MICROFINANCE LENDING TERMS AND OUTREACH IN SELECTED MICROFINANCE INSTITUTIONS IN BUSIA DISTRICT

BY

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A DISSERTATION SUBMITTED TO THE GRADUATE SCHOOL IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF A DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF KYAMBOGO UNIVERSITY

DECEMBER, 2014

DECLARATION

I, Namayero Francis Wanyama, Reg. No. 11/U/379/GMBA/PE declare that, this dissertation is my original work. It has not been submitted to any University, College or School for the award of a degree or diploma

Signature: .....

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APPROVAL

This dissertation has been under our supervision as University Supervisors. We approve its submission for examination to Kyambogo University as partial fulfillment for the requirements of the award of Master of Business administration.

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Date: 30/12/2014

DEDICATION

I dedicate this work to my late beloved parents Mr.Erizephan Wanyama and Mrs. Beatrice Wanyama who inculcated in me values that have led me to success, My Wife, My Family, in-laws and friends. They gave me a reason to further my studies.

ACKNOWLEDGMENT

I thank the Almighty God for the grace that has enabled me reach this far.

I extend my sincere appreciation to my academic supervisors, Dr. Obanda Peter Wanyama (Principal supervisor) and Mr. Mersian Tulyahebwa (second-supervisor) for their professional guidance and devotion towards my completion of my Master's degree thesis.

Special thanks go to work based supervisors Mr Norman Mwebaze, Mr. Opolot Karoli and my colleagues at work for the patience and encouragement throughout my study.

I am also indebted to the management and staff of the Microfinance Institutions and their clients for the cooperation and for providing me with the requisite data that enabled me to complete my studies.

The completion of my study would not have been achieved without the understanding and encouragement of my entire family especially my wife who stood by me through this study and encouraged me to continually search for excellence.

Finally for those persons not mentioned here who in one way or the other assisted me in the completion of this study, thank you very much for your contribution

May the Almighty bless you all

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LIST OF ACRONYMNS

AMFIU	:	Association of Microfinance institutions of Uganda
BOU	:	Bank of Uganda
CGAP	:	Consultative Group to Assist the Poor
CVI	:	Content Validity Index
GNI	:	Gross National Income
MFIs	:	Microfinance institutions
ROSCAS	:	Rotation Savings and Credit Associations
SACCOS	:	Savings and Credit Co-operative Societies
SPSS	:	Statistical Package for Social Sciences
UBOS	:	Uganda Bureau of statistics

ABSTRACT

This study examined the Microfinance lending terms and outreach in Busia District, Uganda. The study objectives were; to examine the effect of interest rate on MFI (MFIs) Outreach; to establish the effect of loan size on MFI outreach and to evaluate the effect of loan period on MFI outreach in Busia District. The study adopted a cross sectional survey design using both qualitative and quantitative methods of data collection. The study sampled 96 respondents randomly selected from the three microfinance institutions in the district. Data was collected using survey questionnaire and key informant interview guide.

Findings from the Chi-square tests reveal interest rates positively affect the levels of MFI's outreach maximization (p-value =0.000); also that the amount of loan size advanced positively affect the levels of MFIs outreach maximization but not so strongly (p-value = 0.022). Finally that the duration of the loan repayment period has little effect on the levels of MFIs outreach maximization (p-value = 0.047). The study concludes that MFIs need to reduce the interest rates charged on loans, improve loans sizes and repayment periods in order to improve their outreach functions to serve the people/clients in Busia District.

The study recommends that MFIs should focus on reducing interest rate charged on loans to make the loans affordable to their clients. This induces commitment to productive use of loans by clients. The study further recommends that the amount of loan sizes be increased for clients to be able to access and effectively utilize the loans for more beneficial and long term investments.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

The background to the study, statement of the problem, purpose of the study, study objectives, research questions, and scope of the study, significance of the study and the definition of key terms used in the study.

1.1 Background to the Study

Microfinance is the provision of financial services to deficit spending units to solve their credit financial needs, (Osei, 2008). Microfinance Institutions (MFIs) are providers of; micro- credit, credit cards, deposit services (voluntary and compulsory), insurance products, venture capital business development services, to the active low income earners, (Karlan& Goldberg, 2007). The contributions of MFIs are realized in different fields such as education, health, gender issues, credit and savings, community and political mobilization, job placement and small scale income generating activities such as projects, relief and social welfare (Morghen, 2010)

The phenomenon of Microfinance began in Europe in the late 19th century, primarily in Britain and France but it wasn't until 1970s that the modern microfinance was pioneered by Muhammad Yunus on the Grameen Bank model in 1983 in Bangladesh among women of Jobra Village (Ganka, 2010). In Africa the concept of credit was largely appreciated in the 50's when most MFIs started opening the credit sections and departments to give loans to white settlers. In Kenya credit was initially given to the rich people and big companies and was not popular to the poor. MFIs in developing countries are considered a powerful tool in the battle to reduce poverty.

In Uganda, MFIs entirely use lending terms and conditions stipulated within the credit management policy to grant credit. The Uganda Bureau of Statistics (UBOS) survey of 2010 revealed that the Microfinance industry had in the recent years enjoyed a growth rate of about 70% per annum with the Central region having the highest number of MFIs (32%), followed by Western region (29%), Eastern region (26%) and Northern region with only 13%.

MFIs attempt to provide loans to the poor (depth of outreach) and maximize the number of customers (breadth of outreach). There are six aspects of measuring outreach: depth, worth of users, cost to users, breadth, length and scope. Where, depth of outreach refers to "the value the society attaches to the net gain from the use of the microcredit by a given borrower" (Navajas*et al.* 2000) cited in Kyereboah and Osei (2008). The worth of outreach refers to how much a borrower is willing to pay for a loan. Similarly, cost of outreach to user refers to cost of a loan to a borrower. These costs to users might consist of prices like interest rates and various payments that they have to pay, which could be revenue to the lender, and other loan related transaction costs like expenses on documents, transport, food and taxes. Finally, "the breadth of outreach is the number of clients accessed while the length of outreach is the time frame in which microfinance Institutions process loans and Scope of outreach is the number of type of financial contracts offered by MFIs (Osotimelin, 2011).

Outreach indicators include; number of active borrowers, total balance of outstanding loans, real annual average growth rate of loans outstanding during the past years, loan size, average minimum and maximum disbursed loan size and the value of loans to clients (Mersland & Strom, 2009).

Karnani (2009) asserts that the lending terms of MFIs in form of small loan amounts, short maturity periods and high interest rates among others deter MFIs service provision and in turn lowers outreach. MFIs in Uganda reach only 5.7% of Population yet about 30% need financial services, (AMFIU, 2013). According to the MFIs Business Directory (2013/14), only 36% of the registered MFIs show high figures of operation. Though, the Microfinance Industry has seen impressive growth for longer than a decade, still outreach is low, (Chetan, 2007). The market penetration has not increased despite the increased growth rate. It was therefore imperative to conduct a study to examine the effect of microfinance lending terms on outreach on selected MFIs in Busia District.

1.2 Statement of the Problem

Microfinance has come to be used since the late 1990s to indicate the so-called second revolution in credit theory and policy that are customer-centred rather than product-centred (Elahi and Rahman 2006:477). Recently, MFIs have been confronted with a number of challenges that has affected their way of doing business. Rhyne and Otero (2006) argues that competition among MFIs has increased rapidly leading to lower interest rates, lower costs, more efficiency, and the introduction of new financial services, such as saving accounts, insurance services. Commercial Banks such as Centenary Bank in Uganda, K-REP in Kenya and the Commercial Bank of Zimbabwe are providing microfinance since it has been shown to be successful and profitable business (referred to as "downscaling") recently (Bell et al. (2002).

Recent developments have helped MFIs to improve their sustainability, outreach and efficiency. First, New banking technology, such as charge cards, ATMs, the use of Mobile Money and the internet has facilitated microfinance business, helping to reduce costs of doing business, outreach and improve the delivery of services (Kapoor, et al., 2007). Secondly, most LDCs have liberalized financial markets and established regulations to help improving the stability of the microfinance business. These changes of financial market policies may also contribute to improving the sustainability, outreach and efficiency of microfinance (Hartarska and Nadolnyak,

2007). Cull et al. (2007) in their study on trade-off between efficiency and outreach suggests that MFIs that focus on providing loans to individuals perform better in terms of profitability. Microfinance institutions outreach in Uganda is still low at 1% and most customers' service loans once or twice and defect (BOU, 2010). The study therefore, sought to examine the effects of microfinance institution's lending terms on their outreach maximization in Busia district.

1.3 Purpose of the Study

The study was aimed at examining the effects of microfinance lending terms and outreach in selected microfinance institutions in Busia district.

1.4 Objectives of the Study

i) To examine the effect of interest rate on microfinance outreach in Busia District.

ii) To establish the effect of loan size on microfinance outreach in Busia District.

ii) To evaluate the effect of loan period on microfinance outreach in Busia District.

1.5 Research Questions

i) What is the effect of interest rate on microfinance outreach in Busia District?

ii) What is the effect of loan size on microfinance outreach in Busia District?

iii) What is the effect of loan period on microfinance outreach in Busia District?

1.6 Scope of the Study

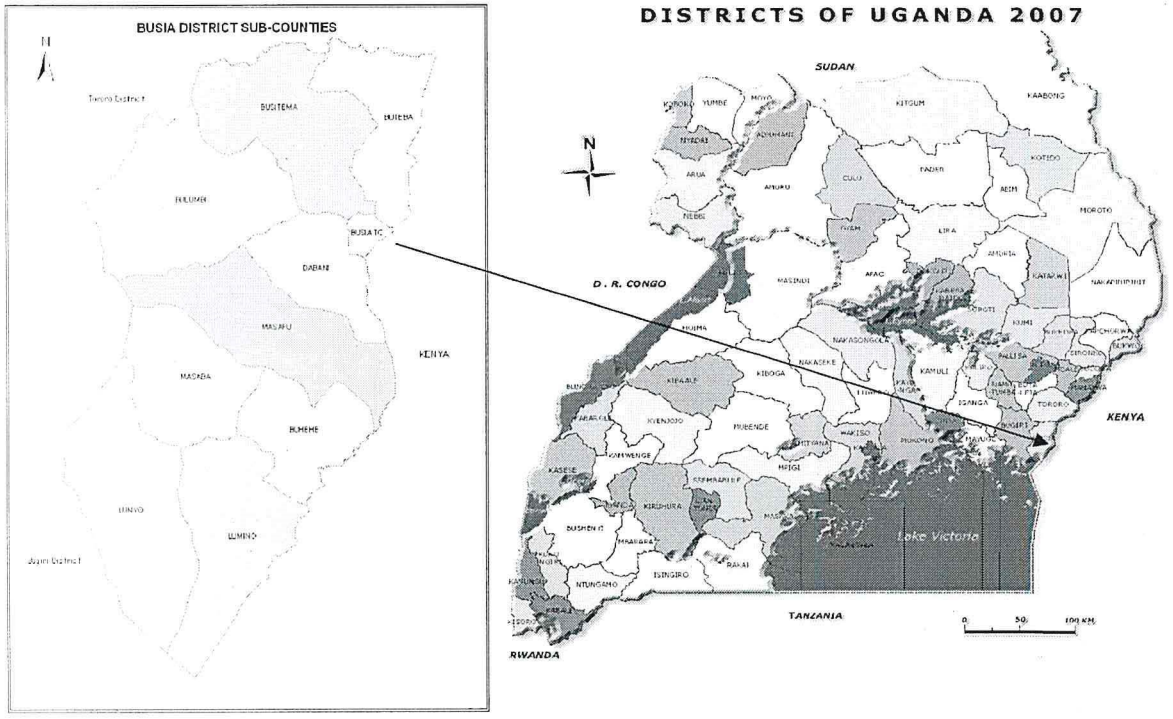
1.6.1 Subject Scope

The study focused on examining the effects of Microfinance lending terms (interest rates, loan size and loan period) on their outreach which include breadth, depth and length.

1.6.2 Geographical scope

The study was conducted in Busia District on selected microfinance institutions that included; Brac- Uganda MFI Ltd, FINCA Uganda Ltd and Tujijenge Uganda Ltd. Busia district is located in the Eastern region of Uganda. The District borders Tororo District to the North, Busia District, Kenya to the East, the Republic of Tanzania to the South, Namayingo District to the southwest and Bugiri District to the West. Busia district was selected because of its convenience and limited outreach of MFIs in the district.

Figure 1: A Map Showing the Location of Busia District



Source: Higher local government statistical abstract (2009/2010)

1.6.3 Time scope

The time scope focused on examining the effects of microfinance lending terms and outreach in selected microfinance institutions in Busia District was for the period 2004 - 2014. The data was current, adequate, accessible and realistic for the study.

1.7 Significance of the Study

The findings of the study will provide Management of Microfinance Institutions with a basis of evaluating their lending terms aimed at enhancing outreach. The research results will point to areas that microfinance institutions need to critically evaluate for the purposes enhancing their outreach while making profits and also make clients of MFIs gain access to much required microcredit at favourable terms so as to enable them overcome their liquidity constraints and undertake some investments in a bid to reduce poverty levels.

The study will help government in her regulatory role by enabling policy makers to develop better strategies for enhancing microcredit outreach and poverty reduction. The study results will point to policy issues such as reduced lending rates to enhance customer borrowing and hence outreach.

The findings of the study will provide literature for further research in the areas of microfinance and outreach maximization. The study findings will be used by other academicians as literature especially on the microfinance lending terms and outreach related studies.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviews the existing literature on financing strategies, lending terms and outreach of Microfinance Institutions as discussed by different authors. It brings out an appreciation of what earlier discoveries on the variables under study but also, the gaps that were identified in the existing body of literature that makes the focus of this study and the related literature reviewed in line with the study objectives.

2.1 Theoretical Review

Judgments of the performance of microfinance organizations have been based on the concepts of outreach and sustainability (Yaron, 1994) and the study will rely on this theory. Here, the study expresses outreach and sustainability in terms of the theory of social welfare and the purpose being able to reconcile the jargon of microfinance with the standard tools of analyzing the project. Outreach is the social value of the output of a microfinance organization in terms of depth, worth to users, cost to users, breadth, length, and scope. Outreach is commonly proxied by the sex or poverty of borrowers, the size or the terms of loan contracts, the price and transaction costs borne by users, the number of users, the financial and organizational strength of the lender, and the number of products offered, including deposits.

Sustainability is permanence. The social goal is not to have sustainable microfinance organizations but rather to maximize expected social value less social cost discounted through time. In principle, sustainability is not necessary or sufficient for social optimality. In practice, however, sustainable organizations tend to improve welfare the most. Most unsustainable microfinance organizations inflict costs on the poor in the future in excess of the gains enjoyed by the poor now. Sustainability is not an end in itself but rather a means to the end of improved social welfare (Rhyne, 1998).

Thus outreach stands for the social value of loans from a microfinance organization. Sustainability helps to maximize expected social value less social cost discounted through time, including the net gain of users from loans and deposits, the profits or losses of the microfinance organization, and the social opportunity cost of the resources used. Sustainability affects outreach since permanency tends to lead to structures of incentives and constraints that prompt all the groups of stakeholders in a lender to act in ways that increase the difference between social value and social cost. In principle, a complete evaluation would use cost-benefit analysis or cost-effectiveness analysis to compare social value with social cost in general equilibrium. In practice, it is so expensive to measure social value and social cost that almost all evaluation precedes in terms of outreach and sustainability in partial equilibrium.

There are six aspects of outreach (i) *Depth*: Depth of outreach is the value that society attaches to the net gain from the use of microcredit by a given borrower. Since society places more weight on the poor than on the rich, poverty is a good proxy for depth. For example, society likely values the net gain from a small loan for a street kid or for a widow more than the same gains for a richer person. Deeper outreach usually increases not only social value but also social cost. As income and wealth decrease, it costs more for a lender to judge the risk of a loan. This happens since, compared with the rich, the poor are more heterogeneous and less able to signal their ability and willingness to repay (Conning, 1999). Fixed costs also matter more for the poor since their loans are shorter and smaller and have more frequent instalments, renewals, and disbursements. Deeper outreach increases only social value and not social cost when a lender finds better ways to judge risk at a cost less than the savings from the better judgment. Such progress increases access, the ability and willingness to borrow and to repay at a price that covers the long-run cost of an efficient producer. Access is the nexus of creditworthiness and demand based on ability and willingness to repay and the lending technology and supply based on an efficient way to judge creditworthiness. More access is progress since loans depend more on the creditworthiness of the borrower and less on the constraints of the lender to judge creditworthiness. For example, a lender that does not need physical collateral to judge creditworthiness could serve poorer users and thus have deeper outreach, all else constant, than a lender that requires physical collateral; (ii) *Worth to users*: Worth of outreach to users is how much a borrower is willing to pay for a loan. Worth depends on the loan contract and on the

tastes, constraints, and opportunities of the user. With the cost to the user constant, more worth means more net gain; (iii) *Cost to users*: Cost of outreach to users is the cost of a loan to a borrower. This is distinct from the cost of a loan to society or from the cost of a loan to a lender. Cost to users includes both price and transaction costs. Price includes interest and fees. Prices paid by the user are revenues for the lender. Transaction costs are non-price costs. They include both noncash opportunity costs such as the value of the time to get and to repay a loan and loan-related cash expenses such as transport, documents, food, and taxes. Transaction costs borne by the user are not revenues for the lender. The three aspects of depth, worth to users, and cost to users are tightly linked but still distinct. Net gain is the difference between worth to a user and cost to a user. It is the highest cost that the borrower would agree to bear to get the loan, less the cost that the borrower does in fact bear. In turn, depth of outreach reflects the social value attached to the net gain of a specific person. For example, $100 of net gain for a poor person may be worth more to society than $500 of net gain for a rich person.

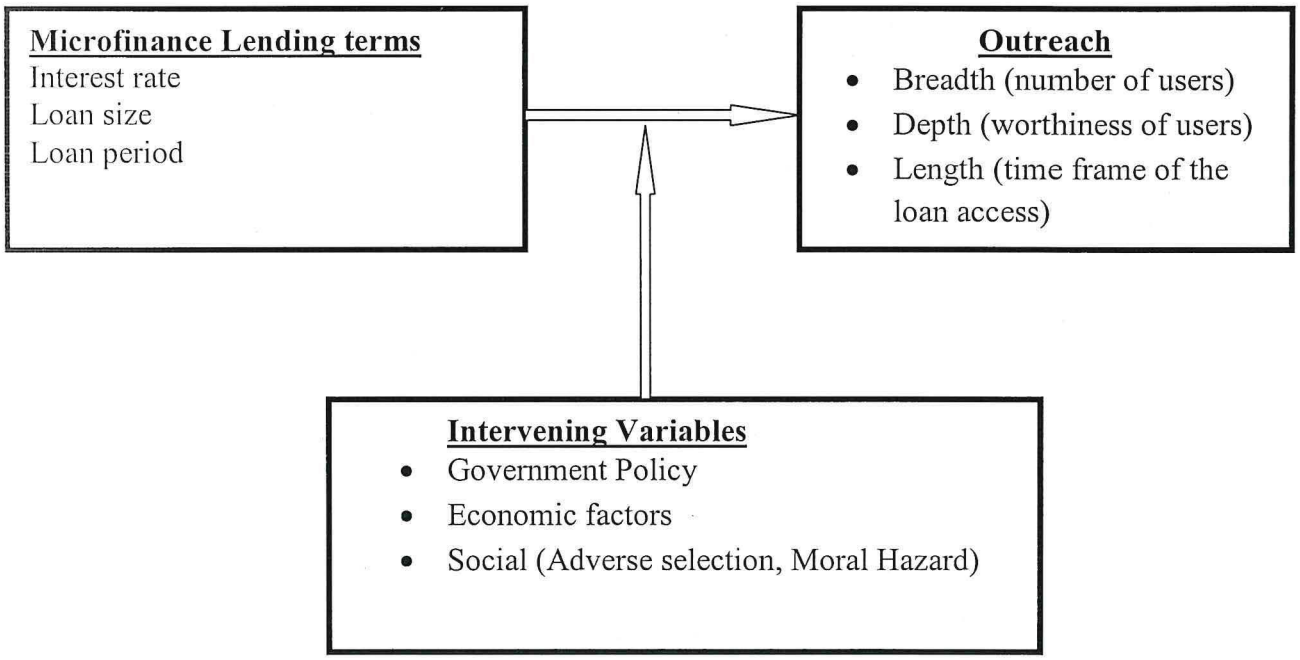
Costs to users can be measured as the present value of the cash flows and transaction costs associated with a loan. Worth to users is more difficult to measure. Still, the relative worth of two or more loan contracts can be compared through their costs. If a borrower has alternative sources of loans, then net gain can be measured as the cost savings of a switch to a microfinance lender; (iv) *Breadth:* Breadth of outreach is the number of users. Breadth matters since the poor are many but the aid dollars are few; (v) *Length:* Length of outreach is the time frame in which a microfinance organization produces loans. Length matters since society cares about the welfare of the poor both now and in the future. Without length of outreach, a microfinance organization may improve social welfare in the short-term but wreck its ability to do so in the long term.

In theory, a perpetual source of support can allow a microfinance organization to achieve length of outreach without sustainability (Woller, Dunford, & Woodworth, 1998). In principle, such an organization could live a long time. In practice, however, longer outreach through sustainability usually strengthens the structures of incentives that serve to maximize expected social value less social cost discounted through time. Without length, borrowers have few selfish reasons to repay since the lender cannot promise to lend again in the future. Loan losses shorten length of outreach in a downward spiral. Likewise, lack of profits prompts employees to strip the lender

bare and to bask in perks before the chance is gone and (vi) *Scope:* Scope of outreach is the number of types of financial contracts offered by a microfinance organization. In practice, the microfinance organizations with the best outreach produce both small loans and small deposits. Deposits matter for two reasons. First, all poor people are deposit worthy and save to smooth consumption, to finance investment, and to buffer risk. In contrast, not all poor people are creditworthy. Second, deposits strengthen the incentives for sustainability and length of outreach. Depositors shun microfinance organizations if they do not expect them to live to return their deposits. To attract and to keep deposits, a microfinance organization must please not donors and government but rather users and regulators.

2.1.3 Conceptual Framework

Figure 2: Conceptual Framework



Adopted from: *Ledgerwood & White (2006); Armendariz and Morduch (2010), Navajas et al, (2000); Yunus (2006) and CGAP (2009, 2004).*

Figure 2 above shows that microfinance lending terms as the independent variable influences the level of outreach. Lending terms in this perspective include; lending interest rates, loan size and loan period (Pearlman, 2010; Brealey*et al.* (2006). Outreach of MFIs as the dependent variable refers to efforts by microfinance institutions to extend financial products and services to an ever-wider audience and especially toward the poorest of the poor. This examined breadth, depth and length. Microfinance lending terms is best realized when credit terms are favourable in form of affordable interest rates, appropriate loan amounts; and appropriate credit period to ensure sustainability of Microfinance institutions by encouraging repayment. High repayment rates are then translated into profit and increased outreach (Yunus, 2006).

2.2 The Effect of Interest Rate on Outreach

According to Brealey et al. (2006) the decision to extend a loan to a borrower is followed by a discussion regarding the terms of the loan. The terms of loans determine the loan amount that has to be extended, for what period, and what cost and concession if any is to be allowed. Literature reveals that lending terms are stipulations under which funds on credit are granted and these include interest rate, loan size, and credit period (Pearlman, 2010). Interest rate is the stated price for borrowed funds and is usually stated per annum though MFIs normally quote monthly rate calculated on flat rates Three different types of lending interest rates can be distinguished: nominal, effective and real (Karnani, 2009). Rosenberg et al., (2009) and CGAP (2009) observes that the nominal lending interest rate is usually explicitly quoted by a financial institution, while an effective lending rate includes the nominal interest rate plus other charges that are directly associated with the loan granted. Examples of such charges are fees, commissions. The real lending interest rates and the real effective lending interest rates take into account the rate of

inflation. Very often the seemingly high interest rates compared to normal commercial lending rates are the strongest point of criticism for opponents of profitable microfinance business.

AMFIU (2013) indicates that the interest rates charged by MFIs range between 3% - 4% per month, before factoring in the other commissions and fees which vary across MFIs. Microcredit organisations routinely hide the actual interest cost by using 'creative' practices such as charging interest on the original value of the loan (flat rate) rather than on the declining balance, upfront fees and insurance premium. With such hidden charges it is common for the effective annual interest rate to become 100% even though the stated interest rate is only 15% (Karnani, 2009). This study will argue the case that high interest rate will reduce the MFIs capability to roll out and bring more customers on board.

Rosenberg et al.,(2009) states that higher interest for microloans are justified by the complex and labour-intensive structuring, documentation and provision of the credit, often remote location of the clients and frequent meetings with MFI's staff during approval and repayment process. Armendariz and Morduch (2007) suggest that setting interest rate should be done with an incentive constraint in mind. That is, the interest rate charged should be an incentive in itself to induce borrowers' compliance. To be an incentive, the interest rate charged should be set at a level where, what the borrower pays as interest is less than what they earn from investing the borrowed funds. This calls for MFIs to have demand driven products and proper market research before setting their interest rates. How appropriate the interest rate is will determine MFIs financial performance and its likely success or failure in its respective stage of growth.

The argument for higher interest rates is based on a supporting claim that the poor are able to pay high interest rate, so that higher rates would not curb demand. According to Rosenberg et al, (2009), "access to finance tends to be a much more important issue than the cost of that finance". This claim is based on the empirical observation that poor people do pay exceedingly high rates to money lenders and also to some MFIs , and that profitable MFIs with higher rates also serve some poor clients. The consequences of this increased competition for MFIs can be manifold, for example lower interest rates, lower costs, more efficiency, and the introduction of new financial services, such as saving accounts, insurance services. Since then interest rates have gone down from 30 per cent in 1998 to 21 per cent in 2005.Moreover, Bolivian MFIs have become more efficient and they have increased the range of financial services they offer to their clients, (Rhyne and Otero, 2006).

2.3 The effect of Loan Size on Outreach.

Loan size is the amount of loan advanced to the client. It can be small, medium or big. The loan size reflects the nature of clients and their poverty level (Murdoch & Haley, 2002; Woller, 2002). It is generally assumed that, the smaller the loan size, the more poor clients will be reached by microfinance. The loan amount can be increased by either increasing the loan size or increasing the number of clients, or both. Microfinance institutions might experience a natural rise in loan sizes for two reasons: clients who have shown prudent repayment performance are able to reach larger loans because of progressive lending practices; and in successful microfinance programs the client might have been able to develop and expand their businesses with earlier loans, which leads to increased income and also a need for larger loans (Cull et al. 2007; Armendariz & Szafarz, 2009)

Whether a given loan is seen as "large" or "small" depends on which aspects matter most from a given point of view. Borrowers concerned mostly about low monthly payments will see a 2-year loan as smaller than a 1-year loan; borrowers concerned mostly with getting enough cash to make a purchase will see both loans as equivalent; and borrowers concerned mostly with interest costs will see the 30-year loans as larger than the 15-year loan (Schreiner, 2001). Longer loans are larger than shorter ones for instance; lending longer loans generate more interest revenue from a single evaluation and disbursement. On the other hand, longer loans have more chances to fall into arrears and may lead to greater delinquency costs. According to Schreiner (2001), Micro finance institutions unlike commercial banks provide small loans then gradually increase the amount as relationship of trust between borrower and the MFI grows. The minimum and maximum loan size however differs from institution to institution.

2.4 The effect of Loan Period on Outreach

Loan period refers to the period during which the entire loan has to be repaid (Debdulal, 2009). The loan term affects the repayment schedule as microfinance institutions use regular repayment schedules where repayment starts only a few weeks after the loan has been disbursed, and then occurs on a weekly or monthly basis, (Armendariz & Morduch, 2010). These regular repayment schedules help to screen out prospective delinquent borrowers at an early stage and also provide group members with early warnings of potential future problems. As loan repayment period increases, the chances to repay promptly decrease due to the likelihood of cost increase and risk inherent in project implementation delays particularly when loan is intended to finance agriculture activities which are seasonal and weather bound (Malimba & Ganesan, 2008). The

study is in agreement with the above assertion that short periods of repayment act as disincentive for MFIs to carry outreach related programmes.

There are several theories about the role of frequent repayment in microfinance contracts; Armendariz & Morduch (2010) notes that it helps to signal repayment difficulties early on, allowing the group or lenders to take steps such as increased monitoring and to reduce default. A second theory is that it provides borrowers an opportunity to time loan repayment with income inflows. This may be critical to repayment if borrowers have a difficult time saving up large sums either due to lack of safe savings vehicles or the inability to keep funds away from family members.

Jain &Mansuri (2003) reveals that a third theory is that frequent payments require borrowers to have alternative, informal sources of finance as they must begin repayment before a project comes to fruition. According to Field, Pande & Papp, (2009), the fourth theory is that frequent repayment forces borrowers to use the funds for productive rather consumption purposes and, more specifically, to invest in short-term, liquid projects with quick payoffs.

MFI loan periods are shorter than those of banks and are normally six month to one year (CGAP, 2004). Short term loans with frequent regular repayments do not fit well with crop and animal production yet the majority of people are engaged in agricultural related activities ((Pearce et al, 2004; Chen, 2009).

CHAPTER THREE

METHODOLOGY

3.0 Introduction

The method and procedures employed in carrying out the research. It covered the research design, study population, sample size, sampling procedures, data sources, collection instruments, validity and reliability, measurement of study variables, data processing and analysis and limitations to the study.

3.1 Research Design

This research employed a cross-sectional survey design combining both quantitative and qualitative approaches. Survey studies are intended to examine scenarios in their natural form and the design is characterized by collecting data at a single point in time. Triangulation combined both qualitative and quantitative methods to gather data for an overall interpretation that looks at a variety of different factors. The primary advantage of triangulation designs in research studies lies in the ability to find agreement and validation of results through a variety of research methods. If different research methods come to the same conclusion, the researcher can be more confident that the results are truly a reflection of what is actually happening and not a reflection of the method of testing used to gather the data

3.2 Study Population

The study population comprised of clients and staff of the Microfinance Institutions to include; Brac - Uganda MFI Ltd; FINCA Uganda Ltd and Tujijenge Uganda Ltd in Busia District that are registered by the Association of Microfinance Institutions of Uganda (AMFIU, 2013). These

microfinance institutions were purposively selected because they fit the study objectives as the only institutions with well elaborated structures on outreach maximization in Busia district.

3.3 Sample Size and selection Methods

The sample size was calculated using Kish Leslie formula (1996).

$$n = \frac{Z^2(p)(1-p)}{I^2} = \frac{(1.96)^2(0.5)(1-0.5)}{(0.1)^2} = \frac{3.8416(0.25)}{0.01} = \frac{0.9604}{0.01}$$

$$n = 96.04 \approx 100$$

Where;

Where **n** is sample size for an unknown population,

Z value is confidence level (e.g. 1.96 for 95%)

p is the proportion of the population who are clients of the Microfinance Institution

I is the confidence interval (e.g. 0.1 for 10%)

Therefore, the study targeted 100 respondents but actually sampled **96** microfinance institutions' clients using simple random sampling procedure for this study. To create a simple random sample, the study employed a number of steps to include; (a) defining the population for the study intended to benefit from; (b) choosing the study sample size using Kish (1996) formula; (c) listing the population; (d) assigning numbers to the units; (e) finding random numbers; and (f) selecting the sample. All the above steps were followed throughout the sampling procedure. The study purposively selected staff of the MFIs who acted as key informants for this study. This category of respondents was selected based on their knowledge on the subject under discussion.

3.4 Sources of Data

3.4.1 Primary data

Primary data was obtained from the respondents using survey questionnaires and interview guides consisting of closed ended and open ended questions from MFIs clients and staff respectively. Both the questionnaires and interview guide were used to obtain primary data. This involved one-on-one interviews with the respondents by the researcher. They also allowed the researcher to clarify ambiguous answers and obtain in-depth information through probing. Open-ended questions were used so that other valuable questions might emerge from the dialogue between interviewer and interviewee. Semi-structured interviews are the most widely used interviewing formats for qualitative research (Amin, 2005). In this study, the probing interviewing tactic was used extensively to obtain a deeper explanation of the issue at hand from the respondents. This is largely due to the fact that the respondents often need stimuli to expand or clarify their own answers and ideas more broadly, so that a broader understanding can be more easily reached later on in the findings of this study.

3.4.2 Secondary data

This involved reviewing different documents on MFI and outreach. Documents were report published by Association of Microfinance Institutions of Uganda (AMFIU). Publications from the Institute of Bankers and Journals articles containing information about microfinance lending terms and outreach

3.4.3 Documentary Review Checklist

To review a variety of existing literature sources (e.g., documents, reports, data files, and other written Artefacts) with the intention of collecting independently verifiable data and information.

The researcher put much emphasis on; interest rates, loan size and loans period and how they affect outreach during literature review. The checklist included;

1. Does the document have a **cover page** with title (name, document type), team name, date, version number, status (draft, ready for review, approved)?
2. Has the document been subjected to an **internal and external review**?
3. Is the **relationship to prerequisite documents** explicitly stated?
4. Is the content **consistent** with other documents?
5. Is **terminology used consistently**, both within a document and across documents? (One term for one thing. Each term refers to only one thing; each thing is referred to by only one term.)
6. Is the section of **Definitions, acronyms, and abbreviations** complete? (Possibly include reference from this section to main text for details.)
7. Is **duplication of information** avoided? (Cross-reference, rather than copy.)
8. Are the **references** to other material
    1. **Complete**? (No missing references, e.g. to Interface Control Document.)
    2. **Precise**? (Including author(s), title, publisher, year, and for journals also volume/number.)
    3. **Generally accessible** and **durable**? (Not to a webpage that is likely to disappear soon.)

3.5 Data collection methods

The study used a quantitative method when selecting clients of the MFI for the survey. 100 randomly sampled respondents from the participating MFIs. Data was collected by the researcher himself. The tool was pre-tested for reliability before full formal survey. The study

also used qualitative methods when selecting the employees of the MFIs who acted as Key informant. This category of respondents was selected purposively due to their knowledge on the study question. The tool will be pre-tested for reliability before full formal survey.

3.6 Data Collection Instruments

3.6.1 Survey Questionnaire forms

According to Mugenda and Mugenda (1999), questionnaires are valuable tool for collecting a wide range of information from a large number of respondents. Amin (2005), confirm that carefully designed questionnaires easily answer research questions. The researcher ensured that each item in the closed ended questionnaire was fine-tuned to address a specific objective as well as the research question in the entire research process and the responses will, be arranged on a five-point Likert scale, where 5 means 'strongly agree', 4 means 'agree', 3 means neutral, 2 means 'disagree', 1 'strongly disagree' with the assertion. This enhanced simplicity where straight forward answers are required. The questionnaires were hand delivered to respondents and collected within an agreed upon time frame

3.6.2 Interview Guide

An interview guide (Appendix 2) was used to collect qualitative data from the credit supervisors and branch managers who were in position to provide in-depth information through probing during the face-to-face interview, (Mugenda and Mugenda, 1999). The researcher presented questions to the branch managers and their views were written down. Data obtained during the interview was supplemented with that obtained through the questionnaires.

3.6 Validity and Reliability of the instruments

3.6.1 Validity

Validity of the research instrument was established using Content Validity Index (CVI) to determine the relevance of the questions in measuring the variables. Content validity refers to the degree to which the instrument covers the content that it is supposed to measure, (Yaghmaie, 2003). Questionnaires were sent to the academic supervisors and their comments were used to improve the questionnaire. This was done to ensure common understanding of terms used in the questions and that the questionnaires really addressed the data required for the study.

$$CVI = \frac{R}{R+N+IR}$$

Where;

R is Relevant. N is Neutral, and IR is irrelevant. The closer the value is to 1, the more valid is the instrument (Amin, 2005). Score from principal supervisor: R=70%, N=5%, IR=10% result= 82% Score from Co-supervisor: R=70%, N=5%, IR=15% result= 78%

From the two experts the average score was 80 % which made the questionnaire content valid.

3.6.2 Reliability of the Instruments

The reliability of a research instrument concerns the extent to which the instrument yields the same results on repeated trials (Carmines & Zeller, 1979). Reliability was tested using Cronbach's alpha coefficient method of internal consistency. The formula of Cronbach's Alpha Coefficient (α) used was;

$$\alpha = \frac{K}{K-1}\left(1 - \frac{\sum SD^2 i}{SD^2 t}\right)$$

Where;

α = Alpha coefficient

K = Number of items in the instrument

$\sum$ = Sum

SD^2i = Individual item variance

SD^2t = Variance of total score

The researcher used Alpha co-efficient as shown below;

Substituting in the formula:

$\alpha = 0.723$

K= 42 items

$\sum SD^2i = 10.150$. The instrument was found to be valid in this study at 0.723

3.7 Measurement of Variables

Lending terms were measured in terms of interest rate, loan size and loan period, (Pearlman, 2010; Brealey et al. 2006). Outreach was measured in terms Breadth (number of users), Depth (worthiness of users) Length (time frame of the loan access) (Navajas et al. 2000).

3.8 Data Processing and Analysis

3.8.1 Quantitative Data Analysis

Data collected from the field was processed, coded and entered in a statistical Package for Social Sciences (SPSS) version 17, where frequency tables were extracted for analysis. The Chi square tests were used to determine the extent to which MFIs lending terms affect outreach. Chi-square statistical test was used to compare observed data with data I expected to obtain according to a specific objectives/hypothesis. Inferential statistics was used to answer the research questions. Tables, Graphs and charts with relevant percentages, means and standard deviation provided a

quick snapshot of the current situation of the MFIs by presenting the structures in the assets, liabilities and incomes. They also facilitated comparison of performance over time and show trend lines and changes in significant aspects of the MFIs performance.

3.8.2 Qualitative Data Analysis

Descriptive data/statistics was categorized under different themes and sub-themes using critical judgmental approach. This kind of data was interpreted by explanations and substantiated using open responses from the field (Rwomushana, 2005). While analysing qualitative data, conclusions made under different themes were inter-related to ascertain the relationship between MFIs lending terms and outreach.

3.9 Ethical considerations

According to Saunders et.al (2003), ethics is the appropriateness of one's behavior in relation to the rights of those who become the subject of one's work. He further emphasizes that ethical concerns should occur at all stages of research project. When seeking access, during data collection, data analysis and reporting. The researcher obtained an introductory letter from Graduate School to obtain permission to conduct research in the respective MFIs. Secondly consent form was delivered to the three MFIs requesting them to approve of my study with their clients. The last step involved getting consent from the clients/ respondents themselves after explaining the aims and objectives of the study and finally all respondents had to sign consent forms to show their willingness to participate in the study.

3.10 Limitations of the study

The researcher faced the following problems:

i. There was delay in responding to the questionnaires due to the busy schedule of the respondents.

ii. Some respondents were not willing to give information concerning their institutions.

iii. The study was based on MFIs registered with AMFIU. It therefore excluded MFIs which are non-members of AMFIU which has a small glitch towards the data collected.

3.11 Delimitations of the study

The study was also delimited in its findings in the following ways:

i. The respondents delay in responding to the questions asked made the researcher to increase on the number of days the field took in order to gain reliable data. For example, the field was supposed to take 5 days but it took 8 days.

ii. The unwillingness of the respondents to diverge information was overcome by the researcher replacing such respondents with those willing to participate in the study and also by crosschecking information through triangulation.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

4.0 Introduction

The chapter begins with socio-demographic characteristics of the respondents and then presents the study results based on the objectives.

4.1 Respondent's characteristics

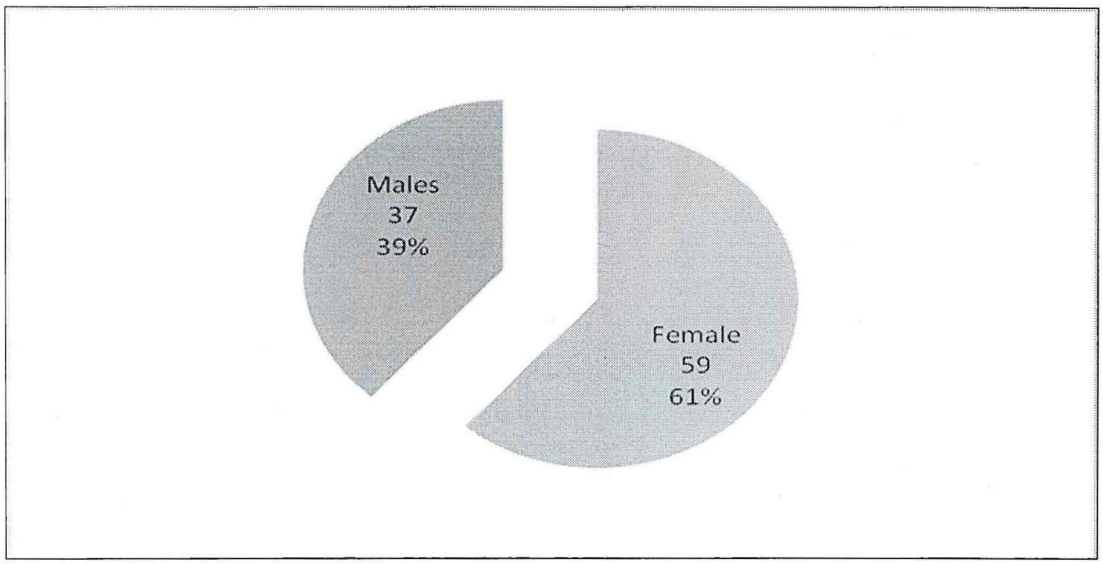
Table 4.1: Age of the respondents

Age of the respondents		
	Frequency	Percent
18-25 years	20	21
26-33 years	46	48
34-41 years	15	16
42-49 years	11	11
Above 50 years	4	4
Total	96	100

Source: Primary Data (2014)

Table 4.1 above shows the age category of the respondents. 48% (46) of the respondents were in the age bracket of 26 – 33 years, 21% (20) were in the age bracket of 18 -25 years, 16% (15) of the respondents were in the age bracket of 34 -41, 11% (11) were in the age bracket of 42 -49 years while only 4% (4) of the respondents were above 50 years. This means that majority of microfinance clients are in the main productive age group that is below 50 years.

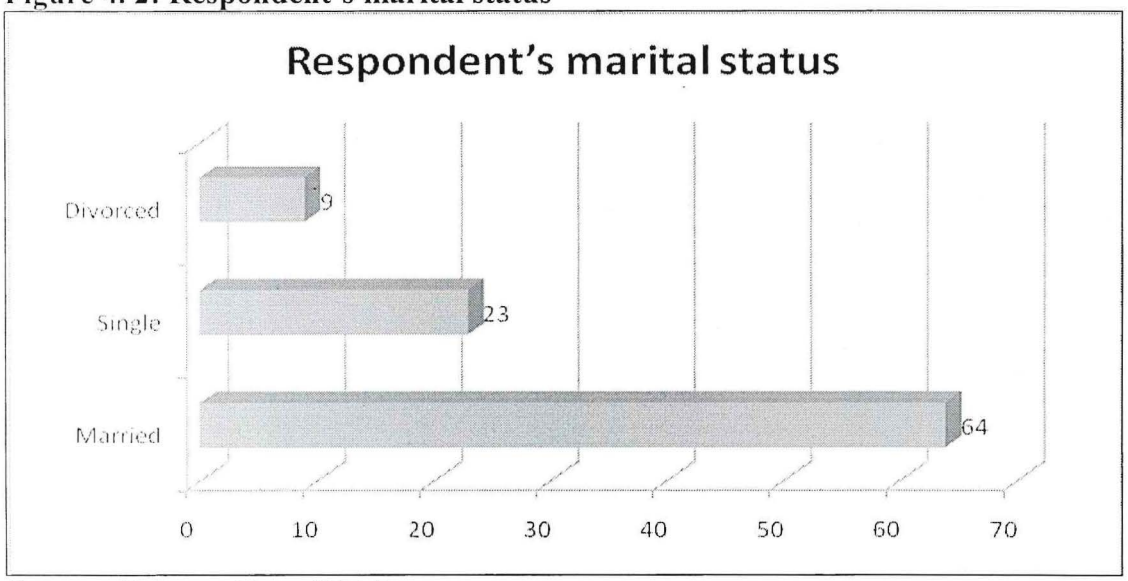
Figure 4. 1: Gender of the respondents



Source: Primary Data (2014)

Figure 4.1 above shows the gender of the respondents. Majority 61 % (59) of the respondents were Females while 39% (37) were Males. From the above findings would suggest that microfinance institutions prefer to deal with female clients as compared to males.

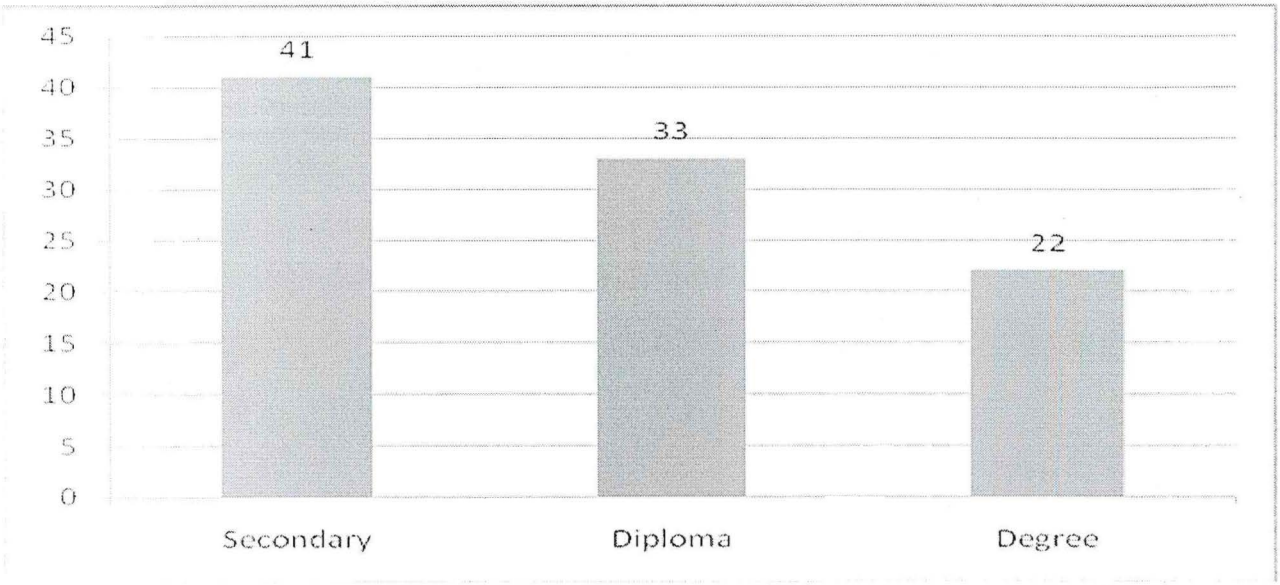
Figure 4. 2: Respondent's marital status



Source: Primary Data (2014)

Figure 4.2 shows that majority 66.7% (64) of the respondents interviewed were married couples, 24% (23) were single parents and 9.4% (9) were divorced. This finding would suggest that majority 75.7% (73) of the microfinance clients are responsible persons and with families making their levels of being trusted high hence access to MFI services.

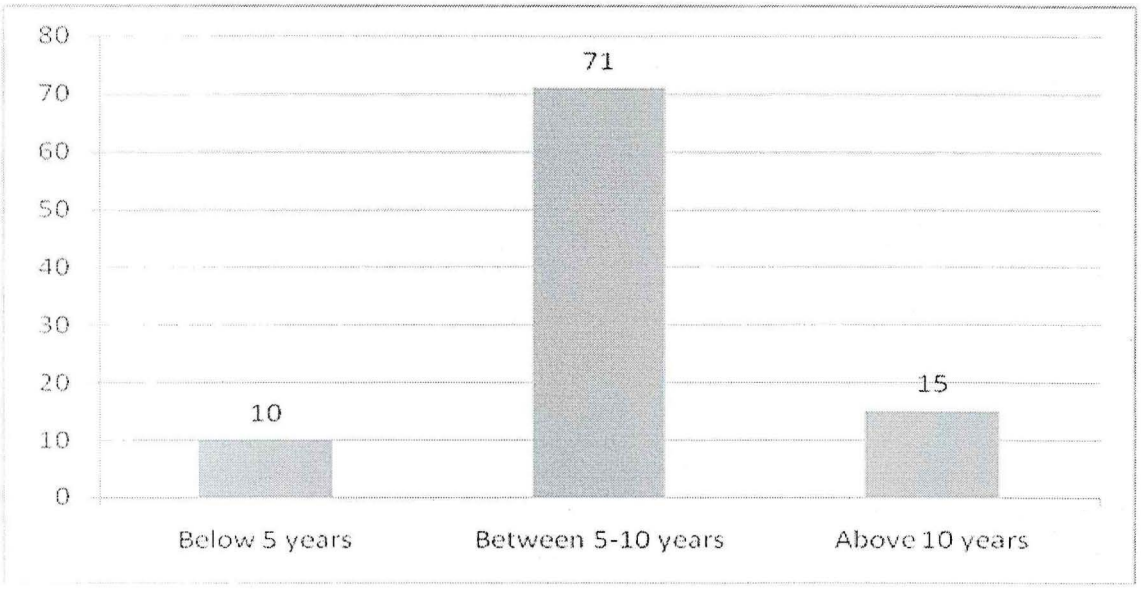
Figure 4.3: Education level of the respondents



Source: Primary Data (2014)

Figure 4.3 above shows education levels of the respondents. 42.7% (41) of the respondents had Secondary level of education; 34.4% (33) of respondents had tertiary level education with diplomas and certificates while 22.9% (22) had attained degree level which included bachelors and masters. This means that Microfinance Institutions' clients are schooled.

Figure 4. 4: Duration clients have been with MFI



Source: Primary Data (2014)

Figure 4.4 above shows that majority 74% (71) respondents had been members in the MFI for between 5-10 years, 16% (15) for over 10 years and above while 10 % (10) of the respondents had been members of MFIs for less than 5 years. Overall, majority of the respondents (90%) had been members for over 5 years.

4.2 The effects of interest rate on MFI outreach in Busia District.

Table 4.2: The effects of interest rates on the MFI outreach maximization

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	96.000[a]	10	.000
Likelihood Ratio	132.918	10	.000
Linear-by-Linear Association	94.851	1	.000
N of Valid Cases	96		
a. 16 cells (72.7%) have expected count less than 5. The minimum expected count is .48.			

Source: Primary Data (2014)

To test for the effect of interest rates on MFIs outreach, the researcher used the chi-square test. From table 4.2 above, the chi-square test shows that there is strong statistical evidence that suggests that interest rates affect the levels of MFIs outreach maximization. Since the p-value (0.000) is less than $\alpha = 0.05$ at 5% levels of significance. The study findings reveal that interest rates significantly affect the levels of MFI's outreach maximization.

"Our interest rates are encouraging for borrowers that is why many villagers in the district are banking on us as we strive to reach remote areas for savings mobilization and lending to economically active poor to enable them live a meaningful life" (Said a Key informant from Brac Microfinance)

"People in Busia district, unlike in other districts, are economically active and this has encouraged us to open up centres in various sub counties in the district for sensitization and savings mobilization. To make it easier for the clients to access our services, we have tried to keep the interest rates stable so that the people see sense in saving and accessing loans from our institution" (said a Key informant from Finca microfinance, Uganda).

4.3 The effect of loan size on MFI outreach in Busia District.

Table 4.3: The effect of Loan size and the MFI outreach maximization

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	34.703[a]	20	.022
Likelihood Ratio	36.135	20	.015
Linear-by-Linear Association	3.683	1	.055
N of Valid Cases	96		
a. 28 cells (84.8%) have expected count less than 5. The minimum expected count is .21.			

Source: Primary Data (2014)

To test for the effect of loan size on MFIs outreach maximization, the researcher used the chi-square test. From table 4.3 above, the chi-square test shows that there is statistical evidence that the amount of loan size advanced positively affects the levels of MFIs outreach maximization. Since the p-value (0.022) is less than $\alpha = 0.05$ at 5% levels of significance. The study findings reveal that amount of loan size advanced to the MFI clients significantly affects the levels of MFI's outreach maximization. This result shows that the more the amount advanced to the clients, the higher the chances of investment on the side of clients and this improves the levels of credit creation a key ingredient in expansion of an institution.

"Our loan size depends on the preferences and calculations made to suit the request of our clients so we believe we provide as requested for by the clients. This is usually done after thoroughly evaluating the levels of collateral and business ventures that the clients want to inject in the money and advise accordingly" and as a result when the loan sizes are small, clients can minimally use the loans for any meaningful development (said key informant from Tujijenge Microfinance).

"Many of our clients take loan sizes that are little because they are scared of huge sums of money to receive as loans. They fear repayment rates that are long term hence many receive short terms loans ranging between 3 months to 1 year which loans cannot substantially bring economical terms to the client's business" (Revealed a Key informant from Finca microfinance).

"We have partnered with Microfinance support centre and the German technical Cooperation (GTZ) to provide agricultural and infrastructure loans to our clients and

this we hope will be used purposively. This we hope will improve further the agricultural sector in this area. The terms are long term bearing in mind about the vagaries in this sector. For us our role is to advance the funds while the GTZ is the grantor" (Revealed a key informant from Tujijenge Microfinance)

4.4 The effect of loan period on outreach in Busia District.

Table 4.4: The effect of Loan repayment period and the MFI outreach maximization

Chi-Square Test			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	56.107[a]	40	.047
Likelihood Ratio	46.684	40	.217
Linear-by-Linear Association	1.550	1	.213
N of Valid Cases	96		
a. 51 cells (92.7%) have expected count less than 5. The minimum expected count is .02.			

Source: Primary Data (2014)

To test for the effect of loan repayment period on MFIs outreach maximization, the researcher used the chi-square test. From table 4.4 above, the chi-square test shows that there is little statistical evidence that suggest that the duration of the loan repayment period has little effect on MFIs outreach maximization. Since the p-value (0.047) is less than $\alpha = 0.05$ at 5% levels of significance. The study findings reveal that period taken to repay the loans offered to the MFI clients does not significantly affect the levels of MFI's outreach maximization. This result shows that whether more or less time is given to repay the loans back, it has little effect on the expansion of the MFIs.

"Our loan repayment period is agreed and discussed in detail plus the security as well. None of our clients have registered displeasure with our loan repayment periods. We work to ensure that the client is given ample time to make profits on the money invested and while repaying the agreed amounts flexibly". The duration of the loan therefore would encourage more clients to come on board and seek the loans (Revealed key informants in all MFIs sampled).

"We have put in place a mechanism to handle clients who have problems in repaying the loans and fees advanced to them and in case our clients are found with challenges, we advise them to come over and we evaluate the challenges together and find workable solutions to the problems. At times we restructure the loans so that all become winners" (Said a key informant from Finca Uganda)

"In our institution, we have not come across any of our clients complaining about the repayment structure for the loans we have advanced. We carry out a lot of sensitization, monitoring and evaluation to ensure that the 5Cs that is; Collateral levels are good; Capital is adequate; character of the person requesting for the loan; Capacity of the client to repay the loan and credit worthiness of the client is carefully taken care off before any funds are released" (Revealed a key informant from Brac microfinance)

CHAPTER FIVE

DISCUSSIONS, SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter explores recommendations based on the findings of the study and the concluding remarks. The specific objectives of the study were; to examine the effect of interest rate on outreach in Busia District, to establish the effect of loan size on outreach in Busia District, to evaluate the effect of loan period on outreach in Busia District.

5.2 Discussion of Findings

5.2.1 The effect of Interest Rate on MFI Outreach in Busia district

Results from the chi-square test in table 4.2 shows that there is strong statistical evidence that suggests that interest rates positively affect the levels of MFIs outreach maximization. Since the p-value (0.000) is less than $\alpha = 0.05$ at 5% levels of significance.

The above finding is in agreement with the view advanced by Yunus (2010) who asserted that MFIs should deliver loans at low-interest rates to the rural poor. Whereas interest rate is a rate which is charged or paid for the use of money, an interest rate is often expressed as an annual percentage of the principal. It is calculated by dividing the amount of interest by the amount of principal.

In general, interest rates rise in times of inflation, reducing the greater demand for credit by tightening money supply or due to higher reserve requirements (AMFIU, 2013). AMFIU argues that a rise in interest rates for any reason tends to dampen business activity because credit

becomes more expensive and hence decrease outreach. Again these study findings are in agreement with this view, in that when interest rates are hiked few business/individuals will borrow money to invest in their business ventures, making it difficult for MFI to maximize their outreach to the wide community.

The finding is also in agreement with Martin (2009), who urged that receiving approval for the cheapest loans means that less interest will be paid over the full lending term. The cost of borrowing has actually risen over the last couple of years. Whilst rising unemployment has meant that many MFIs have withdrawn their loan and credit card products, the remainder will only lend money to customers with very good credit scores because they are less likely to default on their agreement.

The level of interest rates has a direct effect on a consumer's ability to repay a loan. For example, Ahlin (2010), assert that when interest rates are low, people are willing to borrow because they find it relatively easy to repay their debt. When interest rates are high, MFI clients in Busia were reluctant to borrow because repayments on loans cost more. Some consumers even found it difficult to meet their existing loan repayments, especially if interest rates increase faster than the rise in a consumer's income. Again this study findings agree with Ahlin, held view that low interest rates improves borrowing of loans and hence maximize MFIs institutional expansion and outreach.

Armendariz and Morduch (2007), suggest that setting interest rate should be done with an incentive constraint in mind. That is, the interest rate charged should be an incentive in itself to induce borrowers' compliance. To be an incentive, the interest rate charged should be set at a

level where, what the borrower pays as interest is less than what they earn from investing the borrowed funds. This will help to mitigate the moral hazards.

Pearlman (2010), reveals that lending terms are stipulations under which funds on credit are granted and these include interest rate (Pandey, 2009) and if not properly handled, managed and passed on to the client they decrease the performance of MFIs (Hiliman *et al.,* 2005). It is the view of the researcher that, once the interest rates are properly constituted in relation to the market dynamics, institution's projects and programs will move far and achieve their targeted goals.

In a nutshell, MFIs have been criticized over creating loans for poor clients at high interest rates. This has resulted into high loan default rates making their businesses unattainable and has led some to wind up their businesses. Therefore, for outreach maximization to occur amongst MFIs, low interest rates need to be charged to enhance improvement in borrowing mechanism and business expansion growth for both the MFIs and the clients.

5.2.2 The effect of Loan size on MFI Outreach in Busia District

Results from the chi-square test in table 4.3 shows that there is statistical evidence that suggest that the amount of loan size advanced positively affect the levels of MFIs outreach maximization but not so strongly. Since the p-value (0.022) is less than $\alpha = 0.05$ at 5% levels of significance. The loan amount can be increased by either increasing the loan size or increasing the number of clients, or both. MFIs might experience a natural rise in loan sizes for two reasons: clients who have shown prudent repayment performance are able to access larger loans because of progressive lending practices.

This finding is in agreement with Cull, (2010), who noted that loan size affects the repayment schedule. MFIs in Busia use regular repayment schedules where repayment starts only a few weeks after the loan has been disbursed, and then occur on a weekly or monthly basis. This principle is in line with Armendariz & Morduch, (2010), who established that regular repayment schedules help to screen out prospective delinquent borrowers at an early stage and also provide group members with early warnings of potential future problems.

5.2.3 The effect of Loan Period on Outreach in Busia District

Findings from the chi-square test in table 4.4 shows that there is little statistical evidence that suggest that the duration of the loan repayment period has little effect on the levels of MFIs outreach maximization. Since the p-value (0.047) is less than $\alpha = 0.05$ at 5% levels of significance.

The finding is supported by Berg & Schrader (2009), who argues that, measures should eliminate risks that face MFIs, and in so doing improve outreach. Suggested measures should ensure that institutions are run in a manner that is consistent with market's best practices.

Armendariz & Morduch, (2010) noted that loan period helps to signal repayment difficulties early, allowing the group or lenders to take steps such as increased monitoring, to reduce default. The finding also contravenes the agency theory that provides borrowers an opportunity to time loan repayment with income inflows. This may be critical to repayment if borrowers have a difficult time saving up large sums either due to lack of safe savings vehicles or the inability to

keep funds away from family members. Loans are extended to those in poverty to spur entrepreneurship as tool for socioeconomic development.

5.3 Summary of Findings

The study revealed a number of findings. These findings are summarised below.

5.3.1 The effect of Interest Rate on MFI Outreach in Busia district

The study results therefore showed that the interest rate has an effect on outreach. This is explained by the chi-square test (p-value = 0.000). This explains the outreach difficulties for the MFIs. The average interest rate of 36% per year charged on loans was too high to allow MFIs increase their client base. High interest rates also reduced the client's investment and hence cash flows. Besides weekly deposit inconvenienced clients whose returns per week from small scale businesses were minor to draw money from. However for purposes of ensuring credit recovery under high interest rates the MFIs ensured recovery using legal action or threat which discouraged new clients from joining MFIs.

5.3.2 The effect of Loan size on Outreach in Busia District.

The study results therefore showed that the loan size has an effect on outreach. This is explained by the Chi-square test (p-value = 0.022). The study results also revealed that loan size made outreach difficult for the MFIs to reach their clients. The loan size distributed among many clients was insufficient to enhance reliable investments or projects such as large scale farming and piggery project. When deciding on the loan size MFIs required stringent collateral security such as land agreements and this requires lenience on clients.

5.3.3 The effect of Loan Period on Outreach in Busia District

The study results showed that loan period has an effect on outreach. This is explained by the Chi-square test (p-value = 0.047). MFIs loan period in Busia was found to be either 6 or 12 months. This revealed that the loan period was too short to allow clients invest and accumulate returns that could enhance quick repayment and boost clientele base. There was also no grace period granted to clients before start date for repayment. This increased credit supervisors' roles of paying close monitoring and loan management due to frequent repayment schedule. Hence short loan period limited MFIs ability to retain credible, capable and prominent clients.

5.4 Conclusions

5.4.1 The effect of Interest Rates on MFI Outreach in Busia District

High interest rates discourage borrowing hence reducing outreach. Client's who had no option but to risk and borrow at high interest rate, found their Small scale Businesses declining due to fall in capital.

5.4.2 The effect of Loan Size on MFI Outreach in Busia District

Improvement in loan size enhances outreach of MFIs in Busia district. On the other hand, unfavourable insufficient loan amount reduces outreach level of MFIs in Busia district.

5.4.3. The effect of Loan Period on Outreach in Busia District

Short loan period ranging from 6-12 months cannot allow clients to invest and accumulate returns that could enhance quick repayment and boost clientele base. There was also no grace period granted to clients before start date for repayment. The payback period was found to be

short such that borrowers were not able to repay on time especially those clients who invest in long-term businesses like real estates. The weekly deposits affected the payback period, the institution should either extend the payback period from one year to at least two years or extend weekly deposit to monthly deposits so as to increase access to loans

5.5 Recommendations

5.5.1 The effect of Interest Rates by MFIs on outreach in Busia district

Government should fund MFIs to enhance reduction in interest rates to allow negotiations, consultations and transparency. This induces commitment to productive use of loans by clients.

5.5.2 The effect of Loan Size on Outreach in Busia District

MFIs should increase loan amount sizes to match collateral security demanded (land agreements).

5.5.3 The effect of Loan Period on Outreach in Busia District

MFIs Management should modify loans period to match the clients' repayment capacity or cash flows. This can also be done by providing a grace period of 3 months and repayment schedules to change from weekly, monthly to 2 months.

Bank of Uganda, Microfinance Support centre and AMFIU should provide adequate funding to allow client sensitization, mobilization of the masses to allow MFIs organize regular clients meetings and effective Screening of clients based on adverse selection and moral hazard.

5.6 Areas for future research

Further research should be extended to cover the following areas;

To examine the effect of interest rates on and Microfinance Outreach on regional level to stimulate debate on how real interest rates affect the operation of MFIs.

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APPENDICES

Appendix 1: Survey Questionnaire for MFI clients

Dear Respondent,

My name is Namayero Francis Wanyama, a final year student of Kyambogo University carrying out a study on ***"Microfinance Lending terms and Outreach in selected microfinance institutions in Busia District".*** This study is a requirement for partial fulfilment for the award of a degree of Master of Business Administration of Kyambogo University. The study is purely for academic purposes and therefore the information given will be treated with utmost confidentiality.

Sincerely,

Namayero Francis Wanyama (0782-371317)

SECTION A: RESPONDENTS BIO-DATA

Instruction: Please tick the most appropriate

a) Gender: Male ☐ Female ☐

b) marital status of the respondents a) Married b) Single c) Divorced d) Separated

c) Age of the respondent

Below 18-25 years	26 -34 years	35-44 years	45-54 years	Above 54 years

d) Highest qualification attained (please state if other)

Secondary school	Diploma	Degree	Master	Others

b) Loan size

	Response	1 (SD)	2(D)	3(NS)	4 (A)	5 (SA)
9	MFI give out full amounts of loans as requested by the clients					
10	The loan amounts given to clients fit their repayment capacity					
11	MFI give loans amounts that match the needs of the clients.					
12	The loan sizes given to our clients induce commitment to productive use					
13	The amount of loans given to the clients help expand the MFIs business					
14	The amount of loans given to the clients reduce the capacity of MFIs to expand on their business					

c) Loan period

		1 (SD)	2(D)	3(NS)	4 (A)	5 (SA)
15	The time period given to the clients to repay the loan is sufficient for the nature of their business activities					
16	The loan repayment period given to the clients suits the repayment capacity/cash flows of their businesses					
17	Most of the clients settle their loans within the loan period					
18	A significant portion of the loans MFIs approve are short term loans with regular repayment schedules					

SECTION D: OUTREACH

d) Breadth

	Opinion /Response	1 (SD)	2(D)	3(NS)	4 (A)	5 (SA)
19	MFIs consider serving many clients as a core aspect					
20	MFIs open new branches/outreach centres to reach many clients.					
21	MFIs offer a variety of products to our clients					

22	The products MFIs offer enable us to reach larger section of the community					
23	The number of MFIs active borrowers in your area has steadily been increasing annually					
24	MFIs always aim at retaining our existing clients					
25	MFIs serve clients both in rural and urban areas					

e) Depth

	Opinion /Response	1 (SD)	2(D)	3(NS)	4 (A)	5 (SA)
26	MFIs extend their services more to the poor than the rich.					
27	Women borrow more than men					
28	MFIs serve people restricted to access financial services such as the less privileged					
29	MFIs put emphasis on up lifting the welfare of the their clients					
30	MFIs loan products have been valuable to all the clients over the past years					

SECTION E: MEASURES TO IMPROVE OUTREACH

	Measures /Strategies Busia MFIs can adopt:	1 (SD)	2(D)	3(NS)	4 (A)	5 (SA)
31	MFIs have a wide range of products and services					
32	MFIs always revise their Lending rates to the clients					
33	MFIs try to reduce unnecessary expenses					
34	MFIs have an effective Screening mechanisms of clients					
35	MFIs enforce Group Collateral security					
36	MFIs provide for Regular Client Meetings					
37	MFIs provide peer Monitoring and evaluation					

"Thanks very much for your Cooperation and Time"

Appendix 2: Key Informant Interview Guide

Dear Respondent,

My name is Namayero Francis Wanyama, a final year student of Kyambogo University carrying out a study on ***"Microfinance Lending terms and Outreach in selected microfinance institutions in Busia District".*** This study is a requirement for partial fulfilment for the award of a degree of Master of Business Administration of Kyambogo University. The study is purely for academic purposes and therefore the information given will be treated with utmost confidentiality.

Sincerely,

Namayero Francis Wanyama (0782-371317)

1. What credit policies and procedures do you use to advance credit to customers of your institution?
2. What credit collection procedures do you use to stimulate loan repayment?
3. What is the loan recovery plan do your institution employs?
4. What methods do you MFIs use to improve outreach?
5. What is the relationship between loan repayment and outreach?
6. What is the relationship between interest rates and outreach?
7. What is the relationship between loan size and outreach?
6. What challenges do credit firms encountered in credit extension?
7. What is the measure under taken by MFIs to come up with credible clients?
8. What challenges do MFIs face in loan recovery and clients face in loan repayment?
9. What can be done to mitigate the challenges of loan recovery?
10. What strategies can MFIs adopt in ensuring high loan recovery, maintain low default rate and stimulate service provision?
11. What measures can be instituted to improve outreach?

"Thanks for your Cooperation and time"

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Office of the Dean, Graduate School

Your ref : .....

Our ref : KYU/GSch/01/14

23rd September, 2014

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

REF: LETTER OF INTRODUCTION

This is to introduce to you **NAMAYERO FRANCIS WANYAMA** Registration Number **11/U/379/GMBA/PE** who is a student of Kyambogo University pursuing a Master of Business Administration of Kyambogo University

He is carrying out a research on ***"Microfinance Lending Terms and Outreach in Uganda; A Case of Microfinance Institutions in Busia District"*** in partial fulfillment of the requirements for the award of Master's degree of Business Administration of Kyambogo University.

This is to kindly request you to grant him permission to carry out this study in your establishment.

Any assistance rendered to him will be highly appreciated.

Yours faithfully,

Dr. M.A. Byaruhanga Kadoodooba

Dean Graduate School

Bk/nmb