THE ROLE OF MICROFINANCE INSTITUITIONS ON PERFORMANCE OF SMALL SCALE FARMERS

CASE STUDY OF FINCA CLIENTS IN MBARARA DISTRICT

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DEDICATION

This dissertation is dedicated to Al Hajji Ssewava Musa the director of Sir Apollo Largest Schools for the intensive moral and financial support in both my academics and social well being

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LIST OF ABBREVIATIONS

CVI:	Content Validity Index
DV:	Dependent Variable
ICTs:	Information and communication technologies
IV:	Independent Variable
MCDT:	Micro Credit Development Trust
MFI's:	Microfinance Institutions
NGOs:	Non-Governmental Organization
PEAP:	Poverty Eradication Action Plan
SACOOs:	Savings and Credit Cooperative Societies
SPSS:	Statistical Package for Social Sciences.
UMU:	Uganda Martyrs University

ABSTRACT

This study assessed the effect of microfinance towards the performance of small scale farmers basing on clients of FINCA Mbarara as the case study. The specific objectives of the study were:To examine the role of financial literacy on performance of small scale farmers in Mbarara district, To analyse the role of loan terms and conditions on performance of small scale farmers and to establish the role of loan mobilization on performance of small scale farmers in Mbarara District.

The study adopted the case study design with quantitative and qualitative research techniques. A total sample size of 50 respondents was used.   Self-administered questionnaires and face to face interviews were used to collect data. Data was coded and later processed using Statistical Package for the Social Sciences (SPSS) computer program.

From the study it was revealed that conclusion it was observed that clients get small loans without serious collateral that help them to meet their financial needs and they have also acquired financial management skills hence they can now budget and better manage our investment skills. It was also discovered that clients can do well business plans, keep financial records which has influenced MFIs to easily give them loans without necessarily having to go through various prolonged processes.

From the study it was discovered that MFI's have given clients the adequate loans at affordable rates, with little amount of security and are always given a period long enough to payback that covers the gestation period of their operations. It was also found that clients know various members who can guarantee them security to acquire MFI loans through the SACOs who know

them from our locality and further more clients save the profits they get after paying off their loans with the MFIs to use in the coming seasons.

From the study it was found out that clients can now borrow the amounts they require without necessarily having much security and can easily raise money to pay back our loans since the loan weight is lowered from individuals to the whole borrowing group. It was also discovered that clients do not need to have strong character history since the MFIs' consistent customers who know them better can give them bank guarantees and MFI bank intermediaries have helped them to know how best to acquire and pay back their loans in the given time.

It is recommended that the management of FINCA should set workshop, education programs, mass media programs and sensitization programs in order to inform and educate small scale famers on the strategies to effective manage their businesses. FINCA should restructure the loan terms and conditions in order to make them favourable in relation to the capability of its clients to acquire and repay loans. This will motivate clients to apply for loans thus sustaining their financial activities.

CHAPTER ONE

1.1 Introduction

This study examines the role of microfinance towards the performance of small scale farmers basing on clients of FINCA Mbarara as the case study. The chapter covers background information, problem statement, purpose of study, study objectives, research questions, scope of the study, justification of the study, significance of the study, conceptual framework and limitations of the study.

1.2 Background to the study

Globally microfinance and Micro-credit are mostly used to finance small and medium scale enterprises. Microfinance in general includes Micro credit, Micro-savings, Micro-insurance and payment services. Micro-credit is extension of small loans to micro-entrepreneurs who lack collateral and do not qualify for traditional bank loans. In developing countries Micro-credit enables very poor people to engage in self-employment projects that generate income. Micro-credit is crucial to the microfinance field by providing access to financial capital (Micro-finance Alliance.htm 17/10/2007).

Microfinance is the provision of financial services to low-income clients or solidarity lending groups including consumers and the self-employed, who traditionally lack access to banking and related services (Akinyi, 2009). Microfinance is also the idea that low-income individuals are capable of lifting themselves out of poverty if given access to financial services. While some studies indicate that microfinance can play a role in the battle against poverty, it is also recognized that is not always the appropriate method, and that it should never be seen as the only tool for ending poverty (Bategeka, 2009).

Microfinance started in Bangladesh during the 1970s. The beginning of the Micro-insurance movement is closely associated with an Economist Professor Mohammed Yunus in Bangladesh whereby he began by giving small loans to the poor families in the neighborhood in the midst of a country wide famine so as to break the poverty cycle. This was successful so he continued to give loans to families that had less than an acre of land this was also successful so he expanded the scheme worldwide. Poverty is the biggest problem in Uganda like many other countries in Africa. Uganda ranks 158 out of 174 poorest countries in the world. Using international poverty measures, 82.2 percent of the population lives below US $1 a day, 96.4 percent live below US $2 a day (Garbus, 2003). Matovu (2006) also points out that poverty is not only widespread in rural areas but also urban slum areas yet this core problem has not been given the necessary attention it deserves and that the majority of the people who live in urban poor slum areas are women and children many of whom are dependent on SMEs The poor in urban poor slum areas are in most cases are not reflected in macroeconomic interventions and because of this scenario, poverty is increasing.

One of the ways for fighting poverty in Uganda has been the promotion and development of micro finance. Micro finance in Uganda form delivery of financial services to the poor has now taken root in Kampala district and Uganda in general. A number of operators - ranging from government - funded programmes, donor – funded programmes, NGOs (both indigenous and foreign), community – based organisations, credit institutions, and banks, etc are involved in the delivery SACOOs (Bategeka, 2009). Government has taken steps to create an appropriate environment for their operation. A policy framework to accommodate the diverse operations of the players in this sector as well as taking on the new initiatives being promoted by government in an effort to achieve “Prosperity for all” has been developed. Inadequate access to credit by the poor has been identified as one of the contributing factors to poverty. To redress the issue, the policy of increasing access to both production and consumption credit by the poor has been articulated. Poverty alleviation has been a key development challenge over decades especially the last decades of democratic governance.

In 1997 The Association of Microfinance Enterprise Finance Institutions of Uganda was set up to serve as a practitioner platform to share experiences and technologies and act as a lobby and advocacy boy for Uganda’s MFI’s. As of September 2012 membership stands at 133 members which includes 96 ordinary members (MFI’s) and 37 associations. The association’s vision is to be strong, sustainable and professional network of all micro-finance stakeholders in Uganda and to enhance the sustainable delivery of inclusive microfinance services in Uganda. Beginning with 1997 the Government of Uganda developed Poverty Eradication Action Plan within which strategies were drawn to increase economic growth by removing bottlenecks to private sector activity, motivate the rural marginalized people and facilitating the expansion of rural economy through modernization of agriculture.

The rural communities operate mainly in an informal economy where the whole context for their lives and economics activities does not have enough surpluses to sjlift the standard of living as a consequence, they lack the ability to generate income to start economic activities and access credit from the formal sector is heavily restricted due to lack of collateral. With little or no financial services targeted at these communities the only way with which they can battle poverty is through the services provided by microfinance institutions. The financial services in the rural areas are supported mainly by the informal Savings and Credit Cooperative Societies (SACCOs), also known as Micro Credit Development Trust (MCDT), and a few formal Microfinance Institutions (MFI).

FINCA Uganda is an affiliate to FINCA international an anti-poverty organization that promotes individual and community development through the provision of a variety of products and services which are financial and non- financial to low income families worldwide. Financial products offered are village banking, credit solidarity group, individual credit and savings, insurance, fixed asset lending, leasing housing loan, consumer loan, customer services.

The performance of the MFI industry in Uganda has so far revealed mixed economic trends although on the whole it has indicated promising results. Studies conducted on the industry show that there has been an increase in number of SACCOs outlets. Despite the above facts and statistics, it is clear that the MFIs industry in Uganda is still in its infancy. Banks still dominate the financial sector as shown by the number of total clients and the number of savings accounts. Unfortunately banks are still concentrated in urban centres. MFIs associations still have a long way in building their client base, their savings and loan portfolios. MFIs have by far the biggest potential to gain ground and capture the sector.

It is against the background that this study sought to examine the effect of microfinance towards the performance of small scale farmers basing on clients of FINCA Mbarara as the case study.

1.3 Statement of the Problem

In Uganda Microfinance has the ability to improve on operations of small scale farmers through offering loans, training, supply of equipment, and regular monitoring. Many farmers in rural and urban areas are in need of basic necessities like education, shelter, food and clothes among others. Microfinance continues to provide services like soft loans, school fees loans so as to enable the achievement of the people's needs and growth of small scale farmers. Microfinance has also provided employment to people who are involved in small and medium scale enterprises (Bategeka, 2009).Despite the existence and contribution of Microfinance to farmers, many farmers are still facing the problem of lack of drugs for their animals, seeds to plant and many others. It is on this basis that this study sought to examine the effect of microfinance towards the performance of small scale farmers basing on clients of FINCA Mbarara as the case study.

1.4 Purpose of the study

The purpose of this study was to examine the effect of microfinance towards the performance of small scale farmers basing on clients of FINCA Mbarara as the case study.

1.5 Objectives of the study

i. To examine the role of financial literacy on performance of small scale farmers in Mbarara district.

ii. To analysethe role of loan terms and conditionson performance of small scale farmers.

iii. To establish the role of loan mobilization on performance of small scale farmers in Mbarara District

1.6 Research questions

i. What is the role of financial literacy on performance of small scale farmers in Mbarara district?

ii. What is the role of loan terms and conditionson performance of small scale farmers?

iii. What is the role of loan mobilization on performance of small scale farmers in Mbarara District?

1.7 Scope of the Study

1.7.1 Content Scope

The study was restricted to assessing financial literacy, loan terms and conditions and of loan mobilization and their role towards performance of small scale farmers.

1.7.2 Geographic Content

The study was carried out in Mbarara branch located on plot 56 along high street in Mbarara town. The choice of the company was based on the fact that it has been involved in microfinance services for a long period of time to so this created a lot of avenues for the researcher to examine how the services provided by FINCA have affected the performance of small scale farmers.

1.7.3 Time Scope

The study considered a period of 4 years from 2009 to 2013. This was considered long enough for the researcher to capture information on some previous and latest statistics and trends on how the services provided by FINCA have affected the performance of small scale farmers.

1.8 Justification of the study

The performance of the microfinance industry in Uganda has so far revealed mixed economic trends although on the whole it has indicated promising results. Studies conducted on the industry show that there has been an increase living standards of rural and urban people because of the micro finance services. Therefore that in a country with a mainly rural based population like Uganda the main vehicle for fighting poverty is clearly Microfinance as it easily covers the needs of the rural poor who may not be that credit worthy. Despite the potential to fight poverty, the micro finance industry in Uganda is still in its infancyand many farmers are still facing the problem of lack of drugs for their animals, seeds to plant and many others (Bategeka, 2009). This study thus aims at examine how microfinance affect the performance of small scale farmers basing on clients of FINCA Mbarara as the case study so as to come up with challenges faced by both microfinance and farmers to extend and access services respectively. This is therefore hoped to provide baseline data to assist policy makers in developing appropriate evidence-based strategies to improve on the effectiveness of microfinance to reduce poverty among farmers.

1.9 Significance of the study

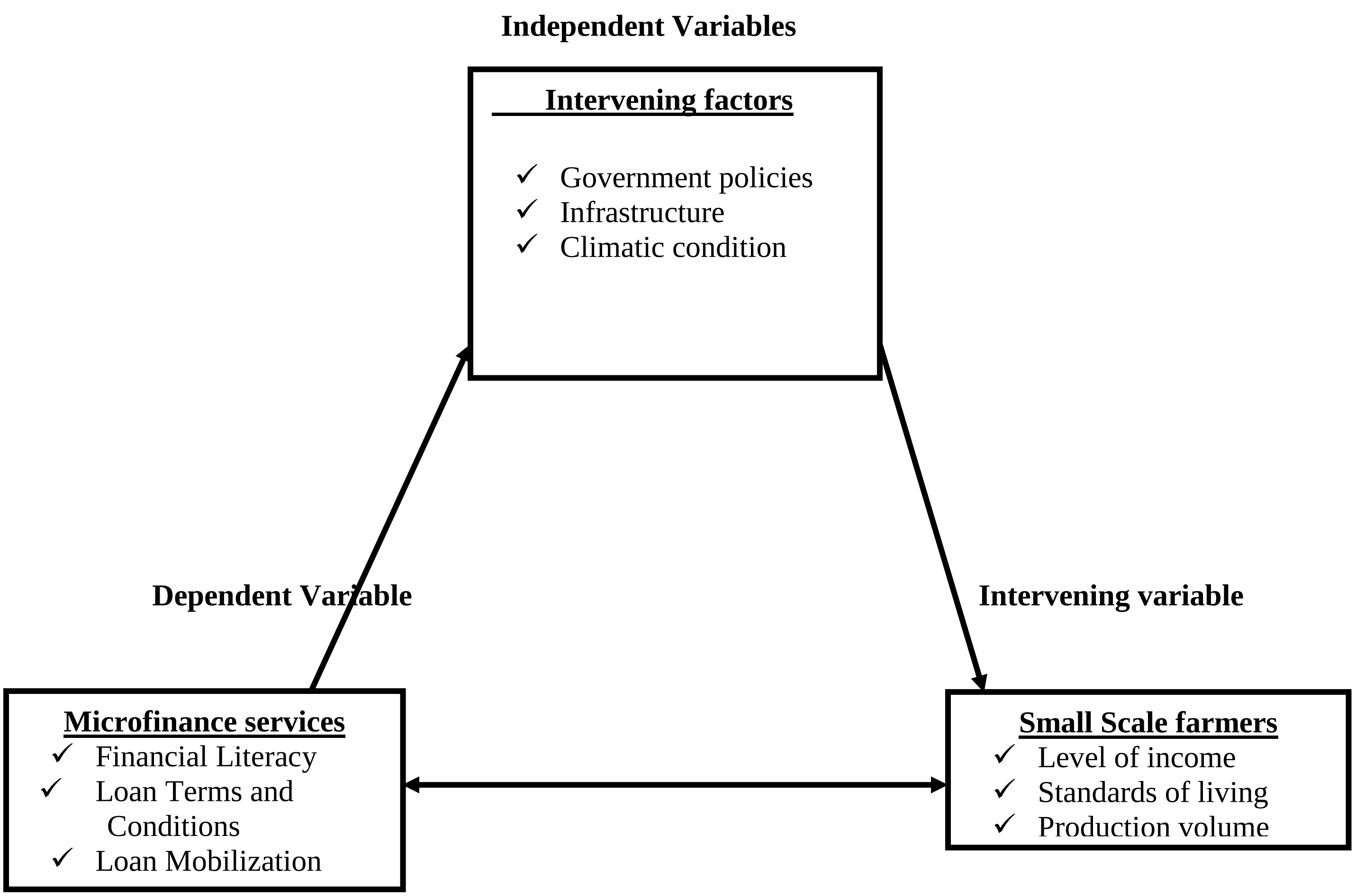
The study identified services offered by MFIs such as FINCA Mbarara to small scale farmers in Mbarara district. This may help community people to be aware on the micro finance services provided so that they can go and access them.

The study analyzed the performance of small scale farmers in Mbarara district. This may empower small scale business enterprises and rural farmers to see whether they are generating the intended results. This may help them to ensure access and appropriate use of microfinance services to attain sustainable economic transformation and development.

The study established challenges small scale farmers face in accessing services from microfinance such as FINCA Mbarara. This will act as basis for microfinance management and small scale farmers to come up with solutions to those challenges.

1.10 Conceptual Framework

Figure 1.1: Conceptual Framework



Source: Researcher

Explanation

Intervening variables: These are variables that either hinder or facilitate the dependent variable; they create a command between Independent variable and dependent variable. **The independent variable** is typically the variable representing the value being manipulated or changed and the **dependent variable** is the observed result of the independent variable being manipulated. For example in the above case; the independent variable of microfinance influences the dependent variable of performance of small scale farmers.

In this case when **intervening factors** such as government policies, infrastructure and climatic condition are favourable, then microfinance will be able to provide soft loans with low interest rates and keep savings for the small scale farmers and will help to improve on the level of income and standards of living of small scale farmers and their production volume will increase hence poverty reduction.

However when intervening factors such as government policies, infrastructure and climatic condition are unfavourable, then microfinance will find it hard to provide loans to small scale farmers and the few small scale farmers who will get the loans will be charged high interest rates; this will discourage small scale farmers to borrow from microfinance and thus will lack capital to invest thus reducing avenues for income generation which will compromise standards of living of small scale farmers and reduce the production volume hence increased poverty.

1.11 Conclusion

This chapter presents thebackground information, problem statement, purpose of study, study objectives, research questions, scope of the study, justification of the study, significance of the study, conceptual framework and limitations of the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents with the review of the related literature. The review focuses on the major themes of the study which are, to examine the effect of financial literacy on performance of small scale farmers, to analyse the effect of loan terms and conditions on performance of small scale farmers and to establish the effect of loan mobilization on performance of small scale farmers.

2.1 Financial literacy and performance of small scale farmers

Financial literacy can be defined as the ability to understand how money works in the world: how someone manages to earn or make it, how that person manages it, how he/she invests it (turn it into more) and how that person donates it to help others. Financial literacy can also be defined as the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being.

Still financial education: the process by which people improve their understanding offinancial products, services and concepts, so they are empowered to make informed choices, avoid pitfalls, know where to go for help and take other actions to improve their present and long-term financial well-being.

Basically, financial Literacy involves the knowledge of basic economic and financial concepts, as well asthe ability to use that knowledge and other financial skills to manage financialresources effectively for a lifetime of financial well-being.. For example, lessons learned through a focus on financial knowledge willhelp inform knowledge-based financial education, but be only one factor to consider indesigning behavioral interventions. Those are more likely to depend on other financialskills, perceptions of knowledge, attitudes, and environmental factors. Similarly,measures should accurately reflect conceptual definitions, and conclusions should berestricted to financial-literacy components that are actually measured.

Financial literacy encompasses the knowledge and skillrequired by individual to function effectively in the money economy and makeinformed judgments in respect to their own and their family circumstances. There isevidence of a correlation between financial literacy and positive financial behavioralthough the direction of causality is unclear (Berger, 2007)..Financial illiteracy can lead to self-exclusion from the formal financial system.Those who are financially literate are not likely to be intimidated by the complexity ofthe financial system and therefore can result in people making inappropriate decisions (Berger, 2007)

Microfinance institutions are often offered in conjunction with client education services, to provide training for clients through the existing infrastructure. Timothy (2008) found that business training for microfinance clients improved business knowledge, practices and revenues for beneficiaries and increased repayment and client retention rates for the institution. Financial literacy is another educational topic that may be effective in improving economic conditions of clients and financial conditions for lenders.

By offering financial trainings with credit, microfinance institutions may help small scale farmers to better manage their loan repayment and avoid over indebtedness. Microfinance institutions may minimize educational costs and improve outreach of the model by using information and communication technologies (ICTs) such as radio and television (Schaeffer-Kehnert, 2008)

Akol et al., (2009) commented that the components of financial literacy are cash-flowmanagement, credit management, savings, and investment practices. Comparing theresults of this index with scores on the financial literacy quiz, they found that thosewho were more financially literate had higher Financial Practices Index scores,indicating that financial knowledge is related to financial behavior. In a study of Dutchadults, (2007) found that those with low financialliteracy are more likely than others to base their behavior on financial advice fromfriends and are less likely to invest in stocks. Mandell (2006) found that high schoolseniors with higher financial literacy scores were less likely than others to bounce acheck and more likely to balance their checkbooks.

It is important to understand the credit and debt situation. If one thought that looking at the expenses was bad, they therefore would really hate this part of becoming financially literate. Nevertheless, you cannot skip this step because getting your debt under control is crucial to being a financially smart individual

Financial literacy also involves record keeping. creating and maintaining thorough business records is essential. These records will help the small businesses analyze business's profitability, stay out of trouble with tax authorities, maintain positive relationships with clients and vendors, protect business from lawsuits and win lawsuits if harmed.. Certain records are key to all businesses of such small scale formers.

Awareness is alo a key component of financial literacy. Because business owners are in it, presumably, for the money, it makes sense to understand how money works. Financial literacy isn't only about knowing where the money comes from and where it goes. It's about understanding how money *works*, and being able to see how to spend money to make money, and knowing how your decisions are likely to affect profitability

Audretsch (2007) opined that financial literacy has attracted increasing attention in both the developed anddeveloping world due to its role in financial decision. Financial literacy improves the ability of an individual to pay back with ease. A compelling body of evidence demonstrates a strong association between financialliteracy and small scale farmer's success. Survey after survey shows Small scale farmers that are run byfinancial literate entrepreneurs have a higher chance of being more successful than their illiterate counterparts.

Several studies have showed that financial literacy is positively related to self-beneficialfinancial behavior. Nunoo et al (2012) in a study to examine how financial literacy influences Small scale farmers in Ghanafound that financial literacy is crucial in stimulating the SME sectors. Financial literateSmall scale farmers may save more, and better manage risk, by purchasing insurance contracts. Theresults of the study proved that financial literacy has a positive effect on Small scale farmers'performance. Basic education enhances the overall quality of the entrepreneur byproviding the basic numeric and financial literacy skills that increases the chance ofsurvival (Bagonza, 2006).

Bruhn and Zia (2011) in their study on the impact of financial literacyfor small scale farmers in Bosnia and Herzegovina found that business outcomes andpractices is the difference in effects of the training on individuals with below andabove median financial literacy at baseline. They also found that both entrepreneurswith below and above median financial literacy changed some of their businesspractices, such as separating personal accounts from business, and making investmentsin their business; however, only entrepreneurs with above median financial literacy atbaseline reported increases in sales and profits as a result of the training. Thesefindings suggest that baseline knowledge and information conveyed in the financialtraining act as complements in increasing the productivity and sales of a business.They also found that entrepreneurs with relatively high ex-ante financial literacyexhibit improvements in sales due to the training program(Berger, 2007)

Bhattacharya et a., (2006), opined that, Financial literacy empowers investors by educating them to acquire relevant knowledge and skills in financialmanagement. Financial knowledge helps to overcome most difficulties in advanced credit markets. Financialliteracy allows the investors to encounter difficult financial times, through strategies that mitigate risk such asaccumulating savings, diversifying assets, and purchasing insurance. More importantly, financial literacyenhances decision making processes such as payment of bills on time, proper debt management which improvesthe credit worthiness of potential borrowers to support livelihoods, economic growth, sound financial systems,and poverty reduction.

According to Binswanger, (2006) financial literacy leads to more effective use of financial products and services, greatercontrol of one's financial future and reduced vulnerability to overzealous retailers. Facing an educated lot,financial regulators are forced to improve the efficiency and quality of financial services.

Financially literate farmers are able to create competitive pressures on financial institutions to offer moreappropriately priced and transparent services, by comparing options, asking the right questions, and negotiatingmore effectively. Investors are able to evaluate and compare financial products, such as bank accounts, savingproducts, credit and loan options, payment instruments, investments, insurance coverage, so as to make optimaldecisions (Binswanger, 2006). Bohnstedt, (2008)argues that financial literacy helps toinculcate individuals with the financial knowledge necessary to create household budgets, initiate savings plans,and make strategic investment decisions. Proper application of that knowledge helps investors to meet theirfinancial obligations through wise planning, and resource allocation so as to derive maximum utility (Berger, 2007).

2.2 Loan terms and conditions and performance of small scale farmers

loan terms and Conditions can be defined as the requirements included in a loan agreement that specify the loan amount, term, interest rate, and other enforceable conditions agreed to by the borrower and the lender.

Loan terms are the minimum conditions set by lending institutions to which borrowers mustadhere in order to qualify for loan (Bohnstedt, 2007). Enforcing credit terms involves thescreening of customers so that only those who are credit-worthy are allowed to do business(Delgado, 2009).Kissinger (2007) notes that credit terms have been the key in the determination of capitalrequirements of Small scale duty as set by bank. Normally, due to the possibility of default and lack ofeffective contract enforcement mechanisms, lenders have additional incentives to restrict thesupply of credit, even if they have more than enough to meet a given demand and the borrower iswilling to pay a high interest rate (Delgado, 2009).

It has, however, been found that large long-term loans have a comparative advantage oversmall loans because long term loans not only increase an enterprise's capital base considerablybut also give the enterprise longer grace and repayment (credit) periods, which have been foundto support business growth (Deller, 2007). 'Credit accessibility' refers to the ease or difficulty of acquiring credit by borrowers forpurposes such as to enhance business performance (Salahuddin, 2006).

In order to ensurecontinuity and realized success, Small scale duty needs to acquire the necessary financial resources/credit toallow them to invest now so that they will obtain income in the future (Deschamps 2007).Acquisition of such credit is difficult for the Small scale duty because of high rates of interest on lending,and this has constrained private sector demand for the credit and limited their progress(Deschamps, 2007).

Inability of borrowers to repay amount of loanscollected is crucial for the long-term sustenanceof the credit institutions. As a result, many studieshave tried to examine loan repayment performanceof many socio-economic groups. Empirical workby Kayser (2008), revealed income, farm size,age of farmers, farming experience and level of education of farmers contributed positivelyto the credit worthiness of farmers. Oladeebo, (2008) examined the determinants of loan repayment among small scalefarmers inOgbomoso Agricultural Zone, Nigeria. Resultsfrom multiple regression analysis showed thatamount of loan obtained by farmers, years of farmingexperience with credit and level of education weremajor factors that positively and significantlyinfluenced loan repayment (Kayser, 2008)

Eze and Ibekwe (2007)examined the determinants of loan repaymentunder the indigenous financial system in SoutheastNigeria. Empirical results from multiple regressionanalysis revealed amount of loan received, ageof beneficiary, household size, and years of formaleducation and occupation as important predictorsof loan repayment under the system. Kayser, (2008) analyzed the factors affectingthe loan status and repayment scheme of sugarcanefarmers who received graduated mortgage loan inKwazulu-Natal, South Africa. Results identifiedfarm size (proxied by annual gross turnover),access to off-farm income, and average annualgross turnover relative to loan size as criteria in selecting potential farmers for such scheme asthey provided additional liquidity to fund futureoperations and debt repayment.(Katz, 2009)

According to Kreijce, (2006), commercial banks constitute the majority of formal lenders, yetaccess to these institutions is restricted to a small portion of the population who can meet theirstringent requirements. Access to financial services by small holders is normally seen as one ofthe constraints limiting their benefits from credit facilities (Kreijce, 2006).

This is reflected inthe institutions' strict lending policies, displayed in the form of collateral requirement, repaymentperiod, first account operating requirement and maximum loan amounts. Financial institutions' lending policies often determine the access problem:, when credit termsand provision of supplementary services do not suit borrowers they will not apply for loans ortheir applications will be rejected (Guirkerger, 2006). The access problem is further complicatedby the restriction of credit to a few sectors of the economy (Jaime, 2006). For example, indeveloping countries such as Rwanda, few formal institutions are willing to extend credit to theagricultural sector. They perceive this sector to be as a risky one with difficulties such asunpredicted return and seasonality factors

Levine, (2008) constituted thataccess to credit is restricted to a small proportion of the population who canovercome significant barriers to credit such as high minimum balance for account opening,onerous collateral requirements and along and costly bureaucratic processes (Okurut, 2007).For those Small scale duty with acceptable “credit histories” and sufficient collateral, access to bank creditappears to be satisfactory according the lending institutions.

For start-ups, micro-enterprises,entrepreneurs from previously disadvantaged communities or any other group with limitedcollateral or weak (or limited) credit histories, access is more limited (Falkena et al, 2009). Thismay indicate a need for greater institutional variety, increased innovation and a greater emphasison mentoring

According to Llewellyn, (2009),access to credit is linked to productivity. The growth of a farm is dependent on its productivity and the farmers’ effectiveness in the useof the inputs to operate it (Stiglitz, 2009). For small and medium scale farmers to improve theirperformance they have to improve their productivity by employing techniques such as the use offertilizers, spraying their crops against pests and diseases, training labor, quality seeds andmachinery (Llewellyn 2009). Small and medium scale farmers have limited capital to afford suchtechniques and limited access to credit, putting the agricultural sector in a vulnerable situation.Yet studies shows that improvement in rural credit encourages improved resource allocation.Loans also allow farmers to make better allowance for risks associated with the nature of theagricultural production such seasonality issues. They are also enabled to afford larger investments(Njuki (2008). In addition, access to credit is an important instrument for improving thewelfare of the poor directly (consumption smoothing that reduces their vulnerability to short termincome shocks) and for enhancing the productive capacity through financing investments(Njuki 2008)

Stiglitz(2009) cited that the high borrowing costs reflected by high interest rates are perennial complaints amongmost borrowers and constrain credit accessibility because borrowers need a return on theirinvestment. Many borrowers who proceed to access loans at such rates have under-goneliquidation or lost their highly valuable collateral to lenders as a result of defaulting on repayments (Stiglitz, 2009).

Consequently credit constraints limit the size offirms as well as their growth, profits, activations and liquidations; the scope of operation may alsobe limited. Since agriculture is the back bone of most developing economies, credit constraints tothe sector are of first-order importance for the performance of these economies. Capital marketimperfections can impair the aggregate accumulation of capital, the rate of return on investment,innovation and accumulation (Jaime, 2006). This has led farmers in rural areas to rely on the lessefficient and expensive informal credit markets and hence limited the exploitation of theagricultural sector.

When credit terms are favorable, they encourage borrowing and therefore the expansion of capitalbase, leading to increased business activity (Stiglitz, 2009). In contrast, unfavorable creditterms not only discourage borrowing but also decrease the business growth of a borrowingenterprise because they become huge direct expenses without cash discount, which reducerevenue (Kaplan, 2006)

2.3 loan mobilization effect on performance of small scale farmers

The main business for microfinance institutions is accepting deposits and granting loans. The more the loans the institutions disburse the more profit they make. Also, those institutions do not have a lot of their own money to give as loans. They depend on customer deposits to generate funds for granting loans to other customers. So a Loan mobilization schemes would encourage customers to deposit more cash with the institution and this money in turn will be used by the bank to disburse more loans and generate additional revenue for themselves

According to Stiglit, et al., (2009), Loan mobilization is an important instrument for improving the loan capacity of the institution which in turn enhances welfare of the poor directlythrough consumption smoothening that reduces their vulnerability to short-termincome. It also enhances productive capacity of the poor through financinginvestment in their human and physical capital (Okurutu, 2008).

Loan mobilizations is normally dome by loan brokers so as to get small scale farmers to be ale to access credit from the micro finance institutions The demand for credit for productive investments usually comes from those poorwho are less risk-averse and enables them to overcome liquidity constraints,making it possible to undertake investment that can boost production,employment and income. A study in Uganda has shown that the failure of formalbanks to serve the poor is due to a combination of high risk, high costs andconsequently low returns associated with such business (Okurutu, 2008)

'Five Cs Of Credit' are a a method used by lenders to determine the credit worthiness of potential borrowers. The system weighs five characteristics of the borrower, attempting to gauge the chance of default.The five Cs of credit are:Character, Capacity, Capital, Collateral and Conditions.

Berger, &Udell, (2007) explained that 5C's as follows

Capacity to repay is the most critical of the five factors; it is the primary source of repayment - cash. The prospective lender will want to know exactly how you intend to repay the loan. The lender will consider the cash flow from the business, the timing of the repayment, and the probability of successful repayment of the loan. Payment history on existing credit relationships - personal or commercial- is considered an indicator of future payment performance. Potential lenders also will want to know about other possible sources of repayment.

Capital is the money you personally have invested in the business and is an indication of how much you have at risk should the business fail. Interested lenders and investors will expect you to have contributed from your own assets and to have undertaken personal financial risk to establish the business before asking them to commit any funding.

Collateral, or guarantees, are additional forms of security you can provide the lender. Giving a lender collateral means that you pledge an asset you own, such as your home, to the lender with the agreement that it will be the repayment source in case you can't repay the loan. A guarantee, on the other hand, is just that - someone else signs a guarantee document promising to repay the loan if you can't. Some lenders may require such a guarantee in addition to collateral as security for a loan.

Conditions describe the intended purpose of the loan. Will the money be used for working capital, additional equipment or inventory? The lender will also consider local economic conditions and the overall climate, both within your industry and in other industries that could affect your business.

Character is the general impression you make on the prospective lender or investor. The lender will form a subjective opinion as to whether or not you are sufficiently trustworthy to repay the loan or generate a return on funds invested in your company. Your educational background and experience in business and in your industry will be considered. The quality of your references and the background and experience levels of your employees will also be reviewe

The establishment of microfinance institutions with a mandate to mobilize credit tosmallholder farmers is one of the approaches used by governments indeveloping countries to promote smallholder agricultural development(Schaeffer, 2008). In South Africa, the Land Bank and the Agricultural CreditBoard were established to serve commercial farmers, while parastatals wereestablished in the former homelands to serve smallholder farmers. The collapseof such parastatals left smallholder farmers without access to credit services. Atthe same time, the land Bank's mandate was broadened to accommodate thosepreviously excluded from its service (Stiglitz2009)

Loan mobilization sometimes involves group lending.Group lending revolves aroundproviding financial assistance to a group, whereinmembers act as guarantors for availing the loan,for one another. To illustrate, in a group of five,four members stand guarantee for a loan takenby the fifth. Should the borrower default, theguarantors contribute equally towards clearingthe outstanding installments (Katz & Boland, 2009).

Nany group-based lending programs target the very poor, who cannot meet the traditional collateral requirements of most formal financial institutions such as commercial banks and non-bank financial institutions (Udry2007).While many people presume that group guarantees involve the strict joint liability of group members, members are seldom held responsible.Instead, the default of one member in a group generally means that further lending to other group members is stopped forthwith until the loan is fully liquidated or is fully repaid.

The financial and social grouping elicits several types of group dynamics that may increase repayment rates. For instance, peer pressure from other group members can act as an effective repayment incentive, since members do not want to let down the other members of their group or suffer any social sanctions imposed by the group as a result of defaulting in repaying their loans (Deschamps, 2007).

In South Africa, Udry, (2007)points out that, financial intermediaries have notbeen able to accommodate small-scale rural farmers because it is risky, costlyand a difficult task associated with high transaction costs. Lack of informationprevented large formal lenders who had capacity to serve the small farmers andthe poor from doing so. The methods and practice of most banks in LimpopoProvince did not meet the needs of their clients (Udry2007)

In the study on the accessibility to and impact of credit on small-scale farmers inLimpopo, Udry, (2007)found that the difference in productivity between borrowersand non-borrowers is due to both the use of credit and to the preexisting inherentcharacteristics of farmers. The difference measures up to 40%, of which 21% isdue to credit. Thus, credit can increase the output of a randomly selected farmerby 21%. In the same study, a socio-economic comparison based on the creditstatus of small-scale farmers indicates that borrowers have significantly highervalues than non-borrowers, especially in area cultivated, input usage andproductivity. The results further point out that borrowers do have an advantage inperformance over non-borrowers as a result of inherent characteristics evenwhen operating without credit (Udry2007). The inherent characteristics mayinclude amongst others the farmers' experience in farming.

According to Timothy (2008), access to affordable credit is one of the most important factors affectingproduction and therefore income of the poor. The poor access to agrarian andsupport services are attributed to socio-economic factors of the farmers as wellas constraints encountered by these farmers in institutions. Constraintsencountered by the financial institutions in serving the small-scale farmers andthe poor involve high risk and high transaction costs (Kayser 2008)

Dietsch, (2010) cited that, although government has made some advances in mobilizing credit, most small-scale and emerging farmers still do not have access toaffordable credit for investment in the technology imperative for expanding andintensifying agricultural production or diversification of production into high valuecrops (Guirkinger 2006). The 2005 Development Report also states that black farmershave no access to credit, no access to financial services, and no access togrants other than those available for land reform beneficiaries and the Land Bankwhich was supposed to be charged with the responsibility of supplying thefinancial services required to develop the smallholder agriculture, will nowconcentrate on lending to established commercial farmers (Guirkinger, 2006)

As with urban families small-scale farmers in each of the 'rural worlds' requiresavings or the facility to borrow capital to cope with household money management,for example to pay for household equipment and for education and health care(Dietsch, 2010). However, small-scale farmers also require capital to manage the seasonality of theirincomes arising from the nature of agricultural activities. For example, they need toacquire seeds and fertilizer and invest in equipment at the start of the planting seasonthat will not produce an income until the harvest is collected and sold. Small-scale farmers' incomes also fluctuate according to the success of the growing season andharvest. They may not have the savings available to provide the capital required andtherefore they need to borrow it. For refugees and IDPs displaced to rural areas theyneed some form of capital to start even the smallest of microenterprise, such asgrowing garlic, drying it and selling it(Deschamps, 2007).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the study design, area of study, study population, sample size, sampling techniques, data collection methods, research instruments, information sources, data analysis, data collection procedure and limitations of the study.

3.2 Research Design

A descriptive research design was used in this study because it helped the researcher to give an in-depth analysis of study of the effect of micro finance on performance of small scale farmers. This research design was also preferred because it allowed the researcher to explore and describe a phenomenon in its real situation and measure incidence rates and prevalence rates (Kothari, 2004). Collection of data was qualitative and quantitative in nature.

3.3 Study Population

The study targeted clients and employees of FINCA. Clients were targeted to get first-hand information regarding the microfinance and performance of small scale farmers. On other hand, the employees of FINCA were targeted because they are the people involved in providing services to the small scale farmers and thus could easily give their views on the effect of MFIs on performance of small scale farmers.

3.4 Area of Study

The study was carried out at FINCA Mbarara branch which is located along the high street on plot No 36/38, with in Mbarara municipality, Mbarara district. It offers services such as giving soft loans to small scale farmers. This particular area therefore was chosen for this study because it easily created avenues for the researcher to assess the effect of services offered by FINCA on performance of small scale farmers.

3.5 Sample size

A sample of 50 respondents was considered for this study. These included 10 staff members at FINCA Mbarara branch (1 manager, 4 supervisors and 5 accountants/cashiers) and 40 clients of FINCA Mbarara branch.

3.6 Sampling techniques

Simple random sampling techniques were used to select microfinance clients. Simple random sampling techniques were used to assist the researcher to avoid bias in selecting the clients to participate in the study since they were many and this gave each of them an equal chance to participate in the study. Staff of FINCA were purposively selected because were directly involved in the day today personnel management of financial transactions of small scale farmers at FINCA and thus were assumed to give detailed information on the effect of services offered by FINCA on performance of small scale farmers.

3.7 Data Collection Methods/tools

3.7.1 Interviews

Interviewing was used by the researcher in collecting primary data from clients of FINCA basing on structured interview guides. Interviewing was preferred because some of the clients might know how to read and write and hence this made it easy for them to give their views through interviews than filling in questionnaires.

3.7.2 Survey Questionnaires

Self-administeredquestionnaires were designed to capture information on the background, independent, and extraneous variables. The items in the questionnaire were comprised of close-ended questions with predetermined options for the respondents to make a choice, and a few structured questions. The questionnaires were administered to Staff at FINCA for their independent individual's reports about their experiences and opinions on the effect of the services offered by FINCA on performance of small scale farmers and the challenges they face to extend services to small scale farmers. Questionnaires were preferred because of convenience in the context of time, stability and uniformity. They were also preferred because Staff at FINCA were assumed to know how to read and write and thus they were assumed to find no difficulty in filling in the questions.

3.8 Data management and analysis

3.8.1 Data editing

This involved checking for errors and omissions to ensure accuracy, uniformity and completeness. Data editing also included checking for gaps, errors, incompleteness and misreporting.

3.8.2 Data Summarizing

During the process of the study, answers were simplified into meaningful categories so as to bring out essential patterns.

3.8.3 Data processing

After collecting data, it was compared and reduced into tables and allocated into values or percentages. SPSS computer program was used to process data. Data processing also involved editing, summarizing and tabulation. The findings were analyzed and interpreted to give meaning to the raw data.

3.9 Reliability and validity of instruments

Toensure reliability and validity, the researcher pre-tested the instrument to check the accuracy of assessment. The degree of truthfulness was measured by the use of face validity where by the researcher made conclusions that were intended to be measured. The instruments were also subjected to expert review and the Content Validity Index (CVI) was calculated.

3.10 Ethical Considerations

Before carrying out the study, the researcher clearly explained to the respondents the purpose of the study. The researcher provided assurance to the respondents that the findings would help them on how to benefit from microfinances. The researcher as much as possible observed the respondent's rights. He did not at all enter into the personalities of the respondents. The researcher, also, during the course of the study, was honest and fair in whatever he reports. This means that the researcher made sure professional practice and ethical behavior was observed; the researcher-respondent relationship was also maintained; the researcher-researcher relationship was also assured; informed consent was sought from the respondents; and permission was sought from the Uganda Martyrs University to carry out the study. Confidentiality on the source of information was observed

3.11 Limitations and Delimitations

Suspicion of some respondents - Some respondents who were approached were reluctant in giving out information. This was however solved by assuring such respondents that information they were to give was to be for academic purposes and was to be treated with utmost confidentiality.

Lack of enough funds – Funds were needed especially in purchasing stationery, typesetting, printing and photocopying. This problem was addressed by appealing to well-wishers and family members for support.

3.12 Conclusion

Chapter three presented the study design, area of study, study population, sample size, sampling techniques, data collection methods, research instruments, information sources, data analysis, data collection procedure and limitations of the study

CHAPTER FOUR

DATA ANALYSIS, RESULTS PRESENTATION, AND DISCUSSION OF FINDINGS

4.0 Introduction

The study was undertaken to examine the effect of microfinance towards the performance of small scale farmers basing on clients of FINCA Mbarara as the case study. Data was collected using questionnaires and this was based on set objectives which were to examine the role of financial literacy on performance of small scale farmers in Mbarara district, to analyse the role of loan terms and conditions on performance of small scale farmers and to establish the role of loan mobilization on performance of small scale farmers in Mbarara District.

4.1 Response rate

The study aimed at contacting 50 respondents through use of questionnaires and interviews and the response rate was presented in table 4.1 below

Table 4.1:Response rate

Instruments		**Frequency (F)**	**Percentage (%)**
Questionnaires	Answered	40	80.0
	Not answered	00	0.0
Interviews	Held	10	20.0
	Not held	00	0.0
Total		**50**	**100.0**

Source: Researcher

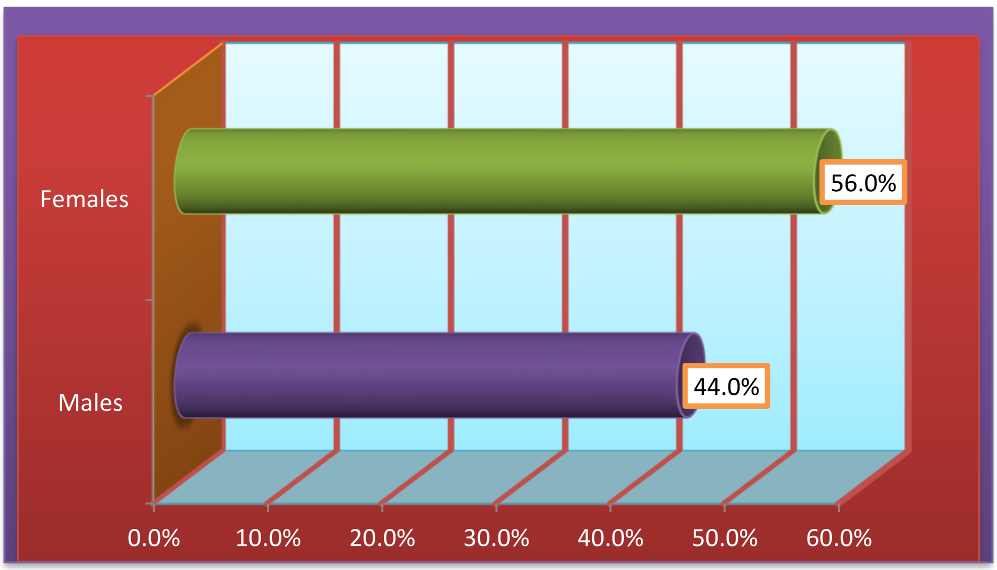
Results in table 4.1 indicated that show that all the 40 (80.0%) of the administered questionnaires issued were dully filled while 10 (20.0%) of the instruments that is interviews were held and became successful. This provided 100% response rate which was a comprehensive response on the variables under study.

4.2 Background characteristics of Respondents

4.2.1 Gender of the Respondents

The characteristics of respondents in terms of gender, Age group, and level of education of respondents were as shown below.

Figure 4.1: Showing the Gender of the Respondents



Source: Primary data

According to the results from figure 4.1 above, it was indicated that the majority (56.0%) of the respondents were females whereas the minority (44.0%) of the respondents were males. This showed ender imbalance in the study as females were more than males and it also implied that most clients of FincaMbarara branch were females. This also assisted the researcher to obtain varying views from different sex.

Table 4.2: showing the Age group of the Respondents

4.2.2 Age group of the Respondents

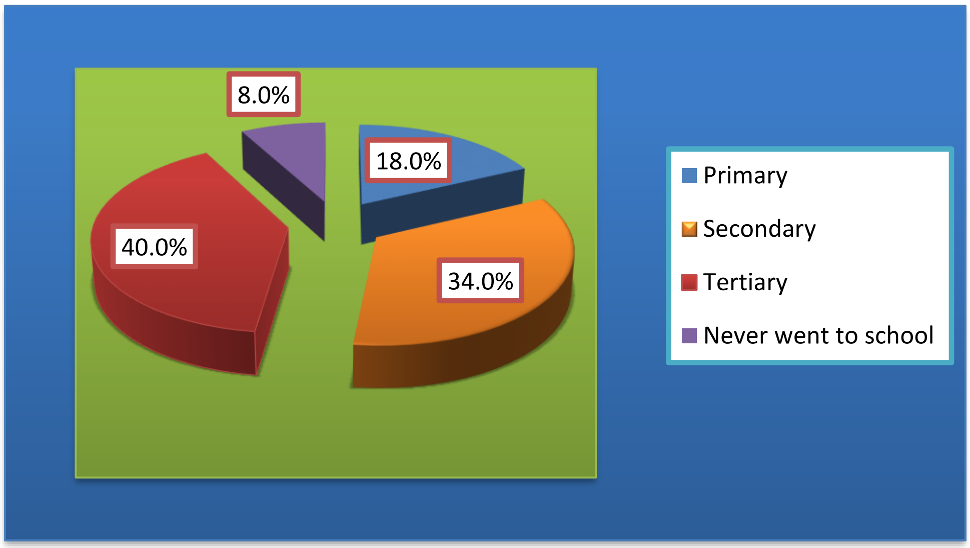
	Frequency (F)	Percent (%)	Valid Percent (%)	Cumulative Percent (%)
Below 20	6	12	12	12
20 - 25	12	24	24	36
26 - 30	17	34	34	70
31-35	3	6	6	76
36-40	7	14	14	90
Above 40	5	10	10	100
Total	50	100	100	

Source: Primary data

Results from table 4.2 showed that the majority (34.0%) of the respondents had 26-30 years, these were followed by (24.0%) who had years ranging from 20 – 25 years, (14.0%) of the respondents had years between 36-40) years whereas then (12.0%) of the respondents were below 20 years, the minority (10.0%) of the respondents were 40 years. This implied that the study involved respondents with different age groups where by the most were youths. This also helped the researcher to acquire distinct data from different groups thus obtaining unbiased data.

4.2.3 Level of Education of Respondents

Figure 4.2: showing the Level of Education of Respondents



Source: Primary data

From figure 4.2 indicating that the majority (40.0%) of the respondents had attained tertially education, those were followed by (34.0%) had acquired only secondary education, then (18.0%) had studied up to primary level while the minority (8.0%) of the respondents never went to school. This depicted that (92.0%) of the respondents had obtained some education and this was advantageous to the study because the respondents could easily interpret the questionnaires and raise views during the interview sessions.

4.3 Financial literacy and performance of small scale farmers

The first objective of the study was to examine the role of financial literacy on performance of small scale farmers in Mbarara district. To accomplish this, the researcher examined the extent to which the respondents agree and disagree with the role of financial literacy on performance of small scale farmers in Mbarara district. The findings are presented in table 4.3 below. The following abbreviations were used; **SA =** (Strongly Agree)**, A=** (Agree)**, N=** (Neutral)**, D= (**Disagree), **SD=** (Strongly Disagree) and **STD**= Standard Deviation.

Table 4.3: showing role of financial literacy on performance of small scale farmers

Role of financial literacy on performance of small scale farmers	**SA**		**A**		**NS**		**D**		**SD**		**Mean**	**STD**
	(F)	(%)	(F)	(%)	(F)	(%)	(F)	(%)	(F)	(%)		
We get small loans that help us to meet our financial needs such as hybrid seeds and tools and services like transportation.	19	47.5%	16	40.0%	1	2.5%	2	5.0%	2	5.0%	3.65	1.021
We have acquired financial management skills hence we can now budget and better manage our investment skills.	17	42.5%	17	42.5%	3	7.5%	1	2.5%	2	5.0%	3.51	0.783
We can easily acquire loans even without serious collateral since various security means such as our savings and group borrowing models arealiable means.	22	55.0%	12	30.0%	1	2.5%	4	10.0%	1	2.5%	3.82	0.493
We can do well business plans and hence we sell our goods at the estimated prices that are favourable in market.	14	35.0%	18	45.0%	2	5.0%	3	7.5%	3	7.5%	3.35	0.924
New known better how to keep records from which have enabled us maximize profits and make our own bank/ financial statements.	27	67.5%	9	22.5%	3	7.5%	0	0.0%	1	2.5%	4.01	1.422
M F I's can easily give us loans without necessarily having to go through various prolonged processes	23	57.5%	10	25.0%	3	7.5%	4	10.0%	0	0.0%	3.92	0.726

Source: Primary data

4.3.1 Able to meet their financial needs

The findings of the study indicated that the majority (47.5%) of the respondents strongly agreed that they get small loans that help them to meet their financial needs such as hybrid seeds and tools and services like transportation., those were followed by (40.0%) who agreed, (2.5%) were not sure whether small loans help clients to meet their financial needs while (5.0%) and (5.0%) disagreed and strongly disagreed respectively. The mean of 3.65 and standard deviation of 1.021 implied that small loans help clients to meet their financial needs. This was in line with Berger(2007) who stressed proper application of financial knowledge helps investors to meet their financial obligations through wise planning, and resource allocation so as to derive maximum utility.

4.3.2 Financial Management Skills

According to the study findings of the study, it was showed that (42.5%) of the respondents strongly agreed that they have acquired financial management skills hence they can now budget and better manage their investment skills, (42.5%) agreed, (7.5%) were not sure whether financial management skills have been acquired to better manage investment skills, (5.0%) strongly disagreed while the minority (2.5%) of the respondents disagreed. The mean of 3.51 and standard deviation of 0.783 meant that clients have acquired financial management skills hence they can now budget and better manage their investment skills. This was in agreement with Bhattacharya et al, (2006) who accentuated that, financial literacy empowers investors by educating them to acquire relevant knowledge and skills in financial management that helps to overcome most difficulties in advanced credit markets

4.3.3 Loans even without serious collateral

In relation to the study findings of the study, it was presented that the majority (55.0%) of the respondents strongly agreed that they can easily acquire loans even without serious collateral since various security means such as our savings and group borrowing models are available means, those were followed by (30.0%) who agreed, (2.5%) were not sure whether loans can be easily acquired even without serious collateral whereas (10.0%) and (2.5%) disagreed and strongly disagreed respectively. The mean of 3.82 and standard deviation of 0.493 represented (55.0%) of the respondents who strongly agreed that they can easily acquire loans even without serious collateral. This was in line with the findings of the interview where one of the respondents admitted that

"*Due to the fact that some clients have fully acquired better financial management skills, the institutions is sure of their capability to pay back the loan in the appropriate time therefore no need of a collateral security*"

4.3.4 Prices are favorable in market

With consideration to the study findings of the study, it was indicated that the majority (45.0%) of the respondents agreed that they can do well business plans and hence they sell their goods at the estimated prices that are favorable in market, those were followed by (35.0%) who strongly agreed, (5.0%) were not sure whether clients they can do well business plans whereas (7.5%) and (7.5%) disagreed and strongly disagreed respectively. The mean of 3.35 and standard deviation of 0.924 implied that clients can do well business plans and hence they sell their goods at the estimated prices that are favorable in market. This was in agreement with the findings of the interview where one of the respondents pointed out that:

"*Financial literate farmers can effectively formulate business plans and estimate the buying capability of customers thus selling more goods than the illiterate who set prices of their products randomly*"

4.3.5 Maximize profits and make their own bank/ financial statements

With regards to the study findings of the study, it was showed that the majority (67.5%) of the respondents strongly agreed that they have known better how to keep records which have enabled them to maximize profits and make their own bank/ financial statements, those were followed by (22.5%) who agreed, (7.5%) were not sure whether clients have known better how to keep records whereas the minority (2.5%) of the respondents strongly disagreed. The mean of 4.01 and standard deviation of 1.422 represented (67.5%) of the respondents who strongly agreed that they have known better how to keep records which have enabled them to maximize profits and make their own bank/ financial statements. This was in agreement with Binswanger (2006) who argued that financial literacy leads to more effective use of financial products and services, greater control of one's financial future which is achieved through record taking that later maximize profits due to limited losses.

4.3.6 Less prolonged processes when acquiring loans

More to the above, the findings of the study presented that the majority (57.5%) of the respondents strongly agreed that MFI's can easily give them loans without necessarily having to go through various prolonged processes, those were followed by (25.0%) who agreed, (7.5%)

were not sure whether M F I's can easily give clients loans without necessarily having to go through various prolonged processes whereas (10.0%) of the respondents disagreed. The mean of 3.92 and standard deviation of 0.726 depicted that M F I's can easily give clients loans without necessarily having to go through various prolonged processes. This was in line with the findings of the interview where one of the respondents mentioned that

"*Clients who financially literate have proved their extensive knowledge about investment skills, credit management and risk management therefore this has convinced the institution to issue loans to such a category without prolonged procedures*"

4.4 Loan Terms and Conditions on Performance of small scale farmers

The second objective of the study was to analyse the role of loan terms and conditions on performance of small scale farmers. To accomplish this, the researcher examined the extent to which the respondents agree and disagree with the roles of loan terms and conditions on performance of small scale farmers. The findings are presented in table 4.4 below. The following abbreviations were used; **SA =** (Strongly Agree)**, A=** (Agree)**, N=** (Neutral)**, D= (**Disagree), **SD=** (Strongly Disagree) and **STD**= Standard Deviation.

Table 4.4 showing role of loan terms and conditions on performance of small scale farmers

Loan terms and conditions on performance of small scale farmers	SA		A		NS		D		SD		Mean	STD
	(F)	(%)	(F)	(%)	(F)	(%)	(F)	(%)	(F)	(%)		
M F Is have given us the adequate loans at affordable rates which we have been in position to payback within the appropriate time.	23	57.5%	12	30.0%	3	7.5%	1	2.5%	1	2.5%	3.92	1.024
We have been given the adequate loans for our operations to go on well; we also receive items in time.	15	37.5%	18	45.0%	0	0.0%	3	7.5%	4	10.0%	3.41	0.844
We are given a period long enough to payback that covers the gestation period of our operations hence we make more profits.	18	45.0%	13	32.5%	2	5.0%	2	5.0%	5	12.5%	3.52	0.891
We pay back our loans within the allocated time and hence we are able in position to pay back using the purposes for which are borrowed the funds.	20	50.0%	16	40.0%	1	2.5%	0	0.0%	3	7.5%	3.61	1.203

We require a little amount of security to acquire loans which we have been in position to raise.	14	35.0%	19	47.5%	3	7.5%	3	7.5%	1	2.5%	3.23	0.625
We know various members who can guarantee us security to acquire MFI loans through the SACOs who know us from our locality.	29	72.5%	11	27.5%	0	0.0%	0	0.0%	0	0.0%	4.42	0.582
We save the profits we get after paying off our loans with the MFIs to use in the coming seasons and meet off other necessary needs.	21	52.5%	10	25.0%	2	5.0%	4	10.0%	3	7.5%	3.65	1.062

Source: Primary data

4.5.1 Payback within the appropriate time

The findings of the study indicated that the majority (57.5%) of the respondents strongly agreed that M F Is have given them the adequate loans at affordable rates which they have been in position to payback within the appropriate time, those were followed by (30.0%) who agreed, (7.5%) were not sure whether M F Is have given them the adequate loans at affordable rates while (2.5%) and (2.5%) disagreed and strongly disagreed respectively. The mean of 3.92and standard deviation of 1.024implied that MFIs have given clients the adequate loans at affordable rates which they have been in position to payback within the appropriate time.This was supported by the findings of the interview where one of the respondents noted that

"*Due to the low interest rates set by FINCA, there has been ease of acquiring credit by borrowers for purposes such as to enhance business performance*"

4.5.2 Adequate loans for operations

According to the study findings of the study, it was showed that the majority (45.0%) of the respondents agreed that they have been given the adequate loans for their operations to go on well and they also receive items in time, (37.5%) strongly agreed (10.0%) strongly disagreed while the minority (7.5%) of the respondents disagreed. The mean of 3.41and standard deviation of 0.844meant that clients have been given the adequate loans for their operations to go on well and they also receive items in time. This was in agreement with Pennacchi, (1995) who propounded that when credit terms and provision of supplementary services suit borrowers they will apply for loans and their applications will be accepted.

4.5.3 Enough payback period

In relation to the study findings of the study, it was presented that the majority (45.0%) of the respondents strongly agreed that theyare given a period long enough to payback that covers the gestation period of their operations hence they make more profits means, those were followed by (32.5%) who agreed, (5.0%) were not sure whether clientsare given a period long enough to payback that covers the gestation period of their operations whereas (5.0%) and (12.5%) disagreed and strongly disagreed respectively. The mean of 3.52and standard deviation of 0.891represented (45.0%) of the respondents who strongly agreed that theyare given a period long enough to payback that covers the gestation period of their operations hence they make more profits means. This was endorsed by the findings of the interview where one of the respondents mentioned that.

"*FINCA Uganda has endeavoured to consider clients' capability to repay the loan and in the light of this, clients are always granted enough time for loan repayment*"

4.5.4 Pay back their loans within the allocated

With consideration to the study findings of the study, it was indicated that the majority (50.0%) of the respondents strongly agreed that theypay back their loans within the allocated time and hence they are able in position to pay back using the purposes for which are borrowed the funds, those were followed by (40.0%) who agreed, (7.5%) strongly disagreed while the minority (2.5%) of the respondents were not sure whether clients pay back their loans within the allocated time. The mean of 3.61and standard deviation of 1.203implied that clients pay back their loans within the allocated time and hence they are able in position to pay back using the purposes for which are borrowed the funds. This was in agreement with Stiglitz, (2009) who accentuated that when credit terms are favorable, they encourage borrowing and therefore the expansion of capital base, leading to increased business activity which in turn enables the borrower to repay the loan within the actual period.

4.5.5 Little amount of security to acquire loans

With regards to the study findings of the study, it was showed that the majority (47.5%) of the respondents agreed that they require a little amount of security to acquire loans which they have been in position to raise, those were followed by (35.0%) who strongly agreed, (7.5%) were not sure whether FINCA require a little amount of security to acquire loans, (7.5%) disagreed whereas the minority (2.5%) of the respondents strongly disagreed. The mean of 3.23and standard deviation of 0.625represented (47.5%) of the respondents agreed that they require a little amount of security to acquire loans which they have been in position to raise. This was contradicting with the findings of Levine, (2008) who highlighted that access to credit is restricted to a small proportion of the population who can overcome significant barriers to credit such onerous collateral requirements

4.4.6 Security to acquire MFI loans

More to the above, the findings of the study presented that the majority (72.5%) of the respondents strongly agreed that they know various members who can guarantee them security to acquire MFI loans through the SACOs who know them from their locality while the minority (27.5%) of the respondents agreed. The mean of 4.42and standard deviation of 0.582depicted that clients know various members who can guarantee them security to acquire MFI loans through the SACOs who know them from their locality. This was in line with the findings of the interview where one of the respondents mentioned that

"*Most clients are popular among the institution employees who stand as their witnesses in acquisition of loans from the institution*"

4.4.7 Saving profits after paying off their loans

In addition to the above, the findings of the study indicated that the majority (52.5%) of the respondents strongly agreed that theysave the profits they get after paying off their loans with the MFIs to use in the coming seasons and meet off other necessary needs, (25.0%) agreed, (10.0%) disagreed,(7.5%) strongly disagreed while the minority (5.0%) of the respondents were not sure whether clientssave the profits they get after paying off their loans with the MFIs to use in the coming seasons. The mean of 3.65and standard deviation of 1.062depicted that whether clientssave the profits they get after paying off their loans with the MFIs to use in the coming seasons and meet off other necessary needs. This testified how financial literate the clients are and this further proved that farmers lay their future plans effectively.

4.5 Loan mobilization on performance of small scale farmers

The third objective of the study was to establish the role of loan mobilization on performance of small scale farmers in Mbarara District. To accomplish this, the researcher examined the extent to which the respondents agree and disagree with roles of loan mobilization on performance of small scale farmers in Mbarara District. The findings are presented in table 4.5 below. The following abbreviations were used; **SA =** (Strongly Agree)**, A=** (Agree)**, N=** (Neutral)**, D=** **(**Disagree), **SD=** (Strongly Disagree) and **STD**= Standard Deviation.

Table 4.5: showing the role of loan mobilization on performance of small scale farmers in Mbarara District

loan mobilization and performance of small scale farmers	SA		A		NS		D		SD		Mean	STD
	(F)	(%)	(F)	(%)	(F)	(%)	(F)	(%)	(F)	(%)		
We can now borrow the amounts we recquire without necessarily having much security since our voltage banks know our various capabilities.	13	32.5%	26	65.0%	1	2.5%	0	0.0%	0	0.0%	3.11	0.731
We can easily raise money to pay back our loans since the loan weight is lowered from individuals to the whole borrowing group which encourages team work.	15	37.5%	25	62.5%	0	0.0%	0	0.0%	0	0.0%	3.35	1.025
We do not need to have strong character history since the MFIs'consistent customers who know us better can give us bank guarantees.	16	40.0%	17	42.5%	2	5.0%	4	10.0%	1	2.5%	3.43	0.571
The MFI bank intermediaries have helped us to know how best to acquire and pay back our loans in the given time.	19	47.5%	19	47.5%	1	2.5%	0	0.0%	1	2.5%	3.65	1.223
The small business models used by MFIs have enabled us improve our farming hence raising enough capital to pay back our loans.	24	60.0%	9	22.5%	1	2.5%	4	10.0%	2	5.0%	4.05	0.925
The MFIs' cooperatives model has put us in peer groups with influential colleagues who have helped in mobilizing us to pay back the loan money in time.	21	52.5%	15	37.5%	2	5.0%	1	2.5%	1	2.5%	3.65	0.673

Source: Primary data

4.5.1 Banks know their various capabilities

The findings of the study indicated that the majority (65.0%) of the respondents agreed that they can now borrow the amounts they require without necessarily having much security since their voltage banks know their various capabilities, those were followed by (32.5%) who strongly agreed, while the minority (2.5%) were not sure whether small loans help clients to meet their financial needs. The mean of 3.11 and standard deviation of 0.731 implied that clients can now borrow the amounts they require without necessarily having much security since their voltage banks know their various capabilities. This was in agreement with Schaeffer(2008) who affirmed that microfinance institutions were established with a mandate to mobilize credit to smallholder farmers therefore with or without a viable collateral security a client can acquire a loan.

4.5.2 Loan weight is lowered from individuals

According to the study findings of the study, it was showed that (62.5%) of the respondents strongly agreed that theycan easily raise money to pay back their loans since the loan weight is lowered from individuals to the whole borrowing group which encourages team work while the minority (42.5%) of the respondents agreed. The mean of 3.35 and standard deviation of 1.025 meant that clients can easily raise money to pay back their loans since the loan weight is lowered from individuals to the whole borrowing group which encourages team work. This was in line with the findings of the interview where one of the respondents pointed out that

"*FINCA has initiated group lending where loans can be acquired and repaid as a group. This has helped clients who have low valued collateral securities to acquire enough credit and repay easily*. "

4.5.3 Bank guarantees

In relation to the study findings of the study, it was presented that the majority (42.5%) of the respondents agreed that theydo not need to have strong character history since the MFIs' consistent customers who know them better can give them bank guarantees, those were followed by (40.0%) who strongly agreed, (5.0%) were not sure clients do not need to have strong character history whereas (10.0%) and (2.5%) disagreed and strongly disagreed respectively. The mean of 3.43 and standard deviation of 0.571 represented (42.5%) of the respondents who agreed that do not need to have strong character history since the MFIs' consistent customers who know them better can give them bank guarantees. This was in line with the findings of the interview where one of the respondents noted that

"*Most clients are fully known by the employees from the institution, this gives them an assurance of acquiring a loan even in their absence*"

4.5.4 Knowledge on how best to acquire and pay back loans

With consideration to the study findings of the study, it was indicated that (47.5%) of the respondents strongly agreed that MFI bank intermediaries have helped them to know how best to acquire and pay back their loans in the given time, (47.5%) strongly, (2.5%) were not sure whether MFI bank intermediaries have helped clients to know how best to acquire and pay back their loans in the given time, whereas (2.5%) strongly disagreed. The mean of 3.65 and standard deviation of 1.223 implied that MFI bank intermediaries have helped them to know how best to acquire and pay back their loans in the given time. This was in contradiction with Rosengard,

(2004) who stressed that financial intermediaries have not been able to accommodate small-scale rural farmers because it is risky, costly and a difficult task associated with high transaction costs.

4.5.5 Small business models

With regards to the study findings of the study, it was showed that the majority (60.0%) of the respondents strongly agreed that small business models used by MFIs have enabled them to improve their farming hence raising enough capital to pay back their loans, those were followed by (22.5%) who agreed, (10.0%) disagreed, (5.0%) strongly disagreed while the minority (2.5%) were not sure whether small business models used by MFIs have enabled clients to improve their farming. The mean of 4.05 and standard deviation of 0.925 represented (60.0%) of the respondents who strongly agreed that small business models used by MFIs have enabled them to improve their farming hence raising enough capital to pay back their loans. This was in agreement with Timothy (2008) who opined that access to affordable credit is one of the most important factors affecting production and therefore income of the poor but MFI's have continued to grant loans to small scale famers in order to sustain their business.

4.5.6 Peer groups with influential colleagues

More to the above, the findings of the study presented that the majority (52.5%) of the respondents strongly agreed that MFIs' cooperatives model has put them in peer groups with influential colleagues who have helped in mobilizing them to pay back the loan money in time, those were followed by (37.5%) who agreed, (5.0%) were not sure whether MFIs' cooperatives model has put clients in peer groups with influential colleagues who have helped in mobilizing them to pay back the loan money in time whereas (2.5%) and (2.5%) disagreed and strongly disagreed respectively. The mean of 3.65 and standard deviation of 0.673 depicted that MFIs' cooperatives model has put clients in peer groups with influential colleagues who have helped in mobilizing them to pay back the loan money in time. This was in line with the findings of the interview where one of the respondents marked that:

"*Due to the differences in loan acquisition and repayment capabilities among clients, FINCA has organised clients into groups so that a weaker client can be influenced and helped by capable clients in the same group*"

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter brings forth the summary of the findings and conclusions drawn from the study based on the findings presented in data analysis and the study objectives. The chapter also advances the recommendations, as well as identifying the areas for further studies.

5.2 Summary of the findings

5.2.1 Role of financial literacy on performance of small scale farmers

The findings disclosed that the majority agreed and strongly agreed that they get small loans that help them to meet their financial needs such as hybrid seeds and tools and services like transportation which was as a result of proper application of financial knowledge. It was also revealed that majority of respondents agreed that they have acquired financial management skills hence they can now budget and better manage their investment skills which implied that they have acquired relevant knowledge and skills in financial management.

The findings of the study alsorevealed that the majority agreed and strongly agreed that they can easily acquire loans even without serious collateral since various security means such as their savings and group borrowing models are available means and they can do well business plans and hence they sell their goods at the estimated prices that are favorable in market. This was because financial literate farmers can effectively formulate business plans and estimate the buying capability of customers

It was also brought out that the majority of clients strongly agreed and agreed that they have known better how to keep records which have enabled them to maximize profits and make their own bank/ financial statements which implied that financial literacy leads to more effective use of financial products and services. The findings also exposed that most respondents agreed that MFI's can easily give them loans without necessarily having to go through various prolonged processes

5.2.2 Role of loan terms and conditions on performance of small scale farmers

The study revealed that majority of the respondents agreed and strongly agreed that MFIs have given them the adequate loans at affordable rates which they have been in position to payback within the appropriate time and that they have been given the adequate loans for their operations to go on well and they also receive items in time. It was also disclosed that the majority of the respondents agreed that they are given a period long enough to payback that covers the gestation period of their operations hence they make more profits means which showed that FINCA Uganda has endeavoured to consider clients' capability to repay the loan

The findings also indicated that the most respondents agreed and strongly agreed that they pay back their loans within the allocated time and hence they are able in position to pay back using the purposes for which are borrowed the funds. This was because loans lead to increased business activity which in turn enables the borrower to repay the loan within the actual. The stud also exposed that most respondents agreed the institution require a little amount of security to acquire loans which they have been in position to raise and they also know various members who can guarantee them security to acquire MFI loans through the SACOs who know them from their locality

5.2.3 Role of loan mobilization on performance of small scale farmers

The study further revealed the majority of the respondents agreed and strongly agreed that they can now borrow the amounts they require without necessarily having much security since their voltage banks know their various capabilities which was because microfinance institutions were established with a mandate to mobilize credit to smallholder farmers therefore with or without a viable collateral security a client can acquire a loan. It was also disclosed that most respondents agreedthey can easily raise money to pay back their loans since the loan weight is lowered from individuals to the whole borrowing group which encourages team work.

The study of the findings also disclosed that most of the respondents strongly agreed and agreed that they do not need to have strong character history since the MFIs' consistent customers who know them better can give them bank guarantees which depicted that most clients are fully known by the employees from the institution. It was further exposed that most of the respondents strongly agreed and agreed that MFI bank intermediaries have helped them to know how best to acquire and pay back their loans in the given time and MFIs' cooperatives model has put them in peer groups with influential colleagues who have helped in mobilizing them to pay back the loan money in time

5.3 Conclusions

In conclusion it was observed that clients get small loans without serious collateral that helpthem to meet their financial needs and they have also acquired financial management skills hence they can now budget and better manage our investment skills. It was also discovered that clients can do well business plans, keep financial records which has influenced MFIs to easily give them loans without necessarily having to go through various prolonged processes.

From the study it was discovered that MFI’s have given clients the adequate loans at affordable rates, with little amount of security and are always given a period long enough to payback that covers the gestation period of their operations. It was also found that clients know various members who can guarantee them security to acquire MFI loans through the SACOs who know them from our locality and further more clients save the profits they get after paying off their loans with the MFIs to use in the coming seasons.

From the study it was found out that clients can now borrow the amounts they require without necessarily having much security and can easily raise money to pay back our loans since the loan weight is lowered from individuals to the whole borrowing group. It was also discovered that clients do not need to have strong character history since the MFIs’ consistent customers who know them better can give them bank guarantees and MFI bank intermediaries have helped them to know how best to acquire and pay back their loans in the given time.

5.4 Recommendations

Based on this study, the researcher made the following recommendations;

The management of FINCA should set workshop, education programs, mass media programs and sensitization programs in order to inform and educate small scale famers on the strategies to effective manage their businesses.

FINCA should restructure the loan terms and conditions in order to make them favourable in relation to the capability of its clients to acquire and repay loans. This will motivate clients to apply for loans thus sustaining their financial activities.

Clients should organise themselves into groups in order to increase their capacity to acquire large size loans that can enable them to full finance their production. This would help also in cases when one client does not have a enough valuable collateral security.

The government should get fully involved in the operations of microfinance institutions in order to avoid institutions from overcharging clients and dictate on who should get a loan and who should not.

5.5 Areas for further study

More study and research should be made on the following areas and topics

The role of loan acquisition on performance of small scale farmers

The role of loan interest rate on performance of small scale farmers

The role of savings on performance of small scale farmers

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Appendix 1: Questionnaire for customers

Introduction

I am**LWERE CHRISTOPHER BRYAN** a student of Uganda Martyrs University and currently collecting data for compilation for my dissertation as a partial requirement for the award of Degree of Bachelor of in Business Administration and Managementof Uganda Martyrs University. The research i am conducting relates to" **the role of microfinance institutions on performance of small scale farmers".**The information is purely for academic purposes and all the answers will be handled with utmost confidentiality and you do not need to indicate your identity anywhere on the questionnaire. I therefore humbly request that you complete this questionnaire correctly in the spaces provided or options given.

SECTION A: Demographic Characteristics

Tick / fill in the most appropriate answer.

1. Gender:

a) Female ☐ b) Male ☐

2. Age

a) Below 20 years ☐ b) 20 – 25 years ☐ c) 26 – 30 years ☐

d) 31 – 35years ☐ e) 36 – 40 Years ☐ f) Above 40 years. ☐

3. Highest level of education Qualification

a). Primary ☐ b) Secondary ☐ c) Tertiary/University ☐

d) Never went to school ☐

Please indicate the extent to which you agree or disagree to the following statements' by ticking the appropriate number.

Strongly agree	**agree**	**Not sure**	**Strongly disagree**	**Disagree**
5	**4**	**3**	**2**	**1**

SECTION B: financial literacy on performance of small scale farmers

To what extent do you agree with the following statements with the role of financial literacy and performance of small scale farmers?

No.	**financial literacy and performance of small scale farmers**	**1**	**2**	**3**	**4**	**5**
1	We get small loans that helps us to meet our financial needs such as hybrid seeds and tools and services like transportation.					
2	We have acquired financial management skills hence we can now budget and better manage our investment skills.					
3	We can easily acquire loans even without serious collateral since various security means such as our savings and group borrowing models arealiable means.					
4	We can do well business plans and hence we sell our goods at the estimated prices that are favourable in market.					
5	New known better how to keep records from which have enabled us maximize profits and make our own bank/ financial statements.					
6	M F Is can easily give us loans without necessarily having to go through various pro.longed processes					

SECTION C: Loan Terms and Conditions on Performance of small scale farmers

To what extent do you agree with the following statements with regards to the role of loan terms and conditionson performance of small scale farmers?

loan terms and conditions on performance of small scale farmers		1	2	3	4	4
1	M F Is have given us the adequate loans at affordable rates which we have been in position to payback within the appropriate time.					
2	We have been given the adequate loans for our operations to go on well; we also receive items in time.					
3	We are given a period long enough to payback that covers the gestation period of our operations hence we make more profits.					
4	We pay back our loans within the allocated time and hence we are able in position to pay back using the purposes for which are borrowed the funds.					
5	We recquirealittle amount of security to acquire loans which we have been in position to raise.					
6	We know various members who can guarantee us security to acquire MFI loans through the SACOs who know us from our locality.					
7	We save the profits we get after paying off our loans with the MFIs to use in the coming seasons and meet off other necessary needs.					

SECTION Dof loan mobilization on performance of small scale farmers

To what extent do you agree with the following statements with regards of loan mobilization on performance of small scale farmers?

loan mobilization and performance of small scale farmers		**5**	**4**	**3**	**2**	**1**
1	We can now borrow the amounts we recquire without necessarily having much security since our voltage banks know our various capabilities.					
2	We can easily raise money to pay back our loans since the loan weight is lowered from individuals to the whole borrowing group which encourages team work.					
3	We do not need to have strong character history since the MFIs'consistent customers who know us better can give us bank guarantees.					
4	The MFI bank intermediaries have helped us to know how best to acquire and pay back our loans in the given time.					
5	The small business models used by MFIs have enabled us improve our farming hence raising enough capital to pay back our loans.					
6	The MFIs' cooperatives model has puts us in peer groups with influential colleagues who have helped in mobilizing us to pay back the loan money in time.					

THANK YOU FOR YOUR TIME AND COOPERATTION

Appendix II: Interview Guidefor MFI managers

I am**LWERE CHRISTOPHER BRYAN** a student of Uganda Martyrs University and currently collecting data for compilation for my dissertation as a partial requirement for the award of Degree of Bachelor of in Business Administration and Management of Uganda Martyrs University. The interview i am conducting relates to" **the role of microfinance institutions on performance of small scale farmers.**You have been selected to share with us your experience and make this study successful. The Interview I am conducting is basically aimed at obtaining qualitative information to compliment the quantitative information which I am also collecting Information given will be treated with utmost confidentiality.

i. Do you easily avail credit to small scale farmers?
ii. What is the level of financial literacy of small scale farmers?
iii. In your view, to what extent has loan terms and conditions enhanced performance of small scale farmers?
iv. What role has loan mobilization played with regards to the performance of small scale farmers?
v. What recommendations do you have with regards to the study under investigation?

END

THANKS FOR YOUR TIME