

**THE CONTRIBUTION OF MICRO FINANCE SERVICES ON THE  
GROWTH OF BUSINESS IN UGANDA**

**CASE STUDY:**

**PRIDE MICRO FINANCE IN KATWE VILLAGE IN KAMPALA  
DISTRICT**

**BY**

**NAKUBULWA WINNIE**

**JUNE 2018**

## **CHAPTER ONE**

### **1.0 INTRODUCTION**

Microfinance institutions are defined as organizations that deals in the provision of banking services for the individuals engaged in small businesses and those with small needs. Largely in the informal sector.

According to ledger wood. J (2000), micro finance institutions rose in the 1980s in responding to uncertainties about the delivery of supported credit to farmers. This is due to the fact that the government as well as international donors assumed that power people needed cheap credit, at low interest rate and in small quantities to assist them carry out their day to day activities such as farming and small businesses. Micro finance institutions were also formed in order to teach rural people how to save.

According to Hermes, (2014), defined micro finance institutions as a source of financial services for entrepreneurs and business firms lacking access to the banking and related services and it is used to describe the supply of financial services to low.

Ledger wood ( 1999) also explained microfinance as the provision of financial services to low-income earners such as the self employed and these services are ; savings , credits , insurance , payments and social intermediations on them .

Business growth is the natural process of the adaption and development that occurs under favorable conditions in the business and it cannot be achieved over a night, it takes time to place gradually, the business has to adapt to several circumstances to survive and grow. Cohen. (1990). the business growth is pervasive in the way that it takes place to any particular type of organization in all types of business.

Minimizing the costs.

#### **Back ground of the study**

The micro finance industry worldwide has been recognized as instrumental tool for poverty alleviation and economic growth .the role of micro finance has helped faster the growth and development of business enterprises in the world by proving start-up and business expansion capital. Micro finance institutions target the poor who are consider risky but the repayment rate turn to be positive compared with commercial banks. Zeller and Sharma,(1998).

According to word development indicator World Bank, (2010), micro finance services provide relevant and high quality statistics about global development and then fight against poverty. It is seen in helping the students analysis, policy maker, professors, program managers and use all related to all government aspect and the progressing of ending poverty and promoting shared prosperity .According to Hanning .A and Katimbo E.M,(2000) defines microfinance as the provision of financial services to the poor people and it holds the potential to support their economic activities as a result of reducing poverty .

The history of microfinance early in 1970s. in 1970s and 1980s, microfinance services started to provide small loans to poor people in the world .stoner and wankel, (2007), an economist

Muhammad Yunus, the winner of the Nobel peace prize in 2006, the pioneer of microfinance services in Bangladesh by creating a special bank called Grameen Bank for purposes of providing the financial services to the low income earners, therefore grameen became the village bank and had its efforts of breaking the cycle of poverty. Stoner and wankel, (2007).

In east African nations, microfinance services have made a record in uplifting small businesses through provision of affordable capital. With the help of World Bank,

savings services to the multitude of small holder producers and entrepreneurs to make up the agricultural and entrepreneurial sectors in East Africa. Matebu and Abiye, (2010).

In Uganda therefore, micro finance derives from the fact that the provision of financial services has contributions of poverty reduction .according to UBOS (2010) during micro finance census (2010) the total number of the functional SACCOS is 2063 since 2008. Micro finance institutions in Uganda consist of money lenders, micro finance agencies, non-government organizations.

### **The background of the case study.**

Pride micro finance is located in the village of Katwe, Kampala district, Uganda-East Africa. This village is about 1km from the city square

### **1.2 Statement of the problem**

Microfinance services and institutions have contributed a greater importance on poverty reduction or promote the growth of the businesses in the unstable area of the world. The industry seen as paramount in augmenting private sector growth through supporting the business sector. The micro finance institutions resource bases can provide a platform for the growth of business, contribute to the fight against poverty. Holcombe, (1995), Otero and Rhyne (1994) argued that microfinance has really contributed a positive impact.

The microfinance industry is playing a greater role in proving a range of financial and non-financial services to both urban and local communities. The services are through the products such as loans, deposit taking, technical advice, micro insurance, fund transmission services, financial education among others, that is all products recognized as financial services in the market aimed primarily at currently mangnorised and sub serviced entrepreneurs, communities and people. The provision of such services is expected to contribute to the growth of businesses in terms of business expansion, increased productivity and in employment levels to improve house hold incomes. Nathan M, (2015)

However, there is no clear evidence available that indicated the contribution of micro finance institutions in bringing the growth gap of businesses. This study therefore, is focusing on the contribution of micro finance services on business growth in Uganda.

### **1.3 General objective**

The general objective of research is to access the contribution of micro finance services on business growth.

### **1.3.1 Specific objectives**

1. To find out the contribution of micro finance institutions on the growth of business.
2. To assess the contribution of loans from micro finance institutions on business growth
3. To examine the contribution of technical advice on the business growth

### **1.4 Research question**

1. What is the contribution of micro finance institutions on business growth?
2. How do loans from micro finance institutions contribute to business growth?
3. How does technical advice rendered by micro finance institutions contribute to business growth?

### **1.5.0 Scope of the study**

The scope of the study will cover the three aspects namely; the geographical scope, contents scope and time scope

#### **1.5.1 Geographical scope**

The research will be carried out at Katwe village, Kampala district. Katwe village is 1 kilometer away from Kampala town. People in this village engage in small business such as shops, poultry.

#### **1.5.2 Content scope**

The researcher will study the contribution of micro finance services on business growth, micro finance services is the independent variable in this research measured by services of loans, supervision, technical advice mean while business growth is the dependent variable measured through the creation of employment opportunities , expansion , improvement of welfare, increased productivity.

#### **1.5.3 Time scope**

This research will cover the period of two years thus from 2017to 2018. This period will be enough for the researcher to find out the contribution of micro finance services on business growth.

### **1.6 Significance of the study.**

The researcher will be helpful to the organization in improving the performance of pride Micro finance and improving the client outreach and retention.

This research will help the researcher to expand the understanding of micro finance institutions particularly its contribution on business growth.

The research will help the general public especially to those that are interested in reading about the contribution of micro finance services on business

The researcher will be useful to scholars interested in the same topic , as well as going in details in the area of which recommended for further research by the researcher .

### **1.7 Definition of key terms**

Micro finance services ; According Hanning and Katimbo E ,(2014), micro finance services refers to the provision of financial services primarily to micro or small enterprises and low income customers, usually characterized by the use of collateral substitutes except salaried backed loans or any other services that the back may designate.

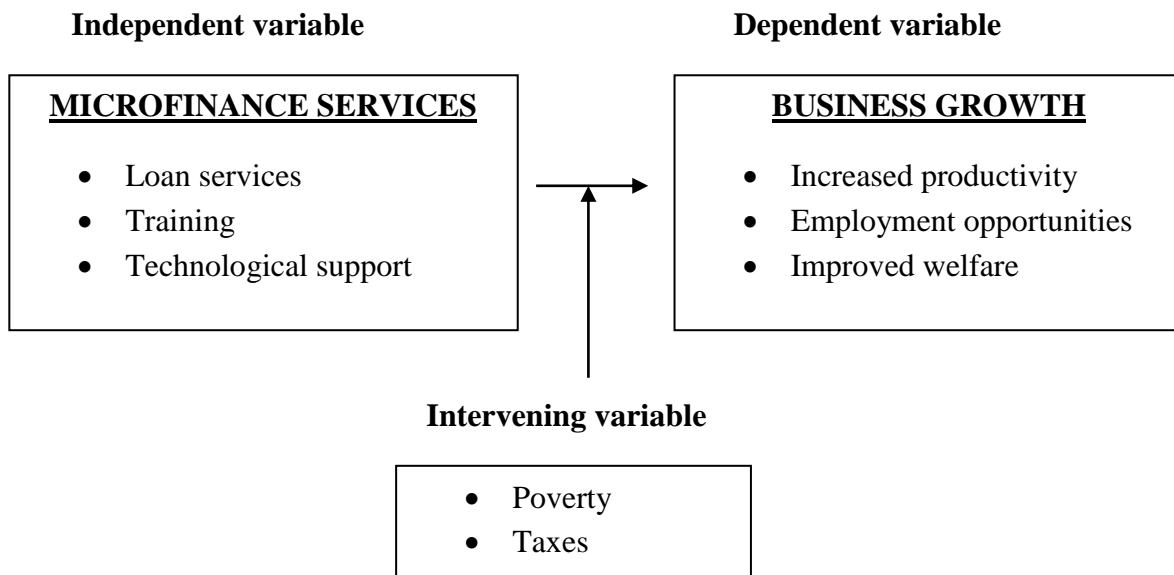
According to Penrose (1995). Growth is defined as an increase in size or other objects that can be quantified or a process of change or improvement

According Kakungulu.(2015).business is refer to as a production unity under a unified management involved in using economic resources to produce goods and services and with the aim of maximizing profits.

**1.8 The conceptual frame work.**

The conceptual frame work below shows the relationship between three variables that is; independent variables which are loan services, training and technological support. Dependent variables which are constitute increased productivity, employment opportunities, improved welfare as well as intervening variables which are poverty and taxes.

**Fig.1: The Conceptual frame work**



**1.9 Conclusion.**

This chapter clearly shows its intentions considering guidelines from the background on which a problem was identified for further investigations. From the frame work on which is based. A critical literature review follows.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

In this chapter, the researcher examines in detail the contribution of micro finance services on the growth of business in Uganda. It describes the micro finance services, the growth of business, actual review and the conclusion. This literature will draw its material from the various books, journal articles, newspapers, internet, newsletters and other dailies books with relevant information and which are related to the topic and objectives of the study .this chapter will describe the conceptual frame work and finally conclude with review research by identifying the gap other researchers had left which is examining the contributions of the micro finance on the growth of businesses in Uganda.

#### 2.1 The concept of micro finance services

According to Nkundabanyanga. K.S (2007), micro finance is referred to as the provision of banking services to the individuals engaged in small businesses and those with small needs, largely in the informal sector (initially referred to as poor). It is also the idea that low-income individuals are capable of lifting up from poverty if given access to the financial services. According to Kivo, (2005) micro finance institutions are tools for development and growth of people within the society.

Micro finance institutions (MFIs) offers financial services to people who don't have access to the commercial financial institutions e.g. banks .EFSE, (2009). The organization make it effort to attract women especially in rural areas where they find it difficult to access financial services due to low levels of literacy . It has reduced to its group size from the average of 13 to only 6 in order to encourage them to also get a chance to participate. However with this encouragement, women are able to support themselves and their families as well, MAIN (2006).

The ability to access the financial service is a critical element in the growth of the private sector especially for the small enterprises that lack the capital needed to grow and expand. It increases the businesses ability to bare and cope with risks and also for the agriculturalists, where expenditure on the input exceeds the harvest return.

##### 2.1.1 Loan services

Loans are credit extended to business concerns serves to differentiate them from many other types of loans, also having terms of more than one year that are made by commercial banks, insurance companies and other financial institutions. The salient factor is that the term lender usually appraises the probabilities of financial success of a business enterprise in judging the likelihood of repayment of the loan at maturity. Thus the definition of the term loan excludes consumer loans, where attention is focused on the moral and financial worth of an individual who is not necessarily an entrepreneur Fred L.Garlock, (1930). Also excluded are loans to individual secured by mortgages on residential property. in making loans of this type the lender customarily looks to the value of the pledged in contrast, even where term loans to businesses are

collaterally secured by real estates or other property, the lender generally looks mainly (or exclusively) to the earning power of the business rather than to the value of pledged property to protect himself against loss. The basic loan process involves a lender providing a short term unsecured loan to the repaid at the borrower's next payday. Typically, some verification of employment or income is involved, although according to one source, some payday lenders do not verify income or run credit checks. Individual companies and franchises have their own underwriting criteria. In the traditional retail model, borrowers visit a payday lending store and secure small cash loan, with payment due in full at the borrowers next pay cheque. The borrower writes a postdated cheque to the lender in the full amount of the loan plus fees. On the maturity date, the borrower is expected to return to the store to repay the loan in person.

### **2.1.2 Training**

According to Michael Armstrong, oxford UK (1997), Training has been defined as the systematic development of the knowledge, skills and attitude required by an individual to perform adequately a given task or job. Training has also been defined in the grosser of training terms (man power services commission, UK). As a planned process to modify attitudes, knowledge or skill behavior through learning experience to achieve effective performance in an activity or range of activities. Its purpose in the work situation is to develop the abilities of the individuals and to satisfy current and future man power needs of the organization. It clearly implies that the role of training is to improve the overall performance of the organization. The term "performance" is therefore, inter woven training.

### **2.1.3 Technical advice or support**

Technical advice refers to a plethora of services by which enterprises provide a system to uses for technology products such as mobile phones, Television, computers, software products or other informatics, electronic or mechanical goods. (Technical support of the neighbors "BBC news 2008) in general, technical support services address specific problems with a product or service rather than the provision of training, customization, or other support services. Most companies offer technical support for the products they sell, either freely available or for fee. Technical support may be delivered over by e-mail, live support software on a website, or a tool where users can log a call or incident. Larger organizations frequently have internal technical support available to their staff for computer-related problems. The internet can also be a good source for freely available technical support , where experienced users help users find solution to their problem, in addition , some fee-based service companies charge for premium technical support services. With the increasing use of technology in modern times, there is a growing requirement to provide technical support. Many organizations locate their technical support department or call centers in countries or regions with lower cost. For businesses needing to provide technical support, outsourcing allows them to maintain a high availability of service. Such needs may result from peaks in call volumes during the day, period of high activity due to introduction of new products or maintenance service pack, or the requirement to provide customers with a high level of service at low cost to the business.

## **2.2 The concept of business growth**

According to Penrose,(1995), if a firm is that the increasing in size and improving production ( output are also increasing ), it is said to be growing. The growth of a firm can be determined by

supply of capital, creation of employment opportunities, maximizing welfare and maximization of profits, kakungulu, (2015). The main objective of a firm is to maximize profit and for business people to maximize them should ensure that the marginal costs are equal to marginal revenue. Kakungulu, (2015). Ledger wood, (1999). The services provided by non financial micro finance institution services such as; loans services given to business people, business training, production training and technical advice leads to growth of firms this is because resources needed for the firms to grow or develop are available .the determining factor for a firm's growth is the availability of resources to the firm enterprises development services or business development services or nonfinancial services are provided by some micro finance institutions adopting the integrated approach.

### **2.3 Increased productivity**

Productivity is commonly defined as a ratio between the output volume and the volume of inputs. It measures how efficiently production inputs, such as labour and capital, are being used in a process to produce a given level of output. Productivity is considered as a key source of economic growth. Paul krugman, (1994). Productivity growth constitutes an important element for modeling the productive capacity of economics. It is also used to determine capacity utilization, which in turn allows one to judge the position of economies in the business cycle and to forecast economic growth. productivity may be the value of output divided by the sum of labor, materials and overhead cost. It is very possible to measure productivity because it helps the managers to monitor trend so that to spot out the area the need to be improved in firms.

#### **2.2.2 Creation of employment opportunities**

According to jackhammer, (2016). Employment is the relation between two different parties that is to say the employee and employer and it is based on a contract where work is paid for , employees work in return of payment which may be in form of hourly wages or annual salary , depending on the type of the work the employee does or sector he/she works from. Argued that with the help of micro financial and technical assistance to business sector increases creation of jobs and jobs leads reduction of poverty amongst the poor people mostly in the developing countries. they further argued that the capacity of most small business enterprises to generate employment opportunities to people living around and as a result people are able to a living hence poverty is reduced.

#### **2.2.3 Improvement in welfare**

Business dictionary .com. defines welfare as the available of resources and presence of conditions which is reasonable , health , and secure living that people are experience due to support from the either government and other sources which are able to support poor people, usually by giving them free food and services when needed.

According to Keery and Urio,(2006) in their study indicated that , the services provided by micro finance institutions can enable the poor people to manage their risks better, develop their micro businesses, build up their assets, of which will help to enhance their incomes earning capacity and hence improving their quality of life. The provision of micro finance services can give poor



people of which protect them, their live hoods against shocks as well as to build and diversify their livelihood activities.

### **2.3 Micro finance loans on the growth of business.**

Business Dictionary. Com defines loan as a written or oral agreement for a temporary transfer of a property (cash) from its owner lender) to a borrower who promises to return it according to the terms of the agreement, usually it is returned with interest for its use.

According to Yaron et al, (1997) he argues that poor access to loans and limited finance as the main causes limiting the growth of micro and small enterprises. The review of literature on the growth of small business enterprise indicated most small business enterprises (SBEs) fail to expand because of limited financial resources, poor managements, high level of competition from other firms, poor management and unfavorable government policies.

The business whose financial facilities are very low than their internal resources may be growth in the near future. This is because the capital need for purchasing the equipment is available at any time it is needed by the business people and all that is done with help of acquisition of micro finance loans Carpenter and Peterson (2002)

### **The types of loans**

#### **1. Line of –credit loans.**

According to Gore, (2015) this is a short-term loan that extends the cash available in the business's checking account to the upper limit of the loan contract. The business pays interest on the actual amount advanced, from the time it's advanced until it is paid back.

This is the most useful type of the loan for small-business owners; this is because it protects the business from emergencies and stalled cash flow. This type loans are intended for purchase of inventory and payment of operating costs for working capital and business cycle needs.

#### **2. Installment loans.**

These loans are paid back with equal monthly payments covering both principal and interest. This is done when one receives the full amount with signed contract, and interest is calculated from that date to the final day of the loan. Gore, (2015). A business cycle loan may be written as a four-mouth installment loan, this is to say that, carry the low interest rate since the risk to the lender is under one year. An installment loan is occasionally written with quarterly, half-yearly or annual payments when monthly payments are inappropriate.

#### **Interim loans**

The bankers are concerned with who will be paying off the loan and whether that commitment is reliable. It is mostly used to make periodic payment to the contractors building new facilities when a mortgage on the building will be used to pay off the interim loan.

#### **4 Letter of credit.**

Typically used in international trade, this document allows entrepreneurs to guarantee payment to suppliers in other countries. The document substitutes the bank's credit for the entrepreneur's up to set amount for a specified period of time. Gore,(2015)

#### **2.4 Micro finance training services on the growth of business**

According to Hardy, Holden, (2000). Micro finance offers training services to their clients about micro finance institutions. This mainly links the customers to gather the main activities of micro finance institutions. Training from micro finance institutions help business people in managing their business in such a way that the loans are more valuable to the people who are interested in borrowing them and also it enhance the chance of repaying them back. MAIN, (2006). Micro finance training services help the micro-business promoters steam line management. It is also based on the audiovisual aid and a participation approach and this includes a group discussion on the content and experience sharing. According to vinesh(2014).training focuses on doing activities to develop customers for their current jobs and preparing them for future roles and responsibilities. In order to ensure that the customers are well equipped with the skills, knowledge and abilities to perform their tasks, training has to play a big role towards the growth and success of our business enterprises. it increases productivity and growth of business since customers are well equipped with skills.

#### **2.5 Technological support on business growth**

Information technology (IT) plays an increasingly important role in facilitating the introduction of new products or services, in improving operational services, and in guiding managerial decision making. Therefore, mismanagement of information technology can be detrimental to the competitive effectiveness of enterprises. Effective management of IT is particularly critical for small and medium enterprises (SMEs) because they operate different from large enterprises. A.Montazemi (2006). Management information system application software, the smart card and personal digital assistants (PDAs) are some of the technologies that can facilitate micro finance business (P,Si 2001). These technologies allows the loan officers to more efficiently serve their clients by reducing paper work , increasing accessibility to information and finally simplify computations of complex analysis. The above cutting-edge technologies that have been used by micro finance institutions are described as follows; management information systems (MIS)-through well defined MIS, microfinance institutions can access or analyze information more efficiently for better decision making, operations management, and product development.

#### **2.6 Conclusions**

The above chapter shows that there are many contributions of micro finance services on the growth of business. The review of the above related literature reveals that if finance services such as loan, training, and technological support services from micro finance institutions are provided to business men and women, their productivity increases, people's welfare are improved and employment opportunities are created

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.0 Introduction

This chapter details the research design and procedure that will be employed in data collection. This chapter further presents the study population and area, the sample size and sampling techniques, the data collection methods and instruments, data analysis include the study limitations and ethical considerations.

#### 3.1 Research design

The research will be both descriptive and cross sectional since the cross section design according to Eric and Rea (2001) gives an in-depth investigation of an individual, group, institution or even a phenomena, this will be conditional throughout the period of research and analyzed conclusions will be drawn. In addition, the research will look at qualitative methods because its cost effective, it gives a lot of exploratory data which focuses on understanding the phenomenon.

#### 3.2 Area of the study

The research forced on restaurants in Uganda, a case of Uhuru restaurant which is situated in Mengo opposite Lina MEDICAL CENTRE along Wakaliga road and has a client base of 80% per day and also offers local foods.

#### 3.3 Study population

According to McKeon, Thomas (1976), population refers to the group of individuals, objects or items from which samples are taken for measurement. The population size will comprise of respondents that will be selected from management, staff members/employees of Uhuru restaurant and its customers.

#### 3.4 Sample size

During the study sums of 92 respondents will be interviewed so as to come up with valid and creditable data. The people to be selected during the interviews will be specifically the customers-60, managers 2, supervisors-5 officials-15, business women-30.

**The table shows the expected population. Sample size and sampling techniques**

Category of respondents	Targeted population	Sample size
Manager	2	2
Supervisor	5	5
Officials	15	14
Business women	30	28
Customers	60	44
Total	112	92

**Source: primary data2016**

The table shows 5 categories of respondent and the selected sample size that the research will use during her study.

### **3.4.2 Sampling techniques**

According to Kombo and Tromp,(2006). Sampling is the process of selecting a number of people or objects from a given population such that the selected group represents the entire population. The sampling techniques that will be used are the random sampling and the cluster sampling. The support staff of PRIDE will be randomly selected to ensure that every one is being sampled and it will also be used to select the manager and 5 supervisors. Among others

## **3.5 Data collection methods that the researcher will use include questionnaires and interview as there are as follows.**

### **3.5.1 Questionnaires**

A questionnaire is a tool used for collecting primary data in the field. It is a list of research and survey questions asked to respondents and designed to extract information. (Business dictionary.com)

The research will use this tool because the information will be collected from a large sample of business women in the village and the staff of PRIDE micro finance. Moreover, this tool is confidential; it saves time and has no bias because it is done on paper format.

### **3.5.2 Interview guide**

Interview involves conversations, presentations in which the person gets information from another person that is to say ( the interviewer and the interviewee). The presentation is verbal stimuli and replay terms of oral-verbal responses. Kothari (2004)

The interview guide will be used by the researcher to collect qualitative data from the key respondents who are the members from PRIDE microfinance who are in position to provide information during the face-to-face interview.

## **3.6 Quality control**

### **3.6.1 Validity**

Validity refers to truthfulness of findings, accuracy and quality of instruments used in the obtaining of data in the phenomenon under study. It means the amount of substance in the study. The researcher will establish content validity of which the researcher will use the test data.

### **3.6.2 Reliability**

Reliability refers to the consistency of measure of research tools that are used for collecting data. There are three prominent factors involved in considering whether a measure is reliable or not and these include the stability, internal reliability and the inter- observer consistency. Bryman and Bell. (2007). The degree to which the questionnaire produces the consistent results in the

same conditions that is to say these questionnaires are developed in the same way for data collection.

### **3.7 Data management and analysis**

#### **3.8 Qualitative data analysis**

Qualitative data is the data that is presented in the narrative form. Data will be collected by using interview methods and the qualitative data will be analyzed through categorization method by creating themes from related topics or major concepts and the grouping of similar responses from the topic.

##### **3.8.1 Quantitative data**

Quantitative data will be collected by using questionnaire. Descriptive analysis of data will also be used by SPSS program and this helps the researcher to obtain descriptive data in form of means, frequencies and percentages. In establishing the relationship among variables, bi-variant analysis in form of correlation will be used to ascertain the contribution of independent variable on dependent variable. The information will be presented in form of tables, figures and charts.

#### **3.9 Ethical consideration**

The researcher will consider the confidentiality aspect of the respondent by not exposing their responses to the public and will ensure the right of the respondent is to be protected. The researcher will observe the rules and regulations of acknowledging the work of other researchers by citing quoting them. However the researcher will use letters of introduction to the officials of the PRIDE microfinance and the leadership of local community where the research will be conducted.

#### **3.10 Limitations**

The researcher will face the problem of impassive respondents when conducting research. This will be based on the fact that most respondent will be kept busy on their daily office work.

The time frame that is required of a researcher to produce the final report is not enough. The period of four months was insufficient. However, the researcher still needed more time.

## REFERENCES

- Bank of Uganda (1999): „BOU Policy Statement on Micro-Finance Regulation“, Bank of Uganda, Kampala
- Bank of Uganda; German Technical Cooperation (2000): „Microfinance Operations of FINCA Uganda: Conclusions, For Regulatory Principles And supervisory Practices“, Presentation at the Microfinance Forum
- Barnes, C., et al (1998): „An Assessment of the Impact of Microfinance Services in Uganda: Baseline Findings“, Vol. 1, AIMS, Washington, D.C.
- Barnes, C.; Sebstad, J. (1999): „Guidelines for Microfinance Impact Assessments“, Paper prepared under the AIMS Project for discussion in the CGAP 3 Virtual Meeting October 18-29
- Bategeka, L. (1999): Uganda’s Achievements and Challenges in the Financial Sector: Whose Interests Count? In: „The Ugandan Banker“, Vol. 7, No. 4, Uganda Institute of Bankers, Kampala
- Baydas, M. M.; Graham, D. H. (1997): „Commercial Banks in Microfinance: new Actors in the Microfinance World“, The Ohio State University
- Brownbridge, M.; Gayi, S. (1999): “Progress, Constraints and Limitations of Financial Sector Reforms in the Least Developed Countries”, Finance and Development Research Program, Working Paper No 7, University of Manchester, UK
- Hannig, A. (1999): Sharing the Market for a Mature Microfinance Sector in Uganda. In: „The Ugandan Banker“, Vol. 7, No. 4, Uganda Institute of Bankers, Kampala
- Dichter, T. W. (1998): „Evaluation of FINCA/Uganda and PRIDE Africa Uganda“, The Austrian Regional Bureau for Development Co-operation
- CGAP (1998): „Commercial Banks in Microfinance: New Actors in the Microfinance World“, Focus Note, No. 12,
- CGAP (2000): „Those Who Leave and Those Who Don’t Join: Insights from East African Microfinance Institutions“, Focus Note, No. 16, CGAP 74