ACCESSING MICRO CREDIT, BORROWERS' CHARACTERISTIC
AND HOUSEHOLD INCOME IN RURAL AREAS - CASE OF KASESE

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**Declaration**

I here by declare that the content of this paper is my original work (except where I have acknowledged) and to the best of my knowledge has never been presented for any award any where before.

Police Businge Fred                          ………………….

2002/HD10/1571/U                          Date

**Approval**

This is to certify that this dissertation has been submitted in partial fulfilment of the requirements for the award of Masters of Science in Accounting and Finance degree of Makerere University Kampala, Uganda, with my approval as the supervisor.

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**Dedication**

To my wife Mary, my beloved son Isaac Rabin, daughter Sonia Rustler, brothers Charles, Jimmy, Innocent, Dr Kamalha, sisters Doreen & Deborah, for their guidance and tolerance during my time of study and to my parents as an appreciation for their struggle.

Police Businge Fred

Date: ………………

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# List of Acronyms

NUCDP       **-** United Nations Capital Development Program

MOFPED       - Ministry Of Finance Planning & Economic Development

PMA       - Plan for Modernisation of Agriculture

UPPAP       - Uganda Poverty Participatory Assessment Programme

MFI       - Microfinance Institutions

CGAP       - Consultative Group against Poverty

UPSR       - Uganda Poverty Survey Report

SPSS       - Statistical Programme for Social Scientists

Kaddnet       - Kasese District Development Network

NGOs       - Non Government Organisation

OECD       -

PEAP       - Poverty Eradication Action Plan

MCI       - Micro Credit Institution

USAID       - United States Agency for International Development

FAO       - Food and Agricultural Organisation

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**Abstract**

Improving household income is one of the major challenges faced by developing countries. Different plans focusing on increasing household income through the use of credit institutions have been developed for example PEAP, 1997, entandikwa scheme and the prosperity for all plan (2006). While doing this they have largely ignored borrowers' characteristics and business type the borrowers' engage in. This study therefore examined the role micro credit access, borrowers' characteristics, business type have towards improving household income for the poor. A sample of three institutions which included Ikongo micro finance scheme, Bukonzo joint credit institution, centenary bank and 131 beneficiaries was chosen out of a total of 32 institutions and 1004 beneficiaries. The study presents empirical findings basing on 82 beneficiaries who responded.

Across sectional survey design was used to evaluate the variables above. Correlation coefficients revealed a significant positive relationship between the variables. Multiple regression analysis further revealed that 44.5% of the variance in the household income is explained by micro credit access, borrowers' characteristics and business type. The study recommends that micro credit institutions should increase funds which borrowers' can access. Credit institutions should always consider borrowers' characteristics and business type the borrowers' are to engage in before giving credit to the potential borrowers'. These factors enable the borrowers' to use funds wisely and eventually they lead to improved household income of the poor.

**CHAPTER ONE**

## 1.1 BACKGROUND TO THE STUDY

Micro credit refers to the small loans made available to poor people (Mohammad, 2008). It is an important source of capital for many people in low income countries (Olujide, 2008; Margureite, 2003). According to Wali, 2009 micro credit has insufficiently penetrated the poor strata of society who comprise of the marginalized and the deprived category of people living below the poverty line (Sayma et al., 2009). About 90 % of the poor people in developing countries don't have access to financial services for either credit or savings (Mohammad, 2008). This limits their capacity to access capital which affects productivity, domestic savings and the ability of households to engage in businesses which would improve their household income (Sayma, 2009; Mohammad, 2008.

Micro credit operations in rural areas have been supported by many developing countries in order for the poor people to access financial services easily. Bernard ,2002; Ajay, 2009 however observed that access to financial services provided by micro credit institutions on there own is not sufficient to improve the household's income for the poor people in rural areas. The type of business the borrowers' are willing to get involved in, that is to say the size/ nature of business should be clear to the borrower's at the time of getting credit (Wassaw, 2003). Micro credit institutions have largely ignored borrowers' characteristic such as education, collateral, character and credit worth of borrowers'. Education level determines usage of credit positively or negatively (Thapa, 2007). Collateral availability increases the borrowers' chances of getting credit and reduces the risk of micro credit

institutions losing the borrowed funds. The character of borrowers' and their credit worth play a big role in utilizing credit and its eventual pay back (Harms, 2007 and Gunnana, 2003). In Uganda micro credit has been availed to the poor through the rural farmers' scheme, the entandikwa scheme, youth entrepreneurship scheme and now the broad plan of prosperity for all, under which the establishment of savings and credit cooperatives organizations (SACCO) is emphasized. Despite the above observations, studies combining constructs of micro credit access, borrower's characteristic, business type and household income in a single study using data from a developing world context remains sparse or at best anecdotal. This study attempts to address this gap in literature using evidence from Uganda.

**1.2     STATEMENT OF THE PROBLEM**

Despite government's effort, aimed at improving household incomes for the rural poor people, through micro credit programmes many households still have low incomes. This may be attributed to borrowers' characteristic, business type and continued inaccessibility to micro credit.

**1.3     Purpose of the study**

The purpose of this study therefore is to examine the relationship between accessing micro credit, borrowers' characteristic, business type and household income in rural areas, taking Kasese district as a case study.

**1.4     Research Objectives**

  i.    To determine the relationship between accessing micro credit and household income in rural areas.

 ii.    To establish the relationship between the borrowers' characteristic and house hold income.

iii.    To find out if there is a relationship between accessing micro credit and borrowers' characteristic.

 iv.    To investigate the relationship between accessing micro credit, borrowers' characteristic, business type and household income.

**1.5     Research Questions**

   i.    What is the relationship between accessing micro credit and household income?

  ii.    Is there a relationship between the borrowers' characteristic and household income?

 iii.    Is it true that accessing micro credit and borrowers' characteristic are related?

 iv.    Accessing micro credit, borrowers' characteristic, business type and household income in rural areas are related, is this true?

**1.6     Scope of the Study**

**1.6.1 Content Scope:**

This study looked at the relationship between accessing micro credit, borrowers' characteristics, business type and household income in rural areas. Micro credit was looked at in terms of credit limit, resource mobilization, portfolio quality, outreach, gender and marital status. Borrowers' characteristics in terms of education level, credit worthy, knowledge of business, character and collateral while business type in terms of business location, size/nature (retail/whole sale) of business and household income in terms of savings, source of income and business growth.

**1.6.2     Geographical Scope:**

The study was conducted in Kasese district, which is found in western Uganda and it has 23 subcounties with a population of about 600000 people (UBOS, 2007). It has over 32 registered micro credit institutions (Kaddnet, 2006). For this study, Ikongo micro finance scheme, Bukonzo joint microfinance, and Centenary bank, Kasese branch, were the institutions under the study.

**1.7    Significance of the Study**

a) This study provides a better understanding to micro finance operations, borrowers' characteristic and how they relate to the household income.

b) It will contribute to the body of knowledge and existing literature for future researchers with interest in micro finance.

c) This study will benefit Policy makers and users of micro credit. Since it will have looked at operations of the institutions and suggested possible areas of improving and maintaining.

## 1.8     Conceptual Framework

The conceptual frame work below was developed out of a review of the existing literature on micro credit institutions.  Micro credit institutions serve and empower the poor people to fill the gap created by the inability of formal financial institutions to mobilize and provide savings and credit services to the rural poor (Sayma et al.,2009; Choudhury et al., 2005; Yunus, 1995. The model comprises interrelated variables, micro credit access and borrowers' characteristics as the independent variables and household income as the dependent variable moderated by business type.  Micro credit access is where by small loans are made available to those who need credit (Mohammad, 2008). Borrowers' characteristics are attributes associated or possessed by the people who benefit from the micro credit operations. Business type, this involves different income generating activities people who benefit from micro credit operations get involved in. Household income includes all factors that enable individuals to meet there basic needs. These variables supplement each other, borrowers' with good characteristics will easily access credit and can engage in businesses which will lead to increased productivity, savings and as result household incomes will increase and the reverse is true(Mohammad, 2008).

**Fig 1: Conceptual Framework for accessing micro credit, borrowers' characteristics, business type and household income**

| ACCESSING MICRO CREDIT<br>• Credit<br>• Resource Mobilization<br>• Portfolio<br>• Outreach<br>• Gender,marit | | |
| --- | --- | --- |

| BUSINESS TYPE<br><br>• Size /Nature of Business |
| --- |

| HOUSEHOLD INCOME<br>• Savings<br>• Source of Income<br>• Business growth |
| --- |

| BORROWERS' CHARACTERISTIC<br>• Education<br>• Creditworthy<br>• Knowledge of Business<br>• Character/col lateral |
| --- |
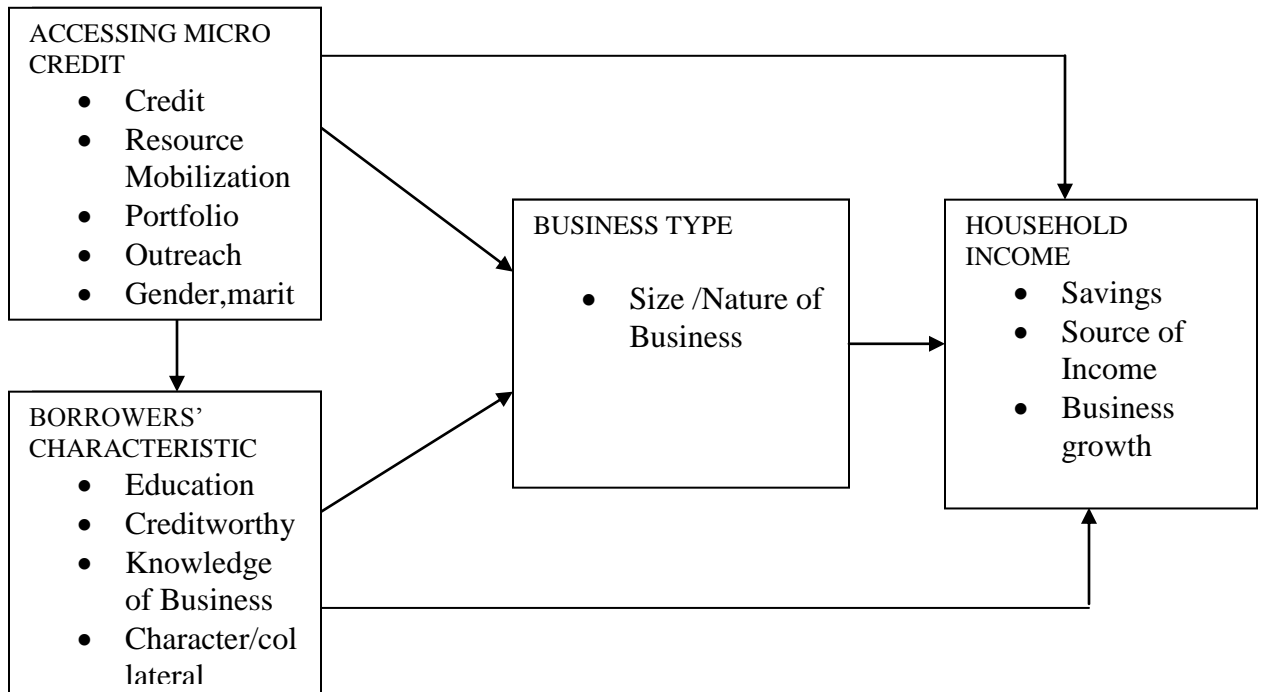
Adapted from: - (Ajay( 2007), Marguriate( 2000), PEAP( 2002), Sayma( 2009), Yunus( 1995).

**CHAPTER TWO**

**2.0   LITERATURE REVIEW**

**2.1   The Concept of Micro credit**:

Micro credit refers to the small loans made available to the poor (Mohammad, 2008). It can also be referred to as small scale financial services primarily aimed at providing credit and savings to individuals involved in small scale enterprises (Robinson, 2001). This is done through a collateral free group based lending strategy (Yunus, 1999); Sayma et al., 2009. Micro credit institutions have emerged as a substitute for formal financial institutions which have limited the accessibility to credit by the poor due to lack of collateral (Choudhury et al., 2005). It is an important source of income for many poor people in low developing countries. Recognising this, governments and donors have sought to promote small firms usually through credit programmes PEAP, 2002 and Wali, 2009. Many developing countries have supported it because it offers the rural poor access to flexible financial services as well as improving their well fare (Okurut, 2004). Micro credit institutions enhance household's capacity through financing investments promoted by the poor (Mann, 2002). Micro credit covers abroad range of financial services including loans, deposit, payment service, insurance to the poor and their micro enterprises.

**2.2     Accessing micro credit and Household income**

This is where credit is made available to the poor people or to those who need it (Gautam, 2008). In many rural areas of developing countries, lack of access to formal financial services has been seen as a sever constraint that prevents low income households from

improving their incomes (Wali, 2009). For instance as observed by Mohammad, 2008 over 500 million poor people in developing countries with small businesses have often cited limited access to formal financial institutions for credit as the biggest challenge to their business growth. With the success of Grameen bank a micro credit institution in Bangladash where the low income households have been able to access credit and as a result their household income has improved, accessing micro credit by the rural poor is therefore a viable option for the rural poor to use while improving their household income. The accessibility to credit is all aimed at improving the household incomes of the poor people.

The accessibility to credit by the poor people enables them to mobilise capital which supports them in starting businesses. This leads to increased productivity and ownership of assets which eventually improves their household income. The accessibility to credit is made easy by the credit institutions defining their credit limit which refers to the amount of credit that an institution is willing to give out to the potential borrowers' (maximum & minimum). It's a determinate in accessing credit by the potential borrowers since most often they know their credit needs better then any body else(Olujide, 2008). A borrower knows in advance what he or she is able to access and because of this borrowers' can always plan well in advance on how best they want to access the credit. It further enables the credit institution to know how much money and borrowers' it can give out at a particular time this planning translates into improving household income (AMFIU, 2008). Credit limit enables the institutions to be more realistic in setting out its target towards potential borrowers' accessing credit.

According to Mohammad, 2008; PEAP, 2002 developing countries and donors have intensified resource mobilisation in order to boast the activities of the micro credit institution. This is done through allocating more funds to the activities of MCIs, looking for grants and encouraging household to start saving. Increased activities of MCIs have helped the poor people engage in businesses that enable them to save and live a good life. CGAP, 2003 observed that effective resource mobilisation by micro credit institutions require reasonable levels of credit needs projection for the potential borrowers'. Micro credit institutions increased resource base enables the borrowers' to access credit easily (Robinson, 2002 and Ssendaula, 2000). The easy accessibility to credit from a micro credit institution enables the borrowers to engage in businesses that can increase their productivity and ownership of assets (Wali, 2009). Harms, 2007 noted that micro credit institutions with limited resources affect the borrowers chances of accessing credit since the funds might be limited or not available at the time the borrowers' needs it (Zahid, 2003). It is therefore crucial for a micro credit institution to successfully mobilise resources if borrowers' must continue accessing credit (Vergel, 2004). For this to have an impact on the target groups the resources mobilised should be tilled towards benefiting these who are saving. Savings by potential borrowers' do create a sense of responsibility in them as they know how hard it's to put money together for an activity**.**

Micro credit institutions do improve the household income if they reach out to the target population through knowing and reaching out to the potential borrowers'. When the MCIs reach out to the potential borrowers, it becomes easy for them to get credit and later engage in businesses which will improve the household's incomes. Sergio et al., 2002, noted that

outreach is the social value of the output of a micro credit institution in terms of depth, quality, and worth to users, breadth, length, and scope. If these are fulfilled it's easy for the poor people to access credit as a result. When micro credit institutions go near to the target groups with flexible terms in regard to credit the borrowers find it easy to access credit. According to Musinguzi, 2000 one of the important ways of improving household incomes is through providing appropriate credit opportunities to the poor which will enable them engage in productive activities and generate income. Credit accessibility can only make sense if the services of the credit institutions reach out to the target group Harms, 2007.

The total worth of the credit institution in regard to the funds available to the potential borrowers' is critical factor in enabling borrowers' access funds. Loan portfolio of institutions shows how much capacity in terms of money they have and can handle. Micro credit institutions with a good loan portfolio will most often serve its potential borrowers since most of the time they have funds for credit (AMFIU, 2006). Loan portfolio of a micro credit institution is considered to be the most important asset, income earner and the largest source of potential risk (AMFIU, 2002). Strict monitoring of the quality of a loan portfolio of any MCI is crucial for its viability and sustainability (AMFIU, 2008). Sawyer, 1995 and Bihangamba,1995 noted that, it's essential for the lender to take active interest in the borrower and monitor his continuing ability to repay the debt which has a direct relationship with the institutions loan portfolio and eventual easy accessibility to credit.

The micro credit institutions have come up to provide micro credit services to the poor, the marginalized and the deprived, with the main focus on women living below the poverty

line (Sayma et al.,2009). This is done through encouraging women to join groups and identify businesses that can easily enable them access credit (Yunus, 1999). The poor have started on small businesses with a clear direction on how it can help them improve on incomes. Micro credit institutions have their main objective as improving the socio-economic conditions of the poor people's families through increasing their access to credit (Olujide, 2008). This enables the poor to engage in productive activities which will eventually lead to increased household income (The Microfinance Banker vol.5 issue 3 2005). Micro credit institution operations is one of the most gender biased applications, an effective intervention for the empowerment of women through enabling them access credit easily (Olujide ,2008; Anurekha ,2009; Mohindra et al., 2008). The focus on women is an important principle that has done a lot to enhance the progressive image of micro credit programs within the social development sector. Women beneficiaries from micro credit operations generally value the acceptance they receive as business partners and many are enthusiastic about their prospective independent enterprises (Olujide, 2008). Since a woman cannot often provide collateral for conventional loans or most times lack knowledge on how to access such loans, they are considered a major beneficiary group from micro credit (Irmi, 2000). "Doing gender or working for a positive impact on gender relations has become one of the prerequisites of social development projects in the nineties". From the information above we observe that accessibility to credit boasts activities that lead to improved household incomes. This signifies a relationship between the two variables.

### 2.3.0   Micro credit and Borrowers' Characteristic

These are attributes borrowers' should have if they are to benefit from or access micro credit institution services easily (Sayma et al., 2009). Accessibility to credit by the borrowers' will depend on the seriousness MCIs attach to the borrowers' characteristic before giving credit out (Wali, 2009). For instance borrowers who have collateral will easily access credit since it reduces the risk of the institution losing its funds. These characteristics include education, collateral, character and credit worthy of borrowers'. According to Harms, 2007; Gunnana, 2003 accessibility to credit by the poor people in rural areas is related to the borrowers' characteristic above. Lilltlefield, 2003 observed that, poor people in developing countries have no access to formal financial institution services due to lack of collateral. The emerging credit institutions have since reduced this gap through availing credit on the bases of trust and group based lending strategy.

According to Ajay, 2006 accessibility to and usage of credit depends on the borrowers' level of education. For instance people who earn a salary normally access credit easily, since salary acts as collateral. Vickers, 1993 noted that education acts as a prerequisite and a key factor in raising awareness and empowering the poor people to participate in national development through easy accessibility to credit. Through different trainings to the poor, they end up acquiring skills if used well can make them access credit easily. At a world education forum held in daker in April 2000, the international community under scored the need to increase household incomes and gave its collective commitment to work towards this aim through education. Where as its important that education is necessary in order to improve household incomes, it's also important to note that illiterate people often use

credit better then the educated persons. Not only is education important in increasing household income, its also key in wealth creation (education & poverty eradication, 2001). Thapa, 2007 noted that education and micro enterprises are the only good factors to consider while giving out credit. Zahid, 2003 however noted that illiterate people get credit because they are the majority who struggle to fulfill their basic needs due to their economic deprivation. According to Irmi, 2000 providing training and education gives the target group practical knowledge which empowers them with skills that will eventually require funding and in the process they find it easy to access credit from micro credit institutions. Most of the time credit institutions will give credit to people who have knowledge about what they are borrowering the funds for.

The borrowers' behavior in regard to repayment of the borrowed funds plays a big role in ensuring change occurs in the household's incomes. Different borrowers' behavior differently on receiving the credit, others will divert funds to different activities on the strength that they will pay back using other sources (Olujide, 2008). Those who use the funds correctly have high chances of improving their household incomes. Vergel, 2004 borrowers who made timely repayments gradually increase the amount of credit they are eligible to receive. Timely repayment has become the only assured way to gain access to repeated loans at the lowest financial cost available. According to Jain et al., 1995 for any credit scheme to operate effectively; it is important to know the character of borrowers' in relation to payment. This calls for investing in information gathering by MCIs on their potential borrowers' and always be mindful when setting performance targets against giving of credit to borrowers'. The pay period and method of paying back should be

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determined early and understood by both parties (lender & borrower) since the pay back period can be used as decision criterion to accept or reject the investment proposals Mohammad, 2008; Yaron, 1994 attaining a high rate of loan collection is a necessary condition for a micro credit to become self sustainable. This alone is not important, the credit institutions should develop a system of following up on progress with their borrowers' since this will ensure continuity of the institutions and borrowers' operations. . CGAP Annual report, 2004 and Barsley, 1994 noted that borrowers' aware that they can default on a loan with impunity come to regard loans as grants with little initiative to use the funds wisely.

Gregory ,1986 supports this point that loans not repaid decreases the funds intermediaries has available to lend.  When an individual does not pay a loan, the process of creating debt capacity is reversed and repayment capacity destroyed. FAO, 1989 a high percentage of none performing loans mean that funds are not available to provide to new borrowers. Ledger wood, 2000 noted that savings can act as collateral, the poor people who save can therefore access credit if the MCI service is taken near them. Savings should be carefully emphasized in that one should not sell their property and say they are saving. This might keep households in the some situation. It's therefore implied that micro credit institution's success in mobilizing saving is crucial to its becoming sustainable.

The character and reputation of the potential borrower therefore is an important factor while micro credit institutions give out credit to the borrowers' (Okurut, 2004). Since loans in the informal financial sector are mainly character loans (i.e. not backed by any collateral security), the borrowers' reputation is of significant importance to the informal lender. As

noted early most institutions don't have enough information pertaining to there potential borrowers'.

Collateral plays a big role in accessing credit since it gives assurance to the credit institutions regarding the safety of the borrowed funds. Formal institutions have denied the poor people access to credit for lack of collateral (Ajay, 2009 and Chiqudu, 1991). Collateral assists in determining creditworthiness of the borrowers' and also reduces the enforcement problem. In practice households apply for credit, but lenders determine how much credit is allocated to them, basing on their perception of the household's creditworthiness. Micro credit institutions have emerged to provide a solution to the poorest inability of accessing credit from the formal institutions due to lack of collateral. The MCIs have made accessibility to credit easy through using the collateral free group based lending strategy (Yunus ,1999; Sayma et al., 2009). The borrowers' are encouraged to form groups, start saving and each member guarantees the loan of the other (savings and intermediation to replace physical collateral). An institutions success in mobilizing the potential borrowers' to form groups and start saving makes accessibility to credit by the borrowers' easy since savings and members in groups can substitute for collateral (Anna,2005; Ledgerwood,2000). From the lenders perspective, improved creditworthiness of borrowers will reduce the risk of default, improve profitability and financial sustainability. From the household's side, increased creditworthiness means increased chances of accessing credit, which may provide a possible escape route from low incomes (Okurut, 2004).

Individuals who have good knowledge of business they want to engage in always have high chances of accessing credit and succeeding in doing their business. This is as a result of the projections borrowers make before they start on any business or borrowering. Credit institutions stand to benefit if they give credit to households which have a clear mind of what they want to use the money for (CGAP, 2004). ''Micro credit programs have brought the vibrancy of the market economy to the poorest villages and people of the world. This business approach aimed at improving household incomes has allowed millions of individuals to work their way out of poverty'' (quoted from micro credit summit 1996). Prospective beneficiaries or clients who are already in business or have business ideas have high chances of accessing credit (Irmi, 2004). According to Musinguzi, 2000 a mere provision of credit by what ever route is not sufficient to improve household incomes. It is crucial for micro credit institutions to provide appropriate guidance and advice that will raise awareness of productive possibilities for the use of credit. Good knowledge of business enables the borrowers' to make appropriate decision when it comes to borrowing. The relationship between accessing credit and borrowers' characteristics can't be over emphasized as it has already been evidenced above that credit institutions find it easy to give funds to household who have collateral.

## 2.4    Borrowers' Characteristics and   Household income

The poorest people and increasing their household incomes has become the object of unprecedented attention at international summits since the 1990s (Wali, 2009). According to Mohammad, 2008 over 90% of the people in developing countries don't have access to credit or saving services due to lack of collateral, knowledge of business and bad borrowers' character. This limits their capacity of increasing production, domestic savings

and their ability to engage in businesses. Uganda through her different programs has committed it self to achieving the targets set by these different agencies for example, the millennium development goals which focus on improving household income (Background to the budget 2007/2008). Developing countries have identified limited accessibility to credit facilities from formal financial institution by the poor as one of the causes of low household incomes (Harms, 2007). CGAP, 2006 noted that, informal financial sector plays an essential role in the financial system of developing countries. Abott, 1984 deficiencies in formal financial system have made the informal financial sector attractive in less developed countries. It provides services tailored to local needs and conditions. Different agencies like the UN, OECD, and AU have set targets aimed at increasing household incomes for those living on less then a dollar per day (UNDP, 2005).

Savings by households do play a key role in enabling them to involve in investments that can improve their household incomes also enabling the poor people gain access to credit on reasonable terms. According to Vogel, 2003 savings mobilization is considered to be a crucial factor in the development of a sound financial institution which has a direct link with household income. Developing countries and NGOs have become more interested in savings mobilization programs with an aim of using the savings to improve the household incomes through engaging in activities that increase production and ownership of assets. This credit will enable the borrowers' to engage in businesses which eventually improve the household incomes (Olujide, 2008). Micro credit institutions are dedicated to providing savings and loan facilities to clients neglected by the formal banking sector. This is because of the smallness of the amounts required by the borrowers, the perceived remoteness of the

clients' location, and lack of property that could serve as collateral (Irmi, 2004). Ledger wood, 2000 observed that savings collect interests from the borrower and the lender. To the lender, savings is a condition for receiving a loan and savings partly act as collateral to the loan. Acquiring a loan is another motivating factor that can influence one's willingness to save. A number of borrowers' prefer to accumulate savings other than acquiring a loan (Margurite, 2000). The economically active poor generally want to save; inorder to benefit from using their savings as collateral. Every one involved in micro finance shares a basic goal to provide credit and saving services to thousands or millions of poor people in a big way (Campion, 2001).

According to Robinson (1994) people save for at least 4 reasons:

- Consumption and for consumers' durables

- Investment

- Social and religious or disability

- Seasonal variations in cash flow.

CGAP, 2003 micro credit is seen as the most important financing service, which is missing in rural areas. It has been recommended that potential borrowers' should start with savings before credits are offered. Such an approach is meant to make the savers develop a sense of ownership and as they save they will be thinking about what economic activities they can be involved in (AMFIU, 2006). It's easier to handle the savings operations then the credit one and the social commitment is easily achieved if members are first contributing to the development of their credit institution through savings. By allowing this process of growth

to take place the micro credit institution will be taken as one developed by the members to satisfy their particular needs. This will show them how tough it is to put money aside from the little available resources in the name of savings for future investment. Experience shows that; it's financially more favourable to postpone the desired expenditure until the required money has been saved rather than taking credit and paying interest (Vogel, 2004). Bernard, 2002 said that access alone to financial services provided by micro credit as a service might not be sufficient to improve the economic situation of households in the rural areas. It's therefore important for the household to save if their incomes have to improve. Since savings give a clear picture of how much capital one has.

Households have different sources of income that enable them met their day to day needs (Gautam, 2008). These can include agriculture (farming), educated people earning a salary, engaging in businesses. All these sources contribute to the improvement of household income in one way or the other. The flow of income varies from household to household for example a family where a wife and husband are all working, where a family is engaged in commercial farming their levels of income will not be the some when compared to those families that are not involved in any of the above. Further to the above households that have a well defined source of income can easily increase or mobilise capital through accessing credit which they can use in different investments and end up improving household incomes.

Basil ,2002 the key requirement for increasing household income is by increasing income sources of the poor people by availing credit which will enable them engage in businesses

which will increase productivity, assets ownership and thereafter improving household incomes. According to Ssendaula, 2000 a key element of increasing household income is through provision of sustainable financial services to the poor. Experience world over has shown that micro credit institutions can supply these services, effectively, provided they are free to charge interest rate, which covers the cost of operations. The easy access to the credit services enables poor people to engage in businesses that will improve their household income. Yunus,2003 the main goal of micro credit institution is to provide flexible and appropriate financial services, not usually available from commercial banks to a greater number of people.

## 2.5 Accessing micro credit, Borrowers' characteristics ,Business Type and Household income

Business is an occupation involving the regular production, purchase, sale of goods and services undertaken with an objective of earning profits and acquiring wealth. This is made possible by the availability or accessing credit to fund the different activities that lead to creation of wealth (Wali, 2009). Wasswa, 2003 asserts that management's failure to examine the question; what is our business? In a timely, manner is the most important single cause of business failure and poor performance. When the concept of an individuals business is not thought through and spelled out clearly, it will lack a solid foundation for establishing realistic objectives and strategies. It's therefore important that micro credit schemes define what enterprises it is willing to finance.  Vespar,1983 says that "lack of good knowledge of ones business idea has lead to difficult in raising capital and the end result is business failure which automatically leads to low household income.

The form of business will depend upon a number of factors, which include availability of credit, education and character of individuals. These will determine the scale of operations or size of the business (Wasswa, 2003). Cole, 1994 the sole purpose of your business is to create a customer. He will keep supporting the business to enable it make profits which eventually leads to improved incomes of the household's involved in business. Technological excellence, financial skills, and product projections are nothing without customers. Borrowers'/individuals involved in business when asked to measure the value of a company, they look at it from the point of assets or cash flow the business has. These measures are critical but non drives the values of the company the way customers do. There is only one valid definition of business purpose, to create a customer" (Wasswa, 2003). It's the customer who determines what a business is to be like through his willingness to pay for a good or a service that converts economic resources into wealth (goods & services). Customers buy and thus give you profit if your costs are right. Focusing on the customers' needs gives the purpose of the business. Business should there fore have customer care as an important aspect of the business.

FINCA International, 2005 noted that micro credit business/Service is an important source of income for many poor people in low developing countries. The most attractive feature of credit institutions is their ability to handle small transactions cheaply. Normally, micro credit institutions have an informational advantage that allows them to screen borrowers more cheaply than banks (Gvnnane, 1993). Many of their loans are based on character, the

reputation of borrowers and their savings substitute for collateral that is more costly for borrowers to provide and for the lenders to evaluate (Gennrich, 2002).

Marguerite, 2001 noted that the rural poor can save, although commercial banks are rarely able to mobilize these savings in financial form. Rural credit demand is high, not only to survive draught and other periodic disasters but also to help move out of poverty through investments that improve productivity and economic opportunities, yet high perceived costs and risk of intermediation have deterred formal financial institutions from serving the rural poor(Semukono,1996). According to Yaron, 1994 two problems in particular confront MCIs: First, ensuring efficient and relatively low operational costs and procedure for screening borrowers, processing and monitoring loans. Second, always make sure that there is adequate loan recovery so that continued operations are feasible without constant reliance on state funds or bail outs.

Numerous studies as shown above strongly affirm the existence of a relationship between the study variables basing on data from more developed economy's. This therefore creates need to use data from developing countries and see what conclusions one would reach. This study therefore attempts to address this gap in literature using data from one of the rural areas in a case of Kasese.

**CHAPTER THREE**

## 3.0 METHODOLOGY

This chapter presents the methods used to obtain data from the respondents. It includes the following: - the research design, population and sample size, sampling procedure and measurements and analysis.

### 3.1    Research Design and Sampling Procedure

### 3.1.1    Research Design

A cross sectional survey design was used to explore whether access to micro credit, borrowers' characteristics, business type have a relationship with household income. This design was chosen basing on the nature of the study.

### 3.1.2    Sampling Procedure

Stratified and Systematic sampling techniques were used to decide on the micro credit institution and there beneficiaries to be considered for this study.

Stratified sampling technique was used while selecting credit institutions for this study. Kasese district non governmental net work office (Kaddnet) provided details regarding credit institutions in the district. It was revealed that Kasese district has 32 registered micro credit institutions. According to the office administrator of kaddnet, almost every subcounty in the district has a credit institution. These MCIs where grouped in terms of regions (East, West, and South) and Ikongo micro finance, Bukonzo joint and Centenary bank Kasese branch were selected basing on number of years they have served the people, the three institutions share 55% of the market share of the micro credit institutions (kaddnet, 2006) and they have better records.

Systematic sampling technique was used to select the beneficiaries. The institutions under study provided the members registers which had a total of 1004 beneficiaries. The institutions were numbered from 1-3. This was achieved by writing numbers 1, 2 &3 on a piece of paper and there after three people who the study assigned to represent the institutions picked the papers to enable the study decide on which institution will be considered as number 1, 2 & 3. Ikongo was picked as number 1 followed by Bukonzo joint and then Centenary bank. The study thereafter calculated for the selection interval number (n) by dividing the total number of beneficiaries by the sample size i.e 1004/131. This gave a selection interval number of 7. A start number was obtained from the beneficiary's register of the 1st institution and from then on every 7th beneficiary from the start number was selected, until the sample size was attained. The first beneficiary in the second institution got the number following that of the last beneficiary in the first institution. Like wise the first in the third followed the last in the second institution.

Each institution contributed proportionately to the sample size as indicated in the table 1 below:

**Table 1 shows the sample size for the study and Responses from the beneficiaries**

| INSTITUTION | POPULATION SIZE | SAMPLE SIZE | ACTUAL RESPONSES |
|---|---|---|---|
| | CLIENTS | Clients | CLIENTS |
| IKONGO | 280 | 280/1004*131=37 | 29 |
| BUKONZO JOINT | 314 | 314/1004*131=41 | 32 |
| CERUDEB | 410 | 410/1004*131=53 | 21 |
| **Total** | **1004** | **131** | **82** |

The sample size is 131 beneficiaries and actual respondents are 82 as per the table above.

**3.2  Study Population and Sample Size**

**3.2.1  Population**

The study was carried out using beneficiaries who have benefited from micro credit institutions operating in some parts of Kasese district. Kasese is found in western Uganda, bordering eastern Congo, Kabarole district and Bushenyi district. It has a population of about 600000 people (UBOS, 2007) and 32 registered micro credit institutions by the time of this study (Kaddnet, 2006). A sample of three institutions was chosen and these include:- Ikongo rural finance scheme with a population of 280 borrowers, Bukonzo joint micro finance and Centenary bank Kasese branch with a population of 314 and 410 borrowers respectively. The three institutions give a total of 1004 beneficiaries.

**3.2.2  Sample Size**

The sample size was determined according to saunders, Lewi's and and Thorhill (1997) formula as shown below:

$n = p\% \times q\% \times (z/e \%)^{2;}$

Where    p = estimated prevalence of variable of interest (p=0.32; UPRS, 2002)

q = 1 − p = 0.68

z = desired level of confidence (95%)

z ± 1.963

e =accepted margin of error 8% (0.08)

n=required sample size

**n=.32\*.68\*(1.963/.08)2**

**n    = 131**

Bailey (1994) noted that sample size can be 30-500. Therefore for this study sample size is 131.

### 3.3 Date Source

**3.3.1:** Primary data; was the main source of data which was collected through using a self administered questionnaire. The beneficiaries were selected from the three micro credit institutions and they helped in providing answers to the set questions. They were selected systematically and out of 131 selected beneficiaries 82 responded.

### 3.4 Date Collection methods and Instruments

A questionnaire was used to obtain data from the respondents. The selected beneficiaries per institution were called to three different points and the study was introduced to them. Informed consent was sought from the beneficiaries on individual basis before beginning to fill the questionnaires (appendix attached). The actual beneficiaries who responded are 82 out of 131, giving us a response rate of 62.6% (82/131).

The questionnaire combined both open and close ended questions on: accessing micro credit, borrowers' characteristic, business type and household income. I also held two focus group discussions, one was held with beneficiaries of Ikongo at one of their weekly meeting points and one at Bukonzo joint, in the community hall of the institution and there were five participants for each group. The only information they received before the discussion was that, they were going to discuss issues related to micro finance operations. The researcher with one assistant carried out the focussed group discussion (FGD) using an FGD guide. The guide covered the following areas: meaning of micro credit, accessibility to credit, what is considered for one to qualify for a loan, time limit after borrowing, availability of credit, enterprises to be funded and challenges they face while borrowing.

### 3.5 Variables and their Measurement

The independent variable is accessing micro credit, borrowers' characteristic, moderated by business type, and the dependent variable is household income. A questionnaire was used to get data from individual respondents. Accessing micro credit was measured in respect of credit facility, resource mobilization, portfolio quality, outreach, gender and marital status on a 5 point likert scale developed by Morgan and Hunny,1994 and recommended by, Shoal and Wong ,2000; Ashok and Han, 2000. Borrowers' characteristic was measured by 5 major items, which include education level, credit worth, knowledge of business, character, collateral and repayment levels. A SERVQUAL instrument (Berry, 1998) developed in the USA using a five point scale ranging from strong agreement to strong disagreement, business type was measured in respect of size or nature of business on a five point as in the case of micro credit. House hold income level was measured in respect of savings, individual income levels, business growth on a 5 point likert scale of strongly agree(5), agree(4), uncertain(3), disagree(2), and strongly disagree(1) as used by Parasuraman, Berry and Zeitahmal ,1988.

### 3.6 Validity and Reliability of the instruments:

Validity of the instruments was obtained using the content validity index (CVI). The instrument was given to two experts to give their opinion on the relevance of the questions using a four point scale starting from very relevant, relevant, fairly relevant and not relevant. The CVI's for the two experts was above 0.6 (0.68, 0.72) respectively. The instrument was considered valid. The internal consistence of scales used on the instruments

was measured using Cronbach's alpha coefficient. Alpha (x) coefficient of 0.6 and above would indicate the instrument's internal consistence (Sekaran, 2000). All the alphas for the variables were above 0.6, see table below.

**Table 2 reliability results.**

| Item/Variable | Cronbach's alpha |
|---------------|------------------|
| Micro credit access | .874 |
| Borrowers' characteristic | .889 |
| Business Type | .777 |
| Household income | .740 |

From the above table it can be concluded that all the constructs exhibited a high degree of reliability with cronbach alpha exceeding the suggested cut point of 0.6. Thus the measurement scales were deemed reliable and demonstrated high degree of internal consistency.

### 3.7  Data Processing and Data Analysis

Primary data was compiled, sorted, edited, classified and entered using an excel computer programme with a view of checking for completeness and accuracy.  Thereafter an analysis involving descriptive statistics, such as frequencies, percentages and inferential analysis followed. This was done with the help of a statistical package for social scientist (SPSS). Specifically frequencies and percentages of the sample characteristics were obtained.  This helped us to understand the respondents and institutions we are dealing with and how they relate to house hold income. Pearson's correlations coefficients were used to generate a

zero order correlations coefficients and to establish the significance of relationship between the variables. It provides better results when one is trying to establish a relationship between variables. This was achieved by handling the objective of the study. A multiple regression analysis was used to fit the prediction model. It was used as a result of its capacity to determine a variable that fits high in prediction of models. It was therefore important to use Pearson's correlation coefficients to determine objectives 1, 2, 3&4.

## 3.8    Quality control

A protested and standardised tool was used for data collection (questionnaire).    The researcher assistant was trained before starting on data collection and all the questionnaires were checked for completeness before living the study site.

## 3.9      Ethical Considerations

The study was approved by the department of finance and accounting, Makerere university business school. The faculty of finance higher degrees research and ethics committee, permission to carry out the research was sought from the management of the institutions; Ikongo micro credit institution, Bukonzo joint and Centenary Bank Kasese branch. Informed consent was sought for and obtained from the beneficiaries that participated in the study.

## 3.10    Dissemination of Results

The results of this study will be disseminated to; graduate School, department of finance and accounting, Makerere university main library, the participating institutions (Ikongo micro credit institution, Bukonzo joint and Centenary Bank Kasese branch).

**3.11  Limitations of the study**

The major constraint the researcher found was non response from the targeted beneficiaries and also resistance to disclosing easily issues concerning with money. This was partly overcome by scheduling to meet the beneficiaries while they conducted their weekly meeting businesses and reaffirming to them that the information they give will be kept confidentially.

# CHAPTER FOUR

## DATA PRESENTATION, INTERPRETATION AND DISCUSSION

### 4.0 INTRODUCTION

In this section we present findings in accordance with the research questions and objectives. The 1st section covers the sample characteristics which include: age, sex, marital status, years with the institutions, loan size and loan maturity. The 2nd part covers inferential statistics which help in interpreting the research objectives.

### 4.1 Sample Characteristic:

Section 4.1 covers data on sample characteristic and its presented in the tables below showing their frequency and percentages.

### 4.1.1 Age of Respondents

20% of the beneficiaries were aged between 19 to 25 years while 21.3% were aged between 26 to 30 years, 22.7% were aged between 31 to 35 and 36 to 40 and 13.3% were above 40 years as presented in table 4.3 below. The results indicate that most of the beneficiaries are neither too old nor too young. According to the administrators of the institutions, this is the most active age group amongst the beneficiaries. Olujide, 2008 agrees with this observation. While talking to the beneficiaries it was clear that, this age group has many needs which call for hard work in order to fulfil them. When the potential borrowers' access credits they always try and put it to better use for example by engaging in different businesses. This will lead to increased productivity, ownership of assets and the end result will be improved household incomes of the poor people. According to Mugerwa, 2000 micro credit institutions always give funds to active people who clearly know why they want the funds.

**Table 3; shows the frequency and percentages of beneficiaries according to age.**

| Variable –Age | Frequency | Percentage |
|---|---|---|
| 19-25 | 15 | 20 |
| 26-30 | 16 | 21 |
| 31-35 | 17 | 22 |
| 36-40 | 17 | 22 |
| Above 40 years | 10 | 13 |
| Total | 82 | 100 |

(Source: Primary data)

**4.1.2: Marital status**

37.8% of the beneficiaries were single while 62.2% were married as shown in the table below. The married form the majority of respondents, this can be linked to the fact that they are more responsible and have many financial needs as compared to single people. Married people will borrower in order to get start up capital. This enables them to engage in businesses which will increase their productivity and eventually their household incomes. Credit institutions also find it easy to give credit to married person then single persons since most of the time they give security to one other (Olijude, 2008).

**Table 4; frequency and percentages showing marital status of the Respondents**

| Variable –Marital status | Frequency | Percentage |
|---|---|---|
| Single | 31 | 37.8 |
| Married | 51 | 62.2 |
| Total | 82 | 100 |

(Source: Primary data)

**4.1.3  Number of years with the institutions.**

28.1% of the respondents had stayed with the institutions for more then 5 years as per table 4.5 below. Implying that the respondents had abetter understanding of micro credit operations and their answers can be relied upon greatly. It's also important to note that for a beneficiary to stay for all this time in an institution means that he/she is benefiting from the operations of a micro credit institution. It was noted while talking to the beneficiaries that their incomes and assets had increased over time. For example most of them were involved in coffee buying, smoked fish retail business and second hand cloths and a number of them had bought bicycles and afew had motorcycles to be used for boda boda services.

**Table 5; frequency and percentages showing respondent's number of years with institution**

| Variable –number of years | Frequency | Percentage |
|---|---|---|
| 1 year | 17 | 20.7 |
| 2-3 | 26 | 31.7 |
| 4-5 | 16 | 19.5 |
| Above 5 years | 23 | 28.1 |
| Total | 82 | 100 |

(Source: Primary data)

### 4.1.4    General information about micro credit institutions and beneficiaries.

Table 6 below explains the following:-

100% of the beneficiaries who responded agree that they know about the operations/usage of micro credit institutions. This means that government's initiatives towards improving household income through micro credit programmes are known to the population. It's therefore important to encourage the targeted population (poor people) to start acquiring the money/credit and use it for small scale activities that will eventually increase their household income.

93.9% of the beneficiaries accepted that micro credit institutions know where there clients are meaning that outreach by the micro credit institutions to the intended beneficiaries can be achieved easily. For a micro credit institution to cause an impact it should be able to know where its targeted clients are found and reach them for easy service delivery.  6.1% of the beneficiaries however said that, MCIs don't know where its clients are found. This might mean that MCIs are selective while doing their work. For micro credit institutions to fully benefit its beneficiaries they must know where their clients are, what their financial

needs are, it should also be clear to the borrowers' what financial products MCIs are willing to provide and what business type the borrowers' intend to involve in.

72.4% agreed that these institutions offer the services of training, meaning that these beneficiaries are updated on current developments as far as operations of micro credit are concerned. This process empowers and gives confidence to the beneficiaries as they handle and utilise the credit. 27.6% disagree that MCIs offer training to its clients.

95.4% of the beneficiaries agreed that MCI's provide credit facility to them. Meaning that, potential borrowers' who make an effort of accessing and getting credit has high chances of getting the credit. 6.6% of the beneficiaries said that these institutions don't provide the services of credit. This might be falling in the group that doesn't save as shown below or people who don't have a clear plan for the credit.

91.8% of the beneficiaries agreed that these institutions offer the services of savings. This strengthens the beneficiaries' chances of accessing credit since their savings can be used as collateral (Sayma, 2008). 8.2 % of the beneficiaries however said that the savings service is not provided by MCIs. This means that it's hard for some potential clients to benefit from these institutions for lack of savings which are used mostly as collateral. Savings have a big relationship with accessing credit. Savings serve as security and also acts as a pointer to the borrowers' how hard it's to mobilise money for a particular purpose. One needs to sacrifice certain things in order to enjoy or achieve a desired goal (Margurite, 2000).

75.6% of the respondents agree that credit institutions reach out to the intended beneficiaries. This implies that if the institutions are utilised well, accessibility to credit can be easy, if the accessed credit is invested in small businesses it's likely that, the household incomes of the poor people can increase. Micro credit outreach serves and benefits the clients greatly for example when it reaches to the poor people it reduces on the cost of acquiring the credit by the beneficiaries. Since most of the factors that can hinder clients to benefit from these institutions are minimised by out reach. 24.4 % of the beneficiaries said no to MCIs reaching out to the intended clients. This definitely undermines the operations of credit institutions. According to Harms, 2007 MCIs can only make sense if they reach out to the target group.

53.7% of the respondents said that these MCIs serve more of the women then men. This is not suprising since most MCIs promote there services with a big focus being on women. MCIs believe that women are more reliable when it comes to using credit. They tend to use the funds for the very reason they have asked for it. 46.3% refused that these institutions serve more of female then male. From the discussion I had with some of the beneficiaries it was clear that women are given priority when accessing credit. This agrees with olijude, 2008.

75.9% of the beneficiaries believe that micro credit institutions serve the poor people more then the rich. This is in agreement with the sole reason why these institutions are formed, to enable the poor people access flexible financial services. 24.1% disagree with the above,

they believe that the rich are served more then the poor by these institutions. This definitely contradicts the reason why MCIs are being promoted.

95.7% who formed the majority of the respondents said that education is not considered while giving out credit to the beneficiaries. This is because most of the poor beneficiaries are illiterate people and are commonly rural based.  It's also true that MCIs target the rural based poor people despite their levels of education.  6.3% said that education is considered while giving credit. Education does not stop poor people from benefiting from micro credit institutions. They borrow and involve in different enterprises which lead to increased production and eventually household income.

91.4% of the respondents said that knowledge of business, character of borrowers', collateral availability is considered while determining/deciding who to access credit. Credit institutions always prefer working with people who have knowledge about business, who are saving already and these with good borrowing characteristic like repayments. 8.6% however said the above is not considered while giving out credit.

**Table 6; showing respondents YES and NO answers to some of the characteristics of micro credit institutions**

| Characteristics | Percentage | |
|---|---|---|
| | YES | NO |
| Do people know about the usage of micro credit | 100 | 0 |
| Do MFIs know where their clients are | 93.9 | 6.1 |
| Do these institutions offer the services of training | 72.4 | 27.6 |
| Do these MFIs offer credit facility | 93.4 | 6.6 |
| Do these institutions offer | 91.8 | 8.2 |

| | | |
|---|---|---|
| services of savings | | |
| Do these institutions reach out to the intended clients | 75.6 | 24.4 |
| Do these institutions have more men then women | 53.7 | 46.3 |
| Do these MFIs serve more of the rich then the poor | 24.1 | 75.9 |
| Do MFIs consider education while giving out loans | 6.3 | 93.8 |
| Is knowledge of business important while giving credit | 91.4 | 8.6 |

(Source: Primary data)

### 4.1.5   The average loan size

Table 7 shows how respondents were classified according to their loan amount they receive in order to establish whether it can support the beneficiaries start a small business.

46.9% of the beneficiaries got a loan amount of above 500000/= while 22.2% got between 300000 to 500000/=, 11.1% got in the range of 100000-300000/= and 19.8% got less then 100000/=. The amount of 500000/= can facilitate a person to begin a small enterprise in the rural areas. This might lead to increased productivity as a result of the beneficiary's involvement in different businesses and the end result is increased household income.

**Table 7; frequency and percentages showing the average loan size of the respondents**

| Average loan size | Frequency | Percentage |
|---|---|---|
| Less than 100000 | 16 | 19.8 |
| 100000-300000 | 9 | 11.1 |
| 300000-500000 | 18 | 22.2 |
| Above 500000 | 38 | 46.9 |
| Total | 82 | 100 |

(Source: Primary data)

**4.1.6 Loans in arrears**

The study also classified respondents according to their loan in arrears for the three institutions. Table 8 shows that 42.1% of the beneficiaries said that the loan in arrears was at less then 10%. This means that the institutions recovery rate is good and chances are that they will always have funds to give back to the clients (Micro finance support centre Uganda, working guidelines require that MCIs should have less than 10% of their loans in arrears). This implies that borrowers' are making some profit or have some other sources of income that unable them to pay back the borrowed funds. However it's important to note that 14.5% of the beneficiaries don't know any thing about loan portfolio.

**Table 8; frequency and percentages showing institutions loans in arrears**

| loan Portfolio | Frequency | Percentage |
|---|---|---|
| Less than 10 percent | 32 | 42.1 |
| 10-30 % | 17 | 22.4 |
| 31-50% | 6 | 7.9 |
| 51-70% | 3 | 3.9 |
| Above 70% | 7 | 9.2 |
| Don't know % | 11 | 14.5 |
| Total | 82 | 100 |

(Source: Primary data)

## 4.2    Inferential statistics

In this section we present, interpret and discuss data relating to the objectives and research questions.

**4.2.1 Accessing micro credit and household income levels**

This study revealed that there was a significant positive relationship between micro credit access and household income ($r=0.528$, $p<0.01$).    This means that if micro credit

institutions give more funds to households and they put it to better use their incomes will improve easily. It was further revealed that accessing micro credit and business type(r=0.536, p<0.00), and accessing micro credit and borrowers' characteristic (r=0.570, p<0.00) were significantly correlated as per the results presented in table 9 below. This relationship cause's interdependency among the above variables in that an individual will easily access credit as a result of good borrowers' characteristics (having collateral, good character, if he/she is credit worth) and if he has a business that requires funding. This means that if you increase micro credit access and funds borrowered are utilised well the chances are high that borrowers' will increase productivity and ownership of assets which will lead to increase in household income eventually. This is possible through MCI's having credit limits which can support small businesses, increase there resource base, have a good loan portfolio and reach out to the entire target group. This is in agreement with (Mohammod, 2008 and Sergio et al.,2000) who said that accessing micro credit has emerged as one of the most effective development intervention in the global fight aimed at increasing household income.  Robinson, 2000 also observed that micro financing is one of the most important tools used to increase household income; it helps to promote economic growth and development through improvement of resource allocation. PEAP,2000; Christen et al.,1995; Harms,2007   noted that in many developing countries limited accessibility to credit facilities from the formal financial institutions  by the poor has been identified as one of the causes of low household income.   From the above information it can be concluded that a well designed credit facility can improve the household income of the rural poor people. This will only happen however if the credit institutions reach out to the target group, the loan amount can support a business which will lead to increase in

production and ownership of assets. Finally the borrowers' characteristics and business type should always be considered before MCIs give out credit.

### 4.2.2  Borrowers' characteristic and house hold income

This study further reveals a significant positive relationship between borrowers' characteristic and other variables of the study. Business type exhibited the highest degree of a significant positive relationship with borrowers' characteristic($r=.533$, $p<0.01$), followed by house hold income showing a significant correlation($r=.676$,$p<0.01$) as presented in the table below.  Borrowers' with good characteristics can easily access credit which they can use to start small businesses. For example it was established that most credit institutions will give out funds if the borrowers are saving. This is in agreement with (Harms, 2007; Ajay, 2009) findings. According to Wali, 2009; CGAP, 2003; Sergio at al., 2000 in order for a micro credit institution to be successful; it has to reach out to all its intended beneficiaries. This will enable them access financial institutions and there services easily.  This relationship means that individuals with good character, who have collateral and are credit worth, have high chances of accessing credit which households need in order for them to engage in business. Good borrowers' characteristics enable individuals to access credit easily, since the credit institutions are assured of Good Corporation from the beneficiaries.  Credit institutions will always want to work with beneficiaries who will pay back the borrowed funds and who use the funds for the purpose they asked for it.  FAO, 1989 noted that, a high percentage of non performing loans mean that funds are not available to provide to new borrowers and if loans are not repaid, they

become grants. According to Vergel, 2004 borrowers who make timely repayments gradually increased their amount of credit they are eligible to receive.

**Table 9; showing Relationship between Independent and Dependent variables**

| Variables | 1 | 2 | 3 | 4 |
|---|---|---|---|---|
| 1)Micro credit | 1.000 | | | |
| 2)Borrowers characteristics | 0.570** | 1.000 | | |
| 3)Business type | 0.536** | 0.533** | 1.000 | |
| 4)Household income | 0.528** | 0.676** | 0.601** | 1.000 |

(Source: Primary data)
** Correlation is significant at the 0.01 level (2tailed)

### 4.2.3 Accessing micro credit and borrowers' characteristic

Table 9 above shows a significant positive relationship between micro credit and borrowers' characteristic(r=0.570, p<0.00). This means that if an MCI is to be successfully in its operations it should always consider the borrowers' characteristic (Sayma, 2009). AFMIU, 2002 the loan portfolio of an MCI is considered to be its most important asset and income earner as well as its largest source of potential risk. Sawyer, 1995; Bihangamba, 1995 noted that it is essential for the lender to take an active interest in the borrower and to monitor his continuing ability to repay the debt. Yaron, 1994, attaining a high rate of loan collection is a necessary condition for a micro credit to become self sustainable. Losses have often been the largest cost born by micro credit institutions and the principle cause of insolvency, illiquidity and increased reliance on state bail outs. Gregory, 1986 emphasizes this point that loans not repaid decreases the funds intermediaries have available to lend,

this undermines the financial, integrity of the lender, and tarnish the intermediary's reputation. When an individual does not pay a loan, the process of creating debt profile is reversed and repayment capacity destroyed (Jain et al., 1995). This implies that borrowers with collateral, good education background, knowledge of business and repayment habit will utilise the credit better and as a result household income will improve.

**4.2.4  Accessing micro credit, borrowers' characteristic, business type and house hold   income**

Table 9 above presents a significant positive relationship between accessing micro credit, borrowers' characteristic, business type and household income. The strongest relationship was exhibited with business type(r=0.533, p<0.01). This implies that, MCIs should always analyse/look at borrowers' business type critically before giving out credit. It is important that borrowers are clear about what they intend to use the money for. Significant correlation was observed between household income and micro credit access (r=0.676, p<0.01). Finally, there was a high significant positive relationship between business type and house hold income(r=0.601, p<0.01). This implies that both independent variables intervened by business type do influence household income of the poor people in rural areas. It is important to note that if MCIs are to benefit or improve household's income the borrowers' must have good borrowers' characteristic. When an individual accesses credit he or she should be in position to use it for the purpose why he requested for it, and there after he should pay back the money. This is in agreement with Basil, 2002 and Ssendaula, 2000 who said that for household incomes to increase there is need to provide sustainable financial services.

### 4.4.1 Predication Model for Household income

Regression analysis was used to determine the extent to which the independent variable explains/predicts the dependent variable. The result is shown in table 4.10 below.

**Table 10; presents the regression results**.

| Model | Unstandardized coefficients | | Standardized coefficients | T | Sig | R square | Adjusted R. square | F | Sig |
|---|---|---|---|---|---|---|---|---|---|
| | Beta | Std error | Beta | | | | | | |
| Micro credit | 0.206 | 0.110 | 0.245 | 1.345 | 0.003 | .476 | .445 | 15.719 | 0.000 |
| Borrower characteristics | 0.477 | 0.165 | 0.584 | 2.887 | 0.006 | | | | |
| Business type | 0.225 | 0.138 | 0.255 | 1.629 | 0.019 | | | | |
| Dependent variable: Household income | | | | | | | | | |

(Source: primary data)

**Table 11; presents collinearity statistics**

| Model | Collinearity | |
|---|---|---|
| | Tolerance | VIF |
| Micro credit | .400 | 2.500 |
| Borrowers' characteristic | .246 | 4.062 |
| Business type | .411 | 2.434 |
| a. Dependent variable: Household income | | |

NB: According to Rockwell, 1975 when tolerance statistic is less the 0.1 and VIF is greater then 10 then there is multicollinearity.

According to table 4.10 above, the overall independent variable were observed to explain 44.5% of the variance in the dependent variable (adjusted R square=.445). The best predictor for the household income among the independent variables was borrowers'

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characteristic (t=2.887, sig=0.00). The regression model was valid (sig=0.000). This implies that the independent variables are also relevant factors when considering house hold income levels. It's clear from the table above that; borrowers' characteristic is the most important variable in explaining the variance in household income, followed by business type and accessing micro credit. The Standardized Beta .584, .255, .245 is significant at 006, .019, .003 for borrower's characteristic, business type and micro credit respectively. It's clear from the above that borrowers' characteristic are a critical factor in explaining house hold income in rural areas. It's important to note therefore that, whatever is done to improve the borrowers' characteristic will help in increasing the household income. This is in line with Adam, 1988 who says that loans don't cause production but the physical inputs.Ajay, 2009 says that access alone to micro credit finance does not increase household incomes for the poor people in rural areas.

# CHAPTER FIVE

## CONCLUSION, RECOMMENDATION AND AREAS FOR FURTHER STUDY

### 5.1    INTRODUCTION

This section presents the conclusions drawn from the study findings upon which recommendations are made and areas for further studies are identified.

### 5.2    CONCLUSION

It was found out that most people know about micro credit institution operations and was borrowing funds for small scale business. Accessing credit from these institutions is easy; since they don't require collateral which is normally the hindrance factor to many potential borrowers from acquiring credit from formal commercial banks. There is hope however that micro credit institution will help our people live better lives as a result of accessing credit and engaging in different businesses. The institutions' continued guidance and training given to the borrowers in relation to the usage of borrowed funds is further evidence to show how the beneficiaries will benefit. Micro credit institutions are encouraging every household to practice the culture of savings since its one of the surest ways of getting access to credit.

It was established that the micro credit access and household income are related. Meaning that if MCIs increase their resource base, increase the amount of credit they can give to the borrowers and reach out to the target group who in the end if they utilise the funds wisely their household incomes will improve. This study further revealed that micro credit access, borrowers' characteristics and business type cause variance in household income up to

44.5%, which implies that there are other factors that supplement the three above in order to improve household income.

It was further observed that business type individuals engage in and borrowers' characteristics play a big role while accessing credit. For example borrowers' with collateral, good borrowing character and are credit worth have high chances of accessing more funds and utilising the funds wisely. This will definitely increase the individual involvement in businesses that are profitable and increase productivity which eventually leads to improved household income. The above conclusions therefore show that micro credit access, borrowers' characteristics, business type and household income are strongly related. However there are other factors which can increase household income while working hand in hand with micro credit institutions operations, these may include lowering costs of production eg labour, transport, interest rates, taxes and also getting involved in more than one business activities.

## 5.3    RECOMMENDATIONS

1. Micro credit institutions should increase the amount of funds that the poor can access in order for the household to engage in businesses that will lead to increased productivity and eventually household income. It's important for the MCIs to design better methods/procedure that will make the processing of credit fast and easy. In addition they should provide a verity of products that suite the borrowers demand/needs.

2. Micro credit should always consider the borrowers characteristic before giving out any credit. This includes collateral, character of borrowers and credit worthiness of the borrowers. Micro credit institutions should ensure that these requirements are known by the potential borrowers. The borrowers should be aware of what is expected of them before they receive the credit for example they should have physical collateral or savings to substitute for collateral. The character of the borrowers should also be considered at the time of giving out money.

3. Micro credit institutions should critically look at the type of business the borrowers' are going to be involved in before releasing the funds to them. Only borrowers' with businesses that show good returns should be considered for credit. Diversification of business should be encouraged by the MCIs with the aim of borrowers' engaging in a number of businesses that are likely to yield highly. Good knowledge should also be considered always before giving out credit. This will unable the borrowers to utilise the funds according to plan. People with wider knowledge of business know what they can/should do in order to improve their household income levels.

**Areas of further research.**

1. This study concentrated on micro credit access, borrowers' characteristic, business type and household income basing on micro credit institutions. A similar research however can be carried out on commercial banks.

2. A study that involves people who benefit from micro credit institution operation and those that don't benefit from them in relationship to their household income.

3. Establishing the role of interest rate and savings on the household income.

4. Alternatives to micro credit accessibility in relation to improving the poor household income

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**Appendix I**

**Time Schedule**

| Activity | Time | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | December | January | February | March | April | May | June | July |
| Proposal | ▓ | ▓ | | | | | | |
| Designing Instruments | | ▓ | | | | | | |
| Data Collection | | | ▓ | ▓ | | | | |
| Analysis | | | | | ▓ | ▓ | | |
| Report | | | | | ▓ | ▓ | ▓ | ▓ |
| Supervision | ▓ | ▓ | ▓ | ▓ | ▓ | ▓ | ▓ | ▓ |

**Appendix II**

**Proposed budget for the study**

| ITEM | COST (UGX) |
|---|---|
| Stationery | 40,000 |
| Proposal/Preparation/Typing/ Questionnaire /Final report | 400,000 |
| Binding Report | 50,000 |
| Transport & Assistants' wages | 300,000 |
| Diskettes | 12,500 |
| Miscellaneous | 100,000 |
| TOTAL | 902,500 |