

MICROFINANCE AND THE PERFORMANCE OF SMALL SCALE FARMERS

CASE STUDY OF FINCA CLIENTS IN MBARARA DISTRICT

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DEDICATION

This research report is dedicated to my parents for their financial and moral support throughout my entire life.

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May God bless you all.

List of abbreviations

MFIs	Micro Finance Institutions
MOFPED	Ministry of Finance Planning and Economic Development
NGOs	Non Government Organizations
SACCOs	Savings and Credit Cooperative organization
SPEED	Savings Promotion and Enhancement of Enterprise Development
SPSS	Statistical Package for Social Scientists
SUFFICE	Support for to feasible financial institutions and capacity building effort
UBOS	Uganda Bureau of Statistics
UCA	Uganda Cooperative Alliance
UCSCU	Uganda Cooperative Savings and Credit Union Limited
UNDP	United Nations Development Programme

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ABSTRACT

The study examined the effect of microfinance towards the performance of small scale farmers a case of FINCA Mbarara. The objectives of the study were to; examine microfinance services accessed by small scale farmers in Mbarara district, analyze how services offered by microfinance affect performance of small scale farmers and establish challenges small scale farmers face in accessing services from microfinance. Descriptive research design was used in this study. Purposive and simple random sampling techniques were used in the selection staff at FINCA and clients of FINCA as respondents respectively. Data was collected from a total of 50 respondents who included 40 clients of FINCA and 10 staff of FINCA Mbarara branch. Descriptive techniques were used to analyze data.

It was found out that the services offered to small scale farmers in Mbarara district by FINCA microfinance include; credit services, savings, loan insurance cover, employment to marginalized groups of people like women, training and advisory services. It was also found out that the effects of services offered by microfinance on performance of small scale farmers include; improved income levels, acquisition of capital to improve on their Agricultural production hence increased output, improved stability in saving of small scale rural farmers, improved asset accumulation and improved productivity in their activities hence increased profits. It was also found out that the challenges small scale farmers face in accessing services from FINCA microfinance include: delay in processing loans, small size loans given to small scale farmers, short loan periods, high interest rates charged by FINCA microfinance, lack of security (collaterals), borrowers' illiteracy, transport and communication barriers.

In conclusion FINCA microfinance helps small scale farmers to improve on performance in their activities they are involved in hence improving on their levels of income which can be a basis to reduce on poverty. It is therefore recommended that other rural farmers should be encouraged to join microfinance like FINCA and develop the spirit of savings and entrepreneurship.

CHAPTER ONE

1.1 Introduction

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

1.2 Background to the study

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

Microfinance is the provision of financial services to low-income clients or solidarity lending groups including consumers and the self-employed, who traditionally lack access to banking and related services (Akinyi, 2009). Microfinance is also the idea that low-income individuals are

capable of lifting themselves out of poverty if given access to financial services. While some studies indicate that microfinance can play a role in the battle against poverty, it is also recognized that is not always the appropriate method, and that it should never be seen as the only tool for ending poverty (Bategeka, 2009).

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

One of the ways for fighting poverty in Uganda has been the promotion and development of micro finance. Micro finance in Uganda form delivery of financial services to the poor has now

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

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

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

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

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

way in building their client base, their savings and loan portfolios. MFIs have by far the biggest potential to gain ground and capture the sector.

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

1.3 Statement of the problem

In Uganda Microfinance has the ability to improve on operations of small scale farmers through offering loans, training, supply of equipment, and regular monitoring. Many farmers in rural and urban areas are in need of basic necessities like education, shelter, food and clothes among others. Microfinance continues to provide services like soft loans, school fees loans so as to enable the achievement of the people's needs and growth of small scale farmers. Microfinance has also provided employment to people who are involved in small and medium scale enterprises (Bategeka, 2009).

Despite the existence and contribution of Microfinance to farmers, many farmers are still facing the problem of lack of drugs for their animals, seeds to plant and many others.

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

1.4 Purpose of the study

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

1.5 Objectives of the study

- i. To examine microfinance services accessed by small scale farmers in Mbarara district.
- ii. To analyze how services offered by microfinance affect performance of small scale farmers.
- iii. To establish challenges small scale farmers face in accessing services from microfinance and suggest solutions.

1.6 Research questions

- i. What are the microfinance services offered by microfinance to small scale farmers in Mbarara district?
- ii. How do services offered by microfinance affect the performance of small scale farmers?
- iii. What are challenges faced by small scale farmers in accessing services offered by microfinance and possible solutions?

7.1 Scope of the study

1.7.1 Content Scope

The study was restricted to identify microfinance services offered to small scale farmers in Mbarara district, analyzing how services offered under microfinance affect performance of small scale farmers and establishing challenges small scale farmers face in accessing services from microfinance.

1.7.2 Geographic Content

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

1.7.3 Time Scope

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

1.8 Justification of the study

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

1.9 Significance of the study

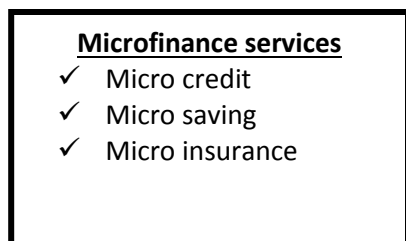
The study identified services offered by MFIs such as FINCA Mbarara to small scale farmers in Mbarara district. This may help community people to be aware on the micro finance services provided so that they can go and access them.

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

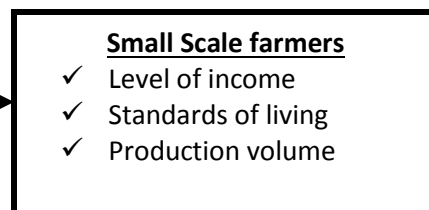
The study established challenges small scale farmers face in accessing services from microfinance such as FINCA Mbarara. This will act as basis for microfinance management and small scale farmers to come up with solutions to those challenges.

1.10 Conceptual Framework

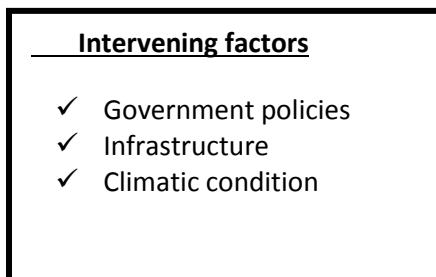
Independent Variable



Dependent Variable



Intervening variable



Source: Researcher's Innovation

Explanation

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

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

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

1.11 Limitations of the study

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

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

1.12 Conclusion

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

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents the review of related literature held by various scholars, researchers and agencies in relation to the effect of microfinance towards the performance of small scale farmers. The review of related literature was in the following sub themes in relation to the study objectives:

2.1 2.2 Theoretical Framework

Microfinance is the provision of financial services to low-income clients or solidarity lending groups including consumers and the self-employed, who traditionally lack access to banking and related services (Akinyi, 2009).

Microfinance is also the idea that low-income individuals are capable of lifting themselves out of poverty if given access to financial services. While some studies indicate that microfinance can play a role in the battle against poverty, it is also recognized that is not always the appropriate method, and that it should never be seen as the only tool for ending poverty.

More broadly, it is a movement whose object is "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers." Those who promote microfinance generally believe that such access will help poor people out of poverty (Westover, 2008).

Most poor people rely on the informal sector to manage their money. A study (MFPED/UNDP 2000) revealed that of all people borrowing money 79% obtained credit from informal sources in comparison to 21% borrowing from commercial banks. More or less everyone saves some cash at home or with a close family member or friend, though the poorest may experience periods when they can't do so. Among group based devices Rotating Savings and Credit Associations (ROSCAs) are especially popular in Uganda. Even within FINCA Village Banks members have established their repayment ROSCAs. Despite an obvious need for safe opportunities to save small amounts of cash, there are only few deposit collectors operating and those that there are, lack the degree of standardization and professionalism found among them in West Africa. The poor and not-so-poor have almost no access to moneylenders of any sort, a fact that contributes to the widespread popularity of the MFIs (Bagazonzya and Mbabazi 2000; Rutherford 1999). Informal and formal financial service providers as well as semi-formal arrangements like Savings 16 and Credit Cooperation.

2.3 Services offered by microfinance to small scale farmers

According to the Association of MFIs of Uganda (2009), rural farmers are provided with Agriculture loans by micro finances. Agriculture is one of the mainstays of the Ugandan

economy. Raising agricultural productivity and promoting agriculture businesses are high priorities for the government. These Agriculture loans focus on increasing the incomes of poor rural households by improving the performance of agricultural research and advisory services, while enhancing environmental sustainability and resilience to climate risks and land degradation.

Agriculture loans involve productivity enhancement loans that focus on activities intended to increase primary production like purchase of breeding/parent stock, farm implements and farm inputs. Agricultural loans are also intended for Agro-processing–value addition to the products that will have been produced at primary production level and collective marketing which finance the marketing process like buying of produce from farmers (Amongin, 2005).

Rural farmers are also provided with rural development loans. These involve rural energy loans which are intended to improve on the quality of life for the clients served and also help to increase income as a result of increased hours of work for hotels, shops, commercial telephones, biogas and cooking facilities. Housing loans–This refers to financing of shelter intended to improve production along the value chain where by activities include construction of storage buildings, marketing shades, collecting centers, commercial buildings and warehousing loans which support collective marketing hence stimulating increased primary production(Matovu, 2006).

People are provided with disability loans under microfinance. Microfinances give support to the financially handicapped poor to operate small holdings/business so as to improve their

businesses performance. Many small scale enterprises in the country and the world at large are managed by women, and have taken the opportunity of the availability of small and short term loans to make economic advancement never before thought possible by anybody (Mwebaze, 2006). Financial services enable women involved in small business to maximize the benefits of cash income by transforming it into a usefully large lump sum – an asset that can be invested, borrowed against or used as insurance.

Mlenga (2008) noted that farmers also get emergency loans under the microfinance arrangement. Emergency loans are short-term quick loans available to members to meet unforeseen circumstances, not budgeted for. These loans are primarily given to the farmers for meeting emergencies such as flood, earthquake, and famine. The farmers take these advances in the spirit of gift or relief given in calamity and are not serious in repaying them. So this source is now occupying insignificant position in the disbursement of overall credit to the farmers. Agricultural loans are being made available to the farmers at the farmers at low mark up.

With microfinance, farmers are able to get investment loans which are primarily involved in the promotion of development through loans to rural farmers, processors of agricultural produce, small manufacturers, small traders, importers and exporters. Microfinances work with poor rural people to enable them to grow and sell more food, increase their incomes and determine the direction of their own lives (Lubasha, 2004)

Rural farmers also get working capital loan or start-up loan (Luwanga, 2008). This loan is aimed at enabling the weak clients increase their on lending capital base. It is an interest free loan and client will pay back the principal loan amount, it usually amounts to a maximum of Ush.10 Million and loan period is of 2 years and grace period of 6 months

Microfinance provides credit services to their clients who find it difficult to access loans from commercial Banks due to lack of collateral security. They give small loans to farmers, salaried workers or business owners either in groups or individuals. The rapid growth of microfinance gives has attributed to the perception that providing financial services will alleviate poverty, facilitate financial independence and promote a sense of socio –economic empowerment among the poor, particularly the farmers (Amongin, 2005).

Matovu (2006) noted microfinance gives offer saving services to framers in rural areas of Uganda. They accept savings and keep them safely. Saving mechanism allows microfinance clients to conveniently and safely accumulate surplus funds to create financial stability. According to AMFIU (2009), loan insurance cover helps safeguard clients from natural calamities. However, it is more operational with agricultural, consumption and housing loans.

Some microfinance help unprivileged race (female) to become independent business people. Microfinance gives support to the financially handicapped poor to operate small holding/businesses so as to improve their businesses performance. Many small businesses in the country and the world at large have taken the opportunity of the availability of small and short term loans to make economic advancement never before thought possible by anybody (Peter,

2009). Financial services enable small business owners to maximize the benefits of cash income by transforming it into a usefully large lump sum – an asset that can be invested, borrowed against or used as insurance.

Micro finances also offer non financial services such as training of clients in poultry keeping, goat rearing, and other modern farming methods in order to help the clients improve on the capacity to manage their businesses efficiently. Micro finances operate in order to provide regional balance, equal distribution of wealth and reduce the income gap that exists among the population of Uganda (Susan, 2007). For instance, in Tanzania, micro-credit schemes were established to boost the popular socialist plan UJAMAA. They assisted people in purchasing equipment, seeds, fertilizers, and education facilities (Okech, 2009).

Micro finances are the only kind of institutions to give support to the financially handicapped poor to operate small holdings/business so as to improve their businesses performance. Many small scale enterprises in the country and the world at large are managed by women, and have taken the opportunity of the availability of small and short term loans to make economic advancement never before thought possible by anybody (Peter, 2009). Financial services enable women involved in small business to maximize the benefits of cash income by transforming it into a usefully large lump sum – an asset that can be invested, borrowed against or used as insurance.

2.4 Microfinance and performance of small scale farmers

Microfinance service are primarily involved in the promotion of development through loans to rural farmers, processors of agricultural produce, small manufacturers, small traders, importers and exporters. Microfinance service such as those provided by local SACCOs work with poor rural people to enable them to grow and sell more food, increase their incomes and determine the direction of their own lives. Therefore with the increase in their incomes and their ability to determine the direction of their own lives, rural farmers' ability to save increases.

Loans provided under microfinance help rural farmers to create financial stability in their savings. According to AMFIU (2009), microfinance services in most rural and urban areas provide loan insurance cover. Loan insurance cover helps safeguard clients from natural calamities. However, it is more operational with agricultural, consumption and housing loans (Ahimbisibwe, 2011). Microfinance services include offering rural farmers direct savings, the farmers accept the savings and keep them safely. Saving mechanism allows rural farmers to conveniently and safely accumulate surplus funds to create financial stability (Amongin, 2005).

Microfinance services include offering rural farmers training on how to use their loans well and this helps rural farmers in putting the loans to good use which definitely improves the farmers' savings. Under microfinance services rural farmers are offered non financial services such as training of clients in poultry keeping, goat rearing, and other modern farming methods in order to help the clients improve on the capacity to manage their businesses efficiently. Microfinance services operate in order to provide regional balance, equal distribution of wealth and reduce the income gap that exists among the population of Uganda. For instance, in Tanzania, micro-credit schemes were establish to boost the popular socialist plan UJAMAA. They assisted people in purchasing equipment, seeds, fertilizers, and education facilities (Okech, 2009).

Loans given to rural farmers help them in gathering or amassing of objects of value; the increase in wealth through concentration; or the creation of wealth. The start-up loans they get is invested financial asset for the purpose of making more money (whether in the form of profit, rent, interest, royalties, capital gain or some other kind of return). This activity forms the basis of the economic system of capitalism, where economic activity is structured around the accumulation of capital (investment in order to realize a financial profit). Financial also help in building human capital. Human capital may also be seen as a form of capital: investment in one's personal abilities, such as through education, to improve their function and therefore capital accumulation (wealth) in a market economy.

2.5 Challenges faced by small scale farmers in accessing services from MFIs

The loan size is the amount of loan advanced to clients under microfinance in rural areas is small, medium or big. Sewagudde (2009) argues that efficient loan size should fit the borrower's repayment capacity and should also stipulate enterprises performance. The loan period may be short, medium or long and the literature available reveals most microfinance extend credit for short period that is 4 to 12 months. However some financial institutions extend credit for a period as long as 24 month because it requires longer period in order to remain in business (Nuwahebwa, 2008).

Interest rate is the cost of borrowing money or a return from lending money. According to Kibwika (2001), he expresses that efficiency has led to the rich to become richer and the poor to become poorer because the poor have lacked securities plus corrupt officials who award loans basing on ones status. Pandey (2005) goes on to argue that lack of educational procedures on

how to acquire loans provided under microfinance services has remained another challenge. Matovu (2000) further argues that challenges such as, high interest rate plus loan period which are too high have been experienced.

Traditionally, microfinance services have usually not served poor clients. They incur substantial costs to managing a client account, regardless of how small the sums of money involved. For example, the total revenue from delivering one hundred loans worth \$1,000 each will not differ greatly from the revenue that results from delivering one loan of \$100,000. But it takes nearly a hundred times as much work and cost to manage a hundred loans as it does to manage one. A similar equation resists efforts to deliver other financial services to poor people. There is a break-even point in loan and deposit sizes below which banks lose money on each transaction they make. Poor women usually fall below it (World Bank, 2009).

Most farmers who seek for loans provided under microfinance in rural areas lack security; they have few assets that can be secured by a bank as collateral. Even if they happen to own land in the developing world, they may not have effective title to it. Even, untrustworthy clients make group guarantee lending difficult as they disappoint their fellow members. This means that the bank will have little recourse against defaulting borrowers (AMFIU, 2009). Seen from a broader perspective, it has long been accepted that the development of a healthy national financial system is an important goal of, and an important catalyst for, the broader goal of national economic development. But national planners and experts focus their attention mainly on developing a commercial banking sector dealing in high-value transactions, and often neglect the delivery of

services to households of limited means, even though these households comprise the large majority of their populations.

According to Matovu (2006), the ignorance of the people has remained a bigger challenge where by the poorest will not come forward themselves to apply for financial services as they do not know nor believe that the services are actually for them and even when they are informed many are likely to feel that it would be too risky for them to borrow. Similarly in Mbarara District, rural poor people do not come forward themselves to apply for financial services because they feel that it is too risky for them to borrow. Lack of education procedures especially among women on how to acquire loans from rural areas among local farmers has remained the most challenge and lack of confidence among the clients. Similarly, most rural poor people lack education procedures on how to acquire loans from the institution besides that, they feel too risky for them to acquire loans.

Bahadura (2007) states that one of the challenges that micro finances face in delivering services to people in rural areas are transport and communication barriers in reaching to the targeted people especially in remote areas. There is poor road network in most of the rural areas where most rural financial institutions operate from. It is uncertain whether the targeted percentage of millennium development goals that is to say eradicate poverty and hunger, empower women and ensure environmental sustainability will be achieved or not.

2.6 Conclusion

The authors above show the services provided by under micro finance, the effects of microfinance services on the performance of small scale farmers and the challenges people face

to access microfinance services globally. But no author cites the effect of microfinance towards the performance of small scale farmers in Mbarara district. This study thus intended to bridge this information gap and found out the effect of microfinance towards the performance of small scale farmers basing on clients of FINCA Mbarara as the case study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

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

3.2 Research design

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

3.3 Study Population

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

3.4 Area of Study

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

3.5 Sample size

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

3.6 Sampling techniques

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

3.7 Data Collection Methods/tools

3.7.1 Interviews

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

3.6.1.1 Survey Questionnaires

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

3.8 Data management and analysis

3.8.1 Data editing

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

3.8.2 Data Summarizing

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

3.8.3 Data processing

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

3.9 Reliability and validity of instruments

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

3.10 Ethical considerations

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

3.11 Limitations and Delimitations

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

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

3.11 Conclusion

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

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

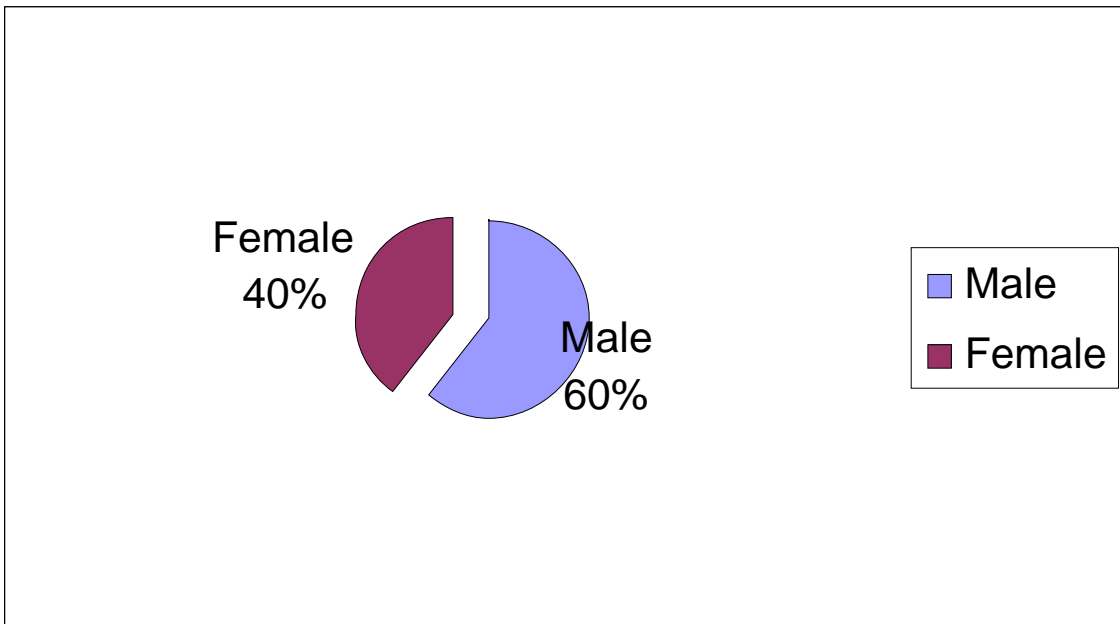
4.1 Introduction

This chapter presents the presentation and discussion of findings in relation to the study objectives and can be evidenced below. The objectives of the study were to; examine microfinance services accessed by small scale farmers in Mbarara district, analyze how services offered by microfinance affect performance of small scale farmers and establish challenges small scale farmers face in accessing services from microfinance.

4.2 Socio-Economic Characteristics of the Respondents

4.2.1 Sex of Respondents

Figure 1: Sex of respondents



Source: Field Data, 2014

The table above shows that most of the respondents 30 (60%) were male and 20(40%) were females. This could have been due to the fact that most households in the area are male headed and thus women lack the collateral critical for borrowing except when you are a widow. Few of the women have formal salaried jobs to enable them access salary loans, and this affect women’s ability to access credit.

4.2.2 Findings on age of Respondents

Table 1: Showing the Respondents Age

Age	Frequency	Percentage (%)
Less than 20 years	5	10
20-30	8	16
31-40	25	50
Above 40	12	24
Total	50	100

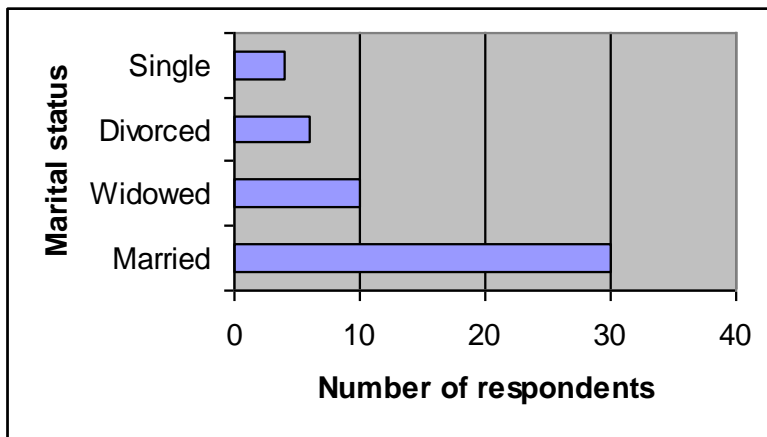
Source: Primary data, 2014

From the results the majority of the respondents falls in the Age bracket from 31-40 (50%), followed by the Age bracket above 40 (30%) and lastly between 20-30 (20%). This implies that the FINCA considered age as a determining factor for credit disbursement since it is clear middle

age respondents are the ones that accessed credit with very few respondents past the age of 40 years and visibly few members below the age of 20-30 because they lack collateral and most of them lack tangible employment to be able to save with FINCA.

4.2.3 Marital Status

Figure 2: Marital Status of respondents



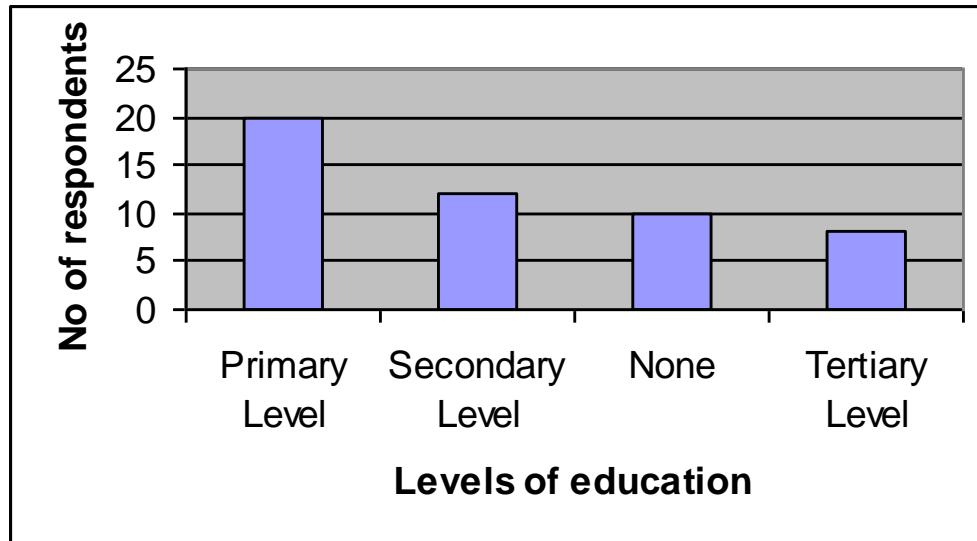
Source: Field Data, 2014

From the results the majority 30(60%) of the respondents were married, followed by widows 10(20%), followed 6(12%) of the respondents who were divorced while the minority 4(8%) were single. This implies that marital status influenced loan acquisition ability since most married people are more settled with well established homes and have collaterals as opposed to the

singles that can easily disappear with the loan funds hence posing higher risk to the institution's funds. However, widows can easily acquire loans since they are in control of the family assets in most cases and can use them as collateral.

4.2.4 Findings on Education level of the respondents

Figure 3: Education level of the respondents



Source: Field Data, 2014

From the results the majority 20(40%) of the respondents had studied up to primary school level, 12(24%) had studied up to secondary school level, 10(20%) had never been to school while the minority 8(16%) had studied up to tertiary level.

4.2.5 Findings on occupation of respondents

Table 2: Showing the respondents' occupation

Occupation	Frequency	Percentage (%)
Peasant	35	70
Business persons	15	30
Total	50	100

Source: Field Data, 2014

From the results the majority 35(70%) of the respondents were peasants while 10(20%) were business persons. Peasants were dominant in this study because the study focused on the effect of microfinance towards the performance of small scale farmers.

4.3 Microfinance services accessed by small scale farmers in Mbarara district

In this section the researcher sought to identify the microfinance services accessed by small scale farmers in Mbarara district. Respondents were asked to mention microfinance services accessed by small scale farmers and their responses are shown below:

Table 3: Services offered by FINCA Micro Finance

	Strongly Agree	Agree	Disagree	Strongly disagree	Total
FINCA offers credit services such as loans to small scale rural farmers	40(80%)	10(20%)	-	-	50(100%)
FINCA accepts savings from rural farmers and keeps them safely for them.	35(70%)	10(20%)	5(10%)	-	50(100%)
FINCA offers loan insurance cover that helps rural farmers to safeguard themselves from natural calamities	25(50%)	5(10%)	10(20%)	10(20%)	50(100%)
FINCA gives support to the financially handicapped poor rural farmers to operate small holding/businesses so as to improve their businesses performance and create employment opportunities.	22(44%)	8(16%)	15(30%)	5(10%)	50(100%)
FINCA Micro finance also offers non financial services such as training of clients in poultry keeping, goat rearing, and other modern farming methods in order to help the clients improve on the capacity to manage their businesses efficiently.	18(36%)	14(28%)	12(24%)	6(12%)	50(100%)

Source: Field Data, 2014

From the results all the respondents 50(100%) agreed that FINCA offers credit services such as loans to small scale rural farmers. This implies that FINCA offers credit services such as loans to small scale rural farmers.

According to the results the majority 45(90%) of the respondents agreed that FINCA accepts savings from rural farmers and keeps them safely for them while the minority 5(10%) disagreed. This also implies that FINCA accepts savings from rural farmers and keeps them safely for them.

In this study the majority 30(60%) of the respondents agreed that FINCA offers loan insurance cover that helps rural farmers to safeguard themselves from natural calamities while the minority 20(40%) disagreed. This implies that FINCA offers loan insurance cover that helps rural farmers to safeguard themselves from natural calamities.

From the results the majority 30(60%) of the respondents agreed that FINCA gives support to the financially handicapped poor rural farmers to operate small holding/businesses so as to improve their businesses performance while the minority 20(40%) disagreed. This shows that FINCA gives support to the financially handicapped poor rural farmers to operate small holding/businesses so as to improve their businesses performance.

According to the results the majority 32(64%) of the respondents agreed that FINCA Micro finance also offers non financial services such as training of clients in poultry keeping, goat rearing, and other modern farming methods in order to help the clients improve on the capacity to manage their businesses efficiently while the minority 18(36%) of the respondents disagreed.

It was found out that small scale farmers find it difficult to access loans from commercial Banks due to lack of collateral security and therefore find it easy to get credit services from FINCA microfinance where the collaterals asked as not much compared to those of commercial banks. Farmers mentioned that they use these credit services to invest in their farms and gardens so that they can produce much for both home consumption and take to markets for sell to get income. It was found out that small scale rural farmers get different types of loans such as working capital loans. It was revealed that working capital loans are aimed at enabling owners of small scale farmers to increase on their capital base. It was found out that these are an interest free loan and owners of farmers pay back the principal loan amount, the loan usually amounts to a maximum of Ush.10 Million and loan period is of 2 years and grace period of 6 months. It was also found out that small scale rural farmers also get Agriculture loans. These were offered agricultural loans which are also known as productivity enhancement loans that focus on activities intended to increase primary production like purchase of breeding/parent stock, farm implements and farm inputs. Agricultural loans are also intended for Agro-processing–value addition to the products that will have been produced at primary production level and collective marketing which finance the marketing process like buying of produce from farmers.

A respondent commented,

“FINCA microfinance gives small loans to farmers, salaried workers or business owners either in groups or individuals. This has helped these people to inject more money in their work to get more profits,” (Interview, April, 2014).

The above findings concur with Amongin (2005) who noted that micro finance in developing countries have helped in providing financial services to rural farmers to alleviate poverty, facilitate financial independence and promote a sense of socio –economic empowerment among women.

4.3.2.2 Savings

According to the results the majority (90%) of the respondents agreed that FINCA accepts savings from rural farmers and keeps them safely for them while the minority (10%) disagreed. This also implies that FINCA accepts savings from rural farmers and keeps them safely for them. It was found that FINCA microfinance accepts savings from small scale farmers and keep them safely. This has allowed small scale farmers to conveniently and safely accumulate surplus funds to create financial stability.

A respondent commented,

“FINCA microfinance deals with savings of its members, it receives the savings and keeps them for members”, (Interview, April, 2014).

The findings concur with Peter (2009) who noted financial institutions offer saving services that have helped rural farmers to make economic advancement never before thought possible by anybody.

4.3.2.3 Loan insurance cover

In this study the majority (60%) of the respondents agreed that FINCA offers loan insurance cover that helps rural farmers to safeguard themselves from natural calamities while the minority (40%) disagreed. This implies that FINCA offers loan insurance cover that helps rural farmers to safeguard themselves from natural calamities. It was revealed that this helps small scale farmers to start fresh in hard times such as droughts when their crops are destroyed. These are mainly in form of agricultural loan insurance cover.

The finding concurs with AMFIU (2009), where it is noted that loan insurance cover helps safeguard clients from natural calamities. However, it is more operational with agricultural, consumption and housing loans.

4.3.2.4 Support to financially handicapped poor rural farmers and creates employment opportunities

From the results the majority 30(60%) of the respondents agreed that FINCA gives support to the financially handicapped poor rural farmers to operate small holding/businesses so as to improve their businesses performance while the minority 20(40%) disagreed. This shows that FINCA gives support to

the financially handicapped poor rural farmers to operate small holding/businesses so as to improve their businesses performance. It was found out that FINCA provides financial services that enable women involved in small business to maximize the benefits of cash income by transforming it into a usefully large lump sum; an asset that can be invested, borrowed against or used as insurance. It was also reported that by giving loans to people, more job opportunities are being created especially in the Agriculture sector. This has led to empowerment of people in Mbarara district.

A respondent commented,

“FINCA microfinance has provided financial services to physically handicapped farmers and this has enabled these farmers to get involved in many activities such as businesses and expanding on their agricultural production. All these have created more employment opportunities,” (Interview, April, 2013).

The findings concur with Peter (2009) who noted that microfinance gives support to the financially handicapped poor to operate small holdings/business so as to improve their businesses performance.

4.3.2.5 Non financial services such as training of clients

According to the results the majority (64%) of the respondents agreed that FINCA Micro finance also offers non financial services such as training of clients in poultry keeping, goat rearing, and other modern farming methods in order to help the clients improve on the capacity to manage their businesses efficiently while the minority (36%) of the respondents disagreed. It was

revealed that FINCA operates in order to provide regional balance, equal distribution of wealth and reduce the income gap that exists among the men and women in the Mbarara district.

The findings are in line with Okech (2009) who noted that micro credit finance institutions assist people in purchasing equipment, seeds, fertilizers, education facilities and other social facilities.

4.4 Effects of services offered by microfinance on performance of small scale farmers

In this section the researcher sought to analyze how services offered by microfinance affect performance of small scale farmers. The results are shown below:

Table 4: Effects of services offered by microfinance on performance of small scale farmers

	Strongly Agree	Agree	Disagree	Strongly disagree	Total
Services offered by FINCA help small scale farmers to increase in their incomes and their ability to determine the direction of their own lives, rural farmers' ability to save increases.	25(50%)	15(30%)	10(20%)	-	50(100%)
Services offered by FINCA help rural farmers to create financial stability in their savings.	18(36%)	12(24%)	15(30%)	5(10%)	50(100%)
Services offered by FINCA help rural farmers to safeguard themselves from natural calamities.	20(40%)	15(30%)	10(20%)	5(10%)	50(100%)
Loans given to rural farmers by FINCA help them in gathering or amassing of objects of value; the increase in wealth through concentration; or the creation of wealth.	15(30%)	16(32%)	15(30%)	4(8%)	50(100%)
Services offered by FINCA help rural farmers to improve on profits in their farming activities.	12(24%)	18(36%)	5(10%)	15(30%)	50(100%)
The training offered by FINCA to rural farmers on how to use their loans well helps them in putting the loans to good use which definitely improves the farmers' savings.	15(30%)	20(40%)	5(10%)	10(20%)	50(100%)

Source: Field Data, 2014

From the results the majority 40(80%) of the respondents agreed that services offered by FINCA help small scale farmers to increase in their incomes and their ability to determine the direction of their own lives, rural farmers' ability to save increases while the minority 10(20%) disagreed.

According to the results, the majority 30(60%) of the respondents agreed that services offered by FINCA help rural farmers to create financial stability in their savings while the minority 20(40%) disagreed.

In this study the majority 35(70%) of the respondents agreed that services offered by FINCA help rural farmers to safeguard themselves from natural calamities while the minority 15(30%) disagreed.

From the results the majority 30(60%) of the respondents agreed that services offered by FINCA help rural farmers to improve on profits in their farming activities while the minority 20(40%) disagreed.

According to the results the majority 35(70%) of the respondents agreed that The training offered by FINCA to rural farmers on how to use their loans well helps them in putting the loans to good use which definitely improves the farmers' savings while the minority 15(30%) disagreed.

It was found out that before getting the loans from FINCA they were earning less compared to after securing the loans. It was found out that the FINCA loans had enabled to inject more capital in their business that had helped to improve on their monthly profits hence increased incomes.

A respondent commented,

“Through FINCA loans, rural small scale farmers have been able to earn a relatively higher income. I am now able to buy food for my family, pay school fees for my children and buy drugs whenever any of my family member becomes sick”, (Interview, April, 2014).

The above findings concur with Adrine (2009) who noted microfinance loans remain one of the greatest sources of capital for most owners of SMEs and rural farmers to improve on their businesses towards improved income level.

4.4.2.2 Financial stability through improved savings

According to the results the majority (60%) of the respondents agreed that services offered by FINCA help rural farmers to create financial stability in their savings while the minority (40%) disagreed. It was found that FINCA loans have helped in small scale rural farmers to have stability in their agriculture and businesses hence stability in their future saving abilities. It was revealed that FINCA offer saving services to farmers. FINCA accepts savings from small scale rural farmers and keeps them safely. This has allowed small scale rural farmers to conveniently and safely accumulate surplus funds to create financial stability. These saving mechanisms allow small scale rural farmers to conveniently and safely accumulate surplus funds to create financial stability. This implies that with the increase in their incomes and their ability to determine the direction of their lives, small scale rural farmers' ability to save increases.

In a related study Matovu (2006) asserted that micro financial work with small scale rural farmers to increases their avenues to save since they provide them with capital to expand on their scope of work in their businesses. This helps small scale rural farmers to improve on their income levels.

4.4.2.3 Increased profits through accumulation of assets

From the results the majority (60%) of the respondents agreed that services offered by FINCA help rural farmers to improve on profits in their farming activities while the minority (40%) disagreed. It was revealed that when FINCA keeps savings for the farmers, they are in good position to get more loans which they use in gathering or amassing of objects of value; the increase in wealth through concentration; or the creation of wealth and more profits. The start-up loans they get are invested financial asset for the purpose of making more money (whether in the form of profit, rent, interest, royalties, capital gain or some other kind of return).

The above findings are in line with Murphy (2006) noted that micro finance plays an important role in lower income groups through increasing their assets via establishing a credit relationship, establishing an enterprise, accessing working capital, increasing income through business expansion, meeting housing credit needs and increasing wealth through savings.

4.5 Challenges small scale farmers face in accessing services from microfinance

In this section the researcher sought to establish challenges small scale farmers face in accessing services from microfinance. The results are shown below:

Table 5: Challenges faced by rural farmers in accessing loans from FINCA micro Finance

	Strongly Agree	Agree	Disagree	Strongly disagree	Total
Loan size offered by FINCA micro finance is small to enable rural farmers carry out a lot profitable enterprises.	22(44%)	8(16%)	15(30%)	5(10%)	50(100%)
Loan offered by FINCA micro finance has a high interest rate that makes it hard for rural farmers to repay.	15(30%)	17(34%)	13(26%)	5(10%)	50(100%)
FINCA micro finance demands a lot of collaterals from rural farmers before they get loans.	20(40%)	8(16%)	12(24%)	10(20%)	50(100%)
FINCA micro finance takes a lot of time to process loans.	15(30%)	20(40%)	10(20%)	5(10%)	50(100%)
Rural farmers face challenges in reaching FINCA micro finance for services.	18(36%)	12(24%)	14(28%)	6(12%)	50(100%)
Rural farmers are illiterate or ignorant on procedures involved in accessing credit services from FINCA micro finance.	25(50%)	10(20%)	10(20%)	5(10%)	50(100%)

Source: Field data, 2014

From the results the majority 30(60%) of the respondents agreed that loan size offered by FINCA micro finance is small to enable rural farmers carry out a lot profitable enterprises while the minority 20(40%) disagreed. This some loan size is one of the challenges small scale farmers face in accessing services from FINCA microfinance.

According to the results the majority 32(64%) of the respondents agreed that loan offered by FINCA micro finance has a high interest rate that makes it hard for rural farmers to repay while the minority 18(36%) of the respondents disagreed. This implies that high interest rate that makes it hard for rural farmers to repay their loans is another challenge small scale farmersface in accessing services from FINCA microfinance.

In this study the majority 28(56%) of the respondents agreed that FINCA micro finance demands a lot of collaterals from rural farmers before they get loans while the minority 22(44%) disagreed. This implies that lack of collaterals is one of the challenge small scale farmers in Mbarara district face in accessing services from FINCA microfinance.

From the results the majority 35(70%) of the respondents agreed FINCA micro finance takes a lot of time to process loans while the minority 15(30%) disagreed. This shows that it takes a lot of time to process loans at FINCA microfinance.

According to the results the majority 30(60%) of the respondents agreed that rural farmers face challenges in reaching FINCA micro finance for services while the minority 20(40%) disagreed. This

implies that infrastructure challenges that hinder small scale farmers from accessing services offered at FINCA microfinance.

In this study 35(70%) of the respondents agreed that rural farmers are illiterate or ignorant on procedures involved in accessing credit services from FINCA micro finance while minority 15(30%) disagreed.

4.5.2.1 Small size loans

From the results the majority (60%) of the respondents agreed that loan size offered by FINCA micro finance is small to enable rural farmers carry out a lot profitable enterprises while the minority (40%) disagreed. This some loan size is one of the challenges small scale farmers face in accessing services from FINCA microfinance. It was found out FINCA microfinance offers small size loans to small scale farmers and these small size loans cannot help the farmers carry out large scale productions in their businesses and agriculture hence low production which reduces income earnings.

A respondent commented,

“Most small scale farmers get very small loans; they cannot even use them to invest in big businesses and as a result some of these loans are sometimes ended up being used to meet domestic needs such as food and education for children. This has left some small scale farmers to continue being poor despite getting loans from microfinance”, (From an interview, April, 2014).

The above findings concur with Nuwahebwa (2008) who noted that microfinance offers small size loans to farmers and owners of small and medium enterprises in Uganda. This hinders their ability and capacity to pay back their loans.

4.5.2.2 High interest rates

According to the results the majority (64%) of the respondents agreed that loan offered by FINCA micro finance has a high interest rate that makes it hard for rural farmers to repay while the minority (36%) of the respondents disagreed. This implies that high interest rate that makes it hard for rural farmers to repay their loans is another challenge small scale farmersface in accessing services from FINCA microfinance. In this study it was also revealed that the interest charged by FINCA microfinance on loans is high and as a result small scale rural farmers have resorted not to get loans from FINCA microfinance. For example it was reported that depending on what kind of loan a member is applying for, it varies in size and period of payment. The loan interest varies from 10% to 18% p.a. in FINCA microfinance with payment periods ranging from 5 months to 36 months. Once a member applies for a loan approval is ideally supposed to take between 14 to 30 days but this is not always the case because of cash liquidity problems that makes them take longer.

The above findings concur with Matovu (2000) who noted that high cost of borrowing money or a return from lending money has discouraged low income earners in Africa from borrowing funds from micro finance.

4.5.2.3 Collaterals demanded

In this study the majority 28(56%) of the respondents agreed that FINCA micro finance demands a lot of collaterals from rural farmers before they get loans while the minority 22(44%) disagreed. This implies that lack of collaterals is one of the challenge small scale farmers in Mbarara district face in accessing services from FINCA microfinance. It was reported that most small scale farmers lack security; they have few assets that can be secured by a bank as collateral. Though some were found to own land, they did not have effective title to it. This makes it hard for farmers to get loans from financial institutions without collaterals.

A respondent commented,

“Most of small scale rural farmers lack collateral to be able to get big size loans from FINCA microfinance that can enable them to venture big business ventures”, (Interview, April, 2014).

The findings are in agreement with AMFIU, (2009) where it is noted that most people in developing countries lack security; they have few assets that can be secured by a bank as collateral.

4.5.2.4 Difficulties in modalities to get loans

From the results the majority 35(70%) of the respondents agreed FINCA micro finance takes a lot of time to process loans while the minority 15(30%) disagreed. This shows that it takes a lot of time to process loans at FINCA microfinance. It was found out there is a lot of bureaucracy in obtaining a loan and sometimes it takes a long time and this makes some farmers to lose interest

in obtaining loans. It was also found out that there are leadership gaps and corruption tendencies at FINCA microfinance. It was found out that most staff in management at FINCA microfinance have limited financial skills to bring in new innovations and creativity and some of these are sometimes rude to people who come for loans. Poor leadership and management were reported to have continued to corruption and tribalism especially during property assessment before the clients are given loans as it was reported that some officials take tribes hence giving loans in unequal amounts to the favoured ones. This implies that with poor leadership and management, there is reduced product innovation, accountability, and service to members thus a hindrance to community development.

A respondent commented,

“Some staff members at FINCA microfinance are rude to clients when they are requested for guidance on procedures of securing the loans”, (Interview, April, 2014).

The findings concur with PEAP report, (2000) where it noted that most microfinance in Uganda have leadership gaps. It notes that although microfinances are meant to be democratic in nature, the membership has not taken advantage of this democracy to elect good leaders.

4.5.2.5 Poor infrastructure

According to the results the majority 30(60%) of the respondents agreed that rural farmers face challenges in reaching FINCA micro finance for services while the minority 20(40%) disagreed. This implies that infrastructure challenges that hinder small scale farmers from accessing

services offered at FINCA microfinance. For example it was revealed that inadequacy of infrastructure was a challenge to FINCA in its attempts to achieve community development. It was found that the some FINCA has few building and road network link to communities is poor and this sometimes causes some delays loan processing for people who come from communities with no roads. It was also reported that financial institutions headquarters do not have electricity, low internet and telephone connectivity as well as high tariffs. This implies that given the global trends, the ensuing ineffective communication is bound to wreck development financial institutions movement and as such, matching interventions are vital to uplift the country's overall competitiveness in the medium to long term.

The findings concur with Bahadura (2007) who stated that one of the challenges that microfinance face are transport and communication barriers in reaching to the targeted people especially in remote areas.

4.5.3.6 Illiteracy or ignorance

In this study 35(70%) of the respondents agreed that rural farmers are illiterate or ignorant on procedures involved in accessing credit services from FINCA micro finance while minority 15(30%) disagreed. It was also revealed that due to ignorance, some small scale farmers do not know how to read and write and therefore find it hard to process a loan that involves writing and reading. Some of the farmers also reported that they fear to go to FINCA because they fear being laughed at because of their illiteracy.

The finding concur with Matovu (2006) who noted that ignorance of the people has remained a bigger challenge where by the poorest will not come forward themselves to apply for financial services as they do not know nor believe that the services are actually for them to borrow and even when informed they are likely to feel that it would be too risky for them to borrow.

4.6 Conclusion

The above chapter indicated the presentation and discussion of findings in relation to the study objectives; examine microfinance services accessed by small scale farmers in Mbarara district, analyze how services offered by microfinance affect performance of small scale farmers and establish challenges small scale farmers face in accessing services from microfinance.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings, conclusions and recommendations made according to the field findings and suggestions for further studies.

Summary on services offered to small scale farmers by FINCA

It was found out that the services offered to small scale farmers in Mbarara district by FINCA microfinance include; credit services these include mainly loans, savings, loan insurance cover, employment to marginalized groups of people like women, training and advisory services. It was found out that farmers use these loans they get from FINCA microfinance to invest in their farms and gardens so that they can produce much for both home consumption and take to markets for sell to get income. It was found out that small scale rural farmers also get working capital loans. It was revealed that working capital loans are aimed at enabling owners of small scale farmers to increase on their capital base. It was found that FINCA microfinance accepts savings from small scale farmers and keep them safely. This was found to have allowed small scale farmers to conveniently and safely accumulate surplus funds to create financial stability. It was also found out that FINCA offers loan insurance cover that helps rural farmers to safeguard themselves from natural calamities such as drought and hailstorms. It was also found out that FINCA gives support to the financially handicapped poor rural farmers to operate small holding/businesses so as to improve their businesses performance. It was found out that FINCA provides financial services that enable women involved in small business to maximize the benefits of cash income by transforming it into a usefully large lump sum; an asset that can be invested, borrowed

against or used as insurance. This was found to have empowered groups of people like the women. It was also found that FINCA Micro finance offers non financial services such as training of clients in poultry keeping, goat rearing, and other modern farming methods in order to help the clients improve on the capacity to manage their businesses efficiently

Effects of services offered by microfinance on performance of small scale farmers

It was found out that when services offered by FINCA microfinance help small scale farmers in Mbarara district; to improve on their income levels, to acquire capital to improve on their Agricultural production hence increased output, FINCA loans help to improve on stability in saving of small scale rural farmers, services offered by FINCA microfinance help small scale farmers in asset accumulation and FINCA microfinance also help them to improve on productivity in their activities hence increased profits. It was found out that services such as loans offered by FINCA help small scale farmers to increase in their incomes and their ability to determine the direction of their own lives, rural farmers' ability to save increases. It was found out that before getting the loans from FINCA, small scale farmers they earning less compared to after securing the loans because that the FINCA loans were found to have enabled them to inject more capital in their business that had helped to improve on their monthly profits hence increased incomes. It was found out that FINCA accepts savings from small scale rural farmers and keeps them safely. This had allowed small scale rural farmers to conveniently and safely accumulate surplus funds hence creation of financial stability in their operations. It was revealed that when FINCA keeps savings for the farmers, they are in good position to get more loans which they use in gathering or amassing of objects of value hence creation of wealth and more profits.

Challenges small scale farmers face in accessing services from microfinance

It was found out that challenges small scale farmers face in accessing services from FINCA microfinance include: delay in processing loans, small size loans given to small scale farmers, short loan periods, high interest rates charged by FINCA microfinance, lack of security (collaterals), borrowers' illiteracy, transport and communication barriers. It was found out FINCA microfinance offers small size loans to small scale farmers and these small size loans cannot help the farmers carry out large scale productions in their businesses and agriculture hence low production which reduces income earnings. It was revealed that the interest charged by FINCA microfinance on loans is high and as a result small scale rural farmers have resorted not to get loans from FINCA microfinance therefore high interest rate that was found to be making it hard for rural farmers to repay their loans. It was found out that FINCA micro finance demands a lot of collaterals from rural farmers before they get loans yet most small scale farmers lacked security; they have few assets that can be secured by a bank as collaterals. It was also found out that it takes a lot of time to process loans at FINCA microfinance and a lot of bureaucracy in obtaining loans that make some farmers to lose interest in obtaining loans. It was also revealed that due to ignorance, some small scale farmers do not know how to read and write and therefore find it hard to process a loan that involves writing and reading. Some of the farmers also reported that they fear to go to FINCA because they fear being laughed at because of their illiteracy.

5.3 Conclusions

Basing on the summary of the findings and study objectives the following conclusions were reached:

In this study it can be concluded that the services offered to small scale farmers in Mbarara district by FINCA microfinance include; credit services, savings, loan insurance cover, employment to marginalized groups of people like women, training and advisory services.

In conclusion the effects of services offered by microfinance on performance of small scale farmers include; improved income levels, acquisition of capital to improve on their Agricultural production hence increased output, improved stability in saving of small scale rural farmers, improved asset accumulation and improved productivity in their activities hence increased profits.

In this study it can also be concluded that the challenges small scale farmers face in accessing services from FINCA microfinance include: delay in processing loans, small size loans given to small scale farmers, short loan periods, high interest rates charged by FINCA microfinance, lack of security (collaterals), borrowers' illiteracy, transport and communication barriers.

5.4 Recommendations

Basing on the findings and the conclusions of the study, the researcher recommends the following to improve delivery of services by microfinance to small scale farmers in communities in a bid to achieve community development:

- ❖ It was found out that some staff at FINCA microfinance lack technical competence on procedures taken for borrowers to get loans very fast. Therefore there is need for staff technical training and monitoring support to be provided by a full time financial institutions' organizer/trainer at FINCA microfinance.
- ❖ It was found out that some staff at FINCA microfinance are rude to clients. Therefore there is need to have customer care training programmes at FINCA microfinance to improve on staff relations with customers.
- ❖ It was also found out that some small scale farmers are illiterate and ignorant. They have little knowledge about procedures to acquire loans from FINCA microfinance. Therefore there need for capacity building of local people through seminars and workshops to increase on their knowledge and awareness of the procedures on how to access services such as loans from FINCA microfinance. Therefore management staff of FINCA microfinance should go to communities and sensitize the local people of the services they offer and how the procedures the local people should follow to get the loans.
- ❖ It was found out that FINCA microfinance has high interest rate that makes it hard for small scale rural farmers to repay back. There is need for FINCA microfinance to reduce on lending rates. FINCA microfinance should charge interest on a cost recovery basis. They should offer their borrowers the products that they want, rather than the products that the institution wants thus making transition from product driven to market driven that is., fail to respond to the desire of their customers and most invariably driven out of business by clients' responsive competitors.
- ❖ It was found out that FINCA microfinance offers small size loans and for a short period. Therefore FINCA microfinance should provide sufficient loans that meet borrowers'

demands. These should be adequate in terms of size with minimum interest rate charged on them as this has been identified as a major problem among the majority of the clients. Credit periods should be long enough in order for clients easily generate revenues and pay back the loans

- ❖ The primary focus of the financial institutions must be to mobilize savings to be used to provide loans to members. To attend this goal it is very important to supply the financial institutions operating in rural areas such as FINCA microfinance with full accounting materials such as pass book of members, savings, shares, and other fees collection sheets, controlling sheets and ledgers, as well as, it is advisable to provide the office furniture to create temporary safe place to the money which will be collected from members.

- ❖ FINCA microfinance must equally work in partnership with the government and other development partners for better policy and legislature environment and unfavorable government policies, weak governance and management systems must be addressed.

- ❖ It was also found out that the process of acquiring loans take a long time for borrowers to get loans. Therefore FINCA microfinance should start their operations with a computer based system and not waste time and money converting from a manual system to a computerized one in one or two years. Thus FINCA microfinance must build the necessary capacity to meet the challenges that constrains their development.

5.4 Areas for further research

There is need for further research to examine the effect of microfinance towards the performance of small scale farmers in other micro finance in Mbarara district other than FINCA microfinance which was used as the case study which cannot be a true representation.

There is also need for further researcher to find out the effect of microfinance towards the performance of other groups of people such as owners of medium business enterprises other than small scale farmers who were used in this study.

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UGANDA MARTYRS UNIVERSITY

APPENDIX A: QUESTIONNAIRE FOR STAFF AT FINCA MBARARA

Dear Respondent;

I am **MURANGI MICHEAL** an undergraduate student of Uganda Martyrs University pursuing a degree in Business and Management. I am conducting a study on **“the effect of microfinance towards the performance of small scale farmers, a case of clients of FINCA Mbarara”**. You have been identified as a respondent and you are assured of anonymity and confidentiality. The study is for academic purpose only.

Instruction

Please tick appropriately or fill in the blank spaces according to your level of knowledge.

Section A: Back ground of the respondent

1. Sex

(i) Male

(ii) Female

2. Age of the respondent

(i) Under 20

(ii) 20-39

- (iii) 40-59
- (iv) 60 +

3. Marital status of respondent

- (i) Married
- (ii) Single
- (iii) Divorce
- (iv) Widowed

5. Level of Education

- (i) Never went to school (ii) Primary (iii) Secondary (iv) Diploma
- (v) Degree

Section B: Services offered by FINCA Micro Finance

		Strongly Agree	Agree	Disagree	Strongly disagree
1.	FINCA offers credit services such as loans to rural farmers				
2.	FINCA accepts savings from rural farmers and keeps them safely for them.				
3.	FINCA offers loan insurance cover that helps rural farmers to safeguard themselves from natural calamities				
4.	FINCA gives support to the financially handicapped poor rural farmers to operate small holding/businesses so as to improve their businesses performance.				
6.	FINCA Micro finance also offers non financial services such as training of clients in poultry keeping, goat rearing, and other modern farming methods in order to help the clients improve on the capacity to manage their businesses efficiently.				

Section C: Effect of services offered by FINCA Micro finance on performance of small scale farmers

		Strongly Agree	Agree	Disagree	Strongly disagree
1.	Services offered by FINCA help small scale farmers to increase in their incomes and their ability to determine the direction of their own lives, rural farmers' ability to save increases.				
2.	Services offered by FINCA help rural farmers to create financial stability in their savings.				
3.	Services offered by FINCA help rural farmers to safeguard themselves from natural calamities.				
4.	Loans given to rural farmers by FINCA help them in gathering or amassing of objects of value; the increase in wealth through concentration; or the creation of wealth.				
5.	Services offered by FINCA help rural farmers to improve on profits in their farming activities.				
6.	The training offered by FINCA to rural farmers on how to use their loans well helps them in putting the loans to good use which definitely improves the farmers' savings.				

SECTION D: Challenges faced by rural farmers in accessing loans from FINCA micro

Finance

	Strongly Agree	Agree	Disagree	Strongly disagree
Loan size offered by FINCA micro finance is small to enable rural farmers carry out a lot profitable enterprises.				
Loan offered by FINCA micro finance has a high interest rate that makes it hard for rural farmers to repay.				
FINCA micro finance demands a lot of collaterals from rural farmers before they get loans.				
FINCA micro finance takes a lot of time to process loans .				
Rural farmers face challenges in reaching FINCA micro finance for services.				
Rural farmers are illiterate or ignorant on procedures involved in accessing credit services from FINCA micro finance.				

a. What steps should this microfinance take in order to improve on its credit policy and ensure that small scale rural farmers can easily access their services?

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.....
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b. What do you think can be done to improve on local farmer's accessibility of services from FINCA micro finance?

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c. Which other challenges are faced by clients of FINCA microfinance?

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d. What solutions do you suggest to address the above challenges?

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Thank you for your time and patience.

APPENDIX B: INTERVIEW GUIDE FOR CLIENTS OF FINCA

1. What type of loans do you get from FINCA micro finance institution?
2. A part from getting loans, what other services are provided by FINCA micro finance institution to small scale farmers in this area?
3. How do the loans and others services that you get from FINCA micro finance institution affect your performance in any activity you are involved in?
4. What are some of the challenges that you face in accessing services from micro finance institutions in this area?
5. What do you think can be done to overcome these challenges so that you can improve on your savings?

Thank you for your cooperation

APPENDIX C: BUDGET

No.	Item	Cost
1	Transport	100,000
2.	<p>Printing and binding</p> <ul style="list-style-type: none"> • @ Page 1,000 for 240 pages rough and final copies • 240 x 1,000= 	240,000=
	Binding 3 copies(Rough and Final) 3x 5,000=	15,000=
3.	<p>Stationary:</p> <p>2 reams x 10,000</p> <p>Developing and printing questionnaires 130 copies x 1,000=</p>	<p>20,000=</p> <p>130,000=</p>
	TOTAL	415,000

APPENDIX D: WORK PLAN

Number	Activity	Time Frame
1	Submission of Topic for approval	November 2012
2	Presentation of concept paper	November 2012
3	Submission of 1 st draft proposal	February 2013
4	Submission of 2 st draft proposal	April 2013
5	Submission of final proposal	July 2013
6.	Data collection	September, 2013
7.	Data analysis	October, 2013
8.	Presentation of 1 st draft of research report	November, 2013
9.	Presentation of 2 nd draft of research report	January 2014
10.	Presentation of the final Research Report	May 2014