

**Micro-credit utilization and its impact on household income: A  
comparative study of rural and urban areas in Iganga district**

**By**

**Nicholas Mugabi**

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**Supervisor: Dr. State Andrew Ellias**

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## **DECLARATION**

I **Nicholas Mugabi**, hereby declare that to the best of my knowledge this dissertation is my personal and original work. Where other people's works have been used and or referred to due acknowledgments has been made. This precious piece has never been presented by any one for the award of a degree in any university or academic institution.

**Signed .....**

**Nicholas Mugabi**

**Date .....**

**Supervisor: Dr. State Andrew Ellias**

**Department of Sociology**

**Faculty of Social Sciences**

**Makerere University**

**Signature .....**

**Date .....**

## **DEDICATION**

This work is dedicated to my dearest mother Lutaaya Betty who laid a great foundation for my education, to my dear brothers and sisters for the inspiration, to all those who trust and obey the Almighty Lord, and to the academic and research fraternity.

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## **ABSTRACT**

There are several micro-credit lending institutions in Uganda extending financial services to low income earners. Many folks take up small and easily repayable loans with the desire to improve on their welfare, and that of their family members. This study examined micro-credit utilization and its impact on the household income in Nakigo sub-county and Iganga town council in Iganga District. The study explored perceptions and attitudes towards using micro-loans, the gender relations in using micro-loans, borrowers' operational and organizational capacity to use credit facilities and outcomes of credit usage on the wellbeing of the household. The study adopted a cross-sectional research design which included both survey and ethnographic methods. Using this design, data was collected from more than one respondent in both Nakigo sub-county and Iganga town council in Iganga district in Eastern Uganda at a single point in time. Findings revealed that majority of the borrowers both in Nakigo sub-county and Iganga town council get small loans from MFIs as opposed to commercial banks that require conventional collateral security which most poor people lack. Social support in form of group solidarity is the main collateral security low income earners in Iganga present to MFIs in order to get a loan. Findings emphasize that relatively micro-loan usage improves on the welfare of poor people and that of the household members in general, amidst other several poverty reduction strategies.

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## ACRONYMS AND ABBREVIATIONS

AIDS	Acquired Immune Deficiency Syndrome
FAB	Farming as a Business
FGD	Focus Group Discussion
FIA	Financial Institution Act
FIS	Financial Institution Statute
HIV	Human Immune Virus
HH	Households
KI	Key Informant
MC	Micro-Credit
MCI	Micro-Credit Institutions
MDG	Millennium Development Goals
MDI	Micro Deposit Taking Institutions
MDIA	Micro Deposit Taking Institutions Act
MFED	Ministry of Finance Planning and Economic Development
MF	Micro-Finance
MFI	Micro-Finance Institutions
MSE	Micro and Small Entrepreneurs
NAADS	National Agriculture Advisory Services
NALUGA	Nakisene Literacy Education Group
NGO	Non Government Organisation
ROSCA	Rotating Savings and Credit Association
UCB	Uganda Commercial Bank
\$	United States Dollar
USH	Uganda Shillings
SACCOs	Savings Cooperative and Credit Societies/Unions
SC	Sub-County
T.C	Town Council
ITC	Iganga Town Council
NSC	Nakigo Sub-County

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background to the Study**

Through generations, people living in poverty devise mitigation measures to overcome their economic vulnerability. Micro-credit (MC) is one such measure to reduce the burden of poverty among households in many of the developing countries including Uganda. By micro-credit I mean the easily repayable small loans that low income earners get informally from friends, relatives and people in the same network, and from formal credit lending institutions like banks and microfinance institutions. While microfinance refers; to a host of financial services; savings, small loans and other financial products that are available to the economically low income people. Micro-credit evolved in the mid 1970s as part of the paradigm shift in development from top-down approach to bottom-up approach that incorporates the participation of intended beneficiaries as key participants in sustainable development (MacNamara 1973). Using the top-down approach, western countries and international donor agencies transferred funds and material to the third world to help improve the social and economic conditions. The bottom-top approach emerged as a result of the failure of the former, due to lack of participation by the intended beneficiaries of development projects in the process of designing, formulating and implementation of projects (Khandakar and Lutfur 2006). The Grameen bank credit program is one credit institution that followed this paradigm shift; by providing small loans of about US \$100, primarily through groups to poor rural women who have little access to conventional banking facilities. According to Yunus (2004), the founder of the Grameen bank; loans are given for the purpose of supporting income generating activities in the informal economy.

The tremendous success of small loan program in reaching the poor, especially women in rural areas attracted international donor countries to support microfinance initiatives so as to address the challenging task of poverty eradication. In 1997, the micro-credit Summit that took place in Washington D.C USA attracted over 2900 delegates from 137 countries, representing 1500 organizations. This conference inspired thinkers to focus on providing small loan to the poor people as a condition for poverty alleviation in the third world countries. According to the 1997 MC summit report, as of December 31 2006, 3,316 Micro-Credit Institutions (MCIs) reported reaching 133,030,913 clients, out of whom 92,922,574 were mainly the poorest at a time they took their first loan. Of the poorest clients, 85.2 per cent or 79,130,581 are women (Daley-Harris 2007). Micro-credit initiative is viewed as an avenue for self employment and a powerful tool to address global poverty. In Africa, millions of people live in poverty and its crippling effects. Poverty is a condition where people do not have means to provide for the necessities of life; basic human needs, such as food, shelter or clothing. Chambers (1983) described such conditions as deprivation trap characterized by physical weakness, isolation, vulnerability and powerlessness. Africa is the poorest region in the world with negative growth income per capital during the 1980-2000, with a population weighted average annual income of \$ 271 per person or a mere 74 cents a day. In general, Africa remains mired in poverty, including Uganda (Sachs 2004:117). To use Chambers (1983:112) description, many people are drowned in the deprivation trap, characterized by powerlessness, vulnerability, physical weakness and isolation resulting into cyclic poverty.

In Uganda, income poverty fell dramatically during the 1990s from 56 percent in 1992 to 35 percent in 2000. Nonetheless, from 2000 income poverty has risen, with the proportion of people

below the poverty line rising from 34 per cent in 2000 to 38 per cent in 2003 and later falling to 31 per cent by 2006 (UNDP 2008, UDHS 2006, Morrissey *et al* 2003). This was due to the slow down in agricultural growth, insecurity, high population growth rate<sup>1</sup> and morbidity especially related to the HIV/AIDS pandemic.<sup>2</sup> In terms of geographical prevalence of poverty, there was an increase in income poverty from 37.4 per cent in 2000 to 41.1 per cent in 2003 in the rural areas and 9.6 per cent in 2000 to 12.2 per cent in 2003 in the urban areas of Uganda (MFPED 2001). One of the key reasons advanced for the continued poverty trap in which many Ugandans find themselves, has been and continues to be lack of access to credit to enable the poor to take advantage of economic opportunities to increase their level of output and move out of poverty. In addition, State (2008) highlights the need for credit by the poor especially in the rural areas, though this is difficult due to the strict demand for collateral by credit lending institutions. In fact, micro-credit is regarded as an essential input to increase agricultural productivity, mainly land and labor. Credit boosts income levels, increase employment at household level and thereby alleviate poverty (Okurut *et al* 2004). In other words, small and easily repayable loans enable poor people to overcome liquidity constraints and under take some micro investments. Subsequently, increase the poor households' risk bearing ability and improves their coping strategies. Small loans are a mitigation or survival strategy to cope with the hemorrhage of capital and poverty. In this case, indigenous rotating credit associations came in play to avail the poor with small loans.<sup>3</sup>

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<sup>1</sup> The population growth rate stands at 3.2 (4) per cent per annum, one of the highest in the world with over 29 million people in Uganda and the total fertility rate estimated at 6.7 (UBOS 2006).

<sup>2</sup> The Uganda HIV/AIDS epidemic is generalized; however, it also is comprised of multiple changing and overlapping micro-epidemic, each with its own nature, dynamics and characteristics.

<sup>3</sup> The Rotating Credit Associations are based on social capital; where members economically support each other (State 2008).

In Uganda rotating credit groups were (are) identical to informal credit rotational schemes, village burial groups, gift circles, among others. Informal micro-credit sector has been in existence for a long time. This coexisted with the cooperative sector prior to the implementation of market reforms, for example the *Entandikwa* scheme.

Scholars writing on ROSCA contend that, members of the association range from a handful to several hundreds, and membership may be based on one or more criteria of which could be sex, age, kinship, ethnic affiliation, locality occupation and status among others (Ardener 1964, Bouman and Ardener 1995, State 2008). These socio-economic and demographic characteristics are the inclusion criteria for some one to be a member of an association. Nonetheless, the same socio-economic and demographic characteristics would exclude other people from the association; referred to as exclusive cliques that grants opportunities to members and denies it to non-members (Ghazali 2002:192). This exclusive tendency led to the emergence of more inclusive formal credit systems like cooperatives and micro-credit institutions like microfinance schemes and micro-bank institutions. The problem with the formal system is its requirement for collateral, yet many poor people lack collateral, steady employment and verifiable credit history. In Uganda, the then post-colonial government in 1970s inherited Uganda Commercial Bank (UCB) as a sole formal credit provider.<sup>4</sup> But the bank mainly served the trade sector while ignoring other sectors like agriculture which is the country's economic backbone (Okurut *et al* 2004). In addition, the commercial bank(s) ignored the poor people especially in the rural areas because of the high costs associated with lending small amounts to borrowers. In addition, the government of Uganda embarked on an economic reform program in 1987. The economic

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<sup>4</sup> UCB was started in 1965 as a commercial bank with an Act of Parliament, as a body corporate with perpetual succession and a common seal, with the head office in Kampala, but subject to open branches and appoint agents in and out of Uganda.

reforms were intended to address deficiencies in Uganda's export competitiveness, introduce market reforms into its financial sector, attract more foreign investment and improve the effectiveness of fiscal and monetary policy (Bakunda 2005). This included the liberalization of trade regimes as a response to International Monetary Fund (IMF) and World Bank (WB) economic policy to assist developing economies to overcome economic deficiencies (De Beer and Swanepoel 2000:49). Liberalization implies the reduction of the official barrier to trade and opening up the economies to international trade and where governments withdraw from direct public service provision and the private sector takes lead in development initiatives. The liberalization drive was intended to simplify trade procedures and abolition of administrative controls, trade monopoly and liberalization of foreign exchange markets to increase private entrepreneurs' participation in production, business and trade (Bakunda 2005). This means that the private sector gets engaged in finance market like the provision of credit to the poor. This subsequently resulted into influx of many forex-bureaus and other credit institutions such as Microfinance Institutions (MFIs) in the 1990s. However, the liberalization policy resulted into the collapse of cooperative movements and systems which provided in-kind loans and safety net measures to the poor; this increased the vulnerability of the poor households. It is important to note that the liberation era also boosted the micro-credit revolution in Uganda especially through state interventions like *Bonabagagawale* and many NGO based credit schemes such as Advance Uganda microfinance and FINCA.

The government of Uganda having realized that access to small and easily repayable loans is the path way to poverty alleviation had to face the challenge of having user friendly MCIs legally operating within the regulatory framework of financial institutions (Ledgerwood *et al* 2002). The government of Uganda through the national parliament responded to this by establishing the



Financial Institutions Statute (FIS) 1993. The statute was intended to amend and consolidate the law relating to the regulation and control of financial institutions and to provide for the related matters. The Statute (FIS 1993) however, did not cover MFIs in their current form; deposit taking, providing financial and in-kind loans. For instance, the Statute did not provide for the use of unconventional collateral and did not permit the existence of public deposit-taking by MFIs. In order to have a regulatory framework specifically for MFIs, institutions in the microfinance sector quickly organized themselves into an association of MFIs to help deliver financial services to the poor. By 1995, the microfinance organisations came up with a draft law for regulating MFIs and other credit institutions (Kalyango 2005). In this regard, Bank of Uganda (BOU) in 1999 issued a policy statement on microfinance regulation in Uganda. This subsequently led to the MDI Bill and later the enactment of the Micro-Deposit Taking Institutions Act 2003 (MDA).<sup>5</sup> This Act is concerned with deposit mobilization, sufficient capital and the capacity of Micro Deposit Taking Institutions (MDIs) to survive in a regulated environment. MDA requires that MDI shall be company limited by share, with proven track record in MF, minimum paid up capital of 25,000 currency points, no single owner with more than 30 percent shares and the senior management and Board member must be approved by BOU (MDIA 2003: 21-25, Kalyango 2004).

BOU regulates microfinance business under a tier framework. The tier approach reflects the concept of microfinance as a business and to incorporate the fact that it regulates different intermediaries in a different manner. According to Kalyango (2005), BOU identified four

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<sup>5</sup> The regulatory framework has drawn closer on the current financial landscape and by 2005, the financial sector include the Central Bank (BOU), 15 commercial banks, seven credit institutions and MDI FINCA Uganda limited, Uganda Finance Trust and Pride Microfinance limited but other MFIs were expected to be licensed with time (Kalyango 2005).

categories of institutions (tiers); Tier one of institution is commercial banks, second Tier are credit institutions, third Tier includes all MDIs and Tier four comprises of all non deposit taking institutions like credit only NGOs and the member based organization taking saving or subscription from the members.<sup>6</sup> This gives the MFIs, micro-credit institutions and other lending institutions (tier two, three and four) respectively a great potential to not only provide access to financial services to low income earners in Uganda but to do so in a profitable and sustainable manner. Whether utilization or non-usage of small loans would translate into practical improvement in household income was the main inspiration to carry out this study.

## **1.2 Statement of the Problem**

Micro-credit came in as an intervention against biting poverty. In Uganda, utilization of small and easily repayable loans is a fast growing and dynamic part of the country's financial sector and a poverty alleviation strategy as highlighted in the PEAP.<sup>7</sup> There has been a proliferation of micro-credit institutions as so has been the number of beneficiaries. Presently there are over 500 microfinance institutions, of which only three MDIs: FINCA Uganda Limited, Pride Microfinance Limited and Uganda Finance Trust are licensed by BOU according to the MDI Act 2003, although many are expected to be licensed in the future. Together, MFIs provide financial services to approximately 550,000 clients, majority being women.

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<sup>6</sup> Tier one banks are sufficiently capitalized with a minimum paid up capital of USH 4 Billion (\$ 2 million), second tier credit institutions are also sufficiently capitalized with a minimum paid up capital of USH 1 Billion (\$500,000), tier three are MDIs and tier four are non deposit taking institutions like credit NGOs and member based organizations taking savings and subscriptions from their members Kalyango (2005).

<sup>7</sup> In 1997, the government of Uganda put in place the PEAP with four pillars intended to achieve economic growth and structural transformation, good governance, raising incomes of the poor and the quality of life of the poor. The PEAP provides the overall framework for the formulation of various sectoral development and investment plans (MFPED 2001).

The question would then be the extent to which micro-credit has been utilized and whether or not has it empowered the beneficiaries. Unfortunately, many studies stress the financial aspects of micro-credit ignoring the social aspects which affect access and utilization of small loans such as; the borrowers' perceptions and attitudes, the outcome of using micro-loan on the household wellbeing and gender relations in credit utilization. Important to note is that, knowledge about the outcome of micro-credit initiatives in both rural and urban households remains only partial and contestable. Consequently, a sociological analysis of micro-credit programs remain an important field of study: to point out whether the intended beneficiaries of micro-credit facility actually benefit or not. Therefore my study addressed the following questions; who accesses the micro-credit facilities? Who has control over the usage of small loans in the household? What are the perceptions and attitudes towards access and utilization micro-loans? Do people have the business skills needed to use micro-loans? What are the gender dynamics in access to and utilization of micro-credit? What are the organizational dynamics that facilitate access to and use of micro-credit facilities? The above research questions and many others were very pertinent to me and inspirational to carry out this study.

### **1.3 Major Objective of the Study**

The main objective of the study was to examine utilization of micro-credit and its impact on the household income.

#### **1.3.1 Specific objectives**

The specific objectives include the following;

1. To examine people's perceptions and attitudes towards utilization of micro-credit at the household level.

2. To examine the gender differential access to and utilization of micro-credit at the household level.
3. To assess household's organizational and operational capacity to use micro-credit.
4. To examine the outcome of micro-credit on the household well-being.

#### **1.4 Scope of the Study**

The study examined micro-credit utilization and its impact on household income. The study was conducted in Iganga district in Busoga sub-region: specifically in Nakigo Sub-county (NSC) and Iganga Town Council (ITC) as rural and urban settings respectively for comparative purposes. The study was done between April and May 2009. The essence of the study was to examine perceptions and attitudes towards micro-credit utilization, the gender relations in credit utilization in the household, the organization capacity of household members to use small loans and the out come of micro-credit as a poverty reduction strategy from the period of the 1990s to 2009. In addition, the field data was complemented with the inputs of secondary data related to borrowing and usage of small and easily repayable loans.

#### **1.5 Significance of the Study**

The study examined access to and utilization of micro-credit and its impact on household wellbeing. The study sought to understand and explain the discrepancy between what is generally understood as the role and significance of small loans and what actually is the status of using these loans in the rural and urban settings. In this case, the study focused on the implication of loan borrowing and the relations within the household between and among women, men and the entire family over the control of credit facility. The study uncovered the

social structure construction of the women's participation in development through borrowing money and the reality of women's control over credit facility, in the male dominated society. The study informs MCIs and other financial service providers about the best practices and policies of credit management; tailored towards the financial needs of the property less, voiceless and poor people in order to raise the income levels of such vulnerable people. Academically, this study contributes to the existing body of knowledge; useful to present and future scholars, researchers and students interested in the subject matter. It acts as a reference point for future social development scholars, practitioners and the entire scientific sorority.

## **1.6 Definition of key Terms**

*Access*; refers to the ease and ability to participate in and derive benefits from social and public services, in this case micro-credit. Simply put the ease and ability of people to borrow money.

*Credit*: is a method of paying for goods and services later, usually paying interest as well as the original money. In this case, credit is used to imply loans people borrow from MFIs, with an interest rate charged, depending on the amount and time of repayment.

*Impact*; this refers to the effect that loan utilization has on people's livelihoods, whether positively or negatively.

*Household*: a person or group of people occupying a single dwelling. A household includes all members of a common decision making unit (common residence) that share income and other resources.

*Income*; the return in money from one's business, practice, or capital invested; gains, profit.

*Micro-credit*; is the extension of very small loans (micro-loans) to the unemployed, to the poor entrepreneurs, and others living in poverty who are not considered bankable.

*Micro-finance*; Microfinance generally refers to the provision of small-scale savings, credit, insurance, and any other financial services, to those who cannot access them from formal financial institutions.

*Micro-finance Institution (MFIs)*; are formal and registered organizations that provide savings and/or credit facilities to micro and small scale business people, or provide financial services to poor people who have experienced difficulties in obtaining these services from traditional financial institutions such as banks.

*Utilization*; this is the ways in which people or organizations make use of something; contextually implying the ways in which people make use of MFI credit.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

In this chapter, I examined the relevant literature related to borrowing and using small loans, usage and how this impacts on the lives of low income household members. The literature examined is related to; gender differential access to and utilization of credit, people's perceptions and attitudes and the organizational and operating capacity of households to use credit and its subsequent outcome on the well-being for the household among other key issues. The key question this chapter addresses is whether or not the available literature points to access and utilization or micro-credit at household in poor communities.

#### **2.2 The Concepts of Micro-Finance and Micro-Credit**

The two concepts of Micro-Finance and Micro-Credit are closely related and some scholars tend to use them interchangeably, though they are different in meaning. According to Sandra (2001), Microfinance is the provision of a broad range of financial services to low income households and micro-enterprises; such as 'voluntary' savings, loans, insurance and money transfer. In contrast, micro-credit is the provision of credit services to low income clients in form of small loans for the purpose of micro-enterprises and income generating activities. Micro-loans is a financial innovation which originated in developing countries where it has successfully enabled extremely impoverished people to engage in self-employment projects that allow the poor and voiceless to generate income, begin to build wealth and exit poverty. Micro-credit was invented in Bangladesh during the famine of 1974, when Professor Yunus studied the lives of the poor

entrepreneurs in Bangladesh. Yunus began by loaning to groups of women an equivalent of \$30 to forty two basket weavers to help them purchase bamboo. Upon the advice of banks and government, he carried on giving out micro-loans and in 1983 formed the Grameen Bank. The program proved that small loans could not only quickly improve lives of poor people, but were paid back with interest and on time. By 1997, there were 1.8 million poor borrowers in 22,000 out of 68,000 villages in Bangladesh with 830 millions credits worth every month (Micro-credit Summit 1997, Yunus 2004).

Consequently, MF emerged in the 1970's as an alternative to the Development Finance Institutions in delivering financial intermediation to the poor and voiceless. The design of the financial services offered by microfinance institutions (MFI) were largely based on the mechanisms of informal sector self-help groups such as ROSCAs , but came to prominence after the Grameen Bank and BRAC in Bangladesh which were modeled on the social support of group solidarity in helping the poor households to exit their unfortunate condition of poverty.<sup>8</sup>

In Uganda, micro-credit institutions include money lenders, small banks, MFIs and MDIs like Uganda Finance Trust Ltd, FINCA Uganda, Faulu Uganda, BRAC Uganda, and Pride MF Ltd among others. Other micro credit institutions include; several companies limited by shares and a large number of credit NGOs, companies limited by guarantee, cooperatives and credit unions according to the Directory of Microfinance Institutions in Uganda. There are also many other informal financial services such as simple reciprocal arrangements between relative/friends, neighbors, savings clubs and Rotating Savings and Credit Association (ROSCAs) and systems of

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<sup>8</sup> Grameen Bank (GB) was established in 1976 by Muhammed Yunus a professor of Economics at the Chittagong University. The Grameen Bank concept is unique because unlike commercial banks, it does not ask its borrowers to provide collateral or material security against a loan, rather borrowers for groups as social capital to access the loan.



cooperative business finance. These informal support systems are hinged on the social network arrangements where members regard each other as a source of support for development.<sup>9</sup> Informal arrangements like ROSCAs are also a common phenomenon in developing countries for example; *'Kuts* in Malaysia, *'Panaku* in Bolivia and *'njang'i* in Cameroon, Kenya with the Kikuyu ROSCAs of “merry go-rounds” (Ghazali 2002 and Johnson and Rogaly 1997:18). The informal credit groups operate on the principle of social capital where members agree to save fixed amount of money at a regular intervals, each member contributes an agreed amount to a pool, which then is allocated to others in cycle interval. This lump sum or prize is allocated based on strict rotation between members of the association or group based on a lottery of members.

### **2.3 Gender Differential Access to and Utilization of Micro-credit**

No intervention can give neutral effects when the players do not start as equals. Gender relations affect an intervention's ability to deliver the outcomes. It is imperative therefore to examine the context of loan borrowing and usage initiative from a gender point of view.<sup>10</sup> There are several issues about gender relations and credit utilization, more importantly the position and role of women in credit utilization at the household level. Since the inception of small loans initiative with the Grameen bank in Bangladesh, women have been the focus of many MCIs and agencies worldwide (Yunus 2004). The reason for this is that loans to women tend to benefit more the

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<sup>9</sup> Miller (2001) Homophily principle structures network ties of every type, including marriage, friendship, work, advice, support, information transfer, exchange, comembership, and other types of relationship. The result is that people's personal networks are homogeneous with regard to many socio-demographic, behavioral, and intrapersonal characteristics. Homophily limits people's social worlds in a way that has powerful implications for the information they receive, the attitudes they form, and the interactions they experience.

<sup>10</sup> Gender is constructed through psychological, cultural and social means. It involves a complex of socially guided perceptual interaction and micro- political activities that cast particular pursuits as expressions of masculine and feminism (Candace and Zimmerman 1987: 126).

whole family than loans to men do. Access to micro-credit by women is also regarded as enhancing women's participation in economic development and thereby elevating the socio-economic status of women, (Mayoux 1998 and Pitt and Khandker 1998). Mayoux (1998) holds the exposition that microfinance is an entry point in the context of a wider strategy for women's economic and socio-political empowerment. Other gender lobbyists have also advocated credit targeting women because of higher levels of female poverty and women's responsibility for the household well being (Alejo 1993). The assumption is that increasing women's access to micro-credit enables women to make a greater contribution to household income. Kuntala and Samanta (2006:288) also argued that women's access to credit does not only empower women, but also opens new opportunities to master financial skills and create economic enterprises. To illustrate this, I will focus on Yunus (2004) with the Grameen Bank, which is the pioneer of micro-credit, and has provided finance for non-agricultural self-employment activities and served over two millions borrowers, of whom 94 percent were women with a loan repayment rate of over 90 per cent by 1994. Women are much more likely than men to repay loans and to devote their earnings to serving the needs of the entire family.

Further, Mayoux (2000, 1998) argued that micro-credit is much more than access to money; it is about women gaining control over the means of making a living. It is about women achieving economic and political empowerment within women's lives at household, village and country level. The challenge that remains however is whether or not women have access to credit or not and whether they have control or not over credit utilization and proceeds from credit at household level. Some studies such as Kuntala and Samanta's (2006) in their study of rural women in India show that the participation rate of women in cooperative and microfinance is

lower than for men. In addition, recent research on micro-credit in South Asia has also shown that the availability of credit can increase women's work burdens, and that men often control the income generated by the credit that women receive. Further, Songsore (1992) while writing about cooperative credit Union movements in North Western Ghana points out that most men in the region do not like their spouses to have financial autonomy as in their view; it erodes the position of control by men. This implies that there is no universal evidence to suggest that women's access to credit translates into women's empowerment in the household.

Using a "managerial Control" index as an indicator of empowerment, Geotz and Gupta (1994) concluded that women did not have any control over the use of loans and did not participate in funded projects to 'full control'. Majority of women especially the married did not have control over loan. Unfortunately, the primary responsibility of repaying the loan rested on the women who borrowed the money. This is the unfortunate scenario of having responsibility without control over in most cases degenerating to domestic violence against woman. Montgomey *et al* (1996), also suggest that for the first time female borrowers for micro credit program; nine percent had sole authority, 87 per cent family partnership, while for male first time borrowers, 33 per cent had sole authority and 56 per cent were family partnerships. However, family partnerships are disguised male dominance given the nature of the third world social structure and access to credit does not automatically guarantee women empowerment. Gender relation in credit utilization is a vital variable in determining the outcome of the intervention. My study therefore examined the gender relations in access to, utilization, control over micro-loan facility, enjoyment of proceeds from credit comparatively for borrowers in urban and rural areas in Iganga district.

## **2.4 Perceptions and Attitudes towards Micro-credit Utilization**

Micro-credit through MFIs is perceived by many development scholars as a financially sustainable instrument meant to reach significant number of poor people who most are not able to access financial services from commercial banks. Small loans are believed to bring significant improvement in the lives of the active poor by increasing their productive capacity. Credit enables the poor to boost their businesses, agriculture production and able to meet the household daily needs. In developing world like Uganda, millions of people are suffering from poverty and its crippling effects (Lotter 1998). One of the major barriers to escaping poverty is the lack of sufficient access to credit by the poor (Ledgerwood *et al* 2002). As a result, the poor especially in rural areas adopt mitigation and survival strategies as a way of coping with the hemorrhage of poverty (Songsore 1992). He further argues that generally credit plays a crucial role in the expansion and development of productive forces. It provides adequate savings and credit facilities to individual households. In this case, efficient financial system is consequently assumed to have a considerable positive effect; on increasing welfare and stimulating household economic activities. Credit enables peasants to expand and develop income generating activities, and supporting payment of other necessities like food security, education, and water and health charges. In addition, Johnson and Rogaly (1997) have demonstrated that availability of credit for micro enterprises can have positive effects on the individual income and that of the household. Thus, access to financial services play an important role in the fight against poverty.

Worth noting is that, although micro-credit is useful in poverty alleviation, it is only useful in certain situations. Some poor people since they are voiceless and propertyless exclude themselves from borrowing small loans, as they do not have stable income, and view access to

credit as further pushing them into debts and poverty since they can not sufficiently service the loan. This presents a paradox where the poor are in dire need for credit to exit poverty, but at the same time have a fear of not being able to repay in time, and this drawn the poor in more poverty as they have to sell off some few assets they possess (if any) to service the loan. For example, a study of the impact of microfinance on rural household in the Philippines indicated that the impact is regressive, that it is negative or insignificant for the poorer households and positive for the richer households (Kondo et al 1992). This indicates that among the poorer borrowers, the cost of and availability of program loans appear to be insufficient to stimulate the poor to select more productive activities, which will not only cover the cost of borrowing but also earn them some profit. Kuntala and Samanta (2006) further point out that the village bank credit in rural India did not have any significant impact on physical assets accumulation and production. The poor women end up in a viscous cycle of debts; as the poor use the money from the village bank for consumption and were forced to borrow from moneylenders in order to service village bank loans. The above observations are worsened by the high interest rate charged by micro-finance institutions, the bureaucratic tendencies of MFIs and the short period of servicing the loan facility. Therefore, people have varied perceptions and attitudes towards access to and utilization of micro-credit as a driver to the enhancement of households well being. Therefore this study addressed explicitly the people's perception and attitudes toward borrowing and usage of small loans in Iganga TC and Nakigo SC in Iganga district.

## **2.5 Micro-credit Utilization, Organizational, and Operating Capacity.**

MC is generally viewed as a good initiative to increase the productive capacity of the poor household members. However, one of the critical issues to ponder about is; if the poor are availed with affordable credit facilities, do they have the organizational and operating capacity to efficiently use the credit as individuals or in groups so as to transform their lives. Firstly, it is imperative to examine the successful experience of the Grameen Bank (1970s), with credit scheme through groups. According to Yunus (2004), credit borrowing groups are referred to as ‘group based finance’ or ‘solidarity groups’ lending schemes, because group members are jointly liable for each individual’s loans, this represents a form of social networks (support) through social ‘collateral’. As opposed to physical collateral of land titles or assets, referees, bank commissions which formal sector services usually require; and which poor and property less do not have. The poor resort to informal means through formation of group solidarities (State 2008). The ‘peers in groups’ monitor each others to reduce lending risks and defaulting. The model for credit delivery in the Grameen Bank is structured in groups of five self selected members (men and women’s groups separate), membership is restricted to those with asset worth less than half an acre of land, loans are made to two members at a time and must be repeated in equal installments over fifty weeks and the group is ultimately responsible for repayment if the individual defaults. This is one of the strength for the success of the Grameen bank borrowers. Indeed as a result of the Grameen experience, social collateral was and is used by many world MCIs and this has made easy access to credit by many poor people. For example in Uganda, finance service providers like FINCA Uganda, Uganda Finance Trust, BRAC and Pride MF Ltd also offer group loans in addition to other financial services. This arrangement seems to suit most poor people, as social collateral is easier than physical. Nonetheless, some members have abused

the group approach and default, which leaves others members at a disadvantage to pay back the loan on behalf of the defaulting member(s). In addition, it is also important to examine the individual borrowers' operational capacity to use micro-credit sufficiently to enhance the well being of the households. According to Barrow (1993:1), recent years have been a major resurgence of small (micro) business throughout the developed world.<sup>11</sup> Small businesses have been the innovative backbone of most economies providing products and services to benefit the consumer. In this case most micro enterprises in Uganda are mobile businesses, with mostly unskilled and semiskilled labor in form of family businesses, such as market vendors, shops, saloons and restaurants among others. For instance the Global Entrepreneurship Monitor Report (2004) indicated that Uganda is ranked the second most entrepreneurial country in the world.

However, other studies have showed that the rate of failure of businesses in Uganda is also one of the highest in the world. This means that there is high rate of new enterprises but also high business failure rate of newly formed enterprises. Accordingly, Rukunga (1999:16) and Mogale (2007:346), the failure rate could be due to low operating capacity (unpreparedness) of micro-entrepreneurs to take on business ventures professionally. They argue that people go into business by choice; others are forced into business by circumstances such as poverty and unemployment. For example according to the New Vision edition of Tuesday, September 30<sup>th</sup> 2008, 80 percent of Ugandans end up in business by accident with little or no prior preparation: due to high unemployment levels, copy and apply syndrome and unplanned retirement or

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<sup>11</sup> The term small business refers to so called one-man bounds such as neighborhood shops and restaurants among others as opposed to big business or to giants as IBM and General Motors. However, the term small business varies according to the yardstick and cut off point used to measure size and this vary from developed economies to less developed economies. The Small Business Administration (SBS) founded by the US Government in 1953 (Barrow 1993) for example characterizes small businesses as those that have a relatively small share of its market, run by its owner, and be independent and not the subsidiary of a large firm.

retrenchment. Thus, even where the poor have access to micro-credit, the greatest question is do the poor have the capacity to use the credit (the level of preparedness), prioritization of income generating activities, how to management and monitor business progress among others.

On the other hand, some scholars like Nachiket and Bindu (2008), assert that access to MC can help to alleviate poverty and improve on household wellbeing only if accompanied with other complementary inputs: typically training and skill development interventions. This implies that small business operations require business skills and knowledge by the micro-entrepreneur for sustainability. Further, Rukunga (1999:16) also emphasized that for any business, no matter how small and humble, when started may grow over time depending on the determination and managerial skills of the entrepreneur. Here management is about planning, directing and controlling available resources to meet the desired results in any economic activity. Business management is guided by a vision or a set of policies and strategies and strategic planning. Most studies about business failure point to poor management as the main cause. The success of a firm is measured by its profitability, which depends on the efficiency of the management. The micro-entrepreneur must know some thing about keeping the daily business records and how to manage the funds. In addition, Harvey (2009) also argued that a significant number of micro-entrepreneurs in Uganda are family-owned businesses which either lack proper marketing strategies and formal plans or have failed to communicate through the family ownership and management team. Therefore my study comparatively assessed the organizational and operating capacity of MC users in terms of saving skills, marketing skills, business skills and credit servicing, and the borrowers knowledge and skills in business and investment which are cardinal for successful a business in both rural and urban communities.



## **2.6 Outcome of Micro-credit Utilization**

Micro-credit services through MFIs across the globe and particularly in the third world countries have experienced explosive growth since the 1980s, and have been discovered to have the potential to alleviate poverty among the marginalized poor populations especially in the rural areas. Micro-credit is an essential input to increase productivity at household level. Many scholars in the development field argue that MC globally improves the borrowers' well being; boost income levels and increase employment of household members Okurut *et al* (2004). However, there are many variables which influence the extent of success at individual, households, organization and environmental level, for example, who are initially targeted, the borrowers' skill level, gender relation in the household and the external support available to the borrowers. It is therefore important to examine existing literature on the outcome of MC intervention on households well being.

According to Navajas *et al* (2000), the professed goal of micro-credit is to improve the welfare of the poor. However, Berger (1989) observed that microfinance tend to stabilize rather than increase income and tend to preserve rather than create jobs. In addition, Mosley and Hulme (1998) in their study of 13 MFIs in seven developing countries concluded that household income tended to increase at a decreasing rate, as the debtors income and asset position improve.

Other scholar such as Diagne and Zeller (2001) in a study in Malawi suggested that microfinance did not have any significant effect on household income. Equally so, Ross (2002) asserted that the arguments developed above do not necessary imply that a few individuals are not about to rise above their previous condition. Nevertheless, the transformation claimed by the advocates of

micro-credit is exaggerated. Thus, the impact of micro-credit on household income remains only partial and contested. On one end of the spectrum are studies arguing that micro-credit has very beneficial economic and social impacts of the household. While on the other end of the spectrum are scholars who contend against such optimism. Given the fact that there is a knowledge gap in the reviewed literature, the impact of access to and utilization of micro-credit program on the households remains a critical area of study. This inspired me to pursue this study comparing the outcome of credit on household members in two diverse settings of rural and urban communities.

Generally, the above literature exhibits several knowledge gaps. Several questions are not adequately answered by already existing literature and studies: where attempts are made, it is limited by time and geographic scope. For example what are the gender relations between men and women within the household in relation to access and usage of micro-credit? Do borrowers have the individual and group capacity to effectively and efficiently use the loan facility to achieve the desired outcome? What is the absolute impact of micro-credit on the households' wellbeing, given the overlapping income generating activities folks engage in? These questions and the already identified knowledge gaps in the reviewed literature formed the back bone of my study, and the study findings presented and discussed explicitly answer these questions.

## 2.7 Theoretical Framework

This study adopted the social network theory. Social network refers to ties and relationships, associations and norms that shape the quality and quantity of social interactions.<sup>12</sup> Social networks may be either strong or weak.<sup>13</sup> According to Coleman (1998) social network refers to the manner in which ties and their emergent properties trust and norms can constitute a resource for the members. In this respect social ties are critical for economic prosperity and sustainable development which is formed out of repeated social interactions between individuals and groups such as gift circles, credit associations like SACCOS and ROSCAs, Atterton (2007), Coleman (1998) and Putman (1993). Networks help to overcome some of the disadvantages of peripheral location by serving as means of economies of scale: sources of support, information and knowledge (Granovetter 1973). The various relationships and associations among individuals affect individual attitudes and perceptions towards utilization of small loans. As a result, social ties such as group solidarity enables the property less and voiceless to access credit for MCIs. In addition, the existence of social relations in the form of indigenous networks and norms of association are seen as substituting the physical collateral like land titles which the poor lack, in the selection of loan beneficiaries and loan disbursal and recovery (Mayoux 2001). The assumption here is that social networks are inherently positive and beneficial with the horizontal norms accrued to general trust and information which can be used by MCIs (which is not absolutely the case in all network relations).

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<sup>12</sup> Networks are made up of family, friends and acquaintances, with personal networks made up of concrete contacts with specific individuals and with wider dimensions in which actors are immersed Atterton (2007).

<sup>13</sup> Strong ties are high trust relations with family, kin and close friends. The stronger the tie connecting two individuals, the more often they are in contact and more similar they are. Weak ties may be with a range of dispersed. Less well known individuals and tend to be of short duration and low frequency, to have low levels of trust and to be broken easily (Granovetter 1973:1362).

Further, in addition to social support being a form of collateral, relations and association act as sources of information and support for business owners Atterton (2007:230) and Coleman (1990:310). Important issues and current events about borrowing and using small loans such as the appropriate MCIs for the poor, the interest rates charged, time of pay back and the possible viable investment opportunities for the borrowers is shared among the association members. Atterton (2007) also noted that social interaction and relations facilitate social exchange process which is a critical ingredient in the formation of supportive environment in which personalized high trust, reciprocal business relationships are built.

Finally, the conceptualization of entrepreneurship, in terms of people's organizational and operating capacity to use MC evolves from an emphasis on the characteristics and attitudes of individual members which are socially embedded in social context (norms)/ relations channeled and facilitated or constrained and inhibited by people's position in associations and the density of the network.<sup>14</sup> The result is the development of business networks, relations and socio-economic support systems with boundaries.

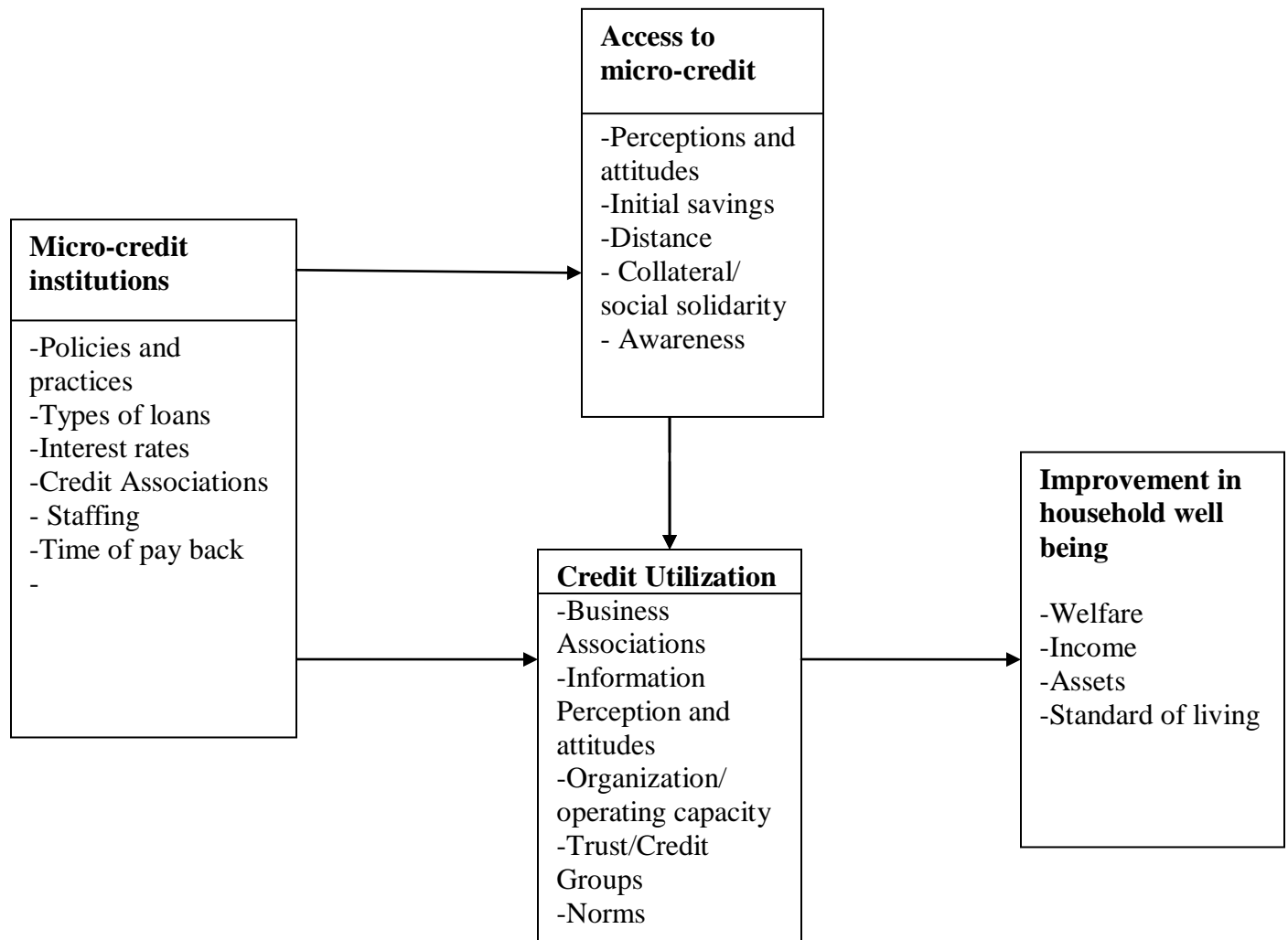
Below is diagrammatic application of the social network theoretical framework on micro-credit utilization and its impact on household income. There is a relationship between the socio-economic background factors of the household members and people's perceptions and attitudes towards micro credit utilization. In addition, the gender relation in utilization of MC and the interplay of the people's organizational and operating capacity at the household level, which also results in the improvement of household well being. Below is the diagrammatic presentation of

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<sup>14</sup> Social relations, institutions, routines and practices provide a social context for an individual's economic actions. Concrete personal relations and networks are vital in generating the trust that shapes actors expectations and opportunities in ways that differ from economic logic of market behaviour (Granovetter 1985:490).

the conceptual framework. Figure 1. below explicitly illustrates the application of social network theory to the study variables.

**Figure 1: Showing Diagrammatic Presentation of the Conceptual Framework**



## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 Introduction**

This chapter presents the approach used in the design and execution of the study; including description of the procedures and methods of data collection and analysis. It describes the research design, the study area, study sample and sample selection, data collection procedures, data analysis and processing and the limitations of the study are given and explained.

#### **3.1 Research Design**

The study adopted across-sectional research design (Ranjit 1996: 81) which included both survey and ethnographic methods. Using this research design, data was collected from more than one respondent in both Nakigo sub-county and Iganga town council in Iganga district at a single point in time. I examined patterns of similarities and difference across a moderate number of survey household respondents both the rural and urban setting. The design enabled me to examine the diversity with in the rural and urban credit users: survey respondents, focus group discussion participants and key informants (KI). The designed also helped to unravel the different causal conditions connected to different outcomes of micro-credit utilization and its impact on household income. The choice of this design is due to the fact that it is cheap in terms of time and human resources as data was collected simultaneously from both Nakigo sub-county and Iganga town council at a single point in time. The design further enabled me to triangulate between the quantitative survey questionnaires and the qualitative FGDs and key informants interviews.

### **3.2 Study Area**

The study was conducted in Iganga district, in both Nakigo SC and Iganga TC.<sup>15</sup> The study was conducted in ITC and NSC as representative of the urban and rural communities respectively for comparative purposes. In Iganga TC, the study covered the wards of Bugumba B, Nkono 1, 11 and 11. While in the Nakigo SC, it covered Bulubandhi-Nandhekula and Bulubandi central villages. The choice of this study area was because the area has many MCIs such as Uganda Finance Trust, FINCA, Faulu Uganda, BRAC Foundation Uganda and Pride Uganda Ltd among others, which extend a variety of financial services to the poor people in the area. In addition, the area is very accessible this enabled me to conduct the household surveys and ethnographic interviews and FGD successfully within the required time. See the maps of Iganga district, Iganga TC and Nakigo SC in Appendix i, ii, and iii respectively

### **3.3 Study Population**

The study populations consisted of both men and women of diverse socio-economic background from different the households. The household survey respondents were chosen randomly from each of the two study areas of Iganga TC and Nakigo SC representing urban and rural communities respectively. The household surveys ensured representativeness of the study population for comparative purposes. The study also included key informants who were purposively sampled due to their expertise and experience on the subject matter. They availed

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<sup>15</sup> Iganga district lies at an altitude of about 1,070m and 1,161m sea level. At independence the district was part of Busoga district, and in 1975 it gained district status and became South Busoga district in the Busoga Province. It was named Iganga in 1980, which included the areas of present day Bugiri, Namutumba and Mayuge districts, which are now independent districts. Iganga district now borders the districts of Bugiri and Namutumba in the East, Jinja and Mayuge in the South, Kamuli in the West and Kaliro in the North (attached is the map). The district has two Town Councils of Iganga T.C and Busembatia and 18 S/Cs which Nakigo among others, Uganda Districts Information Hand book (2008:76)

more detailed and in-depth information vital to the study. In addition, I conducted two Focus Group Discussions (FGDs) one for loan users, male and another female from each of the two respective study areas; a total of four FGDs. They too were purposively selected and helped me to gather detailed verbal and non-verbal expressions from participants.

### **3.4 Sample Selection**

The household survey sample was selected randomly from community members who had ever borrowed micro- loan facility. That is 120 household respondents; a sample from which conclusions (inference) were drawn. A list of villages was got from Iganga district planning unit, and using simple random sampling I selected households from Iganga TC and Nakigo SC to ensure representativeness of the population and later study findings. In addition, a total of six key informants were purposively sampled who included four chairpersons of women credit borrowing groups and two credit/ loans Officers from BRAC and Bateesa SACCO. They were chosen because of their experience and knowledge on credit utilization. Further, two FGDs were conducted in Iganga TC, one for men and another for women in Bugumba B zone, and also two FGDs were conducted in Nakigo SC one for men and another women in Bulubandi-Nandekula village (all FGDs were conducted in the evening between 16:00 and 18:00 hours). The FGD participants had each ever borrowed a loan and have lived experience in credit utilization; this enriched me with the required detailed data.



### **3.5 Data Collection Methods**

Different methods and techniques were used in the data collection process. I used both household surveys and ethnographic methods. The ethnographic study methods used include key informant interviews, FGDs and observations.

#### *3.5.1 Household Survey Questionnaires*

Household survey questionnaires were administered to the 120 randomly selected household respondents who had ever got a loan facility. The survey questionnaires consisted of both open and close-ended questions that focused on themes and sub-themes such as the impact of micro-credit utilization on household income, gender differential utilization of micro-credit, household organizational and operating capacity in the utilization of micro-credit, people's perception and attitudes towards micro-credit utilization among others. This saved time and other resources, and it also ensured that I collect even secretive information which could not be got through FGDs, as anonymity and confidentiality was assured to the respondents (see appendix iv).

#### *3.5.2 Key Informant Interviews*

Key informant interviews were conducted with the help of a key informants guide (see appendix v). The guide was organized in form of research questions or and topics like the impact of micro-credit utilization on household income, gender differential utilization of micro-credit, household organizational and operating capacity in the use the loan, people's perception and attitudes towards micro-credit utilisation. The guide was used when interviewing the KI. The guide included topics on the research subject and was categorized according to the themes and sub-

themes as identified in the research questions. This gave me room to probe and prompt respondents, thereby yielding to detailed and in-depth data.

### *3.5.3 Focus Group Discussions*

This involved the use of the FGD guide to facilitate and ensure that the discussions are not off track. The FGD guide was constructed based on the themes and sub themes such as impact of micro-credit utilization on household income, gender differential utilization of micro-credit, people's perception, household organizational and operating capacity in the utilisation of micro-credit and attitudes towards micro-credit utilisation to have comprehensive discussions. I facilitated or moderated the discussions with the help of a note taker and at least a tape recorder. The FGDs helped me to get detailed and comprehensive data for comparative purposes, since this instrument allowed serious brain storming with the participants (see appendix vi).

## **3.6 Data Collection Procedures**

I was given an official introductory letter from the Department of Sociology Makerere University by the study supervisor (check appendix vii). The letter officially introduced me to Iganga district officials and other relevant officials and stakeholders. This enabled me to officially conduct the study in the areas with ease. I then proceeded to the field, and the introductory letter was presented to respondents on request. The introductory letter thus helped me to establish a strong rapport and confidence building with the respondents.

### **3.7 Data Analysis**

This included both qualitative and quantitative data analysis procedures and processes.

#### *3.7.1 Qualitative Data Analysis*

Ethnographic data was analyzed using content analysis. This involved developing themes and sub-themes in line with the objectives of the study that is; the impact of micro-credit utilization on household income, gender differential utilization of micro-credit, people's perception and attitudes towards borrowing and using micro-loans, household organizational and operating capacity to use micro-credit and categorize the collected data in accordance with the above. Data from the field was then organized into themes and sub themes, and the field were arranged to ensure that no information is left out. Similar responses were put together under one theme or sub theme in order to avoid generic and uncoordinated information. I then interpreted the data and some responses were used as quotations in the presentation and discussion of findings. Relevant table extracts, graphs and charts are also included in the report to give deeper meaning to the data presented.

#### *3.7.2 Quantitative Data Analysis*

I thoroughly cross checked the household survey questionnaires, to establish completeness, accuracy, and consistency and uniformity of the answers given. The survey information was then coded with the help of a coding frame. For proper data analysis, the coded data was entered in the computer using SPSS window 11.00 computer package and this enabled me to tabulate the data. Frequency tables were used to give a description of the different variables. Cross-tabulations and Chi-square tests were also used to show the level of significance of one variable over the other, for example location and decision making in the household. In addition, charts

and graphs were used to vividly show the variability of responses given by respondents about micro-credit utilisation and its impact on household income in both rural and urban communities. Lastly, both ethnographic data and household survey data were merged together for a complete research report and other related literature were integrated in the dissertation.

### **3.8 Limitations of the study**

The problems were both methodological and theoretical. First and foremost, research is known to a number of research fellows as a costly venture, in terms of time, human resources, financial and other logistics. This study was also prone to such problems. Second, the study was conducted only in Iganga district and in one rural community and one urban community. This implies that the study had geographical limitations. The study would have been conducted on a countrywide geographical scope, in all the districts of Uganda. However, time and other logical issues were not abundantly available to me. Nonetheless, I used the resources available effectively and efficiently within the period scheduled to conduct the study.

Furthermore, the study was conducted at the eve of the rain season. This means that down pours (rain fall) interrupted many of my field visits and appointments had to be rescheduled at a cost of time and logistics. In addition, many key informants especially from micro-credit lending institutions were not readily available as a lot of bureaucracies were encountered. Some micro-credit institutions though to the extreme, requested for payments of some fee before interviewing their employees, some could decline to give me the required data and referred me to Kampala Head offices. In this case, I opted for other key informants specifically chairpersons of credit

borrowing groups who equally gave me relevant information and shared their experiences concerning small loan borrowing and usage.

## **CHAPTER FOUR**

### **PERCEPTIONS AND ATTITUDES TOWARDS MICRO-CREDIT**

#### **4.0 Introduction**

This chapter presents and describes the socio-economic and demographic characteristics of the survey respondents from both Iganga TC and Nakigo SC in Iganga district. It entails the frequency distribution of the sex, level of education, religious affiliation, and the number of household members, marital status, age and main source of income of 120 survey respondents. It also covers findings from key informants and focus group discussion participants related to peoples' perceptions and attitudes towards borrowing and using micro-loans at the household level. It includes respondents' ability and willingness to get a loan, micro-credit institutions, and reasons for borrowing and constraints encountered in getting and using small loans from both the rural and urban perspective.

#### **4.1 Socio-Demographic Characteristics of Survey Respondents**

Before I present a detailed examination of peoples' perceptions and attitudes towards micro-credit utilization, it is important to have a summary of the socio-demographic characteristics of survey respondents because socio-demographic characteristics affect people's perceptions and attitudes towards borrowing, usage of micro-loan and its outcome on the household income. The main socio-demographic characteristics presented in table 1 below include but not limited to; sex of respondents, education level, religious affiliation, marital status and age of survey respondents. The table 1 below vividly demonstrates that majority of the respondents in both Nakigo SC and Iganga TC were females 70 per cent, married 70.8 per cent, Moslems 36.7 per cent with the average age of 38 years and 78 per cent had primary and secondary education level.

**Table 1: Showing Socio-Demographic Characteristics of Survey Respondents**

<b>Socio-Demographic Characteristics</b>	<b>NAKIGO SC</b>		<b>IGANGA TC</b>		
	<b>Frequency</b>	<b>Percentage</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Total</b>
Number of Respondents	60	50	60	50	100%
<b>Sex</b>					
Male	21	35	15	25	30%
Female	39	65	45	75	70%
<b>Religion</b>					
Moslem	26	43.3	18	30	36.7%
Protestant	16	26.7	19	31.7	29.2%
Catholic	7	11.7	10	16.7	14.2%
Born-Again	9	15	10	16.7	15.8%
SDA	1	1.7	2	3.3	2.5%
Issa-Masiya	0	0	1	1.7	0.8%
Traditionalist	1	1.7	0	0	0.8%
<b>Education</b>					
None	7	11.7	5	8.3	10%
Primary	23	38.3	21	35	36.7%
Secondary	25	41.7	24	40	40.8%
Certificate	2	3.3	5	8.3	5.8%
Diploma	1	1.7	4	6.7	4.2%
Degree	2	3.3	1	1.7	2.5%
<b>Marital Status</b>					
Married	47	78.3	38	63.3	70.8%
Single	5	8.3	5	8.3	8.3%
Divorced	0	0	2	3.3	1.7%
Separated	3	5	12	20	12.5%
Widowed	5	8.3	3	5	6.7%
<b>Age</b>					
18-27	10	16.7	6	10	13.3%
28-37	19	36.7	23	38.3	35%
38-47	22	36.7	22	36.7	36.7%
48-57	6	10	8	13.3	1.7%
58-67	2	3.3	1	1.7	2.5%
68-77	1	1.7	0	0	0.8p%
<b>Household Members</b>					
1-5	24	40.7	34	57.6	49.2%
6-10	28	47.5	21	35.6	41.5%
11-15	5	8.5	2	3.4	5.9%
16+	2	3.4	2	3.4	3.4%

N=120

Table 1 above shows that on average each family had six household members. The main source of income reported by respondents is commerce and trade with 38 per cent followed by agriculture 30 per cent and salaried/wage employment 25 per cent. The least survival means reported by respondents is semi-skilled services 12 per cent which include casual labor. Agriculture as a source of income is more commonly practiced in the rural setting 36 per cent as opposed to the urban community 15.3 per cent. Equally so trade and commerce is common in urban setting 44 per cent compared to the rural counterpart 32 per cent. The practice however is that households' source of income are not absolute and exclusive. Most family members engage in agriculture and business, in addition to other supplementary income from salary or wage. This means that low income earners engage in various income generating activities as a way of survival.

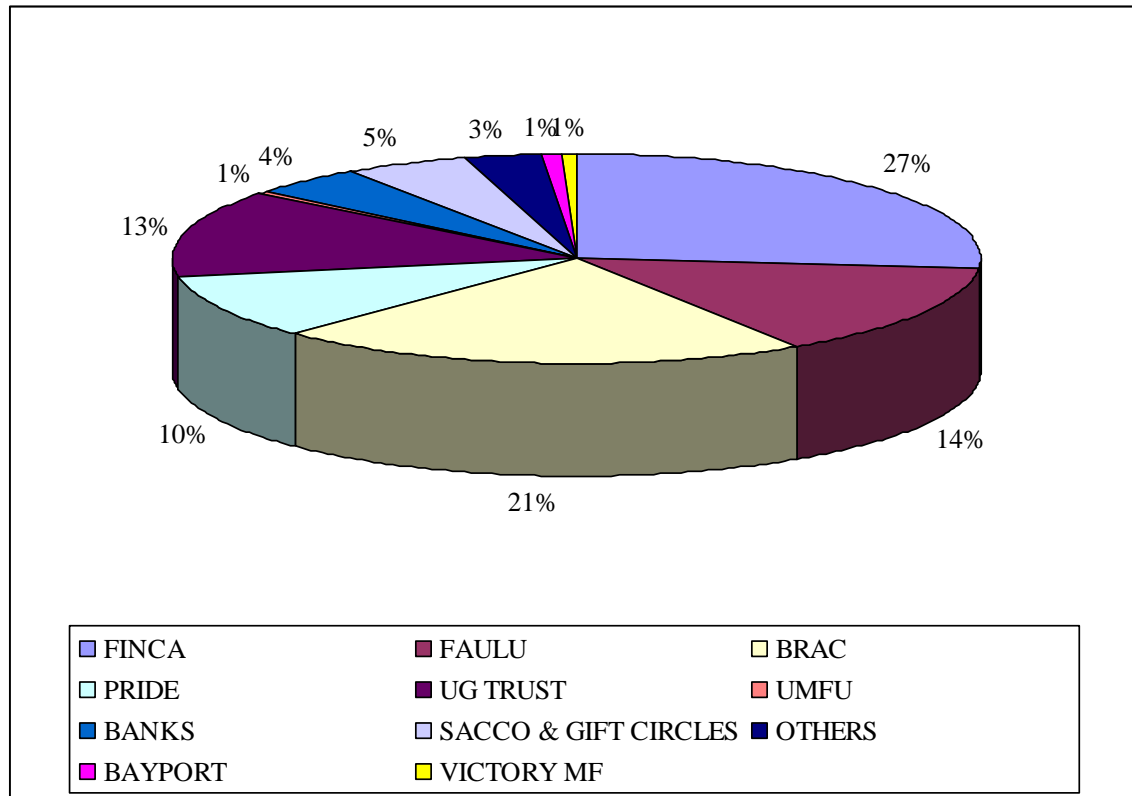
#### **4.2 Access and Utilization of Micro-credit**

My area of interest here was to establish whether or not respondents have access to micro-loan facilities. I asked respondents if they had ever got a loan, either informally from friends and relatives or formally from registered lending institutions like MFIs and banks. Findings indicated that 99 per cent of the survey respondents had ever borrowed money from formal micro-credit institutions like FINCA, BRAC, Pride MF and banks. Of the 99 per cent respondents who reported having accessed micro-credit facilities, 49.6 per cent were in the Nakigo SC and 50.4 per cent in the Iganga TC. One per cent of the respondents had ever borrowed money from relatives, friends and people with in their network. Most respondents look upon small loans as a mitigation strategy to exit the economic vulnerability. Further analyses revealed that respondents got credit facilities from various micro-credit institutions in Iganga district and the neighboring



districts and towns of Jinja and Mayuge. A pie chart 2 below shows the various micro-loan lending institutions that avail credit to low income earners.

**Figure 2 a Pie Chart showing Micro-credit Lending Institutions in Iganga District**



The pie chart 1 above shows that majority of the respondents had got a loan from microfinance institutions and MDIs as opposed to commercial banks. For instance, 27 per cent of the respondents had borrowed from FINCA Uganda, 21.4 per cent from BRAC Foundation, other MCI mentioned included Faulu Uganda, Uganda Finance Trust Ltd and Pride Microfinance Ltd. Less than five per cent of the respondents indicated that they got a loan from SACCOS, gift circles and commercial banks like Mayuge Integrated SACCO, Tropical Bank, Stanbic and Crane Bank Uganda respectively. In the category of others, respondents reported having got credit from NAADs project and Chai project for people living with HIV/AIDS, relatives and

friends. Complementary data from key informants also revealed that MFIs are the main credit lending institutions to majority of low income earners in Iganga district. For example, one respondent by the name of Lydia, a primary teacher in Bugumba B in Iganga TC narrated a story of her experience in borrowing small loans from MFIs.

*When I was staying in Kampala, I had my first loan from Women Trust in 2002 (now known as Uganda Finance Trust Ltd) and I did not have problems with paying back because am a salary earner. The second loan was from NAKOPESA (salary loan) and the third loan was from Uganda microfinance (now called Equity Bank Uganda). Since I came to Iganga, I got a loan from Pride MF, however I was disappointed when one group member defaulted and we had to raise money as group members for her loan repayment. I am now having a loan with BRAC, FAULU Uganda limited and FINCA. And BRAC is fair compared to others, because of low income friendly school fees loan and individual loan (**key informant, Bugumba B**).*

In addition, Lydia explains that micro-loans have helped her to establish some income generating activities in addition to being a teacher. She is also self employed and takes care of a big family of over nine children; in terms of feeding, medical care and school fees and other necessities. She explained while pointing at her children who were in the sitting room at the time of the interview. She has borrowed money from different credit schemes such as group loan, salary loan from FINCA, BRAC, Pride MF Uganda and Faulu Uganda Ltd. She is proud of having got loans from almost all MFIs in the area and having such a good credit history. My observation is that poor people often get loans from credit institutions where either one of their relative, friends, neighbors and business associates had also ever borrowed. In this case, social support plays a key role in encouraging credit users to take a risky but inevitable venture of borrowing which sometimes redeems the poor from the poverty.

Findings further reveal that MFIs and MDIs rank highest in lending micro-loans to poor people. This is because Microfinance institutions are user friendly, lend small and easily repayable loans and require affordable collateral security such as group membership from the low income clients, as opposed to commercial banks and private money lenders. This observation is in harmony with

Yunus (2004), Johnson and Rogaly (1997) who argued that microfinance emerged as an alternative to the development finance institutions in delivering financial intermediation to the poor and very poor. Ledgerwood *et al* (2002) too described MFIS as user friendly financial institutions; since they specialize in provision of financial services to small and micro enterprises and households. Equally so, State (2008), Anyanwu (2004) asserted that commercial banks traditionally lend to medium and large enterprises which are judged to be creditworthy as opposed to micro-credit institutions which target the poor and propertyless. Therefore, MFIs have become the main credit lending agencies for micro-entrepreneurs in Uganda and other developing as well. This is because MFIs have a large catchment area as they operate even in the rural communities which most commercial banks neglect. Given the propinquity of micro-credit institutions to majority of the poor, this attracts them to take advantage of their services. MFIs also tailor their financial services to the needs and interests of the poor people in the developing world, a case in question is their acceptance of social collateral as security which has made it easy for many poor people to get loans.

#### **4.3 Socio-demographic characteristics of Respondents**

My main interest was to establish the relationship between access to credit and the socio-demographic characteristics of the study participants: whether there are any differences between access to credit and people's sex, marital status, education levels and religious affiliation. I cross tabulated respondents who got a loan and those who had not, against their sex, marital status and education. Study findings revealed that majority 70 per cent were women borrowers compared to men 30 per cent. In addition majority of the respondents who got a loan were married 71.4 per cent and less than 10 per cent were single, divorced, separated or widowed. In terms of marital

status, there is significant difference between access to credit and peoples marital status given the Pvalue of 0.026 being less than 0.05 at 3 degree of freedom. This means that there more married borrowers as opposed to other marital statuses like single or widowed. But this does not negate the fact that women in general whether married, single or divorced are among the poorest of the poor who need credit they lack steady income streams in order to be sure of repayment on a regular basis without strain, this indeed leaves out some women not to take up loan facilities.

I also found out that majority 42 per cent and 36 per cent of the survey respondents had attained secondary and primary levels of education respectively, compared to less than 10 per cent who had certificates, diploma, degree and no formal education at all. Further, study results showed that people who had borrowed a loan were mainly affiliate to Islam religion (Moslems) 37 per cent and protestant religion 29.4 per cent, while less than 15 per cent are affiliated to catholic, Pentecostals Christians, Seventh Day Adventists, Isa Masiya and traditional religious beliefs and practices. In general socio-demographic characteristics such as sex, age, marital status, religion and education levels affect the people's behavior to either get a loan or not. Never the less, 99 per cent of the respondents had ever got a loan, table 2 here below vividly illustrates this.

**Table 2: Socio-demographic Characteristics and Access to Micro-credit**

Socio-Demographic Characteristics	Access to micro-loan		P Value
	Yes	No	
Sex			
Male	36 (30.3%)	1 (0.8%)	0.133
Female	83 (69.7%)	0	
Marital Status			
Married	85 (71.4%)	1 (0.8%)	0.026
Single	9 (7.6%)	1 (0.8%)	
Divorced	2 (1.7)	0	
Separated	15 (12.6%)	0	
Widowed	8 (6.7%)	0	
Education			
No Formal	12 (10.1%)	0	0.884
Primary	43 (36.1%)	1 (0.8%)	
Secondary	49 (41.2%)	0	
Certificate	7 (5.6%)	0	
Diploma	5 (4.2%)	0	
Degree	3 (2.5%)	0	
Religion			
Catholic	16 (13.4%)	1 (0.8%)	0.411
Protestant	35 (29.4%)	0	
Born Again	19 (16%)	0	
Moslem	44 (37%)	0	
SDA	3 (2.5%)	0	
Isa Masiya	1 (0.8%)	0	
Pagan	1 (0.8%)	0	

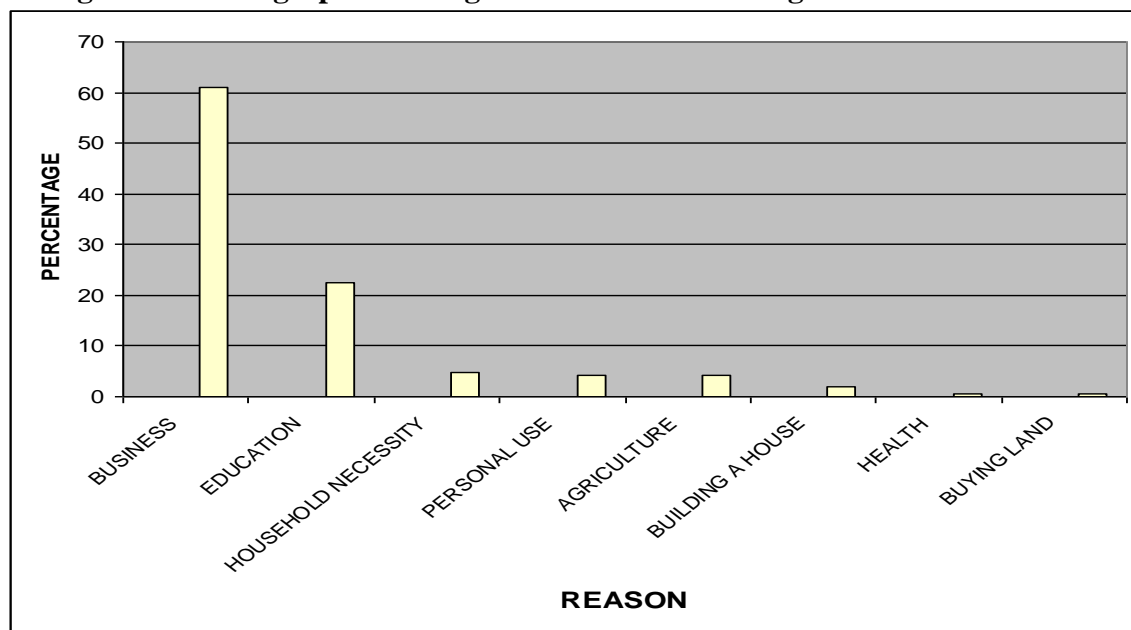
After establishing the relationship between borrowing micro-loans and socio-demographic characteristics of respondents, I also examined whether or not there were other members within the respondents' household who had ever got a loan. Of the 120 survey participants, 16.7 per cent had other member(s) within their dwelling who had also borrowed money and 83.3 per cent reported having no other member(s) within their dwelling that got a loan. Furthermore, of the 16.7 per cent households who indicated that they had other members within the family having borrowed money from a credit institution, many of these were in Iganga TC compared to Nakigo SC. This is because of the fact that most micro-credit institutions like BRAC, FINCA among others are located in the Iganga TC. Indeed two women participants in an FGD in Bugumba B in

Iganga TC explained that they had got a loan together with their husbands and used it for businesses investment. This suggests that people share information as members within the household and trust each other (Woolcock 1998). Having explored the fact that many poor people get loans from MFIs, it is imperative to establish the reasons as to why poor people borrowing.

#### 4.4 Reasons for Accessing Micro-credit

The main question here was to establish the reasons why respondents get loan facilities. Survey data, key informants and FGD notes revealed multiple reasons for the borrowing micro-loans and these range from business related reasons to personal household demands. The Bar graph 3 beneath shows a comparison of reasons mentioned by respondents for the access of micro-credit both Nakigo SC and Iganga TC.

**Figure 3: A Bar graph Showing Reasons for Borrowing Micro-credit.**



*N=120*

From the figure 3 above, my findings show that majority 61 per cent of the respondents got MC for business reasons and 22.6 per cent responses got credit for education reasons. Less than 5 per cent of the respondents in both Iganga TC and Nakigo SC said that they got a loan for personal use, to meet household necessities, buy land, build a house and meet health demands. This implies that majority of the respondents both in NSC and ITC argued that micro-credit is good for boosting their businesses in terms of capital and stock, at the same time micro-credit could be one's initial capital to start up micro-enterprises. Respondents who advanced education as the motivation for accessing credit indicated that it helps them to meet school fees and other dues for their children at school. I further examined responses from key informants and FGDs and they confirm to the same reasons as those advanced by survey respondents. For instance, a male Credit Officer with Bateesa SACCO noted that;

*Majority of our members are business men and women, so they get credit to improve on their business capital. Some get school fees loan to pay school fees for their children... (Key informant, Bateesa SACCO, Iganga town).*

In addition another 35 year old woman FGD participant in Bulubandhi Village explained that;

*I got a loan from IDA (Idudi Development Association) as an Individual loan to enhance my businesses (FGD Participant, Bulubandhi village, Nakigo sub-county).*

Likewise, another woman in the same FGD in Bulubandhi village said that;

*I got a loan from NALUGA (Nakisene Literacy Education group) under the program of F.A.B (Farming as a Business), they gave us money as a group to buy farming items, seeds and materials. We got the money and shared it amongst ourselves as members of the group...and after harvest; we were required to pay back the money (FGD participant, Bulubandhi village Nakigo sub-county).*

I observed that there were variations in respondents' reasons for borrowing micro-loans. The reasons mentioned by respondents were hinged on their respective need(s) and at a glance business was one such outstanding reason mentioned by respondents. Credit for business is important because it ensure sustainability of the loan service, as the borrower is able to realize

some profit from business (Okorut *et al* 2004). Credit access fills the depression of the financial inadequacy for majority of the low income people. As a result, credit access revamps the productive capacity of poor members of the household (Johnson and Rogaly 1997). This means that micro-loans empower poor people to take part in income generating activities and as a result this improves on welfare of the low income earners in our society. Indeed without the intervention of small loans, many poor household members would not be able to start up businesses, meet the physiological needs like medical care, school fees and food among others.

Respondents further enumerated various business ventures such as market vending, saloon, retail shop, food eating places, charcoal selling, trade in second hand clothes and agriculture among others, in which micro-credit is invested. Studies else where also show that low income people engage in several income generating ventures. For example, Mogale (2007:347) in his progress report about the role of microfinance in poverty reduction in South Africa argue that; microfinance loans enable small micro-enterprise owners to enhance their business volume and improve on business opportunities to diversify their business portfolio. Further, a study in Nigeria by Anyanwu (2004:4) revealed that over 78 per cent of MFIs financed trading activities, 14.1 per cent of the total funding was for farming activities and only 3.5 per cent went into manufacturing. Micro-enterprises generate income for the household and improve on the welfare of household members as the poor actively participate in production and service provision. Likewise Songsore (1992), in his analysis of Cooperative Movements in North Western Ghana argued that; credit enables peasants to expand and develop income generating activities and supporting payment of other necessities like food, education, health and water charges.



#### 4.5 Collateral Security in Access Micro-credit

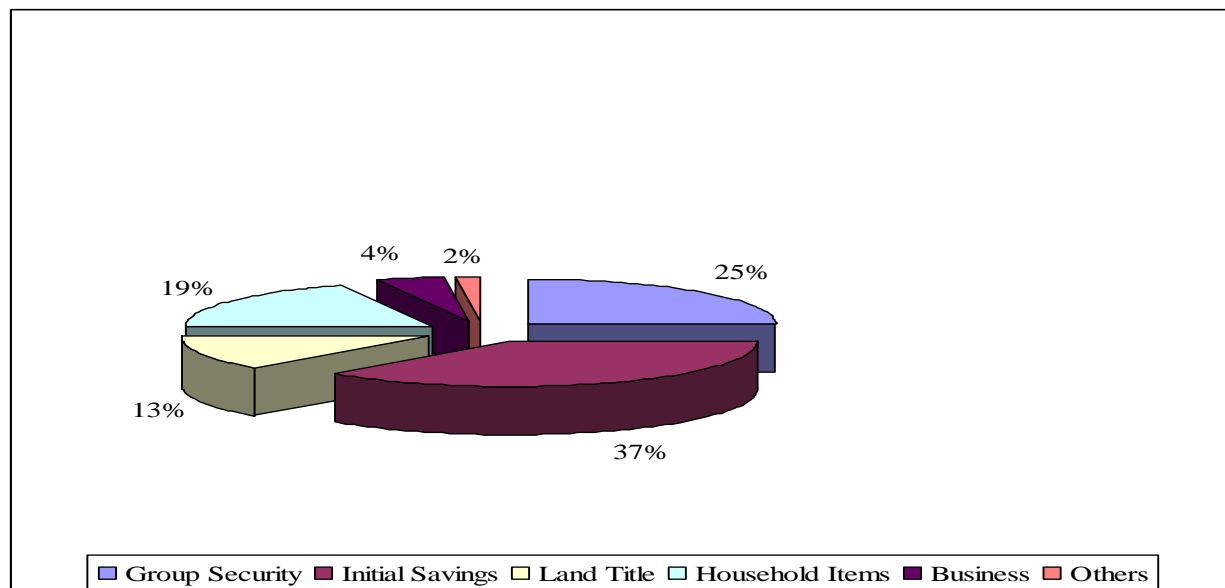
The key question here is to establish the types of collateral security required by Micro-credit lending institutions before giving away loans to clients. My findings revealed that 82.5 per cent of the respondents mentioned that; yes collateral security is indispensable with borrowing micro-loan. Only 17.5 per cent of the respondents indicated that collateral security is not vital in micro-credit access. In addition, responses from key informants also concealed that access to credit requires collateral security. For instance, a female credit officer with BRAC Foundation Uganda explained that;

*Our clients present collateral security before being given credit, these range from Local Council one recommendation letters or guarantors, group membership, to presentation of physical assets like land title. But the kind of security depends on the type of loan our clients want to be given*  
**(key informant, Credit Officer BRAC Iganga town).**

However, the 17.5 per cent who claimed that getting a loan from a credit institution does not require collateral security; in my opinion limit their understanding of collateral to only physical assets like land titles negating the other social collateral security like group membership. This is because even simple informal borrowing and lending between and among friends, relative or neighbors require some sort of witnesses, agreement and guarantors (State 2008, Yunus 2004).

On the other hand, the study also recognized the types of collateral security borrowers presented to the credit lending institutions before being given loan facilities. Survey data showed that there are several forms of collateral security which people present to micro-credit institutions and these range from simple group membership security to more complex physical assets and materials. The pie chart 3 here below illustrates the types of collateral security that borrowers present to the respective micro-credit institutions before being granted credit facilities.

**A Pie Chart 4 Showing Types of Collateral Security Required by Micro credit Institutions**



The pie chart 3 above clearly shows that majority 37 per cent of the respondents had to have initial savings with the Micro-credit institutions before being granted credit, followed by group security or ‘social support security’ with 25 per cent responses. Other types of collateral security mentioned by respondents included but not limited to household items like Television sets, livestock, chairs, and sofa set seats, land titles especially for individual loans, business premises and stock. In addition to the Local council (LC 1 and 11) recommendation letters (referees), appointment letters and pay slips of employees and photos or picture of the borrowers’ home/house and other household members were reported to be also forms of collateral security. The social collateral normally is required in case of group loan and salary loans respectively. The above observations clearly prove that many low income earners lack physical assets like land and therefore social support and group membership is the one such collateral they have in order to get loan facilities from MFIs. Indeed the flexibility of MFIs financial services tailored to the financial needs of the low income earners; with innovations like social solidarity as collateral has

attracted the poor to borrow money (State 2008, Yunus 2004, Okurut *et al* 2004). Further, interviews with key informants also bear that collateral security vary from client to client upon the type of the loan requested by the client. An interview with a credit Officer from BRAC Foundation Uganda revealed that;

*Collateral security depends on the loan.....for group loans do not require any collateral apart from group membership security, also 10per cent of the requested loan or credit is retained by the BRAC and for individual loan, the security required is a land title (Key informant, BRAC Foundation Iganga Branch).*

In addition, another Credit Officer in Bateesa Savings and Cooperative Society in Iganga Town reported that;

*With regard to collateral security in our institution, we consider collateral according to the amount of money one is taking. For instance the first loan does not exceed 500,000/=, with a security of household items like sofa sets (seats), T.V sets, side boards, beddings and mattresses among others. Some give in two guarantors who are members of the organization. Some group loans require 28 percent of the requested credits, as initial savings retained until you complete the loan repayment. For individual loans; two millions and above, you present the land title and Motorcycle cards among others. Some present their animals but this is dangerous because they at times die. Some times their businesses or stock or capital act as security (key informant, Bateesa SACCO Iganga town).*

Conversely, the types of collateral security required by credit lending institutions are not exclusive and distinctive. I found out that borrowers could present one or more than one of the above collateral security shown in the pie chart 3. For instance, respondents indicated that for a group loan, it requires mainly group membership security, Local Council recommendation letter (referees), photo of the borrowers' home or house and any other household items. Thus, the types of collateral security overlap and vary from one lending institution to another and the type of loan a person wants to be given.

Collateral security promotes responsibility in loan utilization and ensures that the micro-credit lending institution limit defaulting at the same time borrowers affordably get the loan facilities.

Although the types of collateral security mentioned by respondents may appear to be cheap for the low income earners to afford, this is not the case since many of them can not easily afford such collateral especially the women. Nonetheless, the types of collateral security required by MFIs are cheap compared to what commercial banks and money lenders require from borrowers. Many commercial banks require clients to have big business capital, long credit history, land titles, automobile cards for vehicle ownership and other such collateral which the poor lack (State 2008). MFIs have availed credit facilities among other financial services to a big number of low income earners in Iganga district and Uganda in general because they accept non-conventional collateral security like group membership. Simply put, MFIs have shaken Ugandan's loan market (Brown 2009). From the Grameen Bank model, modern micro-credit institutions have targeted poor people by requiring social collateral which at least most poor people can easily afford, as opposed to commercial banks that demand unaffordable collateral like land. This means that the competitive micro-credit business has seen MFI tailor the financial services to the needs and socio-economic position of low income earners in developing countries.

#### **4.6 People's Opinions in relation to borrowing small loans**

Attitude and perception determine people actions and choices. It was imperative to ascertain people's opinions about micro-credit intervention to the poor people. In order to comprehend people's perceptions and attitudes towards access and utilization of micro-credit, I asked respondents whether access to MC is a good innovation or not, to the low income people in Iganga district. The table 3 below illustrates a summary of survey respondents' opinion towards micro-credit innovation for the low income people.

**Table 3: Showing People's Opinion about Micro-credit Access**

Responses	Yes	No	Total
Rural	43	17	60
Urban	39	21	60
Total	82	38	120
	68.3per cent	31.7per cent	100.0per cent

$N=120$

$P\text{-value} = 0.423$

As clearly shown in table 3 above, out of the 120 survey respondents, majority 68.3 per cent agreed that access to micro-credit is a good innovation for the low income people, out of which 71.7 per cent were from Nakigo sub-county and 65 per cent in Iganga town council. In addition, only 31.7 per cent of the survey respondents indicated that getting a loan is not a worthwhile intervention for the poor. Nonetheless, further statistical analysis demonstrated that there were generally no observed significant differences between people's opinions about access to MC credit in both Nakigo SC and Iganga TC with ( $\chi^2 = 0.423$  at 3 degree of freedom and  $P > 0.05$ ). This means that in both Nakigo S/C and Iganga TC; rural and urban settings respectively, getting a loan facility is a good poverty intervention strategy for the low income earners and there are no significant differences in opinion between respondents in the rural and urban communities in Iganga district. I further asked survey respondents to justify their opinion about MC facility, in terms of either positive or negative perceptions regarding getting a loan facility. As earlier noted, majority of the respondents regard borrowing micro-loans as a good innovation which helps the low income people to easily access money to boost their businesses and meet family daily requirements (Siyongwana 2004). Other complementary data from key informants also alluded to the same facts that MC improves on the wellbeing of poor people. For example interview notes with a Credit Officer with BRAC Uganda show that;

*Our clients have a positive attitude and have good understanding of the target group of BRAC (especially group loans mainly for women)...looking at the method BRAC uses (mainly group*

*loan) clients are interested and have a positive attitude. However, other clients have not yet properly understood the aim (value) of credit (Key informant, BRAC Foundation Iganga branch).*

In contrast, though fewer respondents said that getting a loan is not a good innovation for the low income earners, this can not be taken for granted. My other point of curiosity was to establish the underlying issues for their opinion. Respondents holding this view that borrowing micro-loans is not a good practice justified their opinion that micro-credit institutions are path ways for impoverishing the already economically vulnerable people; by charging high interest rates yet with little time given to pay back the loan. Respondents further argued that micro-credit results into loss of property and assets by the borrowers because of failure to pay back. Others accused some MCIs for cheating for example, Front page Microfinance and Victory Microfinance in Iganga TC which were reported by respondents for having run away with people's savings and assets. Up to the time of this study some respondents were nursing losses caused by such scrupulous MCIs. Respondents also accused MFIs for the "unclear and unexplained" reductions on their savings and the system of paying back additional money on top of their credit servicing burden in case a group member/s defaulted. In the same vain, a key informant in Bateesa SACCO in Iganga Town also expressed the same opinion that some times Credit institution cheat borrower, he explained that;

*...okay, the attitude about access to credit has not been bad, but people are now discouraged by the emergency of fake/cheating micro-credit institutions like Front Page MF, Victory MF, which ran with their savings. It is becoming difficult to mobilize people to join the cooperative... (Key, informant Bateesa SACCO Iganga town)*

Under normal circumstances Micro-credit is a good innovation in many developing countries which has contributed to the empowerment of low income earners and if properly used can tremendously improve on the wellbeing of household members. Where credit has a regressive impact on the user (Kuntala and Samanta 2006, Kondo *et al* 1992), there is need to also examine

other internal inconsistencies of the user and the external environment where the actors in question are operating. Though there are some negative attributes of micro-credit, in Uganda just like other developing countries micro-credit institutions have proliferated and so has been the number of beneficiaries.

#### **4.6.1 Negative Opinions towards borrowing and using micro-loans**

My research and some studies else where indicate that credit is a good innovation to alleviate poverty Navajas *et al* (2000). However, it is imperative to also look at the regressive impact of borrowing and using micro-loans. This aspect was mostly raise during interviews with key informants and FGD participants. In the first place many women borrowers expressed grief about the practice of with holding their initial savings in case a group member failed to pay back the loan or defaulted. For instance one female FGD participant in Bulubandhi village lamented that;

*The habit of credit institutions taking our initial savings where one member of our group fails to pay or turn up for meeting affects us. Some institutions even take people's properties without giving them enough warning and time to pay back; this happens to us women who can only afford group loans. This affects our always little income flow* **(FGD participant, Bulubandhi village Nakigo sub-county).**

However, the above claim was challenged by a Credit Officer with Bateesa SACCO, who explained that they give enough time and warning to the client he noted that;

*In case our client failed to pay, we visit him/her at home or place of work, call him/her on phone and contact the guarantor as well. We then send a defaulter's letter and if one fails to comply we involve our court brokers to recover the money* **(key informant, Bateesa SACCO Iganga town).**

The other regressive impact of micro-credit is the increased family instability. Key informants reported that the increased engagement of women in productive activities has challenged the male dominance and has led to conflicts within the home because few men are willing to accept this reality. Men's power within the household is challenged since the women also contribute to

the welfare of the family, though this is good, some families have had separations and divorce because women question the absolute power of their husbands with in the household which was not the case in the past. For example a Credit officer in BRAC explained that;

*Women's access to loans has made divorce and separation rampant simply because women feel that they are equal to the male counterpart. This happens especially where women fail to inform their husbands about credit. I encourage women to get loans but they should also remain obedient to their husbands to avoid family instabilities (Key informant, BRAC Foundation Iganga Branch).*

In addition, Female FGD participants in Bugumba B in Iganga Town also lamented that;

*If a woman is married, before you get a loan you need to agree with the husband. It is important that you inform your husband because if you do not, it will cause conflict over the loan with in the family. In families where the husband and wife do not agree over borrowing and using micro-loan, marriage instability, separation and divorce is likely to occur (FGD Participant, Bugumba B Iganga town).*

The main point of argument is that credit utilization ought to be embedded in the social set up of the household. The regressive impact of using micro-loans with in the household is not related to income but the social stability of the family; some borrowers in this case women fail to realize that they operate within a framework of the patriarchal society. The issue is not that credit is bad rather it should be contextualized in the general social fabric to avoid family instabilities.

#### **4.7 Cultural Practices, Religious Beliefs and Micro-loans**

Culture is the whole way of life found in a particular society, including a set of ideas, values and norms (procedures, customs, laws, morals) in society. My main concern was to examine the cultural practices and beliefs held by respondents towards borrowing and using micro-loan facilities. The cultural practices and religious beliefs were uncovered by use of ethnographic data from key informant interviews and FGD participants. Though there were no strong cultural ties (norms) as regards to borrowing and using micro-loan, key informants explained some of the beliefs people have towards getting and using a loan. For instance, a male Christian FGD



participant in Bulubandhi village narrated that there is a sect among the Moslems who do not believe using loans, he explains that;

*There are religious sects that hinder people from borrowing like among the Tabulique Moslems. They believe that credit is “Haram” (unholy), it is satanic and therefore borrowing is bad. According to them, the holy quoranic teachings are against credit and borrowing with interest fees/rates is satanic and cheating .The interest rates charged are not good and unholy (FGD participant Bulubandi village).*

Furthermore, a Credit Officer working with BRAC explained that since majority of the people in Iganga are Moslems (37 per cent), this belief is common. She narrated a story of one female client (Hajjat), who got a credit facility from BRAC and operates a shop around Madina Mosque in Iganga TC. The officer in an interview said that Hajjat does not want people to know about her credit deals with BRAC, she does not even want the Credit Officer to check on her business premises and she regularly services her credit in time to avoid any default which could result into a disgrace to the Islamic fraternity. If people get to know about her deal with BRAC, they would question her faith in the Quran and treat her like any other infidel (non-Moslem).

Another case is story of a lady in Bulubandi-Nandekula village in Nakigo SC. Many respondents in the area referred to her as having a long history of borrowing and using small loans, and who is successful in business by their village standards. When I went to her home for an interview, on introducing the subject about using micro-loan facilities, she appeared uninterested in discussing her experience with micro-credit use for reasons unknown to me. Since she was not willing to talk to me about credit issues, I inquired from her neighbors; because they know her better than the LC officials who are distant from her and they told me that she belongs to the Tablique Muslim sect who believe that access to credit is unholy. The key issue I noted is that Moslems specifically Tablique use loans and know that it is a good poverty mitigation measure, but their

faith does not allow that. This means that those who get loans are treated with mistrust, unholy and equivalent to infidels (non-Moslems) who are not fit for ‘Jaana’ (heaven).

In addition, some informants also explained that there is a general belief that people who belong to the traditional religious beliefs; “small gods” locally known as Lubaale, are allegedly prohibited by their gods to borrow and use micro-loans. FGD informants who fronted this school of thought argued that gods are self-sustaining and thus do not need any external assistance. For example a male participant in the FGD discussion in Bulubandi-Nandekula narrated that;

*Yah there are those people who serve demons or traditional gods called spirits (“Katonda we empeewo”) like ‘Lukowe and Issejja’. The gods do not allow them to access credit as a tradition. That the gods do not allow that, and also it becomes hard to demand pay back from these people as they can change from being human to spirits or something else (FGD participant, Bulubandhi village).*

I also discovered that some people have a belief that if no one in their family had ever accessed credit, then it is not good for them to divert from their fore fathers. This implies that people regard their ancestors as having been great, therefore, if they did not engage in such practices of money borrowing, so it is not that important. This view was share by a male FGD participant in Bulubandhi village.

*There are clan /family beliefs that if no clan member has ever accessed a loan/credit, there is fear among the other family members that if the fore fathers did not, then it is not good. This is due to fear by the clan or family members to go against their fore fathers, to avoid misfortunes (FGD, Bulubandhi village).*

In addition Credit Officer in BRAC revealed that, there is a belief among people that money from an Asian institution has no blessing; it is full of curses and one can never prosper. This means that even when you get credit from an Asian owned micro-credit, one can not develop and have a change in their household.

*Some people have the view that credit institutions are cheats, especially those from Asia. They believe that Indians (Asians) first put the money in the Toilets, so it has no blessings. Indian money is given to you after they have proclaimed curses over it, it has no blessing, even when you use it, it does not benefit you (key informant, BRAC Foundation Iganga branch).*

Apart from the Moslem beliefs based to the Quran, the other beliefs are “simple issues” which I refer to as the “psychology of credit fear”, which many people have especially in the Africa; where people have many stereotypes. In my opinion, there is a belief among people that credit can impoverish, and once you start engaging in borrowing then this will continue for all the life time. However, with the rocket speed development trends, our societies need to graduate from such myopic beliefs. The unfortunate thing with such beliefs and practices is that knowledge and experience cannot be shared among community members who are successful in business because of credit utilization and those who fear borrowing.

The above beliefs and practices are not a surprise given the fact that majority of the respondents 41 per cent had attended school only up to secondary level. Most of them had also attained only primary level education and many times education level compounded with cultural orientations informs people’s perception and attitudes towards MC. Some other key informants especially credit officers from BRAC and Bateesa opposed these beliefs that they are anti development and only practiced by “backward people” and communities. In addition, development scholars such as Okurut et al (2004), Johnson and Rogaly (1997), and Yunus (2004) who is the mastermind of the Grameen bank, view micro-credit as a conduit to development. This means that; such cultural practices and beliefs can not stand in the pathway of improving people’s welfare and productivity through micro-credit innovations.

#### 4.8 Respondents' Advice about Access Micro-credit

Having explored the different cultural beliefs and practices about MC access and utilization, it is very important to establish respondents' advice about access to MC I asked survey respondents about the advice they can give to people who want to get credit facilities from micro-credit institutions. Majority of survey respondents indicated that for some one to access credit, he/she ought to have already existing or running business with 23.2 per cent responses, have a business plan 13.8 per cent, and others 16.6 per cent mentioned: having been trained in business skill, credit utilization and loan servicing, having group trust/solidarity, saving culture and avoiding extravagant expenditures. Other responses were one ought to invest in the planned activity, understanding the terms and conditions of the lending institutions, having a business mind/work hard and one ought to have collateral security, for example a male FGD participant in Bugumba B Iganga TC said.

*...Yah, you must plan for this money. If you do not have a plan or what you are going to do with the money, you can not go in for the credit facility... (FGD, Bugumba Iganga TC)*

Equally so another male FGD in Bulubandhi Village in Nakigo SC explained that.

*You need to have a plan such that before you access any loan or credit. Friends always give you knowledge about the business plan and the bank or credit institutions always ask for the plan you have for the credit requested (FGD, Bulubandhi-Nandekula village).*

As noted earlier, potential clients of MCIs must be careful and first of all have a self evaluation of their ability to utilize the credit, and a clear understanding of the terms and conditions of lending institutions to avoid future frustrations and defaulting. A credit Officer in Bateesa SACCO explicitly noted that;

*I Advise them, to borrow credit they can ably service for example, some one can come for credit worth one million yet his/her working capital is 200, 000. Borrow credit you can use and pay back. Avoid multiple borrowing; borrowing small loans from different credit institutions. I encourage them to also have a savings culture; because most people have a poor savings culture and lastly members should only guarantee other people who are honest and credit worth and*

*they are well vast with ; aware of their credit history*(**Key informant, Bateesa SACCO Iganga town**).

In my view, respondents were concerned with the sustainability of credit utilization at the household level. This means that since MC is aimed at improving people's productive capacity, it ought to be planned and invested in lucrative ventures to make it easy for them to service the loan. As Aijukwe (2009) a Business Development Manager MP Uganda advised borrowers that;

*I would advise that you get that loan when your business has taken off. It is important that you do not just run to the nearest institution that is waving at you from the sheet. Do some research first and ask yourself some questions; Is the institution you are walking into one that appreciates your business idea. You ought to be able to discern this from the customer service you receive. Most importantly, what are the terms of the loan? What interest rate are you being charged? How can you access the money? What constitutes the institution loan monitoring? You need to think about the payment terms/plan. Do you have to pay back on a weekly, monthly or annual basis? As a borrower, master your business cycle and negotiate for payment that fit or match your business cycle to avoid defaulting on the loan. You need to consider your options carefully. Choose a financial institution that understands your needs as a customer and will not quickly to arrest you or liquidate your collateral but rather will advise should you be in a position that hinders timely repayment* (**Secondary literature review**).

Studies else where indicate that; Kuntala and Samanta (2006), the village bank credit in rural India did not have any significant impact on physical assets accumulation and production because poor women ended up in a viscous cycle of debts; as the poor use the money from the village bank for consumption and were forced to borrow from money lenders in order to service village bank loans (Kondo *et al* 1992). Borrowing without economic rationality and critical economic considerations or gains results into many poor people becoming more vulnerable and unable to services the credit, hence confiscation of their "assets" and or end up in prison.

#### **4.9 Constraints to Borrowing Micro-loan**

In this study a critical examination of the constraints encountered by respondents in accessing MC facilities was well addressed. The table 4 below illustrates the multiple responses reported by survey respondents.

**Table 4: Showing Constraints Faced by Respondents in Borrowing Micro-loans**

<b>Constraints</b>	<b>Response Cases</b>	<b>Percentage (%)</b>
High Cost	55	22.5
Lack of Collateral Security	25	10.2
Bureaucracy	67	27.5
Long Distance	38	15.6
Corruption/Bribery	38	15.6
Long Credit maturity Period	14	5.7
None	2	2.9

***Multiple Responses Categories N=120***

From the table 4 above, it is noted that survey respondents both in the rural and urban communities in Iganga district reported similar constraints they encounter while accessing micro-credit facilities. As clearly shown, majority of the responses 27.5 per cent mentioned bureaucracy as the major constraint, followed by high cost involved like transport with 22.5 per cent responses and long distance and corruption/bribery with 15.6 per cent responses cases. Other constraints mentioned by respondents include; lack of collateral security and long credit maturity period. In addition the same constraints were also mentioned by FGD participants, for instance a male FGD participant in Bugumba in Iganga Town council said

*...if you are not a patient man, you may not manage micro-credit facilities. There are many credit requirement, rules and regulations, and bureaucratic procedures. They tell you come next week we shall give you the money, but when you come they tell you stories and excuses... yet your business is at stand still (FGD, Bugumba B Iganga Town).*

Another key informant Deborah a chairperson of three credit women groups in Bugumba B in Iganga Town council also decried that.

*Inadequate money or small credit given by the micro-credit institutions, Like for my case I have been in BRAC for three years but they still give me small credit yet I have a big credit history with them...(Key informant, Iganga Town).*

The reality is that withstanding all those constraints, respondents have dire need for credit services and they adjust according to the requirements of the lending institutions. Some have gone ahead to argue that constraints are everywhere and cannot totally refuse someone to access

credit for development. After all MCIs provide credit services to the poor, but they are also in business; looking for sustainability in their operations. Therefore, some of the constraints are justifiable, lest they run out of business like some lending institutions such as Victory MF and front page MF are now history in the micro-credit business.

Worth noting however is that majority of the micro-credit lending institutions such as commercial banks and MFIs are located in Iganga Town council and neighboring Jinja and Mayuge Towns, apart from SACCOs and gift cycles which are in both rural and urban areas. Many respondents in Nakigo SC reported having accessed credit from lending institutions like BRAC, FINCA and Faulu among others in Iganga TC. The respondents said that they have to travel a distance to Iganga TC and the near by towns to access credit facilities from micro-credit institution, and even after, many have to attend weekly meetings at the MCIs' offices, as the rule is for group loans. On the other hand, the study revealed several constraints respondents encounter in using the credit facilities. The table 5 below illustrates the summary of multiple response categories reported by survey respondents in Nakigo SC and Iganga TC as rural and urban communities respectively.

**Table 5: Showing Problems Faced in Utilisation of Micro-credit**

Problems	Response Cases	Percentage (%)
High Interest Rate	63	21.8
Little time of Pay Back	61	21.1
Low Investment Returns	36	12.5
Long Distance	41	14.2
Small Credit	32	11.1
High Taxes	30	10.4
Others	13	4.5
None	12	4.2
Total	289	100

*N=120 Multiple Responses Categories*

The table 5 above shows that majority of the survey respondents reported high interest rate as a major problem in utilization of credit facility with 21.8 per cent responses followed by little time of pay back with 21.1 per cent responses. Other respondents mentioned by constraints such as low investment returns and high taxes. The other category of responses where others 4.5 per cent included; group defaulting, sickness and death, pressure for repayment and lack of proper planning for the credit which affect credit utilization of MC. There were also 4.2 per cent responses cases which showed none, meaning that such respondents indicated having problem/s with credit utilization. The above survey responses were complimented by FGD note from a female Participant in Bulubandi Village

*I have big fear of using the credit as there are many other social demands, so I end up diverting the credit from its planned activities to social demands like sickness which are not profitable. And intimidations from other people and friends that credit is not easy to pay back due to the interest rate charged compared to the time given to pay back...you need to be hard working to return/pay back the credit as expected (FGD, Bulubandhi in Nakigo sub-county).*

However, interview responses with one BRAC Credit Officer challenged the above argument that they charge low interest rates;

*The interest rate is also very low for BRAC (20-22per cent) compared to other micro-credit institutions. Small loans which are given make it easy to pay back in the required time period (Key informant, BRAC Foundation Iganga Branch).*

In addition, complementary studies also revealed that MC users encounter the same constraints in using the micro-loan facility. Kumar *et al* (2007) in their analysis of MFIs in India argued that there is need to reduce the interest rate. To them, Microfinance institutions can justify high interest rates by high costs charged by MFIs. However, they advised MFIs to look for ways to lower costs via efficient and technological innovations, because in lowering costs, then Microfinance institutions can be able to lower interest rates.



Respondents were further asked to rate how they feel about servicing Micro-credit. The scale of rating was along a continuum of; easy and difficult. Participants were therefore asked to choose from the categories and indicate appropriately. The table 6 below illustrates the results.

**Table 6: Showing Respondents' Rating of Credit Servicing**

<b>Location</b>	<b>Easy</b>	<b>Difficult</b>	<b>Total</b>
Rural	31	28	59
Urban	38	22	60
<b>Total</b>	69	50	119
	58%	42%	100%

N=120

The table 6 above shows that majority 58 per cent of the respondents find loan servicing easy. The least number of respondents 42 per cent indicated that serving credit was difficult. The way respondents find loan servicing, I discovered that it is mainly in relation to the amount borrowed. Many poor people seek small loans, which they can easily service in the shortest time possible. In addition, if credit is properly planned and used for the profitable activity, the business can yield profit which makes it easy to pay back the loan. But this does not negate the fact that to some people, it is extremely difficult to pay back or service the credit.

In conclusion, this chapter has presented study findings about respondents' perceptions and attitudes and cultural beliefs and religious practices towards utilization of micro-loans at household level. It also explores the various micro-credit lending institutions available to respondents, reasons for getting a loan, types of collateral required and the constraints faced in borrowing and using micro-loans. It is worth noting that majority of the respondents view MC as a good innovation for the poor and economically vulnerable people, because access to credit is a path to exit poverty. The main challenge is for MCIs and microfinance institutions is to tailor

their services to the needs of borrowers and with in the socio-cultural context of the borrowers, so as to adequately tap the potential of the productive poor. Having established the perceptions and attitudes of borrowers towards micro-loan facility, the subsequent chapter, emphasizes the gender relations between men and women within the household in regard to borrowing and using micro-loan facilities. It explores the decision making process concerning borrowing and using small loans; in terms of the choice of investment activity and the accruing benefits of credit to the household members.

## **CHAPTER FIVE:**

### **GENDER DIFFERENTIAL ACCESS AND MICRO-CREDIT**

#### **5.0 Introduction**

In this chapter, I examined the relationship between gender and the use of micro-credit services in rural and urban communities in Iganga. The basic principle of rural micro-credit services is to empower the powerless and propertyless members of society, such as women, elderly, youths and disabled who are inappropriately treated by the dominant members, especially men. Micro-credit organizations world over for example, the Grameen Bank in Bangladesh are purposely set up to fulfill this objective. My main interest was to establish the power relations between men and women in decisions making concerning borrowing micro-loans and control over micro-loans with in the household.

#### **5.1 Gender Relations in Borrowing Loan Facility**

Before going further to examine the gender relations in getting micro-loans within the household, it is important to explore the sex composition and marital status of survey respondents. Survey findings revealed that there were 30 per cent males and 70 per cent female respondents. The sex composition of respondents as a socio-demographic characteristic has implications on the gender relations within the household regarding borrowing micro-loans as examined in the subsequent texts below.

This study deals with the issue of gender differential access to credit facility at the household level. In this case, respondents were asked who gets a loan facility, is it only men, women or both men and women within the household. Findings bear that women have accessed credit

facility more than men in the same household. Statistical analysis showed that 63 per cent women had got loan facilities, out of these 60 per cent and 65 per cent were in the rural and urban communities in Iganga district respectively. In addition, men constituted 30 per cent of the borrowers. On the other hand, 7.5 per cent of the respondents indicated that both men and women had ever borrowed and have equal access to loan facilities. Furthermore, key informants also explained that women had accessed credit more than men. For instance a Credit Officer from Bateesa SACCO in an interview explained that.

*The largest percentage is women, they are majority borrowers in our organization and as per now (April 2009), we have 900 borrowers and of these, women are a round 600, compared to 300 male members (key informant, Bateesa SACCO Iganga Town).*

In addition, one female participant in the FGD discussion in Bugumba B, Iganga T.C narrated that.

*In BRAC for example, it is mostly women, men are very few because they end up not using the credit for the planed activities. Some end up marrying other wives. In addition, men are not patient enough, they fear a lot and they are never stable in servicing the loan facility (FGD, Bugumba B, Iganga town council).*

The statements above provide evidence that women are the main participants in micro-loan borrowing. This is because women have a high repayment rate and contribute a lot to the welfare of the family (Bernasek 2003, Alejo 1993). In addition, some banks and credit institutions strategically address women only. Women are invited to information events some times labeled “ladies events” (Katja and Goetze 2006), though this is changing: men are also open to join micro-borrowing business, and many credit institutions with out prejudice lend to both male and female borrowers. Previous studies else where, such as Anyanwu (2004), in his study of Microfinance institutions in Nigeria noted that the bulk of credit beneficiaries were women, and about 97.4 per cent of the MFIs’ clients were women. According to Anyanwu (2004), MFIs do not only provide economic opportunities for women (marginalized group), but also view women

as better than men in managing meager resources and promoting micro-enterprises. This view point is also shared by Mayoux (1998), who asserted that women are much more likely than men to repay loans and to devote their earnings to serving the needs of the entire family. Likewise, Bernasek (2003), Pitt and Khandker (1998), argue that borrowing micro-loans by women enhance women's participation in economic development and there by elevating the socio-economic status of women. Therefore, my findings are not seclusion with other studies else where in the developing countries

I examined whether women and men within the household have equal opportunities to get loan facilities from credit lending institutions. It was revealed that a significant number 74 per cent of the respondents reported that women and men have equal opportunities to borrow. On the other hand, only 26.3 per cent indicated that women and men do not have the equal opportunities to get a loan. This means that majority of the respondents agreed that both men and women have equal opportunities to access micro-credit facilities.

I further expounded on the justifications given by some 26 per cent respondents who argued that women and men do not have equal opportunities to borrow micro-loans. The key question I was interested in was to establish who makes decisions concerning getting a loan from lending institutions with in the household. Data revealed that 31 per cent of respondents said that it is men who make decisions concerning borrowing and using micro-loan facility and 36 per cent indicated that it is only women who make decisions concerning access to credit within the household. On the other hand, 33 per cent of borrowers indicated that both men and women

together make decisions regarding borrowing and using micro-loans within the household. The table 7 below clearly illustrates a summary of the findings.

**Table 7: Showing Gender Relation and Decision Making**

<b>Location</b>	<b>Man</b>	<b>Woman</b>	<b>Both man &amp; woman</b>	<b>Total</b>
Rural	12	18	17	47
Urban	14	12	10	36
Total	26	30	27	83
	31.3%	36.1%	32.5%	100%

*N=120*

The main argument here is that women as active participants in borrowing small loans take part in making decisions concerning where, when and how much money to borrow. This is because women directly get micro-loans from credit institutions and are accountable to the lending institutions. Recent research has shown that the difference between men and women in terms of masculinity has reduced. Women may also display masculine attributes and act in what was traditionally considered a “masculine” way, in this case participating in decision making; borrowing and using micro-loans at the household level, Katja and Goetze (2006). This implies that women and men in this capitalist age equally engage in borrowing small loans and the traditional notion of women specializing in the private sphere as opposed to the public sphere is becoming history. Actually many credit lending institutions have mainly targeted women as the primary target group, though men are not exclusively discriminated. Though at the inception of micro-credit (Yunus 2004), women were the main target, presently many credit institutions have also opened the doors for men.

### 5.3 Gender Relations and Micro-credit Investments

In this section I investigated the gender relations in the household on the subject of using small-loans for investment priorities activities. First and fore most, to understand the gender relations about using micro-loans, I established whether in the same household, borrowers inform other members within the same dwelling in case of getting a loan facility. Table 8 below exemplifies respondents' point of view in the category of yes and no; whether people in the same household inform other members in the household about access to a micro-loan.

**Table 8: Showing Information Sharing and Access to Credit**

<b>Location</b>	<b>Yes</b>	<b>No</b>	<b>Total</b>
Rural	53	7	60
Urban	43	17	60
<b>Total</b>	96	24	120
	80.0%	20.0%	100.0%

*N = 120*

Table 8 above points out that, majority 80 per cent of the respondents informed other members within the same household about credit access and out of these 88 per cent were in the Nakigo SC and 12 per cent in the Iganga TC. Correspondingly only 20 per cent respondents said that they did not inform other household members about getting a loan facility. The above observations may not be a surprise because the analysis of survey data revealed that more than half of 71 per cent of the respondents were married and only 2.5 per cent had separated, with very few cases of single and widowed respondents. This means that married couples easily communicate to each other and discuss different issues as a family including matters related to borrowing and using micro-credit services. Indeed findings from FGDs disclosed that majority of the respondents share information concerning borrowing small loans with their spouses and

family members. For example a female FGD participant in Bulubandhe-Nandekula village explained that in her household they share information related to credit.

*I have to first agree with my husband and when I get the money, I informed my husband and agreed with him. We are married and if we share our bodies why not to share ideas which develop our family. A family which does share and discuss issues is bound to have instabilities and less development (FGD, Bulubandhi village).*

Another important observation about making decisions concerning borrowing money is that, most respondents in Nakigo Sc and Iganga TC contend that, since borrowing and using a loan facility is some times risky especially if one fails to pay back in time, it is a good practice to inform other members within the household about the matter. This is because in case of failure to pay back in time, other members in the household can help to mobilize money for repayment to avoid confiscating of collateral security; which in most case are household assets such as a house, home equipments and land among others. Most key informants and FGD participants argued that in Busoga just like other patriarchal societies, household leaderships and ownership of property is vested in the interest of the male head. FGD notes revealed that, it is improper for people in the same dwelling to engage other family members in critical issues such as one concerning getting and using micro-credit services. In this case, female FGD participants in Bulubandhi-Nandekula village and Bugumba B Zone in unison narrated their experiences that; before they get loan facilities from the respective lending institutions, they have to thoroughly discuss with their husbands and family members within their dwelling. This help them to legitimize the borrowing practice at the same time promotes social support. Key informants and FGD participants explained that it is good to inform other household members about access to credit, for example woman FGD participant in Bugumba B (Iganga TC) asserted that;

*Yes I always inform my husbands. It is important also to inform the husband, because if you fail to pay back, they may take some household items or the security you gave presented to the micro-credit institution (FGD, Bugumba B Iganga town).*



In addition, a Credit Officer from Bateesa SACCO in Iganga Town council also emphasized that;

*In our organization, when a lady comes for a loan, she has to make sure that the husband knows about it and is aware. So they both have control and some times the husband guarantees the wife*  
**(Key informant, Bateesa SACCO Iganga Town).**

Intriguingly, credit is ideally intended to benefit all members in the household. Usage of micro-loan facility directly or indirectly affects the wellbeing of the household members. It is that important for members within the same dwelling to share information about borrowing and using a loan.

In addition to the above, findings revealed that of the 120 household respondents, 14.2 per cent households had other members having also got a loan facility. Out of these 12.5 per cent said that on average, one others person within the same household had ever borrowed micro-loans and only 1.7 per cent mentioned that two members within the same household had also ever got a loan from micro-credit institutions in Iganga. This means that within a household, there was more than one person who had ever got a loan facility. The implication here is that household members share information concerning borrowing money. This in turn encourages other family members to also follow the same footstep and get loans. Further, it was also found out that members of the same dwelling place get loans from the same credit institutions. For example, for group loans people form solidarity groups as forms of collateral security.

Further, findings revealed the underlying reasons for some respondents not informing other members within the same households about borrowing and using micro-loans. Field results revealed that most respondents asserted that; it is not good to inform other household members matters about getting and using a loan facility because; on the part of men they are the head of

the households and that there is no need to inform other household members (male dominance) if they do so, it undermines their household leadership. In addition both men and women expressed fear that if they informed their spouses, they may end up influencing them to miss use the credit and divert it from the planned activity to other activities like buying household necessities such as food and clothing. I noted that most men in all the FGDs were narrating that; if the spouse is not trusted, they would not share with them such important information related to getting a loan. Given the fact that majority of the respondents are Moslems 36.7 per cent, polygamy and extended families are common practices, which affects the usage of a loan facility as there is stiff competition between and among household members for the limited proceeds from using a micro-loan facility. This means that members of the same dwelling would claim a share on the credit and its subsequent benefits. In polygamous families men expressed more fear that wives would demand a lion's share of the proceeds and benefits of using a loan facility, with a belief that the husband is over spending on the other co-wives especially the most "loved one". These issues seem to be obvious but should not be taken for granted because the success of a micro-loan borrower is not limited to mere getting a loan and invest it, rather it is complemented by efforts of others stakeholders in the social system as well as the immediate social support system of household members.

#### **5.4 Investment Activities in the Households**

This study examined aspect of decision making within the household in relation to the prioritization of investment activities for the usage of the borrowed money. In this respect, I asked respondents on the subject of who makes decisions concerning investment priorities of the loan within the household and the focus was on whether decisions concerning investment

activities are made by only men, women, both men and women or by the whole family as well and the table 9 below illustrates this clearly.

**Table 9: Showing Decision Making and Investment Activities**

Location	Man	Woman	Both Man and Woman	Whole Family	Total
Rural	14	17	27	1	59
Urban	13	24	22	1	60
<b>Total</b>	27	41	49	2	119
	22.7%	34.5%	41.2%	1.7%	100%

$N = 120$        $X^2 = 1.74 > P\text{-value} = 0.05$

Statistical figures from the table 9 above clearly show that majority of the respondents 40.8 per cent mentioned that decisions about investment of the loan facility are made by both man and woman in the household. Further analyses revealed that 34.2 per cent of the survey respondents pointed out that investment decisions are made by women only, 22.5 per cent said that such decision are made only by men and 0.8 per cent respondents indicated that decisions are made by both a man and woman and other members within the household. However, there were no significant differences between respondents who mentioned either of the above responses in the rural and urban areas in Iganga district given that ( $X^2 = 1.74 > [P\text{-value} = 0.05]$ ) at 1 degree of freedom.

I also scrutinized whether respondents both men and women within the household have equal opportunities to invest in the same businesses. Statistical data revealed that majority 74.2 per cent of the respondents in Nakigo SC and Iganga TC mentioned agreed to that and only 22.5 per cent rejected this; that men and women do not have the equal opportunities to invest in the same businesses. This means that both women and men have equal chances to invest in the same business activities without discrimination. Respondents further mentioned investment activities

like; operating retail merchandise selling, second hand clothing trade, market vending, saloon businesses, and charcoal selling as the most common business activities among others. In addition, responses from key informants indicated that men and women have equal opportunities to invest in the same businesses for instance a Credit Officer in BRAC testified that there are no differences in investment activities for both men and women.

*There are no differences in investment activities for men and women; men engage in retail business, lock up/shopping malls, trade in produce etc. While women also deal in retail businesses, farming, and poultry among others. Our clients have almost the same businesses (key Informant, BRAC Foundation Iganga branch).*

Participants in FGDs conducted in Nakigo SC and Iganga TC agreed that there are no differences in investment activities for men and women. For example a male FGD participant in Bugumba B explained that;

*Women invest in activities like Saloon business, second hand clothing, charcoal selling, food stuff trade and retail shop business among others and also men invest in activities like produce trade such as rice and second hand clothing trade. But some men can just get the money, rent houses and instead get wives (FGD, Bugumb B Iganga town).*

I observed that like the case of the Grameen bank, most MFIs target women as key beneficiaries (Bernasek 2003), but with time doors were opened to both men and women. That is why almost all lending institutions welcome both men and women to take up a range of their financial services. The users end up investing in various businesses of their choice so as to improve the welfare or their household. However, in some instances there are investment activities which are dominated by either men or women. For example saloon business is mainly done by women, while trade in produce is dominated by men, though this is not mutually exclusive and exhaustive.

This observation is a testimony for the gradual change in our social set up of our male dominated society. Traditionally men had different gender role from those of women. Women were for a long time associated to domestic chores like child birth and rearing, as opposed to the male counterpart who dominated the public sphere production (business and politics). But with the economic liberalization, the social setting has changed to include women in the public realm of business, as micro-entrepreneurs. The driver for this change is the economic liberation drive (De Beer and Swanepoel 2000), where demand and supply are the basis for resource allocation. Many people both women and men have open entry and exit in the business world, the only limiting factor is capital for investment and the business skills and knowledge for sustainable micro-enterprises.

None the less, a study on masculinity and femininity as predictors of financial risk taking revealed that masculinity is assumed to affect financial risk taking positively and femininity negatively. Higher value on the masculinity scale went along with higher financial risk taking Katja and Goetze (2006). This means that though there is equal gender opportunities to invest in the same enterprises, women tend to take up enterprises with minimal risk compared to men for example women with saloon business compared with men in general automobile spare parts which do not have that wide market compared to the former.

In addition, a number of complementary studies in developed countries show that women are more conservative in their investment decisions than men. For example, Bajtelsmit and Bernasek (1996), looking at United States private pensions, revealed that women hold a much higher proportion of their portfolios in fixed assets than men. Bajtelsmit and VanderHei (1997) also

found out that gender differences in pension decisions, with women significantly less likely to invest in employer stock and equities than men. Contrary, in the developing countries more specifically, a considerable body of evidence indicates that women's propensity to spend income under their control on family provisioning and children's nutrition is greater than men's (Blumberg 1988; Guyer 1988). For example, studies in India indicate that a child's nutritional level is positively correlated with the size of mother's income as well as food inputs from subsistence farming. Likewise in the Beti population of Cameroon, Guyer (1988) found that women, in addition to their food production, spent fully 74 per cent of their cash income on supplements to the family food supply, while men spent only an estimated 22 per cent of their income on food.

#### **5.4.1 Gender Relations and Proceeds/Benefits from Credit Utilisation**

In this section, I explored the gender relations in terms of benefits and enjoyment of proceeds of MC utilization (Bernasek 2003, Mayoux 2000). The study analysed whether both men and women in the household enjoy the proceeds/benefits from using a micro-loan facility. Survey data showed that a significant number 74.2 per cent of respondents agreed that both men and women equally enjoy the proceeds from MC and only 22.5 per cent mentioned the opposite. The above findings are in agreement with the definition of a households as; a person or group of people occupying a single dwelling, it includes all members of a common decision making unit; common residence that share income and other resources (Manser and Murray 1980, Floro and Seguíno 2002)). However, the definition is not absolute and that is why even in the findings there are respondents who indicated no and missing, as they do not agree that both men and women in

the household enjoy proceeds from the credit facility. This is because male dominance affects resource allocation and distribution within the household.

In addition, this study found that there are extra benefits that women get as a result of borrowing and using small loans. The table 10 below shows a summary of the response categories of the extra benefits that women get from credit utilization.

**Table 10: Showing Extra Benefits of Using Micro-loan Facilities**

<b>Extra Benefits</b>	<b>Response Frequencies</b>	<b>Percentage (%)</b>
Friendship and connections	84	24.1
Groups Formation	54	15.5
Skills Training	46	13.2
Advice from people	85	24.4
Prestige	16	4.6
Knowledge about Business	63	18.1
<b>Total</b>	<b>348</b>	<b>100</b>

*N=120 Multiple Response Categories*

From the table 10 above majority 24.1 per cent of the survey respondents asserted that friendship/ connections and advice from people were the major extra benefits women get from using micro-credit, in addition to other physical benefit like land as enumerated in the proceeding texts below. Other extra benefits mentioned by respondents were prestige, group formation/membership, skills training and knowledge about business among other. The above factors are hinged on the already existing social relations and networks. To illustrate this better, I present the narrative of testimonies by one female borrower in Iganga Town council. Deborah, a key informant in Bugumba B was appreciative and happy for the extra social benefits she has enjoyed as a result of accessing and using credit services from different MCIs. She is a single mother who started small and humble by joining a women micro-credit group in FINCA in 2008.

Down the road she managed to access credit from other MCIs; BRAC and now she is popular in the area and a chairperson of three women groups of borrowers in BRAC. Every Wednesday morning women converge at her home to settle their credit liabilities and there a credit officer from BRAC joins the group to collect the payments. She was proud of having many friends, advisers and business associates who have impacted on her life and that of her family. Deborah's testimony is almost shared by all women who were once downtrodden and excluded from the productive realm of society.

Other scholars like Mayoux (2001) also noted that social support and networks through group activities has a considerable potential to contribute to women's empowerment; as they are sources of economic and social wellbeing for the members. The relations built through credit groups also foster the development of trust which is essential for larger formation of all outside relations.

### **5.5 Outcomes of Micro-credit on Households Wellbeing**

Micro-credit for long has been discovered to have the potential to alleviate poverty among the marginalized poor populations especially in the rural areas. Small loans are essential inputs to increase the productivity of poor people at household level (Okurut *et al* 2004). Other proponents say that provision of credit is required to generate economic growth among the poor, however, assessing income changes and credit outcome is not easy (Erna 2006). In this section, I scrutinized the outcome of micro-credit on the household wellbeing, and the key question was whether or not MC has changed the welfare and standards of livings of the users in Iganga district. The entry point to this was to establish the major source of income of household



members. The table 11 below shows a summary of the major source of income in the households in Nakigo SC and Iganga TC.

**Table 11: Showing Major Source of Income in Household**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>
Commerce/Trade	45	38.1
Agriculture	30	25.4
Employment	29	24.6
Semi-skilled Services	14	11.9
<b>Total</b>	<b>118</b>	<b>100</b>

*N=120 Multiple Responses*

Table 11 above vividly shows that majority 38 per cent of the respondents said that commerce and trade which includes retail trade, deal in produce, second hand clothing, saloon/hair dressing business and charcoal selling as the major source of income and only 12 per cent mentioned semi-skilled service (casual labor) as the major source of income. Survey respondents as well mentioned salary/ wage employment, agriculture as other sources of income in their households. During the field visit, I observed many respondents in their business premises and some were found transacting business on the road sides and around there homes. Others are engaged in mobile trade like mobile markets locally known as “Akisoni” among others. As earlier noted, most people seek credit facilities for boosting income generating activities like business (Mogale 2007). Indeed according to Micro-credit Summit (1997), micro-loans are a few hundred dollars or less; used for small scale self employment projects like starting up a market food stall, buying livestock and catering businesses among others. The major argument is that trade and commerce or business has high income streams and profit margins more than other activities like semi-skilled services (Campion 2001). The revelation that trade and commerce is the major source of income in the household concur with Anyanwu (2004), who argued that 78 per cent of MFIs in Nigeria finance trading activities more than activities like farming. The most peculiar observation is that most micro borrowers invest in small income generating activities which

require small capital to start up. The challenge however is that can micro borrowers with micro-enterprises graduate to into macro enterprises. This is the expected goal of development though it does not come with ease. In my opinion borrowers need to change their attitude and transact with a wide goal of transforming their enterprises into big investments. Indeed according to the Faulu one of the MFIs in Uganda. Her name “Faulu” means success and it is the key to every one involved. A loan client is expected to have an attitude of expecting to succeed, encouraging one another on to success and to following their dreams and plans for their business.<sup>16</sup> This means that most MFIs though target a big customer base for their business, credit institutions are also concerned about the success and transformation of the clients. That is why MFIs unlike commercial banks offer also non-financial services like training clients in loan and business management skills.

However, it is worth noting that respondents reported having more than one source of income. Many households especially in Nakigo SC transact businesses as well as farming, poultry and other semi-skilled services. No household was found to specialize in only one income generating activity or having absolutely one source of income. Income sources overlap and change over seasons and geographical location. For example, I discovered that most people engaged in business during harvest season where people have more streams of income and at the same time engage in agriculture. There is flexibility in income generating activities carried out by low income earners; this practice has its own demerits in that people do not master and specialize in one given activity or business, worse of it natural factors like rains (seasonality) still determine the fate of human activities and household income.

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<sup>16</sup> Faulu Uganda Limited, [www.fauluuganda.com](http://www.fauluuganda.com)

## 5.6 Household income and Micro-credit

The main goal of micro-credit intervention to the poor and low income earners is to improve the welfare of household members (Navajas *et al* 2000 and Yunus 2004). In this regard, I examined people's rating of their household well being before accessing MC services in relation to the entire community. The rating was a long a continuum of very high, high, moderate, low and very low. The table 12 below illustrate a cross tabulation of sex and rating of the household well being before accessing credit.

**Table 12: Showing Household rating of well being before accessing credit**

Sex	Response		
	High	Moderate	Low
Male	5	11	19
Female	5	39	40
Total	10 (8.4%)	50 (42%)	59 (49.6%)

*N=120 Multiple Responses*

As illustrated in table 12 above, majority of the respondents described the wellbeing of their households as being moderate 42 per cent and low 45 per cent before accessing and utilizing credit services. Less than 5 per cent of the households portrayed their household well being as being very high, high and very low. This means that respondents could easily compare their wellbeing with the rest of the members in their communities.

On the other hand, I felt it necessary to give further details about this subject by enumerating the indicators people used to rate their household well being in relation to other household in the community. Below is a summary of the survey responses, mentioned by respondents in rating household well being.

**Table 13: Showing Indicators for Ranking Household Wellbeing**

<b>Indicator</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Size of Land	18	5.1
Ability to Pay school fees	82	23.6
Physical Appearance	11	3.1
Ability to Feed	99	28.2
Size of business owned	9	2.6
Ability to pay medical care	68	19.4
Ability to pay rent	1	0.3
Ability to service credit	5	1.4
<b>Total</b>	<b>351</b>	<b>100</b>

*N=120 Multiple Responses*

As vividly illustrated in table 13 above, majority of the respondents 28 per cent and 24 per cent asserted that ability to feed and ability to pay school fees respectively are the most significant indicators in rating household well being, as being high, moderate and low. Less than 5per cent argued that size of land, physical appearance, size of business owned, ability to pay rent and ability to service credit are key indicators in rating household well being in relation to other community members. Other indicators mentioned by respondents included but not limited to; ability to pay for medical care. For almost all people be it in Nakigo sub-county or Iganga Town Council, well being was rated in view of the above indicators.

However, I observed that respondents' rating of household wellbeing was not exclusive as the rating indicators were overlapping, with household members pointing out one or more of the above indicator measures along the continuum. In addition, the ratings vary according to area of residence and socio-economic status of the neighbor in the community and perceived indicator of rating. People could not distinctively and easily describe their well being as high, moderate or low, given the heterogeneity of their socio-economic background indicators. Some respondents in the urban setting who described their household wellbeing as moderate would as well be

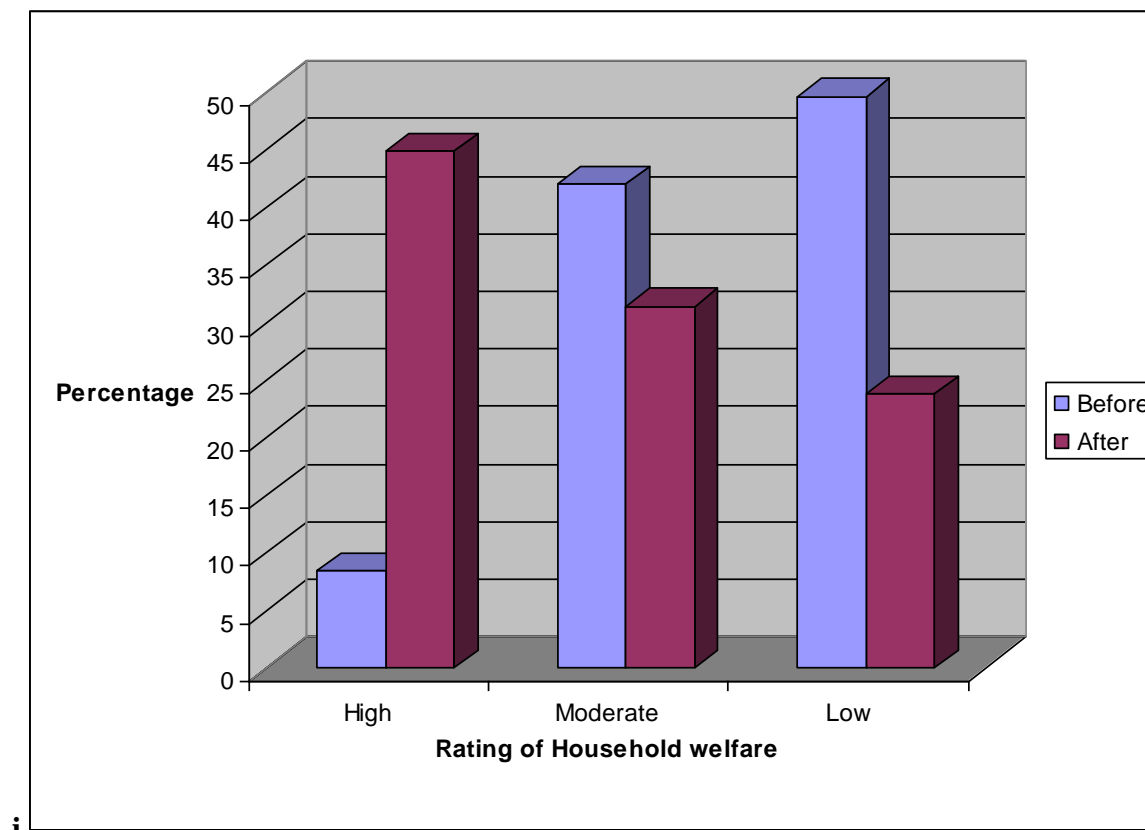
regarded as high or very high in the rural setting. Some of the reasons or indicators advanced by respondents for the above rating were almost the same, variation according to location, ambition, expectations, experience and exposure, which have the different rank value across time and geographical space. For example household members who rated their wellbeing as very high, high and moderate gave almost the same reason such as being able to pay school for the children, meet daily household needs, having daily income, ownership of household assets like land, television sets and having micro-enterprise for the family among other. On the other hand, household members who rated their wellbeing as low and very low argued that they have low income, no stable business or job and lack physical assets, and they could not ably meet the household needs like school fees for their children, medical care among others.

I was also interested in establishing the changes in household income as a result of micro-credit utilization. My findings revealed that 71 per cent of the households had experienced significant changes in their households because of credit utilization, and only 29 per cent declared that there were no significant changes in their households. This implies that majority of the households recognized that micro-credit had positively changed the income flow of their households.

In this study, I further assessed peoples rating of household wellbeing after using micro-credit facilities. The point of focus here was to compare the household rating of wellbeing before and after using the credit facility and figure 5 below shows the change in people's rating of household wellbeing before and after credit utilization. Findings indicate that after accessing credit, majority 41 per cent rated their household wellbeing being high, compared to 8 per cent who indicated high before using credit facilities. The other observation is that respondents who

indicated that their household wellbeing was low reduced from 45 per cent to 15 per cent before and after using micro-loan facilities respectively. In general household wellbeing improved with credit utilization interventions. This implies that households that borrow and use small loans were better off than their counterpart who had never used micro-credit services.

**Figure 5: A Bar Graph Showing Comparison of Household Wellbeing**



Micro-credit has a positive relationship; it impact on people's (especially women) income and bargaining power in the household (Yunus 2004 and Gugerty 2007). The strength of an individual's bargaining power is determined by material (economic) factors internal to the household which include owned assets, education, kinship, wages, and employment. The latter factors affect positions in household bargaining since they mediate the actual power that material resources will confer on an individual in the household. It follows that a relative improvement in

an individual's bargaining power which exerts an influence on the allocation of household income among alternative uses (Floro *et al* 2002). The increase in the number of women engaging in borrowing and using small loans has resulted in an increase in the contribution of women to the welfare of the household and the subsequent enhancement of women's bargaining power in the household. Women are now acknowledged as key players in the economy and decision making of the household.

### 5.7 Benefits of Micro-Credit Utilization at the Household

My area of interest is to unearth the benefits of using small loans to the household members. The point of emphasis is that; credit innovation ideally should improve on the welfare of users, especially women who are the most affected by poverty (Bernasek 2003 and Mayoux 1998). Findings revealed that there are several benefits attributed to using small loans; in form to physical assets and abstract benefits such as prestige and networks people gain among others. Table 14 below vividly shows the benefits of getting and using a micro-loan facility at the household level.

**Table 14: Showing Benefits of Micro-credit utilization at the household level**

<b>Benefit</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Household items	52	26.5
Business	39	19.9
Education/School fees	35	17.9
Friendships/Networks	28	14.3
Land or House	27	13.8
Bicycle	6	3.1
Prestige	6	3.1

*N=120 Multiple Responses*

Table 14 above shows that, majority of the respondents 26.5 per cent got household items from, 20 per cent established businesses and only 3.1 per cent reported having gained prestige and

bought a bicycle. Other benefits mentioned by respondents included education and school fees, friendship and networks and land or house. Almost all respondents revealed that they have benefited from using micro-loans, however micro the outcomes. The benefits also depend on how long one has used the credit services and how much he or she borrowed. Further analysis of FGD and key informants' notes also revealed that people have benefited from borrowing and using small loans for example a 38 year old female participant in an FGD in Bulubandhi-Nandekula village;

*There are some changes in my household well being, however, this comes as a result of one working hard. It can be there especially when one decides to buy a cow, build a house and uses it for small profitable business activities. Because of credit, I can now buy my own clothes and my business booming. There is a very great change because we have been able to buy household items, to pay school fees for our children, get business like saloon equipments, tailoring machines, bought cattle etc. Others have enjoyed their rights; in that if am working I can afford to buy household items, meet daily demands (water, food, sugar) and in so doing I demand less from my husband. This has given me freedom and increased love with my husband. You see men do not want demanding wives (FGD, Bulubandhi village).*

In addition, Monica a key informant in Iganga Town Council narrated her experience

*Yah, there are some significant changes, like for my case I bought a fridge for business, open up a shop for mobile phones in Namutumba town, and I also acquired some good seats in my seating room, on top of also paying school fees for my children. Think even am looking better (physically), because I can afford to look after my self even without my husband. She said this very softly, smiling and did not want her husband to hear since he was in the sitting room (Key informant, Iganga town council).*

Another key informant, a Credit Officer with BRAC Foundation Uganda also explained the benefits of using small loans.

*Yes, there are some clients who have even built houses, their conditions of living have improved, and others have bought house assets like bicycles, T.V sets, radio cassettes motor bikes, mattresses etc. There is a significant difference in the wellbeing of our clients, like when people come for the loans, they go and buy plots, pay school fees and those with small businesses have now expanded and members daily testify of these great changes. For example one teacher with salary loans, has improved on his wellbeing by buying some good household items (Key informant, BRAC foundation Iganga Branch).*



From the experience of the Grameen Bank; micro-credit increased the income of borrowers and led to the improvement in specific aspects of their lives and that it has the potential if used in conjunction with other progressive social and economic policies to contribute to long term sustainability of social change (Bernasek 2003). Micro-loan facility is not only needed by the poor people but is also profitable. Low income people make good and profitable financial services as such monetary transfusion (Erna 2006). Actually there is a philosophy that without borrowing and lending, it is almost impossible to prosper and realize big economic gains. Another interesting finding in the study is the absence of exclusive and universal measurements of the outcome and benefits of micro-credit because most times credit interventions are not always in isolation with other income interventions such as employment and agriculture in the households. Most times micro-credit intervention is a complementary strategy to the already existing avenues to improve household income. Even though there are benefits accruing from micro-credit, there are also negative consequences to using micro-loans. Other scholars including Hulme and Mosley (1996) argue that where some people think credit is another intervention to deeply sink the poorest of the poor in pool of poverty. In the study conducted in 13 MFIs in seven developing countries, they found out that household income tended to increase at a decreasing rate, as the debtors income and asset position improve. This raises a serious concern whether the poorest can benefit from borrowing and using micro-loan facilities (Diagne and Zeller 2001). It is important to assess the usage of micro-loan intervention with a view that not at all times and to all people small loans yield positive results to the borrowers. Some people can and have indeed reaped from using small loan, but on the other hand others have not benefited positively as expected. Therefore, the analysis of the outcome of micro-loan

intervention to the wellbeing of households should not be seen in one directional way as only being positive, but the reverse may also be true.

Therefore, micro-credit programs have the potential to contribute to women's empowerment. This study revealed that women play an active role of borrowing and using micro-loans within the household. Women have increasingly engaged themselves directly in micro-credit utilization and control over credit, although this is not always on a silver plate due to the male dominated social structure where women activities are constructed. Women, whose contributions in development frontier were not considered, are now actively engaged in productive micro-enterprises because of using small loans. This has contributed to the social setting and empowerment of women in the household and generally in the community. The male dominated paradigm is one such challenge to further women's empowerment and participation in the development of the household and communities, since men view it as challenging their orthodox position and monopoly in the public sphere. The other pertinent issue is that micro-credit boosts people's businesses and increases the productive capacity of poor people. Though the outcome of credit is not easily measurable, undoubtedly micro-credit contributes to people's wellbeing. But this does not negate the fact that the outcome of credit usage is not universal and always only quantitative. Since micro-credit usage at all times does not necessarily translate into improved welfare of the user, the proceeding chapter examines the operational and organizational capacity of the household members to effectively and efficiently use the loan facility in order to improve on the welfare of low income earners.

## **CHAPTER SIX:**

### **ORGANISATIONAL AND OPERATING CAPACITY OF HOUSEHOLDS**

#### **6.0 Introduction**

This chapter describes the organizational and operating capacity of respondents to use small loan facilities effectively and efficiently so as to improve on the household wellbeing. It also covers issues of entrepreneurial skills of respondents, the credit investment activities, training and constraints in using small loans.

#### **6.1 Organizational Capacity of Household Members**

Many times people look out for credit to boost their businesses and different MCIs are readily available to grant credit to such people. The paradox however is that many poor people though in dire need for micro-credit facilities, the challenge is whether they have sufficient skills, qualifications and business training to effectively use the facility to enhance their income levels (Mandre 2009). Respondents were asked about the individual and group organizational capacity in relation to uptake of micro-credit services: how they organized themselves before getting micro-credit services. Findings revealed that respondents organized themselves into either groups or as independent individual persons before borrowing loan facilities; approach loan institutions and get loans without necessarily forming a group(s). I discovered that majority of the respondents 64.4 per cent formed credit groups before getting loan services. On the other hand, 33.9 per cent of respondents get loan facilities as individual persons known as individual loans. In general, majority of the respondents who reported having got a loan; whether as a group or individual persons, females were (70 per cent) compared to 30 per cent of the males. This means that group loans favour mostly women because they are the most poor and property less

compared to men (Mayoux 1999, Bernasek 2003). Even where women ought to have property, the male dominated social structure has always denied them the absolute right to property.

Furthermore, study findings showed that majority of the survey respondents accessed group loans with 56 per cent and 44 per cent of the respondents in Nakigo sub-county and Iganga town council respectively. The second category of credit which respondents reported having got is the individual loan with 37.9 per cent respondents in the Nakigo SC and 62.1 per cent in Iganga TC. The above statistics revealed that majority of the respondents use social support in form of group solidarity to access MC just like other scholars (State 2008, Yunus 2004 and Okurut *et al* 2004) noted. In addition, results about demographic characteristics of respondents revealed that; female respondents prefer group loans 63.4 per cent compared to the male counterpart 31.4 per cent. The table 15 below shows the details of the relationship between sex and type of loan got.

**Table 15: Showing Sex Composition and Type of Loan**

Sex	Type of loan		
	Group Loan	Individual Loan	School Fee
Male	11	20	2
Female	52	26	0
Total	53.8%	39.3%	1.7%

N=120

Like previously noted group loan are preferred by most low income earners because it take into account the socio-economic status of the poor people (State 2008, Bernasek 2003). Indeed ethnographic data from key informants revealed that group loans are preferred by poor people to individual loans and school fess loans, for example a Credit Officer in BRAC Uganda limited narrated that;

*We offer all types of credits, but mostly group and individual loans are preferred by clients. Individual loan is especially given to men because they have property a collateral security. Group loans especially for women in groups of 20-50 year of age. But we also have agriculture*

*loan; inform of seeds given out to farmers and after harvest farmers pay back. Other services we provide are computer training especially for youths, tailoring machines given out reproductive health for youths such as Netball (Key informant, Iganga town).*

Another credit officer in Bateesa SACCO also explained that;

*There are different kind of Loans or credit in Bateesa; such as salary loan, school fees loans, business loans, cash loans, group individual and assets loan such motorcycle and household items; but we give the clients money to go and buy those items (Key informant, Iganga town).*

I further found out that the choice of the credit facility and the lending institution depends on the client's capacity to borrow in terms of collateral security and the ease to service the loan. The fact that most of the poor people lack physical collateral like land, group solidarity (group loans) is always preferred by the poor people. Indeed the influx of MFIs in the late 1970s, with the flexible approach of group solidarity as collateral attracted many poor to seek micro-credit as a poverty alleviation strategy (Yunus 2004, Mayoux 2001, State 2008, Daley-Harris 2007). In this regard, most low income earners easily get loans from MFIs because the financial services of microfinance institution demand less collateral security. Group solidarity which is affordable and a common collateral presented by most poor people in relation to the flexibility of MFIs: easily accepted has motivated many poor people to scale up the take up of small loans.

## **6.2 Operating Capacity of Household Members**

The focus here was to examine household operational capacity to effectively and efficiently use MC. Planning and having a strategic business plan is vital for the success of any business. Business strategic planning many times determines the micro-entrepreneurs courses of action and prioritization for investment activities. In this regard, I asked respondents whether they use credit for the planned activity. Study findings showed that majority 95 per cent of the survey respondents indicated that they use credit for the planned activity and less than 5 per cent said that they did not use credit for the planned activities.

I further asked respondents to enumerate the activities where they invest credit; whether they have a business plan for the investment activities. Findings revealed that most respondents (57.1 per cent) said that credit is invested in trade and business and 24.4 per cent use micro-loan facilities for education. Other activities mentioned include but not limited to; agriculture, meeting household necessities, health related activities and paying off debts, building houses, buying land and paying rent. Further, the above observations support the assertion by Okurut *et al* (2004) that; MFI give low income earners loans so as to overcome the financial inadequacies and in his study about credit in Uganda, 60 per cent of the micro-credit clients got loans for business and to boost agriculture production. But also they found out that clients use small loan facilities for education purposes, in form of human capital development and other reasons for credit included housing, health and household consumption.

Although 95 per cent of the respondents said that they used the credit for the above mentioned planned activities, many did not have business plans written down on paper. Micro-credit users in Iganga district claimed to have business plans, but none could show it on paper, they simply have the plans in their mind/brains as abstract thoughts and proposals. Additional information from credit officers in BRAC and Bateesa SACCO revealed that majority of the MC clients do not have business plans written down. This is a risky practice because human memory is not absolute; it is subject to memory loss due to age, disabilities and sickness. Failure to have proper business strategies and formal plans written down or documented results into failure to communicate the business vision to all team members, which affects business sustainability (Harvey 2009). In deed as the old adage goes “if it is not written, it did not happen”. Therefore, many household members though claimed to have “business plan” in their minds there is no

evidence to this claim. Perhaps the reason for this unprofessional practice is because of the low education levels of most respondents, since over 75 per cent had a maximum of primary and post-primary education levels. This explains the high failure rate of many micro-enterprises in Uganda as the case is for many developing countries.<sup>17</sup> This means that there is high rate of new enterprises but at the same time there is also high business failure rate of newly formed micro-enterprises registered. As Rukunga (1999:16) and Mogale (2007:346) noted that the failure rate could be due to low operating capacity (unpreparedness) of people to manage businesses. Some people go into business by choice; others are forced into business by circumstances such as poverty, but with not clear business plan for sustainability. Aijukwe (2009) a Business Development Manager with MP Uganda appealed to borrowers that; the key to business is to have a good idea, be willing to take a risk and have a business plan, rather than doing business by chance.

### **6.3 Enhancing the Capacity of Households**

Access to credit can help to improve the wellbeing of users only if accompanied with other complementary inputs like business skill training and development (Nachiket and Bindu 2008). In this study, I point out the issues of training micro-loan users before accessing credit facilities. In this section, I asked respondents whether they got any training about using small loans. Findings revealed that 70 per cent of the survey respondents had been trained before being granted credit and only 30 per cent did not get any training related to borrowing and using micro-loan facility. The training is intended to build the capacity of credit users to effectively manage and service the credit, at the same time sustain their families. Equally so, survey respondents mentioned that they were trained by credit officers, banking officers or any MCIs' agents; from

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<sup>17</sup> Global Entrepreneurship Monitor Report (2004)

lending institutions such as FINCA Uganda, BRAC, Pride MF, Faulu Uganda, Finance Trust Uganda and other SACCOS among others, which provide micro-credit to over 80 per cent of the poor and low income earners (Johnson and Rogarly 1997 and OKurut *et al* 2004). In this regard, it is worthy to explore an over view of one credit institution and in this case BRAC Foundation Uganda. BRAC an international development organization began its operation in Bangladesh as a small-scale relief and rehabilitation project in 1972 to help the country overcome the devastation and trauma of the liberation war. Its primary focus was on the resettlement of refugees returning from India. Today, BRAC has emerged as an independent, virtually self-financed paradigm in sustainable human development. It is one of the largest Southern development organizations employing over 100,000 people, 61 per cent of which are women, and working with the twin objectives of poverty alleviation and empowerment of the poor. Diagnosing poverty in human terms and recognizing its multifaceted nature, BRAC approaches poverty alleviation with a holistic approach. BRAC has expanded its development interventions beyond borders as it now thrives to build resources across communities (BRAC Uganda Iganga Branch), indeed a Credit Officer in BRAC testified that;

*In my view, BRAC begun in Bangladesh with the provision of blankets, food; as a result of the humanitarian crisis in the country (famine and hunger) then. With time BRAC opened up the system of providing credit to the poor people. But now (2009) it has expanded her services to include agriculture (provision of seeds on credit to farmers), reproductive health to adolescents and education (Key informant, Iganga town).*

I further established the types of training credit users get from MCIs before accessing credit. Findings indicated that majority 55.1 per cent got training on loan servicing, 31.9 per cent in business skills/ book keeping, and less than six per cent got trainings in marketing/customer care and investment activity prioritization. Other trainings mentioned included training related to rules and regulations of credit lending institutions, insurance and health issues. Data from a male



FGDs participation in Bugumba B Iganga Town Council explained that most small loan users get some training before accessing credit facilities.

*Yah, we are always trained especially on how to service the loan, how to get involved in business, how the lending institutions work (rules and regulations) for example all credit institutions do not recognize deaths, sickness in the pay back schedules. The training is done by the 'teachers' (Credit Officers). They teach us some accounting skill, business skills, the culture of saving at household level (FGD, Bugumba B Iganga town).*

Furthermore, a Credit Officer in BRAC Uganda noted that clients are trained before accessing credit.

*In BRAC we begin with the survey level and at the survey level; before the credit is given to the clients, trainings are done. The credit offers go to the credit groups in their localities and train group members. The trainings focus on how to utilize the loan, pay back regulations, and business skills and management, especially for the villages where majority of the clients are farmers who do not have high education qualifications (Key informant, BRAC foundation Iganga branch).*

In addition, a Credit Officer with Bateesa SACCO in Iganga Town explicitly narrated the capacity building process of micro-loan borrowers, so as to enable borrowers to efficiently and effectively use the loan facility to the benefit of the household.

*We train them, even last week (23<sup>rd</sup> March 2009) we had a training of heads of groups or chairpersons. These groups' chairpersons then train the other members of the groups. We have also partnership organizations like Southern Eastern Private Promotion Enterprise (SEPPE). This partner organization helps us in capacity building; it is involved in training organization staff and organization members. The staff is trained on their roles and responsibilities and member are trained on how to run their businesses. They train them about the operation of micro-credit i.e. the management of the credit, and to always stick to one micro-credit institution. They are also trained in credit servicing. The Association of Microfinance Institutions of Uganda (AMUFU) is also our partner organization, which trains our staff, who later trains the clients. Microfinance Support Center also helps us in capacity building and financial assistance. They train staff members and credit group members, and give financial assistance in form of credit to our organization and from some of this money we also extend micro-credit to our members (key informant, Bateesa SACCO Iganga).*

Capacity building of beneficiaries about micro-credit intervention is very important for its sustainability. It is ideal for the beneficiaries to be equipped with the necessary knowledge, skills and training so as to make it sustainable. Business skill training does not only build the capacity of credit users, but it also promotes the sustainability of the credit industry as a whole. However,

this training should be tailored to the needs of the beneficiaries and not superimposed on the clients. For example, training on savings, business management and marketing ought to be tailored to the type of business of the borrowers.

According to Mandre (2009) while arguing for micro-business initiatives, he challenges micro-entrepreneurs whether they have what it takes to start up a business, arguing that one ought to consider his/her qualifications to run business. Technical know how and experience are critical issues in question, because the success of the business revolves around that. In addition, Brown (2009) argues that micro-credit institutions need to strengthen their non-financial business services they offer like management and assist in business development. They should avail relevant business skills training to the poor people, so as to enhance their operating capacity to effectively and efficiently use the credit to transform their household well being. Indeed Nachiket and Bindu (2008) asserted that access to MC can help to alleviate poverty and improve on household wellbeing only if accompanied with other complementary inputs: typically training and skill development interventions; such as business skills and knowledge of the micro-entrepreneur for sustainability. Similarly, Rukunga (1999:16) also emphasized that for any business; be it sole, partnership or a company to be successful, no matter how small and humble when started may grow over time depending on the determination and managerial skills of the entrepreneur. This may raise awareness of the services, marketing strategies and benefits of micro-credit and returns to investments. The challenge however is that majority of the MCIs trainings offered to clients are basically about credit servicing, ignoring other critical aspects like book keeping and business planning, records keeping and management. While training and capacity building of borrowers is important, the capacity building strategy is not tailored to the

skills and knowledge needs of the clients. The trainings are designed, implemented and delivered by the MCIs with little or no involvement of the clients in the process. Of great concern also are the methods of evaluation of the trainings if any: do the MCIs evaluate the borrowers' application of the skills and knowledge gained, how and when this is done are serious issues which need further investigations.

#### **6.4 Building the Capacity of Micro-Loan Users**

There is need to build a strong human resource base if the war against poverty through micro-credit innovation is to be successful. This study explored the different measures adopted by household members to build their capacity to use MC effectively. In this case, I asked respondents whether a loan officer, bank officers or any MCI agents had ever visited their household in the recent past, at least in the last one year, or had respondents ever visited and consulted any credit officer. Findings revealed that most respondents 75.8 per cent of respondents in both Iganga Town Council and Nakigo sub-county either a credit officers had ever visited their household or and business premises, or they had ever visited the credit officer. Only 21.7 per cent said that no credit officer had ever visited them and equally so they had never visited or consulted any credit officer regarding credit utilization in the recent past. In addition, I analyzed issues respondents discuss with credit officer when visited. Findings revealed that 38 per cent of the respondents indicated that the main issues discussed with the credit officers is loan servicing, 14 per cent indicated that credit officers visited household to assess their collateral security, 16 per cent mentioned business management consultation and 13 per cent mentioned that they consulted MCI agents/ credit officers about issues related to borrowing a small loan. Respondents also mentioned that Credit officers visited their household to check on

their business progress and place of residence. Though MCIs emerged to help poor people to exit poverty, they are also concerned about their sustainability that is why credit officer visit clients mainly to check on their business premises, collateral security and place of residence to track defaulters. The visits and consultation are evidence of confidence building and trust between and among credit users and micro-credit lending institutions. This process is costly to MCIs as it involves several movements of the technical staff to carry out the activities involved such as follow up on clients for payments and monitor business progress. Studies else where for example Siyongwana (2004), show that informal money lenders in Limpopo and Cape Provinces in South Africa also noted that agents of informal money lending groups visited the borrowers at their residences or place of work to collect money. However, as most respondents indicated, credit officers are mainly concerned with clients' ability to service the loan and business progress. Yet many clients are still in dire need for other skills training like business strategic planning, marketing, investment identification and prioritization, book keeping and other skills related to loan usage and business management.

I further enumerated the different suggestions that respondents proposed to improve on the operational and organizational capacity of the household in order to run their businesses efficiently and effectively. Table 16 below shows that majority 12 per cent of the respondents suggested that in order to improve the operational and organization capacity of household members to use the MC facilities effectively, there is need to have a business plan, invest in the planned activities, good book keeping practices, clients should have a business mind, MFIs/MCI should charge low interest rates and training of clients is another yet good practice mentioned by respondents. The table 16 below clearly illustrates respondents' suggestion to that effect.

**Table 16 Showing Suggestions to improve Micro-Credit Utilisation at Household Level**

<b>Suggestions</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Have a business plan	19	11.9
Invest credit in Planned Activities	18	11.3
Good book keeping, auditing & monitor business	15	9.4
Business minded and hardworking	14	8.8
MFIs/MCIs should give reasonable pay back period	14	8.8
MFIs should charge low interest rates	13	8.1
Training before	12	7.5
Avoid overspending	9	5.6
Invest in profitable business	8	5
Enhancing small scale IGAs	5	3.1
Have a saving culture	5	3.1
Start with small credit	5	3.1
MFIs reduce on security	4	2.5
Savings in MFIs you trust	2	1.3
Government to monitor MFIs' operations	1	0.6

*N=120 Multiple Responses*

As shown in table 16 above, the tabulated responses if taken into account by credit users and lending institutions may subsequently results in the improved capacity of household to use credit to the benefit of the users' well fare at the same time sustain lending institutions in business. Further, findings from key informants showed that respondents are interested in borrowing and using micro-loans, but also they are mindful of the dynamics accruing to using borrowed money for business. For example a male FGD participant in Bulubandhi-Nandekula village noted that;

*... reducing on the months so as to manage the loans, help us to reduce on the interest rates so as to make the lower income earners to go in for the loans. Avoiding taking the other members' property/assets in case one member of the group members fails to pay back, avoiding grabbing the other members' savings in case of defaulting, government should come up to increase the license fees charged on these institutions, because they also over charge us with the interest rates and should always make checks and monitor MFIs (FGD, Bulubandhi village Nakigo sub-county).*

Further, internally credit users ought to organize themselves and plan for the credit, but also externally the credit institutions should tailor their services to the needs and circumstances of the

clients, in a more suitable and sustainable way for the mutual benefit and credit lending institutions.

In general, the sustainability of micro-credit interventions depends on the organizational and operational capacity of the beneficiaries to effectively use small loans for the planned activities. This study revealed that MCIs empower clients with some elementary skills through trainings in credit utilization and management and this has enabled many MC borrowers to use the facility. However a lot has to be done in terms of building the capacity of household to use MC facility, given the level of education where majority of the citizens have no business qualification and experience. Micro-credit institutions and other lending institutions need to tailor trainings to the learning capacity of the majority poor who have low education. It would be actually important for the MCIs to focus more on business management and investment prioritization. Because once the users' capacity is built and enhanced through business skills training, they can properly manage micro-business; realize income and timely service the credit. Another appeal is for the borrowers to not only join credit groups to access the facility, but rather build group membership and social support systems, as conduits for exchange of information, knowledge, experiences and skills of using micro-loans and business management.

## **CHAPTER SEVEN:**

### **CONCLUSIONS AND RECOMMENDATIONS**

#### **7.0 CONCLUSIONS**

This study was about micro-credit utilization and its impact on the wellbeing of household members in Iganga TC and Nakigo SC as urban and rural communities in Iganga district respectively. In this chapter, I present the conclusions regarding to borrowing and using micro-loan facility and its impact on the household wellbeing. The thrust of the discussion was based on the main objectives of my study; to examine people's perceptions and attitudes towards credit utilization, gender differential access to credit, the operational and organizational capacity of credit users and the outcome of micro-loan on the income of the households. Finally, I have pointed out key areas for policy recommendations and further research.

#### **7.1 Perceptions and Attitudes and Micro-Credit**

The macro-economic stability, increasing population density in both rural and urban areas of Iganga district and Uganda in general has provided a conducive investment environment for MFIs. The increase in the enterprising level of many Ugandans has resulted in the increased demand for micro-loan facilities by many low income earners. Thus, the population's experience with informal financial sector has culminated in the willingness of many borrowers in Iganga to take up loans for business purpose and other related activities so as to improve on household wellbeing.

Credit utilization is among the many mitigation measures for the low income earners in Iganga to exit poverty and improve on the household wellbeing. Individual and societal perceptions, attitudes, cultural beliefs and religious practices concerning usage of small loans affect people's up take micro-loan facilities in both rural and urban communities in Iganga district. A strong poor saving culture, high social dependence syndrome and people's connectedness through social network system should not be taken for granted as far as micro-loan usage is concerned. But rather many low income earners have been able to get loan facilities from credit institutions because of the strong group solidarity which is social collateral security for most low income people in Nakigo and Iganga town council. Social support (solidarity) through group membership has enabled many poor people to access credit facilities, since most poor people are propertyless and voiceless, as such they lack formidable physical collateral security like land title. This means that social ties; group membership is conduits for the poor people to get micro-loans from lending institutions (MFIs) for investment. Group loans thus form a bulk of the credit package for most borrowers in Iganga as it is affordable and easy to service, not negating the risk of defaulting members who in long run make it had for the other group members to service the credit facility.

A micro-credit facility no doubt is a good innovation for the low income earners of our society, as it enhances the productive capacity of the poor to participate in income generating activities. For a long period of time commercial banks neglected the poor members of our society who lack conventional collateral security like land title; on realizing this gap, MFIs came in to extend affordable and easily payable loans to poor people through micro-loan schemes. Micro-loan as a result enable low income earners especially women in Nakigo sub-county and Iganga town



council to expand and develop their income generating activities, enhances bargaining power of women and interests within the household and support payment of household necessities like food, medical care and education among others, there by contributing to the welfare of the household. However, borrowers should be careful of the exploiting micro-credit lending institutions to avoid losses like the case of Front page and Victory MFIs which cheated borrowers in Iganga by running away with their savings.

Household members have some cultural heritage in terms of beliefs and religious practices relating to borrowing and using small loans; in which they were oriented since childhood. Participation in micro-credit intervention is influenced by the attitudes and perception of people, complemented by constraints like high credit cost, lack of collateral security, high interest rates and the geographical distance from the credit lending institutions for the case of rural communities. MCIs are seen to operate with in the confines and needs of the majority poor so as to uplift the standards of living. I conclude that there are socio-religious beliefs concerning borrowing and using credit. Among the Tablique Moslems, credit with interest is unholy “haram” and the Quran is against borrowing. There are also some folkways held by some people that credit is an “omen” to the family especially where the forefathers (grand parent) were “prosperous” but never engaged in borrowing money for business and some believe that borrowing a loan breeds poverty in the household as one may fail to pay back and the collateral security is taken by the lending institution. In my view the above beliefs and practices can not be neglected because the up take of loan facilities by low income people is informed by the social cultural beliefs; attitudes, perceptions, beliefs and practices.

## **7.2 Gender Access and Use of Micro-loan Facility**

Gender relations within the households affect the usage of a loan facility. Since its inception, micro-credit has supported a bulk of poor people especially women, whose productive capacity for long has been taken for granted in a male dominated society like that of Iganga and indeed most developing communities. To day, majority of the MFI clients are women but most importantly both women and men have equal opportunities to get and use a loan facility. As far as decision making is concerned, majority of men and women within the household jointly make decision to borrow and use small loans as a joint effort to mitigate poverty. There has been a change in the social setting in rural and urban communities in Iganga, the hitherto down trodden female sex have a strong stake in the household welfare and the general production process. Women who use credit facilities contribute to the welfare of the household and influence decisions in the family and complement on the contribution of the male counterpart.

Men and women with in the household in Iganga district both in rural and urban communities engage in a variety of investment activities (income generating activities). Both men and women have equal opportunities and indeed invest in the same micro-enterprises with in their reach. The key investment activities engaged in include but not limited to retail merchandise trade, selling second hand clothes, market vending, saloon businesses and trade in produce. This free participation in investment activities is propelled by the liberation drive where all players have free entry and exit in business. However, the ruralites in Nakigo sub-county go in Iganga town to transact businesses given the large market base in the later.

In addition, users of micro-loans enjoy a pool of benefits; ranging from physical assets like acquiring land, household items to more abstract benefits like connections/networks, prestige, skills and knowledge among other. Majority of the propertyless and voiceless poor people, after using a loan testify the landmark in their lives and generally the welfare of the household. Women in particular have benefited a lot from credit usage, as many contribute to the welfare of the family. This means that despite the few negative aspects of using small loans such as high interest rate and group members defaulting, it has the potential to contribute to women's empowerment within the household and the community as well. However, this has not come on a silver plate, given the fact that the male dominated paradigm still challenges such efforts.

In addition, micro-loan facilities have enormous outcomes to borrowers at the household level in both the rural and urban communities in Iganga district. Borrowing and using micro-loan has increased on the capacity of the poor to overcome financial vulnerability. Many credit users have ably met household needs like food, medical and education hence improvement in their standards of living. Micro-credit has boosted businesses and many micro-entrepreneurs owe success to borrowing and using micro-loans. Indeed majority of the borrowers in Iganga rated the wellbeing of the household as high and moderate after credit utilization as opposed to low and moderate before using credit facilities in the household. However, the outcome of credit usage varies from person to person, time to time and across households. People of different socio-economic status, knowledge, experience, exposure and geographical location; either rural or urban setting have different success stories concerning micro-loan usage. There are some constraints to using micro-loan facilities; like high interest rates, little time of repayment, but no doubt that micro-

credit usage in both rural and urban household has positively contribution to the wellbeing of many people in Iganga district and Uganda as a whole.

### **7.3 Organization and Operating Capacity to Use Micro-Credit**

One of the most important aspects in borrowing and using small loans is the organizational and operating capacity of credit users to effectively put to use micro-credit facilities. As a way of easy access to credit, many poor people in Iganga form credit groups (solidarity group) which are a form of social collateral. Since poor borrowers “lack property” and other physical collateral, group solidarity is the basic asset to get a loan from MFIs. The group membership is hinged on social capital and network relations such as friendship, workmates, relatives or and people living in the same dwelling (neighbors). Therefore, unconventional collateral security is the main collateral security majority of poor people present to lending institutions in order to get a loan facility.

Secondly, my study revealed that credit users in Nakigo sub-county and Iganga town council have some “sort of plan” as a guide to effectively invest the loan facility. The planning strategies are on the basis of investment activities (priority investment activities) of borrowers. However, though many micro-loan borrowers claimed to have business plans for the income generating activities engaged in, many hardly had the plans written down on paper. Many borrowers have business plan strategies for using micro-credit but the business plans are in abstract form of thoughts, imaginations and mental images or dreams which would ideally not be regarded as plans in the contemporary business administration and management. But this should be

appreciated in line with the socio-economic context, education background, training and experience of borrowers.

The growing competition of MFIs and other credit lending institutions has forced microfinance institutions to become more concerned with client's needs, there by providing quality services like; training credit user is one such service offered. The trainings are offered by officers (loan/credit officers locally called “Musomesa” meaning teacher) from lending institutions such as FINCA, BRAC, Faulu Uganda among others. Most MCIs and MFIs offer knowledge and skills in business management and loan servicing to clients before extending financial services to clients. The knowledge and skills offered to clients mainly focus on credit servicing, MFIs rules and regulation business management and business investments planning among others. This is geared towards building the capacity of the borrowers to effectively put to use micro-credit facilities for the benefit of the households. Loan/credit officers and agents from MCIs ought to ensure that clients have the capacity (skills and knowledge) related to credit usage and handling of loan facility for the sustainability of micro-loan intervention, though a lot need to be done to that effect. Occasionally, agents from credit lending institutions check on and visit clients' business premises, workplaces and places of residence to ascertain their collateral security, business plans, business progress and loan servicing strategies. This practice is intended to reduce on the defaulting rates of clients at the same time help clients to be accountable for the credit facility granted and as a corporate responsibility for the credit institutions towards the clients.

In addition, I noted that though low income earners in Iganga district are in dire need for micro-credit services serious caution must be taken in this pursuit. Intending credit users should first and foremost have a plan for the credit, invest it in the planned activities, have proper accountability like book keeping, have a business mind (saving culture) and above all appreciate the terms and condition of lending institution such as interest rates charges, time of pay back and the required collateral security, but this is not sufficiently evident among the borrowers in Iganga district. Imperatively, the sustainability of micro-credit initiative is upon the preparedness, training, knowledge, skills and experience of credit users so as to have formidable outcomes of improving the wellbeing of household members.

#### **7.4 Policy Recommendations**

Micro-credit is a leeway for the poor to exit poverty. It enables the financially less fortunate members of our society to overcome financial inadequacies. I thus recommend the following policy issues. For credit lending institutions to further penetrate and reach out even to the poorest of the poor in both rural and urban areas. There is need to appreciate the socio-economic conditions, knowledge, attitudes, perceptions and cultural beliefs and practices of credit borrowers and a critical consideration of the above issues raised will enable lending institutions to tailor their financial services to the needs of the clients and low income earners in the developing communities. For example rural area have strong networks with strong social or informal networks than urban areas, lending institution should tailor there services this reality in order to scale up the level of credit up take by folks in the rural areas.

Secondly, gender relation is critical for any development initiative to be sustainable. Initially, micro-credit targeted women as a marginalized group in the male dominated society. My appeal is that this struggle is not yet done; further credit facilities should be extended to women especially the less educated and in the rural setting. Empowerment of women is not merely a point in time but rather a continuous process in development. More focus is needed in empowering women to not only take up loans but also have control over the usage of micro-credit facilities and enjoy proceeds from credit facility investment.

Thirdly, in this contemporary world, strategic planning is one such value for any individual and organization. Majority of the poor who access credit are less qualified to effectively and efficiently use credit. Therefore, I seek to recommend that further training in business management, work ethics, professionalism and entrepreneurship are imperative for the sustainability of the credit business. Most MCIs though provide elementary training a lot has to be done in that more capacity building of the borrowers is needed to sustainably manage the micro-enterprises and subsequently be able to service the loan without strain. Such training initiatives should not be limited to MCIs but also through the credit solidarity groups to constitute themselves into information and experience sharing social support system (though social networks are mal-functional). This means that SACCOs, ROSCAs, gift circles and other credit groups should complement on the capacity building initiatives of micro-credit institutions.

## **7.5 Recommendations for Further Research**

I have identified a number of study areas for further investigations. Future studies should put into consideration a wider geographic scope; extend the study to all districts in Uganda and across

regions. Other critical issues for further investigations would include but not limited to; examine the sustainability of microfinance institutions in the provision of micro-credit, the sustainability of micro-enterprises due to micro-credit. Further interest should be on exploring the comparison of credit initiatives in developing and developed countries. My conviction is that future investigators would be interested in the between government regulatory framework and the operations of MFIs and other credit lending institutions in the developing countries. Lastly, future researchers need to evaluate the influence of social support and social networks on credit utilization in rural and urban settings.



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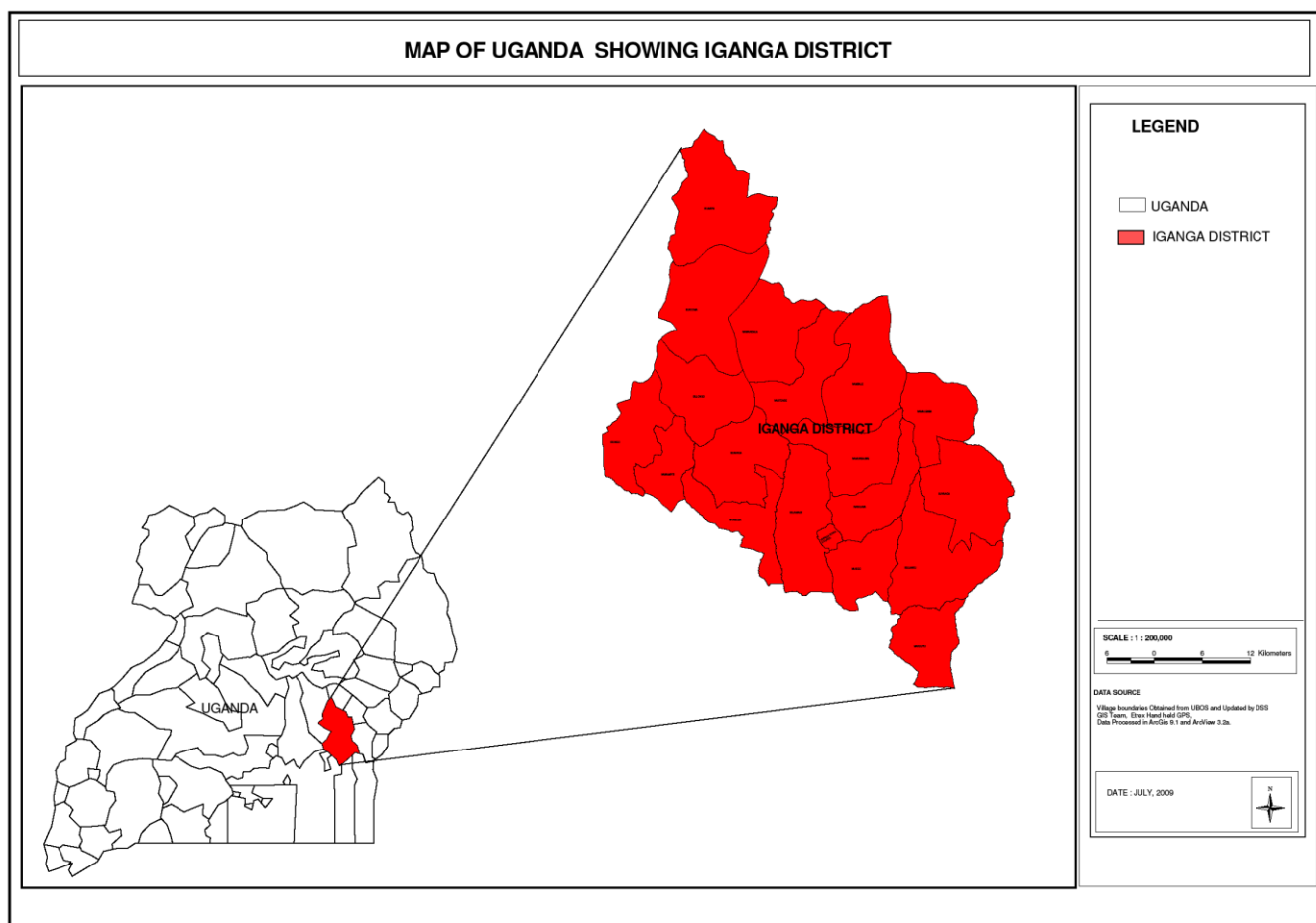
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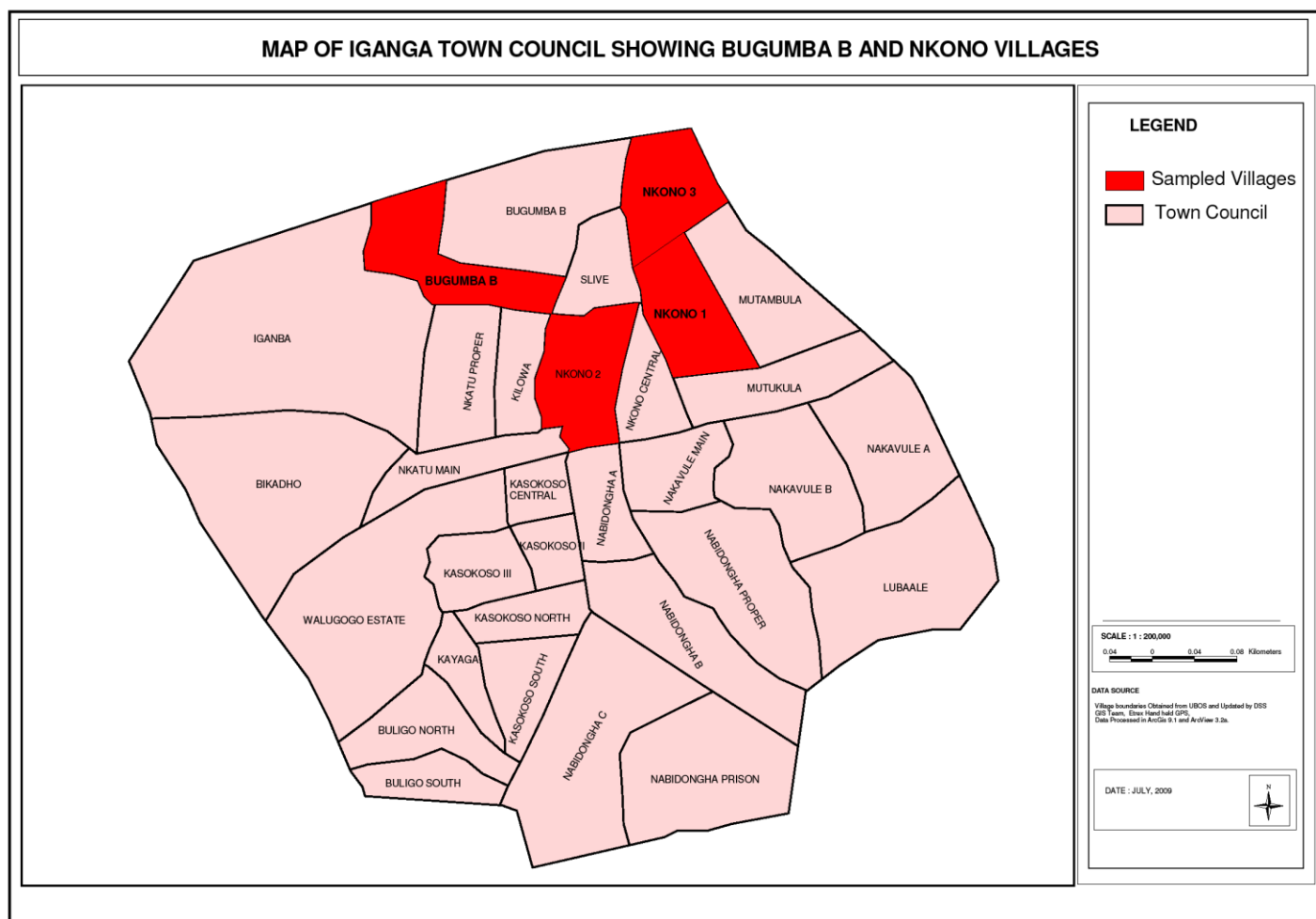
Yunus, Mohammad .2004. “The Evolution of Microfinance: *Kalampur village in Dhaka, Bangladesh.*” AP Photo/Pavel Rahman.

## Appendices

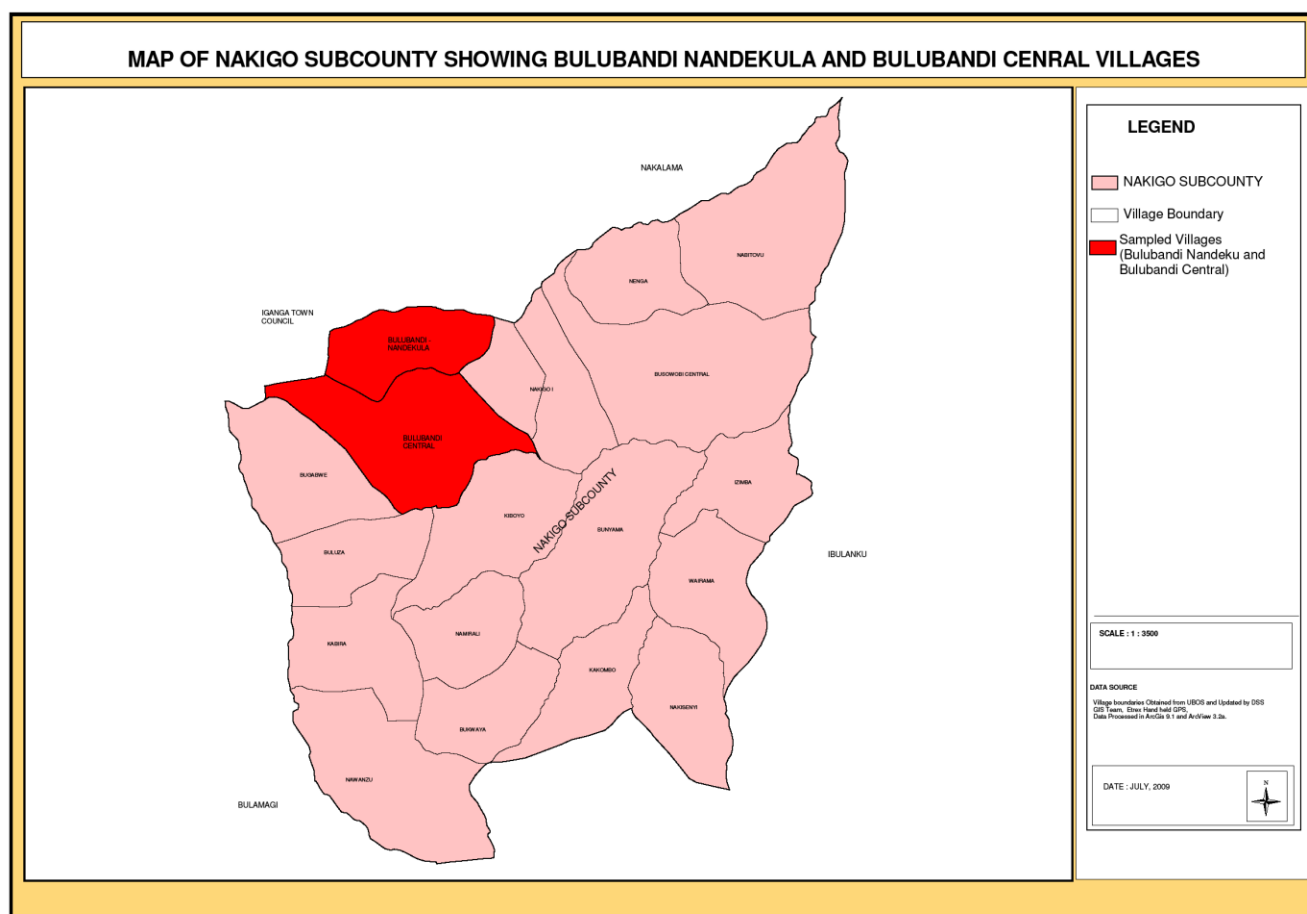
### Appendix i: Map of Uganda Showing Iganga District



## Appendix ii: Map of Iganga Town Council



### Appendix iii: Map of Nakigo Sub-county





## Appendix iv

### Household Survey Questionnaire

#### MAKERERE UNIVERSITY

#### DEPARTMENT OF SOCIOLOGY

##### Introduction

The study is conducted by Nicholas Mugabi a student of Makerere University in the Department of Sociology. The study will result into a dissertation report, which is a partial fulfillment for the award of a Master of Arts in Sociology Degree of Makerere University. This study is about Micro-credit utilization and the impact on household income. The survey thus is meant to avail background information about micro-credit utilization and the impact on Household income. The purpose of the survey is therefore to gather data from different households in Iganga district. You have been selected because you are a resident of Iganga district and as a researcher: I am requesting you to give me information on the topic. The data collected shall be treated with utmost confidentiality and anonymity. Thank you in advance

##### Section A: Background Information

1. District.....
2. Town Council/Sub-county.....
3. Parish.....
4. Village.....
5. Location    1. Rural            2. Urban
6. Sex of the respondent    1. Male            2. Female
7. Number of Household members.....

##### Household Bio Data

NO	8. Name	9. Sex 1. Male 2. Female	10. Age (years in Full)	11. Marital Status 1. Married 2. Single 3. Divorced/ 4. Separated 5. Widowed	12. Religion 1. Catholic 2. Protestant 3. Borg again 4. Moslem 5. SDA 6. Other (specify)	13. Education 1. None 2. Primary 3. Secondary 4. Certificate 5. Diploma 6. Degree 7. Other (specify)
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						

## **Section B: People's Perceptions and attitudes towards micro-credit**

14. Have you ever accessed any credit facility from any group or institution? (If no skip to Qn 16)
1. Yes
  2. No
15. If yes (Qn 14), name the organization (s).....
16. If no (Qn 14), why?  
.....  
.....  
.....
17. Has any (other) member (s) in this household ever accessed any credit facility?
1. Yes
  2. No
18. If yes for Qn 17 above, how many household members have ever accessed credit facility?  
.....
19. If yes still for qn 17 above, from which organization did the household member(s) access the credit facility  
.....  
.....
20. Why did you get the credit facility from the above organization (Qn 15)?
1. For Business
  2. For Personal use
  3. For Marriage
  4. Buy household necessities
  5. For Education
  6. For Health
  7. Other (specify).....
21. Did the Credit facility require any security or collateral?
- Yes
  - No
22. If yes for Qn 21, what kind of security?
1. Group security
  2. Initial Savings
  3. Land title
  4. None
  5. Other (specify) .....

23. Did you use the credit facility for the planned activity or business?

1. Yes
2. No
3. Don't know

24. If no why?

.....

.....

.....

25. What is your view or opinion about accessing micro-credit facility?

a) If positive explain;

.....

.....

.....

b) If negative explain;

.....

.....

.....

c) Do not know explain;

.....

.....

.....

26. In your view, do you think micro credit facility is a good innovation to the low-income people?

1. Yes
2. No

27. What advice would you give to some one who wants to access credit facility from any group or institution?

.....

.....

.....

28. What problems did you meet in accessing the credit facility?

1. High cost
2. Lack of Collateral security
3. Bureaucracy
4. Long distance from the facility
5. Corruption and bribery
6. Other (specify) .....

29. What problems did you meet in utilizing the credit facility?
1. High interest rates
  2. Little time of pay back
  3. Long distance from the facility
  4. Low investment returns
  5. Small credit
  6. High taxes
  7. Other (Specify) .....

30. How did you find servicing of the credit facility?
1. Very Easy
  2. Easy
  3. Difficult
  4. Very Difficult

**Section C: Gender Differential Access to and Utilization of Micro-credit**

31. Who accesses credit facility in this household? (**multiple response**)

1. Man
2. Woman
3. Children
4. Other (specify) .....

32. Do both women and men have equal access to micro-credit facilities from any organization or group?

1. Yes
2. No

33. If no for Qn 32, who determines or makes decisions to access credit facility in the household? (**single response**)

1. Man
2. Woman
3. Both man and woman
4. Whole Family
5. Other (specify) .....

34. If any member of the household accesses micro credit facility, does he/she inform other members of the household.

1. Yes
2. No

35. If no why?

.....

.....

.....

.....

36. In this household, who decides where to invest the credit facility?
1. Man
  2. Woman
  3. Both man and woman
  4. Whole family
  5. Credit institution
  6. Other (specify) .....
37. Do both men and women have the opportunity to invest in the same activities or businesses?
1. Yes
  2. No
38. If no for Qn 34, why?
- .....
- .....
39. If no still for Qn 34 above, what investment activities or businesses are for?
1. Men .....
  2. Women .....
  3. Other (specify) .....
40. In your view, do both men and women in the household equally enjoy the proceeds/benefits from using the credit facility?
1. Yes
  2. No
41. If no for Qn 40, Why?
- .....
- .....
42. What other extra benefits do women get from the use of micro credit facility?
1. Friendship and connections
  2. Groups Formation
  3. Skills Trainings
  4. Prestige
  5. Advice from other people
  6. Knowledge about business
  7. Other (specify) .....

#### **Section D: Organization and Operational Capacity of Micro-credit**

43. What type of loan/credit did you access?
1. Group loan
  2. Individual loan
  3. Cash loan
  4. In-kind loan
  5. Other (specify) .....
44. How do you organize your self before accessing micro credit?

1. Groups
2. Individual person
3. Other (specify) .....

45. What priority areas do you invest in credit?

1. Agriculture
2. Health
3. Education
4. Household needs
5. Trade and business
6. Other (specify).....

46. Did you get any training from any organization or person before accessing/using the loan/credit?

1. Yes
2. No

47. If yes for Qn 46, from which organization?.....

48. If yes still for Qn 46, what type of training did you get?

1. Business skills/book keeping
2. Marketing and customer care
3. Loan servicing
4. Others (specify) .....

49. If you got the loan for business, how do you monitor your business progress?

1. Regular audits
2. Regular bookkeeping
3. Daily personal audit/observation of stock
4. Other (specify) .....

50. What problems do you face in running your business?

1. Price fluctuations
2. High interest rates
3. High taxes
4. Inadequate training (lack of business skills)
5. Inadequate capital
6. Small market
7. High transport costs
8. Limited time of pay back of credit
9. Others (specify) .....

51. In your view, what can be done to improve on the operational and organizational capacity to effectively run your business?

.....  
.....  
52. Has any loan officer, credit officer, bank officer or agent ever visited you in the last two years?

1. Yes
2. No

53. If yes for Qn 52, which organization/company was the officer attached?

.....  
.....

54. If yes still for Qn 52, what issues did you discuss with the above officer?

.....  
.....  
.....

55. Have you ever visited any loan officer, credit officer, bank officer or agent in the last two years?

1. Yes
2. No

56. If yes for Qn 55, which organization did you visit?

.....

57. On which issues did you consult the officer above in (qn 55)?

1. Business management
2. Marketing and Customer care
3. Invest priority area/activity
4. Loan servicing
5. Others (specify) .....

### **Section E: Impact of Micro-credit Utilization on Household income**

58. What is the major source of income in this household?

1. Agriculture
2. Employment
3. Commerce/Trade
4. Semi-skilled services
5. Others (specify) .....

59. In your view, are there significant changes in your household income because of using micro credit facilities?

1. Yes
2. No

60. If yes, what benefits or assets have you obtained from the proceeds of micro-credit facilities?

1. House
2. Bicycle

3. Business
4. Household Items
5. Friendship networks
6. Prestige
7. Others (specify) .....

61. How do you rate your household wellbeing in relation to the rest of your community before using micro-credit facilities?

1. Very High. Explain.....
2. High explain.....
3. Moderate explain.....
4. Low explain.....
5. Very Low explain.....

62. How do you rate your household wellbeing in relation to the rest of your community after using micro-credit facilities?

1. Very High. Explain.....
2. High explain.....
3. Moderate explain.....
4. Low explain.....
5. Very Low explain.....

63. What indicators do you use to relate/rank your household wellbeing in relation to the rest of the community?

1. Size of land
2. Ability to pay school fees
3. Physical appearance
4. Ownership of household assets
5. Ability to feed
6. Ability to pay medical care
7. Others (specify) .....

64. In your view, what suggestions do give to improve on credit utilization so as to enhance household income

.....  
 .....  
 .....

***Thanks for your time and data.***



## **Appendix v: Key Informants Guide**

### **Section A: Micro credit Utilization and people's perceptions and attitudes**

1. Has any one in you household accessed any micro credit facility?
2. Where did you get the credit facility (from which organization?)?
3. Why did you access the credit facility?
4. What factors help people in this area to access the micro credit facility?
5. What attitudes and perceptions do people have on accessing micro-credit?
6. How do people's attitudes and feelings hinder or help people to access and utilize credit?
7. Are there any cultural beliefs and perceptions towards micro-credit utilization?
8. What are the different kinds of credit that people access?
9. What kind of collateral of security is required before you access credit?

### **Section B: Gender differential access and utilization of micro credit**

1. In your household, who decides on where to access the credit and where it invests?
2. Do both men and women have equal access to micro credit?
3. What is the position of men and women in accessing micro credit in the household?
4. Do both men and women have control over micro credit utilization at household level?
5. What activities are men and women investing the credit facility in?
6. Are there any cultural practices or beliefs that restrict women from accessing and utilizing micro credit?
7. Compare and contrast women and men's access to micro credit in the recent past (five years)?
8. Are the interest rates charges similar for men and women?
9. Is the pay back period similar for men and women? If different, please explain.

### **Section C: Household Organization and operating capacity in the Utilization of micro credit**

1. What type of credit do you access (individual or group)?
2. What kind of credit do you access (cash or kind form)?
3. What factors facilitate access to and utilization credit?
4. Do you make any business plan before accessing the credit?
5. Do you get any training related to the utilization of the credit?
6. What skills are required to use the credit effectively?
7. What factors facilitate or limit credit utilization at the household level?
8. Are there groups, associations, or organizations that sensitize or train you on credit utilization?
9. If yes, how do such institutions or groups (formal or informal) facilitate or limit credit utilization at the household level?
10. What mechanisms are adopted at the household to service the credit?
11. What significant changes are there in the household because of credit utilization?

**Thank you for the information given**

## **Appendix vi: Focus Group Discussion Guide**

### **Section A: Micro-credit Utilization and People's Perceptions and Attitudes**

1. Has any one in you household accessed any micro credit facility?
2. Where did you get the credit facility (from which organization?)?
3. Why did you access the credit facility?
4. What factors help people in this area to access the micro credit facility?
5. What attitudes and perceptions do people have on accessing micro-credit?
6. How do people's attitudes and feelings hinder or help people to access and utilize credit?
7. Are there any cultural beliefs and perceptions towards micro-credit utilization?
8. What are the different kinds of credit that people access?
9. What kind of collateral of security is required before you access credit?

### **Section B: Gender Differential Access and Utilization of Micro credit**

1. In your household, who decides where to access and invest the credit obtained?
2. Do both men and women have equal access to micro credit?
3. What is the position of men and women in accessing micro credit in the household?
4. Do both men and women have control over micro credit utilization at household level?
5. In what activities do men and women invest the credit facility?
6. Are there any cultural practices or beliefs that restrict women from accessing and utilizing micro credit?
7. Compare and contrast women and men's access to micro credit in the recent past (five years)?
8. Are the interest rates charges similar for men and women?
9. Is the pay back period similar for men and women? If different, please explain.
- 10.

### **Section C: Household Organization and Operating Capacity in the Utilization of Micro-credit**

1. What type of credit do you access? (Individual or group?)
2. What kind of credit do you access? (Cash or kind form?)
3. What factors facilitate access to and utilization credit?
4. Do you make any business plan before accessing the credit?
5. Do you get any training related to the utilization of the credit?
6. What skills are required to use the credit effectively?
7. What factors facilitate or limit credit utilization at the household level?
8. Are there groups, associations, or organizations that sensitize or train you on credit utilization?
9. If yes, how do such institutions or groups (formal or informal) facilitate or limit credit utilization at the household level?
10. What mechanisms are adopted at the household to service the credit?
11. What significant changes are there in the household because of credit utilization?

**Section D: Impact of Micro-credit Utilization on Household Income**

1. Have ever accessed any credit facility?
2. What did you use the credit you obtained?
3. What benefits did you gain from using micro-credit?
4. What changes have you experienced in your household because of credit utilization?
5. Is it useful for people to access micro-credit facilities?
6. How do you rate your household income before and after using the micro-credit facility?
7. What problems did you experience in using the micro-credit facility?
8. How did you go about those problems?
9. Suggest ways that can be adopted in using micro-credit facilities in order to enhance household income.

**Thank you for the information given**

## Appendix vii: Introduction Letter

**MAKERERE**

P. O. Box 7062 Kampala Uganda  
Email: sociology@ss.mak.ac.ug  
Website: www.makerere.ac.ug



**UNIVERSITY**

Phone: +256-414-540650  
Fax: +256-414-533396  
Cables: "MAKUNIKA" Kampala

### DEPARTMENT OF SOCIOLOGY

April 3, 2008

**To Whom It May Concern**

Dear Sir/Madam,

**Re: Introduction letter for Mr. Mugabi Nicholas 2007/HD14/9652U**

This is to introduce **Mr. Mugabi Nicholas**, a registered postgraduate student in the Department of Sociology, Faculty of Social Sciences, Makerere University. Mr. Mugabi is carrying out a study entitled, *"Micro-credit utilization and the impact on household income: A comparative study of rural and urban areas in Iganda district."*

He is doing the study to collect information to enable him write a dissertation as partial fulfillment for the award of the Master of Arts Degree in Sociology of Makerere University.

The study results are expected to explain whether micro-credit facilities readily available and harnessed today in rural and urban settings lead to positive or negative outcomes for households or not. As his supervisor, I appreciate any form of assistance that you render to him especially accessing important and relevant information and the respondents.

Yours Sincerely,

Andrew Elias State, Ph.D.  
Supervisor