THE ROLE OF AGRICULTURAL FINANCE ON THE IMPROVEMENT OF HOUSEHOLD INCOMES

CASE STUDY OF NKOZI SUB COUNTY, MPIGI DISTRICT

BY:

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DEDICATION

I dedicate this research dissertation to my beloved mother Ms Nambi Gladys, Mrs Namuli Regina Ggala, Ms. Nassali Noelina, my lovely daughter Munandi Stephanie, all my siblings, family and friends.

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All my relatives and friends, May God bless you.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

ACODE	:	Advocates Coalition for Development and Environment
CIF	:	Centre d'Innovation Financière
CVECA	:	Caisses Villageoisesd'Epargne Crédit Autogérées
DSIP	:	Development Strategy and Investment Plan
GDP	:	Gross Domestic Product
MFIs	:	Micro Finance Institutions
NDP	:	National Development Plan
NGOs	:	Non-Government Organizations
SACCO	:	Savings and Credit Cooperative Society
SPSS	:	Statistical Package of Social Sciences

ABSTRACT

The study set out to examine the role of agricultural finance and the improvement of household incomes in Nkozi, Sub County. The study had three objectives, namely: to find out how loans in agricultural finance lead to the improvement of household incomes in Nkozi, Mpigi district, to establish the role of agricultural financing on the improvement of household incomes and to establish the relationship between agricultural financing and improvement of household incomes

The study was carried out using a case study research design where both qualitative and quantitative research approaches were also used, data was collected using a questionnaire and during the data collection, stratified and purposive sampling techniques were used as the sample size of 80 respondents was used in the study.

From the study findings, it can therefore be concluded that for the people of Nkozi Sub County to benefit from the loans acquired from the SACCO, they need to first understand the roles loans play in agricultural finance in improving of household incomes. More so, the people need to understand the different challenges like lack of enough collateral to acquire loans and high interest rates on loans acquired in order to be able to establish possible ways of reducing such challenges like negotiating with the SACCO and the central bank to reduce on interest rates as this will enable them to be able to acquire agricultural loans with ease and in the long run be able to improve their household incomes.

The study recommended that the leaders in Nkozi Sub County should invest in sensitization campaigns to train and encourage people on proper use of loans acquired in agricultural production by carrying out workshops and seminars. There is need for government through the central bank to intervene through providing support and reducing on interest rates levied on loans. There is also need to set up credible and reliable mechanisms to monitor agricultural loans acquired so as to ascertain whether the loans taken are being used by farmers for the purpose they were intended to.

CHAPTER ONE

GENERAL INTRODUCTION

1.0 Introduction

This chapter includes; the background of the study, statement of the problem, objectives of the study, research questions, scope of the study, significance of the study, definition of terms and conceptual framework.

1.1 Background of the Study

Agriculture is the economic backbone of most rural areas in developing countries (Barrett et al., 2001). Depending on a country's level of advancement in the economic sphere, agriculture contributes to overall economic growth by creating jobs, supplying labor, food, and raw materials to other growing sectors of the economy and helping to generate foreign exchange.

There is now a renewed recognition of the fundamental importance of agriculture to Uganda's economy and the central role it has to play in development, economic growth and poverty reduction. This is now contained in the agricultural sectors development strategy and investment plan(DSIP) for the period 2010/11-2014/15. The national development plan(NDP) also priotises agriculture among key productive sectors that drive the economy.

Agriculture plays a major role in most developing countries as it is the major source of livelihood for the rural people; where over 80% of the populations live. It is also the backbone of national economies, the main source of foreign exchange and by far the most important source of employment, including self-employment. It is in the rural areas because the largest numbers of poor and destitute people are found in many developing countries for example, in Uganda.

After decades of political turmoil and economic decline, Uganda has been able to register some improvement in the wellbeing of its citizens. The number of people living in absolute poverty reduced from 56% in 1992 to 31% in 2006. Despite the tremendous reduction in income poverty and impressive economic growth, Uganda is still languishing in a low-income trap with minimal socio-economic transformation. Income inequality as measured by the Gin Coefficient increased from 0.365 in 1992/93 to 0.408 in 2005/06.A sizeable number of Ugandans (over 26% of households) were living in chronic poverty in 2006.The percentage of household that are food secure dropped from 83% in 1992 to 66% in 2005(ACODE & UNFFE, 2009).

Benin, et al. (2007) note that the slow pace of socio-economic transformation in Uganda can be attributed to the neglect of agricultural financing as an engine of growth. Whereas national GDP has been growing above five percent per year over the last decade, during this same period, the agricultural sector experienced very low growth of about two per cent per year. Furthermore, agricultural growth has been erratic, with agricultural GDP rising during 2002-2003, falling in 2004, and then remaining stagnant during 2005-2006.

More so, more than 85% of Uganda's live in rural areas and as many as 95% of the country is poor. Despite this, agriculture contributes only 22% of the Uganda's overall domestic production and food production barely satisfies the demand of the rapidly growing population. Demand oriented financial services could make a significant contribution to help rural areas and the agricultural sector top their full potential.(Kjaer & Muhumuza, 2009). However only about 16% of the rural so far have access to the formal financial products (rural finance), as they possess only a low level of basic financial literacy. People in the rural areas are generally unable to demand financial services to suit their needs or to take proper advantage of those that already exist.

Consequently, banks and other traditional for profit financial intermediaries tend to limit their activities to urban areas and to more densely populated, more affluent, more commercial areas of the rural economy. The problem is further compounded by lenders who tend to offer only a limited menu of products, mainly with heavy collateral requirements. Wealthier farmers can obtain larger loans to lower costs form formal lenders because they can credibly pledge assets or future cash flows. Asset poor households, by contrast, are limited to much smaller loans at higher rates because they have to turn to lenders who must substitute costly monitoring to collateral. Poor farmers may also turn down loans even if they qualify because they are unwilling to bear the risk of losing collateral(Nabbumba & Bahiigwa, 2003).

Results by Diagne and Zeller (2001) in their study suggested that micro finance did not have any significant effect on house hold income. Despite the developmental opportunities which would be offered by the credit facilities to the poor people engaged in agricultural practices because due to lack of collateral that they could offer as security for the loans. Further; because of the small loans, banks are averse to lending to small borrowers since there are high transaction costs, high uncertainty of the incomes of the agriculturalists which is highly dependent on the weather and sheer luck (world bank, 1989; Adugna and Hedhues, 2000), which results to house hold and farmers relying almost on informal credit market as reported by Nissanke, 1994; Soyibo, 1994; et. al).

It is reported that agriculture continues to be practiced by the poor agriculturalists with inadequate farming tools and lack of basic information especially the financial information necessary for them to access the loans which would enable them to move from to commercial agriculture. It is therefore against this background that this study seeks to examine the role of agricultural finance on improvement of household incomes in Nkozi Sub County.

1.2 Statement of the Problem

Despite the significant strides achieved in terms of spread, network and outreach of rural financial institutions, the quantum of flow of financial resources to agriculture continues to be inadequate (Golait, 2007). As a result, agrarian distress on account of deceleration of agricultural growth since late 1990's has been recognized as one of the major impediments in the development process of Uganda. The adverse impact of such slowdown is more serious in the rain fed regions especially on small and marginal farmers with limited resources. Recent studies on agrarian distress have revealed that indebtedness is one of the factors linked with farmers' suicides on account of crop failure and related issues. This situation brings out the fact that the existing institutional arrangement for credit and financial delivery is not adequate and suitable to address the agrarian distress in the country (Barah and Sirohi, 2011). It is from this background therefore that the researcher intends to find out the role of agricultural finance on the improvement of household incomes in Nkozi, Sub County.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of the study was to establish the role of agricultural finance on the improvement of household incomes in Nkozi, Sub County

1.3.2 Specific Objectives

i. To find out how loans in agricultural finance lead to the improvement of household incomes in Nkozi, Mpigi district.
ii. To establish the role of agricultural financing on the improvement of household incomes in Nkozi, Mpigi district.
iii. To establish the relationship between agricultural financing and the improvement of household incomes in Nkozi, Mpigi district.

1.4 Research Questions

The following research questions guided the study to achieve the stated objectives:

i. What is the role of loans in agricultural finance on the improvement of household incomes in Nkozi, Mpigi district?
ii. What are the challenges in accessing agricultural finance in Nkozi, Mpigi district?
iii. What are the solutions to the challenges faced in accessing agricultural finance in Nkozi, Mpigi district?

1.5Scope of the Study

1.5.1 Subject Scope

The study focused on the role of agricultural finance on the improvement of household incomes in Uganda. The study was based on how agricultural finance affects household incomes, where by financing may be in terms of how loans may be of any impact if they are extended to farmers in order to support them so that they can yield better and higher production.

1.5.2 Geographical Scope

The study was carried out in Nkozi Sub County, Mpigi district. The main reason for selecting these farmers was that they should be the beneficiaries of the agricultural finance scheme carried out at Nkozi Cooperative Savings and Credit Society Limited and the farmers in the area it provides with agricultural finances. Details of such farmers were obtained from the District agricultural finance headquarter System data base.

1.5.3Time Scope

The study was also conducted in comparison with the related literature reviewed by other related researchers from 2000 to 2015.

Data was obtained from published materials, which included; journals, magazines, online materials, internal reports and newspapers. They included among others; minutes, internal and managers' reports of Mpigi District head quarter's agricultural finance.

1.6Significance of the study

It will help the researcher to attain a Degree in Business Administration and Management since its part of the requirements.

The study will help to increase the researcher's knowledge and be able to understand the details concerning agricultural financing and household incomes and relate the findings to the real situation.

The study will help future researchers as a source of literature while carrying out more studies on how agricultural financing affects household incomes.

Study findings will help Nkozi Sub County SACCO in employing the most appropriate policies and strategies of house to best help farmers' access agricultural finances.

1.7Definition of key terms

Agricultural finance

Agricultural means involving or relating to agriculture.

Finance is the commercial or government activity of managing money, debt credit and investment.

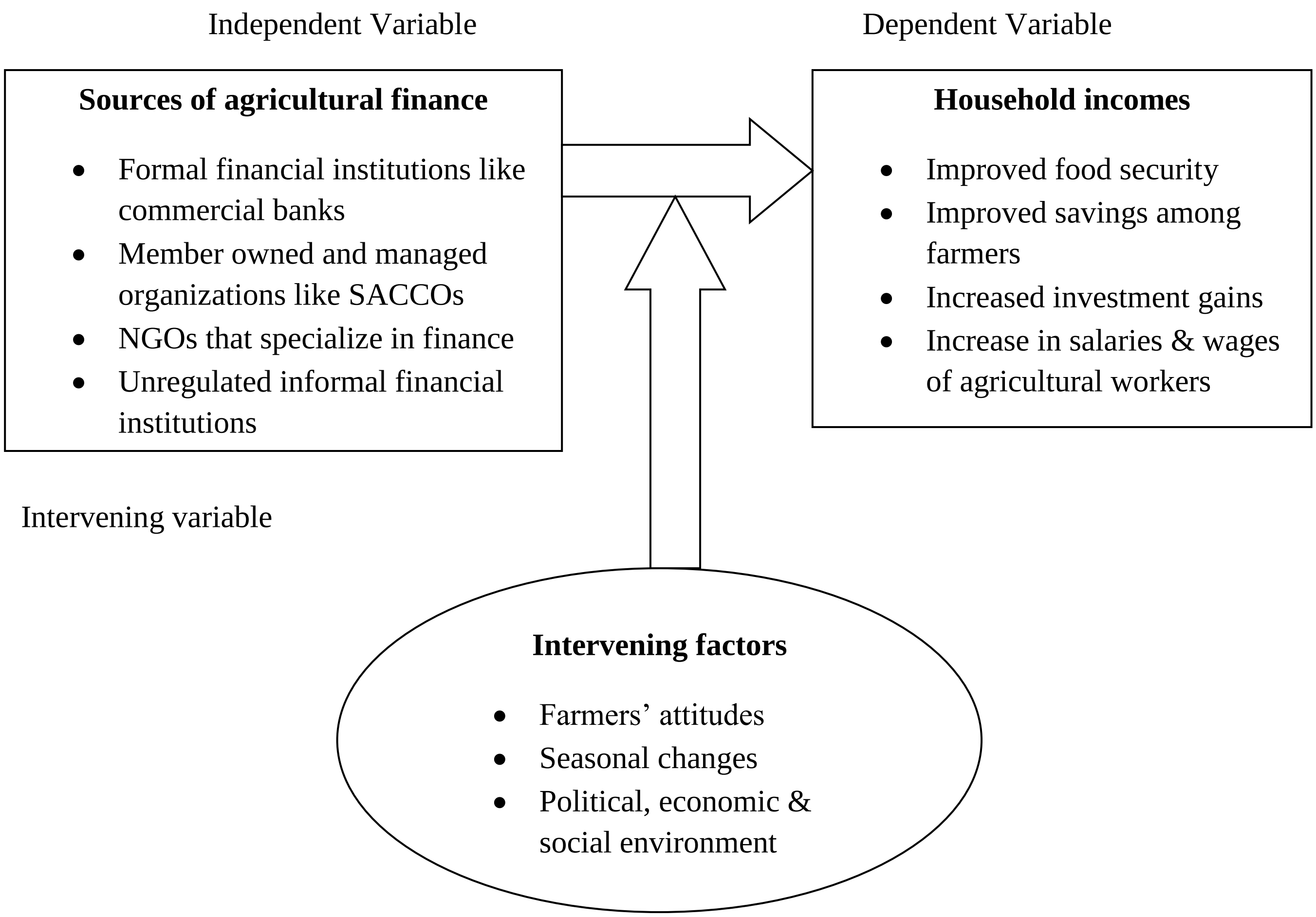
Household incomes

Household is all the people in a family or group who live together in a house. Income is the money that they earn or receive as opposed to the money that they have to spend or pay out.

Household income is a measure of the combined incomes of all people sharing a particular household or place of residence. It includes every form of income, e.g., salaries and wages, retirement income, near cash government transfers like food stamps, and investment gains(Pandey, 2000).

1.8Conceptual Framework

Figure 1.1: Conceptual framework



Source: Based on the conceptual framework in, "Agricultural finance in Uganda: The way forward, (2004)"

According to the above conceptual framework, availability, willingness and easy accessibility of agricultural financial institutions and finance like commercial banks, SACCOs, NGOs and informal financial institutions will enable farmers' access agricultural finance like loans which in the end will help improve agricultural finance for example improved food security and savings among farmers and their households, increased investment gains and increases salaries and wages of agricultural workers. However, for this to be successful people/farmers need to have positive attitudes and the political, economic and social environment have to be favorable like stability and good government policies (Meyer, Roberts &Mugume, 2004).

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents literature that exists concerning agricultural finance, household incomes and the relationship between agricultural finance and household incomes. This chapter looks at what other researchers and academicians have written about the variables which are how loans in agricultural finance lead to the improvement of household incomes, relationship between agricultural financing and the improvement of household incomes, challenges in accessing agricultural finance, summary of the gaps and the conclusion. The main sources of information reviewed included; text books, journals, magazines, internet, publications by agricultural finance institutions and research reports published by academicians and other scholars which helped the researcher to make comparisons about what they have studied.

2.1.1Agricultural finance theory

One approach to rural and agricultural finance uses the financial sector as an entry point and emphasizes the important role of financial institutions for facilitating access to a wide range of services. There are a number of unresolved issues surrounding this approach, particularly in terms of governance, which itself implies issues of institutional type and methodological approaches, size and geographic expansion, and linkages with urban finance.

This approach involves building long-term capacity and finding incentives for institutions to offer financial services to the rural and agricultural sector. In comparison to the value chain approach.

The comparative advantages include:

The capacity, in theory, to offer a wide variety of services including term finance, savings, insurance and money transfers. In reality, this range is rather limited.

Access to external resources and hence capacity to serve new clients and adapt products to resources available.

Transparent credit histories that enable clients to move from one institution to another.

Credit that is not linked to specific crops or production, which permits a regular supply, even when market conditions change.

The market structure tends to develop less monopolistic and predatory relationships

Sustainability of supply, regardless of the situation affecting a particular sector.

The limitations include:

Actors are not specialized in financial services and usually only offer short-term credit focused on production and rather than household needs.

Lack of access to capital from financial institutions and liquidity constraints.

Credit is often tied to a specific crop, risking dependency and problems if the markets change.

Value chain actors often have a geographic monopoly.

There is risk of not serving small producers due to high transaction costs.

Regulatory frameworks that are not well adapted to this form of credit which can hinder use of non-traditional guarantees

2.1.2Models and institutional types for rural areas

Solidarity group models with salaried employees

The Grameen Bank-style solidarity group model5 relies on social cohesiveness to ensure repayment. Groups are small, comprising 5-10 borrowers. Financial transactions are conducted by loan officers.

The model, as it is applied by Grameen Bank (small solidarity groups and salaried staff), is not well-adapted to Africa's rural areas due to low population density, high transaction costs for the groups, co-variant risks that tend to create tension within groups (thus diminishing the effectiveness of joint liability) and migration from rural areas, incompatible with the regular group meetings.

Rather, participatory models cooperatives, village associations, etc. where members are in charge of some of the transactions (rather than loan officers) should be prioritized in rural areas.

Participatory models: cooperatives and self-managed banks

Savings and credit cooperatives are an essential component of rural finance. They are managed by their members, and each member is owner of the entity, equal rights (one person, one vote). Salaried staff is responsible for technical management.

In African microfinance, mutualist networks are the dominant contributors to agricultural finance. Cooperative and mutualist networks associated with the *Centre d'Innovation Financière*(CIF) such as KafoJiginew in Mali have managed to successfully adapt their services to the demand for agricultural finance, especially when agricultural producer associations are involved in the institution's governance.

As noted by Fraslin (2007), "the mutualist model, predominant in Madagascar, has shown to be effective in dense rural areas linked to markets and where populations have a relatively good level of education. It also has its limitations in less densely populated, isolated areas that are marginalized in terms of access to basic services, especially education. In this context, mutualist models face problems with operational costs and governance."

Faced with the difficulty of mobilizing savings in rural areas, the basic principles of preliminary savings and the cooperative model in general, have undergone adaptation.

The Caisses Villageoisesd' Epargne Crédit Autogérées(CVECA) model of autonomous village banks was developed to provide profitable savings and credit services in rural areas with low population density, and in particular, Sahelian regions. The CVECA model is based on the possibility of mobilizing local savings (depending on household capacity, culture) with support from external financing and the willingness/capacity of community members to manage the banks themselves. Village banks supported by NGOs such as Freedom from Hunger and FINCA are also based on principles of autonomous management and building member capacity.

These autonomous models are well-adapted to rural areas, as transaction costs are easier to control, however they do not generally finance agriculture (financial resource constraints, high vulnerability to covariant risks).

Public banks

Development banks are making a comeback. As noted in the 2008 World Development Report (World Bank, 2007), MFIs alone cannot provide the totality of rural microfinance services. There is a call to "rehabilitate" agricultural development banks that can, if reformed and privatized, respond to rural and agricultural finance needs in the form of public-private institutions.

The example of Ban rural in Guatemala is often cited as a failed development bank that underwent successful reform and functions today with an innovative governance model(majority control in the hands of diverse private shareholders—producer organizations, NGOs, SMEs, government, employees—while the government sector controls only 30%).A less recent example of the restructured BRI in Indonesia (Robinson, 2001; Lapenu, 1998)also shows it is possible for a state bank to operate efficient local branches. Today, BRI'svillage units are in a position of excess liquidity (savings volumes far outstrip loans disbursed) and it is likely rural savings will finance urban development.

Commercial banks

Commercial banks operate in rural areas either by investing in local financial institutions, opening branches or offering credit lines for rural MFIs. Experiences from members of the French Microfinance Network indicate that banks can refinance and support MFIs in rural areas by networking with other actors to create synergies that will offer insurance and reassurance of the solidity of these MFIs. These synergies are based on long-term partnerships (MFI, commercial banks, donors, TA providers, etc.) and geographic proximity,*i.e.:* multinational banks will refinance the MFIs in country where they have branches.

2.2 How loans in Agricultural finance on the improvement of household incomes in Nkozi, Mpigi district

Loans in agricultural finance play an important role in improving household income. In a nutshell, improved access to agricultural finance can have two principal effects on household outcomes. First, it can raise the expected value of income and therefore of consumption and future investment and asset accumulation. This is the traditional and often sole argument for provision of services by micro-finance institutions. Second, it can decrease the variances of income and consumption. For the food-insecure poor, it is particularly important to reduce the down-side risk of falling below minimum levels of disposable income for consumption of food and other basic needs.

Informal credit sources such as local money lenders and wealthier community members often charge interest rates that are prohibitively high. As a result, the landless poor in rural Bangladesh often face severe liquidity constraints that affect their economic well-being. More specifically, the inability to access credit at reasonable rates of interest limits their opportunities to rise above poverty by restricting their labor use, income and productivity.

Nasir (2007) found that loans/credit plays a pivotal role in development. It helps farmers to undertake new investments and adopt new technologies to increase agricultural yield. Lack of access of the rural poor to institutional loan has negative impact for rural growth and well-being. Institutional loans are normally used for production and investment purposes while informal loans are squandered away on consumption. Being short- term, informal loans do not contribute to rural development, as these cannot be channeled to long-run productive activities.

Access of small and marginal farmers to micro credit can significantly help them to avoid sliding down the poverty ladder. Providers of micro credit have not generally addressed the credit need of small and marginal farmers because of their priority of funding to the poor and because of some perceived problems which include, among others, risk of invest in agriculture, seasonality of agricultural production, poor loan repayment performance of agricultural lending and technical nature of agriculture production system.

With the breakthrough of green revolution of agriculture and the necessity of adopting modern technologies during the mid-seventies, the demand for agricultural credit has increased tremendously. The modern agricultural farming technology is highly capital intensive due to intensive use of modern agricultural inputs such as HYV seeds, synthetic fertilizers, pesticides, modern irrigation facilities and farm implements. Most of the farmers cannot afford such big investment due to scarcity of working capital (Hossain, 1985).

There are different ways to measure the impact of microcredit on income and consumption. First there is the borrowers' recall of the "before-after" situation. Using this method in the early1980s, Hossain concluded that both per capita income and household income were positively associated with the amount of credit obtained from Grameen Bank (Hossain, M., 1984). The impact can also be viewed through member perception. On the basis of a survey of 1986 measuring borrower perception, Hossain found that 91 percent of Grameen Bank members improved their economic conditions after joining Grameen Bank (Hossain, M., 1998).

Finally, for a program to be successful, it is not only important to alleviate the poverty of its clients but also to achieve a long-term sustainability of the benefits. Khandker and Chowdbury point out that it takes approximately five years for a poor member to work up to above the poverty line (Khandker and Chowdhury, 1996), and it generally takes eight years before the member is able to function independently from the microcredit institution. Consequently, Khandker is convinced that providing microcredit is an effective instrument to reduce poverty and even to overcome it.

2.3Role of agricultural financing on the improvement of household incomes

Agriculture is the most important source of employment, income and overall well-being in most households in Uganda. Most households directly or indirectly derive their livelihood from agriculture. Agriculture provides the basis for growth in other sectors such as manufacturing and services. The sector is also the basis for much of the industrial activity in the country since most industries are agro-based. The agricultural sector is the biggest source of foreign exchange and is a major source of saving and investment for many Ugandans.

Empirical studies have shown that increased agricultural growth through financing is the most efficient way of reducing inequality, and that agriculture matters more than manufacturing growth for poverty reduction. A study by Benin, et al. (2007) showed that if agriculture in Uganda grew at 6% per annum, the poverty rate would be cut by an additional 7.6 percentage points to 18.9%, much lower than the 26.5% that would be reached if agriculture continued to grow at the average rate of 2.8% per year. It follows, therefore, that any strategy for sustained growth with socio-economic transformation must center on rapid growth of the agricultural sector.

Previous research in Uganda confirms that investment in agricultural Research &Development and extension offers the greatest potential among agricultural investment areas for enhancing productivity and reducing poverty. As demonstrated empirically by Fan, Zhang and Rao (2004), public spending on agricultural advisory services and research has the highest return to labor productivity and poverty reduction.

Today, there are efforts to draw lessons from past errors and failures, and recognition of the need for both functioning markets and efficient government intervention. There are attempts to develop alternatives with diversified public and private actors. A less monolithic conception of the division between public and private sectors is making it possible to define the parameters for action and the roles of government, private sector and civil society (Bouquet, 2008). These possibilities are based on new synergies between actors, particularly microfinance and professional agricultural organizations, as well as the emerging role of banks, value chain actors and, more broadly, donors and public policy makers.

In the USAID conference "Paving the way to Rural Finance," Zeller (2003) identified three motives for the increased interest of donors in agricultural and rural finance. First, the agricultural sector remains the most important economic sector, especially for poor people, in many development countries. Secondly, improved financial markets accelerate rural and agricultural growth and lead to increased economic growth and reduced poverty. Finally, there is a great deal of optimism surrounding the idea that donors can learn from past failures and current successes to launch a new wave of rural and agricultural finance.

The Microfinance Outreach plan, which began in 2003, is the main initiative to provide financial services, targeting areas not serviced by financial institutions. It is also helping to establish member-owned and controlled Savings and Credit Cooperatives (SACCOs) throughout the country to provide loans at affordable interest rates. In addition, government is providing resources in the national budget for agricultural lending. For instance, in the 2009/10 National Budget government provided Shs 30 billion for agricultural credit to medium and large-scale commercial agricultural farmers.

However, the process of acquiring this credit is so complicated for most smallholder farmers, who lack most of the requirements as per the guidelines set by the Microfinance Support Centre.

For a SACCO to access credit, it must, inter alia: be registered; have minimum one-year experience in running the activity for which the organization is registered; clear ownership, governance structures and management capacity; adequate staffing with knowledge and skills in microfinance and/or basic accounting. In addition, the process of formation of SACCOs is marred with high levels of political interference, which stifles the organic development of cooperative societies.

Though government recognizes the need to increase the availability of credit to farmers, there is also a general belief among policy makers that credit is a private rather than a public good. The biggest challenge is that most financial institutions have not developed suitable lending instruments for agriculture. They consider lending to agriculture as a risky venture. As a result agriculture receives less than 10% of lending from commercial banks and MDIs. Consequently, most farmers cannot access credit from such institutions because they lack the required collateral security for the loans.

2.4 Relationship between agricultural financing and improvement of household incomes:

Increasing agricultural finance and household income is a vital part of addressing food security and poverty reduction. Rural finance encompasses the range of financial services offered and used in rural areas by people of all income levels. It includes agricultural finance, which is dedicated to financing agricultural related activities such as input supply, production, distribution, wholesale, processing and marketing. Agricultural value chain finance takes account of those inter-linked processes from farm to consumer and uses them to increase efficiency and lower risk in lending. Finally, microfinance provides financial services for poor and low income people by offering smaller loans and savings services, while accepting a wider variety of assets as collateral.

Agricultural growth has played the key role in past poverty reduction, which allows the country to become one of few African countries that will achieve MDG1 of halving 1990s poverty rate early than targeted year of 2015. Analysis based on the last three runs of national representative household surveys shows that, agricultural crop production is the most important activity for a majority of rural households both as income-generating activity and as a source of income. The importance is particularly higher for the poor than for the non-poor. While income share of crop production in total income has been declining over time between 1992 and 2006, considering crop and livestock together, agriculture still provides more than or close to 50% of total income for most rural households and only in the coastal zone share of agricultural income for the rural households as a whole fell to 40% in the most recent survey. Existence of spatial difference in the importance of crop production as a source of rural household income indicates the need to have different policies among different zones in poverty reduction.

The analysis of the three runs of household surveys also shows that non-farm employment opportunities provided by the non-agricultural sectors to the rural households are still very limited even in the most recent survey. This is particularly true for households in the two savannah zones. Moreover, share in the total income generated from non-farm employment activity is lower than the non-farm employment participation rate. Further breaking down into the poor and non-poor household groups within each zone, it shows that only for the non-poor households in coastal and forest zones such opportunity provide slightly more than 10% of total income for the rural households, while for all poor household groups and for the other two non-poor groups, non-farm wage employment provided only 1.4%-7.3% of total income. Thus, it is unrealistic to consider non-agricultural growth as a main source to further reduce poverty nationwide.

A number of factors continue to thwart the development of vibrant financial markets in the rural areas of most countries. The higher transaction costs associated with dispersed populations and inadequate infrastructure, along with the particular needs and higher risk factors inherent in agriculture result in an under-provision of financial services in rural areas. Further, where services are available, products are often designed without consideration for the needs and capacities of rural households and agricultural producers.

The inability of households and enterprises to access capital on competitive terms to undertake profitable investments, or take advantage of market opportunities, means that incomes and growth are lower than they to need be. Without financial products and services to insure against risk, rural households and enterprises may even retreat from profitable projects for which they have adequate liquidity. The absence of competitive savings instruments and other financial services in rural areas leads to less productive forms of savings that cut further into households' scarce liquidity and dampen local growth prospects.

Expansion of rural financial services can create a win-win scenario that will promote growth while also helping reduce poverty. Given the high proportion of poor populations that live in rural areas, the growing income inequality between urban and rural markets, and concerns for food security and population vulnerability in rural communities, many development agencies are returning their attention to rural financial deepening as part of a strategy to stimulate rural private sector development.

New approaches, technologies and forms of investment are occurring. FAO is working on research and development of agricultural investment funds, investment promotion, guarantee funds and information communication technology to increase the level of investment while lowering the risks to investors.

The rural and agricultural finance specialists in the FAO Rural Infrastructure and Agro-Industries Division are dedicated to promoting improvement in rural financial services and agribusiness investment in developing and transition countries. Details of the work and publications can be found here. A much greater range of information and resources relating to rural finance and investment can be found in the Rural Finance Learning Centre which is managed by the FAO Rural Finance specialists.

2.5Challenges in accessing agricultural finance in Nkozi, Mpigi district:

There is need to discuss the issues which are obstructing the supply of credit to farming sector;

Uncertainty element in agriculture: In Nkozi Sub County, agriculture is industry. More than 50% of the cultivable land is consisted of uneconomical holdings. The farmers are illiterate; they follow the orthodox techniques of production and fail to make investment in farm due to poverty. They cannot store their produce. Above all, the agriculture sector is furnished with uncertainty like the untimely rains and pests that badly affects the crops. The financial position of the farmers remains weak. Commercial Banks even the Cooperatives are not prepared to give loans to farmers. Thus because of poor financial status and more effects of natural uncertainty in agriculture, the commercial banks and other financial institutions are not prepared to lend to farmers.

Lack of security: Majority of the farmers in Nkozi Sub County lack security to be able to get agricultural credit whereas some of those farmers who have the security fear losing their land if they fail to pay. This has greatly hindered agricultural progress in the area hence reducing the household income of majority farmers.

Non-Institutional Credit: So many farmers in Nkozi Sub County do not have any way out except to go for non-institutional credit. Then, the farmers move to landlords and commission agents to get the loans that provide loans to marginal extent. Hence the commission agents help the farmers, but they provide the loans on the promise that the borrowers will sell the crops to them. They give low price for the produce and exploit the farmers which have greatly hindered the improvement in household incomes of these farmers.

Improper Use of Agriculture Credits: So many experts are of view that agriculture credit will be least beneficial if they fail to increase the agriculture output, increase the cultivable area and improve the lot of farmers. But in Nkozi Sub County, the productive use of agriculture loans is limited. Most of loans taken by the farmers are for social needs and consumption. Thus agriculture loans are failing to alter the lot of small farmers. The burden of debt on them goes on to increase hence limiting their household incomes.

The high systemic, economic, social and co-variant risks associated with agriculture combined with its seasonality, low profitability and relatively “specialized” nature often lead to small incomes. The low profitability of the sector makes it particularly difficult to borrow at interest rates practiced by microfinance, while widespread poverty in most countries makes households particularly vulnerable to risks.

Rural constraints related to highly dispersed, heterogeneous populations and poor infrastructure (transportation, communication) make accessing financial services and developing rural networks costly, especially in isolated zones where population density is low.

Lack of human resources (poor education, absence of incentives for the educated to work in rural areas) makes it even more difficult to develop local financial services.

Lack of appropriate guarantees and favorable regulatory, legal and policy frameworks weaken financial transactions, particularly in absence of reliable justice systems or the existence of land titles.

A credit culture wherein loans are sometimes confused with donations has eroded repayment behaviors. This is due in part to the history of failed state development banks, but such mentalities are still reinforced today at election time, or under certain populist government initiatives.

In sum, agricultural finance markets are wrought with high transaction costs and risks that hinder the development of financial services. And yet, the international context in recent years has become more favorable: increased prices of raw materials, reduced production subsidies to rich countries and wealth creation among the middle classes of emerging countries (Brazil, Russia, India, China), which are also the sources of new business opportunities, like Bio Fuels.

2.6Summary of the Gaps

New products

New information technologies

New technologies offer a way to develop new products, improve management (by improving existing systems and internal controls), and thus help lower costs, which enables MFIs to reach out to rural areas that have been neglected, or link up with local initiatives (such as self-help groups which are too isolated to be viable on their own).

Branchless and mobile banking involve the supply of financial services outside of a conventional branch network, using information and communication technologies and nonbank distribution agents. Because of their potential to drastically reduce costs and improve client service, these approaches can reach new segments that have been thus far neglected.

Technology can help many actors’ not just banks but MFIs, mobile phone operators and technology firms push the frontiers of financial access. For the credit unions, in many places there is no longer any need for physical branches, thus reducing their costs and eliminating the need for permanent staff. For their members, the services are also far more convenient they no longer have to visit the credit union office in person, since it now comes to them.

The risk of fraud and loss has been significantly reduced. For the staff, the technology saves them a lot of time as they no longer need to spend an hour or two at the end of each day manually making a tally of the transactions that have been made. They have only to withdraw the PDA's memory card and hand it to a clerk, who takes it to the processing center where the transaction data are entered on conventional desktop computers.

Financial institutions in Mauritania and Mexico have also adopted the approach. In Mexico, member institutions have even integrated a portable printer into the system so that loan officers can now issue receipts to clients in the field (Lehoux, Karina, 2007).

Term loans for rural and agricultural enterprises

Dealing with medium and long terms loan demands a guarantee system that takes into account the specific nature of rural assets which may be untitled lands, herds, productive assets ordurable household goods. This requires the ability to analyze budget capacity and profitability of activities conducted by the household. Financial resource must also be adapted to terms of these types of loans (Equipment loans at KafoJiginew (Mali): investing in family farms (Zoom Microfinance, no. 23, October, 2007)

Leasing or hire-purchase

Leasing is a traditional medium-term alternative for machinery acquisition, as it reduces the constraint of guarantees. After successful experiences with leasing in projects promoting animal-traction, leasing was appropriated and perfected by MFIs. It allows clients to access finance to acquire equipment that it serves as guarantee. More precisely, leasing consists of separating the ownership of an asset from usufruct. The institution remains the legal owner until the client has reimbursed in full. (Wampfler*et al.*, 2007)

Inventory credit

Inventory credit aims to guarantee credit for farmers by using warehouse receipts from storing agricultural produce. It allows farmers to pledge their production to access loans for commercialization or processing activities, or simply wait for prices to go up. The CECAM network has also developed a credit product along these lines, its "village granary" loan, for producers to make the most of their rice production by waiting for the lean period to sell.

2.7Conclusion

Agricultural finance will only be effective if it is integrated into an active rural economy, supported by functional and functioning services such as input provision, commercialization alternatives, technical assistance, extension services and market information systems. Effectiveness is also tied to the supply of additional services that help optimize the use of services and improve results. One of the success factors for reaching rural populations is the establishment of alliances (NGOs, peasant organizations, local government, etc.) to provide these additional services.

CHAPTER THREE

METHODOLOGY

3.1Introduction

This chapter includes the detailed ways in which the data was collected. It highlights the research design, study area, study population, sample size, sampling techniques and sampling procedures data source, data collection tools, data collection procedure, data processing and analysis, presentation of data, data validity and reliability, ethical issues in research, limitations and solutions.

3.2Research Design

The researcher used a case study designed with both quantitative and qualitative approaches. Qualitative approach was chosen so as to enable the researcher to obtain a cross referencing data and some independent confirmation of data. Quantitative approach was chosen so as to enable the researcher to present data in a descriptive manner and generate a list of figures and graphs in the study which were clear and easy to understand.

3.3Study Area

The study was conducted in Nkozi Sub County and the surrounding areas of Bukunge, Kayabwe and Nakibanga parishes. This division is approximately88km southwest Kampala. The study was based in this area because the researcher intended to find out whether agricultural finance has gotten a valid effect on the improvement of household income.

3.4Study Population

The study was heterogeneous covering the male and female management staff, employees and clients of agricultural finance businesses. This study included;

- Members of communities from Bukunge (30farmers), Kayabwe (30farmers) and Nakibanga (25 farmers) parishes who are group members and clients of Nkozi Cooperative Savings and Credit Society Limited

- 12 Credit/loans officers at Nkozi Cooperative Savings and Credit Society Limited
- 2Assistant managers and 1 manager of Nkozi Cooperative Savings and Credit Society Limited

All totaling to 100 respondents

3.5Sample Size

A sample is part of the target or accessible population that has been procedurally selected to represent it (Oso and Onen 2009). On the other hand, Manheim (1997) defines a sample as a part of the population which is studied in order to make inferences about the whole population.

Table 3.1: Population and the sample size to be selected for the study

Respondents	Population (N)
Farmers from Bukunge parish	30
Farmers from Kayabwe parish	30
Farmers from Nakibanga parish	25
Credit/loans officers of Nkozi SACCO	12
Manager and assistant managers of Nkozi SACCO	3
Total	**100**

Source: Krejcie and Morgan (1970)

The overall sample size constituted of eight(80) respondents got from 100 respondents which was got using Krejcie and Morgan (1970) sample determination model. The researcher randomly sampled 80 employees from different farmers and management of Nkozi SACCO.

Krejcie and Morgan's (1970) formula for determining sample size is as follows:

$$\boldsymbol{s = X^2NP(1-P) + d^2(N-1) + X^2P(1-P)}$$

$\boldsymbol{s}$= required sample size, $\boldsymbol{X^2} =$ The table value of chi-square for 1 degree of freedom at the desired confidence level (3.841), $\boldsymbol{N}$= The population size, $\boldsymbol{P} =$ The population proportion (assumed to be 50 since this would provide the maximum sample size) and $\boldsymbol{d} =$ The degree of accuracy expressed as a proportion (.05).

Note: there is no need of using the formula since the table of determining the sample size has all the provisions you require to arrive at your sample size.

3.6Sampling Techniques and sampling procedures

Oso and Onen (2009) define sampling technique as a description of the strategies which the researcher uses to select representative elements/subjects/respondents from the target/accessible population. The researcher empowered stratified sampling technique where the respondents were grouped into stratas and purpose sampling was used in each stratum to get information about the standards of living. Since the type of information required was qualitative in nature, purposive sampling was the most appropriate to use. Purposive sampling is a deliberately non-random method of sampling, which aims to sample a group of people or settings, with a particular characteristic, usually in qualitative research design. It was used so as to attain information from the parties.

3.7Data Source

The researcher used both primary and secondary sources of data.

3.7.1 Primary data

Primary data is the kind of data that has been gathered for the first time and has never been reported anywhere (Reston, 2001). Therefore; data was collected from the field which was obtained mainly by administering questionnaires and observation of the household incomes of those who got the financing.

3.7.2 Secondary Data

Secondary data is the kind available already reported by some scholars (Reston, 2001). Therefore, data were obtained from published materials, which includes; journals, magazines, internal reports and newspapers.

3.8Data collection tools

The researcher used a number of data collection instruments like; questionnaires and observation.

3.8.1 Questionnaires

The researcher designed self-administered questionnaires which were distributed to management staff, clients and employees. Such questionnaires were designed to target the farmers in the parishes of Bukunge, Kayabwe and Nakibanga who get financial services from Nkozi SACCO and the management and employees of this SACCO. The completed questionnaires were then picked from respondents for analysis.

3.9Data Collection Procedure

The research was conducted after getting permission from the university and an introduction letter was carried from the faculty office. Data was collected by the use of questionnaires which were distributed to the respondents and then collected after. For those respondents that did not understand the English language, interpretations was made in order to help them give accurate information.

3.10Data Processing and Analysis

3.10.1 Data analysis

Data were collected, then sorted out using SPSS version 16.0 and Microsoft Excel to analyze the questionnaires for quantitative data collected and categorization of statements and responses was used to analyze the interview guides for the qualitative approach.

3.10.2 Data Presentation

The quantitative data analyzed were presented in form of tables, figures, graphs and charts well as the qualitative data analyzed were presented in form of quoting of what the respondents had argued in form of narrations.

3.11Data Validity and Reliability

3.11.1 Data validity

Data validity was ensured through trial survey. It is from the trial survey that the researcher asked a series of questions and often looked for answers from respondents. She pre-tested her instrument by developing questionnaires which were filled in by some people and answers were obtained. Sometimes the researcher asked some direct questions with an intention of getting responses from respondents. The questions were adjusted according to the results of the pre-test study.

3.11.2 Data reliability

The researcher looked at the extent to which the results were consistent over time and an accurate representation of the total population under the study. The researcher ensured that there was no question that was misunderstood by the respondents so that they were not answered differently which would have resulted into low reliability. This was done through giving assistance to some respondents as regards to interpretation of certain questions that were confusing to them.

3.12Ethical issues in research

The researcher ensured that there was confidentiality during the research study as much as possible where it was necessary. That is, collected data was kept secret and ensured that it's only used officially and not to be accessed by the public.

The researcher also ensured that people give out answers willingly without any form of bribe or payment. Whereby, people were kindly requested by the researcher for assistance in data collection through answering questionnaires and ensure reliable information in case of interviews.

The researcher also accessed formal permission from the university in charge which was granted through issuing of formal introduction letter from the university introducing her as a student of Uganda Martyrs University in need of information from the selected organization.

3.13 Limitations of the study and solutions to the limitations

The sample size select for data collection was too small for the researcher to be able to collect the information required from the respondents. This means that the researcher was unable to know whether the sample size of 80 respondents would provide the information required without bias. Fortunately, the researcher was in position to get different ways of convincing the respondents and also be able to collect valid information for the study.

The low literacy levels among some of the agriculturalists affected their ability to answer questions or fill questionnaires. The researcher therefore had to assist them in filling the data collection forms where necessary.

Financial drawbacks negatively impacted on the research activities on many fronts. In the process of data collection, the researcher incurred many expenses in terms of transport to the sub county and access other simple random respondents, this acted greatly as a limiting factor for the researcher's accessibility to some of the areas of interest which affected the quality of research and data collected. The researcher therefore tried to find ways of accessing her respondents without incurring more expenses exceeding her budget.

The researcher also faced a challenge of limited response especially from the simple random respondents because the local farmers thought that the researcher was from a legal corporation trying to trick the owners however the researcher convinced the respondents by showing them the letter of information from the school. Besides that, she tried to convince them that the research is meant for academic purpose only.

CHAPTER FOUR

DATA PRESENTATION, INTERPRETATION, ANALYSIS AND DISCUSSION

4.0 Introduction

This chapter deals with presentation, analysis and interpretation of the data collected from the respondents. The chapter covered the demographic information about respondents categorized into; gender, age, education background, marital status and period spent getting agricultural credit from Nkozi SACCO. This presentation was guided by the following research objectives;

i. To find out how loans in agricultural finance lead to the improvement of household incomes in Nkozi, Mpigi district.

ii. To establish the role of agricultural financing on the improvement of household incomes in Nkozi, Mpigi district.

iii. To establish the relationship between agricultural financing and improvement of household incomes in Nkozi, Mpigi district.

4.1 Background characteristics of respondents

4.1.1 Findings on the age of the respondents

Table 4.2: Age

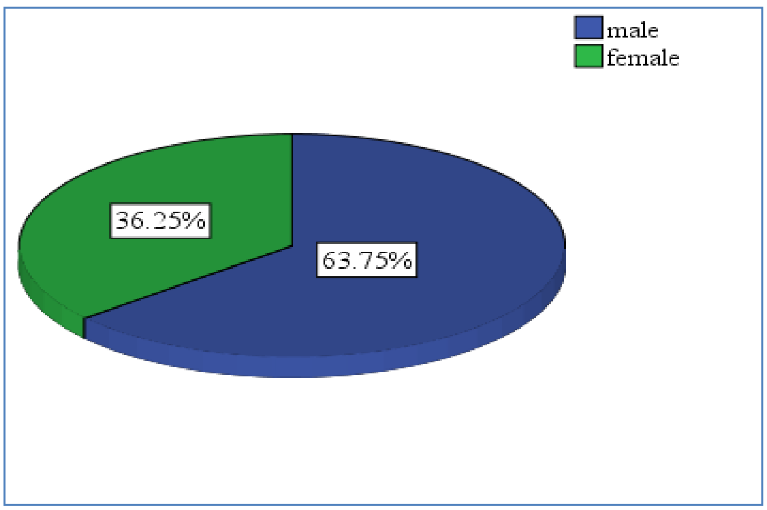
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-30 years	16	20.0	20.0	20.0
	31-40 years	24	30.0	30.0	50.0
	41 & above years	40	50.0	50.0	100.0
	Total	80	100.0	100.0	

Source: field data

Table 4.2 classifies the respondents by age group. The figure shows that the vast majority of the respondents fell within the age group of 41 and above years represented by 50%, followed by the respondents who fell between the age group of 31-40 represented by 30% of the total population and lastly, 20% of the respondents fell between the age groups of 18-30 years. This therefore implies that majority of the people who are members/clients and staff of Nkozi Sub County SACCO are relatively old people who usually get agricultural finances to improve their households.

4.1.2 Findings on gender

Figure 4.2: Gender of the respondents

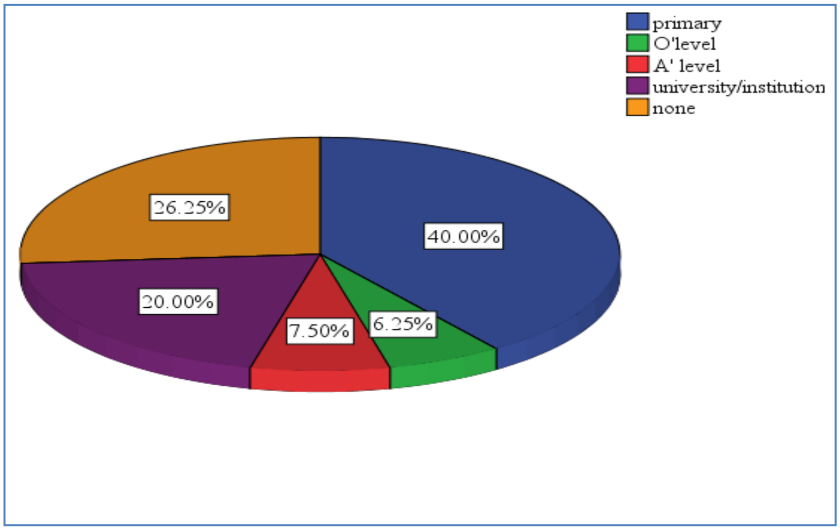


Source: field data

Figure 4.2 above classifies respondents by sex. It showed that the majority of the questionnaires were filled by males represented by (63.7%) and the rest were females represented by (36.3%) and therefore, there were more male respondents than female respondents in this survey. This further implies that there was no gender bias in giving out questionnaires to different clients/members and staffs of Nkozi Sub County SACCO since both male and female were considered.

4.1.3 Findings on the level of education of the respondents

Figure 4.3: level of education



Source: field data

Figure 4.3 classifies respondents by their level of education. According to the figure, majority of the respondents have at least attained primary education represented by 40%, while 26.3% of the respondents have never attained any education level, 20% of the respondents have attained university or institution education, 7.5% have at least attained A'level education whereas 6.3% have attained at least O'level education. This implies that majority of the clients of Nkozi Sub County SACCO have not attained higher levels of education and this can be attributed to the fact that majority of the people in this area are poor and cannot afford the high costs involved in attaining education.

4.1.4 Findings on the marital status of the respondents

Table 4.3: marital status

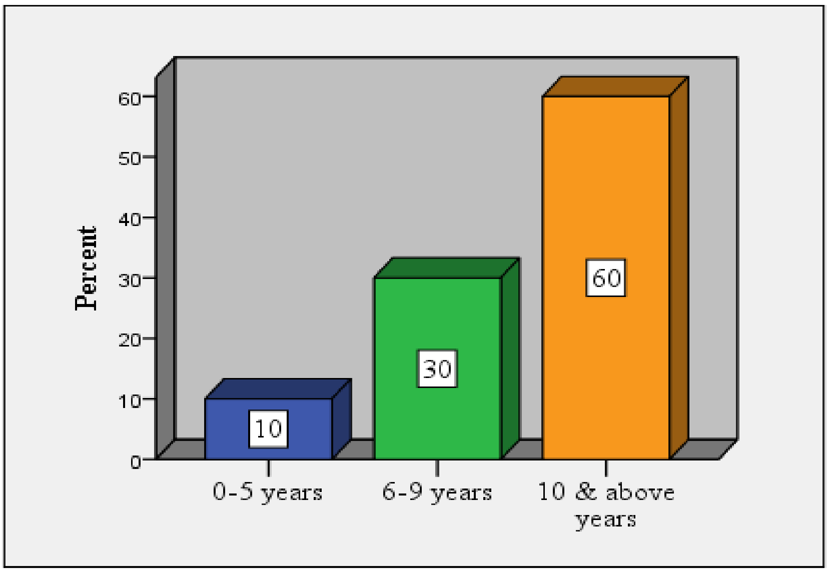
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Single	31	38.8	38.8	38.8
	Married	49	61.3	61.3	100.0
	Total	80	100.0	100.0	

Source: field data

Table 4.3 classifies the respondents by marital status and the table shows that 31 respondents are single represented by (38.8%) where as 49 respondents are married represented by (61.3%). This therefore implies that majority of the respondents involved in this survey are married.

4.1.5 Findings on the period spent getting agricultural credit from Nkozi Sub County SACCO

Figure 4.4: period spent getting agricultural credit from Nkozi Sub County SACCO



Source: field data

Figure 4.4 classifies the respondents by the period they have spent getting agricultural credit from Nkozi Sub County SACCO. Majority of the respondents represented by 60% have spent 10 and above years getting agricultural credit fromNkozi Sub County SACCO, 30% of the respondents have spent between 6-9 years getting agricultural credit fromNkozi Sub County SACCO whereas 10% have spent between 0-5 years agricultural credit fromNkozi Sub County SACCO. This therefore implies that majority of the clients of Nkozi Sub County SACCO have spent a relatively long time getting agricultural loans from the SACCO. This means this SACCO has been instrumental in improving agriculture in the three parishes of Bukunge, Kayabwe and Nakibanga.

4.2 Findings on the role of loans in agricultural finance on the improvement of household incomes

Table 4.4: The role of loans in agricultural finance on improvement of household incomes

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SD
	F (%)	F (%)	F (%)	F (%)	F (%)
Agricultural loans help in promoting the independence of farmers in agricultural production and business	27 (33.8)	52 (65.0)	1 (1.3)	--	--
Agricultural loans help farmers improve their accessibility to markets knowledge in agriculture	20 (25.0)	57 (71.3)	3 (3.8)	--	--
Loans help in improvement of potential for sustainable livelihoods and management skills of farmers	27 (33.8)	50 (62.5)	3 (3.8)	--	--
Agricultural loans enhance creation of new jobs in agricultural sector hence improving household income	28 (35.0)	46 (57.5)	6 (7.5)	--	--
Loans help farmers in opening new paths to access new science and technology in agricultural production	34 (42.5)	42 (52.5)	3 (3.8)	1 (1.3)	--
Agricultural loans also help in enlarging the diversity of the agricultural business	28 (35.0)	49 (61.3)	3 (3.8)	--	--

Source: primary data

Table 4.4 represents the descriptive statistics on the role of loans in agricultural finance on improvement of household incomes. According to study, 33.8% strongly agreed and 65% of the respondents agreed that agricultural loans help in promoting the independence of farmers in agricultural production and business whereas 1.3% of the respondents were not sure of the statement. The study also found out that 25% and 71.3% of the respondents strongly agreed and agreed respectively that agricultural loans help farmers improve their accessibility to markets knowledge in agriculture whereas 3.8% of the respondents were not sure of the statement. It was also found out that 33.8% and 62.5% of the respondents strongly agreed and agreed respectively that loans help in improvement of potential for sustainable livelihoods and management skills of farmers whereas 3.8% of the respondents were not sure of the statement put across.

The findings illustrated that35% strongly agreed, 57.5% of the respondents agreed that agricultural loans enhance creation of new jobs in agricultural sector hence improving household income while 7.5% of the respondents were not sure. The study further contended with the fact that 42.5% strongly agreed, 52.5% of the respondents agreed that loans help farmers in opening new paths to access new science and technology in agricultural production, 3.8% were not sure whereas 1.3% of the respondents disagreed with the statement. Lastly, the study illustrated that 35% of the respondents strongly agreed, 61.3% agreed that agricultural loans also help in enlarging the diversity of the agricultural business whereas 3.8% of the respondents were not sure of the statement put across.

Therefore the major findings of the study illustrated that the role of loans in agricultural finance on improvement of household incomes is that they help in promoting the independence of farmers in agricultural production and business which was represented by 98.8% of the respondents who agreed.

The study findings are in line with the literature put across by Benin, et al. (2007) who asserts that agricultural growth through financing is the most efficient way of reducing inequality, and that agriculture matters more than manufacturing growth in poverty reduction.4.3 Findings on the challenges in accessing agricultural finance in Nkozi, Mpigi district

Table 4.5:Challenges in accessing agricultural finance in Nkozi, Mpigi district

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SD
	F (%)	F (%)	F (%)	F (%)	F (%)
Lack of security/collateral	24 (30.0)	56 (70.0)	--	--	--
Improper use of agriculture credit by farmers	23 (28.8)	51 (63.8)	4 (5.0)	1 (1.3)	1 (1.3)
Failure of different farmers to work in groups that can help them easily access finance	19 (23.8)	53 (66.3)	7 (8.8)	1 (1.3)	--
Inadequate agricultural training and illiteracy of farmers	19 (23.8)	50 (62.5)	10 (12.5)	1 (1.3)	--
Lack of appropriate guarantees, favorable legal and policy frameworks to access agricultural finance	21 (26.3)	54 (67.5)	4 (5.0)	1 (1.3)	--
High interest rates levied on agricultural finance got from financial institutions	20 (25.0)	58 (72.5)	2 (2.5)	--	--

Source: primary data

Table 4.5 represents the descriptive statistics on the challenges faced in accessing agricultural finance in Nkozi, Mpigi district. According to study, 30% strongly agreed and 65% of the respondents agreed that lack of security/collateral is their main challenge. The study also found out that 28.8% and 63.8% of the respondents strongly agreed and agreed respectively that improper use of agriculture credits by farmers is a challenge, 5% of the respondents were not sure, 1.3% disagreed whereas 1.3% of the respondents also strongly disagreed with the statement. The study also noted that 23.8% and 66.3% of the respondents strongly agreed and agreed that failure of different farmers to work in groups that can help them easily access finance is a challenge, 8.8% of the respondents were not sure while 1.3% disagreed with the statement put across.

The study also illustrated that 23.8% of the respondents strongly agreed, 62.5% agreed that inadequate agricultural training and illiteracy of farmers is a challenge, 12.5% were not sure, 1.3% of the respondents disagreed with the statement put across. The study further contended that 26.3% of the respondents strongly agreed, 67.5% agreed that lack of appropriate guarantees, favorable legal and policy frameworks to access agricultural finance is a challenge, 5% were not sure, whereas 1.3% disagreed. Lastly, the study found out that, 25% strongly agreed, 72.5% of the respondents agreed that high interest rates levied on agricultural finance got from financial institutions is a challenge whereas 2.5% of the respondents were not sure of the statement put across.

Therefore the major findings of the study illustrated that the main challenge faced in accessing agricultural finance in Nkozi, Mpigi district is lack of security/collateral which was represented by 100% of the respondents who agreed.

The study findings are in line with the literature put across by Khandker and Chowdhury (1996) who assert that many farmers lack security to be able to get agricultural credit whereas some of those farmers who have the security fear losing their land if they fail to pay.

4.4 Findings on the solutions to the challenges faced in accessing agricultural finance

Table 4.6:Solutions to the challenges faced in accessing agricultural finance

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SD
	F (%)	F (%)	F (%)	F (%)	F (%)
Increasing access to medium and long-term finance	14 (17.5)	63 (78.8)	3 (3.8)	--	--
Offering training through workshops to farmers before acquiring agricultural finance	22 (27.5)	54 (67.5)	2 (2.5)	2 (2.5)	--
Reducing on the rates levied on finances got from financial institutions	32 (40.0)	48 (60.0)	--	--	--
Encouraging more use of donor funds in agriculture	21 (26.3)	50 (62.5)	6 (7.5)	2 (2.5)	1 (1.3)
Building capacity of financial institutions in agricultural finance	13 (16.3)	58 (72.5)	5 (6.3)	2 (2.5)	2 (2.5)
Reducing costs of technology to better serve rural clients	19 (23.8)	57 (71.3)	4 (5.0)	--	--

Source: primary data

Table 4.6 represents the descriptive statistics on the solutions to the challenges faced in accessing agricultural finance. According to study, 17.5% strongly agreed and 78.8% of the respondents agreed that there is need to increasing access to medium and long-term finance whereas 3.8% were not sure. It was also found out that 27.5% and 67.5% of the respondents strongly agreed and agreed that there is need for offering training through workshops to farmers before acquiring agricultural finance whereas 5% of the respondents were both not sure and disagreed with the statement put across. The study further illustrated that 40% of the respondents strongly agreed whereas 60% of the respondents agreed that there is need for reducing on the rates levied on finances got from financial institutions.

The study illustrated that 26.3% of the respondents strongly agreed, 62.5% agreed that there is need for encouraging more use of donor funds in agriculture, 7.5% of the respondents were not sure, 2.5% disagreed whereas 1.3% of the respondents strongly disagreed with the statement. The study further contended that 16.3% of the respondents strongly agreed and 72.5% agreed that there is need for building capacity of financial institutions in agricultural finance, 6.3% werenot sure whereas 5% of the respondents disagreed and strongly disagreed with the statement put across. Lastly, the study found out that 23.8% of the respondents strongly agreed, 71.3% agreed that there is need for reducing costs of technology to better serve rural clients where 5% of the respondents were not sure of the statement put across.

Therefore the major findings of the study illustrated that the main solution to the challenges faced in accessing agricultural finance is reducing on the rates levied on finances got from financial institutions which was represented by 100% of the respondents who agreed.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter summarizes all findings reported in chapter four according to questions of the study, draws conclusions, suggests recommendations and also proposes some areas for further study.

5.1 Summary of major findings

5.1.1The role of loans in agricultural finance on improvement of household incomes:

The study illustrated that the major role of loans in agricultural finance on improvement of household incomes is that they help in promoting the independence of farmers in agricultural production and business represented by 98.8% of the respondents who agreed. However, it was noted that there are other role of loans in agricultural finance on improvement of household incomes and these included: helping farmers improve their accessibility to markets knowledge in agriculture, help in improvement of potential for sustainable livelihoods and management skills of farmers, enhancing creation of new jobs in agricultural sector, helping farmers in opening new paths to access new science and technology in agricultural production and help in enlarging the diversity of the agricultural business among others. However some respondents were neutral while others disagreed with the statements put across which calls for further investigation to be done on the role of loans in agricultural finance on improvement of household incomes.

5.1.2 The challenges in accessing agricultural finance in Nkozi, Mpigi district:

The study revealed that the major challenge faced in accessing agricultural finance in Nkozi, Mpigi district is lack of security/collateral represented by 100% of the respondents who agreed. However, it was noted that there are other challenges faced in accessing agricultural finance in Nkozi, Mpigi district which included: improper use of agriculture credits by farmers, failure of different farmers to work in groups that can help them easily access finance, inadequate agricultural training and illiteracy of farmers, lack of appropriate guarantees, favorable legal and policy frameworks to access agricultural finance and high interest rates levied on agricultural finance got from financial institutions. However, some respondents were neutral while others disagreed with the statements put across which calls for further investigation on the challenges faced in accessing agricultural finance.

5.1.3 The solutions to the challenges faced in accessing agricultural finance:

From the study findings it was established that the best possible solution to the challenges faced in accessing agricultural finance is reduction on the rates levied on finances got from financial institutions represented by 100% of the respondents who agreed. However, several measures of overcoming challenges faced in accessing agricultural finance were suggested and these included: increasing access to medium and long-term finance, offering training through workshops to farmers before acquiring agricultural finance, encouraging more use of donor funds in agriculture, building capacity of financial institutions in agricultural finance and need for reducing costs of technology to better serve rural clients. However, some respondents were neutral whereas others disagreed with the measures put across.

5.2 Conclusion

From the study findings, it can therefore be concluded that for the people of Nkozi Sub County to benefit from the loans acquired from the SACCO, they need to first understand the roles loans play in agricultural finance in improving of household incomes. More so, the people need to understand the different challenges like lack of enough collateral to acquire loans and high interest rates on loans acquired in order to be able to establish possible ways of reducing such challenges like negotiating with the SACCO and the central bank to reduce on interest rates as this will enable them be able to acquire agricultural loans with ease and in the long run be able to improve their household incomes.

5.3 Recommendations

From the above discussions of findings and conclusion, the following measures are recommended in response to the role of agricultural finance on the improvement of household incomes.

The leaders in Nkozi Sub County should invest in sensitization campaigns to train and encourage people on proper use of loans acquired in agricultural production by carrying out workshops and seminars.

There is need for government through the central bank to intervene through providing support and reducing on interest rates levied on loans as this will encourage the different clients of Nkozi Sub County SACCO to access loans with ease.

There is need to provide farmers who acquire agricultural loans from Nkozi Sub County SACCO with loan incentives like extended loan repayment periods as this will encourage farmers to get loans that can help them invest in agriculture and improve their household incomes.

There is also need to set up credible and reliable mechanisms to monitor agricultural loans acquired so as to ascertain whether the loans taken are being used by farmers for the purpose they were intended to.

5.4 Areas for Further Research

The study recommended the following areas for further research.

- The benefits of agricultural finance on the improvement of household incomes.
- The effects of government support in agricultural financing on the improvement of household incomes.
- How savings among people in agricultural financing affect the improvement of household incomes.

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APPENDICES

APPENDIX 1: QUESTIONNAIRE

UGANDA MARTYRSUNIVERSITY

FACULTY OF BUSINESS AND ADMINISTRATION

Dear Sir/Madam,

I am **Namuli Margaret** a student of Uganda Martyrs University pursuing a bachelor's degree in business administration. I am carrying out a research on **"the role of agricultural finance on the improvement of household incomes."** All information given is for academic purposes and your response on this questionnaire will assist me in completion of this research. Please spare a few minutes of your time and answer the following questions precisely. I have identified you as the best person to help me through this study. On this note, I kindly request you to attend to this.

All the information provided will be kept confidential. Thank you very much for your time.

INSTRUCTIONS:

- I kindly request you to tick or fill in the given space.
- Each box will be ticked once and not twice.

SECTION A: BACKGROUND INFORMATION: ***(please tick)***

1) Age: a) 18-30 ☐ b) 31-40 ☐ c) 41 and above ☐

2) Gender: a) Male ☐ b) Female ☐

3) What is your level of education?

a) Primary ☐ b) O'level ☐ c) A'level ☐ d) University/Institution ☐

e) None ☐

4) Marital status?

a) Single ☐ b) Married ☐ c) Widowed ☐ d) Divorced ☐

5) How long have you spent getting agricultural finances/credit from Nkozi SACCO?

a) 1-3 years ☐ b) 3-5 years ☐ c) 5-9 years ☐ d) 10 and above years ☐

Please rank by ticking in the boxes the alternative which best suits your answer using the likert scale below

Strongly Agree	Agree	Not sure	Disagree	Strongly Disagree
5	**4**	**3**	**2**	**1**

SECTION B

Question 1: What is the role of loans in agricultural finance on the improvement of household incomes?

	The role of loans in agricultural finance on the improvement of household incomes	5	4	3	2	1
1	Agricultural loans help in promoting the independence of farmers in agricultural production and business					
2	Agricultural loans help farmers improve their accessibility to markets knowledge in agriculture					
3	Loans help in improvement of potential for sustainable livelihoods and management skills of farmers					
4	Agricultural loans enhance creation of new jobs in agricultural sector hence improving household income					
5	Loans help farmers in opening new paths to access new science and technology in agricultural production					
6	Agricultural loans also help in enlarging the diversity of the agricultural business					

Suggest any other roles of loans in agricultural finance on the improvement of household incomes apart from the above

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SECTION C

Question2: What are the challenges in accessing agricultural finance in Nkozi, Mpigi district?

	Challenges in accessing agricultural finance in Nkozi, Mpigi district	**5**	**4**	**3**	**2**	**1**
7	Lack of security/collateral					
8	Improper use of agriculture credits by farmers					
9	Failure of different farmers to work in groups that can help them easily access finance					
10	Inadequate agricultural training and illiteracy of farmers					
11	Lack of appropriate guarantees, favourable legal and policy frameworks to access agricultural finance					
12	High interest rates levied on agricultural finance got from financial institutions					

Suggest any other challenges faced in accessing agricultural finance in Nkozi, Mpigi district apart from the above.

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SECTION D

Question 3: What are the solutions to the challenges faced in accessing agricultural finance in Nkozi, Mpigi district?

	Solutions to challenges faced in accessing agricultural finance	**5**	**4**	**3**	**2**	**1**
13	Increasing access to medium and long-term finance					
14	Offering training through workshops to farmers before acquiring agricultural finance					
15	Reducing on the rates levied on finances got from financial institutions					
16	Encouraging more use of donor funds in agriculture					
17	Building capacity of financial institutions in agricultural finance					
18	Reducing costs of technology to better serve rural clients					

Please suggest any other solutions to the challenges faced in accessing agricultural finance in Nkozi, Mpigi district other than the above.

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Thank you so much for your corporation

APPENDIX 11: INTRODUCTORY LETTER