

Microfinance Business Services and the Rural Community Welfare in Uganda

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Abstract: *The study was designed to examine the relationship microfinance services and the rural community welfare in Uganda. It focused on Masaka Microfinance which is one of the oldest microfinance institutions in Uganda. The specific objectives included; (1) to establish the relationship between Masaka Microfinance services and rural community income earnings; (2) to determine the relationship between Masaka microfinance services and the resulting job creation in the community; (3) to document the relationship between Masaka microfinance services and community saving practices. A sample of 78 respondents of who were beneficiaries of Masaka Microfinance Limited was purposively contacted out of whom 52 filled and returned complete questionnaires. The results showed that there is a positive and significant relationship between Masaka Microfinance services and; (1) rural community income earnings ($r = .690$ $p < 0.0001$); (2) the resulting jobs in the community ($r = .540$ $p < 0.0001$); and (3) community saving practices ($r = .736$ $p < 0.0001$). These findings imply that microfinance institutions have a significant bearing on any effort that is geared towards improving the rural community welfare. Therefore, in order to improve the rural community welfare in Uganda, government has to focus on establishing microfinance institutions as a solution to supplement the wealth creation campaign, self employment and enhancing the community saving culture.*

Keywords: Microfinance, rural community welfare, income, job creation, saving culture.

1. Introduction

One of the current and cardinal demands of the different communities in Uganda that has in fact translated into political hiccup is the economic welfare of the population. Despite the increasing cost of living, the authorities had already envisioned a realistic, credible and attractive future way back in 1997 and that is why the Government of Uganda sought it prudent since 1997 to put in place a Poverty Eradication Action Plan (PEAP) within which strategies were drawn to increase growth of the economy by removing bottlenecks to private sector activities, and facilitating the expansion of the rural economy through modernisation of agriculture so as to increase incomes, create employment and enable the majority of the people to save. Lack of financial services mainly at the micro/sectoral level was identified as a major factor inhibiting the private sector from playing its central role of promoting growth, under the poverty eradication strategy. Consequently, further development of micro finance services became an important policy intervention recommended in most of these plans. It is in this context that over the last few years, the GOU in collaboration with donors and other stakeholders initiated a number of programs aimed at developing the micro finance industry. As a result, Masaka Microfinance institution emerged with the objective of promoting the level of rural people participation in development through empowerment with friendly loans and other microfinance interventions. The rural community requires these small scale financial services given the demands of traditional banks that cannot be fulfilled easily. They help to offer people who need it, small scale financial services to low income households, microenterprises, small scale farmers and others who lack access to the banking system.

As the culture of lending and borrowing took root in Uganda, many Microfinance Institutions in Uganda received support from the USAID funded PRESTO project's centre for micro-enterprise finance in contact with the Government's poverty Alleviation project, the Uganda Cooperative Saving and Credit Union. These were set up on the basis of providing savings or credit facilities to micro and small scale business people. According to Baten (2009), microfinance can be defined as "the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their micro enterprises.

This study therefore was designed to determine the relationship between microfinance services and the rural community welfare in Uganda because Uganda is generally seen as the country with some of the most vibrant and successful microfinance industry in Africa. Some Microfinance Institutions have experienced strong growth and are now reaching a considerable number of clients, serving between 50,000 and 100,000 clients one of which is Masaka Microfinance. A number of microfinance providers are close to financial sustainability or have already surpassed it. In this regard, Carlton et al (2001), has observed that a series of impact studies conducted in Uganda in the past years have demonstrated that the provision of microfinance services contributes to reduced client vulnerability to economic risks, results in strengthening linkages of clients and their households to the agricultural sector, as well as enabling clients to acquire valued skills.

Rural people try to mobilize resources to develop their enterprises and their dwellings slowly over time. Financial

services could enable these people to leverage their initiative, accelerating the process of building incomes, assets and economic security. International documentation such as that of UNESCO (1997) also confirms that over eight million very poor people especially in rural areas are benefiting from different microfinance programmes. Experiences of these programmes show that provision of micro-credit and savings facilities when efficiently utilized, enables the poor to build strong micro enterprises, increase their incomes and participate in economic growth. It also contributes greatly to the empowerment of the poor, especially women and helps raise awareness and aspirations for education, health care and other social services. In light of these achievements, microfinance is increasingly being considered as an important tool for poverty reduction.

2. Literature Review

Poverty in rural areas of Uganda just as it is true for the rest of Africa is mainly a rural phenomenon. With rural households comprising 92 – 97% of the poor, the importance of extending the frontier of sustainable microfinance beyond the urban areas is clear. Therefore rural people constitute both the greatest unmet need and the largest un-served market for financial services. According to Marjan (2004), there is need empower communities with technological and methodological innovations so as overcome poverty and increase the community welfare.

To support this view, Brownstein (2007) found that one of the few concepts that have succeeded in expanding the availability of credit in poor, rural communities has been through microfinance institutions that are involved in the provision of small loans to borrowers without conventional collateral. The term of the loans is short (usually less than two years), and the microfinance institution normally requires that the loan proceeds be used for investment in productive capital – for example in agriculture, trading, crafts or processing industries – rather than consumption.

Consequently, Ali & Alam (2010) concluded that Microfinance is the most important resource to provide loans and other basic financial services to increase the employment rate, productivity and earning capacity. It will impact the people's lives through removing poverty, improving living standards, such as health, education, food and other social impacts. The need for micro credit is higher in the rural area than urban area. The large numbers of microfinance borrowers show the market opportunity and need. Poor people still favor and want micro credit because they don't have access to the commercial loans, which are collateralized loans. These poor people are very hard working and may have innovative ideas about business but they don't have opportunity. That is why they take micro loans on high interest rate and often they get success in their business and repayment of these loans.

Research elsewhere such as that of Basu et al, (2004) also indicates that elsewhere in countries such as Ghana and Tanzania, only 5 – 6 percent of the population has access to the banking sector. This lack of access to financial services from the formal financial system is quite striking, when one considers that in many African countries the poor represent

the largest share of the population and that the formal sector is an important part of the economy.

This study is premised on a model by Wrenn (2005), which illustrates that if the microfinance objective is to have programs that provide credit for self employment and other financial or business services to the very poor persons or groups who are beneficiaries, they are supposed to offer guarantee for loan repayment so that they are able to access subsequent loans that depend on the successful repayment of the previous one. In that way, they benefit through the impact variables that are economic, human capital and social capital. Top management in Masaka maintains that many individuals and groups have proved effective in deterring defaults as evidenced by their loan repayment rates. In this way, microfinance institutions are registered to play three key roles; (1) help very poor households meet their basic needs and protects against risks; (2) help improve household economic welfare; (3) they are associated with the need to empower the rural people especially women by supporting their economic participation and promote the equity agenda. Therefore, it is argued that by providing material capital to the poor person, their sense of dignity is strengthened and this can help to empower the person to participate in the economy through improved welfare. Osman (1998) concluded it when he stated that women's wellbeing is defined in terms of three sets of capabilities; (1) the degree of autonomy with which women can live their lives; (2) their ability to control decision making within the family; and (3) their relative access to household resources such as food, education and health.

3. Methodology

The study first used a descriptive approach and thereafter applied correlation and regression analyses to establish the effect of microfinance services on rural community welfare.

Purposive sampling was used in this study and it was only those who were members and were interested in participating in this study who were chosen. Using this method, a sample of 78 respondents was surveyed out of which only 52 returned completed questionnaires.

The questionnaire was aimed at getting responses from the respondents concerning their perceptions on microfinance services and the rural community welfare. A five point Likert Scale was used for rating the items of the opinion survey (5 = Strongly Agree to 1 = Strongly Disagree).

Microfinance services in this research were measured using the extent to which they provide small loans, savings and other forms of credit for self employment, future saving and income generation.

Correlation analysis was done after descriptive statistics using SPSS package to determine the relationship between microfinance services and the rural community welfare. The overall reliability of the questionnaire using Cronbach Alpha stood at 0.9012 implying that the questionnaire registered the highest form of reliability.

4. Results

The results are both descriptive and correlational. Descriptive statistics was first analyzed before testing the hypotheses as detailed below;

4.1 Describing how Masaka microfinance services assisted in rural community income generation

A correlation matrix was used to test the hypothesis that the more Microfinance institutions offer their services, the better the community incomes. Therefore, before determining relationship between Masaka microfinance services and rural community income, descriptive statistics was first employed as indicated in table 1. The results reveal that most of the respondents agreed that their income has increased with the emergence of Microfinance in Masaka (65.4%). The analysis also reveals that 82.7% of the respondents agreed that members are encouraged to start businesses. In addition, 82.7% of the respondents also agreed that they have developed businesses using loans provided through the microfinance services. However, only an average number of the respondents (50%) agreed that they pay tax on income implying the difficulty the rural people find in paying tax while at the same time servicing these loans. That is why 57.7% of the respondents also disagreed with the statement that loans of low interest rates are offered. This implies that interest rates from microfinance institutions are still very high which aspect hinders income generation. In addition, a very low figure (40.4%) disagreed with the statement that they are informed of taxation policies that exist in Uganda. In fact only 48.1% of the respondents agreed that financial literacy is communicated. This implies that there is need for people to understand what a microfinance service is all about. In addition, only an average of 50% of the members agreed that they are encouraged to attend financial classes which aspect is very important in educating people about the importance of not only income creation but saving culture as well.

Table 1: How microfinance services have assisted in rural community income generation

No.	Item	Responses		
		SA & A	N	D & SD
		%	%	%
1.	Members have been encouraged to start business	82.7	1.9	15.3
2.	Financial literacy is communicated to members	48.1	30.8	21.2
3.	Management has encouraged members to attend financial classes	50	25	25
4.	Sales and marketing classes have been introduced to members	19.3	36.5	44.2
5.	All members are informed of taxation policies of Uganda	13.4	46.2	40.4
6.	Members pay tax on income	50	26.9	23.1
7.	Loans at low interest rates are offered to members	30.8	11.5	57.7
8.	Members have developed businesses using loans provided	82.7	7.7	9.6
9.	Existence of Masaka Microfinance has increased income in peoples' hands	65.4	23	11.5

SA; Strongly Agree; A: Agree; N: Neutral; D: Disagree; SD: Strongly Disagree

Testing the relationship between Masaka Microfinance services and rural community income earning

In order to test the hypothesis that Masaka Microfinance Services significantly influence community income earnings, a correlation matrix was generated with the results as indicated in table 2. The results reveal that there is significant and positive correlation between Masaka Microfinance services and rural community income ($r = .690$, $p < 0.0001$). In line with the descriptive statistics above, Masaka Microfinance services have significantly improved the income levels of the community.

Table 2: Correlation matrix

	Rural welfare	Income	Employment	Saving culture
Rural welfare	-			
Income generation	.690**	-		
Employment	.540**	.667**	-	
Saving culture	.736**	.829**	.666**	-

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

4.2 Describing how Masaka microfinance services has resulted in community employment

Before analyzing the above relationship, descriptive statistics was first employed as indicated in table 3. The results reveal that 77% of the respondents agreed that due loans owed by microfinance institutions are extended which has enabled individuals to create businesses and employ others. However, 30.7% of the respondents refuted the statement that the businesses created employ more than five people. Consistent with this low figure, 40.4% agreed that their businesses created mostly employ family members which implies that there are apparently few businesses supported by Masaka Microfinance which have created significant employment for other people beyond the family. This is supported with a 61.6% of the respondents disagreed with the statement that they have acquired employment as a result of Masaka Microfinance loans.

Table 3: How microfinance services have assisted community employment

No.	Item	Responses		
		SA & A	N	D & SD
		%	%	%
1.	Due loans extended, individuals have created business and employed others due to this microfinance.	77	13.5	9.6
2.	Most businesses started by members employ more than five people as a result of this microfinance	23	46.2	30.7
3.	You see women are employed as a result of the microfinance	24.9	25.0	48.1
4.	Most businesses employ family members as a result of microfinance	40.4	26.9	32.7
6.	Most people in Masaka rural area have been employed as a result of the Microfinance loans to the community	7.6	30.8	61.6

SA; Strongly Agree; A: Agree; N: Neutral; D: Disagree; SD: Strongly Disagree

Testing the relationship between Masaka Microfinance services and resulting community employment

In order to test the hypothesis that Masaka Microfinance Services has significantly influenced community employment, a correlation matrix was generated. As indicated in table 2, the results reveal a significant and positive correlation between Masaka Microfinance services and rural community income ($r = .540$, $p < 0.0001$). In line with the descriptive statistics above, it is confirmed here that Masaka Microfinance services have a significant correlation with employment in the community.

4.3 Describing how Masaka Microfinance services has built the rural community saving culture

Before testing the relationship between Masaka microfinance services and rural community saving, descriptive statistics was first analyzed as well. It is indicated from table 4, that 94.2% of the respondents agreed that members are encouraged to open accounts in Masaka Microfinance. In addition, an average number (55.8%) also agreed that management of Masaka Microfinance has taught masses on savings which implies that there is need for sensitization in this area. That is why 92.3% of the respondents agreed with the statement members in Masaka Microfinance are not interested in saving their money. The analysis also reveals that an average number (53.8%) looks withdraw, deposit charges and penalties as fair implying that some customers are not comfortable with these charges (53.8%) and consequently only an average number (55.8%) appreciate that deposits have encouraged depositors to save their money. This explains why the correlation matrix also indicates that the saving culture significantly correlates with income generation ($r = .829$, $p < 0.0001$) and employment ($r = .666$, $p < 0.0001$).

Table 4: Some responses on how microfinance services have assisted rural community saving

No.	Item	Responses		
		SA & A	N	D & SD
		%	%	%
1.	Members are encouraged to open accounts in Masaka Microfinance	94.2	1.9	3.8
2.	Management has taught masses on savings	55.8	25.0	19.2
3.	Members are interested in saving their money	1.9	5.8	92.3
4.	Withdraw, deposit charges and penalties are fair	53.8	15.4	30.8
6.	Charges on deposits have discouraged depositors	21.1	23.1	55.8

SA; Strongly Agree; A: Agree; N: Neutral; D: Disagree; SD: Strongly Disagree

Testing the relationship between Masaka Microfinance services and rural community saving

In order to test the hypothesis that Masak Microfinance Services has significantly influenced the rural community savings, a correlation matrix was developed with the results as indicated in table 2. The results reveal that there is significant and positive correlation between Masaka

Microfinance services and rural community saving ($r = .736$, $p < 0.0001$). In support of the descriptive statistics above, Masaka Microfinance services have significantly improved the saving culture in the community.

Furthermore, a simple regression analysis revealed that there is an overall significant effect of Masaka microfinance services on the rural community welfare with ($F = 20.624$, $p < 0.0001$) implying that all the three variables analyzed in this study are significant predictors of the rural community welfare.

5. Discussion

This article illustrates that microfinance has a very important role to play in rural community welfare in a developing country like Uganda. That is why several studies like those of Boeteng and Agyei (2013) have provided evidence that microfinance at its core or prime function can combat poverty once established with a sincere motive. This study adds that microfinance provides the vehicle through which communities can be empowered through income generation, a saving culture and employment creation. By providing material capital to poor persons for example, their sense of dignity is strengthened, ambition inspired and success registered. The study also documents that the aim of microfinance should not just be to provide capital to the poor to improve their welfare on an individual level, but also to find a way in which banks can help communities in general so that communities are able to improve their welfare and this can only be done by providing friendly loans without a strong demand for collateral security. It has been observed that most of the communities are complaining about the different charges that the microfinance institutions have introduced. Therefore microfinance institutions should not only look at these charges but also sensitize the communities so that they are not only aware of the importance of loan repayment but also cultivate a culture of saving so that the loans they acquire are easily serviced.

While experts like Boateng and Agyei (2013) argue that microfinance projects fail to reach the poorest or the poor and it has a limited effect on income, this study here supports the contrary that microfinance institutions are significantly perceived to provide one of the clear avenues in which the communities can register welfare in terms of income, employment and thereafter promotion of saving. Therefore sensitizing communities on the importance of microfinance institutions and how they can easily access them to address these three important issues is a clear significant way in which economic wellbeing of the communities can be significantly improved.

6. Conclusion

In conclusion, the study here has provided an additional insight and demonstrated that microfinance services provide a significant effect on the economic welfare of the people in rural areas. Given that rural areas have women as the majority poor, microfinance projects that focus on the needs of women and which can lead to their empowerment should be supported and regulated by government. It has been noted that there is a significant interaction between microfinance

services and the community welfare. What should be worked on now is to design programs that can change the attitude of the society towards accepting that when they borrow money, they have an obligation to return the funds under the terms set which ought to be friendly. Equally important, those who are involved in this business should not use it as a tool of exploitation by disguising charges but should expose all the charges, risks and the advantages as well as disadvantages of borrowing to such rural poor people so that they are able to ameliorate the situation and improve community welfare. Microfinance should be different from ordinary banks and avoid marginalizing the poorest of the poor simply because they don't have collateral security. This can only be done with the support of government. In other words, the government should note that the majority of the population are in dire need for incomes, employment and savings so that they can improve on their health, educate their children and easily access food.

Therefore, an appropriate loan size for clients matching their needs, realistic interest rates and repayment periods should be considered as vital aspects while focusing on the needs of the rural community.

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