LENDING METHODOLOGIES AND THE PERFORMANCE OF COMMERCIAL FARMERS IN RURAL AREAS

A CASE STUDY OF PRIDE MICRO FINANCE JINJA

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NAKAZIBWE PHIONAH

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DEDICATION

This dissertation is dedicated to my family who were a great inspiration in my academic journey and did all in their capacity to ensure that I get quality education despite my endless demands.

ACKNOWLEDGEMENT

I thank the Almighty God the provider of knowledge and wisdom for seeing me through my studies and for enabling me to undertake my research successfully, without His grace I would not have made it.

I wish extend my appreciation to my supervisor, Mr. Segawa Edward, for his guidance, support and encouragement throughout the period.

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Finally, special thanks goes to my friends that showed their understanding and love in this final academic year.

May the Almighty Lord bless you abundantly!!

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LIST OF ABBREVIATIONS

MFEPD- Ministry of finance, planning and economic development

PML- Pride micro finance limited

BOU- Bank of Uganda

MFL-Microfinance limited

GOU-Government of Uganda

NGO- Non government organizations

RLF- Revolving Loan Funds

CBO-Community based organizations

SLA- Savings loans association

ABSTRACT

The study investigated the effect of lending methodologies on the performance of commercial farmers in rural areas with a case study of Pride microfinance Jinja The specific objectives were to find out the relationship between individual lending and performance of commercial farmers,. to examine the relationship between group lending and the performance of commercial farmers in rural areas; to establish the relationship between community based lending and the performance of commercial farmers in rural areas. The study adopted a case study design combining both qualitative and quantitative approaches to collect and analyze data

This data was then entered and analyzed using SPSS software to generate descriptive and inferential statistics then these were further analyzed using correlation and a relationship was found between lending methodologies and performance of commercial farmers. From the correlation analysis that was conducted, it was discovered that individual lending had a positive and significant relationship with performance of commercial farmers. Also from the correlation analysis, it was discovered that group lending had a positive and significant relationship with performance of commercial farmers. And finally, a positive and significant relationship between community based lending and performance of commercial farmers. Therefore, the study concluded that there is a positive and significant relationship between different lending methods and performance of commercial farmers.

The study recommended that the Microfinance institutions should develop good proper and effective credit management strategies that are needed to enhance the quality of institutional support for farmers growth in the area.There is need for Microfinance institutions to support and strengthen the growth of farmers by providing good loans services and provide good linkages between the service deliveries of micro-finance.

CHAPTER ONE

GENERAL INTRODUCTION

1.0 Introduction

This study focused on Lending methods and the performance of commercial farmers in rural areas, a case study of pride micro finance jinja.

Ahmed(2000) defines lending as the assistance from the banking system to those in the economy that have not received adequate support of the institutional finance.Over the past three decades, older micro lending methodologies have been tested and new methodologies developed. Operations in diverse economic, political, social, and legal environments have inspired new creativity in micro lending methodology. It has become clear to practitioners that there is not one correct micro lending model, or even one correct model in a given operating environment (Klepikova, 2007)

A specific micro lending methodology is chosen to fit the needs of the target client group, conditions in the local environment (economic, social, political, and legal), and goals of the program. As a result, there are no two completely identical approaches to micro lending. However, nearly all micro lending programs can be classified as belonging to one of a limited number of micro lending models. Brandt. L, et al. (2007)

This chapter covers the background to the study, statement of the problem, purpose of the study, objectives of the study, the research questions, and the scope of the study, the significance of the study, justification of the study and conceptual frame work.

1.1 Background to the Study

According to Robert Langat (2013) increasing agricultural productivity has been a key development challenge over decades. One of the identified key constraints facing farmers is lack of access to formal sector credit to enable them to take advantage of economic opportunities to increase their level of output, hence move out of poverty. This concern for commercial farmers has been responsible for the design of lending methods in micro finance institutions to fill this gap.

Since the year 2000, the number of commercial banks has more than doubled to 22, with over 332 branches by the end of March 2009 (BOU State of the Economy Report, 2009). Increase in availability and commercial bank coverage translates would translate into increased access to credit, but this is not the case for the agricultural sector. According to Meyer *et al.,* (2004), access to financial services in Uganda, especially for the agricultural sector still remains a challenge.

Stiglitz (1990) outlines the role of peer–monitoring in group lending schemes, which transfers the monitoring role from the bank to the borrowers and acts as an incentive device. However, certain drawbacks of group lending exist. Giné and Karlan (2006) state that the demand for credit within a group may change over time, forcing clients with small loans to be liable for larger loans of their peers. Furthermore, the growth of group lending programs may slow down when new borrowers with looser social ties enter and consequently, the group lending technology loses some of its power.

Micro financing involves the provision of financial services to low income earners by firms described as microfinance institutions (MFIs) using lending methods which are both formal and non-formal (Kareta, 2010). The lending methods are detailed in the credit policy which is used in determining the extent to which microfinance services are extended to customers in form of outreach. Ahamed (2010) describes a credit policy as a management philosophy spelling out the decision variables of credit standards, credit terms and collection efforts by which managers in MFIs have an influence on their operations. The credit policy impacts on the outreach of MFIs depending on the lending approaches used to screen clients for credit facilities which are either liberal or stringent in nature.

Ghatak (2000) as well as Van Tassel (1999) show that group lending achieves self–selection of borrowers and acts as a screening device. Armendáriz de Aghion and Gollier (2000) find that even if borrowers do not know each other's type, group lending may be feasible due to lower interest rates as a result of cross subsidization of borrowers

Gine et al, (2009) argue that access to financial services can improve commercialization of agriculture and contribute to poverty alleviation among rural communities. The paper asserts that more than seventy percent of Africa's population is rural and experiences high incidence of poverty. A major portion, if not all, of these rural folks depend on agriculture for their livelihood. There is, therefore need to tailor financial products for these people to stimulate higher Productivity in their farming activities as a channel of achieving pro-poor growth and poverty reduction. However, formal financial markets fail in the provision of funding to the majority of smallholder farmers in developing countries. Robert Langat (2013)

Agricultural finance is dedicated to financing agricultural related activities such as; input supply, production, processing and distribution (Meyer et al., 2004). Griffins (2002) observed that banks and micro finance institutions in Uganda are hesitant to extend credit to some clients due to inability to evaluate their risks. Consequently, access to credit by farmers is subject to lending terms of the lending institutions. Accordingly, the credit flow to the agricultural sector remains dismal, declining from 6.75% in the financial year 2007, to 4.5% in the financial year 2009 (B.O.U Annual Reports, 2007 and 2009).

Without proper funding, performance of commercial banks remains in a balance in terms of productivity and profitability. This has been indicated that most commercial farmers had potential to achieve high profitability and productivity but were limited by the un friendly Interest Rates, Credit Limits and loan period when acquiring loans through individual lending, group lending and community based lending. This was still aggravated by small loan sizes and requests for collateral of a much higher value as compared with the loans being requested for. The net effect of all this was to limit farmer's productivity and profitability.

A lender in finance is defined as any person or organization engaged in the business of making consumer loans or commercial loans. These loans may be unsecured, secured by personal property real property or a combination of real and personal property. Lending then refers to the activity or business of making consumer and commercial loan products. O' Donoghue, Hoppe, Banker & Korb (2009) defined a farm as any establishment that produced agricultural goods for commercial purposes. Farms can be small commercial farm business owned by one household or very large farms that often have multiple stakeholders, including some owners or shareholders who may provide substantial capital, but little on-farm labour or management. The owners of these businesses that produce agricultural products. Robert. L (2013).

Ajiboyo (1998) stated that the role of agricultural credit in agricultural development of a country cannot be emphasized, one of the reasons to decline in performance of agriculture is lack of formal national credit policy and methods which assist farmers so because loans act as capital which is viewed as more than just capital but labour, land, equipment and raw materials, in developing countries agricultural credit is an important activity to government and people therefore it requires large infusion of credit to finance, purchase inputs such as fertilizers, seeds insect sides therefore provision of credit can be an increment to agricultural performance.

1.1.1 Background of the case study

One of the institutions that provide finance to farmers is Pride Microfinance. Pride Microfinance Limited (PMFL), is a Microfinance Deposit-taking Institution (MDI) in Uganda It is licensed by Bank of Uganda, the central bank and national banking regulator. Pride Microfinance was founded in 1995, as a Non-governmental organization (NGO), with the support of the Norwegian Agency for Development Cooperation (NORAD). Its major objective was to offer credit to the poor, targeting those in the agricultural sector. In 1999, it was incorporated as a limited company and changed names to *Pride Africa Uganda Limited*. In 2003, the Uganda government acquired 100% shareholding in the enterprise, changing the name to Pride Microfinance Limited.[4] In 2005, it attained the status of an MDI according to the Banking Act of 2003. It is licensed and supervised by the Bank of Uganda, Uganda's Central Bank. It is a member of the *Association of Microfinance Institutions In Uganda* (AMFIU).

Loan products

- Group Guaranteed Loans
- Individual Loans
- Salary Loans
- Asset Financing Loan and many others

Pride has adopted group lending, individual lending, this has however attracted different opinions. For instance, numerous theoretical papers have addressed the positive effects of group lending mechanisms. Its on the above premises that this research paper examined the lending methods and the performance of commercial farmers in rural areas.

1.2 Problem Statement

The credit policy of micro finance institutions is a key determinant to whether borrowers are able to achieve their objectives or not (Giné and Karlan, 2006). Consequently, following the group lending model adopted by pride micro finance and the corresponding terms and conditions relating to Individual lending, group lending and community based lending, many commercial farmers have found it hard to attain the desired levels of productivity and profitability (Kampala farmers association report,2013). This raises questions as to whether the continued adoption of group lending or individual lending and the existing terms and conditions embedded in there will answer the farmer's questions of the day, questions like if the farmers will achieve the goals set to attain efficiency, if they will make the expected profits. It was as such highlighted in the MFPED report for 2012 that farmers in Uganda still experience difficulties in accessing credit from the formal financial institutions to increase their performance through modern farming. Othiano. E (2010). Badagawa (2013) also states that despite reforms in the financial sector in the last 20 years, access to credit by farmers in Uganda has been low. The study therefore, sought to find out the extent to which lending methods determine performance of commercial farmers.

1.3 General Objective

The general objective of the study was to assess the lending methods and how they influence the performance of commercial farmers in rural areas

1.4 Specific Objectives

i. To establish the relationship between individual lending and the performance of commercial farmers in rural areas.
ii. To examine the relationship between group lending and the performance of commercial farmers in rural areas.
iii. To establish the relationship between community based lending and the performance of commercial farmers in rural areas.

1.5 Research Questions

i. What is the relationship between individual lending and the performance of commercial farmers in rural areas.
ii. What is the relationship between group lending and the performance of commercial farmers in rural areas.
iii. What is the relationship between community based lending and the performance of commercial farmers in rural areas.

1.6 Scope of the study

1.6.1 Content Scope

This study was confined to lending methods and performance of commercial farmers in rural areas. Lending methodologies being the independent variable, and performance of commercial farmers as the dependent variable. The study being based on individual lending, group lending and community based lending in relation to the performance of commercial farmers in rural areas, which are productivity, profitability and cost effectiveness. The study also contains the intervening variables which are the government policies and economic factors.

1.6.2 Time Scope

This study focused on the time scope of 2012/2014.To capture some previous and latest statistics and trends to ensure reliability and validity for the presented findings.

1.6.3 Geographical Scope

The study focused on Pride Micro Finance Jinja branch in the south eastern part of Uganda, Jinja town is around 72.03 kms from the capital city which is Kampala, with the case study pride microfinance limited located on jinja Main Street, just a few kilo meters from the main jinja highway road.

1.7 Significance of the study

The study provided learning points to assess the effect of lending on performance of commercial farmers. This research will help other organizations to learn from the experiences of pride micro finance and correct themselves to perform better. The study will help in identifying loopholes in the lending methods and try to suggest ways of improving lending for the farmers benefit. Research is part of requirements for the award of the degree of business Administration and management. This study will be an addition to the existing literature and thus help future researchers to carry out research especially in relation to how lending methods affect performance of farmers.

1.8 Justification of the study

Since different studies have been carried out in this field, there is still need to harmonize these studies in one research study. Therefore choosing to research on this field of lending methodologies is in the regard to harmonize the already existing information and adding to it the new findings about bank lending in order to come up with a complete study.

The research is to be carried out because of the absence of united knowledge on the specified objectives under the field of lending methodologies and how they influence the performance of commercial farmers.

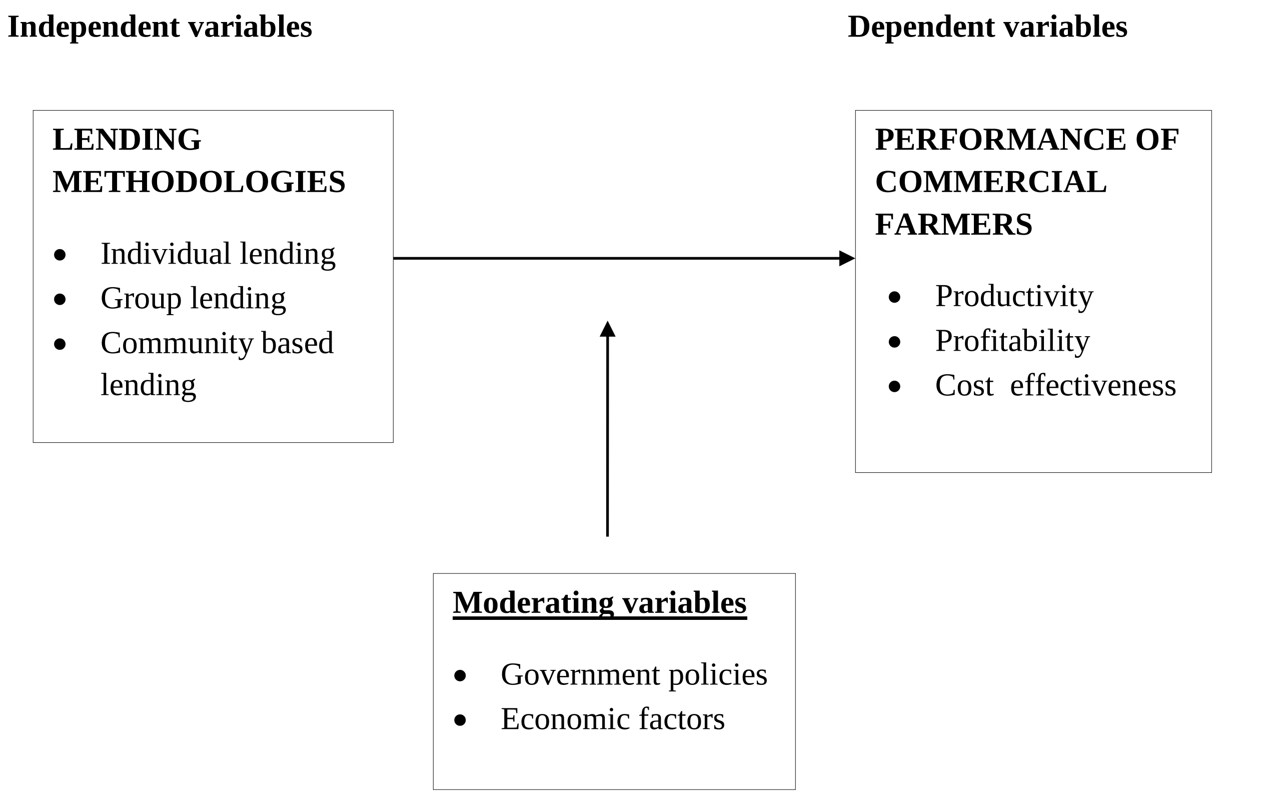
The urgent need to develop a better understanding and lending methodologies and the performance of commercial farmers in rural areas is a justification to study the topic. With all the above, as a researcher this gap triggers off a need to do more research on the above topic.

1.9 Conceptual framework

Stiglitz and Wess, (1981) Favorable lending terms enable farmers to access the much needed funds to improve their performance, however Lenders limit their credit facilities to sectors which they perceive to possess limited information asymmetry, also lenders tend to charge higher interest rates and lend for a short period of time on loans hence constraining credit affordability.

Piprek (1996) In many countries, deficiencies in laws, regulations in microfinance institutions prevent the formal sector from delivering credit to farmers in rural areas of businesses. These implementations may make it difficult for the formal sector to lend to the informal sector and institutions and banks to lend to non-bank creditors who have many advantages in efficiency reaching poor rural borrowers. Lenders need a system where claims can be created, publicly established and enforced.

Figure1: Conceptual framework



(Source: adopted and *Developed from review of literature based on Stiglitz et al. (1981), Piprek(1996*) and modified by the researcher)

The model examines the relationship between lending to predict the performance of commercial farmers. The independent variable being Lending methodologies and dependent being performance of commercial farmers. The dimensions of the independent variable being individual lending, group lending and community based landing. Bank lending involves terms and conditions that borrowers have to meet in order to access Credit .And Performance of farmers is studied in terms of productivity and profitability and cost effectiveness. Accessibility to loans is the moderating variable studied in terms of loan size and collateral.

1.10 Conclusion

This chapter was comprised of the Introduction, background of the study, case study, research objectives, research questions, justification, significance and the conceptual framework.

1.11 Definition of key terms

Micro finance- this is a source of financial services for entrepreneurs and small businesses lacking access to banking and related services.

Finance: The science that describes the management, creation and study of money, banking, credit, investments, assets and liabilities. Finance consists of financial systems, which include the public, private and government spaces, and the study of finance and financial instruments, which can relate to countless assets and liabilities.

Lending- To provide temporarily on condition that the amount borrowed is returned, usually with an interest fee.

Lending institution- an organization such as a bank, credit union or finance company that makes loans

Efficiency-This is the extent to which time, effort or cost is well used for the intended task or function. its mainly concerned with achieving set objectives

Loan- is a type of debt provided by one entity to another at an interest rate and is evidenced by a note which specifies among others the principal amount, interest rate, and date of repayment.

Organisation- refers to the process of organizing which includes detailing of work, division of work, aggression of work co-odination, monitoring and re arrangement of work.

Productivity-This is the average measure of the efficiency of production say the ratio of output to input used in the production process.

Performance- this is the accomplishment of a given task measured against preset known standards of accuracy, completeness, cost and speed.

Interestrate- it is the rate at which interest is paid by borrowers (debtors) for the use of money that they borrow from lenders (creditors).

Commercial farming-this is the production of crops and farm animals for sale for profits with use of modern technology.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter covers the review of the theoretical and empirical literature on the study variables. It begins with the theoretical framework and concludes with review of the literature according to objectives and these are on the relationship between Group lending and the performance of commercial farmers, the relationship between Individual loans and the performance of commercial farmers and the relationship between community based loans and the performance of commercial farmers. The chapter also discusses past empirical studies concerning the effect of the type of lending on the farmers effect on profitability, productivity and cost effectiveness.

2.1 Theoretical framework

Olokoyo (2011) states that lending is the process whereby money or fund is being given to someone or an organisation to be paid back in the agreed time.

Ledgerwood (2000) While microfinance approaches generally include some specific product design issues, a primary means of differeciating one approach from another is in the choice of products and services provided and the manner of provision is made. Any approach must be based on the target market and its demand for financial intermediation, as well as other products, contextual factorising the country, and the objectives and institutional structure of the MFI. These approaches do not operate in isolation.

Agricultural lending involves giving out of credit (in cash and kind) to farmers for the purpose of farming. There is no doubt about the crucial roles of credit in economic development.

Agricultural household models suggest that farm credit is not only necessitated by the limitations of self-finance, but also by uncertainty pertaining to the level of output and the time lag between inputs and output. Recent studies show the growth rate of investment in agriculture is less than other economic sector. So financing agriculture is one of the most important factors to develop rural areas in developing countries. Banking system payment is a way of financing. Generally, credit accessibility is important for improvement of quality and quantity of farm products so that it can increase farmer's income and reduce rural migration. In the other hand, Lending is a risky enterprise because repayment of loans can seldom be fully guaranteed. Generally In spite of the importance of loan in agricultural production, its acquisition and repayment are fraught with a number of problems especially in the small holder farming (Awoke, 2004).

It is reported in empirical studies that large rate of default has been a perennial problem in most agricultural credit schemes organized or supported by governments. Most of the defaults arose from poor management procedures, loan diversion and unwillingness to repay loans. For this reason, lenders devise various institutional mechanisms aimed at reducing the risk of loan default (pledging of collateral, third-party credit guarantee, use of credit rating and collection agencies, etc.).

Worldwide, the microfinance sub-sector has had to contend with numerous challenges. One of the major challenges faced, especially by personal loan programs of MFIs, is that borrowers are highly risky since they are typically low net-worth individuals with little or no collateral that can be acquired by the MFI (micro finance institutions) in the event of default. A popular remedy to this problem involves requiring borrowers to apply for credit in voluntarily formed groups: since such borrowers know each other, safe borrowers will likely form their own groups, avoiding those with higher risk profiles – this mitigates the adverse selection problem (Armendariz and Morduch, 2007).

According to Brandt. L et al (2007) the practice of micro lending is not new. Credit cooperatives and charities making loans to young entrepreneurs have been documented from 18th century Europe. A notable example is the fund created by 18th century novelist Jonathan Swift. Swift donated £500 of his own wealth for lending to “poor industries tradesmen in small sums of five, and ten pounds, to be repaid weekly, at two or four shillings, without interest.”2 Another interesting historical example of micro lending is the Irish Reproductive Loan Fund Institution, which came into existence following the famine in 1822. This fund, which received donations from charities in London, was established to make small loans (under £10) to individuals in small towns for “relief of the distressed Irish

Olokoyo (2011) argues that lending which may be in short, medium or long term basis is one of the services that commercial banks and micro finance institution do render to their customers. In other words lenders to grant loans and advances to individuals, groups, businesses and enable them embark on investment and development activities as a means of aiding growth of farmers contributing towards economic development to the country.

According to Marguerite (2001) states Microfinance institutions provide credit regardless of the approach selected. The actual loan products need to be designed according to the demands of the target market, this involves establishing appropriate loan amounts, and interest rates to individual, group and community based loans. Successfully designing credit products that meet the needs of micro entrepreneurs, it’s of importance that people who lend understand the different lending products.

2.2 Lending Methodologies

According to Dellien et al. (2005) discusses key differences between the group lending and individual lending programs. First, because time and effort is invested in building social networks that enable groups to select members who are creditworthy under group lending, the role of loan officers is to provide structure, training on loan processes and administrative support. Under individual lending, loan officers bear principle responsibility for loan decisions; they screen, and monitor their clients as well as come up with mechanisms of enforcing repayment. Second, the principle incentives for repayment of group loans is joint liability, group reputation, credit rating and future access to credit for each member, all of which are directly contingent on each member upholding their obligations. On the other hand, individual lending programs use a variety of incentives such as collateral requirements, co-signers and guarantors to promote repayment and repayment discipline is created by strict enforcement of contracts.

2.2.1 Individual loans

Most individual loan customers are business owners who require larger and more flexible loans than what is available under the group structure, but are still below the radar of commercial banks. They constitute the base of the missing middle, this portion of small entrepreneurs who are too poor or lack documentation to access bank credit and "not poor enough" to find a product that corresponds to their needs in the classic microfinance offer (Charlenemmn,2012). Some businesses are too big for microfinance and too small for commercial banking.

Loans are given to individual borrowers. The bank performs a thorough analysis of every potentially funded business venture. Borrowers receive loans based on past performance, credit histories, viability of business propositions, and references. To encourage repayment, borrowers provide collateral and co-signers. Credit officers for close long-term relationships with clients. The individual approach is most commonly associated with commercial banks. Successful individual micro lending programs are usually highly modified variants of systems employed by commercial banks. Individual lending has been applied most successfully to urban clientele. (Brandt. et al, 2007)

MFIs have understood the need for individual lending and the positive impact on poverty alleviation this stepping-up of their activity could mean. Allowing these small and medium size businesses to strive has an immediate positive effect on their community through job creation.

Individual lending programs also present several benefits. For instance, Armendáriz and Morduch (2000) find that the guarantor exerts sufficient social pressure on the client to repay MFI loans in Russia and Eastern Europe. However, Laure and Baptiste (2007) argue that the guarantee mechanism, especially personal guarantees, is only meaningful if the borrower has assets that can be pledged as surety, if the institutional framework permits the actual transfer of ownership of the pledge from the borrower to the creditor easily and if the pledged assets are not very liquid. The duo contends that these three conditions are not met in many developing countries.

In particular, some countries have a rigid judicial system with a large number of pending cases which may hinder timely transfer of pledge and most MFI borrowers may not even have "that small collateral".

Another benefit of individual lending is that it spares borrowers the negative effects such as time spent in group meetings and loss of privacy when they discuss their financial situation and investment projects with the peers who could oppose such projects (Maria 2009) in the process impeding their individual growth (Giné and Karlan, 2010)

2.2.2 Group lending

By definition, group lending revolves around providing financial assistance to a group, wherein members act as guarantors for availing the loan, for one another. To illustrate, in a group of five, four members stand guarantee for a loan taken by the fifth. Should the borrower default, the guarantors contribute equally towards clearing the outstanding installments. The two important methods of group lending practiced globally are as follows:

Self Help Group (SHG) – An informal group of 15 to 20 people is formed under the guidance of an NGO or bank. Loan funding may be provided directly by the bank or through the NGO. An SHG is a self-regulated group with little outside monitoring. Aself help group can be registered or unregistered. It typically comprises a group of micro entrepreneurs having homogeneous social and economic backgrounds all coming together to save regular small sums of money mutually agreeing to contribute to a common goal. The system eliminates collateral and is closely related to solidatary lending.

Roodman. D, self help groups in can be considered a cousin to village banking, self groups being one of the major lending systems in India, the government becomes more involved in this by forming lending rules that end up penalizing banks that devote less than 40% of their credit to underserved or deserving group. The self help groups can be considered a type of lending methodology in microfinance.

Klepikova(2007)The Grameen model provides credit to the very poor in rural areas without requiring any collateral. To this clientele, who historically have very little access to credit and almost no access to credit at low interest rates, microloans have proven an effective weapon in the fight against poverty. The Grameen Bank has received worldwide attention for this model. More than 4,000 people from some 100 countries have gone through Grameen's training and exposure programs over the last decade. Many of those visitors have returned to their countries and replicated the Grameen Bank model-- a total of 223. Grameen replication programs in 58 countries. Through funding sources such as the International Fund for Agricultural Development and the United Nations Children's Fund

Brandt. et al. (2007) Just as individual lending programs disburse loans to individuals, group lending programs disburse loans via groups. In this case, group members guarantee the repayment of each other's loans. Collateral and co-signers are generally not used, peer pressure and collective responsibilities generated by the group take their place. In addition, functions typically performed by the bank staff are delegated to the borrower group: peers screen clients, determining who to accept into their group; loan analysis by the lending institution is minimal, depending instead on peer assessments of each other's businesses.

Each of the lending programs has its strengths and weaknesses. Armendáriz and Morduch (2000) observe that group meetings facilitate education and training useful for clients with small experience and improve financial performance of their businesses. Other researchers (Godquin, 2004 and Madajewicz, 2011) argue that group lending helps mitigate the risks associated with information asymmetry: for instance, because group borrowers are linked by joint liability, if one of them switches from safe to risky project (moral hazard), the probability that her partner will have to pay the liability rises. This gives group members the incentive to monitor each other. The reduction in group members' default through peer pressure and social ties has also been discussed (Guttman, 2007, Dixon et al., 2007 and Al-Azzam et al., 2011). However, Maria (2009) points out that group monitoring may be rendered ineffective where social ties are loose, and the cost of monitoring each other high.

Better repayment rate and an improved Social Performance Index have promoted microfinance group lending considerably. Groups are primarily evaluated on the living conditions, aspirations and basic skill sets of their members. Once done, individual members are offered No Frills accounts with the bank. Initially, members are encouraged to save at least for a period of around 6 months, during which the bank evaluates the group's capability to save. After this duration, internal lending is encouraged within the group which decides how much is to be lent to its members based on need and urgency. These payments, which reflect in the bank's books, are closely tracked in order to understand the repayment capability and willingness of the group members to save and improve their living standards.

Once the internal lending is completed, the bank may offer credit products to the group members based on their needs. While the loans are disbursed to the individual loan accounts of the members, the bank links the savings account of the customer to the loan account. This allows the bank to debit the savings account in case the member fails to repay the loan installments. If the account does not have sufficient funds, the remaining group members have to pay off the installments to the MFI agent on the defaulting member's behalf, until the closure of the account.

A key feature of microfinance as it is generally advertised and understood is the group lending mechanism. Although this is the most common type of lending in the sector, it is not the only one. Historically, microfinance has been associated with group loans: several people (usually women) from the same community come together to access debt from a microfinance institution (MFI) or non-profit, non-governmental organization (NGO). It is still the most common model, and it counts for the vast majority of MFI clients (Charlenemmn, 2012).

This system presents many advantages both for the clients and the MFIs. Clients access a service they could not have obtained on their own, often having no ties to the formal financial sector and lacking proper documentation or collateral. The “self-selection” mechanism of the group and the mutual guarantee between members make the loan possible, reducing cost and risk to an acceptable level for the MFI (Charlenemmn, 2012). However, group lending has its limitations, both practical and psychological. Group loans are typically small and the standardization of size, interest rate and maturity might not be ideal for all members. Borrowers often join groups because they have no other way to access credit from an MFI. Sure, they benefit from the support of the other members beyond the material guarantee of the loan.

Awunyo-Vitor (2012) has reported in empirical studies that large rate of default has been a major problem in agricultural credit delivery and sustainability, consequently large proportion of formal financial institution has suspended agricultural credit. Thus a key issue in the sustainability of agricultural credit delivery hinges on improved loan repayment. It is therefore, important for the financial institutions to devise means to reduce the levels of loan default. This can be achieved if they know the factors that influence loan repayment.

2.2.3 Community Based lending

Community loans are not in new in Uganda, for instance, in 2012, Government signed an agreement with three commercial banks to create sh25b youth joint venture fund. The banks were Development Finance of Uganda (DFCU) bank, Stanbic Bank and Centenary Rural Development Bank. The money was intended to support the growth of business ventures owned by the youth aged between 18 and 35 years and help create jobs for young people. The money was targeting start-up and small businesses to address bottlenecks of accessing affordable loans. One of the targets was improving the competitiveness of the business environment to enable the private sector to play a dominant role for employment generation. Small businesses are critical to economic growth, but many of them are informal, undercapitalized, lack adequate security for loans and the owners have low business skills and poor record keeping. Interest rate of 15% was charged (Kasita, 2012)

Models of lending which have as a primary goal the development of the internal financial management capacity of the group are characterized as CBl models (community based institutions). In contrast to Solidarity Group approach, which does not anticipate the eventual graduation of borrower groups from the lending institution, CBl approaches aim to develop a mini-bank, independent of the lending institution, owned and managed entirely by the poor. Micro lending models using the CBl approach can be divided into two subgroups:

CBOs receive initial funding from outside the organization (in the form of a loan or grant). There are two main approaches to community-managed loan funds, Village Banking and Revolving Loan Funds. SLAs generate all funds internally (through member savings or retained interest) and receive no external funding (Brandt.et a., 2007)

Village banking is a microcredit methodology where by financial services are administered locally rather than centralized in a formal bank. It’s mostly adopted by micro finance institutions as a way to control costs.

A Village Bank is initially financed through loans provided by a lending institution. Over time, member savings, share capital and accumulated interest are expected to grow large enough so that no external funding will be necessary. In general, the objective is for each Village Bank to be administratively and financially autonomous by the end of three years, at maximum. Savings mobilization is an integral component of the Village Banking methodology. Savings is more central to the Village Bank model than to either the Grameen Bank model or the Latin American Solidarity Group model. Village Bank members are required to save prior to receiving a loan and to continue saving during the loan cycle.

The primary function of community based lending is to develop internal financial management capacity of the group in order to create a mini bank , independence of the lending institution, owned and managed entirely by the poor. Brandt. L et al (2007) Village Bank members determine the rules for borrowing or using funds from the internal account. Typically, funds that accumulate in the internal account are used to make additional loans to members, or to make up some deficit, should a member default on a loan. Village banks may choose to make higher-interest loans to non-members from the internal account.

The primary goal of the Village Banking model is for the resources in the internal account to grow over time, and displace the need to borrow from a lending institution or NGO. As the Village Bank becomes independent of the lending institution, bank policies become determined democratically by its own members and the bank becomes autonomous and self-sufficient. A noted criticism of the Village Bank model is that Village Banks may not be able to meet this goal because credit demand tends to grow faster than the Village Banks' ability to mobilize savings

The Community-Managed Revolving Loan Fund model is similar to the Village Bank model in important ways. Both models use initial outside funding to work towards the goal of establishing an independent and sustainable bank, run and managed by the local community. Outside funding is channeled directly to the RLF, which then makes loans to individual members. A RLF group typically consists of between 30 and 100 members, often women. Like the Village Bank model, the RLF model requires members to save prior to the initial loan. (Brandit.et al, 2007)

2.3 Performance of Commercial Farmer

Past performance of the state- and donor-supported agricultural credit operations has been below expectations. Most of the programs reached only a minority of the farming population, while benefits were frequently concentrated among wealthier farmers. Many of the institutions established or supported for delivering credit programs have not developed into self-sustaining credit facilities. Yaron. J

According to the Report by United states agency (2008) Not all agriculture-based economies are the same, but in Uganda's dominated by subsistence farmers, cash-based with little available commercial credit, weak government institutions, and low education levels APEP has shown that there is no single approach to value chain strengthening that fits all commodities or producer type. Each targeted commodity subsector requires its own incentive scheme and set of appropriate benefit flows: depending on the market, incentives can be offered at the farm level through the producer organization model, through a lead firm, or through another off-take market avenue, such as millers for rice.

The following are reviews on the performance of commercial farmers.

2.3.1 Productivity as a measure of performance of commercial farmers

Productivity is critical for the long term competitiveness and profitability of an organization. It can be effectively raised if managed holistically and systematically. Productivity indicators measure effectiveness and efficiency of a given input in the generation of output, examples include labour productivity and capital productivity.

According to Bahiigwa, et al (2003) performance of farmers can be assessed basing on productivity of their farms. Measuring productivity is however complicated by lack of proper record keeping by farmers. Productivity is thus measured by taking the ratio of the farm's output as a proportion of what the farmer has put in and increased productivity is realized if more output is generated with limited inputs. They achieve such level of operations however requires the use of improved farming techniques to ensure cost effectiveness. Othiano. E (2010)

The agricultural sector in any country plays an important role in its economic growth and development through the contributions made to wealth creation, employment, food production, and income generation. Many farmers, however, still find it difficult when it comes to accessing credit from the formal financial institutions (Cheruiyot and Langat, 2013).. This has hampered their desire to increase performance through modern farming. This inaccessibility to formal financing has led to poor growth and sometimes decline in agricultural productivity over the past years (Othieno, 2010).

It is therefore expected that there is a positive relationship between lending to the private sector and lending by commercial banks. However, the lending is highly dependent on factors like profitability, liquidity, solvency, information asymmetry and availability of money for lending. With respect to farmers, lending to farmers policy is expected to be affected by the standard of credit to farmers, the credit terms for farmers and the recollection policy of loans to farmers (Olokoyo, 2011).

According to Fiolangnju (2010) The role of agricultural credit in agricultural development of the country cannot be over emphasised, one of the reasons to the decline in performance of agriculture is lack of national credit policy and lending approaches which can assist farmers because loans act as capital which is viewed as more than just capital but as labor, land, equipment and raw materials. He also adds that modernising agriculture like improvement in performance of farmers requires large infusion to credit of finance, the use of purchases inputs such as fertilizers, seeds, insect sides, additional labour, therefore the provision of credit can be powerful to increment in production.

2.3.2 Profitability as a measure of performance of commercial farmers

Profitability and efficiency ratios can be used to compare performance over time and to measure improvement in operations.

Measures of farm profitability and performance can be made available and calculated through Gross margin and gross margin efficiency, sales, return on equity, return on assets

Although credit is a necessary resource in most farm businesses, some farmers find their relationship with a lender some what strained or even unpleasant. The lender may seem reluctant to advance sufficient funds to carry out expansion plans of the farmer or may be willing to finance a capital purchase on what the farmer feels are reasonable terms, when the farmer feels there is potential for price improvement. A farmer should make attempts to improve the risk bearing ability, returns, and repayment capacity of the business as a means of increasing creditworthiness

Creditworthiness can easily be affected by the farmers goals and objectives in farming, therefore credit can contribute to the improvement of net income of the farmers business by helping to create an adequate size, increase efficiency, adjust changes in technology and prices, meet seasonal fluctuation in income and expenses (Boehlje, 1980)

The basic question with respect to returns is whether or not the use of credit will add potential profits. Only if the profits of the business will be increased will there be additional income available to make principle and interest payments on borrowed capital, the documentation of profitability or returns is generated by the farm business is obtained from income statement, the questions that measure returns could be, whether the planned use of credit is the most profitable in the farm or whether the farm business is generating an adequate income to compensate for contributions family labour and management as well as equity accumulation .The planned use of credit may be profitable, but if another part of business is losing money, profits generated through the profitable use of credit will more than likely be used to cover losses than equity accumulation therefore profitability of the entire farm operation must be evaluated to access the possibility of income being siphoned off from profitable enterprises to cover losses on unprofitable ones (Boehlje, 1980)

Bahiigwa, et al (2003) like any business, commercial farming is done with aim of making profits. Profitability to a farmer is the net farm income, this is done by matching the farm sales income with all expenses incurred in the generation of the income (Othieno, 2010)

2.3.3 Cost effectiveness a measure of performance of commercial farmers

Cost effectiveness is a form of economic analysis that compares the relative costs and outcomes of two or more courses of action.

Ajiboyo (1998) stated that the role of agricultural credit in agricultural development of a country cannot be emphasized, one of the reasons to decline in performance of agriculture is lack of formal national credit policy and methods which assist farmers so because loans act as capital which is viewed as more than just capital but labour, land, equipment and raw materials, in developing countries agricultural credit is an important activity to government and people therefore it requires large infusion of credit to finance, purchase inputs such as fertilizers, seeds insect sides therefore provision of credit can be an increment to agricultural performance and cost reduction.

According to Binswanger and Khandker (1995) state that the Indian government pursued a policy to directing commercial banks and cooperative credit institutions to lend specifically to agriculture, the study found that the expansion of rural and agricultural volumes had a small positive impact on aggregate crop out put this therefore leads to increase in fertilizers, increased investment and irrigation pumps which minimize costs.

2.4 Actual Review

This section reviews literature according to the specific objectives of this study.

2.4.1 Relationship between individual lending and the performance of commercial farmers

Ledgerwood (2000) individual lending is defined as the provision of credit to individuals who are not members of a group that is jointly responsible for loan repayment. Individual lending requires frequent and close contact with individual clients to provide credit products tailored to the specific needs of the business. It is most successful for larger based production oriented businesses for clients who have some form of collateralor willing consigner. In rural areas, individual lending can also be successful with small and commercial farmers.

Individual loans are delivered to individuals based on their ability to provide microfinance institutions with assurances of repayment and some level of security. Various lending institutions have developed effective methods to lend to individuals say formal financial base of client characteristics including cash flows, historical financial results, collateral character. They have established the importance of external regulation to safeguard client savings and there institution itself this is of help to the agricultural sector, they are able to acquire loans as individuals to act as capital, encourage more borrowing thus increasing productivity.

On the field, clients seem to prefer individual loans when they can access it. On top of independence from the group, it often gives more flexibility in terms of amount, maturity, interest rate. Individual loans are more complicated and costly to offer for MFIs and not all are able to deliver them. Constraints compared to group loans are the need for a more thorough vetting of the borrower and the factoring of a higher risk due to the absence of co-borrowers. As a result, individual loans tend to be larger than group loans and sometimes more expensive (Charlenemmn, 2012).

According to Ledgerwood (2000) There is the informal sector which approves loans to individuals basing on personal knowledge of the borrowers than sophisticated feasibility analysis and use informal collateral sources thus limit accessibility to acquire loans since most information is got from the surrounding environment which might be misunderstanding of one's character hence limiting borrowing money.

The combined effects of financial stress in agriculture deregulation of interest rates in financial markets, and improved information systems for lenders have brought significant changes in credit evaluations, risk assessment, and pricing policies in agricultural lending. Loan evaluation at the customer level is receiving greater emphasis and loan pricing increasingly is tailored to the risk characteristics of individual farm borrowers (Barry and Calvert, 2002).

It has become common, for example, to observe lenders who categorize borrowers into several risk classes with higher interest rates associated with higher risk classes (Schmiessing et al.; Lufburrow, Barry, and Dixon, 2010). These changes in the scope of risk assessment and in the form of the lender's response provide a new setting for evaluating the relationships among the lender's credit evaluation, the terms of financing, and the borrower's business performance.

Okurut (2006) noted that the rural farmers are excluded from the formal financial system due to the fact that formal lenders are either unwilling or unable to serve farmers. These lenders face high risk and transaction costs, difficulties in enforcing contracts, and penalization by the central bank for lending to enterprises that lack traditional collateral. They also lack reliable information on borrowers, appropriate information systems and instruments for managing risk.

Previous studies of credit relationships in agriculture have shown that the responses of lenders to the business characteristics and managerial actions of farmers influence a farmer's total cost of borrowing through the combined effects of the interest rate on borrowed funds and a liquidity premium reflecting the borrower's subjective valuation of credit held in reserve as a source of liquidity (Barry, Baker, and Sanint; Barry and Baker; Chhikara). In turn, these cost effects may influence the optimal financial structure (leverage) and rate of growth of a farm business as well as the composition of its assets, risk management practices, and other income generating activities (Baker; Barry and Willmann; Pflueger and Barry; Sonka, Dixon, and Jones,2000).

2.4.2 Relationship between group lending and the performance of commercial farmers

Lending groups can also be known as joint liability groups, an arrangement where by a handful of borrowers guarantees each others loans is by far one of the motivations used for loan attainment and repayment. (Ryhne and Holt, 1994)

Waterfeild and Duval (2000) state that group lending involves formulation of groups of people who have a common wish to access financial services. Group lending approaches frequently build on existing informal lending and saving groups. Group lending approaches have adopted a model of rotating saving and credit association to provide flexibility in loan sizes and terms and generally allow borrowers to access funds hence this is an importance to commercial farmers because there is easy access to loans and no incurred individual costs. This approach has helped farmers in substitute for collateral since most rural people are poor and cannot meet requirements hence require capital and reduce individual transaction costs.

Group lending schemes also use character based lending where its based upon the reputation of borrowers say commercial farmers thus limited accessibility of loans thus decline in performance.

Monika and Feder (1999) argue that lending groups and credit cooperatives have the potential to provide affordable credit to farmers because they can reduce transaction costs and to the side lenders they lower the risk for default. They also add that successful group lending schemes work well with groups that are homogeneous and jointly liable for defaults. The practice of denying credit to all group members who are not involved thus affecting accessibility of loans.

Ghatak (2000) as well as Van Tassel (1999) show that group lending achieves self–selection of borrowers and acts as a screening device. Armendáriz de Aghion and Gollier (2000) find that even if borrowers do not know each other's type, group lending may be feasible due to lower interest rates as a result of cross subsidization of borrowers

Harper (2001) asserts that there has been in most countries, special schemes through which farmers and rural people can take loans. The loans are usually at very low rates of interest. Thus with this type of approach there is easy acquisition of borrowers.

According Kwame (1980) in the past years, banks found it almost impossible to provide credit to millions of both small scale and commercial farmers who produce bulk of the country's agricultural output. At that time, lending to peasant farmers was considered not complex but difficult administratively but also expensive in terms of loan loss and serving costs, however this problem has been overcome by providing farmers with credit through group schemes this has led to increased loan demand and easy access of loans to farmers.

Diagne et al (2000) stated that a household is said to have access to a type of credit if at least one of its members has a strictly positive credit limit for that type of credit. Similarly, a household is classified as credit constrained for a type of credit if at least one of its members is constrained for that type of credit. Access to financial services by farmers in groups is normally seen as one of the constraints limiting their benefits from credit facilities. However, in most cases the access problem, especially among formal financial institutions, is one created by the institutions mainly through their lending policies. This is manifested in the form of prescribed minimum loan amounts, complicated application procedures and restrictions on credit for specific purposes (Schmidt &Kropp, 1987).

Group meetings can also reinforce the sense of solidarity among participants, be a platform for financial education and emulate good business practices. The dark side of the group dynamic is the social pressure it puts on its members, which can vary widely depending on individual characters and local cultures. In any case the debt is not only of money towards an MFI but also of trust towards the fellow members; this latter aspect being potentially the most damaging (Charlenemmn, 2012)

According to Bratton (2006) Access to credit is easier to farmers if they belong to voluntary or group associations, loans issued on terms of joint liability have lower administrative costs plus they lead to higher repayment rates than individual schemes therefore policy of group lending is generally more viable than individual approach these strengthen and create local farmers performance.

Awunyo-Vitor (2012) has reported in empirical studies that large rate of default has been a major problem in agricultural credit delivery and sustainability, consequently large proportion of formal financial institution has suspended agricultural credit. Thus a key issue in the sustainability of agricultural credit delivery hinges on improved loan repayment. It is therefore, important for the financial institutions to devise means to reduce the levels of loan default. This can be achieved if they know the factors that influence loan repayment.

Group lending is not without setbacks. Savita (2007) argues that group lending is associated with additional costs including group formation costs, training borrowers on group procedures, higher degree of supervision and a higher frequency of installment payments. These costs increase interest rates of such microcredit loans leading to enhanced repayment risk. Other researchers argue that joint liability in group lending penalizes good credit risk customers (Giné and Karlan, 2010), could hinder optimal utilization of borrowed funds by clients (Madajewicz, 2003) and might even jeopardize repayment since the incentive of future credit is no longer present in the event that one member fails to pay **(**Besley and Coate, 1995).

Parks. L (2004) Group lending to farmers in low income countries has been proposed as a way of providing more cost effective agricultural credit to producers and of improving loan repayment. The experience of providing credit through small farmer groups is reviewed in the light of these suggested benefits. In general, the experience of lending institution with these groups was positive. However administration costs did not decline significantly, repayment problems continued, few groups were reached and farmer loan transaction costs were still high.

2.4.3 Relationship between community based lending and the performance of commercial farmers

These are community managed credit and savings associations established to provide access to financial services in rural areas, build community self help group, and help members accumulate savings. Otero and Rhyne (1994).

Community Lending Program (CLP) can provide liquidity while also helping clients to manage their cost of funds. CLP offer funds at much lower rates. The program is available to member financial institutions for qualified community and economic development projects that create housing, build infrastructure, help small businesses and strengthen neighborhoods. Community Lending Program (CLP) offers loans to member financial institutions for while targeting certain specific objectives. CLP is designed to help members meet their community investment goals while maintaining and enhancing their own profitability (Grameen, 2000).

In partnership with the Ministry of Finance, Planning and Economic Development, IFAD (international fund for Agricultural development) invests in ensuring financial inclusion for the poorest segments of the rural population. Rural finance is a crucial component of the transition from subsistence to commercial farming. The recently completed Rural Financial Services Programme worked to expand rural financial services, building the capacity of local communities to both mobilize savings and provide loans on a sustainable basis. Through the programme, IFAD has supported rural finance outreach and sustainability through local, member-owned savings and credit cooperatives. The new Project for Financial Inclusion in Rural Areas is currently in the last stages of the parliamentary approval process. It will continue this work and invest in other community-based mechanisms to ensure financial inclusion (IFDA report 2013)

Munyanbonera. E, et al (2012) Although the National Development Plan (NDP) and the Development and Investment Strategy (DSIP) emphasize increased access to agricultural financing as a fundamental input to the sector transformation, this may not be achieved if the institutional and policy factors are not well streamlined along the credit market chain to solve the demand factors as given at household level. The institutional problem could be demonstrated from the level of credit allocation through the formal commercial banks to agriculture production which has remained in proportion of less than 10 per cent of total credit allocation in the last 10 years.

The policy inconsistency argument is demonstrated from an unimpressive performance of a number of Agricultural financing initiatives such as entandikwa, prosperity for all, agriculture credit facility (ACF), the medium term competitive strategy and rural financial services programme among others, have been implemented by Government since the 1990s (MFPED). Although the aim of these initiatives was to improve access and use of credit by farmers, and largely small holders, this has not been satisfactorily been achieved due to lack of “Effective Institutional Framework for Coordination, financing and Implementation”.

According to Faciyi. Y (2004) The major management of cooperative structures problems like community based lenders, are lack of credit provision and the difficulty of ensuring true cooperation between members. The present form of group farming activities in Nigeria is not a viable model for the country’s agricultural development and that there is an urgent need to rethink and support policies to group farming development.

Basterlear. T (2006) some factors facilitating collective action within community seed groups among farmers in Zambia such as their size, are associated with a higher repayment performance. In addition community based cognitive social capital proxied here by generalized trust is shown to be strongly associated with repayment performance. This suggests that attitudes and values shared by community members create an environment in which farm borrowers honor their engagements, although society participation and fear of social acts like witch craft beliefs can weaken mutual monitoring of loan use and peer pressure of repayment.

2.5 Conclusion

Given the strong arguments advanced in favor of individual and group lending as well as community based loans, MFIs find it confusing making a choice between the lending programs. The impact to famers as seen from the agricultural sector’s performance in terms of farm yields over the years; a situation which has seriously constrained the agricultural sectors’ development and to a large extent floundered attempts to alleviate agriculture in the country. The attitudes that characterize lending to farmers and the information gap between microfinance institutions and farmers complicates credit accessibility by farmers thereby curtailing their productivity and profitability.

The different lending methods have both negative and positive effects on the performance of commercial farmers in rural areas as showed above

CHAPTER THREE

RESEARCH METHODOLODY

3.0 Introduction

This chapter addresses the methodology of the study. It presents the research design, population study, sample size, sampling techniques, data collection methods and data collection instruments. This chapter also describes and discusses how the instruments will be tested for both validity and reliability and analysis of the research findings.

3.1 Research Design

Pinsonneault & Kraemer (1993) post that in a survey research the researcher focuses on collecting data from members of a population and describes an existing phenomenon by asking individuals about their perception, attitudes behaviour or values.

The study used a case study as a research design, the study was conducted among the top management, employees and customers of pride micro finance Jinja. It also used qualitative and quantitative approaches,

Quantitative approach is defined as the research involving collection of data in numerical form. Asio (2012). And Qualitative rewarded information as given by respondents on thematic basis. The above methods were be used so as to avoid the biases of each method according to Amin (2005)

3.2 Study Area

The study took place in Jinja at pride microfinance ltd, which is located in Jinja town about 72.03 kms from the capital city Kampala, Pride microfinance is located on the on main street in Jinja town. The area is considered sufficient because due to the research based on how lending methods affect farmers performance, Pride Jinja was sufficient for this study because even according all pride branches, Jinja branch is one of the most performing branches in the organization, with so many surrounding towns around, there is plenty of activity say towns like Mbiko, Magamaga, Bugembe, farmers all come from all these different towns to acquire loans.

3.3 Study Population

A study population is the population to which the researcher ultimately intends to generalize results (Amin, 2005).According to the compliance officer, The branch has approximately 80 clients and 20 employees. Therefore the study population of this study was 100 people

3.4 Sample Size and Selection

A sample is a portion of the population whose results can be generalized to the entire population Using the Krejcie and Morgan (1970) table, the sample size was determined to comprise 53 participants. The accessible sample size included 15 employees and 45 clients of Pride Microfinance Jinja.

Table 3.1 Population and sample size

Category	Population	Sample	Selection method
Employees	20	15	Stratified sampling
Clients	80	45	Stratified sampling
Total	**100**	**60**	

Source; primary data from Pride Microfinance

3.5 Sampling Technique and Procedure

The researcher used stratified sampling to select the participants. Stratified sampling is a probability sampling technique where the researcher divides the entire population in different subgroups. Here the researcher used stratified sampling for both employees and clients. The second technique involved is the use of simple random sampling method to select the population from the two categories. Simple random sampling was be used to ensure that each member of the target population has an equal and independent chance of being included in the sample.

3.6 Data Collection sources

The researcher used both primary and secondary data collection methods. Secondary data, is data collected from other research sources. Common sources of secondary data for research include organizational records, journals, internet, library texts, other research reports among others. Library, The researcher carried out data collection using the library which contains books that provide information about the study, E-sources, this type is convenient, provides plenty of information and its not biased. Primary data, by contrast, are collected by the investigator conducting the research.

3.7 Data collection instruments

The researcher used various data collection instruments which include,

3.7.1 Questionnaires

The researcher used close ended questionnaires to collect the data. A set of self-administered questionnaires comprising of four sections i.e. A-D (A-Bio data, and the three objectives) was used to obtain important information from the target respondents. The main advantage of using self-administered questionnaires is that the researcher was to be able to collect all completed responses within a short period of time (Sekaran, 2006).

The different questionnaires were issued to respondents to fill, this it was done personally in accordance to the survey. It's the most effective method of data collection, its also cost effective for both the respondent and researcher, its easy to gather more reliable information and it also doesn't waste time since the questionnaires can be given to respondents and give them time before collecting them. The questionnaires are to be given to pride microfinance clients and employees.

3.7.2 Interview guide

According to Davies (2006), interviews are a method of data collection, information or opinion gathering that specifically involves asking a series of questions. Also adds that interviews are associated with both quantitative and qualitative research Asio (2012).The interviews were carried out among the top management ,the credit officers and finance. Most information will be attained from interviews from top management since they capable of giving detailed information, interviewing is also a preferred method because there is no bias of information.

3.8 Quality Assurance

Quality assurance is also known as quality control which is the extent to which the research instruments measure what they are intended to measure to establish validity and reliability.

3.8.1 Reliability,

This is the measure of the degree to which a research instrument yields consistent results data after repeated results. Chronbch (1953).

Pre testing the questionnaires was consistent, using item consistence of respondents answers to all the items in the measure which determined the degree of coloration.

3.8.2 Validity

Validity tests help the researcher establish whether they are the right indicators being measured in the study, the researcher conducted validity of data collection instruments to determine the goodness of measure. Construct validity was determined using correlation analysis done in SPSS to confirm whether the instruments produce, discriminate or convergent results

3.9 Measurement of Variables

The researcher used nominal and interval types of scale measure different variables of interest. For all variables in the background section, a nominal scale was used, the nominal scale categorizes individuals into mutually exclusive categories. In this study this type of scale will be of great importance because the generalized information was determined the particular percentages in the samples of respondents which were very useful to the research in making conclusions for independent and dependent variables.

To measure variables, a five point likert scale was set on a questionnaire where 1= strongly disagree, 2 =disagree, 3=uncertain, 4= agree and 5= strongly agree

3.10 Data Analysis

Data analysis included editing, data entry, verification, accuracy and summarizing. Data summarizing during the process, answers were clarified into meaningful categories so as to bring out essential patterns. Data editing was done to check for gaps, errors and incompleteness, checking for omissions to ensure accuracy, uniformity and completeness Data was collected in respective samples of the population study, edited to ensure accuracy and blank responses were handled accordingly to maintain consistence. Analysis was done with help of SPSS16

3.10.1 Quantitative data analysis

The captured data was coded and entered into SPSS to generate descriptive statistics such as frequency counts, percentages, means, standard deviations. To establish the strength and direction of the relationship between study variables, the study run the correlations. Also to establish the degree of contribution of the factors to project performance, Analysis was done according to objectives of the study.

3.10.2 Qualitative data analysis

For qualitative data, the analysis was mainly be content analysis which was made between the findings, literature and the quantitative to made meaningful conclusions and deductions. Data was collected from key informants, edited on continuous basis to ensure completeness. Data collected with the use of interview schedules was put into meaningful and exhaustive categories. Content analysis was the main method of analyzing data collected, data collected was categorized according to emerging variables of each question in the interview guide.

3.11 Ethical Considerations

The researcher obtained an introductory letter from Uganda Martyrs University Nkozi and which then presented to the prospective respondents. The researcher made the necessary appointments to expedite the data collection process and as well explained the items which the respondents find challenging to understand.

The study was conducted after obtaining official permission Pride Microfinance whose staff and management who participated in the study**.** The researcher briefed the respondents about the research and its intended purpose.

Participation in the study was be voluntary, respondents' consent was sought and their right to confidentiality was assured before interviewing them, the right to privacy and anonymity was adhered to by the researcher.

3.12 Study Limitations

Many of the potential respondents refused to be involved in the study, it was not be easy to get a client to give information or even some employees didn't give time to respond to the questionnaires due to their busy schedules. Hence this was a problem during process of carrying out the study, however this problem was solved by asking for the client's permission kindly and assuring them of full confidentiality.

The researcher had difficulty in locating some respondents due to time lapse, some clients who migrated to other places, some questionnaires given to clients and it was hard to get back the responses since Pride microfinance Jinja branch serves many clients around including those from distant areas like Iganga, Mbikko, there for it was hard to collect information from those distant places. This was overcome by making sure the responses are got back on time before the clients travel back to there places.

There was a problem of distance, the case study being far away from the university was a big hindrance to my study in Jinja which is far away from Nkozi, therefore it was expensive to transport from Nkozi to Jinja. This was however was solved by proper timing and acquiring funds that supported the research.

Time schedule, the researcher's limitation was time dimension due to the busy schedule and a short time which led to not getting most information however this was minimized by using the multi method as a data technique.

Barrier of communication

There was a barrier of language, most of the people who stay in Jinja speak Lusoga as their language so it was hard to communicate since most don't even know the English language therefore it took time to interpret for them. This was solved with the help of the credit officers who worked with me from pride microfinance to translate to the local language.

3.13 Conclusion

This chapter was combined with the research design which was the case study, population, sample size which was used to analyze data, ways to analyze data, the limitations and solutions and ethical conclusions

CHAPTER FOUR

PRESENTATION, ANALYSISOF RESULTS AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter presents findings made during the study on lending methods and how they influence the performance of commercial farmers in rural areas. The study had objectives such as the relationship between individual lending, group lending, and community based lending and the performance of commercial farmers in rural areas.

4.1 Response Rate

The study administered the following instruments for the collection of the data: interviews and questionnaire**.**

Table 4.1 Showing the response rate from the study

Category	**Targeted**	**Responded**	**Percentage (%)**
Employees	15	10	66.67%
Clients	45	43	95.56%
Total	**60**	**53**	88.33%

Source: Primary data (2015)

Table 4.1 has demonstrated the distribution of the questionnaires, the outcome from the table shows the level of participation where a total of 60 people were targeted to answer the questionnaires and only 53 where filled and returned making a response rate of 88.33%.

4.2 Background of the respondents

Under this section, efforts are made to document the background information of the respondents such as gender, marital status, age bracket and academic qualification

4.2:1 Gender of the Respondents

In this study, gender characteristics were analyzed and details are presented below**,**

Table 4.2 Gender characteristics of client respondents

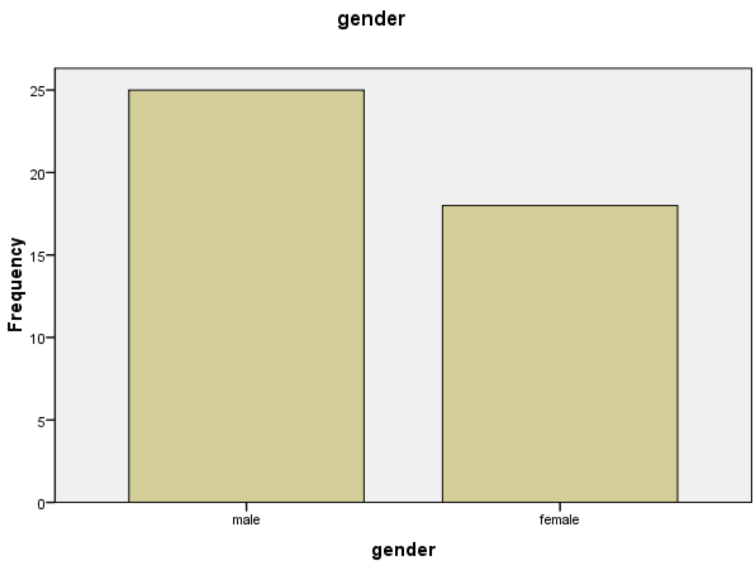
Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	male	25	58.1	58.1	58.1
	female	18	41.9	41.9	100.0
	Total	43	100.0	100.0	

According to table 4.2 (41.9%) of the clients were females males plus (58.1%) of the clients were males. This evidenced that there was gender imbalance as there were more men than women.

Gender. The following data is represented graphically as below

Figure2 Gender of client respondents



Source: Primary data, (2015)

According to table 4.2 and table 4.3, it is presented that the majority (60%) of the employees whereas the minority (40%) of the employees where males as showed below.

Table 4.2.1 Gender characteristics of Employee respondents

Gender for employees

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	male	6	60.0	60.0	60.0
	female	4	40.0	40.0	100.0
	Total	10	100.0	100.0	

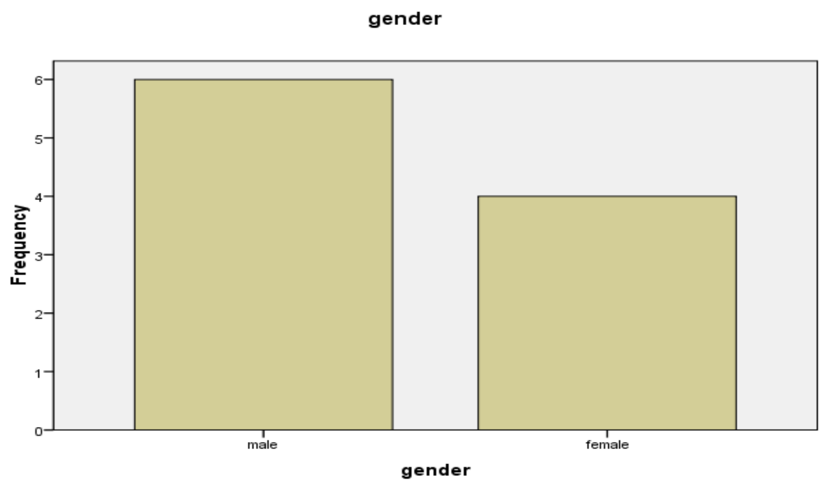


Figure 3 Gender for employee respondents above.

Source: Primary data (2015)

4.2.2 Age category of respondents

This study analyzed the age characteristics of respondents which were obtained as illustrated below.

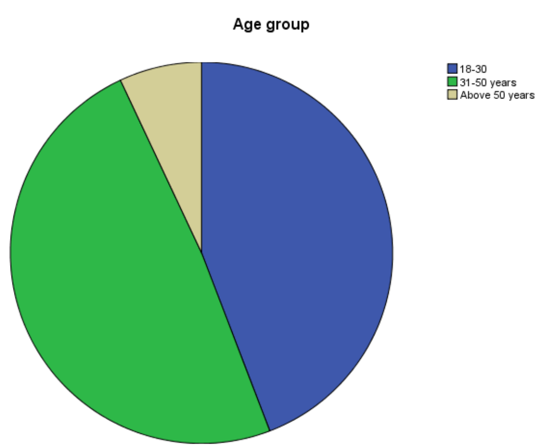
Table 4.3Age category of client respondents

Age group

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-30	19	44.2	44.2	44.2
	31-50 years	21	48.8	48.8	93.0
	Above 50 years	3	7.0	7.0	100.0
	Total	43	100.0	100.0	

Additionally the majority of the clients (48.8%) belonged to the age group of 31 - 50 years while (44.2%) of the clients were in the age group of 18 – 30 years and the minority (7%) of the clients were above 50 years.

Figure .4: Graphical representation of age of client respondents



Source: primary data (2015)

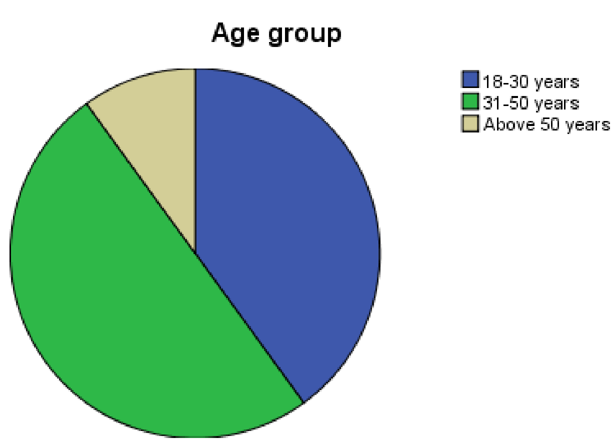
Table:4.3.1 Age category of employee Respondents

Age group

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-30 years	4	40.0	40.0	40.0
	31-50 years	5	50.0	50.0	90.0
	Above 50 years	1	10.0	10.0	100.0
	Total	10	100.0	100.0	

Results from table show that the majority (50%) of the employees had years ranging from 31 to 50, these were followed by (40%) who belonged to the age group of 18-30 years, and then (10%) had years ranging from above 50. This implied that the most workers and clients in the institution were still youths which were affiliated with the organization's need to have active people with fresh young ideas.

Figure 5: Graphical representation of age of employee respondents



Source: Primary data, 2015

4.2.3 Academic Qualification

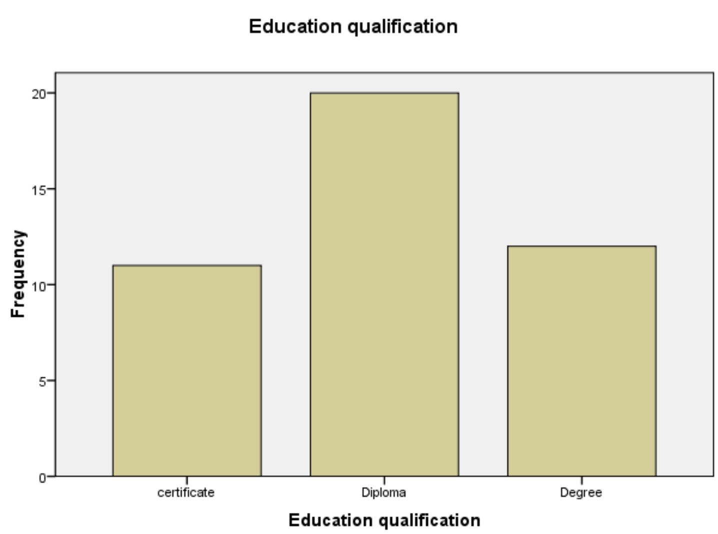
Table 4.5 Showing the academic qualifications of client respondents

Education qualification

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	certificate	11	25.6	25.6	25.6
	Diploma	20	46.5	46.5	72.1
	Degree	12	27.9	27.9	100.0
	Total	43	100.0	100.0	

The findings also indicated that the majority of the clients (46.5%) were diploma holders, (27.9%) were degree holders and the minority (25.6%) of the clients had attained certificates. This implied that all clients and employees at Pride Microfinance had attained some education with needed knowledge and skills.

Figure 6 Education responses for client respondents.



4. 2.4 Academic Qualification for employee respondents

Table 4.6 Educational level of respondents

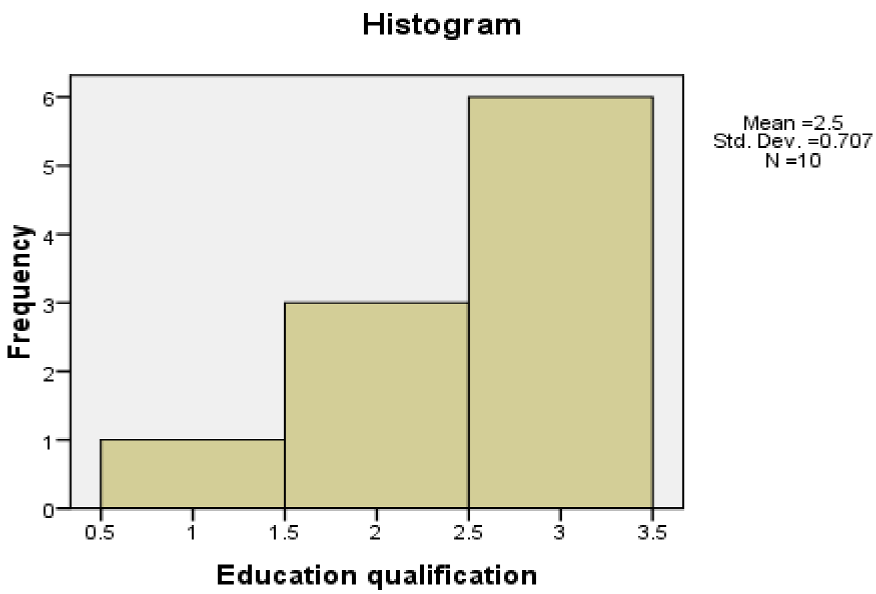
Education qualification

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	certificate	1	10.0	10.0	10.0
	diploma	3	30.0	30.0	40.0
	degree	6	60.0	60.0	100.0
	Total	10	100.0	100.0	

Source: Primary data(2015)

Results from figures above showed that the majority (60%) of the employees was degree holders, these were followed by (30%) who were diploma holders, then (10%) of the respondents had while the minority (10%) had attained certificates. Further still, this also helped the researcher in avoiding time wastage through answering of questionnaires since the respondents could easily interpret questions. The education of the respondents was found relevant to the study because various respondents with various educational levels have different attitudes and knowledge about the lending methodologies and the performance of commercial farmers in rural areas

Figure 7. Education qualification for employee respondents



Source: Primary Data (2015)

4.2.5 The length of getting financial assistance.

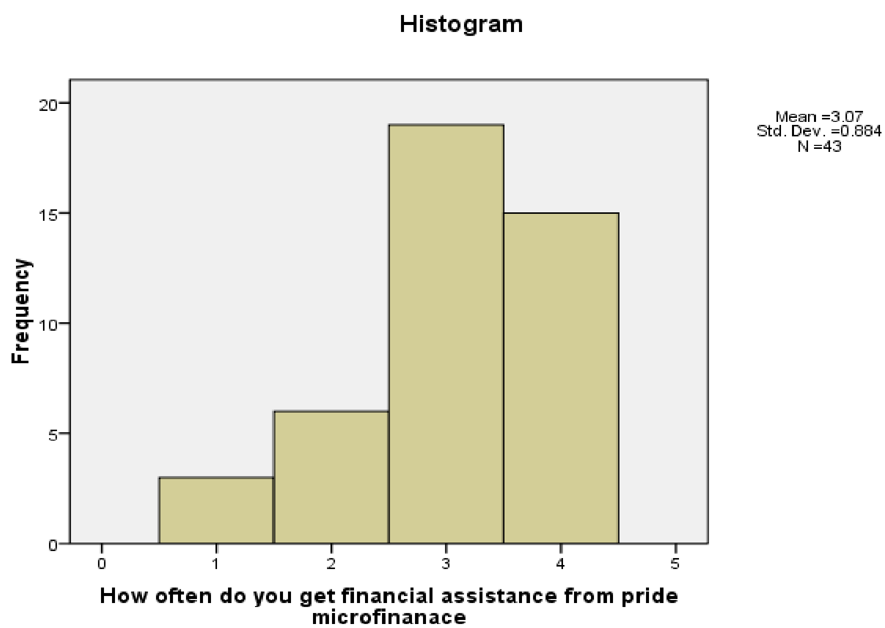
Table 4.7 How often do you get financial assistance from pride microfinance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	weekly	3	7.0	7.0	7.0
	monthly	6	14.0	14.0	20.9
	Annually	19	44.2	44.2	65.1
	Others	15	34.9	34.9	100.0
	Total	43	100.0	100.0	

Source: Primary Data (2015)

According to the table below, the research found out that, and the period that would be taken by the respondents to get financial assistance in form of money from pride microfinance. Out of 43 respondents only 7% get financial assistance weekly, 14% respondents get assistance monthly, 44.2% respondents get assistance every after a year and 34.9% respondents get after a certain period of time. The researcher further found out that most of those respondents who get after a given period of time its usually after one year or even five years of which the period is long. Those who normally get financial assistance after a short period of time are usually people in stronger farming scale, among others

Figure 8 Length of getting financial assistance



Source: Primary data (2015)

4.2.6 Have you ever taken a loan from Pride microfinance, if yes how do you rate the loan provided by pride microfinance.

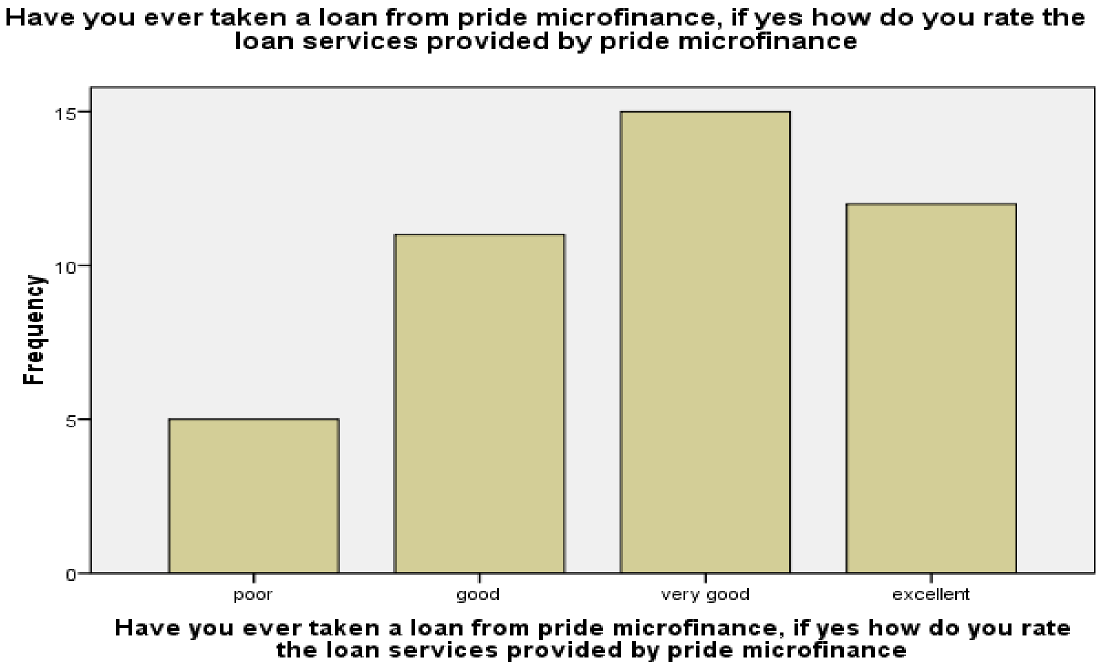
Table 4.8 Service provided by P ride Micro finance

Have you ever taken a loan from pride microfinance, if yes how do you rate the loan services provided by pride microfinance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Poor	5	11.6	11.6	11.6
	Good	11	25.6	25.6	37.2
	very good	15	34.9	34.9	72.1
	Excellent	12	27.9	27.9	100.0
	Total	43	100.0	100.0	

The above graph shows that 25.6% respondents agree that pride microfinance loan services are good,, 34.9% agree that the services are very good while 27.9% also agree that the services are excellent and 11.6% say the services are poor with this response it shows that majority rate the services good. This therefore shows that business loans are helpful to farmers

Figure 9 Service provided by pride microfinance



4.3 Descriptive statistics on individual lending.

This section respondents where asked to respond to a number of statements regarding individual lending on the performance of commercial farmers. The following where the findings.

Table 4.9 Individual lending

	N	Minimum	Maximum	Mean	Std. Deviation
Individual clients are able to access credit products tailored to specific needs.	10	1	5	4.20	1.229
Loan evaluation at customer level is done more easily.	10	4	5	4.40	.516
Individual lending method often gives more flexibility in terms of amount, maturity and interest rate	10	3	5	4.10	.876
Valid N	10				

Source: Primary data (2015)

Access to credit products

The findings of the study indicated that the majority of the employee agreed that the Individual clients are able to access credit products tailored to the specific needs of the Farming business because This statement had a mean score of 4.20 and which showed the majority of the respondent agreed with the statement and a standard deviation of 1.229 which means there was deviation is a wide variation of responses.

Easy loan evaluation

According to the findings of the study, it was presented that the majority of the employee respondents agreed that loan evaluation is easier in individual lending thus encourage more borrowing thus increasing productivity and compared to the other types, The mean of 4.40 clarified that most respondents generally agreed and with a standard deviation of 0.516 which shows there is a wide variation of responses..

Gives More Flexibility

In relation to the findings of the study, it was indicated that the majority of the respondents strongly agreed that individual lending often gives more flexibility in terms of amount, maturity, interest rate and also had a mean of 4.10 and a standard deviation of 0.876 this shows there is wide range in responses..

Table:4.10 Individual Lending for Client responses

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Am required to submit collateral security to access an individual loan	43	1	5	4.14	1.060
The interest rates charged on individual loans are high	43	1	5	4.21	0.940
Individual loans make implementation of planned investment easier.	43	3	5	4.23	0.684
Accessing individual loans is faster than group or community based loans.	43	1	5	4.07	1.009
Individual lending makes it easy to meet the requirements needed to acquire an individual loan.	43	1	5	3.91	1.211
The organisation offers some training or counselling before am given the loan.	43	2	5	4.63	0.618
Valid N (listwise)	43				

Source: primary data (2015)

Acquired to submit collateral

The findings from the study as shown in the table above reveal the majority respondents agreed that they are required to submit collateral security to access individual loans as seen from the mean of 4.14 and standard deviation of 1.060.this shows there is a wide range in responses. This was in line with Ledgerwood (2000) who notably said that individual lending involves the provision of credit to individuals who are not members of a group that is jointly responsible for loan repayment and it also requires frequent and close contact with individual clients to provide credit products tailored to the specific needs of the business.

Interest rates are high

According to findings of the study, it was indicated that the respondents agreed that the interest rates charged are high, this discourages more borrowing thus decreasing productivity. This showed a mean of 4.21 and standard deviation of 0.940.This shows that there is a wide variation of responses. This is in line with Barry and Calvert,(2002) who noted that. The combined effects of financial stress in agriculture deregulation of interest rates in financial markets, and improved information systems for lenders have brought significant changes in credit evaluations, risk assessment, and pricing policies in agricultural lending.

Easy to implement planned investment

The findings of the study showed that the respondents agreed that individual lending makes implementation of planned investment easier. This was supported by the a mean of 4.23 which showed that most of the responded agreed and standard deviation of 0.684 showing there is a wide variation of responses..This is in the line with Charlenemmn, (2012) who notably said that on the field, clients seem to prefer individual loans when they can access individual loans. On top of independence from the group, it often gives more flexibility in terms of amount.

Access is easier than group and community based lending

The findings of the study showed that the respondents were asked about whether its easier to access the loans with individual lending than group and community based this had a mean of 4.07, this shows most of the respondents agreed and standard deviation of 1.009, there is a wide variation of responses. This is line with Charlenemmn, (2012) most individual loan customers are business owners who require larger and more flexible loans than what is available under the group structure.

Its easy to meet the needed requirements

The findings also indicated that respondent were neutral to the fact that its easier to meet the needed requirements with individual lending. The mean of 3.91 and this showed that most of the respondents where not sure and a standard deviation of 1.211 indicated that there is a wide variation of responses. And these findings were in line with one of the respondents who notably argued that

"Individual lending often gives the whole loan process more flexibility in terms of amount of time needed for approval, evaluation, and even maturity as compared to the other group lending processes involved."

Training is offered

In relation to the study findings, it was shown that the majority of the respondents strongly agreed that training is offered when they get individual loans. It also had a mean of 4.63and standard deviation of 0.618this showed that there is a wide range in responses.. Since personal loans cater to individual requirements, they ought to be cheaper than the other loans. For getting this benefit, individuals will have to plan and decide for their loans (Dellien*et al.*, 2005).

4.4 Descriptive statistics on Group lending

The second objective was to investigate the relationship between group Lending and the Performance of Commercial Farmers in Rural areas. The analysis was based on descriptive statistics (mean and standard deviation) details of which is presented in table below.

Table 4.11 Showing descriptive statistics for group lending of employee respondents

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
group lending is more flexible in loan sizes and terms of payment	10	1	5	3.90	1.287
Group lending helps farmers to substitute for collateral.	10	3	5	4.30	.675
Peer assessment is carried out before group loans are approved	10	4	5	4.30	.483
Valid N (listwise)	10				

Source Primary (2015)

More flexibility

The findings of the study indicated that the majority respondents where neutral that Group lending is more flexibility in loan sizes and terms of payment. The mean score of 3.90 and standard deviation of 1.287 implied that most of the respondents where not sure plus the standard deviation showed that there is a wide variation of responses.

Substitute for collateral

The study also revealed that most of the respondents agreed that group lending helps farmers in substitute for collateral since most rural people are poor and cannot meet. The statement had a mean of 4.30 this means most of the respondents agreed and standard deviation of 0.675 that was relatively high and depicted that there is a wide variation of responses that it helps farmers in substitute for collateral since most rural people are poor and cannot meet requirements.

Peer assessment is carried out

According to the findings of the study, it was presented that the employee respondents agreed that group lending enables peer assessment is carried out before group loans are approved . In comparison to the mean score of 4.30 and standard deviation of 0.483it testified there is a narrow variation of responses.

Table 4.12 Showing Descriptive statistics for Group Lending for Client responses

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Group lending brings people together on platform for financial education and emulate good business	43	1	5	3.63	1.134
Having personal savings is one of the requirements for accessing a group loan	43	1	5	4.09	0.840
The amounts provided inform of group loans is sufficient to meet the requirements	43	2	5	4.07	.884
Group lending reduces costs incurred in loan acquisition	43	1	5	4.56	0.854
Training is offered to the entire group on how to use the loan acquired	43	1	5	4.35	0.973
I am constantly reminded of my repayment by fellow members in the group	43	2	5	4.09	0.895
Valid N (listwise)	43				

Source: primary data (2015)

Financial Education platform

The findings also revealed that the study respondents neutral to that Group lending brings people together on platform for financial education and emulate good business as evidenced by the mean of 3.63 and standard deviation of 1.134 this shows there is a wide range variation of responses one of the interview respondents attested that;

"*Most famers organize themselves inform of groups whereby they are trained and taught various financial management techniques and this also bridges the solidarity gap and trust issues amongst themselves*

Personal savings

The findings of the study showed that the majority the respondents agreed that having personal savings is one of the requirements for accessing a group loan. This had a mean of 4.09 and standard deviation of 0.840 this shows that there is a wide variation of responses.

Meeting needed requirements

According to the study findings, it was imparted that the majority respondents agreed that the amounts provided inform of group loans are sufficient to meet the requirements. The mean of 4.07 and standard deviation of 0.884 indicated that there is a wide variation of responses. This was in agreement with Monika and Feder (1999) who argued that group lending approaches normally provide a model of rotating saving and credit association to provide flexibility in loan sizes and terms and generally allow borrowers to access funds hence this is an importance to commercial farmers because there is easy access to loans and no incurred individual costs.

Reduced individual transaction costs

From the study, it was also indicated that the majority of the respondents agreed that the group lending has reduced individual transaction costs. This had a mean of 4.56 and standard deviation of 0.854.This shows there is a wide variation of responses, Lending groups and credit cooperatives have the potential to provide affordable credit to farmers because they can reduce transaction costs and to the side lenders they lower the risk for default (Van Tassel, 1999)

Training is offered to the entire group

It was revealed from the study that the majority of the respondents agreed that Group meetings are used to offer training this had a mean of 4.35 this showed most respondents agreed and standard deviation of 0.973 this means there is a wide range in responses.

Reminded of repayment by fellow members

In regards to the fact that members are reminded of repayment by their fellow members in the group it had a mean of 4.09 showing most agreed and standard deviation of 0.895 this implied that there is a wide range in responses. On the contrary,. (Godquin, 2004 and Madajewicz, 2011) argue that group lending helps mitigate the risks associated with information asymmetry: for instance, because group borrowers are linked by joint liability, if one of them switches from safe to risky project (moral hazard), the probability that her partner will have to pay the liability rises. This gives group members the incentive to monitor each other. The reduction in group members' default through peer pressure and social ties has also been discussed

4.5 Descriptive statistics for Community based lending

This section respondents were asked to respond to a number of statements regarding community based lending on the performance of commercial farmers .the following where the findings

Table 4.13 showing community based lending employee responses

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
community based lending helps members meet their investment goals.	10	3	5	4.40	0.699
community based lending enables collective action within the community which makes loan recovery easier.	10	3	5	4.20	0.789
community based lending offer agricultural financing on much lower interest rates	10	1	5	4.10	1.197
Valid N (listwise)	10				

Source primary data 2015

Lower interest rates

The study findings indicated that the majority agreed that Community Based Lending offer funds at much lower rates. The statement also had 4.40 as the mean which shows that most of the respondents agreed and standard deviation of 0.699 which means there is a wide variation of responses.

Community Investment Goals

According to the study findings indicated that the majority of the respondents agreed that community based lending helps members meet their community investment goals as evidenced with a mean of 4.20 and standard deviation of 0.789 which showed that there is a wide range in responses.

Ensures collective action and teamwork

In relation to the findings of the study, it was presented that the respondents strongly agreed that community based lending enhances collective action, helping small businesses to strengthen. It had a mean of 4.10 and a standard deviation of 1.197 which means there was a wide variation in responses.

Table 4.14 Showing Community based lending for Client responses

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
I do receive community based lending assistance from pride microfinance institution	43	1	5	4.00	1.234
Community based lending has increased access to agricultural financing	43	1	5	3.77	1.411
Training about business is provided when accessing the loan	43	1	5	3.86	1.355
Community based lending makes it easy to access a loan using community based lending	43	1	5	3.58	1.180
Community based lending ensures team work and cooperation amongst members	43	1	5	3.67	1.248
Valid N (listwise)	43				

Source primary data 2015

Receive assistance

According to the study findings, it was revealed that the majority of the respondents agreed that Community members do receive assistance from pride microfinance, this has a mean of 4.00 and standard deviation of 1.234 this means there is a wide variation in responses. This is in line with one of the interviewed respondents who said *" At pride microfinance we do offer a variety of loan types which includes the above"*

Agricultural financing

The study findings also indicated that the majority of the respondents where nuetral whether Farmers have increased access to agricultural financing. This has a mean of 3.77 and standard deviation of 1.411, this shows that there is a wide variation in responses.

This is in line with (Otero and Rhyne, 1994) Community based lending groups are normally established to provide access to financial services in rural areas, build community self-help group, and help members accumulate savings

Training

The study findings presented that the majority of the respondents were neutral to that training is provided to, help small businesses and strengthen them, this had a mean of 3.86 and standard deviation of 1.355 this means that there is a wide variation in responses.

Access of agricultural loans

It was revealed from the study that the respondents were neutral that community based lending helps members to meet their community investment goals while maintaining and enhancing their own profitability, this has a mean of 3.58 and standard deviation of 1.180, this means there is a wide range in responses.

Facilitating of team work

The findings from the study also revealed that where not sure that community based lending enables the facilitating of collective action within the community .this had a mean of 3.67 and standard deviation of 1.248, this shows that there is a wide variation in responses. These findings were in agreement Basterlear (2006) who pointed out some factors facilitating collective action within community seed groups and these included their size, are associated with a higher repayment performance.

4.6 Descriptive statistics for the performance of commercial farmers

This section respondents where asked to respond to a number of statements regarding the performance of commercial farmers . The following are the responses.

Table 4. 15 Showing the performance of commercial farmers.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Farmers increase profits as a result of acquiring commercial loans	43	1	5	4.12	1.051
The acquired commercial loans are used as capita that increases productivity	43	1	5	4.14	1.207
The market potential of products is promising due to increase in productivity	43	1	5	3.72	1.182
Easy to search for market due to the acquired business training	43	1	5	4.21	.861
Usage of credit has increased net income and productivity	43	1	5	3.65	1.131

I have acquired ways of reducing costs with the use of the commercial loan	43	2	5	4.44	.796
Marketing of products is well planned through the training given and this has improved productivity	43	2	5	3.63	.952
I have access to information on the market/ my farming business	43	1	5	3.37	.976
Acquisation of a commercial loan has helped to impact ways to reduce costs	43	1	5	4.33	1.085
Valid N (listwise)	43				

Source Primary (2015)

Increased profits

The study findings indicated that the majority of the respondents agreed that Farmers have increased profits as a result of commercial loans. This had a mean of 4.12. And a standard deviation of 1.051 which means there is a wide range in responses. This was in agreement with Monika and Feder (1999) who notably said that profitability and profit margin gotten the difference between returns and all expenses. This is what largely pays for farm expenses, capital expenditure, loans, and finally for family living.

Capital

In relation to the study findings, it was revealed that the respondents agreed that The acquired commercial loans are used as capital that is used to increase productivity , as so because and it had a mean of 4.14 and a standard deviation of 1.207 which means wide variation in responses

Increase in market of the products

The study findings showed that majority of the respondents agreed that the market potential of the commercial farmers' products is promising and has increased productivity, as shown by the mean of 4.21 and a standard deviation of 1.812 this means there is a wide variation in responses

Easy marketing through acquired training

The study findings also showed that the largest proportion of the respondents agreed Marketing of the products is well-planned, this had a mean of 4.21 and a standard deviation of 0.861 there is a wide variation of responses.

Increase in net income

The findings of the study also presented that the majority of the respondents were neutral to the fact that the usage of credit has the improved the net income of the farmers business by helping to increase efficiency and met seasonal fluctuation in income and expenses sure, with a mean of 3.64 and standard deviation of 1.131 meaning the range of responses was high This in in line with one of the responses from the interview that,

"*The farmers are able to get the loans which they invest into their small enterprises. And this ha s proved to increase their efficiency and even net sales."*

Cost reduction

According to the study findings, majority agreed that Acquisition of loans has helped to reduce. This had a mean of 4.44. This shows most respondents agreed and a standard deviation of .0.796 this means there is a wide variation in responses.

Improved skills

It was also imparted that the largest percentage were neutral that Searching for new market for the products is not so difficult due to the acquired training, with a mean of 3.63 and standard deviation of 0,952 meaning there is a wide range in responses. One of the interviewed respondents pointed out that

"The farmers can now easily advertise their products in search for new markets with the availability of capital from the credit schemes from the microfinance institutions due to the business knowledge given to them"

Easy access to business information

In relation to the study findings also presented that majority of the respondents were neutral , with the mean of3.37 and standard deviation of 0.976 this means there is a wide variation in responses. That they have access to information on market/consumer of their products, Olokoyo(2011) strained that information used to identify and define marketing opportunities and problems; generate, refine, and evaluate marketing actions; and improve understanding of marketing as a process is very vital and should be well understood.

Ways of reducing costs

In relation to the study it showed that most of the respondents agreed that the acquired commercial loan has helped them impact ways of reducing cost with a mean of 4.33 and standard deviation of 1.085 meaning there is a wide range in responses

4.7 Correlation Analysis

To determine the effect that independent variables had on dependent variables, it was necessary to conduct correlation analysis.

4.7.1The effect of individual lending to the performance of commercial farmers in rural areas

The effect that individual lending has on performance of commercial farmers,. The following were the results;

Table 4.16 Correlations between individual lending and performance of commercial farmers.

		individual lending	Performance
individual lending	Pearson Correlation	1	.962**
	Sig. (2-tailed)		.000
	N	43	43
Performance	Pearson Correlation	.962**	1
	Sig. (2-tailed)	.000	
	N	43	43

**. Correlation is significant at the 0.01 level (2-tailed).

From the table above, correlation analysis showed that there is a positive and significant relationship ($r=0.962$, $p<0.01$) between individual lending and commercial farmers performance.

This implies that individual lending positively affects the performance of commercial farmers by 96.2%.

This is in line with (Charlenemmn, 2012).On the field, clients seem to prefer individual loans when they can access it. On top of independence from the group, it often gives more flexibility in terms of amount, maturity, interest rate.

4.7.2 Group lending and the performance of commercial farmers

Table 4.17 Correlation between group lending and performance of commercial farmers.

		Performance	Group lending
Performance	Pearson Correlation	1	.893**
	Sig. (2-tailed)		.000
	N	43	43
group lending	Pearson Correlation	.893**	1
	Sig. (2-tailed)	.000	
	N	43	43

**. Correlation is significant at the 0.01 level (2-tailed).

From the table above, correlation analysis showed that there is a positive and significant relationship (r=0.893, p<0.01) between group lending and performance of commercial farmers . This implies that group lending positively affects the performance of commercial farmers. With a percentage of 89.3%

According Kwame (1980) in the past years, banks found it almost impossible to provide credit to millions of both small scale and commercial farmers who produce bulk of the country's agricultural output. At that time, lending to peasant farmers was considered not complex but difficult administratively but also expensive in terms of loan loss and serving costs, however this problem has been overcome by providing farmers with credit through group schemes this has led to increased loan demand and easy access of loans to farmers.

This is in line with Waterfeild and Duval(2000) Group lending approaches have adopted a model of rotating saving and credit association to provide flexibility in loan sizes and terms and generally allow borrowers to access funds hence this is an importance to farmers because there is easy access to loans and no incurred individual costs. This approach has helped farmers in substitute for collateral since most rural people are poor and cannot meet requirements.

4.7.3 Community based lending and the performance of commercial farmers

Table 4.18 Correlation between community based lending and performance of commercial farmers.

		Performance	Community based
Performance	Pearson Correlation	1	.944**
	Sig. (2-tailed)		.000
	N	43	43
Community based	Pearson Correlation	.944**	1
	Sig. (2-tailed)	.000	
	N	43	43

**. Correlation is significant at the 0.01 level (2-tailed).

From the table above, correlation analysis showed that there is a positive and significant relationship ($r=0.944$, $p<0.01$) between community based lending and the performance of commercial farmers. This implies that community based lending positively affects the performance of commercial farmers with a percentage of 94.4%.

This is in line with Huppi and Feder (1989) Arrangements such as lending groups or credit cooperatives have the potential to reduce both the transaction costs of lending to small farmers and the risks involved. Successful group lending programs have shown the importance of factors such as homogeneous borrowing groups, which are jointly liable and assume some of the managerial and supervisory responsibilities, a common bond other than credit, and denying access to future credit to the whole group in case of default by any member. Important factors for success of credit cooperatives include bottom-up institutional development, extensive training at all levels, reliance on savings mobilization and equity contribution rather than external funds, slow expansion of cooperative activities, and strict monitoring and auditing. Cited by Yaron. J

4.8 Conclusion

Therefore in conclusion, data was presented analyzed using SPSS; findings were made and then eventually discussed using literature review in order to determine the effects of lending methodologies and the performance of commercial farmers. Correlation analysis was then conducted

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter is composed of the summary of the findings, conclusions and the recommendations which need to be implemented in order to improve or enhance the performance of commercial farmers using relevant lending methodologies.

5.1 Summary of the findings

The research answered the three questions; what is the relationship between individual lending and the performance of commercial farmers in rural areas? What is the relationship between group lending and the performance of commercial farmers in rural area? What is the relationship between community based lending and the performance of commercial farmers in rural areas? were duly assessed and answered during the study.

5.1.1 Individual Lending and the Performance of Commercial Farmers in Rural Areas.

From the Correlation study conducted, correlation analysis showed that there is a positive and significant relationship ($r=0.962$, $p<0.01$) between individual lending and commercial farmers performance. This implies that individual lending positively affect the performance of commercial farmers by 96.2%.

5.1.2 Group Lending and the Performance of Commercial Farmers in Rural Areas.

From the Correlation study conducted, correlation analysis showed that there is a positive and significant relationship ($r=0.893$, $p<0.01$) between group lending and performance of commercial farmers. This implies that group lending positively affects the performance of commercial farmers. With a percentage of 89.3%

5.1.3 Community Based Lending and the Performance of Commercial Farmers in Rural Areas.

From the correlation analysis studied it was discovered that correlation analysis showed that there is a positive and significant relationship ($r=0.944$, $p<0.01$) between community based lending and the performance of commercial farmers. This implies that community based lending positively affects the performance of commercial farmers

5.3Conclusions of the study

Since the findings from the study indicated a positive and significant relationship between individual lending and performance of commercial farmers, a positive and significant relationship between group lending and performance the performance of commercial farmers and also a positive and significant relationship between community based lending and performance of commercial farmers . Therefore, this study concludes that there is a positive and significant relationship between lending methodologies and performance of commercial farmers. Implying that different lending types affect performance of commercial farmers in rural areas.

5.4 Recommendations

It is recommended that the MFIs should develop good proper and effective credit management strategies that are needed to enhance the quality of institutional support for farmers growth in the area.

There is need for MFIs to support and strengthen the growth of farmers by providing good loans services and provide good linkages between the service deliveries of micro-finance.

MFIs and other financial institutions are encouraged to reduce the interest rates charged on both short and long terms loans to allow more people to access the credit services.

5.5 Areas for further study

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

The contribution of community based lending on performance of commercial businesses/ farming

The effect of loan services on farming both small and large scale

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Appendix I: Questionnaire for employees

Dear respondent,

I am called **NAKAZIBWE PHIONAH, a** student of Uganda Martyrs University undertaking a Bachelor's Degree of Business Administration and Management. I am carrying out a research study on the topic of **"Lending methodologies and the performance of commercial farmers in rural areas"**

This questionnaire is therefore intended to seek information on the above subject matter. The information is purely for academic purposes and all the answers will be handled with utmost confidentiality. I therefore humbly request that you complete this questionnaire correctly in the spaces provided or options given.

Thank you for sparring your time.

SECTION A: GENERAL INFORMATION

(Please, tick the appropriate answers where options are given).

1. Gender

(a) Male (b) Female

2. Age Group

(a) Below 18 (b) 18 - 30 years (c) 31 - 50years (d) Above 50 years

3. Education qualification

(a)Certificate (b) Diploma (c) Degree

SECTION B INDIVIDUAL LENDING

To what extent do you agree with the following statements with regards to the relationship between individual lending and performance of commercial farmers in rural areas?

The following abbreviations are used; **SA =** (Strongly Agree)**, A=**(Agree)**, N=** (Neutral)**. D=** **(**Disagree), **SD=** (Strongly Disagree) The Rank of responses is on a scale of 1 to 5 where 1=Strongly disagree, 2=Disagree, 3=Neutral, 4=Agree,5=Strongly agree.

	Individual Lending	**SA**	**A**	**N**	**D**	**SD**
L1	Individual clients are able to access credit products tailored to their specific needs					
L2	Loan evaluation at the customer level is done more easily					
L3	Individual lending method often gives more flexibility in terms of amount, maturity, interest rate.					

SECTION C: GROUP LENDING

To what extent do you agree with the following statements with regards to the relationship between group lending and performance of commercial farmers in rural areas?

The following abbreviations are used; **SA =** (Strongly Agree)**, A=** (Agree)**, N=** (Neutral)**. D=** **(**Disagree), **SD=** (Strongly Disagree) The Rank of responses is on a scale of 1 to 5 where 1=Strongly disagree, 2=Disagree, 3=Neutral, 4=Agree,5=Strongly agree.

	Group Lending	**SA**	**A**	**N**	**D**	**SD**
G1	Group lending is more flexible in loan sizes and terms of payment					
G2	Group lending helps farmers in substitute for collateral since most rural people are poor and cannot meet requirements					
G3	Peer assessment is carried out before the group loan is approved					

<u>SECTION C: COMMUNITY BASED LENDING</u>

To what extent do you agree with the following statements with regards to the relationship between community based lending and performance of commercial farmers in rural areas.

The following abbreviations are used; **SA =** (Strongly Agree)**, A=** (Agree)**, N=** (Neutral)**. D= (**Disagree), **SD=** (Strongly Disagree) The Rank of responses is on a scale of 1 to 5 where 1=Strongly disagree, 2=Disagree, 3=Neutral, 4=Agree,5=Strongly agree.

	Community Based Lending	**SA**	**A**	**N**	**D**	**SD**
B1	Community Based Lending offer agricultural financing on at much lower interest rates					
B2	Community based lending helps members meet their community investment goals while maintaining and enhancing their own productivity.					
B3	Community based lending ensures enables collective action within the community which makes the recovery process of the loans easier.					

Thanks very much for your cooperation

Interview Guide

I am a student of UMU and currently collecting data for compilation for my dissertation as a partial requirement for the award of Bachelors Degree in Business Administration of Uganda Martyrs University Nkozi. I am here to conduct an interview for a maximum of 15 minutes. The interview I am conducting relates to "**Lending methodologies and the performance of commercial farmers in rural areas"**

1. What are the different lending practices used in your institution?

2. In your view, to what extent has individual lending improved the performance of commercial farmers in rural areas.

3. Do you encourage group lending in your institution? why

4. How has group lending been of importance to performance of commercial farmers in rural areas?

5. To what extent do you issue out community based loans?

6. How has community based lending improved the performance of commercial farmers in rural areas?

END: THANKS FOR YOUR TIME

Appendix 2: Questionnaire For farmers

Dear respondent,

I am called **NAKAZIBWE PHIONAH, a** student of Uganda Martyrs University undertaking a Bachelor's Degree of Business Administration and Management. I am carrying out a research study on the topic of **"Lending methodologies and the performance of commercial farmers in rural areas"**

This questionnaire is therefore intended to seek information on the above subject matter. The information is purely for academic purposes and all the answers will be handled with utmost confidentiality. I therefore humbly request that you complete this questionnaire correctly in the spaces provided or options given.

Thank you for sparing your time.

SECTION A: GENERAL INFORMATION

(Please, tick the appropriate answers where options are given).

Gender

(a) Male ⬭ (b) Female ⬭

2. Age Group

(a) Below 18 ⬭ (b) 18 - 30 years ⬭ (c) 31 - 50years ⬭ (d) Above 50 years ⬭

3. Education qualification

(a)Certificate ⬭ (b) Diploma ⬭ (c) Degree ⬭

5). How often do you get financial assistance from Pride microfinance limited?

a) Weekly ◯ b) Monthly ◯ c) Annually ◯ d) others specify

7) Have you ever taken a loan from Pride microfinance, If yes how do you rate the loan services provided by the Pride microfinance?

a) Poor ◯ b) Good ◯ c) Very good ◯ d) Excellent ◯

SECTION B: INDIVIDUAL LENDING

To what extent do you agree with the following statements with regards to the relationship between individual lending and performance of commercial farmers in rural areas?

The following abbreviations are used; **SA =** (Strongly Agree)**, A=** (Agree)**, N=** (Neutral)**. D=** **(**Disagree), **SD=** (Strongly Disagree). The Rank of responses is on a scale of 1 to 5 where1=Strongly disagree, 2=Disagree, 3=Neutral, 4=Agree,5=Strongly agree.

	Individual lending	**SA**	**A**	**N**	**D**	**SD**
A1	I am required to submit collateral security to access an individual loan					
A2	The interest rates charged on individual loans are high.					
A3	Individual loans make implementation of the planned investment easier.					
A4	Accessing individual loans is faster than group or community based loans.					
A5	Individual lending makes it easy to meet the requirements needed to acquire an individual loan					
A6	The organization offers some training or counselling before am given the loan.					

SECTION C   GROUP LENDING

To what extent do you agree with the following statements with regards to the relationship between group lending and performance of commercial farmers in rural area?

The following abbreviations are used; **SA =** (Strongly Agree)**, A=** (Agree)**, N=** (Neutral)**. D= (**Disagree), **SD=** (Strongly Disagree) The Rank of responses is on a scale of 1 to 5 where 1=Strongly disagree, 2=Disagree, 3=Neutral, 4=Agree,5=Strongly agree.

	Group lending	**SA**	**A**	**N**	**D**	**SD**
D1	Group lending brings people together on platform for financial education and emulate good business					
D2	Having personal savings is one of the requirements for accessing a group loan.					
D3	The amounts provided inform of a group loan are sufficient to meet the requirements					
D4	Group lending reduces costs incurred in loan acquisition					
D5	Training is offered to the entire group on how to use the loan acquired.					
D6	I am constantly reminded of my repayment by fellow members in the group					

SECTION D: COMMUNITY BASED LENDING

To what extent do you agree with the following statements with regards to the relationship between community based lending and performance of commercial farmers in rural areas?

The following abbreviations are used; **SA =** (Strongly Agree)**, A=** (Agree)**, N=** (Neutral)**. D= (**Disagree), **SD=** (Strongly Disagree) The Rank of responses is on a scale of 1 to 5 where 1=Strongly disagree, 2=Disagree, 3=Neutral, 4=Agree,5=Strongly agree.

	Community based	**SA**	**A**	**N**	**D**	**SD**
F1	I do receive community based lending assistance from pride microfinance institution.					
F2	Community based lending has increased access to agricultural financing					
F3	Training about business is provided when accessing the loan					
F4	Community based lending makes it easy to access a loan using community based lending method					
F5	Community based lending ensures team work and cooperation amongst members					

SECTIONE: PERFORMANCE OF COMMERCIAL FARMERS

To what extent do you agree with the following statements with regards to performance of commercial farmers in rural areas?

The following abbreviations are used; **SA =** (Strongly Agree)**, A=** (Agree)**, N=** (Neutral)**. D= (**Disagree), **SD=** (Strongly Disagree) The Rank of responses is on a scale of 1 to 5 where 1=Strongly disagree, 2=Disagree, 3=Neutral, 4=Agree,5=Strongly agree.

	Performance of commercial farmers	SA	A	N	D	SD
K1	Farmers have increased profits as a result of acquiring commercial loans.					
K2	The acquired commercial loans are used as capital that increases productivity					
K3	The market potential of my products is promising due to increase in productivity.					
K4	Searching for new market for products is not so difficult due to the acquired business training hence increasing profitability					
K5	The usage of credit has the improved the net income and profitability my farming business by helping to increase efficiency and meet seasonal fluctuation in income and expenses.					
K6	.I have acquired ways of reducing incurred costs with the use of the commercial loan.					
K7	Marketing of products is well-planned through the training given and this has improved productivity and cost effectiveness.					
K8	I have access to information on market/consumer of my products and business.					
K9	Acquisition of loans has helped to impact ways that reduce on costs					

Thank you very much for your cooperation

Appendix 3: Introductory letter