THE RELATIONSHIP BETWEEN MICROFINANCE SERVICES AND CAPITAL FORMATION IN WOMEN HEADED HOUSEHOLD IN UGANDA.

Case study of Uganda finance trust limited Soroti branch (u-trust)

By

OKABA SIMON

(2011-B021-10343)

UGANDA MARTYRS UNIVERSITY, NKOZI

April 2014

The Relationship between Microfinance Services and Capital Formation in Women Headed Household in Uganda.

Case Study of Uganda Finance Trust Limited Soroti Branch (U-Trust)

An undergraduate dissertation submitted to The Faculty of Business Administration and Management In partial fulfillment of the requirements for the award of a degree in Bachelor of Business Administration and Management

Uganda Martyrs University

OKABA SIMON (2011-B021-10343)

April 2014

Acknowledgements

I owe my greatest thanks to the almighty God the creator of everything around me who has given me life, wisdom, grace, despite of my weaknesses and have enabled me to complete this course.

Special thanks to my dearest parents Mr. Eboku Augustine and Ms Alobo Christine, my brothers and most specially my sister Eunice and my friends for there an ending love in seeing me go through to acquire this degree.

I am also grateful to my supervisor Ms. Bisaso Ritah for her cooperation, tolerance and support which have enabled me to complete this dissertation and my studies.

Last but not least, the respondents who released the required information unsparingly. Without them, I wouldn't have been able to compile this dissertation.

May the almighty God reward each and everybody who has contributed to my success greatly. I know he gives us unsparingly when we ask.

Table of contents

List of tables

List of acronyms

MCIs=Micro-credit Institutions

MFIs= Microfinance Institutions

N.G.O=Nan Governmental Organization

PEAP= Poverty Eradication Action Plan

SPSS =Statistical Package for Social Science

UBS = Uganda Bureaus of Statistic

UMU =Uganda Micro-finance Union

UNDP= United Nations Development Program

U-TRUST= Uganda Finance Trust limited Soroti Branch

WHH=Women–Headed Households

Abstract

This study sought to examine the relationship between microfinance services and household capital formation in women- headed households in Soroti district; the impact of micro finance on women's empowerment in household level, looking at how the borrowed funds are utilized; and the socio-economic factors that have an impact on households' benefits from the micro finance opportunities.

The study is based on the hypothesis that women's access to microfinance services such as credit, savings, insurance and training have helped households manage their exposure to risks and improve household management skills and abilities, assets formation like land and ploughs, increased household welfare, improved standard of living, saving and investments through women empowerment, hence facilitating the growth of capital formation at household level.

The researcher has reviewed literature from other research studies to acquaint himself with what has been studied on the relationship between microfinance services and capital formation in poor households, the methodologies of their study, what was found and the gaps that would be of interest for other studies. The researcher has also discussed the methodology used in the study, which brought to light how the socio-economic factors that impinge on the rural people's ability to improve on their household incomes were assessed, analyzed, and interpreted under each specific objective of the study.

The researcher then presented the analysis of findings of the research with reference to the field finding already revealed by other researchers on the related subjects. The Statistical Package for Social Science (SPSS) was used to analyze the quantitative data collected, while qualitative data was also considered in interpreting the results in this study. The summary of findings, conclusions, and recommendations were based on the analysis and interpretation of the findings. The researcher even made suggestions for further studies on a related topic.

CHAPTER ONE

1.0 Introduction

According to the State of the Microcredit Summit Campaign 2008 Report, 14.2million of the world's poorest women now have access to financial services through specialized microfinance institutions, (MFIs), banks, NGOs, and other nonbank financial institutions which are promoting capital formation at household's levels. These women account for nearly 74 percent of the 19.3 million of the world's poorest people now being served by micro finance institutions. Most of these poor (women) have access to credit to invest in businesses that they own and operate themselves. The vast majority of them have excellent repayment records, in spite of the daily hardships they face. Contrary to conventional wisdom, they have shown that it is a very good idea to lend to the poor especially women headed household.

Women's access to microfinance services such as credit, savings, insurance and training have helped households manage their exposure to risks and improve household management skills and abilities, assets formation like land and ploughs, increased household welfare, improved standard of living, saving and investments through women empowerment, hence facilitating the growth of capital formation at household level (Daley-Harris, 2009).

1.1 Background to the study

Through generations, people living in poverty devise mitigation measures to overcome their economic vulnerability. Micro-credit (MC) is one such measure to reduce the burden of poverty among households in many of the developing countries like Uganda. By micro-credit I mean the easily repayable small loans that low income earners get from formal credit, and lending institutions like banks and microfinance institutions. While microfinance refers to: a host of financial services; savings, insurance, credit and other non financial products that are available to the economically low income people. Microfinance evolved in the mid 1980s as part of the paradigm shift in development from top-down approach to bottom-up approach that incorporates the participation of intended beneficiaries as key participants in sustainable development McKeman S,M,2002

The tremendous success of small loan program in reaching the poor, especially women households in rural areas attracted international donor countries to support microfinance initiatives so as to address the challenging task of poverty eradication. In 2002, Micro-credit Summit that took place in Washington D.C USA attracted over 2900 delegates from 137 countries, representing 1500 organizations. This conference inspired thinkers to focus on providing small loan to the poor households as a condition for poverty alleviation in the third world countries. According to the 2002 MC summit report, as of December 31 2006, 3,316 Micro-Credit Institutions (MCIs) reported reaching 133,030,913 clients, out of whom 92,922,574 were mainly the poorest at a time they took their first loan. Of the poorest clients, 85.2 per cent or 79,130,581 are women (Daley-Harris 2009). Microfinance initiative is therefore viewed as an avenue for capital formation, empowerment of households and a powerful tool to address global poverty.

However, income poverty at household level in Uganda was rated at 31 per cent by 2008 (UNDP 2008). This was due to the slowdown in agricultural growth, insecurity, and low income formation at household level. In terms of geographical prevalence of poverty, there was an increase in income poverty at household leading to low standards of living most especially in the east and northern part of the country. One of the key reasons advanced for the continued poverty trap in which many Ugandans in the east and northern part of the country find themselves, has been and continues to be due to lack of access to credit to enable the poor households to take advantage of economic opportunities and investments to increase their level of output and move out of poverty.

For this study Uganda Finance Trust limited Soroti Branch (U-TRUST) was chosen because it is among the longest serving microfinance institutions in the district with the highest numbers of women clients but in spite of the existence of a high proportion of women accessing microfinance services, many women have not been able to adequately utilize the funds borrowed to enhance their household capital formation and have therefore not broken the poverty cycle.

Although micro finance have a lot of potential for promoting capital formation at household level and fostering socio-economic change at various levels as stated by different authors, the concept of targeting women-headed households in pursuit of reducing poverty and increasing capital formation at household level remains contentious and lacks rigorous evidence. Women, who are usually the bread winners in female-headed households, face gender discrimination with respect to education, earnings, rights, and economic opportunities (Barros et al. 1997), making a case for targeting women-headed households to promote capital formation at household level remains one of the major challenges faced by developing countries like Uganda.

Therefore, this research sought to examine the relationship between microfinance services and household capital formation in women- headed households in Soroti district; the impact of micro finance on women's empowerment in household level, looking at how the borrowed funds are utilized; and the socio-economic factors that have an impact on households' benefits from the micro finance opportunities.

This research bases on the researcher's assertion that although microfinance does not address all the barriers to women's empowerment, microfinance programs, when properly designed, can make an important contribution to women's capital formation in their households. This study begins by examining some of the theories and assumptions behind the targeting of women for microfinance and the resulting implications for empowerment and capital formation at household level, drawing evidence from studies and experiences of microfinance institutions and give recommendations on the findings to fill the gap of constraining factors.

1.2 Problem statement

It is a recognized fact that poverty among households in Uganda is influenced by many variables, such as low levels of income and consumption, insecurity, poor health, low levels of education, disempowerment and heavy burden of work or unemployment, and isolation (both social and geographical) (PEAP,2002). The combination of these factors has placed about 44% of the population below poverty line. A major priority intervention is the increasing of income to the poor household with special focus on the women. In the financial budget 2003/4, Government planned over 10.8 billion Uganda shillings to be spent on microfinance activities. Recent studies show that agriculture dominates most of the activities financed through MFI.

Approximately 80% of the savings and 75% of the loan portfolio belongs to the female clients, meaning that female clients are expected to have benefited more from Microfinance services (background to the Budget 2005/06, p35-36)

However, in spite of the existence of high proportion of women who have accessed microfinance services(credit, training, saving and insurance), many women have not been able to adequately utilize the funds borrowed to enhance their household capital formation, and have therefore not broken the poverty cycle (UBS 2009 report). Consequently, the relationship between microfinance and capital formation in women headed household's remains weak. The social-economic factors that have negatively constrained household from benefiting from microfinance opportunities are largely unknown. Appleton (2008) presents evidence that irrespective of the way poverty is measured (i.e. by income, consumption or social indicators), female-headed households in Uganda are more poorer than male-headed counterparts. Fuwa, (2000) also shows that female-headed households in eastern region have worse social, economic and demographic features compared to male-headed counterparts and are thus more likely to be poorer. The problem statement of this study is that, whereas microfinance services have been introduced in most parts of the country, most female headed household in Uganda still live below the poverty line.

1.3 Objectives of the study

The broad objective of this study is to establish the relationship between microfinance services and capital formation in women headed households in Soroti district.

1.3.1 The specific objectives of the study

- To determine the effect of microfinance credit on capital formation in women headed households.
- To examine the contribution of microfinance saving on capital formation in women headed households.
- To investigate the impact of microfinance training on capital formation in women headed households.
- To compare the benefit of microfinance insurance on the insured borrowers and uninsured borrowers in relationship to capital formation.

1.4 Research questions

What are the effects of microfinance credit on capital formation in women headed households?

What is the contribution of microfinance saving to capital formation in women headed households?

What is the impact of microfinance training to empowerment of women households for capital formation?

What is the difference in insured women household and non insured women house hold after access to the service?

1.5 Scope and coverage of the study

1.5.1 Geographical scope

Soroti district is situated in the northern part of Eastern Region in Uganda. It has one county, 7 sub-counties and one municipality. The district has a population of 193,310 compared to 37530 households. Women make up slightly more than half of the population (UBS 2009 report).

It is one of the six districts which makes up Teso sub-region, the other being Kumi, Katakwi, Kaberamaido, Amuria, Serere.

Soroti District has one of the highest concentrations of poor people per square kilometer in Uganda, according to new figures from the Uganda Bureau of Statistics (UBS). In "The Spatial Trends of Poverty" report (2006), UBS calculated the number of people living on less than a dollar a day per square kilometer in sub-counties across Uganda. Soroti is named as having one of the highest concentrations of people living under the poverty line in eastern Uganda with a poverty density of 53%. The two predominant ethnicities in the district are the Iteso and the Kumam. The main languages spoken in the district are: Ateso, Kumam, and Swahili

1.5.2 Subject scope

The study focus on the relationship between microfinance services and capital formation in women headed house in Uganda. A case study of Uganda Finance Trust limited Soroti Branch (U-TRUST) in Soroti district. In this study microfinance services include credit, saving, training and insurance services that lead to capital formation in women headed households. The factor that where considered in this study includes: Asset formation (land, buildings), increased household welfare, increased standard of living **(**quality of housing), self employment and others

The study covers identified Women Household head of the urban Soroti Municipality (Eastern and Northern Division) and the rural sub-counties of Arapai, and Kamuda, who had accessed the Microfinance services.

1.5.3 Time scope

The study covers the period from 2003 to 2014. The year 2003 is important in respect to this study because it was the year in which the Uganda Government planned over 10.8 billion Ugandan shillings to be spent on microfinance activities, which significantly recognizes the need for empowerment of the poor (women) and the needs to provide for their social and economic empowerment (back ground to the Budget 2005/06, p35-36). In addition, the period between 2003 and 2014 has been characterized by a number of Government Programmes aimed at empowering women socially, economically, and politically (such as the development of marriage bill to strengthen household capacity for development). Others also included Micro Finance Credit Schemes that are available at the district and lower levels of local governments. This period has witnessed a significant amount of efforts in sensitizing of women about their rights and the need for equality in society, the government also introduced a number of policies in respect to empowerment of women (Research report 85/2006).

1.6 Justification

The justification of this study lies in the fact that the government of Uganda has since 2003 put in place several programmes aimed at socially, economically and politically empowerment of women. But to date most women, especially those in the rural areas of the country are not able to adequately contribute to household capital formation.

This study builds on what has been learnt from other justifications and comes out with reasoned finding on the relationship between microfinance credit schemes as an intervention to the improvement of household capital formation in the study area. For this reason the study is justified on the following reasons.

- There is need for increased interventions by policy makers and resource holders to understand what works and what seems not to work well in initiatives which are designed to fight poverty.
- The donors who have provided financial and technical support to the government's initiatives of reducing poverty in rural areas will benefit from the study by receiving evidence of impact on household capital formation through their assistance
- The women as end-users of the funds borrowed from the microfinance institutions will benefit by learning new skills in generating income and making savings widening their operations and income.

1.7 Significance of the study

Basis for further research, the academicians will be able to acquire some information for their use and will be enabled to identify area in the relationship between microfinance services and capital formation in women headed household that require further research. The finding can be used for literature review**.**

The study has generated a lot of information that is of importance to the microfinance institutions and the investors to understand the relationship between microfinance services and capital formation in women headed households

The study also provided the information that helps the policy makers to make policies suitable for capital formation and empowerment of women household

1.8 Definitions of Key Concepts

Poverty is described by local people as a lack of the means to satisfy basic material and social needs, as well as a feeling of powerlessness. It is seen as non-uniform, complex, multi-dimensional, cyclic and seasonal. (Poverty assessment report, 2000)

Capital formation

Capital formation is considered by economists as a route through which the poverty cycle is broken and is therefore, a transition process towards sustainable economic empowerment. In this research it is envisage that capital is initially generated through borrowing from MFI, which if well managed, generates income that is saved and ploughed back into business for further investments. This investment gives rise to capital formation

Women –headed Households (WHHs).

A household is defined as a unit of people who share meals. Ordinarily, in socio-cultural settings a male head a household. In certain circumstances, however, households are headed by women. Such *women–headed households (WHH)* include households of single women and single mothers with no man residing in the house; where a husband has died (widowed); where a woman co-habits a man in her house; and where couples have divorced or separated. For purposes of this dissertation, therefore, WHHs include households as described in this paragraph.

Empowering Women

One of the often articulated rationales for supporting microfinance and targeting of women by microfinance programs is that microfinance is an effective means or entry point for empowering women. By putting financial resources in the hands of women, microfinance institutions help level the playing field and promote gender equality.

According to UNDP, (2008) gaining the ability to generate choice and exercise bargaining power, developing the sense of self-worth, a belief in one's ability to secure desired changes, and the right to control one's life' are important elements of women's empowerment. Empowerment is an implicit, if not explicit, goal of a great number of microfinance institutions around the world.

Empowerment is about *change, choice, and power*. It is a process of change by which individuals or groups with little or no power gain the power and the ability to make choices that affects their lives. The structure of power: who has it, what its source are, and how it is exercised directly affect the choices that women are able to make in their lives.

In order for women to be empowered, she needs access to materials, human and social resources necessary to make strategic choices in her life. Not only have women been historically disadvantaged in access to material resources like credit, property, and money, but they have also been excluded from social resources like education or insider knowledge of some businesses.

1.9 Conceptual framework

The conceptual framework for this research is premised on capital formation at household levels by women to be a dependent variable. The researcher predicted that a wide range of dependent variables related to the source of credit (supply), the socio-economic and cultural factors on the side of the borrower (demand), and relationship with family influences income levels.

The study conceptualized capital formation to be a process in which investment can facilitate the household's ability to improve its socio-economic welfare by raising its human capital and assets. These include among others, acquisition of land and movable assets for economic activities such as ploughs, bulls, planting materials and irrigation systems. It envisaged that these improvements can occur within the family as a result of women's effort to augment future output and income of the household. The focus of this conceptualization is on women in their relationship with other members of the household.

It may be noted that a wide range of independent variables such as savings, credits, insurance and training, trigger the process of capital formation. As the household develops capacity to generate income, save it and invest it, the model assumes that the resultant capital formation creates capacity of the poor women to improve their socio-economic status. Similarly, they are empowered to create more wealth for themselves and that of their household members. Women empowerment requires accessibility, material, human and social resources to open up a range of possibilities up on which women can make choices. Women empowerment is therefore a process (Wright, 2002)

Microfinance

The independent variables are defined as the cause variables (Neuman, 2002:107). In the model, training is an independent variable that augments borrower's behavior. The capacity of the borrower in terms of entrepreneurial skills is considered an important factor in determining how well the borrowers manage the credits as well as prior experience in trade. Many MFIs have modified the security requirement by not insisting on the land titles or other landed properties as collateral. New schemes are guaranteed by group guarantees, among other innovations. The independent variables assumed in the model include:

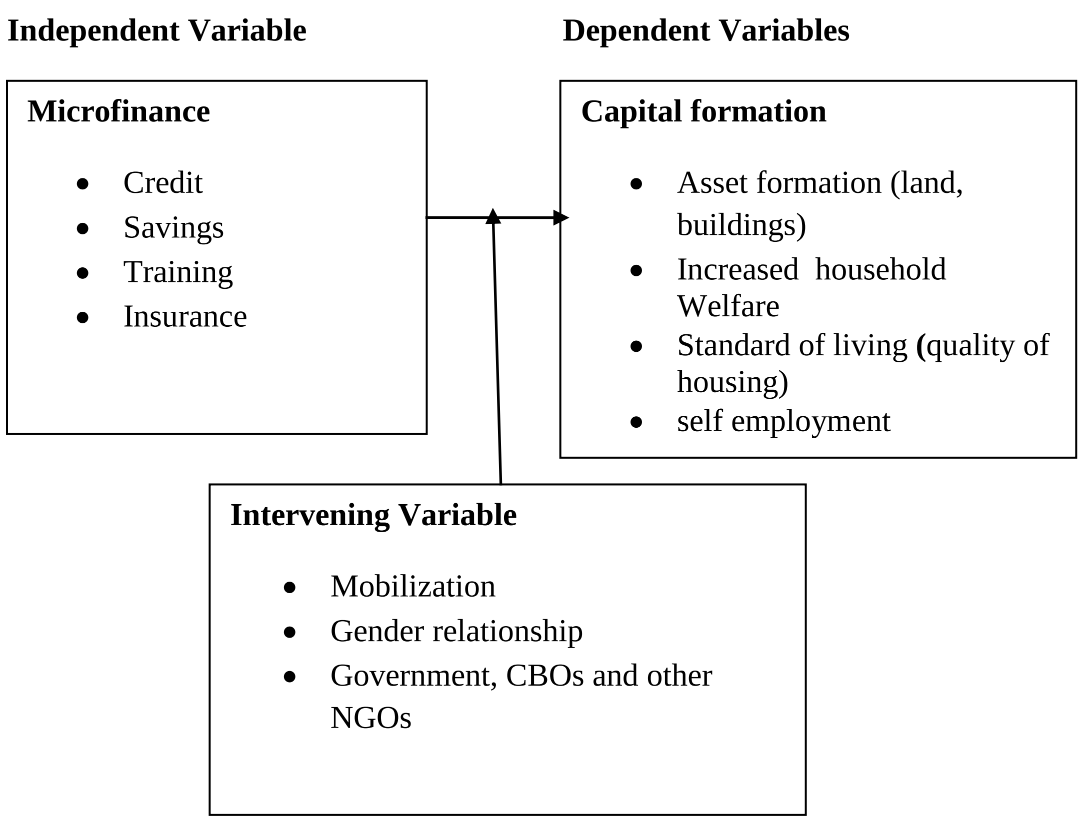
- Savings
- Credit
- Insurance
- Training

Capital formation

The study identifies the dependent variables (The variables that is of the effect or the outcome of the independent variables) to among others,

- Asset formation (land, buildings)
- Increased household Welfare
- Improved Standard of living **(**quality of housing)
- self employment

Conceptual framework



Source: Developed from Microfinance credit by Wright, 2002

1.10 Limitation and constraints of the study

Some women had high expectation about the outcome of their recommendation. They thought that after their recommendation there would be immediate responses from the institution in solving the problem for better services.

Analyzing and providing the relationship between microfinance services and capital formation in women headed households is itself a difficult tasks as capital formation is a multi dimensional indicator of development. It can be affected by a number of factors. It is difficult to attribute the formation of capital strictly on the microfinance services alone, as the formation of capital may be as a result of other factors.

Poor time management of the respondents. Since the respondents were women who have to do all the home work, sometime they would find themselves coming late and were to go back early enough to prepare for their needs

CHAPTER TWO

2.0 Introduction

This chapter reviews the literature from other research studies to acquaint the researcher with what has been studied on the relationship between microfinance services and capital formation in poor households, the methodologies of the study, what was found and the gaps that would be of interest for other studies.

2.1 Concept of microfinance

According to Sandra (2001), Microfinance is the provision of a broad range of financial services to low income households and micro-enterprises; such as „voluntary‟ savings, loans, insurance and training. Schreiner and Colombet (2001) define microfinance as the attempt to improve access to small loans and small deposits for poor households participate in productive investment to generate capital which is neglected by banks. Therefore, microfinance involves the provision of financial services such as savings, credits, training and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector

2.2 Microfinance lending models

With the evolution of microfinance concept, a number of microfinance lending models have evolved over time. The Grameen Bank in 2000 identified eight different microfinance models which includes associations, cooperatives, credit unions, individual lending, group lending, Grameen model, rotating savings and credit associations and village banking. This study focused on the individual lending model and group lending model since these are the two main microfinance models used in the organization to lend to the poor.

2.2.1 Individual lending model

This is a straight forward credit lending model where loans are given directly to the individual borrowers. It does not include the formation of groups, or generating peer pressures to ensure repayment. In this model MFIs provide loans to individual borrowers based on their own personal credit worthiness, past performance, viability of business propositions, client's income sources and business position. It is more prevalent with clients who generally need bigger size loans and have the capacity to produce collaterals. The individual approach is commonly associated with commercial banks.

2.2.2 Group lending model

The group-based lending model is what sets microfinance apart from the traditional banking system. The exact policy varies between institutions, but most follow a very similar credit delivery system. Borrowers form small groups, typically between five and ten people each, and group members share joint responsibility for the individual loans. If one member defaults on his or her loan, other group members become ineligible to receive further loans until the defaulting member pays what is owed. This unique system substitutes a form of peer pressure for physical collateral as security for the loan and minimizes information asymmetries. Initial loan amounts are quite low and borrowers are eligible for subsequent loans of increasing amounts provided they maintain a successful repayment record. This model has proven to be very successful as the majority of microfinance institutions boast a loan recovery rate of well over 90 percent. Khandker, (2005)

The model basic philosophy lies on the fact that shortcomings and weaknesses of the individual lending are overcome by the collective responsibility and security afforded by the formation of a group of such individuals.

The collective coming together of individual members is used for a number of purposes including education and awareness building, collective bargaining power and peer pressure as a tool for house households to venture in to profitable activities. According to Berenbach and Guzman (2004), group lending has proved effective in deterring defaults as evidenced by loan repayment rates attained by the Grameen bank in Bangladesh.

Non-financial aspects such as skills training and insurance are typically included in the credit delivery process. Serving to promote productivity as well as household welfare, these aspects play an integral role in microfinance positive relationship with capital formation in women headed households. Many programs provide organizational help, sector-specific training, and literacy and numeracy education to help facilitate the move to non-farm self-employment and increase productive capacity. Such skills development is widely regarded as a necessary instrument of a pro-poor strategy. Bennell (1999) asserts that skills training for the economically disadvantaged should serve to meet the specific work needs of the poor. In order to raise awareness for social issues and welfare-related topics, many microfinance programs also educate members in areas such as children's health, the importance of education, family planning, and nutrition. These nonfinancial features are what make microfinance a comprehensive tool for poverty reduction and economic growth in the poor households.

2.3 Review of related literature

The relationship between microfinance services and capital formation in women headed households in developing countries has been increasingly researched over the past years. However the way of addressing this issue has varied based on the understanding of women position in community.

Mayoux (2005), women movements in the number of developing countries became increasingly interested in the degree to which women were able to access poverty-focus credit programmes to venture in productive investments to improve the standard of living. Women access to credit, savings and other microfinance services for development purposes was one of the driving force for the development of microfinance strategies in early 90th to meet the women's need for credit, without demanding collateral from small group of village women whose households lacked the resources to be engaged in income-generating activities, lacked the entrepreneurial abilities and self discipline to make effective use of the microfinance services.

However this was seen as the beginning of women active participation in the formation of capital in their household through purchase of investment assets which are used for creation of more capital amidst the hardships they face in the communities. Saaid (2006) mentioned that credit programs such as the Grameen Bank programmes had strong relationship with capital formation in women headed households. This was evidenced by the increasing interest of the women towards the services offered and its contribution to capital formation through smoothing household consumption expenditure, standard of living (medical care, food security etc), asset accumulation, and household welfare.

Armendariz and Morduch, 2010.urges that microfinance services are economic tools which helps households manage their exposure to risks and improve household welfare through income and consumption smoothing, assets accumulation and women empowerment. This has facilitated the growth of its customers in developing countries from 16.5 million in 1997 to 154.8 million clients in 2007 representing 838.2% growth, Daley-Harris, (2009).

In addition Imai and Azam, 2010 also urges that the provision of low-income households with funding in a timely manner to acquire essential assets which are further used for productive activities to meet certain unexpected expenses is the stepping yard for the poor to invest and generate more capital for their households. Microfinance credit, especially productive loans, has been found to increase per capita household income, enhancing households' multidimensional wellbeing outcomes and improving the living standards of rural folks (Imai, Thankom, Annim, 2010). This is realized as result of capital formation in households participating in the productive activities after access of the loans.

Furthermore savings products are essential tools for helping low-income households to build up financial assets for investment and self-insurance hence this is seen as a means through which households accumulate more capital for more productive activities for further capital creation in households. Together with microfinance credit they facilitate the economic and financial empowerment of households (especially women empowerment) by financing the acquisition of essential assets for productive purposes which enables them to realize capital formation in form of the profits arising from their investment. Again, beneficiaries of microfinance savings and credit products have been noted to provide better education, healthcare, own bigger businesses, and capital assets like tools, machinery and equipments that facilities further capital creation in their households, Adjei J.K., Arun, T and Hossain (2009).

Similarly, the impact of training in capital formation on microfinance borrowers is also interesting in the light of 'microfinance plus' debate. Believers of 'microfinance plus' combine the provision of credit with other important inputs like literacy training, farming inputs or business development services (Morduch, 2000). They argue that for MFIs to become sustainable and reach a viable scale, they should provide financial services with the aid of non finance services like training to develop human capital for effective utilization of loans by the poor especially women since the majority of the rural poor lack the knowledge (appropriate skills) in business management and development for further capital creation, shares the same opinion with NCAER (2008) who also argued that training significantly improves on the access to financial services of the rural poor. More still his study also found out that training improves members' skills such as communication, marketing, and human development in determining the most profitable investments with higher returns for capital formation inform of profits from the investments.

Similarly insurance is also regarded as one of the most important products of microfinance that helps the poor to deal with risk effectively by reducing uncertainties associated with large losses (Brown and Churchill, 1999). By insuring households against future welfare losses, microfinance insurance helps in the reduction of vulnerability and poverty hence households are sure of continuer's investment in productive ventures for further capital formation after access of credit and mobilization of savings. Vulnerability and poverty go hand in hand but microfinance insurance is seen as the tool that can break part of the cycle that ties them together. According to Dercon (2003) insurance removes the risk of worsening poverty or poverty traps for the poor households.

Whereas some empirical studies by Giesbert L, and Steiner (2011) have discovered that micro insurance leads to counterintuitive tendencies such as moral hazard, adverse selection and inertia in investment among households, others authors such as Nicola (2011) argued that micro insurance facilitates households investments into productive assets which improves upon their productivity and welfare.

However the effect of microfinance services on capital formation lies more in combining all four main pillars of microfinance namely: savings, credit, training and insurance as shown in the analysis in each objective. Indeed, if households are given financial assistance (either in form of government grants or credit from MFIs) but are not indemnified against the risks that push them into poverty that aid will go down the drain. Combining insurance and training with microfinance credit and savings services ensures that income and consumption smoothing is done with ease. It eliminates assets pawning or liquidation at “give-away” prices and thus promotes financial stability among low-income households. These four micro financial services complete the risk management toolkit needed by low-income households to manage risk effectively and efficiently in order to improve upon their capital formation outcomes.

Examples of micro-finance approaches and innovations

(a) Successful impact of the Association for social advancement (ASA) in Bangladesh: A case of credit with emphasis on savings for capital formation

The saving and capital formation plays a vital role in economic empowerment of women headed households. This is revealed through increased capital stock and the impact it makes on the ability for households to produce more and higher incomes. Ross, M (2002) sees the significance of savings further than capital formation. To her, savings products are essential tools for helping low income households to build up financial assets for investment and self insurance. Together with microfinance credit, these facilitate the economic and financial empowerment of households (especially women households) by financing the acquisition of essential assets for productive purposes hence leading to the processes of capital formation for households. Again, beneficiaries of microfinance savings and credit products in Bangladesh in had better education and healthcare to their households’ members (Adjei J.K., Arun,T and Hossain, F. 2009).

Furthermore Mostaq Ahmed (2003) discusses the success of the association for social advancement (ASA) through the establishment of voluntary savings program. The association for social advancement (ASA) was established in Bangladesh in 1978 to serve rural populations and women because they are the worst sufferers and victims of social injustices. ASA offered a wide range of services to its clients: including micro-credit, small business credit, regular weekly savings, voluntary savings and life insurance. It follows a simple, standardized, low cost system of organization management, savings and credit operations. ASA had over 2.2 million members from different groups and 8.000 employees engaged in disbursing and collecting loans and saving deposits.

(a) ASA Rationale of offering credit together with savings facilities

Mostaq Ahmed (2003) found out that a large portion of the poor population in the ASA program was interested in having access to saving facilities even though the volume of savings was small because of their limited capacity to save. In addition to access, ASA found that those potential clients were interested in having the opportunity to withdraw their savings when they needed them. It realized that without savings the poor are vulnerable to external shocks and are heavily dependent on money lenders in terms of emergency (such as natural disaster, sudden accidents and death of a loved one), or have to sell their limited assets. But with access to small savings deposit facilities, they would be able to escape the vicious circle of money lenders and save their assets. The accumulated savings also helped to finance their productive activities for further capital creation. Based on these arguments, the association decided to undertake a savings program for its group members.

The authors concluded that offering savings has the double effect of helping clients in the capital formation and providing ASA members with an opportunity to be self sufficient by not depending on foreign assistance.

As a strategy of building a savings culture among its clients, the association started with offering only mandatory savings as a precondition to getting a loan. It then realized that the mandatory savings, added to the regular weekly installments for loan payments were taking a heavy toll on clients. In addition, clients could not use their savings during emergency. Considering all those issues, it then introduced the voluntary savings with unlimited withdrawals in 1997. This had the effect outlined below.

(b) Effect of voluntary savings with unlimited withdrawals

Mostaq A. (2003) found out that these voluntary savings and unlimited withdrawals resulted in an excessive number of withdrawals and created an imbalance position for ASA, causing serious obstacles to the fund management since it decreased the amount of available for lending out to members. The field staff created pressure on the members to save more and more without taking into account their capacity to save. As a result the percentage of member dropouts increased drastically from 30 percent in 1998 to 40 percent in 1999.

(c) Mixed savings: voluntary and mandatory

In response, ASA discontinued voluntary savings with unlimited withdrawals, and the percentage of dropouts started decreasing and stood at 14 percent in 2001. ASA opted to offer to voluntary and locked in savings simultaneously. This allowed ASA to continue offering cash loans while reducing withdrawals.

ASA continues to offer mandatory and voluntary savings that are accessible, and efficient deposit services that help poor households better manage their limited financial assets and smooth consumption patterns. ASA's poor clients use their savings deposit to:

- Accumulate more assets for further investments
- Cope with periodic or seasonal cash flow deficits(i.e. for emergency access)
- Protect their family from adversity
- Loosen their liquid constraints
- Balance cash flow over their life cycle.

2.4 Effect of microfinance credit on capital formation in women headed households

In many rural areas of developing countries, lack of access to formal financial services has been seen as a sever constraint that prevents low income households from improving their household standards of living due to lack of capital to invest in productive activities for further capital creation. For instance as observed by Muhammad, (2008) over 500 million poor people in developing countries with small businesses have often cited limited access to formal financial institutions for credit as the biggest challenge to their business growth.

However, the success of Grameen bank, a micro credit institution in Bangladesh, showed a strong relationship between microfinance credit and its utilization in playing significant role in capital formation in household of its borrowers. Credit is seen as the viable option through which the poor households are able to venture in to productive activities in the society, most especially the agricultural sector for the rural poor for further capital formation (Imai, Thankom and Annim, 2010). The accessibility and utilization of credit by the poor households enables them to mobilize more capital through saving which supports them in starting businesses.

This leads to increased productivity and ownership of assets which are used for further creation of capital through investing in profitable ventures hence capital formation.

Credit, especially productive loans, have been found to increase per capita household income, enhance households' multidimensional wellbeing outcomes, and improve the living standards of rural folks, hence, promoting household wellbeing.

Microfinance credit and saving mobilization in households have helped the poor realize their potential in overcoming poverty traps as argued by Mayoux, (2005). This provides the poor with great range of investment opportunities to meet their needs by increasing asset accumulation and productivity.

CEEWA, (2003), focused its efforts on engendering the microfinance sector through lobbying microfinance institutions and stake holders to adopt appropriate practices that ensure financial sustainability as well as addressing clients' needs. In collaboration with Uganda Micro-finance Union (UMU), and with participation of other MFIs and clients, CEEWA-Uganda designed and pilot tested an engendered microfinance product to address the gender analytical skill gaps identified among MFIs. The special capital assets loan (CAL) credit product is entirely meant to make clients acquire 'significant' assets as per their identified needs. It takes the form a combination of a capital asset loan for purchase of an asset (example Ugandan shillings 8,000,000 to purchase a motor cycle, fridge, saloon equipment) and working capital loan (to say Ugandan shillings 300000 for buying fuel, drinks, or saloon creams). It is paid over a long period depending on the client's wish not exceeding one year so as to enable them get affordable installments. The product was pilot tested, on a total of 106 clients (57% female) in two branches, of UMI in Busiika and Kasangati from July 1999 to July 2000, and because of its success more MFIs are now taking up this approach.

The impact of special capital asset loan on the clients includes:

- Acquisition of significant asset including buildings, motorcycles, fridges, land, cattle and many others.
- Improved decision making in homes
- Improved opportunities for leadership positions and are normally consulted by other people
- Improved health and standards of living
- Improved potential for educating children from increased incomes
- Better social ties both in groups as well as at home as husbands continue to appreciate wives contributions.

Table 2.1 basic characteristics of the capital asset loan concept

Item	**Characteristics**
Loan size	Uganda. shillings 500.000 and above
Loan purpose	Purchase of assets
Loan term	6-12 months as per clients wish
Interest rate	MFIs (45 per annum, on declining balance method for UMU)
Commission	MFIs cost (Nil for UMU)
Disbursement convenient	As required and scheduled to the client
Collateral	Group guarantees; asset purchased

Source: Yawe, 2001

In addition, it has also been found that access to credit of women rather than men has a significant impact on the daily household decisions, namely on expenditure, status of children's schooling or health and household capital assets, Khandker (2005). Apart from this, microfinance credit in Bangladesh have shown greatest impact of microfinance services on the lives of its poor households in improving the business participation of the borrower in order to generate more capital hence reducing on vulnerability of the poverty, increasing their ability to deal with crises, improve their attitudes and skills to manage adverse situation such as natural disasters. Credit creates that environment in which the household is let with the ability to determine the rightful standards of their families.

2.5 Impact of microfinance training on empowerment of women households for capital formation

An important limiting factor for the development of small scale businesses, and for the productive use of microfinance credit, is the level of human capital among the poor households. This influences the capacity of the poor to either invest credit in the right way or not. Investigating the impact of training on small scale businesses and returns to capital in Sri Lanka, de Mel, S, and David, M (2008) found higher returns among entrepreneurs with higher cognitive skills, as measured by a digit-span recall test, and more years of schooling. These empirical findings clearly point at the potential importance of adding training to microfinance in order to promote business development among poor small scale entrepreneurs for further capital formation to their expansion of businesses.

Similarly it's interesting in the light of the 'minimalist' and 'microfinance plus' debate. Believers of 'microfinance plus' combine the provision of credit with other important inputs like literacy training, farming inputs, that strengthen members' skills in savings and asset accumulation or business development services (Morduch, 2000). They argued that training is an essential tool that the illiterate poor households should be given than relying only on credit if poverty is to be alleviated from households. 'Minimalists' however argue that for MFIs to become sustainable and reach a viable scale, they should only provide financial services.

In terms of measuring the training impact specifically on MFIs, Karlan D and Valdivia M (2009) provide the only rigorous study using the popular randomization method with data from Peru, where they found out that business training improved business practices and revenues, increased knowledge leading to greater repayments and client retention, over ruling the argument of the 'Minimalist'. However their findings were criticized by Gugerty, M. K, (2001), that their reliance on randomization for the study is weak on external validity since it studies only one program in one specific place.

Similarly, Barros (2000) also state that before introduction of microfinance training, families in many areas of Africa did not think seriously about educating girls and that the availability of microfinance credits and training to women has changed attitude of many households towards girl child education. Research by scholars has identified investment in human capital, such as education, as an important tool for economic growth and subsequently poverty alleviation for households to realize capital formation later.

He refers to 'Human capital' as the stock of knowledge, which embodies an individual's ability to perform labor in order to produce economic value. The authors further stated that training helps women build their lives and those of their family's lives with micro-credit keep growing and giving several examples of many people from a number of countries, among them, the people of Uganda and the Masai of Tanzania. According to the Masai experiences, success of microfinance training has been achieved because of:

- Regular meetings (weekly) where borrowers get trained in book keeping, making their payments and applying for new loans
- Giving women a forum-voice to be heard, hence empowering them;
- Informing women that microfinance is more than loans and also that it is about life. Because of this enlightenment, the tremendous asset (women) that historically have been ignored have come up;

- Due to their capacity to enhance the health and quality of homes, women can now right away say no to sex. This has enhanced family planning and reduced HIV/AIDS risk in homes;
- Women are no longer dependent on men solely, they now have assets, they also know how to handle interest and savings;

Barros, (2000) observed that repeated borrowing of loans/credit and excellent repayment by women is as a result of training which opens the way for the poor women to strive for more productive activities and purchase of equipments and machines and payment of labour for their workers. The author argues that this evidence is shown in micro-credit ledgers around the world revealing that millions of women are accessing repeat loans and bringing more money into the families and therefore their communities, and that micro-credit and training they receive has allowed each woman to discover confidence in them and cope with their struggle to up lift their households out of poverty.

Furthermore LaLonde (1998) argued that training is the act of acquiring skills; knowledge and competency required to perform business activities efficiently and effectively. To derive the rightful benefits of training for poor households to generate income, training should be focus in business kills to cater for both illiterate and the educated since the main goal is to alleviate the poor from poverty of which most of them are illiterate. In his study on the impact of training on the performance of poor household business in United State (US), he found out that training positively impacts on the ability of poor household business to accumulate assets for expansion.

Households are able to expand on their businesses, accumulate income, and increase household welfare, increased household education and relationship of the households for business growth. However his study also cited that the impact of training is mostly recognized in household who had some level of elementary education from formal education setting.

Other studies on impact of microfinance training and capital formation, for example, Olujide, (2007) have also indicated that microfinance training enhances female participants': (i) business acumen and decision making skills; (ii) financial and economic resourcefulness; (iii) formation of social capital networks; (iv) better parenting control in the education, nutrition and health of households members. For instance, Female borrowers have also been noted as credit worthy and thus their participation in a microfinance training programs improves the productivity and self-sustainability of households in capital formation ventures (Hulme, 2000).

Furthermore, the in-built savings and training as argued by (Banerjee, and Dufio, 2009) in his research in Indian slums showed great impact of training on asset accumulation immediately but may not translate into an immediate impact on income. The results suggest patience in training's impact. He urged that moving away from agriculture in which most of the poor venture and developing other alternative sources of income might take time but training helps provide discipline in asset accumulation that transmit in results later. The estimates here echo on recent large scale randomized studies most especially from Indian slums where microfinance participation had no impact on current variables such as consumption but borrowers had moved towards consuming more durable goods and starting new businesses and purchase of household equipments.

2.6 The contribution of microfinance saving on capital formation in women headed households

While microfinance credit has been viewed as a tool of alleviating poverty, there is a growing trend in microfinance that views saving as an important way to help poor households decrease risks and expenses associated with borrowing Gugerty M.K (2001).

Recent studies have shown that poor households can and do save if they are given appropriate opportunities and incentives. Savings help them accumulate assets which are used for business and household further productive activities while also earning interest on savings. Savings deposits also provide capital formation for both poor households and microfinance institutions which enable them to grow and expand so as to better serve their communities.

Savings is described as the fraction of incomes not instantly consumed, but kept for future investment, consumption or for unforeseen contingencies which is considered as a crucial weapon for household capital formation and growth. Its role is revealed in capital formation through increased capital stock and the impact it makes on the ability for households to produce more and higher incomes. Ross, M (2002) sees the significance of savings further than capital formation. To her, savings are a means for capital formation but equally, a main determinant of the cost of credits based on the law of scarcity, which holds that 'when the former is scarce, it becomes more expensive to obtain'. The classics as well as modern growth models also hold that savings make up the principal, determinant and parameter of economic growth for poor households.

Savings by households do play a key role in enabling them to involve in investments that can improve their households, and also enabling them gain access to credit on reasonable terms.

According to Vogel, (2004) savings mobilization is considered to be a crucial factor in the development of a sound financial institution which has a direct link with household income for investment. Developing countries and NGOs have become more interested in savings mobilization programs with an aim of using the savings to improve the household incomes through engaging in activities that increase production and ownership of assets.

Households' saving in physical assets, also termed as households' capital formation, comprises investment in machinery & equipment, and changes in stocks. Household saving by poor women is seen as sense of responsibility in their struggle to meet their basic investment needs, and to get access to credit from MFIs which enable the borrowers' to engage in businesses, eventually improving the household incomes (Olujide, 2007).

Furthermore, A cross-sectional survey of 547 households in Ghana was analyzed by Adjei Arun, and Hossain, (2009) to evaluate the impact of microfinance savings in Sinapi Aba Trust (SAT) organization in facilitating asset-building among the program participants. In particular, the study assessed how access to loan and amount saved influenced the tendency of participants to save money and also take up insurance cover (welfare scheme).

In addition, the impacts of access to loans and loan amount on clients' human capital and physical capital was evaluated. The study reported that participation in the SAT program enhances clients saving culture and increases insurance up-take which in turn reduces clients' vulnerability to crisis. It further indicated that clients are better equipped by SAT to provide better capital formation through acquisition of durable assets and investment in productive ventures. This shares the same argument with Ross, M (2002) who also urged that saving does not only improve business activities but stabilizes the household's capital flows hence facilitating the ability of the poor to invest and accumulate capital.

Similarly, Hsu, M., Liao, P. and Lin, C, C. (2011) in their study of group saving and loan association (GSLs) in Zimbabwe, also concluded that the GSLs in Zimbabwe had contributed to increased levels of business and consumer assets amongst the great majority of members' households, and some improvement in the quality of housing. The number of income generating activities per household increased and household labour allocated to income generating activities

(IGAs) increased. This showed strong correlation between saving and capital formation in households of the poor "when they save, the more they are able to realize in for capital and borrow more credit from MFIs".

Furthermore, Olujide, (2007) study of savings groups in Malawi and also arrived at similar conclusions. The findings showed that the savings group programme had a greater influence in capital formation for the poor households. Significant improvements in the livelihoods of its members through increased household incomes particularly among women who comprised a majority of the members were highly evidenced. Members diversified into additional economic activities, and expanded some of their activities after realizing increasing levels of income. However, they also divested away from certain activities that required larger capital. The study also revealed that savings group members increased their assets versus the baseline, as compared to borrowers who do not have saving mobilization groups.

However, Deaton, A (2009) argued that lack of savings facilities in most MFIs is one of the pending problems in the economic development of poor households. He states that at the individual level, lack of appropriate institutional savings facilities forces the individual to rely upon in-kind savings such as savings in the form of animals or raw materials, or upon informal financial intermediaries, such as Rotating Savings and Credit Associations (ROSCAs) or money-keepers which do not offer a combination of security of funds, ready access or liquidity, positive real return and convenience in order to meet the various needs of the particular saver to facilitate immediate investment for income generating opportunities.

However to effect saving in households, organizations should work closely with the poor to influence the information set of rural households as well as their preferences over decisions that affect the lives and well being of their members.

Microfinance organizations, for instance should frequently hold meetings with their borrowers on a regular basis, when collecting payments and inform clients about new loan policies or regulations. It should also take advantage of these meetings to train borrowers about other issues to raise awareness and mobilize poor household entrepreneurs, particularly at the local levels, and facilitating obtaining financial assets and credit. These are crucial and play important role as an entry point to strengthen women's networks, increase female entrepreneurs' mobility, increase their knowledge and self-confidence, and increase their status in the family as well as the community

2.7 Impact of microfinance insurance on capital formation

Saving is one mode of self-insurance that member's of microfinance institutions have resorted to despite the fact that it may not be sufficient to address the complex needs of poor women to meet contingencies (Thomas and Sriram , 2002). Poor households are very vulnerable to evens that are unplanned and beyond their control. Fire, floods, accident involving poor households, bad weather conditions (e.g. severe drought) and lack of ready market for rural farmers' products impact negatively on welfare of households disrupting their normal cause of life and hence affect their productivity and welfare adversely.

Insuring the households is one way in which the poor women are helped to deal with risk effectively by reducing uncertainties associated with large losses. Risks impede the capacity of poor people from breaking the vicious cycle of poverty (Guha and Ahuja, 2004).

This also helps in reduction of vulnerability and poverty since the two go hand in hand but insurance breaks part of the cycle that ties them together. By insuring the borrowers, they are protected from the risk of worsening poverty or poverty traps in their households.

Mosley, (2009) in his discovering also urged that micro insurance improves clients' loan repayment rates and has a direct impact on physical and human capital expenditures. That is, microfinance insurance makes expenditures more stable and predictable hence giving household opportunity to invest the little funds/saving in to income generating activities, and reduced reliance on emergency borrowing. Mosley further revealed that micro insurance policyholders perceive themselves as less vulnerable than non clients, a behaviour which facilitates the adoption of risky investment ventures with high profitability.

With the aid of ordinal probity regression, Morsink, Geurts, and Dijk, (2011) analysed the impact of microfinance insurance on 215 households in the Philippines. The findings indicate that micro insurance reduces vulnerability and lowers the households' probability of falling into the poverty trap. Theoretically, clients of micro insurance are expected to save more than those without coverage. This is as a result of stability in income flow and expenditure alluded.

More still, Imai and Azam, (2010) in their study used four series national panel data of the Bangladesh Rural Employment Support Foundation (PKSF) collected on 3000 participants and non-participants households of 13 MFIs across Bangladesh. The study reports showed that, access to MFIs' productive loans and insurance has a significantly increasing impact on households' per capita income. The paper further indicates that the analysis of each series of the panel data points to an increasing trend of the strength of microfinance to equip households to promote further investments.

The authors thus concluded by calling for the re-focusing of microfinance insurance and credit as primary objective of reducing poverty and the need to monitor loans utilization.

Furthermore insurance enables individuals and small business entities to maintain a stable consumption pattern and avoid asset loss Dercon, Bold, and Calvo, (2008).

The authors further recommended that “the impact of micro insurance on consumption, assets or other dimensions of welfare (such as health, nutrition, school enrolment) is a useful indicator to investigate the role of micro insurance in allowing individuals to avoid further poverty and hardship”.

However, some empirical studies have discovered that micro insurance leads to counterintuitive tendencies such as moral vulnerability, unfavourable selection and inertia in investment among households. They argued that in countries where the social welfare system is small, households covered by insurance save less than those without coverage. This argument is supported by an earlier work on the Taiwanese insurance market by Chou et al (2004), who found out a decline in savings and a rise in the consumption of clients of the Taiwan National Health Insurance Scheme, but others authors such as Guha and Nicola (2011) argued that micro insurance facilitates household’s investments into productive assets which improves upon their productivity and welfare for capital formation if placed on the rightful poor.

However, most studies ignore the impact of microfinance insurance as one of the services in their examination of impact of microfinance on household’s capital formation. The effective wellbeing effect of microfinance to poor households lies more in combining all the four main pillars of microfinance namely: Savings, Credit, Insurance and Training. Indeed, if households are given financial assistance (either in form of government grants or credit from MFIs) but are not indemnified against the risks that push them into poverty that aid will go down the drain.

Combining insurance with other three pillars ensures that income generating activities and consumption smoothing is done with ease. It eliminates assets pawning or liquidation at “give-away” prices and thus promotes financial stability among low-income households.

These services complete the risk management toolkit needed by low-income households to manage risk effectively in order to improve upon their capital formation outcomes.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter discussed the methodology used in the study. It presents the research design, study population, sample size, sampling methods, data collection methods and instruments, pretesting of instruments, validity and reliability, data analysis, measurement of validity, ethical consideration and limitation of the study.

3.1 Research design

The study utilized cross-sectional descriptive survey design that used both qualitative and quantitative methods. Cross sectional description survey design is a selection of small sample of people from a bigger population to act as an inference. In the survey research, independent and dependent variables are used to define the scope of study (Nachmias, 1981). In this study, survey methodology helped in measuring variables and examining relationship between variables as recommended by Fowler (1993).

3.2 Study area

The study was conducted in Soroti district, eastern region of Uganda in Teso sub-region. It was carried out in Uganda Finance Trust limited Soroti Branch (U-TRUST), a registered Micro-Finance Institutions which operates in Soroti district. The research was conducted in both the municipality (eastern and northern) and rural areas (sub-counties, Kamuda and Arapai).

3.3 Study population

The study population includes the borrowers (women) from the selected areas in the sub-counties and municipality. These people were selected because they have been long time borrowers of the organization and are still having loans in order to determine the level of capital formation.

The total population of the borrowers in four group's totals up to 270 households spread in both rural and urban.

3.4 Procedure

The researcher first got the recommendations from the Faculty Dean which was used to obtain permission from MFI to allow conduct research from the organization. The researcher then made efforts to come to organization to meet the borrower over the time and duration for which the data collection exercises was done. Thereafter, the researcher embarked on the collection of data which was later analyzed to create findings that were put in writing in form dissertation.

3.5 Sample Size and selection

According to mugenda and mugenda (2003), it's impossible to study the whole targeted population of 270 households within a short time and there for the researcher decided on the sample population through performing random selection and convenient sampling in order to get 60 households to represent both urban and rural areas. To determine the sample size, a confidence level of 0.05 was used and the calculation was done by use of the formula.

$$\text{Sample size} = \frac{N}{1 + N^{e2}}$$

Where n = sample size

N = population

e= standard error (0.05)

$$n = \frac{60}{1 + 60 \times 0.05^2}$$

n = 52.18

n = 52 households

3.6 Sampling Techniques

Table I population and the sample used in the study Groups

Name of the group	population	Sample size	Sampling Techniques
Owen falls group	10	3	Random sampling
Soroti Widows Association	200	31	Convenience Sampling
Kamuda group	30	9	Random sampling
Ekatakinos	30	9	Random sampling
Total	270	52	

Source: researcher

Household borrowers from three groups with limited population had random sampling techniques used due to the size of the groups; convenience sampling was used for the bigger group due to the level of illiteracy among most of the poor women in rural.

3.7 Methods of Sampling

To give equal chances for each element in the population to be represented, a multi stage sampling methodology was used. This was chosen because Multi-stage sampling divides the population into distinct groups in a way that makes the between-group variance low and the within-group variance high. The researcher also employed multi-stage sampling because it helps to breaks down groups and sub groups into smaller groups to the desired size for research. This was also used due limited funds and time to sample from a bigger population. This sampling procedure is essential in a way to reduce the population by cutting it up into smaller groups, which then can be the subjected to random sampling.

3.8 Data Collection methods

The study utilized both qualitative and quantitative data collection methods. Primary data was obtained using questionnaires as well as interviews. Secondary data was sourced from reading literature in secondary sources.

3.9 Data collection instruments

Data collection instruments included questionnaires, interview guide, observation and the documentary reviews checklist

3.9.1 Household survey questionnaires

Household survey questionnaires were administered to 58 selected household who had ever got a loan facility out of 124 household. The survey questionnaires consisted of both open and close-ended questions that focused on themes and sub-themes such as the impact of micro-credit utilization on household income, gender differential utilization of micro-credit, household organizational and operating capacity in the utilization of micro-credit, people's perception and attitudes towards micro-credit utilization among others.

3.9.2 Interview guide

Face to face interviews with the help of the interview guide were conducted among some of the respondents. The researcher believes that these people can provide rich information in regards to the study. Interviews were used, since they are appropriate in providing in-depth data, data required to meet specifics objectives, allows clarity in questioning and quite flexible compared to questionnaires.

3.9.3 Observation

Observation method was utilized to obtain information directly by the researchers. The findings were used to supplement information obtained from the questionnaires.

The participant observation was unstructured and it covered randomly selected sample of WHH. The purpose was to enable the generation of in depth contextual details than what could be obtained through interview.

3.9.4 Documentary reviews checklist

The study carried out reviews of existing documents primarily the financial statements of the borrowers, sales day books and ledgers kept in the shops.

3.10 Pre-testing (validity and reliability)

The data collection tools were pre-tested by giving to the lecturer to verify the accuracy and clarity in line with each objective of the study thus ensuring validity and reliability.

3.10.1 Validity

Validity is the accuracy and meaningfulness of inferences, which are based on research results. It is the degree to which results obtained from the analysis of the data actually represent the phenomenon understudy. Therefore validity looks at how accurately represented are the variables of the study (Mugenda, Mugenda 2003)

3.10.2 Reliability

According to Mugenda and Mugenda (2003), reliability refers to the measure of the degree to which research instruments yields consistent results after repeated trials. In testing the reliability of instruments, the study adopted Cronbach alpha coefficient test to obtain the coefficient of reliability.

3.11 Data analysis

In the study the instruments that were used yield both qualitative and quantitative data. After respondents had answered questionnaires and interviews, raw data was cleaned, sorted and conducted into systematically comparable data.

Data analysis was done using the statistical package for social scientists (SPSS), which helped to summarize the coded data and produce the required statistics in the study.

3.11.1 Qualitative Data

Descriptive analysis was a major tool used in bringing the views of the people on microcredit. Counter information from MFI key respondents, about their services and support to women borrowers was also tabulated. The problems realized by respondents who got loans and possible solutions to household welfare, asset formation and improvements were also analyzed from observing frequencies.

The researcher also use transect walks of the community in which the WHH were located. The purpose of the walks was to understand how the local environment influences the lives and livelihoods of the people, and particularly in terms of business investment opportunities in the community. The walks also provided opportunities for the researcher to create rapport with the local community, making it easier to talk about themselves and about challenges in their lives and in the community.

3.11.2 Quantitative data

In handling all the objectives of the study, the researcher used a computer package SPSS where data was entered, edited, cleaned and sorted. This programs was to do univariate and bi-variate analysis. Uni-variate analysis of these objectives was to be obtaining descriptive data in form of means frequencies and percentages. In establishing the relationships among variables, bi-variate variables have on independent variable.

3.11.3 Economic variables

The researcher gathered data on production and household assets and occupation of respondents to articulate the difficulties involved in loan repayments, the benefits that accrued to the loan clients and their views on how future micro loan products could be better administered.

3.11.4 Beneficiary analysis

This analysis focused on the demographic characteristic of respondents and their socio-economic variables. This analysis was done on WHHs. The purpose was to find out what impact the borrowed funds had on the women, children, and the household.

3.12 Ethical considerations

The researcher ensured confidentiality of respondents' identity and revelation. The researcher also neither intimidated nor bribed respondents to get answers from them, so as to ensure informed consent of respondents. Instead, gentle and polite interaction style was employed.

3.13 Problem encountered in data collections

Some of the respondents were engaged in more than one economic activity, some of which included trade in the local weekly markets. They were, therefore, quite had mobile and could not be met on the first visit. These clients got interviewed after several visits that were time consuming and costly.

Some questionnaires were misplaced by the respondents limiting the information gathered and the number of respondents. The researcher had to conduct face-to face interviews in order to get more information.

In collecting quantitative data, the MFIs did not have much information on individual clients, since most borrowers were in groups. Even where data was available, as was in the case of individual borrowers, it was not accessed by the researcher, since it would have been unethical of management to avail them. It was, therefore not easy to analyze the financial status of respondents. Assessments were however made through analysis of assets acquired before and after the loan.

CHAPTER FOUR

ANALYSIS OF FINDING AND INTERPRETATION

4.0 Introduction

This chapter presents the analysis of findings of the research carried out on the relationship between microfinance services and capital formation in women headed households, with reference to the field finding already revealed by other researchers on the related subjects. SPSS was used to analyze the data collected and the results interpreted in this chapter. Fifty two (52) questionnaires were distributed to the respondents; however, only forty six (46) questionnaires were returned and of which 6 questionnaires were invalid. In addition, interviews were held with some households walk tracking whose views were recorded on paper.

In this chapter, each independent variable is presented in relationship with the dependent variables, and the interpretation of the results is given basing on the responses. For example, the role of microfinance credit as an independent variable is linked with asset accumulation, self employment creation and increased standards of living. This is because each independent variable influences the dependent variables in a sense that, the credit/loan borrowed does not only help asset accumulation but will also determine the standard of living in household and employment creation for capital formation.

4.1 Analysis and interpretation

The objectives are presented in respect with their various elements so as to establish a detailed interpretation of the effect of each independent variable to the dependent variables. For example, credit comprises of interest rates, Size and Repayment period (group Vs individual) and Access; all which affect the asset accumulation, household standard of living and employment creation for capital formation in their households.

4.2 Age

The respondent women headed of households who had borrowed fell in the following age ranges as shown in the table.

The distribution was reflected under the following age brackets: above 55 years 47.5%, 35-49 years 37.5%, 25-34 10%, while 18-24 5%. This age distribution did not favor the younger generation below the age of 18 since they are below the age of consent for bank borrowing.

Table I showing Age distribution

	Frequency	Percent
18-24	2	5.0
25-34	4	10.0
35-49	15	37.5
ABOVE 50	19	47.5
Total	40	100.0

Primary source 2014

A careful analysis of the age distribution show that; 47.5% of the borrowers are old women who form the majority, followed by 37.5% within the age bracket 35-49, 10% within the age 25-34 and lastly 5% within the age of 18-24. This results show that increased responsibility of the older women could be a driving force that forced them to seek loans or that the family assets could only be trusted to women of mature age. By implication, it could mean that the younger women were considered lacking family trust for assets and the bargaining power with their spouses/ families required for acquisition of loans. On the other hand it could also be that the younger women lacked direction, self-confidence to challenge the status quo, and advice to access MFIs.

4.3 The Education level of respondents

Education levels of the loans recipients was analyzed to investigate whether education levels could influence the way loans were utilized and how that ultimately relationship influence increased welfare and capital formation abilities of the MFI clients.

Table II showing the Education levels of respondents

Education levels	Frequency	Percent
Primary	17	42.5
Secondary	12	30.0
University	3	7.5
Tertiary	8	20.0
Total	40	100.0

Primary source 2014

The results show that the majority of the household borrowers in both urban and rural areas had primary level of education 42.5%, followed by secondary level of education 30%, 20% for tertiary education and lastly 7.5% for university education. This result imply that most of the clients of microfinance are poor women who are not employed and are stressing their way out off the poverty cycle through participating in microfinance services.

4.5 Mobilization

The research found out that access to loans and why they chose Uganda finance trust limited Soroti branch (U-TRUST) was as a result of mobilization by institution officials, 30 out of 40 respondents (75%) admitted that they got access to institution services after being mobilized and sensitized by the personnel from the MFI. 10 respondents (25%) in the rural areas admitted that they knew of no other MFIs that would march their needs. The table III gives the various reasons that led to the choice of Uganda finance trust limited Soroti branch (U-TRUST)

Table III showing factors that attracted client to borrow from U-TRUST

Attraction to the institution	No. of respondents	Percentage of respondent
MFI mobilization	30	75
Advised (by husbands, in-laws and politicians)	3	7.5
Attracted by low interest rates	4	10
Attracted by the MFI giving priority to women	3	7.5
Total	40	100

Primary source 2014

The table above shows that 75% of households were influenced by the MFI mobilization and training's, 15% influenced by the advice and priority given to women by the institution and 10% were attracted by the low interest rates. This shows that mobilization and training of households plays a key role in influencing the attitude of households to from the financial institution.

4.6 Collateral arrangement

Although MFI do not insist on the mortgaging tangible security in the case of borrowers under group arrangements, the groups were required to make sure that the individual members borrowing from the group had sufficient collateral to cover her loan. Collateral arrangements were also needed, therefore, considering and analyzed as a factor affecting the accessibility to loans.

Table IV factors favouring eligibility of women for loans

Category of loan	Age	Frequency	%	Occupation	Required assets	Marital status
Group loans (individual in group)	18 and above	35	87.5	Viable business/occupation	Group guarantee(assets: home items, bicycles, goats, plots of food crops)	Preferably married or have a family
Individual loan borrower	18 and above	5	12.5	Viable business/occupation	-collateral (land, business assets) -salary, if salary earners -loan guarantors	Preferably married or have a family

Primary source 2014

The study observed that the following considerations raised the credit worthiness of prospective borrowers. 87.5% of the total population accessed loans in groups and were required to have the stated occupation, requirement assts and marital status as stated in the table. 12.5% of the population consisted of the individual borrowers who were also preferably to meet the stated requirement as listed in the table above.

4.7.0 Objective 1: To assess the effect of microfinance credit on capital formation in women headed households.

Table V showing the effect of credit on capital formation

	Frequency	Percent
STRONGLY AGREE	15	37.5
AGREE	21	52.5
DISAGREE	4	10.0
Total	40	100.0

Primary source 2014

The results show that, 37.5% strongly agreed, 52.5% agreed and 10% disagreed. This result implies that credit helps in accumulate assets. In an interview with six households in the rural areas of Kamuda and Arapai, they stated that credit assisted them to purchase various assets such as land, bicycles and domestic animals like cows, and goats which were used for further capital formation. while the 10% who disagreed indicate that they were faced harsh terms from MFIs, which included especially high interest rate and short repayment periods which could not much with the kind of business they were engaged like brick making and stone quarrying which could take long to realize returns.

Table VI showing the impact of credit on investments

	Frequency	%
STRONGLY AGREE	11	27.5
AGREE	20	50.0
DISAGREE	7	17.5
STRONGLY DISAGREE	2	5.0
Total	40	100.0

Primary source 2014

The table VI above shows that 27.5% strongly agreed, 50% agreed, 17.5% disagreed and 5% strongly disagreed. This implies that credit positively impacts on the ability of households to invest in bigger investment. 17.5% disagreed and 5% who strongly disagree indicated that credit did not have an impact on their household investments due to the size of the loans they are given.

Table VII showing the effect of credit on business expansion

	Frequency	Percent
STRONGLY AGREE	13	32.5
AGREE	16	40.0
DISAGREE	8	20.0
STRONGLY DISGREE	3	7.5
Total	40	100.0

Primary source 2014

The results in the table above show that 35.5% strongly agreed, 40% agreed, 20%disagreed and 7.5% strongly disagreed. This implies that credit leads to business expansion. In an interview with five respondent in Soroti municipality, they argued that microfinance credit enhanced their abilities for bigger investment in addition to their saving in households. The 27.5%, who disagreed and strongly disagreed were mainly the rural clients who argued that the time they were given credit did not meet the good climatic conditions which greatly hindered the crops leading to loses.

Table VIII showing effect of credit on self employment

	Frequency	Percent
STRONGLY AGREE	13	32.5
AGREE	16	40.0
DISAGREE	10	25.0
STRONGLY DIAGREE	1	2.5
Total	40	100.0

Primary source 2014

32.5% strongly agreed, 40% agreed, 25% disagreed and2.5% strongly disagreed. The results indicate that credit leads to employment creation for poor households. In an interview with 7 households, 3 households from the urban argued that microfinance credit when put in the planned activity as its positive impact in business. The other four from the rural registered growth in their businesses as one of the respondent explained and said" my life has been renewed, now I can see tomorrow" this expression came as a result of the kind of hardship she was in with her 4 children after separating with the husband. The 27.5% who disagreed and those who strongly disagreed stated that, the amount of credit offered and the weekly repayment period affected them negatively. They hardly realized any increment in their businesses to create room for employment of other members.

4.8.0 Objective 2.To investigate the impact of microfinance training on capital formation

Table IX below shows the response of households

	Frequency	Percent
STRONGLY AGREE	9	22.5
AGREE	24	60.0
DISAGREE	5	12.5
STRONGLY DISAGREE	2	5.0
Total	40	100.0

Primary source 2014

22.5% strongly agreed, 60% agreed, 12.5% disagreed and 5% strongly disagreed. This implies that training is an essential tool in the daily operations of business activities. In an interview with 7 households, they argued that they were able to attain business management kills like book keeping, record taking and do business evaluation before and during business activities. This reviled a strong relationship between microfinance credit and training in enhancing the success of the poor households for capital formation as argued by Gugerty, M. K, (2001). However, negative impact was seen in illiterate women who did not know how to read and write hence had to hire someone to audit their books at a cost since it was a necessity for group members.

Table X showing the impact of training on women empowerment, self confident and independent decision making for capital formation

	Frequency	Percent
STRONGLY AGREE	13	32.5
AGREE	20	50
DISAGREE	5	12.5
STRONGLY DISAGREE	2	5
Total	40	100.0

Primary source 2014

32.5% strongly agreed, 50% agreed, 12.5% disagreed and 5% strongly disagreed. This results show that training help to develop confident for self reliance in decision making processes in order to determine the rightful goal for the business. They argued that the training facilitated their abilities to purchase assets and farm animals especially in the rural areas. As stated by 8 respondents in the rural areas of Kamuda and Arapai, they urged that training gave them an insight to modernize the agricultural activities since they were able to realize the need to produce in large quantities for both domestic use and sale.

Table XI showing the impact of training on capital formation

	Frequency	Percent
STRONGLY AGREE	14	35.0
AGREE	17	42.5
DISAGREE	5	12.5
STRONGLY DISAGREE	4	10.0
Total	40	100.0

Primary source 2014

35% strongly agreed, 42.5% agreed, 12.5% disagreed and 10% strongly disagreed. This implies that training equips poor households with the ability to invest in the productive activities which generate high returns from the investment hence leading to purchase of both business and household assets like bicycles, land, and build permanent houses. The respondent who disagreed stated that there was no impact of training in their business because their returns did not increase to enable them to purchase more assets.

Table XII shows the impact of training on living standards of poor households

	Frequency	Percent
STRONGLY AGREE	14	35.0
AGREE	18	45.0
DISAGREE	6	15.0
STRONGLY DISAGREE	2	5.0
Total	40	100.0

Primary source 2014

35% strongly agreed, 45% agreed, 15% disagreed and 5% strongly disagreed. The results imply that training helps in attainment of knowledge which leads to easy identification of the rightful investment for poor households for capital formation.

The respondents argued that organization officials brought in to light clearly the characteristics of a successful business, risk management, competitive strategies and market forces that determine the successes of their businesses. Similarly, Bali and Varghese (2009) stated that Training greatly helps to identify the rightful businesses, manage risks in the market to determine business success. The 20% who disagreed and those who strongly disagreed indicated that did not mean much to them but to the family children.

Table XIII showing impact of training on mobility and self confidence

	Frequency	Percent
STRONGLY AGREE	12	30.0
AGREE	20	50.0
DISAGREE	6	15.0
STRONGLY DISAGREE	2	5.0
Total	40	100.0

Primary source 2014

30% strongly agreed, 50%agreed, 15% disagreed and 5% strongly disagreed. The results imply that training increases both mobility and self confident of women who participate in training. This was used to investigate the ability of women headed households to mobilize funds and their bargaining power in the market. However the position that disagreed did not give any argument.

4.9.0 Objective 3. To examine the contribution of microfinance saving on capital formation

Table XIV showing the impact of microfinance saving on capital formation

	Frequency	Percent
STRONGLY AGREE	15	37.5
AGREE	19	47.5
DISAGREE	6	15.0
Total	40	100.0

Primary source 2014

37.5% strongly agreed, 47.5% agreed and 15% disagreed. The results in the table above indicate that micro savings have a strong positive correlation with capital formation in form of capital assets like machinery and equipments which were stated by the respondents. They argued that they were able to realized increase in households' assets due to the uptake of financial savings products which enabled them to purchase capital assets (ex-ploughs, buildings) that they further used to generate more income. 15% who disagreed that saving did not facilitate their ability to accumulate funds for purchase of assets for further capital formation however did not state why they did not realize any gains from saving.

Table XV shows effect of saving on the amount credit given

	Frequency	Percent
STRONGLY AGREE	17	42.5
AGREE	23	57.5
Total	40	100.0

Primary source 2014

The results in the table show that 100% of the respondents agreed that saving was used as collateral security for poor households to get access to credit. This implies that in spite formation of groups as guarantee for members to get access to loans, members should have savings in order to access the loans.

Table XVI showing the contribution if saving on capital formation

	Frequency	Percent
STRONGLY AGREE	12	30.0
AGREE	25	62.5
DISAGREE	3	7.5
Total	40	100.0

Primary source 2014

30% of the respondent strongly agreed, 62.5% also agreed that saving acted as source of capital formation in their households and 7.5% disagreed that microfinance saving did not lead to capital formation. This results show that saving acts as an additional income for households to invest in bigger ventures that generate high profits which they could not venture in due to the limited credit offered to them by the institution since they lacked enough collateral security. The 7.5% who disagreed stated that they were not able to get access to the saving at the time they were interested for it to invest hence were not able to invest in bigger ventures with high returns for capital formation.

Table XVII shows the impact of saving on business expansion

	Frequency	%
Strongly agree	16	40
Agree	12	30
Disagree	2	5
Strongly disagree	10	25
Total	40	100.0

Primary source 2014

40% strongly agree and 30% the results imply that savings as appositive impact in the expansion of businesses, In addition, the research found out that savings increases personal incomes of the clients. As earlier noted, microfinance involves provision of productive savings to those owning or starting small businesses so as to increase their personal incomes and be able to invest in more ventures. The 5% who disagreed and 25%, who strongly disagreed, indicated that micro savings had not increased their personal incomes. They urged that the interest given was too small and yet their money was tied up in the accounts for a long time.

4.10.0 The objective 4. To assess the microfinance insurance on capital formation

Table XVIII below shows the impact of insurance on capital formation

	Frequency	Percent
STRONGLY AGREE	14	35.0
AGREE	23	57.5
DISAGREE	3	7.5
Total	40	100.0

Primary source 2014

35% strongly agreed, 57.5% agreed and 7.5% disagreed. The findings imply that having insurance increases households asset accumulation and hence their welfare. This is in line with theory of Churchill (2007) who stated that insurance promotes households asset growth and stability due to the indemnity enjoyed under the insurance cover. However the 7.5% who disagreed urged that to be insured needs an extra source of income than relying on income from business alone since they operate small scale business dealing in a variety product like tomatoes, onions and other perishable goods which have high risks of loses.

Table XIX below showing the attitude of household on microfinance insurance

	Frequency	Percent
STRONGLY AGREE	15	37.5
AGREE	19	47.5
DISAGREE	6	15.0
Total	40	100.0

Primary source 2014

37.5% strongly agreed, 47.5% agreed and 15% disagreed. This result implies insurance a good invention that helps households to reduce on the risks of uncertainty associated unnecessary loses. The respondents argued that micro insurance helped them improve to their loan repayment and have also helped them in smoothing household expenditure in both education and food security. That is, microfinance insurance made their expenditures more stable and predictable hence giving household chance to invest the little funds/saving in to income generating activities, and reduced reliance on emergency borrowing. The 15% who disagreed stated that it's not a good innovation for all because some of them borrow small loans (less than 500,000) of which insuring such kinds loans is more of a liability them the benefit/return they expect from the loans.

Table XX showing the impact of insurance on re-borrowing for the poor

	Frequency	Percent
AGREE	11	27.5
DISAGREE	20	50.0
STRONGLY DISAGREE	9	22.5
Total	40	100.0

Primary source 2014

50% disagreed 22.5% strongly disagreed and 27.5% agreed this implies that microfinance insurance was not a motivating factor for them to re-borrow. Results that insurance should not be forced on every household, it should be on the will of the household to accept the product since insurance to some of the small loans like less than 500,000 does not make them realize any changes in their income instead it's a cost for them. While 27.5% who agreed stated that it was a motivating factor for them to re-borrow loans. They argued that this motivated them to re-borrow the loans since they were sure of continuity of their business due to the indemnity they were enjoying under the insurance carver. However this benefit was mainly stated by urban clients.

Table XXI showing impact of insurance on business continuity

	Frequency	Percent
STRONGLY AGREE	5	12.5
AGREE	22	55.0
DISAGREE	11	27.5
STRONGLY DISAGREE	2	5.0
Total	40	100.0

Primary source 2014

The result show that 12.5% strongly agreed, 55% agreed, 27.5% disagreed and 5% strongly disagreed. This indicate that households are secured from loses associated with fire, theft, accidents by the insurance carver from microfinance institution. 27.5% who agreed and 5% who strongly disagreed stated that, the insurance carver did not benefit them in that it was associated with strict measures which the poor households cannot follow due to the cost to be incurred in follow up. This was mainly argued by the rural poor women.

4.11 The Combined Products

In this analysis the researcher sought to discover whether it is more welfare enhancing to have more than one microfinance service as argued by some authors in the literature review. The different combinations are: (i) training and savings together; (ii) insurance and credit together; (iii) savings and credit together, and, (iv) training, savings, and credit together.

In an interview with 8 households in the rural areas of Kamuda and Arapai sub-county, to accessing the impact of the combination of services on household capital formation, the findings indicate that households having both training and savings, insurance and credit, saving and credit had high returns in their investments and were able to save more capital and utilize in acquiring of both physical assets like bicycles, land, build permanent houses and domestic animals like cattle, goats, hens etc. and opening up of businesses. 62.5% who utilized both services argues that they were able to realize the above due to the combined services which gave an insight to deal with and solve problems in smart/easy ways. 37.5% out of the 8 households who never had insurance in both credit and savings had a lower level of assets compared to those with both. The results further indicate that even though credit alone has some increase in households' assets, a combination with insurance, savings and training equips households to accumulate more assets.

The implication is that making the full package of microfinance services available to low-income households equips them to save regularly, deal with life cycle risks effectively and better positioned to use credit facilities judiciously. This argument is supported by Dercon et al (2008), who recommended that "the impact of combined products of microfinance have positive impact on consumption, assets or other dimensions of welfare (such as health, nutrition, school enrolment) in helping individuals to avoid further poverty and hardship".

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter brings out the summary, conclusions and recommendations basing on the topic “the relationship between microfinance services and capital formation in women headed households” and this can be used as guidelines for further research in future especially on this topic. It also points out areas in the organizations where improvement has to be made.

5.1 Summary of the findings

This summary is presented in an objective-by-objective format by focusing on the main points or arguments by respondents in the interviews, questionnaires, and the researcher’s own observations.

Microfinance credit and capital formation

It was found that credit affects capital formation positively most especially productive loans. Households who received credit indicated high level of asset accumulation in their households. Poor households were able to own investment assts like land, building, machinery like sawing machine, ox-ploughs which were used for further income generating activities for capital formation. The findings also showed that credit contributed to increased household welfare which facilitated household consumption smoothening and stable income flows in their household. This summary also supports the arguments of Imai, Arun and Annim, (2010) that credit has significant impact on the ability of poor households to accumulate assets, invest in bigger investment and stable income inflow for capital formation.

Contribution of microfinance saving to capital formation

The research findings have shown that saving has strong relationship with credit in enhancing household abilities to investment in productive activities that lead to capital formation. This acted as self-insurance that household member's took to meet the household borrowing needs and protect themselves from asset pumping "at a giveaway price" due to unplanned events, and also protect household's from high interest borrowing from money lenders. This had a great influence in the ability of households to invest in bigger ventures that could not be easily invested in due to limited capital and limitation from the institution on the amount each client can get due to his or her security and saving. This is in line with the argument of Hugh and Pauline, (2004), in their study of group saving and loan association (GSLs) in Zimbabwe, that saving size greatly impacts on amount of credit for households to borrow and utilize for capital formation in their households.

Microfinance training and capital formation

From the finding the results indicated that for poor household to realize high returns from their investments, they must be trained. This is reflected in the results were 80% greed that their success in generating high returns was out of training, contrary to 20% who could not read or write to understand the gains they have received. This implies that the level of human capital (education, knowledge and skills) among the poor households has a significant influence on the ability of poor households to either invest credit in the right way or not hence determining the level of returns in their businesses. This summary is supported by believers of 'microfinance plus debate' who argued that combining the provision of credit with other important inputs like literacy training strengthens members' skills in savings and asset accumulation or business development services for further capital formation in their households (Morduch, 2000).

In conclusion training is an essential tool that the illiterate poor households should be given to facilitate capital formation.

Microfinance insurance and capital formation

Being a new innovation introduced in the organization, micro insurance benefit was of 50% benefit for the borrowers. However its benefit was highly associated with the amount of the credit borrowed by clients. Those in urban who borrowed bigger credits received high benefits from health insurance carvers and uncertainties related to fire, and weather conditions (drought) and were sure of continuity of their businesses due to stable income flows and saving realized from insurance carver hence capital formation. Unlike in the rural areas, households highly notified that they did not realize any benefit from insurance due to the size of the loans and conditions to follow even when the uncertainty has occurred. This implies that, the influence of insurance on investments of poor households for capital formation depended on the size and nature of household investment for capital formation.

5.2 Conclusions

The analysis show clear trend of capital formation in women headed households as a result of access to microfinance services.

The acquisition of services in groups strengthens the social dimensions of women's empowerment and gives the women a sense of belonging resulting in to self-confident and self-esteem.

The various training given before and after loan disbursements enables the women to acquire knowledge and skills in entrepreneurship, which results in to initiation or expansion of income generating activities for capital formation.

Their participation in saving and insurance enables them to acquire personal asset and stable income flows, smooth household consumption and health care to facilitate further investments for capital formation.

However for maximum empowerment of women for capital formation, microfinance services should be designed to take in to account the women's needs, roles, abilities and responsibilities to help them facilitate more investments.

5.3 Suggestion for further research

I recommend further research to be undertaken to identify the impact of combine services of microfinance in women (poor) households for capital formation.

5.4 Recommendations

1. The management of the institution should pay attention on the size and nature of the loans given to households in order to facilitate bigger investment for poor households to accumulate capital. The respondents argued that in spite of the small profits they were able to generate, the size and the repayment period significantly hindered their ability to invest in medium and long term investment with high profit gains for capital formation in their households. They were not able to have flexible investment to meet the demand and changes according to the climatic conditions in order to benefit much from the investments.
2. Organizations should review the savings structure such that the poor clients who save small amounts are treated differently from those who save large sums of credit in the giving of loans. This is because most rural households are in real state of poverty and their struggle to save shows great need for change in their households in to normal life.

In this case, there should be reasonable attachment put to the poor who have come up and give reasonable interest on their small deposits such that it becomes convinced for them to have funds to supplement the credit they can borrow from the institution.

3. The organization should also design programmes to enough saving in order for poor house to have more capital for investment since the majority are affected due to lack of collateral security.
4. There is need to advance training schemes by the institution most especially to the rural poor households since the majority of them are illiterate and of lower education background as reflected in the findings. This is because the results have showed that equipping the poor with entrepreneurial skills, self-confidence; independence indecision making is a necessary tool to promote women’s ability to mobilize funds for investments in their household in order to smoothen living standards of its household members through capital accumulation. This is conclusion supports LaLonde (1995) who also argued that training is the act of acquiring skills; knowledge and competency required to helping the poor perform business activities efficiently and effectively in order to uplift them out of the poverty cycle.
5. The organization should also pay more attention to sensitize the poor households most especially the rural households on the benefit that they get from being insured against unplanned uncertainties that impede their ability to break the poverty cycle. The unwillingness of poor household to the service is reflected in the finding were 32.5% stated that insurance is not a good innovation to help them since their loan structure does not give any gain to their households. This implies that most of the rural poor households are ignorant of the benefits of insurance like, improves loan repayment rates and its direct

impact on physical and human capital expenditures which were enjoyed by 66.5% mostly from the urban.

REFERENCE

ADJEI, J, K., ARUN, T., HOSSAIN, F., 2009. The Role of Microfinance in Asset-Building and Poverty Reduction: The Case of Sinapi Aba Trust of Ghana. Brooks World Poverty Institute (BWPI), Working Paper 87, University of Manchester.

AMFIU, 2008. Association of Microfinance Institutions of Uganda Annual Report

APPLETON, S., 2008.Changes in poverty in Uganda, 2004-2007, Center for the study of African Economics Oxford.

ARMENDARIZ, B. and MURDOCH, J., 2010. Microfinance beyond Group Lending, Economics of Transition, 8 (2): 401-420

BANERJEE, A. and DUFLO, E., 2009. The experimental approach to development economics annual review of economics 1, 151-178

BARROS, R., 1997. Economic growth in a cross-section of countries quarterly journal of economics, 106: 407-43

BENNELL, P., 1999. Learning to change: Skills development among the economically vulnerable and socially excluded in developing countries. Employment and training paper 43. international labour office. Geneva, Switzerland.

BERENBACH, S., GUZMAN, D., 2004. The Solidarity Group Experience Worldwide

BROWN, W. and CHURCHILL, C., 1999. Providing Insurance to Low-Income Households: Part I: A Primer on insurance principles and products: pages 1-92. Micro-enterprise best practices project, Bethesda MD DAI/USAID

CEEWA, 2003. Impact Assessment of Services provided by MFIs on Different Categories of Clients in Uganda

CHOU, S.Y., LIU, J. T. and HUANG, C. J. 2004, Health Insurance and Savings over the Life Cycle, A Semi parametric Smooth Coefficient Estimation, John Wiley & Sons, Ltd

CHURCHILL, C., 2007.Insuring the low-income market challenges and solution for commercial insurers. The Geneva Papers, 2007, 32, (401–412)

DALEY-HARRIS, S., 2009. State of the microcredit summit campaign report. Washington: Microcredit Summit.

DE MEL, S., DAVID, M, and CHRISTOPHER, W 2008. Are women more credit constrained: Experimental evidence on gender and microenterprise returns." World Bank working paper 4746.

DERCON, S. 2003. Insurance against poverty united nations university, world institute for development economics research (unu wider)

DERCON, S., BOLD, T. and CALVO, C.,2008. Insurance for the Poor

FUWA, NOBUHIKO, 2000. The poverty and heterogeneity among female-headed households.

GIESBERT, L. and STEINER, S. 2011. Perceptions of micro insurance in southern Ghana: The role of information and peer effects, Germany institute of global and area studies, working papers 183/2011.

GRAMEEN BANK, 2000. Annual report on Dhaka, and Bangladesh

GUGERTY, M. K., 2001. You can't save alone: testing theories of rotating savings and credit organizations. Harvard University

GUHA, K, B., AHUJA, R., 2004. extending formal insurance to the informal economy workers in India. World Development, Vol. 28, No. 8, pp.1515-

HSU, M., LIAO, P. L. and LIN, C. C., 2011. Revisiting private health insurance and precautionary saving. Theoretical and Empirical Analysis: National graduate institute for policy studies Tokyo, Japan and Institute of Economics.

HULME, DAVID., 2000. Impact assessment methodologies for microfinance: Theory, experience and better practice, World Development 28(1): 79-98.

IMAI, K. and AZAM, M.S., 2010, Does microfinance reduce poverty in Bangladesh. New evidence from household panel data, economics discussion paper Series, EDP-1019, University of Manchester

IMAI, K. S., THANKOM, A. and ANNIM, S.K., 2010. Microfinance and Household Poverty

KARLAN, D. and VALDIVIA, M., 2009. Teaching Entrepreneurship: Impact of Business Training on Microfinance Clients and Institutions, Working Paper, Yale University

KHANDKER, S. R. 2005. Microfinance and poverty: Evidence using panel data from Bangladesh. The World Bank Economic Review, 19(2), pp. 263-286.

LALONDE, R.J. 1998. The promise of public sector-sponsored training programs.

LOEWE, M. 2006. Downscaling upgrading or linking ways to realize micro-insurance. international social security review, Vol. 59, 2/2006

MAYOUX, L. 2005. Tackling the down side: Social capital, women's empowerment and micro-finance in Cameroon. development and change: 32: 421-450.

McKiernan, S.M., 2002. The Impact of Microcredit programs on self-employment

MFPED, 2006. Poverty status report Kampala .ministry of finance planning and economic development

MORDUCH, J. 2000. Does microfinance really help the poor: new evidence from flagship programs in Bangladesh, New York University

MORSINK, K., GEURTS, P. and DIJK, A. K. 2011, Impact of micro insurance on vulnerability of low income households in the Philippines: The case of typhoon re-housing insurance, igs. CARD MRI and CORDAID, Institute of Governance Studies (IGS) University of Twente

MOSLEY, P. 2009. Assessing the success of micro insurance programmes in meeting the insurance needs of the poor. United Nations Department of Economic and Social Affairs, DESA working paper, No. 84, ST/ESA/2009/DWP/84, http://www.un.org/esa/desa/papers

MOSTAQ, A., 2003. Evolution of saving products at AS; Micro banking bulletin

MUHAMMAD, Y., 2008. Micro credit outreach to the millennium development goals internationally: Attacking poverty with Micro credit, Dhaka, Bangladesh

NCAER, 2008. Impact and Sustainability of SHG Bank Linkage Programme. Working Paper, NCAER. New World of Microenterprise Finance. Kumarian Press, USA.

NICOLA, F. D. 2011. The Impact of Weather Insurance on Consumption, Investment, and Welfare, Job Market Paper, Johns Hopkins University

OLUJIDE J.O. 2007. Youth entrepreneurship empowerment through poverty eradication schemes in Nigeria, management dynamics, southern African institute of management scientist

PITT, M. M. and KHANDKER, S. R., 1998. The Impact of group-based credit programs on poor households in Bangladesh: Does the gender of participants matter, Journal of Political Economy, 106(5): 958–96.

Vogel, R.C., 2004. Savings mobilization: The forgotten half of Rural Finance in understanding Rural Development Credit, ed D.Adams

ROSS, and MALLICK., 2002. Implementing and Evaluating Micro-credit in Bangladesh. Development in Practice 12(2): 153-163.

SAAID, M. 2006. Poor bank experience. Beirut Arab Scientific Publication, INC

SANDRA NOWLAND, FOREMAN. 2001. Micro-Finance at Its Best, Council for International Development Resources Kit

SCHREINER, M. and COLOMBET, H. 2001. From Urban to Rural: Lessons for Microfinance

SCHULER, S. R., HASHEMI, S.M. and RILEY, A.P., 1997. The influence of women's changing roles and status in Bangladesh's fertility transition: Evidence from a study of credit programs and contraceptive Use. World Development, 25(4): 563–76.

THOMAS F, and SRIRAM M.S., 2002. Beyond micro-credit, Putting development back in to Miro-finance, vistaar New Delhi

UGANDA BUREAU OF STATISTICS, 2009. Annual Report

UNDP, 2008. Midterm outcome evaluation of poverty reduction program, 2006/2007 final report

WRIGHT, G.A.N., et al 2002. Vulnerability, risks, assets and empowerment: The impact of microfinance on poverty alleviation, Micro-Save-Africa & Uganda Women’s Finance Trust, Kampala

YAWE A, (2001) Engendering microfinance services beyond access, capital, assets, loans: Council for economic empowerment for women of Africa (CEEWA-U) kikalu evaluation report.

Appendixes I: Household Survey Questionnaire

The study is conducted by Okaba Simon a student of Uganda Martyrs University in the Department of Business Administration and Management. The study will result into a dissertation report, which is a partial fulfillment for the award of Degree of Business Administration and Management. This study is about the relationship between microfinance credit and capital formation in women headed household. You have been selected because you are a resident and as a researcher: I am requesting you to give me information on the topic. The data collected shall be treated with utmost confidentiality and anonymity. Thank you in advance

A Section A: Background Information

1. District……………. 2. Town Council/Sub-county……………..

3. Location 1. Rural ………… ……. 4. Urban…………………………………

Household Bio Data

NO	**Sex** 1. Male 2. Female	**Age** 1.(18-24) 2.(25-34) 3.(35-50) 4(above50)	**Marital Status** 1. Single, 2.Divorced/separated 4.Widowed	**Education** 1. Primary 2. Secondary, 3.Certificate 4. Diploma, 5. Degree 6. Other (specify)
1				
2				
3				
4				
5				
6				

Assessing the relationship between microfinance credit and asset accumulation

Select one of the options:

1 strongly agree, 2 agree, 3 disagree, 4 strongly disagree

Select one of the option	1	2	3	4
Microfinance credit leads to asset accumulation				
Microfinance credit leads to increase household welfare				
Microfinance credit promotes investments capacity for poor households				
Microfinance credit leads to increased living standards of households e.g. on medical care, education, and feeding				
Microfinance credit led to expansion of my business				
Microfinance credit led to the growth of my business leading to self employment				

How has microfinance credit helped you in regard to asset accumulation in your household?

……………………………………………………………………………………………………

……………………………………………………………………………………………………

Did the credit you borrowed help in accumulating further capital in your household?

……………………………………………………………………………………………………

……………………………………………………………………………………………………

Assessing the relationship between microfinance training and empowerment of women headed households. Select one of the options:

1 strongly agree, 2 agree, 3 disagree 4 strongly disagree

Select one of the option	**1**	**2**	**3**	**4**
Microfinance training leads to self confidence and independence in decision making				
Microfinance training leads to development of entrepreneurial skills and basic knowledge in business development e.g. accountability, bookkeeping etc				
Microfinance training leads to exposure to risk management skill and competitive market ventures forces for business growth.				
Microfinance training leads to the development of new ideas for investments				
Microfinance training lead development of social capital which promotes the mobility for economic development.				
Microfinance training also leads to increased awareness on profitable investments				

How did the training you got help you in running your business?

……

……

How did training lead to capital formation in your business/ household

……

……………………………………………………………………………………………………..........

Assessing the relationship between microfinance Insurance and capital formation in women headed households. Select one of the options:

1 strongly agree, 2 agree, 3 disagree 4 strongly disagree

Select one of the option	**1**	**2**	**3**	**4**
Insuring of borrowers is a good innovation introduced in microfinance institutions				
Microfinance insure it's borrowers from uncertainty like theft, fire etc				
It promotes high level of confidentiality in business operation since compensation is guaranteed incase of uncertainties				
Microfinance insurance was one of the motivating factors for me to borrow				
The borrowers credits are insured from any uncertainty especially for those dealing in perishable goods				
Microfinance insurance up lifts the standard of living of the borrowers through medical insurance.				
Microfinance insurance promotes household welfare hence facilitating capital formation				

How did microfinance insurance impact on household wellbeing and capital accumulation?

……………………………………………………………………………………………………

………………………………………………………………………………………………

How microfinance insurance help you in your business

……………………………………………………………………………………………………

……………………………………………………………………………………………

The relationship between microfinance saving scheme and capital formation in women headed households. Select one of the options:

1 strongly agree, 2 agree, 3 disagree 4 strongly disagree

Select one of the option	1	2	3	4
Microfinance saving scheme helped me to save more money for big investments				
Microfinance saving scheme have helped me to save more money hence smoothing of household standard of living				
Microfinance saving scheme act as security for borrowing for group members for investments				
Microfinance saving scheme is mandatory in group formation in order to be eligible for loans				
Microfinance saving scheme leads to formation of capital at household for purchase of assets				
Microfinance saving helps to reduce on household borrowing at high interest rates and selling of a sets at a giveaway during hardships				

How has microfinance saving schemes helped you in your business growth?

…………………………………………………………………………………………………

…………………………………………………………………………………………

How did your participation savings lead to capital formation in your household?

…………………………………………………………………………………………………

……………………………………………………………………………….........................

General questions for households

1. What type of loan/credit did you access?

1. Group loan ☐ 2. Individual loan ☐ 3. In-kind loan ☐

2. Which factors made you eligible for the loans?

1. Group ☐ 2. Experience ☐
3. Collateral ☐

3. What problems do you face in running you business?

1. Price fluctuations ☐ 2. High interest rates ☐ 3. Size of the loan ☐
4. Inadequate training ☐ 5. Inadequate capital ☐
6. High transport costs ☐ 7. Short time of pay back ☐

4. What problems did you meet in accessing the credit facility?

1. High cost ☐ 2. Lack of Collateral security ☐ 3. Loan delay ☐
4. Long distance from the facility ☐ 5. Corruption and bribery ☐

5. In this household, who decides where to invest the credit facility?

1. Woman ☐ 2. Whole family ☐ 3. Credit institution ☐

6. Did the Credit facility require any security or collateral?

Yes ☐ No ☐

If yes for (Qn4), what kind of security?

1. Group security ☐ 2. Initial Savings ☐ 3. Land title ☐

7. Why did you get the credit facility from the above organization?

1. For Business ☐ 2. For Personal use ☐ 3. Buy household necessities ☐
5. For Education ☐ 6. For Health ☐

8. Did you use the credit facility for the planned activity or business?

1. Yes ☐ 2. No ☐

9. Did you get any training from any organization or person before accessing/using the loan/credit?

1. Yes ☐ 2. No ☐

10. If yes still for Qn9, what type of training did you get?

1. Business skills/book keeping ☐ 2. Marketing and customer care ☐

3. Loan servicing ☐

11. In you view, is there a relationship between microfinance credit and capital formation in your household after using the facilities?

1. Yes ☐ 2. No ☐

12. How do you rate your household wellbeing in relation to other women who have not accessed microfinance credit facilities?

1. High ☐ 2. Moderate ☐ 3. Low ☐

13. In your view, what suggestions do you give to improve on credit utilization so as to enhance household capital formation?

……………………………………………………………………………………………………
………………………………………………………………………………………

14. In your view, what can be done to improve on the operational and organizational capacity to effectively run your business? ………………………………………………………………
……………………………………………………………………………………………………

Thanks for your time and data.

Appendix II: Key Informants Guide

1. Which benefits did you realize from utilizing microfinance services?
2. What factors help you to save as necessity for group to access credit form the institution?
3. Which benefits did you gain from the saving you made?
4. How did you saving impact on you business are?
5. Are the interest rates charges high or good for you?
6. Did you get any training related to the utilization of the credit?
7. How did micro insurance affect you household standard of living?
8. What effects did you realize as a result of using micro insurance?