, and micro credit services which all have been important to starting and sustaining business development and growth along market street and the country as a whole.

5.4 Recommendations

Pride micro finance should offer further training to its customers such as idea creation where it helps its clients come up with the best realistic business ideas that can come to life. They can also train their clients on how to carry out market research since most of the clients don’t usually carry it out.

The micro finance should also introduce more services to their clients apart from savings and loans. They should introduce services like insurance that will help to expand on their customer base.

The micro finance should endeavor to offer bigger sums of money to their customers in forms of credit. Some of their clients were not happy with the small sums that they were being offered.

The micro finance should provide its customers with longer term savings. This is because the researcher noticed that the savings that are provided are short term.

5.5 Areas of further study

Due to the limited time given to the researcher, the researcher was unable to do a comprehensive study on this topic. So the researcher recommended that the following areas should be further researched on.

They study focused on the services provided by the micro finance institutions and how they lead to business development. There can be other factors that also play a major role in small scale business development and thus further research can be conducted to bring out these other factors as well as other variables that are not covered in this research study.

Further research should be done on the entire topic because most of the literature available is on micro finance and eradication of poverty.

Further research can be conducted on this topic using different methods of collecting data to determine the role of micro finance institutions on the development of small scale businesses. This can bring out different data on how these micro finance institutions have led to the development of small scale businesses.

Further research can be carried out on this same topic looking at a wider sample space which would enable the studies come up with different data.

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APPENDICES

Appendix I: Questionnaire for Management

My name is Natukunda Henrietta, a student of Business Administration and Management at Uganda Martyrs University. I am carrying out research on the analysis of the role of microfinance institutions on the development of small scale business in Uganda. I request that you help me answer the above questions. Your responses will be treated with confidentiality. Your cooperation is highly appreciated.

SECTION A:

1. Age

   Under 25years ☐

   26-35years ☐

   36-50years ☐

   Above 50years ☐

2. How long have you worked here?

   1-5years ☐

   6-11years ☐

   Above 11years ☐

3. How many clients do you have?

   20-50 ☐

   51-60 ☐

   61-70 ☐

   Above 70 ☐

SECTION B: SERVICES OFFERED

1. which service is mostly used by the clients

Training ☐

Savings ☐

Micro Credit ☐

2. How often do clients access the services from the microfinance institution

Weekly ☐

Monthly ☐

Once a year ☐

3. Are the services easy to acquire

Yes ☐

No ☐

SECTION B i) TRAINING

1. How did you carry out the training

Individually ☐

In a group ☐

2. How long does the training taking?

1-4 weeks ☐

5-8 weeks ☐

12 weeks ☐

3. How is the training carried out?

Theoretically ☐

Practically ☐

Both ☐

4. Are the clients satisfied with the training?

Yes ☐

No ☐

5. What is taught in the training? (Free to tick more than one)

Customer care skills ☐

Financial skills ☐

Managerial skills ☐

Book keeping skills ☐

SECTION B II) SAVINGS

1. How often do your clients save

Monthly ☐

Weekly ☐

Every 6 months ☐

Once a year ☐

2. How do most of them join?

Individually ☐

In groups ☐

3. How much do your clients save per month?

Below 100,000 ☐

100,000-500,000 ☐

600,000-1,000,000 ☐

Above 1,000,000 ☐

4. What is the interest rate on the savings
   Below 10% ☐
   11-20% ☐
   Above 20% ☐

5. Is the interest rate favorable?
   Yes ☐
   No ☐

6. Do you think the savings have contributed much to the clients businesses?
   Yes ☐
   No ☐

7. If yes how have they achieved from the savings?
   Expanded the business ☐
   Asset Acquisition ☐
   Further investments ☐
   Education of Children ☐
   Other…………………………………………………………………..

SECTION B III) MICRO CREDIT/LOAN

1. How many clients acquire loans monthly?
   5-10 ☐
   11-25 ☐
   26-35 ☐
   Above 50 ☐

2. How do most of them acquire the loans
   Individually ☐
   As a group ☐

3. How much was the loan do they commonly acquire?

Below 500,000/= ☐

500,000-1,000,000/= ☐

1,000,000-5,000,000/= ☐

Above 5,000,000/= ☐

4. What was the purpose of the loan?

Debt payment ☐

Other Investments ☐

Asset Acquisition ☐

If other specify…………………………………………………

5. What is the interest rate of the loan

Below 5% ☐

5-10% ☐

Above 10% ☐

6. Is the interest rate favorable?

Yes ☐

No ☐

7. How long does it take them to pay back the loan?

6months ☐

1year ☐

More than a year ☐

SECTION C: PERFORMANCE

1. Do you think your clients satisfied with the microfinance institution services?

   Yes ☐

   No ☐

2. The annual increase of your clients ranges from:

   10%-20% ☐

   21%-30% ☐

   31%-40% ☐

   Above 40% ☐

3. At what rate are your clients' profits growing?

   1-10% ☐

   11-20% ☐

   21-30% ☐

   Above 30% ☐

4. Do you think your clients have benefited from your services

   Yes ☐

   No ☐

5. How much do you think your clients businesses are growing

   1-10% ☐

   11-20% ☐

   21-40% ☐

   Above 40% ☐

Appendix II: Questionnaire for Clients

My name is Natukunda Henrietta, a student of Business Administration and Management at Uganda Martyrs University. I am carrying out research on the analysis of the role of microfinance institutions on the development of small scale business in Uganda. I request that you help me answer the above questions. Your responses will be treated with confidentiality. Your cooperation is highly appreciated.

SECTION A: BUSINESS PROFILE

4. Age

   18-25years ☐

   25-35years ☐

   35-45years ☐

   45-55years ☐

   Above 55years ☐

5. what is the nature of your business

   Retail Shop ☐

   Restaurant ☐

   Plumbing ☐

   Other specify……………………………………..

6. How old is your business

   1-5years ☐

   6-11years ☐

   Above 11years ☐

SECTION B: SERVICES OFFERED

3. which service did you enjoy from the microfinance institution

Training ☐

Savings ☐

Micro Credit ☐

4. How often do you access the services from the microfinance institution

Weekly ☐

Monthly ☐

Once a year ☐

3. Are the services easy to acquire

Yes ☐

No ☐

SECTION B i) TRAINING

5. How did you acquire the training

Individually ☐

In a group ☐

6. How long was the training?

1-4 weeks ☐

5-8 weeks ☐

12 weeks ☐

7. How was the training carried out?

Theoretically ☐

Practically ☐

Both ☐

8. Are you satisfied with the training?

Yes ☐

No ☐

Specify which type of training

Theory

Practical

Both

5. What did you learn from the training?

Customer care skills ☐

Financial skills ☐

Managerial skills ☐

Book keeping skills ☐

SECTION B II) SAVINGS

8. Do you have a savings account?

Yes ☐

No ☐

9. If yes how often do you save

Monthly ☐

Weekly ☐

Every 6 months ☐

Once a year ☐

10. Did you join as an individual or as a group?

Individual ☐

Group ☐

11. How much do you save per month?

Below 100,000 ☐

100,000-500,000 ☐

600,000-1,000,000 ☐

Above 1,000,000 ☐

12. What is the interest rate on the savings

Below 10% ☐

11-20% ☐

Above 20% ☐

13. Are the interest rates favorable?

Yes ☐

No ☐

14. Do you think the savings have contributed much to your business

Yes ☐

No ☐

15. If yes what have you achieved from the savings?

Expanded the business ☐

Asset Acquisition ☐

Other investments ☐

Education of children ☐

Other……………………………………………………………..

SECTION B III) MICRO CREDIT/LOAN

8. Have you ever acquired a loan from the microfinance institution

Yes ☐

No ☐

9. If yes did you acquire it as an individual or group

Individually ☐

As a group ☐

10. How much was the loan

Below 500,000/= ☐

500,000-1,000,000/= ☐

1,000,000-5,000,000/= ☐

Above 5,000,000/= ☐

11. What was the purpose of the loan?

Debt payment ☐

Business expansion ☐

Equipment purchase ☐

If other specify………………………………………………

12. What is the interest rate of the loan

Below 5% ☐

5-10% ☐

Above 10% ☐

13. Is the interest rate favorable?

Yes ☐

No ☐

14. What challenges have you encountered in acquiring the loan?

High interest rates ☐

Short payments periods ☐

Lack of collateral ☐

If other specify………………………………………

15. How long did it take you to pay back the loan

6months ☐

1year ☐

More than a year ☐

SECTION C: PERFORMANCE

6. Are you satisfied with the microfinance institution services?

Yes ☐

No ☐

7. The annual increase of customer ranges from:

10%-20% ☐

21%-30% ☐

31%-40% ☐

Above 40% ☐

8. At what rate are your profits growing?

1-10% ☐

11-20% ☐

21-30% ☐

Above 30% ☐

9. How much sales do you make per month?

Below 400,000/= ☐

500,000-1,000,000/= ☐

1,000,000-2,000,000/= ☐

Above 2,000,000/= ☐

10. How much working capital do you have now?

Below 500,000/= ☐

500,000-1,000,000/= ☐

1,000,000-5,000,000/= ☐

Above 5,000,000/= ☐