THE ROLE OF MICROFINANCE INSTITUTIONS ON POVERTY ERADICATION ON THE RURAL POOR IN UGANDA. A CASE STUDY OF OLEBA SUB COUNTY UNDER OLEBA SACCO IN MARACHA DISTRICT

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DEDICATION

I dedicate this research report to my dear lovely father Mr. KILIOPA EGAKU who generously supported me in all my academic endeavors to ensure that there is a success.

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This work is what it is because of the support of various people. In that respect, I would therefore, wish to acknowledge the marvelous contribution of the following people;

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It is my prayer that, The Almighty God Blesses and Rewards all the mentioned categories according to his abundant riches in heaven.

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LIST OF ABBREVIATIONS

ILO	-	International Labor Organizations
IMF	-	International Monetary Fund
MFIS	-	Micro Finance Institutions
NGOs	-	Non Government Organizations
PEAP	-	Poverty Eradication Action Plan
SACCO	-	Savings and Credit Cooperative Society
UN	-	United Nations
IFAD	-	International Fund for Agricultural Development
PMA	-	Plan for Modernization of Agriculture
CIDA	-	Canadian International Development Agency
DFID	-	Department for International Development
PAHNAL	-	Patronato del Ahorro Nacional – Mexico's state owned saving institute
MFPED	-	Ministry of Finance Planning and Economic Development

ABSTRACT

The study looked at "The role of microfinance institutions on poverty eradication on the rural poor in Uganda a case study of OLEBA Sub County under OLEBA SACCO in MARACHA District". The research has been carried out with the following objectives:

- To assess the impact of loans on poverty eradication in MARACHA District.
- To examine the effect of advisory services on poverty in MARACHA District
- To assess the effect of keeping people's savings on poverty e eradication in MARACHA District.

The data collected was aided by documentary review that guided the design of the questionnaire and the brief interviews carried out during the process. There was a high response rate of where 69% of Oleba SACCO members who were issued questionnaires while the non response rate was 31%. 68% of the respondents were males and 32% were female.

Most of the members were mature enough with 48% of the members aged between 36-45years, 20% aged between 25-35 years, and 24% aged between 46 and above years. Most the respondents were educated 24% with certificates 56% diploma, 19% with degree and non with masters. 29% of the respondents had stayed in Oleba SACCO for 2-5 years, 62%, 5-10 years and 9%, for more than 10 years.

In conclusion credit and saving schemes have contributed to the improvement of member's welfare. This is evidenced where most of the respondents 67% revealed that it has positively impacted their wellbeing and improved their financial positions in communities and families.

Therefore, the researcher recommended that in the poverty strategy, there has to be vigorous efforts to bring the poor on board, by their nature as SACCOs grow they need to recruit services

of professional management and in most cases conflicts arise on whether they maximize their own utility or value for the owners.

CHAPTER ONE

1.0 INTRODUCTION

This chapter consists of the introduction giving the details of the background to the study, statement of the problem, purpose of the study, research objectives, research questions, hypothesis, conceptual framework, and scope of the study, significance of the study justification and definition of terms.

1.1 Background of the study

Microfinance institutions (MFIs) include local or foreign non government organizations (NGOs) who fill the gap created by the closure of banks. These NGOs with mission statements targeting the poor provided mainly credit in cash as opposed to previous interventions that provided in puts.

Poverty is a broad multifaceted and multidimensional concept that involves the economical, social, political and environmental well-being of the people. It is difficult to provide a single absolute and standardized definition of poverty rather than defining it in relative terms. Different authors provide different definitions of poverty; the widely used definition is indicated in the World Bank Development Report (1990) as follows: poverty means a shortage of having enough to eat, a low life expectancy, a high rate of infant mortality, low educational standard, enrollment and opportunities, poor drinking water, inadequate healthcare, unfit housing conditions and lack of active participation in decision making process.

Much as the government also runs some credit programs such as "ENTANDIKWA "and "YOUTH ENTREPRENEURSHIP SCHEME", The medium term competitiveness strategy for the private sector (2000) underscored the need for the government to divest itself from direct credit delivery and leave it for the private sector. The government would play the role of policy formulation and provision of an enabling environment for private sector delivery of micro finance to the poor in a sustainable way

Poverty Eradication Action Plan (PEAP) identified the micro finance sector as the engine of growth for the poor, where they can access both production and consumption credit (MFPED 2001).

Otero (1992) argued that financially stable micro finance institutions with high outreach have a greater likelihood of having a positive impact on poverty alleviation because they guarantee sustainable access to credit by the poor.

Navajas et al (2000) argue that the major goal of micro credit is to improve the welfare of the poor as a result of better to small loans. More so, Diagne and Zeller (2001) say that lack of adequate access to credit to the poor may have negative impacts on various houses hold level outcomes including technology adoption, agriculture productivity, food security, nutrition, health, and the overall welfare. Poverty eradication has been a key development challenge over decades. One of the identified key constraints facing the poor is lack of formal sector credit accessibility to enable the people take advantage of economic opportunities to increase their level of output, hence move out of poverty. This concern has been responsible for the design of various financial policies ranging from regressive to liberalization policies with conflicting prescriptions.

In Uganda, the issue of importance of improving access to the poor was identified as a key development strategy right from 1960s. The formal banks that were inherited from the colonial government were judged to be serving the trade sector and neglecting the agricultural sector that is the backbone of Uganda's economy employing over 80% of the population especially in the rural sector. This gap motivated the government to set up state owned banks like the former Uganda commercial bank whose aim included provision of credit to the rural sector including agricultural credit. This was under the policy of allocation of credit and controlled interest rates in sectors which were administratively fixed by the central bank (Muwanga 2000). The credit to the poor engaged in agriculture was extended mainly in kind though the supply of productive inputs like fertilizers, high yielding seeds and tractor hire services under special bank schemes like rural farmer scheme.

1.2 Statement of the problem

Developing counties are working to create their own national poverty reduction strategy based on the local needs and priorities. UNDP advocates for the nationally solutions and helps to ensure their effectiveness by creating innovative pilot projects, connects countries to global best practices and resources, promote the role of women in development and bring governments, civil society and donors together to coordinate their efforts (UNDP,2003).

Financial institutions usually are set up to provide financial services to people so as to improve on their incomes (MFPED 2000) so as to improve their livelihood. According to PMA (2006) only 11.4% of the rural households had ever accessed or used financial services from financial institutions, disapproving an earlier study by IFAD (2003) that reported 10% of the rural poor accessing financial services. Thus the researcher wishes to find out why the financial services despite the existence of various financial institutions have not benefited the rural poor in Uganda.

1.3 Purpose of the study

The study is intended to examine the impact of micro financial institutions on Poverty Eradication in rural areas specifically in Oleba Sub County in Maracha District.

1.4 Research objectives

1.4.1 Broad objective

To examine the role of micro financial institutions on poverty eradication in rural areas specifically Oleba sub county in Maracha District.

1.4.2 Specific objectives

(i) To assess the impact of loans on poverty eradication in Maracha District.

(ii) To examine the effect of advisory services on poverty in Maracha District

(iii) To assess the effect of keeping people's savings on poverty e eradication in Maracha District.

1.5 Research questions

(i) Does loan provision help to reduce poverty in Oleba sub county Maracha District?

(ii) Does saving people's money help to reduce poverty from the people of Maracha District?

(iii) Does insurance help the poor to eradicate poverty in Maracha District?

1.6 Hypothesis

* Loan provision helps to reduce poverty in Maracha District.
* Saving people's money helps to reduce poverty in Maracha District.

1.7 Scope of the study

1.7.1 Subject scope

The study was to investigate the role of micro financial institutions on poverty eradication on the rural poor in Uganda.

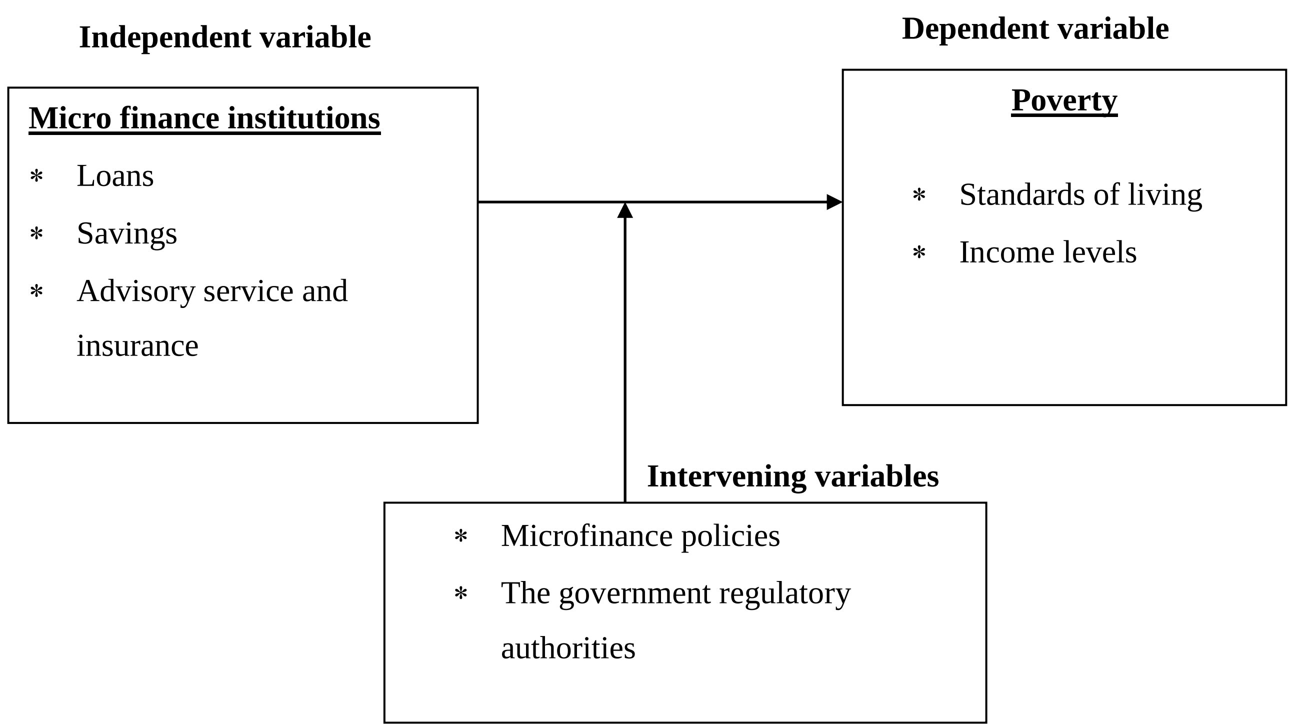
1.7.2 Geographical scope

The study was conducted in Oleba Sub County and is to capture three villages that is; Paranga L.C 1 Retriko L.C 1 and Etoko L.C.I in Oleba Sub County in Maracha District. The researcher chose the areas because of easy accessibility to information required.

1.7.3 Time scope

The study focused on the period between 2013 and 2014.

1.8 The conceptual frame work



Source: From literature review

1.9 Significance of the study

The study was paramount as it helped people find out the roles played by the microfinance institutions available in the area. These microfinance institutions include Ocema Credit Scheme and Oleba SACCO Ltd. The study helped to guide the future researchers to get the relevant information thus it would act as a guiding tool for reference. To the researcher, the study was a partial fulfillment of the requirement of the award of a bachelor's degree of Business Administration and Management of Uganda Martyrs University.

CHAPTER TWO

THE LITERATURE REVIEW

2.0 Introduction

This chapter reviews literature related to the subject under study. The researcher is to review according to the objectives of this research. These include examining the role of loans on poverty eradication, the role of saving on poverty eradication and the impacts of advisory services on poverty eradication on the rural poor.

2.1 Poverty overview

Before assessing the impact of any institution on poverty, it is important to understand the concept of poverty and its relative definitions.

The issue of poverty raises a lot of concern worldwide. World Bank Report (1990) defines poverty as the inability to attain a minimum level of standard of living. World Bank considers income and expenditure per capita to be adequate yard stick of measuring the standards of living and hence classify those who fall under or above the minimum level of living as poor and non-poor respectively.

The Government of Uganda on the other hand, defines poverty as a situation of perpetual need for daily necessities of life such as food, clothing, and shelter (population census, 2003). Other poverty definitions however refer to another dimension of lack of socio economic, cultural or other values that an individual, house hold or community holds important for their existence survival or wellbeing.

The definition of what is meant by poverty and how it is measured and who constitute the poor are fiercely contested issues. In the poverty debate, stands the question whether poverty is largely about material needs or it is about a much broader set of needs that permit well-being. According to CIDA (2005) Poverty has a multiple and complex causes.

The poor are not just deprived of basic resources. They lack access to information that is vital to their lives and livelihoods, information about market prices for the goods they produce, about health, about the structure and services of public institutions, and about their rights. They lack political visibility and voice in the institutions and power relations that shape their lives. They lack access to knowledge, education and skills development that could improve their livelihoods. They often lack access to markets and institutions, both governmental and societal that could provide them with needed resources and services. They lack access to and information about income-earning opportunities" (see, CIDA: November 2005:14: ICTs for Poverty Alleviation). In order to discuss microfinance as a tool for poverty alleviation, it is important to understand the concept of poverty both at a micro and a macro level. It is not enough to define poverty in terms of basic needs only because this is likely to omit other important components therefore focusing at poverty as a single sided problem. It is necessary for microfinance institutions (MFIs) to embrace broad aspects of economic development.

There are many meanings of, as well as debates about the exact numbers of the poor. It is useful to distinguish between three degrees of poverty; extreme poverty, moderate poverty, and relative poverty. Extreme poverty means that households cannot meet basic needs for survival. They are chronically hungry, unable to access health care, lack the amenities of safe drinking water and sanitation, cannot afford education for some or all of the children, and perhaps lack rudimentary shelter- a roof to keep rain out of the hut, a chimney to remove smoke from the cook stove- and basic articles of clothing such as shoes. Moderate poverty generally refers to conditions of life in which basic needs are met, but just barely.

Relative poverty is generally construed as a household income level below a given proportion of average national income. The relatively poor, in high-income countries, lack access to cultural goods, entertainment, recreation, and to quality health care, education, and other perquisites for upward social mobility (IFAD, 2004 and Alcock, 2005) defined poverty as an income level below a socially acceptable minimum.

This definition poses a problem of finding out “the acceptable minimum.” The World Bank uses US $ 1 a day for an individual (UXG 1800) and defined this state as extreme poverty, and living on less than $ 2 (UGX 3600) a day as moderate poverty. These definitions do not recognize the rural economies where people do not need to spend in monetary terms but meet their basic necessities through other means that may not be easily monetized.

IFAD (2004) argued that in order to understand poverty a simple distinction can be drawn within the group “ the poor” between the long-term or ‘chronic poor’ and those who temporarily fall into poverty as a result of adverse shocks, the ‘transitory poor’. Within the core poor, one can further distinguish between those who are either so physically or socially disadvantaged that without welfare support they will always remain in poverty (the destitute) and the larger group who are poor because of their lack of assets and opportunities. Furthermore, within the non-destitute category one may distinguish by the depth of poverty (that is how far households are below the poverty line) with those significantly below it representing the ‘core poor’, sometimes categorized by the irregularity of their income.

Poverty is a global phenomenon; 75% of the world’s 1.2 billion extremely poor live in rural areas but inadequate attention is being given to rural poverty reduction. Rural poverty must therefore be given special attention if the struggle against poverty is to succeed (IFAD, 2001;

PEAP, 2005 and Kabban et al. 2004), presented poverty in a Ugandan context as covering three aspects: Low incomes, limited human development and limited empowerment.

They looked at people's incomes, the levels of education and how they are empowered. They observed that poverty in Uganda's case Poverty is taken to mean a lack of basic needs and services such as food, clothing, shelter, basic health care, education, markets, roads, information and communication. Lack of adequate productive assets such as land, poor access to credit and other inputs, a situation of powerlessness and social exclusion are other dimensions of poverty. Often, lack of adequate productive employment opportunities is a major cause of poverty, and this is reflected in income and other measures of poverty.

Alcock ,(1997) affirms that poverty is a political problem, and therefore the nature of the problem is the result of the particular context within which it has developed. This inevitably means that discussion of the extent of poverty largely takes place within one particular political context, usually within one country, and that comparison of poverty across national political boundaries cannot easily be undertaken. In this case, poverty as defined from the Uganda perspective is adopted.

World Bank Development Report (1990) states that poverty is a strong determinant of the other conditions of the poor. Poverty contributes to physical weakness through lack of food, small bodies, and malnutrition. There are inability to pay for health services, to isolation because of inability to pay school fees for children to go to school, to vulnerability through lack of assets to pay expenses or to meet contingencies and powerlessness because of lack of wealth goes with low status.

The physical weakness of a house hold contributes to poverty in several ways: through the low productivity of weak labor through an inability to cultivate larger areas or work long hours, through lower wages paid to women and to those who are weak. It sustains isolation because of lack of time or energy to attend meetings.

Isolation (lack of education, remoteness, being out of contact) sustains poverty, services do not reach those who are remote, illiterates cannot read information of economic value, and find it difficult to obtain loans. Isolation means lack of contact with political leaders and therefore misses government development policies.

Vulnerability is part of the many links. It relates to poverty through the sale or mortgage of productive assets, to physical weakness because to handle contingencies, time and energy have to be substituted for money, to isolation through withdrawal.

Powerlessness contributes to poverty in many ways, not least through exploitation by the powerful. It limits or prevents access to resources from the state, legal redress for abuses and ability to dispute wage or interest rates, and only feeble influence on government to provide services for the poorer people and places. They are powerless to demand what is meant for them and cannot attract government aid, schools, good staff or other resources.

2.2 Microfinance

According to Otero (1999), micro finance refers to the provision of financial assistance to low income poor and very poor self-employed people. These financial services according to ledger wood (1999) generally include savings and credit though the can also include other financial services such as insurance, and payment services.

Schreiner and Colombet (2001), define micro finance as the attempt to improve access to small deposits and small loans for the poor households neglected by banks. Therefore micro finance involves the provision of financial services such as savings, loans and insurance to the poor people living in both the urban and rural settings who are unable to obtain such services from the financial sector.

Micro finance has for many years been viewed as an important tool for poverty reduction by providing clients with needed capital to take advantage of economic opportunities that allow them to diversify and increase their sources of income. Micro finance and informal sector activities play an important role in protecting population segments against vulnerability. It allows them to build assets upon which they can draw during periods of economic downturn or crisis to smooth out dips in income, and maintain consumption levels for food and other services, like education and health care (Martin Greely, 2003). Microfinance is a source of capital development through the provision of small loans and savings facilities (The World Bank, 1999; CIDA, 2005; IMF Country Report- Uganda, 2005; UN, 2004) defined Micro Finance as the provision of a broad range of financial services to poor, low income households and micro enterprises that usually lack access to formal financial Institutions. Such services include the provision of small loans, saving, insurance, transfer services and other financial products for micro enterprises, agriculture, educational and consumption purposes as well as housing.

Micro finance involves financial activities conducted outside the formal financial system, with much smaller transactions than the formal financial sector. MFIs evolved out of the realization that a large proportion of economic activities are done by farmers, fishermen, Micro entrepreneurs and casual income earners, most of whom have limited or no access to formal financial services. The enterprises are small both in size and capital outlays, but comprises a very vital economic force in the development process. It is this sector that provides employment and income to the rural and urban poor, and leads to the production of basic goods and services used by low-income people (Kabban, Adrine, Krishnamurty & Daisy, 2004).

Ganesha (2004) views micro finance programs as a vehicle with potential to build local institutions and empower the poor, especially women. Facilitating women's access to independent income and financial services, providing cohesive structures of support through solidarity groups, and promoting self-employment, all enhance women's status in the family and their control over family resources. Such schemes promote the family's well-being, thus proving to be an important strategy to reduce poverty. According to Katantazi and Nasasira (2001), Micro Finance has existed in Uganda for a long time in informal ways as self- help groups, cooperative unions and recently in forms of specialized institutions mandated with a task of manifesting and enabling the accessing of micro finance services by the poor who have hitherto been neglected by default or otherwise, by private formal institutions and government.

The Gou-PRSP, (2005-2008) has identified Micro Finance as a tool that will enhance financial deepening because financial institutions outreach to the rural areas specifically by the formal institutions is limited. As much as efforts are under way to encourage rural outreach by the formal banks, the socio-economic and cultural set ups in the rural areas do not favor the formal banking system because most rural clients are not bankable. To this extent, the micro finance institutions law was enacted in April 2003 to allow soundly managed and well- capitalized MFIs to intermediate resources in the rural areas. The defined legal status of these MFIs now puts them into a position that should forge links with the formal banking system. With the legal status of the micro finance deposit taking institutions now clearly defined, it is expected that the formal sector will increase their transactions with these institutions (MFIs). MFIs are expected to act as retail institutions for both deposit taking and loan extension to rural areas than the formal banks.

The role of the banks will be to wholesale both deposit taking (encouraging savings) and credit extension (loans) to the MFIs. Such a linkage should increase the provision of financial services to the rural areas (IMF 2000). The goal of micro finance is to improve the outreach of financial services to more of the poor, and poorest (CIDA, 2005).

2.3 Micro finance services

The provision of micro finances focuses on the three dimensions of poverty alleviation. These are centered on the terms "promotion" (promotion of individuals and households out of poverty) and protection of the people from vulnerability because of fluctuations of income, Rogaly (1999). Sinha (1998) states that micro credit refers to small loans whereas micro finance is appropriate Where Non Governmental Organizations and Micro finance Institutions supplement the loans with other financial services such as savings, advisory services, and insurance. Therefore, micro credit is the component of micro finance as it involves providing credit to the poor. However, services such as savings, pensions, and payment services.

Microfinance Institutions offer enterprise development facilities through assisting people, individually and in groups, to access financial services to start and grow enterprises which can sustain them and their families above the poverty line.

This is mainly done through the provision of access to micro credit services for building up self employment in form of loan at interest free, low interest and market rates (Rogaly 1999). Making intensive credit available to the poor has been key to breaking the vicious circle of poverty, low productivity, and low savings thus overcoming poverty.

They also offer loans for consumption and asset development which help the beneficiaries to build up asset bases for their families or consume certain products that they would not have consumed if they were earning low incomes. These include; transport, meals, and weddings.

This can be enhanced through encouragement of savings especially using low or no fee small deposit saving account. Saving is at least important if not more than loans in efforts to accumulate resources (Shreiner and Morduch, 2001).

Savings are financial assets that the poor can accumulate against emergencies and long term needs. Insurance and income protection services; these are also offered such that the people protect themselves from income fluctuations and become financially protected from life misfortunes such as illness, death, and accidents. Through insurance, by braising of distress funds and forming of small scale insurance cooperatives, the MFIs can assist individuals and groups to become more financially secure.

The savings also can act as guarantee against loans and are mandated payments for emergencies.

Other micro financial services offered by MFIs include; provision of financial literature by training people to develop basic financial competencies which can be used to guard their assets from being eroded by misusing the already available resources.

2.4 Loans

Loans are small amounts of money loaned by a bank or other institutions, to an individual or group, often without collateral (UN 2004). Loans can assist the poor in building assets and ‘smoothing’ the up-and- down nature of their income and can assist in converting very small, irregular incomes into a large lump sum which can augment livelihood and reduce vulnerability (Umrabulo,2005,DFID , 2001). PEAP, (2005) noted that Loans are essential for investment as they lead to increased income and for consumption smoothing in lean periods.

Atieno, (2001) while quoting Hossain, (1988), observed that the provision of loans has increasingly been regarded as an important tool for raising the incomes of rural populations, by mobilizing resources to more productive uses. As development takes place, one question that arises is the extent to which credit can be offered to the rural poor to facilitate their advantage of the developing entrepreneurial activities. The generation of self-employment in non-farm activities requires investment in working capital. However at low levels of income, th accumulation of such capital may be difficult. Under such circumstances, loans, by increasing family income can help the poor to accumulate their own capital and invest in employment-generating activities.

2.5 Savings

Savings services are needed by people to protect their incomes and to serve as an alternative to the assumption of debt (A kanji, 2005 and Binns, 2001). Savings are a requirement for borrowing by some credit unions because they encourage financial discipline among borrowers and provides funds for on-lending which substantially increase the depth of outreach of micro finance (Lashley, 2005)

Seibel et- al. (2005) and Lennart (2004) supported the idea of savings that they are the core of self–help and self- reliance, especially among women who are less risk-prone and more savings-oriented than men. Easy and convenient deposit facilities and collection services in the vicinity are the most important services for enterprise development and poverty alleviation. With savings available to them, the poor are able to accumulate cash surpluses which could be turned into productive assets and make a significant contribution to household livelihood strategies. Cash surpluses can also create a barrier for the foreseen expenses of the future, thus reducing vulnerability to debt traps (Umrabulo, 2005; Seibel, 2000 and DFID, 2000).

Millions of rural poor do not have access to the basic savings and credit services that most people take for granted. This makes it much harder for the poor to rise out of poverty. Traditional ways of saving, such as putting money into livestock, can leave the poor in a weak position when they need funds. Liquid cash is far more convenient. The rural poor need access to micro saving facilities so that they can deposit money when they have it after selling their harvested crops.

Such basic facilities could help to smooth out consumption over the year and make the poor less vulnerable. A deposit account can help the poor to obtain insurance, giving a sense of security, and it can help them to take a loan when they need it. Credit facilities are generally not extended to the rural poor even for highly productive activities, because they have few or no assets to offer as collateral.

Savings are very important to poor people, but without a safe place to keep their money, they are vulnerable to losing their valuable savings. The need to find a safe place to keep savings is so strong that poor people are willing to pay others to take on the responsibility (IFAD, 2005).

Gustavo and Joao (2002) note that credit is only one of the many different products that MFIs are able to provide to those traditionally excluded from the financial sector. Savings, deposits and money transfers, can also play an important role in helping the poor manage their shocks, and to increase their income. A study on the expansion of PAHNAL, a Mexican Savings Institute targeted to low-income clients, revealed that when provided with credit and liquid savings instruments, households can increase their savings rates up to five percentage points- and by almost seven percentage points in the case of some of the poorest ones.

Eileen et al., (2005) noted that savings are both forced and voluntary. MFIs require that borrowers deposit savings to collateralize loans. These deposits sometimes called forced savings or compulsory savings, generally cannot be withdrawn at will during a loan cycle and sometimes cannot be withdrawn until a client exits. Forced (or compulsory) savings can be adapted so that clients have access to their savings at specified (but limited points) during the loan cycle or following a natural disaster. Allowing clients to withdraw savings at certain times of the year or agricultural season when income is scarce, or when a disaster has occurred can help mitigate the impact of a disaster. There is need for voluntary savings. Generally clients feel a cash crunch during times of crisis. They may hesitate to increase their debt burden in an uncertain disaster stricken environment. Rather, they may wish to decrease their debt burden by paying off a loan, or prefer to find the additional expenses from cash as opposed to more debt. Providing access to voluntary savings products therefore, is one of the best ways to assist clients in smoothing out consumption expenses by allowing them to save money when they have extra, and then permit ready access to it when they need it, M Otero; (2005).

Unlike compulsory savings, voluntary savings are linked to loan approvals and repayments. With compulsory savings, institutions typically dictate the condition under which the clients may withdraw their savings, while voluntary savers usually have access to their savings as and when needed. Compulsory savings may be offered through groups or to individual, while voluntary savings is a strictly individual product. While the mobilization of savings seems an attractive way to find expansion of the loan portfolio and meet clients' needs, they place an incremental burden on operating systems and management. These include developing additional teller facilities and systems for safe keeping, treasury management, maintaining savings ledgers, and developing state-of-the art accounting system.

Given their volatility, and the likelihood that deposits and withdrawals will be made in large clusters, voluntary savings products require significantly greater management capacity than compulsory savings products. The more client-friendly a product is, the greater the management capacity required.

In the case of a calamity, there may be a high level of withdrawals of voluntary savings. To prepare for liquidity shortages, MFIs can negotiate stand-by lines of credit in advance with a local commercial bank, or with a neighboring MFI, New York Times; 1997.

Experience has shown however, that MFIs offering voluntary savings products have not experienced massive withdrawals of savings, especially following natural disasters. Clients may still withdraw some of their savings but may also choose to maintain their savings and take out emergency loans instead. For MFIs that have uncertain capital resources, lack treasury management skills, or have insufficient accounting structures, offering voluntary savings products is not recommended.

2.6 Insurance

Insurance is a system by which people; businesses and other organizations make payments to share risks. Access to insurance enables entrepreneurs to concentrate on growing their businesses while mitigating other risks affecting property, health or the ability to work. Insurance protects both the institution and borrower. Life and hospital insurance are for example important tools of loan protection for the institution and of individual risk management for household (UN, 2005; and Seibel et al. 2005). Micro insurance on the other hand is the protection of low income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved (Sander, 2000; Ahmed et al., 2005; McCord, 2005; Umrabulo, 2005; and DFID, 2000).

Insurance allows a lump sum to be received at some specified future time if needed in exchange for a series of savings made both now and in the future. Insurance also involves income pooling in order to spread a risk between individuals, on the assumption that not all those who contribute will necessarily receive the equivalent of their contribution (DFID, 2001). Insurance enables a client to make premium payments towards a fund. In the event of a predetermined crisis, the client will have access to payment from the fund.

Generally speaking, the successful introduction of insurance products demands that events ensured against are not subject to covariant risks. This means that the insurance policy does not cover a risk that affects many of the policy holders at the same time (Eileen M, 2005).

2.7 Financial Skills

Gupta et al (1997) explained that financial characteristics of an investment proportion have a significant impact on the acceptability or otherwise of a project. The purpose of financial analysis is to identify these characteristics and to determine the financial feasibility of a project. Such analysis involves estimates about project costs and revenues and the funds for the project.

The purpose of financial analysis is to present some measures to access the financial viability of the project. A preforma balance sheet for the project data should be presented. Depreciation should be allowed on the basis specified by the bureau of public enterprises. This implies that Micro Finance clients badly need financial skills for them to be able to utilize Micro Finance services.

Khander and Shahidur, (1988) observed that the sources of the success of micro credit are also the sources of its weaknesses. Micro credit is self-targeting and hence cost-effective. But not all rural poor are able to benefit from micro credit programs. Utilizing loans in productive activities requires entrepreneurial skills that most people lack. Micro credit programs must target only those poor who have some ability to initiate activities with great potential but lack capital.

Micro credit also suffers from its limited ability to increase the size of the loan per borrower because of the limited capacity of borrowers to absorb the loans and level of capitalization of MFIs. (Eileen et al., 2005 and Marcus et al., 1999) noted that training in business skills to assist clients to diversify business opportunities is very crucial to people who need to establish investments.

This however can create significant expenses for the institution. MFIs need to ensure that they are able to cover the costs of these additional services by either charging for cost-recoverable skills training, raising interest rates or partnering with other institutions that can provide these services at no additional cost to the institution.

Binns, (2001) and Seibel et al (2005) argued that MFIs should follow a credit-plus approach in addition to loans. A little initial training either to inform customers of their responsibilities or as part of screening process is needed by borrowers. Therefore, provision of entrepreneurial services to the poor, helps to improve their human capital, and enables to engage in rewarding economic activities (IFAD, 2002).

Provision of entrepreneurial services to improve the poor’s’ human capital enables them to engage in rewarding economic activities (IFAD, 2002). However, where the costs of such services are passed on to the participants, the costs of borrowing can be inflated unnecessarily, unfairly penalizing people who only want financial services. Combining financial services with training, education or other components is also viewed as compromising micro finance, giving a signal that really these services are charitable activities and that borrowers do not need to repay. It may also overstretch an organization that really has the capacity to provide one type of service (Marcus et al., 1999).

2.8 Microfinance and poverty

The majority of the poor in Uganda especially women lack access to the basic financial services which are essential for them to manage their lives. The poor are excluded from the opportunities of financial services than the informal alternatives that are considered unsuitable

Microfinance is therefore considered as a vital tool to break the vicious circle of poverty which is characterized by low incomes, low savings and low investment. According to Hulme et al (1996) most institutions regard low-income households as “too poor to save”. In order to generate higher incomes, savings and more investment, there is need to inject capital in the form of microfinance.

However capital is only one ingredient in the mix of actors necessary for a successful enterprise. Most importantly it requires entrepreneurial skills and efficient markets to reduce poverty.

According to Ismawan (2000) the real idea of microfinance is to help the weakest member of civil society who in this case is the poor. However Roth (1997) has another view. He argues that microfinance programmes often treat the symptoms and not the causes of poverty. Poverty is frequently the result of powerlessness. The proponents of microfinance programmes as a panacea of poverty ignore the complex matrix of power relations that circumscribe the capacities of the poor to run micro enterprises.

However Roth (1997) argues that credit is only one ingredient in the mixture of factors necessary for a successful enterprise. He is critical of the microfinance evangelists who create a vision of the rural poor as a collection of budding entrepreneurs, waiting for salvation from credit agencies, which on receipt of credit, will develop successful micro enterprises and leave poverty forever. Their promotional activity gives rise to worrying specter of a return to a “blueprint”, implicit in the new microfinance approach to development. To respond to a potential demand for a good or service, a rural micro-entrepreneur may need access to one or more of the following: transport, communications, power, water, storage facilities, a legal system for enforcing contracts and settling disputes. Apart from infrastructure, micro entrepreneurs need access to information about market trends and skills to run their macro enterprises.

ADB Institute (2003) notes that hard work, skills and enthusiasm are essential ingredients for an enterprise to be successful. Non-numerate people struggle to start enterprises by themselves as it is extremely difficult for them to keep track of the flows of income in their enterprise.

Ismawan (2000) calls for differentiation between two categories of the poor. Some are able to increase their income by themselves, create activities that would enable them to move closer to or above the poverty line. Those in the second category are unable to do so and would need permanent financial support from microfinance. The latter category would include the poor who have no capacity to undertake any economic activity, either because they lack personal skills or because they are so destitute that they are in no position to develop any meaningful economic activity in the environment in which they live.

Those in the first category are described as the “entrepreneurial poor”. The entrepreneurial poor do not need assistance for themselves, but they do need help in setting up an activity that will eventually increase their income. In particular they need assistance in accessing the resources to develop this activity, and to some extent managerial assistance. The non-entrepreneurial poor require direct assistance to survive. The transfer of resources in terms of credit does not only give the poor access to resources but also the economic empowerment and increased self-reliance.

The goal of MFIs as a development organization is to service the financial needs of under exploited markets as means of meeting development objectives. Ledger wood (1999:34) identifies the following objectives in development offered by MFIs which include the following among others, to reduce poverty, to empower women or other disadvantaged, population groups, to create employment, to help existing businesses grow or diversify their activities, to encourage the development of the new businesses.

There is much debate in the field of microfinance as to whether access to financial services benefit the “the poorest of the poor”. It has been argued that while there are now many credit institutions serving the poor, there is less experience of successfully serving the very poor, the destitute, and the disabled.

To help the poor out of poverty, it is argued that stimulating economic growth, making markets work better for the poor and building their capacity is the key out of their poverty situation. There is need to change the whole context of the lives of the poor and economic activities which do not produce enough surplus to lift their standard of living.

Some critics argue that the necessary infrastructure has been put in place in some areas for microfinance to trigger economic processes but very little success has been recorded which makes the problem of poverty and the poor very tricky. Capital in terms of microfinance is just one factor which requires other factors access to markets, information, and training of any kind, business development skills and business networks and entrepreneurial skills. Indeed, microfinance is not a panacea to the problem of poverty but improved access to capital and other financial services are significant to the poor. The problem is that market failures weaken the effectiveness of microfinance. According to Ferrand, et al (2004:11) he argues that functioning markets is critical for poverty alleviation. The danger is that it does not work effectively for the poor. He outlines three steps for the markets to work namely, understanding markets, focusing on factors that inhibit their improved performance and opportunities for their development, developing a vision of the future, a picture of how markets can work effectively, and acting to build markets, to make markets more effective and inclusive. According to Copestake (2002) microfinance has a polarizing effect as there is discrimination in favor of richer clients, who benefit from better access to credit, and exclusion of poorer people. If one of the aims of microfinance is to assist the "poorest of the poor" the microfinance is not always the most appropriate intervention.

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

2.7 Micro finance and poverty reduction

The poor need to be provided the chance to build individual and collective capabilities in order to gain access to economic opportunities and basic social services and infrastructure. (Strategic frame work for IFAD, 2002-2006).

Lennart (2004) argued that micro finance is one way of fighting poverty in rural areas, where most of the world's poorest live. It puts credit, savings, insurance and other basic financial services within the reach of poor people. Through MFIs such as credit unions, financial non-governmental organizations and even commercial banks, poor people can obtain small loans; receive money from abroad as transfer earnings and safe guard their savings. These services are crucial tools against poverty. Many people however have to turn to informal money lenders who charge exorbitant interest rates there by condemning them to more financial constraints.

Lennart (2004) explained that micro finance is an effective way for people to increase their economic security and thus reduce poverty. It enables poor people to manage their limited resources, reduce the impact of economic shocks and increase their assets and income.

Marilou and Carlos (2004) noted that the poor families with access to financial services eat better, keep their children in school longer, receive better medical care and live in safer housing than those who do not have such access, other factors being equal. Access to financial services hands the poor people the tools to solve their problems and to chart out their paths out of poverty.

Morduch and Haley (2001), Remenyi and Quinones (2000) found that incomes of Micro Finance clients were significantly higher than for comparable non-clients household. For example, in Indonesia it was found that there was 12.9% annual average rise in income from borrowers while only 3% rise was reported from non-borrowers (control group). In Bangladesh, a 29.3% annual average rise in income was recorded and 22% annual in income from non-borrowers. In Sri-Lanka, a 15.6% rise in income from borrowers and a 9% rise from non-borrowers. In India, 46% annual average rise in income was reported among non- borrowers with 24% increase reported from non-borrowers. The effects were higher for those just below the poverty line while income improvement was lowest among the very poor.

Wright and Graham (2000) while Citing Hossain (1998), found that Grameen Bank borrowers had higher incomes than the target group in the control villages. While citing Mustafa et al, Wright et al (2000) noted that borrowers have better coping capacities in lean seasons. For example, an increase in assets of 112% for those borrowers who had been members for 48 months or more and increase in household expenditure. Barnes, Carolyn and Erica (1999) and Buss and Terry (1999) confirmed that micro finance influences poverty reduction. For example

In Zimbabwe, they found that there were major differences in income distribution between Micro Finance clients and non-clients.

New clients and non-clients had a monthly income of less than Z$2,000. In contrast, half of the repeat clients had an estimated monthly household income of Z$4,000 or more. Dunn and Elizabeth (1999), in a Lima, Peru study, found that a few Micro Finance clients lived below the poverty line compared to non- clients. Clients spent more on Education than non- client households, Carolyn, Gayle and Gary (1998) in a Uganda study found that client households on average spent 35% more than non-client households. Borrower households spent 38% more on Education than non- clients households and had an average an extra year of education.

Khandker and Shadur (1998), in their study, " Fighting poverty with Micro credit in Bangladesh'' noted that micro finance reduces poverty by increasing per capita consumption among program participants and their families. They found that poverty reduction estimates based on consumption impacts of credit showed that about 5% of the program participants could lift their families from poverty through borrowing every year.

Ganesha T. (2004), while quoting Hashemi et al (1996) said that access to micro finance services contributes to the magnitude of the economic contribution reported by women, to the likelihood of an increase in asset holdings in their own names, to an increase in their exercise of purchasing power, and in their political and legal awareness.

Weiss et al (2004) argue that if access to micro finance can be improved, the poor can finance productive activities that will allow income growth, provided there are no other constraints. This is a route out of poverty for the non-destitute chronic poor. For the transitory poor, who are vulnerable to fluctuations in income that bring them close to or below the poverty line, micro finance provides the possibility of credit at times of need and in some schemes the opportunity of regular savings by a household itself can be drawn on. The avoidance of sharp declines in family expenditures by drawing on such credit or savings allows ‘consumption smoothing’- maintaining of a certain standard without having to sell off assets.

Okurut and Mukungu (2004), while quoting ‘Bisangwer and Khandker,(1995)’ and Hidhues (1995), argued that credit enables the poor to overcome liquidity constraints and undertake some investments, especially in improved farm technology and inputs, there by leading to increased agricultural production. While quoting the ‘World Bank’ (1989), they argued that improved consumption is an investment in the productivity of the labor force because credit helps people to smooth out their consumption patterns during the lean periods of the year. By doing so, credit maintains the productive capacity of the rural households. For example, Tandas (as they are known in Mexico), or rotating savings clubs, report a 6 % rate of non-compliance (group members who cease to contribute once they have taken a turn); and the most common forms of livestock holding, pigs and chickens, have mortality rates of 40%. Since holding livestock as savings is more prevalent in poorer areas and among indigenous people than elsewhere, the transformation of these assets into financial savings would benefit the poorest segments of the populations by increasing returns and providing greater liquidity Nteziyaremye, Anastase, Kathleen, (2001), noted that members of Micro- Finance face problems with loan repayment due to the weekly repayment schedule which was more difficult for the poor households because they lacked source of income from which they could repay loans. For the same reason, the poorer members were also at a particular risk if there was sickness.

Marcus, Rachel, Porter and Harper (1999), while quoting Hume and Hosley (1998) found that a significant proportion of enterprises financed by MFIs fail. For example 10-15% of enterprises supported by a MFI in Bolivia, and 25% of the early activities financed by another MFI in Malawi had failed.

ILO (2000),in a study about clients in the informal sector noted that credit had a negative effect on their work load of social pressure to ensure loan repayment and that credit schemes could lead to unmanageable indebtedness, because of a few profitable ventures to invest in. This kept the clients in a deplorable situation. Garson and Jose, (2001) observed that two factors limit the use credit as an instrument for poverty reduction: (a) credit cannot be easily targeted to the poor, and (b) many poor people, especially (but not only) the poorest of the poor, cannot make use of credit because they are not in a position to undertake an economic activity- have no skills and innovativeness.

Gustavo et al. (2002) are in agreement with the above observation. They observed that some MFIs are not targeting the poor. The greatest promise of MFIs, namely positive impact with financial sustainability, has not yet been fully met. Most institutions committed with sustainability cover less than 90% of their adjusted financial costs. Moreover, the programs that are breaking even financially, throughout the region (Latin America and the Caribbean) and the world are not those celebrated for serving the poorest clients. In other words, the double bottom line, poverty reduction with financial profitability, remains a chimera.

Senoga and Najjemba (2001), cite rampant misuse of loan funds on consumption and luxury products and soliciting for loans from more than one institution as another reason for micro finance’s failure to alleviate poverty. This puts the borrower under a lot of pressure to pay and leaves them with no time to concentrate on their work and in the end they fail to recover the operational costs. This practice discourages the lender and gives a poor image to the micro entrepreneur.

Weiss et al. (2004) and Malawi's PRSP (2005) indicated that micro finance loans with high interest may result into misery for the poor. They noted that if the poor could not afford high interest rates they would either not take up the service or take it up and get into financial difficulties. Also where group lending was used, the very poor could be excluded by other members of the group, because they were seen as bad credit risk, jeopardizing the position of the group as a whole. Alternatively, where professional staff works as loan officers, they may exclude the very poor from borrowing, again on grounds of repayment risk. Verluysen and Eugene (1999) argued that banking for the poor cannot be a surrogate social safety net. The aged, infirm, and totally indigent that are unemployable do not belong to micro finance.

Buss and Terry (1999) acknowledged the rapidly growing popularity of micro credit as a tool to reduce poverty but identifies some concerns as; Micro credit may force poor people or groups of borrowers into debt they cannot repay, or into businesses where they can barely subsist, and that those who receive subsidized credit in many cases do not need it. Not all poor people can operate businesses successfully or pay back loans obtained. Offering credit may make some people worse off by obligating them to debt they cannot repay. For others, they may already have access to credit, but are drawn to better terms offered by subsidized micro credit programs.

In conclusion, one is right to argue that micro finance has a great potential for the reduction of poverty but is not an overall solution to poverty.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter lays out the methods used to gather information. It provides a brief description of the study design, the areas of study, study population, sample size determination, sampling procedures and data collection methods.

3.1 Research design

The main purpose of the research design was to determine the approach and strategy that best meets the research objectives and answer the research questions. The research design used a cross sectional based on time series where a mixture of qualitative and quantitative research approaches were adopted. It was preferred because many of the respondents were covered by use of questionnaires and interview guides so that they could describe their feelings, beliefs and attitudes. The benefit of a cross sectional study design was that it allowed the researcher to compare many variables at the same time. The researcher for example looked at age, gender and education levels in relation to the subject of the study.

Quantitative research approach was used to generate quantifiable data that explains the relationship between the two variables. The use of both is recommendable by Amin (2005) as an important form of triangulation in a study that involves a large number of people.

Qualitative data was collected in order to capture views and opinions of respondents with regard to how micro finance institutions influences poverty eradication in Maracha District.

3.2 Study population

The study looked at a population of 100 people. This included the top management, employees as well as the clients of Oleba SACCO northern branch.

3.3 Sample size

The sample size was 80 which the researcher determined using the Krejcie and Morgan table (1970). According to Morgan, a population of 100 people should have a sample of 80 people to be sufficient. Since the research involved in depth case study which required methodology such as interviews and questionnaires, there was a larger homogeneity within the population. The sample size was selected using random numbers table thus a sample size being a function of both statistical consideration and non statistical consideration. Statistical consideration included the nature of population and the non statistical consideration included the nature of respondents and other field conditions.

3.4 Sampling procedure

Stratified sampling, a random sampling technique was used where the study population was divided into two strata namely; the financial institution management as well as the beneficiaries of the institution which were the local population.

Stratified random sampling was used because each element in the sample was given an equal chance of being selected hence reducing the biases in selecting of elements within the sample. It also ensured that each stratum is represented in the sample and each sample can be kept small in size without losing its accuracy (Neville hunt and Sidney Tyrrell, 2001).

3.5 Sampling design

Purposive and simple random sampling design (probability) was used where the population had an equal chance of being selected as sample subject. Purposive sampling was used to select respondents based on their experience and knowledge.

3.6 Data collection instruments

Collecting data involved going out in the field and contacting respondents. The data collection methods included face to face interviews, phone interviews, and questionnaires. Questionnaires were designed and each respondent was given a copy to give their responses to the questions there in.

3.7.1 Questionnaire method

Questionnaires were designed in a way that reflects the objectives of the study. Structured and unstructured questionnaires were used to collect data from all the respondents. The researcher personally delivered questionnaires to the entity in person. These were used because they were relatively cheap and they cover a large number of people and avoid embarrassment on the side of the respondents and yield no interviewer bias (Dick, bob. convergent, 2002).

3.7.2 Interviews

An interview refers to the conversation between two people (the interview and the interviewee) where questions are asked by the interviewer to the interviewee to obtain information. Therefore the researcher used both standardized and open ended questions. This is because interviews facilitated faster interviews that can be more easily analyzed and compared. They also provide first-hand information and have no bias.

3.8 Data collection sources

The data collection sources included both primary and secondary. Secondary data was got from text books, journals, newspapers and magazines.

3.9 Data analysis

Descriptive data analysis was used to derive meaning out of the data. The data was described through tables and then summarized using frequency count descriptive statistics like mean and median deviations.

3.9.1 Data processing and presentations

The data was processed and presented in form of tables and figures or diagrams. For tables, the American Psychological Association format was used. For charts and graphs, bar charts, pie charts, histograms, and frequent polygons were used.

3.10 Ethical considerations

The researcher ensured privacy and confidentiality of the data collected from the respondents. The data was handled in a way that would not harm the participant's identity and all the information about them was treated with utmost confidentiality. Therefore the researcher did not cause any harm to the respondents by whatever means. Questions which would cause harm or embarrassment to the respondents were avoided by the researcher.

3.11 Limitations of the study

Financial constraints: Costs involved during the research like transport, communication and stationery would be very much and no funding would be available. The researcher used his own savings to be successful in carrying out the study.

Poor respondents' attitude: Some of the respondents thought that the researcher was making a study so as to be paid by some organizations; so they also wanted some money. Insufficient time as research demands a lot of time in collecting literature and analysis but the researcher dedicated all the free time to research.

CHAPTER FOUR

PRESENTATION AND INTERPRETATION OF THE FINDINGS

4.0 Introduction

This chapter involves the presentation and interpretation of findings in relation to the study about the role of microfinance institutions on poverty eradication on the rural poor in Uganda and can be evidenced below.

The research study was guided by the following research questions;

(i)Does loan provision help to reduce poverty in Maracha District?

(ii) Does saving people's money help to reduce poverty from the people of Maracha District?

(iii)Does insurance help the poor to eradicate poverty in Maracha District?

Respondent rate

Out of the total sample size of 80 respondents response was received from 55 respondents representing a response rate of 69% and non response rate of 31% as shown in the table below;

Table 4.1: Response rate

Response	***Frequency***	***Percentage %***
Returned	55	69
Not returned	25	31
Total	**80**	**100**

Source: Primary data, 2014

This implied that more than 50% of the population participated in the exercise. Therefore outcomes were reliable.

4.1 Demographic characteristics of respondents

Findings on demographic characteristics of respondents were considered and can be evidenced below.

4.1.1 Gender of respondents

Table 4.2: Gender of respondents

Response	***Frequency***	***Valid percent***	***Cumulative percent***
Male	37	68	68
Female	18	32	100
Total	**55**	**100**	

Source*: *Primary data, 2014

From table above, 68% of the respondents were male, and 32% were female. This implies that most of the respondents were males.

4.1.2 Age range of respondents

The study captured different age brackets of respondents in order to establish the most prevalent group, the respondents were asked to state their age. The distribution was as in the table below.

Table 4.3: Age distribution of respondents

Age	***Frequency***	***Valid percent***	***Cumulative percent***
18-25 years	15	27	27
26-35 years	26	47	74
45 and above	14	26	100
Total	**55**	**100**	

Source: Primary data, 2014

From table above, 27% of the respondents were under the age of 18-25 years of age, 47% were between 26 to 35 years, 26% were between were 45 and above. This implies that most of the respondents were mature enough to answer questions in the questionnaire.

4.1.3 Level of education

The researcher was interested in the level of education to find out the skills, expertise. The responses were shown as below.

Table 4.4: Level of education

Response	***Frequency***	***Valid percent***	***Cumulative percent***
Certificate	13	24	24
Diploma	30	56	80
Degree	10	19	100
Post-graduate	2	1	100
Total	**55**	**100**	

Source: Primary data, 2014

From table above, 24% of the respondents were certificate holders, 56% were diploma holders, 19% were degree holder and1% were postgraduate diplomas. This implies that the respondents had the capacity to answer the questions in the questionnaire.

4.1.4 Findings on the occupation of the respondents

Findings on the occupation of the respondents were considered and can be evidenced in the table below;

Table 4.5: Findings on the occupation of the respondents

Response	***Frequency***	***Valid percent***	***Cumulative percent***
Business person	18	33	33
Civil servant	32	58	91
Private sector	5	9	100
Total	**55**	**100**	

Source: Primary data, 2014

From the table above, 33% were business persons, 58% were civil servants, 9% were from the private sector. This implied that the study was inclusive it included all kinds of people.

4.1.5 Findings on the period spent by the respondents in savings within Oleba SACCO

Findings on the period spent by the respondents in savings and credit schemes were considered and can be evidenced in the table below.

Table 4.6: Period spent by the respondents in savings and credit schemes

Response	***Frequency***	***Valid percent***	***Cumulative percent***
2-5 years	16	29	29
5-10 years	34	62	91
Over 10 years	5	9	100
Total	**55**	**100**	

Source: Primary data, 2014

From the table above, 29% had engaged in the savings activities with Oleba SACCO for 2-5 years, 62% for 5-10 years, and 9% for at least 10years. This implied that all members had an experience with the activities of credit and saving schemes.

4.1.6 Position of the respondent related to Oleba SACCO

The researcher was interested in finding out the position of the respondent related to Oleba SACCO. The responses were shown as below.

Table 4.7: Level of education

Response	***Frequency***	***Valid percent***	***Cumulative percent***
Oleba past client	13	24	24
Oleba present client	30	56	80
Oleba none client	10	19	100
Oleba officer	2	1	100
Total	**55**	**100**	

Source: Primary data, 2014

From table above, 24% of the respondents were Oleba past clients, 56% were Oleba present clients, 19% were Oleba none client and Oleba officer 1%. This implies that the respondents had the capacity to answer the questions in the questionnaire.

4.2 Findings on loan provision by Oleba SACCO Oleba Sub County in Maracha District 4.2.1 Findings on the kinds of products from Oleba SACCO members had utilized.

The researcher sought to find out whether there existed some kinds of products from Oleba SACCO members had utilized and below were the findings;

Table 4.8: Showing whether there existed some kinds of products from Oleba SACCO members had utilized

Response	***Frequency***	***Valid percent***	***Cumulative percent***
Short term loans	15	28	28
Medium loans	7	12	40
Long term loans	15	28	68
Business counseling	7	12	80
Money transfer	11	20	100
Total	**55**	**100**	

Source: Primary data, 2014

From the table above, 28% of the respondents strongly agree with short term loans as a kind of product members had utilized from Oleba SACCO, 12% agreed with medium loans, 12% disagreed with business counseling, 20% strongly disagreed with money transfer and 28% with long term loans. This indicates that Oleba SACCO contributed to towards the welfare of its members. And this is in line with what was said by Guilford (2007) credit facilities enable impoverished persons to start businesses, rebuild after natural disasters like floods and hurricanes, and to receive both short- and long-term loans to meet their financial needs and improve their overall quality of life.

4.2.2 Findings on the purpose of the loan

The researcher had interest in finding out the purpose of the loan they had received from Oleba SACCO and below were the findings.

Table 4.9: Showing the purpose of the loan they had received from Oleba SACCO

Response	***Frequency***	***Valid percent***	***Cumulative percent***
Housing	12	21	21
Business expansion	25	46	67
Land purchase	0	0	67
Agriculture	14	26	93
Debt payment	4	7	100
Total	**55**	**100**	

Source: Primary data, 2014

From the table above, 21% of the respondents strongly agreed that money was for housing, 46% agreed that money was for expansion of their businesses, 26% agreed that it was for agriculture, and 7% strongly agreed that money was used to dispose off their debts. This implies that most of the respondents had benefited from the SACCO.

4.2.3 Findings on whether members of Oleba SACCO first undergo training to make them competent enough to use the loans

The researcher was interested in finding out whether members of Oleba SACCO first undergo training to make them competent enough to use the loans and the findings were as shown in the table below:

Table 4.10: Showing whether members of Oleba SACCO first undergo training to make them competent enough to use the loans

Response	***Frequency***	***Percentage***
Yes	38	70
No	17	30
Total	**55**	**100**

Source: Primary data, 2014

According to the table above, 70% accepted that members of Oleba SACCO first undergo training to make them competent enough to use the loans, 30% disagreed.

4.2.4 Findings on whether members of Oleba SACCO always get ready for loans before they receive them

The researcher was interested in finding whether members of Oleba SACCO always get ready for loans before they receive them and the findings were as shown in the table below.

Table 4.11: Showing whether members of Oleba SACCO always get ready for loans before they receive them

Response	***Frequency***	***Percentage (%)***
Yes	15	28
No	40	72
Total	**55**	**100**

Source: Primary data, 2014

From table above, I observed that 28% of the respondents agreed that members of Oleba SACCO always get ready for loans before they receive them, 72% disagreed. This implies that more counseling is needed directed mostly the clients in regard to the kinds of savings and loan schemes that Oleba SACCO gives.

4.2.5 Findings on the kinds of assets members had possessed before receiving loans from Oleba SACCO

The researcher was interested in finding out the kinds of assets members had possessed before receiving loans from Oleba SACCO and the findings were as shown below;

Table 4.12: Showing the kinds of assets members had possessed before receiving loans from Oleba SACCO

Assets	***Frequency***	***Valid percent***	***Cumulative percent***
Land	10	19	19
Houses	22	41	60
Vehicles	6	11	71
Motorcycles	12	21	92
None	5	8	100
Total	**55**	**100**	

Source: Primary data, 2014

From the table above, 19% had land as assets before receiving loans from Oleba, 41% had houses, 11% had vehicles, 21% had motorcycles and 8% had none.

4.2.6 Findings on how much working capital members had before Oleba SACCO loan and how much working capital they had borrowed

The researcher was interested in finding out how much working capital members had before Oleba SACCO loan and how much working capital they had borrowed and the finding were as shown in the table below.

Table 4.13: showing how much working capital members had before Oleba SACCO loan and how much working capital they had borrowed

Amount of working capital members had before Oleba SACCO loan			
Response	***Frequency***	***Valid percent***	***Cumulative percent***
Less than 50,000	12	19	19
50,000-500,000	26	49	68
500,000-1,000,000	14	26	94
1,000,000 & above	3	6	100
Amount of working capital members had borrowed from Oleba SACCO			
Response	***Frequency***	***Valid percent***	***Cumulative percent***
Less than 50,000	4	7	7
50,000-500,000	15	28	35
500,000-1,000,000	28	51	86
1,000,000 & above	8	14	100

Source: Primary data, 2014

From the table above, most of the clients had their own capital ranging from 50,000-500,000 making a cumulative percentage of 68%, and again from the table I observed that members went on to borrow a working capital of 500,000-1,000,000 with 51%. This implies that it‘s from your own capital that Oleba SACCO bases to add you more capital in form of loans.

4.2.7 Findings on how respondents rated their record keeping of the operations while using the loan

There was interested in finding out how respondents rated their record keeping of the operations while using the loan and the finding were as shown in the table below;

Table 4.14: Showing how respondents rated their record keeping of the operations while using the loan

Response	*Frequency*	*Valid percent*	*Cumulative percent*
Poor	8	15	15
Fair	15	27	42
Good	32	58	100
Total	**55**	**100**	

Source: Primary data, 2014

From the table above, 15% agreed that the level of record keeping was poor, 27% fair and 58% good. This meant that the loans were bound to perform since the level of record keeping was improving.

4.2.8 Findings on how members looked and measured their business success and failures

The researcher was interested in finding out how members looked and measured their business success and failures and the findings were as shown in the table below.

Table 4.15: Showing how members looked and measured their business success and failures

Response	***Frequency***	***Valid percent***	***Cumulative percent***
Business expansion	12	22	22
Improvement on the standards of living	25	45	67
Ability to pay for expenses	9	16	83
Prompt payment of bills	7	12	95
Purchase of property	2	5	100
Total	**55**	**100**	

Source: Primary data, 2014

From table above, 22% of the respondents strongly agree with business expansion as a measurement of their business success / failure, 45% agreed with improvement on the standards of living, 16% ability to pay for expenses, 12% prompt payment of bills and 5% purchase of property. This indicates that it has encouraged more savings and can lead to accumulation of wealth.

4.2.9 Findings on the problems members have encountered in using Oleba SACCO services

The researcher was interested in finding out the problems members have encountered in using Oleba SACCO services and the findings were as shown in the table below;

Table 4.16: Showing the problems members have encountered in using Oleba SACCO services

Response	*Frequency*	*Valid percent*	*Cumulative percent*
High interest rates	9	17	17
Short payment period	27	50	67
Lack of security	13	23	90
Inaccessibility of Oleba SACCO services	5	8	98
Poor record keeping	1	2	100
Total	**55**	**100**	

Source: Primary data, 2014

From the table above, 17% of the respondents strongly agree that high interest rates had hindered their performance, 50% complained of short payment period, 23% lack of security, 8% inaccessibility of Oleba SACCO services and 2% poor record keeping.

4.2.10 Findings on whether respondents carry out feasibility studies about their businesses before requesting for the loan

The researcher was interested in finding out whether respondents carry out feasibility studies about their businesses before requesting for the loan and the findings were as shown below in the table;

Table 4.17: Showing whether respondents carry out feasibility studies about their businesses before requesting for the loan

Response	*Frequency*	*Percentage*
Yes	17	30
No	38	70
Total	**55**	**100**

Source: Primary data, 2014

According to the table, 30% agreed that they carried out feasibility study about their business before requesting for the loan while 70% disagreed. This implied that businesses were bound to fail since members could not take time to analyze their cash flow statements.

4.2.11 Findings on how members rated their loan repayment schedules while using the loan

The researcher was interested in finding out how members rated their loan repayment schedules while using the loan and can be evidenced in the table below

Table 4.18: Showing how members rated their loan repayment schedules while using the loan

Response	*Frequency*	*Valid percent*	*Cumulative percent*
Good	8	15	15
Fair	15	27	42
Poor	32	58	100
Total	**55**	**100**	

Source: Primary data, 2014

From the table above, 15% agreed the repayment schedule was good, 27% fair and 58% poor. This implies that members can even fail to pay back or fulfill their loan terms this is evidenced by the 58% of the respondents who argue that the repayment schedule is poor.

4.2.12 Findings on the contribution of micro finance institutions on Poverty Eradication

The researcher sought to establish whether micro finance institutions had contributed towards poverty eradication in Oleba Sub-County Maracha District and the findings can be evidenced below.

Table 4.19: Showing whether micro finance institutions had contributed towards poverty eradication in Oleba Sub-County Maracha District

Response	*Frequency*	*Valid Percentage*	*Cumulative percentage*
Business expansion	20	36	36
Improvement in farming practices	19	35	71
Increase in peoples' income	12	22	93
Meeting customers' demands in time	4	7	100
Total	**55**	**100**	

Source: Primary data, 2014.

According to the table above, 36% cited business expansion, 35% improvement in farming practices, 22% increase of peoples' income and 7% meeting customers' demands in time. This implies that there is a strong relationship between microfinance institutions and Poverty Eradication especially in Oleba Sub County in Maracha District.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter involves summary of major findings conclusion and recommendations. The summary is based on the major findings on the study objectives and the recommendations are based on the discussion of the findings and analysis as well as interpretation of the findings.

5.1 Summary of major findings

5.1.1 Summary of general findings

There was a high response rate of 69% of Oleba SACCO members who were issued questionnaires returned them while the non response rate was 31% which is a small percentage.

68% of the respondents were males and 32% were female.

Most of the members were mature enough with 48% of the members aged between 36-45years, 20% aged between 25-35 years, and 24% aged between 46 and above years.

Most the respondents were educated 24% with certificates 56% diploma, 19% with degree and non with masters.

29% of the respondents had stayed in Oleba SACCO for 2-5 years, 62%, 5-10 years and 9%, for more than 10 years.

5.1.2 Summary of findings on loan provision by Oleba SACCO Oleba Sub County in Maracha District

Findings revealed that, 28% of the respondents strongly agree with short term loans as a kind of product members had utilized from Oleba SACCO, 12% agreed with medium loans, 12%

disagreed with business counseling, 20% strongly disagreed with money transfer and 28% with long term loans.

21% of the respondents strongly agreed that money was for housing, 46% agreed that money was for expansion of their businesses, 26% agreed that it was for agriculture, and 7% strongly agreed that money was used to dispose off their debts.

70% accepted that members of Oleba SACCO first undergo training to make them competent enough to use the loans, 30% disagreed. I observed that 28% of the respondents agreed that members of Oleba SACCO always get ready for loans before they receive them, 72% disagreed. 19% had land as assets before receiving loans from Oleba , 41% had houses, 11% had vehicles, 21% had motorcycles and 8% had none, most of the clients had their own capital ranging from 50,000-500,000 making a cumulative percentage of 68%, and again from the table I observed that members went on to borrow a working capital of 500,000-1,000,000 with 51%. 15% agreed that the level of record keeping was poor, 27% fair and 58% good. 22% of the respondents strongly agree with business expansion as a measurement of their business success / failure, 45% agreed with improvement on the standards of living, 16% ability to pay for expenses, 12% prompt payment of bills and 5% purchase of property. 17% of the respondents strongly agree that high interest rates had hindered their performance, 50% complained of short payment period, 23% lack of security, 8% inaccessibility of Oleba SACCO services and 2% poor record keeping. 30% agreed that they carried out feasibility study about their business before requesting for the loan while 70% disagreed. 15% agreed the repayment schedule was good, 27% fair and 58% poor. 36% cited business expansion, 35% improvement in farming practices, 22% increase of peoples' income and 7% meeting customers' demands in time.

5.2 Conclusion

5.2.1 Conclusion on economic welfare of members

Credit and saving schemes have contributed to the improvement of member's welfare this is evidenced where most of the respondents 67% revealed that it has positively impacted their wellbeing and improved their financial positions in communities and families.

Furthermore, According to Guilford (2007) credit facilities enable impoverished persons to start businesses, rebuild after natural disasters like floods and hurricanes, and to receive both short- and long-term loans to meet their financial needs and improve their overall quality of life. And also according to Magyezi (1999), savings act as collateral security for the savers to acquire more and bigger loans. He confirms that such practices promote saving culture.

5.3 Recommendations

In the poverty strategy, there has to be vigorous efforts to bring the poor on board, it's very clear the forces of demand and supply increases the divide between the have and they have not and those with capacity benefit more after entering the market while those with less capacity are left at the periphery.

By their nature as SACCOs grow they need to recruit services of professional management and in most cases conflicts arise on whether they maximize their own utility or value for the owners. The third governance issue arises from the conflict between the members and their elected board of directors where there is a likelihood of democratically elected (one person, one vote) members remaining obliged to the individual voters hence failing in their oversight roles.

The fourth is the conflict between (paid) employees and volunteers. At the start of the SACCO the work is mainly done by volunteers whose commitment is to see the growth of the project.

Later as the SACCO grows professional staff has to be employed and problems of governance arise if volunteer board members attempt to engage in operational decision-making rather than in strategic management and decision making.

5.4 Areas for further research

Challenges faced by credit and savings schemes in Uganda.

The role of Political influence on establishment of SACCOS in Uganda

The contribution of NGO's to the development of SACCOs in Uganda.

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QUESTIONNAIRE

QUESTIONNAIRE DIRECTED TO THE CLIENTS OF OLEBA SACCO LTD OLEBA SUB-COUNTY MARACHA DISTRICT

Dear respondent,

I am Mawa Lordson David, a student of Uganda Martyrs University. You are kindly requested to fill or tick this questionnaire as honestly as you possibly can. The information obtained will be used for academic purposes only and will be treated with ultimate confidentiality.

Personal data;

1. Sex of the respondent.

   Male ☐ Female ☐

2. Marital status.

   Married ☐ Single ☐ Divorced ☐

3. Age

   (18-25) ☐ (26-35) ☐ 45 and above ☐

4. Education level.

   Certificate ☐

   Diploma ☐

   Degree ☐

   Post graduate degree ☐

5. Occupation

   Business man ☐ Civil servant ☐ Employed in Private Sector ☐

6. For how long have you been engaging in saving with Oleba SACCO?

   2 - 5 years ☐ 5 – 10 years ☐ Over 10 years ☐

7. Position of the respondent

   Oleba SACCO past client ☐

   Oleba SACCO present client ☐

   Oleba SACCO non client ☐

   Oleba SACCO officer ☐

8. What Oleba SACCO product or service have you ever utilized?

   Short term loans ☐ business counseling ☐

   Medium loan ☐ insurance ☐

   Long term loan ☐ money transfer ☐

9. If loan product, what was the purpose of loan?

   Debt payment ☐

   Business expansion ☐

   Land purchase ☐

   Agriculture ☐

   Housing ☐

   If any other, specify…………………………………….

10. Did you first undergo training to make you competent enough to use the loan?

    Yes ☐ No ☐

11. Did you get ready for the loan yourself before you received it? Did you have a need for it?

    Yes ☐ No ☐

12. Which assets did you have before Oleba SACCO loan?

……………………………………………………………………………………………

About how much working capital did you have before the Oleba SACCO loan?

Less than 50000 ☐

50000-500000 ☐

500000-1000000 ☐

1000000 and above ☐

13. In total, about how much working capital did you borrow?

Less than 50000 ☐

50000-500000 ☐

500000-1000000 ☐

Above1000000 ☐

14. How do you rate your record keeping of the operations while using the loan?

Good ☐ Fair ☐ Poor ☐

15. What are the major incidences that led to your poor performance if any?

……………………………………………………………………………………………

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16. What are the major incidences that led to your excellent performance, if any?……………………………………………………………………………………

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…………………………………………………………………………………

17. What do you look at as your measure of business success/failure? Please rank

Business expansion ☐

Prompt payment of bills ☐

Purchase of property or assets ☐

Ability to pay for expenses ☐

Improvement in standards of living ☐

If any other, specify……………………………………………………

18. What problems have you encountered in using Oleba SACCO services?

High interest rates ☐

Short payment period ☐

Lack of collateral security ☐

Inaccessibility of Oleba SACCO services ☐

If any other, specify ……………………………………………………

19. What do you think should be done to rectify the situation?

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

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

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

……………………………………………………………………………………

21. How old was the business at the time you got the loan?

1-5month ☐

6-11months ☐

Above 1year ☐

22. Did you carry out any feasibility study about your business before requesting for the loan?

Yes ☐ No ☐

23. According to your assessment /feasibility study, was it lack of enough capital that was preventing your business activity from further growth?

Yes ☐ No ☐

26. How do you rate your loan repayment schedules while using the loan?

Good ☐ Fair ☐ Poor ☐

27. What is the contribution of micro finance institutions on poverty eradication?

Business expansion ☐

Improvement in farming practices ☐

Increase in peoples incomes ☐

Meeting customers' demands on time ☐

If any other, specify…………………………………………………………

Thank you for your participation