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IMPACT ASSESSMENT OF MICROFINANCE SERVICES ON THE PERFORMANCE OF MICRO AND SMALL SCALE BUSINESSES (MSBs): "A CASE STUDY OF ARUA DISTRICT OF UGANDA"

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YILDIRIM BEYAZIT UNIVERSITY

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Approval of the Institute of Social Sciences

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This is to certify that we have read this thesis and that in our opinion it is fully adequate, in scope and quality, as a thesis for the degree of Master of Science.

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PLAGIARIAM

I hereby declare that all information in this thesis has been obtained and presented in accordance with academic rules and ethical conduct. I also declare that, as required by these rules and conduct, I have fully cited and referenced all material and results that are not original to this work; otherwise I accept all legal responsibility.

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ABSTRACT

IMPACT ASSESSMENT OF MICROFINANCE SERVICES ON THE PERFORMANCE OF MICRO AND SMALL SCALE BUSINESSES (MSBs): "A CASE STUDY OF ARUA DISTRICT OF UGANDA"

Muzamil Edema

MSc., Department of Banking and Finance

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In the recent years micro and small scale businesses have been rapidly increasing in Uganda and Arua district in particular but the issue of inadequate capital to run these businesses has been a growing concern for many policy makers. In order to solve this problem the government of Uganda through privatization encouraged the development of microfinance institutions to provide financial services such as microcredit, savings, micro insurance and training to micro entrepreneurs who are economically active, but financially constrained and vulnerable. This study was therefore aimed to assess the impact of microfinance services on the performance of micro and small scale businesses in Arua district in Uganda.

Although there are many previous studies regarding impact of microfinance services on its clients in Uganda, most of studies focused on small and medium enterprises leaving out micro enterprises which are the major forms of businesses a poor person can afford to start with microfinance loans. For instance Arua district in particular has limited research which used a methodology that adequately explained the impact of microfinance services and the performance of micro and small scale businesses.

This study used purposive and simple random sampling technique to draw the sample from the population with the aid of questionnaires as an instrument for primary data collection from 200 clients of microfinance institution and secondary data was gathered from journal articles, selected texts and publications.

Data was analysed using descriptive and inferential statistics with the aid of Statistical Package for Social Sciences (SPSS). Two models of multiple regression analysis were used to examine the extended to which microcredit, savings, micro insurance and training services provided by microfinance institutions affect the performance of micro and small scale businesses. Most of the mentioned variables contributed positively to the performance of micro and small scale businesses in Arua district. The results also shows that entrepreneur’s age, gender, level of education and marital status contributes greatly to the performance of micro and small scale businesses in Arua district.

Keywords: M*icrofinance, Microfinance Institutions, Performance, Micro and Small scale Businesses*

ÖZET

MİKROFİNANS HİZMETLERİNİN MİKRO VE KÜÇÜK ÖLÇEKLİ İŞLETMELERİN (MSB'LER) PERFORMANSINA ETKİSİNİN DEĞERLENDİRMESİ: "UGANDA'NIN ARUA BÖLGESİNE YÖNELİK BİR VAKA ÇALIŞMASI"

Muzamil Edema

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Son yıllarda mikro ve küçük ölçekli işletmeler Uganda ve özellikle Arua bölgesinde hızla artan çoğalmaya başlamış fakat bu işletmeleri yürütmek için yetersiz sermaye konusu birçok politika belirleyici (karar alıcı) için artan bir endişe kaynağı olmuştur. Bu sorunu çözebilmek için Uganda hükumeti özelleştirme yoluyla, mikro finans kurumlarının ekonomik yönden aktif, ancak mali yönden kısıtlı ve korunmasız (zayıf) mikro girişimcilere mikro kredi, tasarruf, mikro sigorta ve eğitim gibi finansal hizmetler sunma yönünde teşvik edilmiştir. Bu çalışmada, Uganda'nın Arua bölgesindeki mikro finans hizmetlerinin mikro ve küçük ölçekli işletmelerin performansı üzerindeki etkisini değerlendirmek amaçlanmıştır. Mikro finans hizmetlerinin Uganda'daki müşterileri üzerindeki etkisine ilişkin daha önce birçok çalışma yapılmasına rağmen bu çalışmaların çoğu, yoksul bir kişinin mikro finans kredileri ile başlayabileceği işletmelerin başlıca türü olan mikro işletmeleri dışarıda tutarak küçük ve orta işletmeler üzerine odaklanmıştır. Örnek vermek gerekirse, Arua bölgesinde, özellikle mikro finans hizmetlerinin etkisini ve mikro ve küçük ölçekli işletmelerin performansını yeterli olarak açıklayan bir metodoloji kullanılan sınırlı sayıda araştırma bulunmaktadır. Bu çalışmada mikro finans kurumunun 200'den fazla müşterisinden birincil veri toplama aracı olarak anket yardımı ile nüfustan örnek alınması için basit ve basit rasgele örnekleme tekniğini kullanmış ve ikincil veriler ise dergi makaleleri, seçilmiş metinler ve yayınlardan toplanmıştır. Veriler SPSS aracılığıyla betimsel ve tahminsel istatistikler kullanılarak analiz edilmiştir. Mikro finans kurumları tarafından sağlanan mikro kredi, tasarruf, mikro sigorta ve eğitim hizmetlerinin mikro ve küçük ölçekli işletmelerin performansını nasıl etkilediğini incelemek için çoklu regresyon analizi yapılmıştır. Adı geçen tüm değişkenlerin Arua bölgesinde mikro ve küçük ölçekli işletmelerin performansına olumlu katkıda bulunduğu tespit edilmiştir. Sonuçlar aynı zamanda, girişimcilerin yaş, cinsiyet, eğitim düzeyi ve medeni hali gibi demografik değişkenlerinin Arua bölgesinde mikro ve küçük ölçekli işletmelerin performansına büyük katkıda bulunduğunu ortaya koymuştur.

Anahtar kelimeler:, *Mikro finans, Mikrofinans Kurumları, Performans, Mikro ve Küçük ölçekli İşletmeler*

DEDICATION

I dedicate this work to my lovely grandfather late Mzee Khemis Ibrahhim Tutua who shaped my academic career through numerous pieces of advice and my loving family, for their support, encouragement and patience during the entire period of my study and continued prayers towards successful completion of this course.

May Allah reward your efforts abundantly

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ADLG	Arua District Local Government
BRAC	Bangladesh Rural Advancement Committee
FINCA	Foundation for International Community Assistance
FOCCAS	Foundation for Credit and Community Assistance
FSDU	Financial Sector Deepening Uganda
GB	Grameen Bank
GDP	Gross Domestic Product
LDCs	Least Developing Countries
MC^2	Means and the Competences of the Community
MSBs	Micro and Small scale Businesses
MDIs	Microfinance Deposit taking Institutions
MFIs	Microfinance Institutions
MTIC	Ministry of Trade, Industry and Cooperatives
MUFFA	Mutuelle Financière des Femmes Africaines (African Women Saving and Credit Cooperative)
NAADS	National Agricultural Advisory Services
NFS	Non-Financial Services
NGOs	Non-governmental organization
NHHP	Nsambya Hospital Healthcare Plan
PWCU	Price Waterhouse Coopers Uganda
ROSCAs	Rotating Savings and Credit Associations
SMEs	Small and Medium-sized Enterprises
SACCOs	Savings and Credit Cooperative Organizations
SPASS	Statistical Package of Social Science
SDGs	Sustainable Development Goals

UBOS	Uganda Bureau of Statistics
U.S	United States
WENIPS	West Nile Private Sector Development Promotion Centre Ltd

CHAPTER 1

1. INTRODUCTION

1.1 General Introduction

There are many individuals who are living in the Least Developing Countries (LDCs) without having access to banking and financial services due to scarcity of the banking and financial institutions but efforts to use microfinance to curb this phenomena in sub-Saharan Africa has not been giving uniform positive impacts to the clients (Van Rooyen, Stewart, & De Wet, 2012). This has been one of the hindrances for these countries' economies to lag behind. The unbanked population live without having access to critical financial tools and services such as microcredits, insurance and loans that can enable them progress towards a better life by engaging in activities such as Micro and Small scale Businesses (MSBs) despite the fact that micro, small and medium sized businesses are the backbone of private sector comprising of 90 per cent of enterprises world-wide and creating 50-60 per cent employment opportunities. This has made them to have significant contribution to the world's economy (Hobohm, 2001). Where financial institutions are in existence, the populace of such communities cannot have access to them due to exorbitant interest rates and lack of collateral securities (Theophilus, 2011).

As many countries seek to achieve the 2030 Agenda of Sustainable Development Goals (SDGs), Microfinance has been viewed as a catalyst and significant lever in the implementation of the Agenda through its various developmental activities in the fields of financial inclusion, health, food security, education, energy and housing (Microfinance-Barometer, 2016). Uganda as a country is also striving to achieve the SDGs 2030 Agenda and also has a vision to transform its society from a peasant to a modern and prosperous country by 2040 through engaging Microfinance institutions in funding micro entrepreneurs. Although 20 per cent of the Country's rural population still live below the poverty line with few financial institutions which can afford to provide financial services to such marginalised groups where limited access to financial services almost hinders operations in rural areas, Microfinance Institutions such Bangladesh Rural Advancement Committee (BRAC) have provided proper infrastructure and measures such as disbursement of USD 80.53 million to 176,624 micro and small entrepreneurs as loans to help them generate more employment opportunities, improve their livelihoods and expand their existing businesses (BRAC, 2015). However it is not clear whether all parts of the country has access to such affordable financial services at affordable cost ranging from financial services rendered by conventional banks to Microfinance Institutions (MFIs) such that everybody is at least financially included. Non-governmental organization (NGOs) in their struggle to alleviate poverty amongst the poor communities in the country have created many MFIs to extend affordable loan services to the low-income people and this helped many of them to invest the little they have, save time and money, make their life better and healthier, more resilient and empowered especially the women (Wakoko, 2003).

Ledgerwood (1998) stated that 500 million are estimated to be economically active but poor people in the world who operate micro and small scale businesses with limited access to financial services. To close this gap there has been demand by the low-income micro entrepreneurs to have microfinance institutions to provide financial services to meet their demands

In Uganda, the biggest challenge to effective performance of Micro and Small Scale Businesses (MSBs) since 1990s has been access to funds. The reason behind this has been the dominance of conventional banks which cannot lend micro credits to small scale business whose collaterals are not sufficient to match the needs for obtaining the loans. This is also coupled with the fact the few microfinance institutions established to offer micro credits, savings and insurance services to such micro entrepreneurs hardly reach the expected people due to information asymmetry. Micro and small scale businesses usually survive on limited capital leading to inability to expand the existing business, increase sales revenue, profits, increase in firms' assets value and creation of more employment opportunities to the country's growing population in reference to

Uganda Bureau of Statistics UBOS (2014), the population has grown from 24 million in 2002 to 35 million in 2014 showing that there is almost one million annual increase in population in the past 12 years. Based on the same reference, Arua district has population of 782 thousand people and majority of this population is engaged in micro and small scale businesses such as commercial agriculture, cottage industry, petty and formal trade whose local funding comes from the 52 local commercial service and Savings and Credit Cooperative Organizations (SACCOs) Arua District Local Government report ADLG (2012). These businesses are also aided my other bigger microfinance institutions but still many of the businesses cannot access the microfinance services hence striving on limited working capital and such scenarios reduce the life span of the businesses hence leading to their closure. The closure of these micro and small businesses comes with various consequences such loss of jobs and increase of poverty. This will automatically cripple the efforts to improve both the local and national economy. In order to curtail this situation, the government of Uganda in the recent years has encouraged the idea of establishing and supporting more micro entrepreneurs through microfinance institutions as a suitable alternative of providing financial services to them.

After the privatization drive and the Uganda's Civil and Public Service reforms in early 1990s, the government of Uganda laid a foundation to increase the number of small business enterprises in the country. In which an approximate of 2,000,000 people were employed in various small scale business units which served over 6 million people by 2002 (Tushabomwe-Kazooba, 2006). In a report published by the Financial Sector Deepening Uganda (FSDU, 2015) 89% of the Ugandan enterprises are owned by micro and small entrepreneurs who start up their businesses using their own funds with 73% having limited access to financial services despite all these effort and yet these micro and small scale businesses are also regarded as the engine of growth for the economic development of Uganda employing 2.5 million people, accounting for approximately 90% of the entire private sector and contributing 20% of the gross domestic product (GDP) Ministry of Trade, Industry and Cooperatives MTIC (2015) report. Micro and small scale businesses provide majority of employment opportunities to unskilled, semi-skilled and skilled entrepreneurs in various private sectors since microfinance has turned its attention to self-employed workers and individuals of such nature. The 'poorest of the poor', characterized by the Grameen Bank model normally get such financial assistance from the MFIs to start-up small often family-owned businesses (La Torre, 2006). For most MSBs, microfinance provides the most suitable alternative of getting credit given their flexibility in lending credits to their beneficiaries.

In a number of studies carried out the services offered by microfinance institutions have shown a significant contribution towards the performance of micro and small scale businesses and this enables them expand their business and acquire more assets hence increasing their profits and income levels (Morris & Barnes, 2005; Wanambisi & Bwisa, 2013; Wang, 2013) though they are faced with problem of reliable source of funding. It is due this problem that the government of Uganda has created many government programmes such Prosperity for All, National Agricultural Advisory Services (NAADS), establishment of Savings and Credit Cooperative Organizations (SACCOs) and providing conducive environment for donors and foreign micro finance investors all aimed at promoting micro and small scale businesses.

In this regard micro and small scale business are paramount in order to achieve the 2030 Sustainable Development Goals (SDGs). Therefore, financing micro and small scale enterprises such agri-business, merchandises, and other services businesses will play a significant role in employment creation and income generation hence leading to poverty alleviation. To realise such goals, the impacts of the microfinance services on its clients' needs close attention and supervision by the stake holder and this reason prompted the need to examine the impact assessment of microfinance services on the performance micro and small scale businesses particularly in Arua district.

Despite of the numerous past studies carried on the impact of microfinance on its clients in Uganda (Lakwo, 2006; Okurut, Banga, & Mukungu, 2004; Wakoko, 2003), most of the these studies focused on the impact of microfinance on the welfare of the of its clients that is to say its influence on the poverty alleviation, income levels and the socioeconomic impacts such as the women empowerment in the society but findings in these past studies have not shown the performance of micro and small scale businesses in respect to the loans and others services offered to them by the microfinance institutions. McClatchey (2013) found microfinance institutions such as BRAC to have significant positive benefits to borrowers but the study has been limited to only the clients of BRAC since there are numerous microfinance institutions in the district there is need to have general impact assessment across all the borrowers of the various microfinance institutions. In such similar research carried out by (Babajide, 2012) in which the researcher employed panel data and multiple regression analysis, the study found out that there exists a strong evidence that access to microfinance does not play a great role in the performance of micro and small enterprises such discrepancies in various research findings have always posed major question which demands further examination.

For the case of Arua district where there is numerous microfinance institutions ranging from informal, semi-formal and formal microfinance institutions, there has not been any in-depth examination of their impact on the performance of micro and small scale businesses. Besides, these microfinance institutions have strict rules regarding their loans and there could be instances where the clients might have become vulnerable to loans repayment and other related challenges which are not known due to limited literature. These are the gaps this current study seeks to fill by examining the impact of microfinance services on the performance of micro and small scale businesses in Arua district in Uganda.

1.2 Statement of the Problem

Micro and small scale businesses are direct clients of Microfinance institutions for decades in Uganda and Arua district in particular but since the prospect of financial inclusion of these micro entrepreneurs many researches have not been done regarding the impacts assessment of the microfinance services on the performance of micro and small scale businesses in Arua district. Therefore this study intends to assess the impact of microfinance services on the performance of micro and small scale businesses in Arua district in Uganda. The units for this assessment among many other performance indicators includes employment, income and gender equity (Theophilus, 2011). Business performance indicators such as profitability, growth, customer satisfaction, employee satisfaction, social performance, and environmental performance are relevant construct in strategic management (Santos & Brito, 2012). The performance of Micro and Small Scale Businesses can be assessed in many different ways, including profitability, return on assets, market share, sales turnover, profitability, return on assets, number of customers and customer loyalty, number of employees and staff turnover (Waters, 1999). The research problem this current study is trying to address is "what has been the impact of the microfinance services on the performance of Micro and Small scale Businesses (MSBs)?" The study therefore tries to assess the impact microfinance services have on the performance indicators for measuring the performance of MSBs. Although there are many previous studies regarding impact of microfinance services on its clients in Uganda, most of studies focused on small and medium enterprises leaving out micro enterprises which are the major forms of businesses a poor person can afford to start with microfinance loans. Furthermore, most of the studies of this nature have not made the district of Arua inclusive and some of the impact assessment researches on impacts of microfinance were based on different perspectives such as poverty and women empowerment (Lakwo, 2006; McClatchey, 2013; Morris & Barnes, 2005; Nahamya K., 2015 ; Okurut et al., 2004; Wakoko, 2003), there is little or no informed scientific study which empirically ascertains how the services offered by Microfinance Institutions (MFIs) can impact on the performance of Micro and Small scale Businesses(MSBs) in the district of Arua. This study seeks to make a contribution to this gap by identifying and investigating the impact of the Microfinance services on MSBs and offering empirical test to examine the impact of Microfinance services on MSBs performance in Arua district.

1.3 Aims and Expected Benefits of Research

The purpose of this study is to assess the impact of microfinance services on the performance of micro and small scale businesses in Arua district in Uganda. The specific objectives of this research are to:

1. Discuss the financial and non-financial services offered by Microfinance to the Micro and Small scale Businesses.
2. Assess the impact of microfinance services on performance of sales of the micro and small scale businesses

3. Analyse the impact of microfinance serves on the performance of profit levels micro and small scale businesses.

4. Examine the impact microfinance institutions on the number of employees and staff turnover of the micro and small scale businesses

5. Suggest recommendations on how microfinance services can further be improved to enhance the growth and survival of Micro and Small scale Businesses in Arua district based on the findings of the study in Arua district.

1.4 Research question

In this study, the researcher mainly focused on the activities and services rendered by microfinance to micro and small scale businesses performance determinants such financial and non-financial services offered by MFIs and the performance indicators of MSBs such sales, profit margin, employee turnover, customer retention and satisfaction. The research question formulated for this study is: "What is the impact of microfinance services on the performance of micro and small scale businesses?" Therefore, the study attempted to answer these sub-research questions:

I. What impacts does the services offered by microfinance institutions have impact on the performance of microfinance to the micro and small scale businesses?

II. Does a microfinance service have impact on the sales or revenue of micro and small scale businesses?

III. Does a microfinance service have impact on the profit levels of micro and small scale businesses?

IV. What impact does the service offered microfinance institutions have on the number of employees and staff turnover of the micro and small scale businesses?

1.5 Research Hypothesis

By looking to previous studies and the literature review, and services provided by microfinance institutions in Arua district of Uganda as tested in the research questions, the researcher through this empirical study about the impact assessment of the services provided by microfinance institutions on the performance of micro and small scale business in Arua district in Uganda. The researcher is advancing the main research hypothesis to set the orientation of our dataset: there is a significant correlation statistically between services provided by MFIs and the performance of MSBS. As sup-hypotheses, we are providing the following points:

H_0: There is no significant relationship between services provided by MFIs and sales or revenue of micro and small scale businesses.

H_1: There is a significant relationship between services provided by MFIs and sales or revenue of micro and small scale businesses.

H_0: There is no significant relationship between services provided by MFIs and profit levels of micro and small scale businesses

H_1: There is a significant relationship between services provided by MFIs and profit levels of micro and small scale businesses

1.6 Expected Benefits and the Significance of the Research

Micro and Small scale Businesses (MSBs) are very important in the Uganda's economy and the Ministry of Trade, Industry and Cooperatives (MTIC, 2015) in the Micro, Small and Medium Enterprise (MSME) Policy Report described them MSBs as the engine of growth for the economic development. Such developmental programs needs adequate research to assess whether the established MSBs are thriving well based on the several factors which influence their operations most important being the source of funding. Most of the MSBs due to their nature of being small and having inadequate collateral security to seek for financial assistance from the MFIs, they have faced problems in accessing the said loans. And no much research has been done regarding the impact of the microfinance services on the performance of the MSBs. Previous studies of impact of microfinance services on its clients in Uganda by (Lakwo, 2006; McClatchey, 2013;

Morris & Barnes, 2005; Okurut et al., 2004; Wakoko, 2003), most on them focused on the impact of microfinance on the welfare of the of its clients that is to say its influence on the poverty alleviation, income levels and the socioeconomic impacts such as the women empowerment in the society but there has been no specific research done to establish the performance of MSBs in respect to the financial and non-financial services offered to them by the MFIs especially in Arua. The study is therefore significant in filling the existing gap by empirically testing the services offered by MFIs on performance of MSBs.

The findings in the study are of further help to policy makers, government, and donors to assess whether the MFIs are relevant in maintaining the growth and survival of the MSBs in Uganda which are regarded as easiest way for employment for majority of the population. The study further helps operators of MSBs to understand the essential factors that promote their businesses' growth and survival and thus enabling the micro entrepreneurs to gain more knowledge on the appropriate services offered by MFIs and this again help them in making appropriate financial decisions such as investing, insurance, and budgeting.

The study is of importance to credit providers and various village lending groups as it helps them understand the issues of their clients, the efficiency of their services to the growth and survival of MSBs. The various MFIs can also learn lesson from this study in respect to their credit policy formulation and development of new products to suit the activities of their clients. Finally, the study adds more knowledge to existing literature in the field of academia in which the findings in the study can also be used as valuable secondary information in the future studies.

1.7 Scope of the study

The study covered Micro and Small scale Businesses (MSBs) and Microfinance Services rendered to MSBs within the district of Arua in Uganda which is composed of five counties of Terego West and East, Madi, Ayivu, Vurra and Arua municipality as the six political divisions. The MSBs were being picked at random from the mentioned geopolitical divisions. The study considered those MSBs which has active in the field of business for proper assessment of the impacts of the Microfinance services have on their performance. As defined by Ministry of Trade, Industry and Cooperatives of Uganda Micro businesses are those which employs 1-4 people and have 0-10 million Uganda shillings Capital Turnover and Small business are those which employs 5-50 people but have Capital Turnover of 10-100 million Uganda Shillings and these definitions of the MSBs is used to identify the beneficiaries of the Microfinance services in the district.

1.8 Limitations of the Study

This study was faced with a number of challenges and the most significant ones been difficulty in collecting the data that is to say gathering the required information from the clients of Microfinance Institutions because they look at anyone who asks or tries to learn about the performance of their business as an aspiring challenger and hence there was tendency of concealing the of the important information such as their profit levels and the sales turnover. The owners of the micro business in the district are characterised with lack proper records to support their daily activities hence making most of them rely on guess work and other assumptions and those who have record books do not have regular records. Time and limited funds are also other limiting factors for the research since most of the time it is not easy to carry a survey for such study in short period of time.

1.9 Organization

The study has five chapters; Chapter 1 presents a general introduction which include; background of the study, problem statement, objectives of study, research questions, significance of the research, scope of study, limitations to the study, and organization of the study and major term used in the study. Chapter 2 provide a review of relevant literature; it evaluates the works of other researchers on the topic these included the concepts, models of microfinance, the impact of microfinance of Micro and Small scale Business performance in terms of survival and growth, empirical literature regarding the topic and conclusion based on the general literature. Chapter 3 focused on the profile of the study area and research methodology of the study in which data collection techniques are discussed and the model used for the study. Analysis of the data collected through the administration of questionnaires are discussed and presented in chapter 4. Chapter 5 then summarizes the general findings of the study, provides recommendations, and conclusion of the study.

1.10 Definition of major Terms

- **Micro enterprise**: Micro- enterprise based World Bank report 2012 and the Ministry of Trade, Industry and Cooperatives of Uganda is any enterprise which is informally or formally established which Capital Turnover 0-10 million Uganda Shillings and with number of employees ranging from 1-5 persons.

- **Small enterprise:** Ministry of Trade, Industry and Cooperatives of Uganda further defined Small enterprise as any enterprise that employs 11-50 persons and has Capital Turnover of 10-100 million Uganda Shillings.

- **Microfinance Institutions:** Ledgerwood (1998) defined Microfinance Institutions as financial institutions which provide savings, microcredits and insurance services to micro entrepreneurs

- **Microfinance:** Is often defined as an average financial services extended to mostly the poor and financially constrained people by different types of financial service providers (Microfinance Institutions) (Mader, 2016).

CHAPTER 2

2. LITERATURE REVIEW

2.1 Introduction

This Chapter among other things reviews several studies related to Microfinance, its concept, and how its services impact on the performance of Micro and Small scale Business (MSBs). It further studies the underlying theories of Microfinance and why it is suitable for most MSBs around the globe. The activities of Microfinance institutions as a means of helping micro entrepreneurs in developing and least developed economies has attracted wide range of debates on whether the services provided by Microfinance institutions are influential on the performance of the businesses set up by the micro entrepreneurs. This Chapter also covers these debates and analyses the views of other authors regarding their findings in respect to the impacts of Microfinance services on MSBs, why it's a better choice for Micro and Small scale business as compared to the conventional banks. It further explains the services provided by Microfinance Institutions and how these services are accessed by the beneficiaries. The success or failures of MSBs is not only attributed to the presence of Microfinance Institutions and this chapter will also take into consideration and discuss some of the moderating variable (factors) which influence the performance of MSBs. Finally the chapter draws a conclusion based on the views of the related researches on how the Microfinance Institution impacts the MSBs.

2.2 Characteristics and concept of Microfinance Institutions

The characteristics of Microfinance have been explained by many scholars based on the services they offer to their clients. Aleskerov (2007) claims that there is no specific definition of the microfinance and defined microfinance as a small financial institution that provides financial services to poor people who don’t have access to traditional bank services and help them to start, establish, or expand self-supporting businesses. Mader (2016), defined microfinance as a financing methods that envisions a world in which low-income households are given access to a range of high quality, suitable and affordable financial services proved by various retail loan providers to help them (low-income households) finance their business, build assets, stabilize consumption, and also help the protect against risks by taking microfinance insurance services against their businesses and their lives. Microfinance is not simply banking, it is a development tool whose usual activities comprised of; Small loans which are typical working capital for the borrowers, provision of informal appraisal of borrowers and investments, use of member group as collateral substitutes to have access to repetitive loans though it is based on repayment performance and compulsory savings, streamlined loan disbursement and monitoring to the clients and secure savings products**.** In the recent times MFIs have started to offer a variety of other services, including skills training, and remittances services (Armendáriz & Labie, 2011; Ledgerwood, 1998).

MFIs are concerned with provision of financial services to people who are economically poor and who therefore experience financial exclusion from the traditional conventional banks and as such they are not exposed to better commercial financial services. Microfinance Institutions are therefore concerned with provision of financial services and non-financial services to poor people using means which are favourable in respect to the underlying goals which is poverty alleviation (Burkett, 2003).

Microfinance Institution have be characterized as financial institutions which extend both financial and non-financial services to the low-income micro entrepreneurs such services include; credit facilities, saving, micro-insurance, and training programs such as financial literacy, development of managerial skills and enterprise development services (Kessy & Temu, 2010; Kyale, 2013; Theophilus, 2011).

Microfinance has been a gateway for the poorest people to manage and mobilize financial resources to develop their businesses and over time, this has enabled them accelerate the process of building incomes, assets and economic security in most developing and least developed countries (Tiwari & Fahad, 2004). Ledgerwood (1998) described Microfinance institutions as financial institutions which provide savings, microcredits and insurance services to micro entrepreneurs. MFIs are financial institutions set with the main mission to reduce poverty (Armendáriz & Labie, 2011). That is why most of the MFIs are concentrated in financially weak communities. The basic concept of MFIs as a means of poverty alleviations was masterminded by Dr Muhammad Yunus of Chittagong University who felt concern with the welfare of the poor especially the women and his argument behind this was that many women work hard for other people but if they had exerted their efforts on their own work then they would have a better chances of improving the economic and financial strength. He then Established Grameen Bank (GB) in 1976 in Bangladesh with over 1000 branches in which one branch covers 25-30 villages, around 240 groups and 1200 borrowers of which over 90% being women (Tiwari & Fahad, 2004). The microfinance model developed by Dr Muhammad Yunus has been used worldwide by non-governmental organizations (NGOs), non-bank financial institutions, cooperatives, rural banks, savings and postal financial institutions, and an increasing number of commercial banks as a means for providing financial services to low-income clients. Microfinance institutions in sub-Saharan Africa has been on the lead in providing core financial services for micro entrepreneurs and this acts as an important source of funds for their businesses development (Lafourcade, Isern, Mwangi, & Brown, 2005).

Generally Uganda is among the leased developed countries who are striving to attain middle income status by promoting and encouraging vibrant activities of microfinance and some of successful microfinance industry in the country have experienced strong growth with minimum of 25.000 and 45.000 clients (Riesenfelder et al.). In Arua in particular the number of MFIs is more than those of conventional banks and they are wide spread throughout the district and most of them operate as local commercial services providers and Savings and Credit Co-Operatives (SACCOs) Arua District local government statistical (ADLG, 2012). These local financial service providers' help greatly in providing financial education to the areas hardly reach by conventional banks.

2.3 The Models of Microfinance Institutions

Micro Finance Institutions by their mode and principles of organizations are those financial institutions that provide financial services to the poor. This incorporates various financial service providers with different legal structure, mission, methodology, and sustainability but whose aims and objectives are the same as their major target is to provide financial services to vulnerable people who are hardly accessed by the conventional banks. They can also be regard as an organization-credit union or financial cooperatives that provide financial services to the needy poor as motivation to carry on their own income generating activities such as business (Fotabong, 2011).

2.3.1 Grameen Bank (GB) Model of Bangladesh

The Grameen Bank (GB) adopted as system of using voluntary formation of small groups of five people who are able and trust worthy regarding microcredits given to them without any collateral required as compared to the conventional banks. The system gave more advantages to hardworking women to have access to the schemes, and these women emerged as reliable borrowers and entrepreneurs in their respective communities. Unlike the conventional banks, Grameen Bank provide microcredits based on mutual trust instead of requiring other collateral securities such as land title and others and this gave birth to a new banking system based on accountability, participation and creativity.

Dr Muhammad Yunus the brain behind the Grameen Bank looked at credit as the most critical and turning point for those who live in absolute poverty to rise to certain level and he therefore enacted certain power and hope to these vulnerable people who had been denied access to financial services due to lack of collateral. He further argued that the operations of conventional banking system are not in support of poor, women and illiterate people and hence leading to inherent poverty in societies (Fotabong, 2011). GB thus provided microcredit to the poor and formerly financially excluded people with the aim of enabling them to purchase equipment and other inputs and engage in micro and small scale businesses to alleviate poverty. GB uses group based lending approach in which small amount of microcredit is given to a large well-organized groups who act as collateral for the money borrowed. GB had used trial and error method to arrive at the conclusion that group impact has great influence on the on the repayment of loans and they discovered that a group containing at least 10 to 20 people performs better than the one having 100 people (McDonnell, 1999). The experience of using such small groups in a model contributed greatly in in terms of social benefit because of the mutual trust arrangement which is exhibited. Ledgerwood and White (2006) continued to explain that the trust acts like the heart of the "group guarantee" system in which each group often becomes the building block to a broader social network in the GB loan scheme system. Huppi and Feder (1990) referred GB as five-member groups because initially GB loan groups comprised of ten or more members and it proved unsatisfactory due to the larger diversity among the economic conditions of members hence made the decision-making process become lengthy.

Berenbach and Guzman (1994) described the model as a peer group based model in which loans are given to individual groups of four to seven people. Though the size of the group at times vary from four to eight members so long as the group members can collectively guarantee loan repayment in order to get access to subsequent loans and the subsequent loan acquisition depends on the success and ability of the members in repaying the previous loans (Agyemang, 2016). The loan groups are self-selected and this is normally done before getting access to the loans. People in groups are given the chance to acquire the loans first then followed by the individuals who do not have groups. To ensure security for the loans, GB requires that a certain portion of the processed loan is saved in advance which can easily make the beneficiaries to make regular payments and act as collateral. Ledgerwood and White (2006) the group members meet on weekly basis to collect the loans and they are all accountable for each group member’s loan repayment. Should a single member default in loan repayment then the whole group will be liable for any consequences and can all be suspended or disqualified from the loan scheme. These loan groups under GB proved to be effective in preventing defaults as they always do repay their loans timely and this further provides a good evidence to ascertain the effectiveness of the model by other microfinance institutions microfinance model.

Ledgerwood and White (2006) further explained that the group member do receive their loans in succession upon complete repayment without defaults by first two group members then more groups can receive after that and the cycle could continue till the last group. These groups were cluster of small groups and this helped in easy monitoring and fostering close relationships among the members and this further help in easy access to information regarding the interests of the individuals in the group (McDonnell, 1999).

2.3.2 The MC^2 Model

The MC^2 Microfinance Model is a rural development micro-banking (Suwandaarachchi & Nanayakkara, 2015). Fotabong (2011), the MC^2 Model was developed from Einstein's formula: ''Victory over Poverty (VP) is possible if the Means (M) and the Competences (C) of the Community (C)'' are combined. He went on to explain that the MC^2 Model was developed as rural development micro-bank with the focus to maintain the values and customs of the locals in the village community. The communities using the model regard it as superior compared to other model because they see it as a micro financing system of reality as it is created, owned and managed by the people in which their community is seen as an identity feature. This gives them the chance to have control of its operation in line with their local values, traditions and customs. This gave birth to the formula: $VP= M \times C \times C =MC^2$.

Mutua (2017) stated that the model's two main objectives are economic and financial sustainability for the individual poor groups and social dimension. The MC^2 model puts much emphasis on the underprivileged people to be self-reliant and create wealth for their own survival. The Model has two versions which includes MC^2 for rural and the MUFFA for the urban. The latter was basically introduced to cater for the poor women in the urban centres. The concept of the second version of the model MUFFA avails financial services to the women in order to start an income generating activities such as micro and small scale business ventures (Fotabong, 2011; Suwandaarachchi & Nanayakkara, 2015). In areas where community driven activities are rampant such India the MC^2 model has also been implemented (Jena, 2016).

2.3.3 Village Banking Model of FINCA

FINCA literally stands for the Foundation for International Community Assistance. FINCA is one of the leading Microfinance Institutions in the world with a network of 21 microfinance institutions across Africa, Eurasia, Latin America, the Middle East and South Asia (FINCA, n.d.a). FINCA with its unique banking products introduced Village Banking model in its effort to make finances available to financially-sustainable solidarity groups (Fotabong, 2011), FINCA in the context of lending credits in village banking model in Uganda, provides microcredits of short or medium term to viable active entrepreneurs in a group with a minimum of 5 and maximum of 35 entrepreneurs who has a running businesses. FINCA uses this model to facilitate business performance and growth of micro enterprises. The finances availed under this model are flexible since the terms of borrowing are in most cases in favour of the borrower and the amount given can range from Shs.50,000 to 6 million Ugandan shillings and this is enough money to set up any form of MSB (FINCAUGANDA, n.d.b). to Brau and Woller (2004) claims that FINCA Uganda has registered many successes with its clients through some of the products provided to them. Zeller (2003) described the FINCA's village banking model as a banking model with less complex structure and administration as compared to other microcredit lending institutions such as the credit union since it enables the less educated members in the villages to manage their bank but he however pointed out that the start-up costs for formation and training of this model are relatively high since impacting the mechanism and financial skills to the less educated is resources consuming but the good side is that there is always support from the external NGO who caters for some of the costs through donations.

2.3.4 Group and Individual Lending

This model is based on the fact that shortcomings and weaknesses at the individual level are overcome by the collective responsibility of the group and the group act as guarantor for all the individual group members (Mandere et al., 2013). Group and Individual Lending is further referred to as a practice of working with clients in small groups which ranges from three to seven and the individuals in the group pool their loans but the group as a whole is held jointly liable should repayment difficulties arise

(Armendáriz de Aghion & Morduch, 2000). In most cases group-lending programs emerge when borrowers who cannot afford to offer any collateral are asked to form small groups which acts as guarantor for each individual since group members are held jointly liable for the debts of each other (Ghatak, 1999)

In Group and Individual Lending model, small groups of borrowers are the ones responsible for the repayment of each other's loans and should there be a default by any one of the group members then all group members are treated as being in default and such group members are denied subsequent loans due to the default committed by the group member. The co-borrowers act as guarantors they thoroughly screen and monitor each other and this helps in reducing the agency problems between the MFI and its borrowers. The group members hold weekly repayment meetings repayment meetings which many studies cited as time-consuming, (Attanasio, Augsburg, De Haas, Fitzsimons, & Harmgart, 2014)

2.3.4 Rotating Savings and Credit Associations (ROSCAs)

ROSCAs are informal financial groups often small scale and locally formed by group of individuals who are closely associated such as a group of local entrepreneurs, group of employees or family members who are engaged in an active businesses come together and collect their funds in a common pool through regular daily, weekly or monthly contributions in which the pooled funds are given as a lump sum to one member in each cycle. In Uganda and Arua in particular micro and small scale entrepreneurs also participate in ROSCAs commonly known as "Asosoa" in Lugbara language. The sizes of the ROSCAs vary depending on the preference of the group members, they normally comprise of a group of 10 and 50 people. The pooled funds are then a given to a particular member in each period till all the members in the group finish to receive their part in the cycle. The groups are flexible in such a way that they can easily be accessed for funds than banks since tedious bureaucratic paper works are not involved in their group. No fixed capital or proper written records are needed in the groups. The group members who wish to leave the group are free to do so at the end of the cycle (Wakoko, 2003).

2.3.5 Poverty Alleviation Theory

Creating jobs to the largely poor, unemployed and underemployed has been one of the pressing needs of the most economies. Mbugua (2010) emphasised that jobs can be created for this class of people by creating jobs that can either earn wages or make the local self-employed. Creating such job opportunities requires at least investment in form of small working capital thus getting micro credit from the MFIs become inevitable. Wahid (1994) argued that from Grameen Bank's success story in poverty alleviation, obtaining credit under from MFIs for such circumstances can help the rural poor accumulate their own capital and thus create their own jobs to improve their living standard through the income earned from their local investments. As this system has been empirically tested and the evidences obtained suggests that the bank's credit program has significantly improved the socioeconomic conditions of its beneficiaries over the years. Habib and Jubb (2015) alludes involvement low income or poor rural population in MFIs credit borrowing has significantly resulted into their aspect of material well-being, including income, acquisition of assets, improvement of their savings and food intake. They further explained that such experiences have never been observed with household which are not involvement in borrowing micro credits from MFIs.

2.3.6 Women Empowerment Theory

Microfinance Institutions normally associate with women basically to empower them economically, socially and politically. Lakwo (2006) argued that women empowerment is actually a development goal and the goal is beyond mere poverty reduction. He looked at Microfinance as way of removing the gender equality barrier which hampers economic development. MFIs are important agents in creating awareness and aspirations for education, health care and other social services amongst the rural women and this greatly lead to their empowerment in the society (Luyirika, 2010). Women are the poorest among the local and rural population in Uganda with no proper collateral securities to get loans from the banks but through MFIs the aspect of gender can easily be used for lobbying loans for the women. The inclusion of the women in financial arena helps them get involved in various micro and small scale businesses to earn decent living and reduce the higher level of female poverty. Such circumstances make women to build strategies for making sound decisions in the community (Wakoko, 2003).

2.4 Evolution of Microfinance Programs in Uganda

Clark (2016) stated that the operations of Microfinance started in Uganda in mid-1980s as donor-funded projects. Microfinance industry started to boom in Uganda in the early 1990s when financial sector reforms were formed after when the country gained peace from the several political unrests from late 1970s to mid-1980s. After privatization of the Uganda Commercial Bank, the institutions providing financial services became so limited especially in many rural areas of the country and microfinance institutions were developed to fix this problem (Rhyne & Christen, 1999). Microfinance services are provided in Uganda are manly of three types namely; formal, semi-formal and informal microfinance services and these three sectors fall under banks, cooperative unions, and small-scale savings and credit groups which includes rotating savings and credit associations (Wakoko, 2003).

Carlton and Wien (2001) stated that due to the financial sector reforms of 1990 many banks and bank branches were closed and as well as the drive for prudent operations and efficiency of the banking industry led to slow growth of micro and small enterprise sector in the country. Low income population received it as big blow to access to financial services. It is from these reforms that microfinance institutions emerged to fill the void left by the bank and these MFIs then expand rapidly from the mid-1990s onwards. Many people came to view microfinance as the most efficient and obvious way for delivering financial services to the vulnerably constraint people in both urban and peri-urban areas and these MFIs services gradually were extended to the low-income earners of the rural population.

Microfinance since 1990s has acted as a complementary service to commercial banking. This banking system has a typical characteristic of proximity to its clients and these include speed and flexibilities of services, hidden transaction costs, diversity of services and products, and mutual reciprocity. Microfinance has continues to grow into a popular industry in Uganda. The loans provided by MFIs in early 1990s first targeted specific agricultural sectors such as cotton and coffee in which Uganda has comparative advantage over other countries in the region (Lakwo, 2006).

Many low-income people rarely attain their full economic opportunities through financial resources offered by the conventional commercial banks because the banks consider the poor as high-risk borrower since they have no recognizable collateral security, unstable sources of income and also given the small sizes of their loans their loan transaction costs are always high. These scenarios then made the poor long relied on alternative sources of finance such small loans and grants from close relatives, loans from Saving and Credit Cooperatives (SACCOs) and loans from self-established Rotating Savings and Credit Associations (ROSCAs) since the loans from traditional local moneylenders such as the conventional banks are often unaffordable given the conditions are collateral requirements (Ayele, 2015). Okumu (2007), eludes that since 1990s there has been no properly set up microfinance institutions to deliver finance services however he further indicated that there have been a number of non-governmental organizations taking on the mantle in which 750 Saving and Credit Cooperatives (SACCOs) have been registered in the last 15 years by the Ministry of Finance, Planning and Economic Development at the end of December 2005. Ledgerwood and White (2006) cited that the major MFIs in Uganda such as FINCA Uganda Ltd, PRIDE Microfinance Ltd, Uganda Microfinance Ltd, and Uganda Finance Trust Ltd all received licensed as Microfinance Deposit taking Institutions (MDIs) in 2005 where by FINCA Uganda at the time of licensing, had over 48,000 loan clients and a portfolio of 10.5 billion Uganda shillings approximate of (aboutU.S.$5.8 million), making it the second largest MFI by clients and third by portfolio in the country.

There has been 2000 Microfinance Institutions which includes Savings and Credit Cooperative Organizations (SACCOs), NGO MFIs; other community based groups have been registered by the end of 2012. Three (3) Microfinance Deposit Taking Institutions (MDIs), 3 credit and finance companies were also authorized to mobilize deposits and 1,500 registered SACCOS as at end of 2015 (Clark, 2016). Wilfred, Max, Omeke, Norman, and Moses (2015), stated that in the 2010 Microfinance Census carried out by Uganda Bureau of Statistics, there were 2,063 functional SACCOs. The government of

Uganda through her programme ‘’SACCO per Sub County’’ supported opening of 1085 of the functional SACCOs which serves 841,312 members with a total of 28 billion Uganda Shillings in savings and loan Portfolio of 44.4 billion Uganda Shillings.

McClatchey (2013), in his research about Impact Evaluation of BRAC’s Microfinance Program in Uganda he discovered that Arua which is one of the districts in Northern Uganda and West Nile in particular had suffered greatly from civil unrest since the 1980s. The conflict had been the hindrance for many banks and other financial service providers from setting up offices until more recently in 2006 when financial institutions such BRAC started operations in the district. Before this many households in this region were more credit constrained before the introduction of BRAC’s programs. Microfinance on the other hand represents a major industry in Uganda and the Central Bank in Uganda has therefore imposed a number of regulations to govern their activities.

2.5 State of Micro and Small scale Businesses (MSBs) in Uganda

In Uganda, the business environment of the economy is composed of formal and informal sectors. MTIC (2015) indicated that the structure and composition of Uganda’s economy is mainly divided into formal and informal. Formal business are referred to as any form of business establishment which operates within a fixed location with yearly turnover of more than 5 million Uganda shillings and whereas informal business refers to any form of business establishment which operates within a fixed location with less or equal to 5 million Uganda shillings annual turnover. They play crucial role in the economic growth and development of Uganda employing over 2.5 million people which accounts for 90% of the entire private sector, 80% of manufactured outputs and 20% of the gross domestic product (MTIC, 2015).

The Micro and Small scale Businesses (MSBs) in Uganda are a very heterogeneous in nature and they include a wide variety of firms which operate as family businesses, partnerships and others as corporation. The businesses operated by these micro and small scale entrepreneurs includes; retail and whole sales merchandise business, handicraft makers, salon businesses, boda boda businesses, small machine shops such as milling shops, restaurants and hotels, and computer software firms, clinics and agriculture businesses with wide range of farming systems such horticulture, floriculture, aqua farming, poultry etc. which operates in different markets and social environments throughout the country. The owners of these businesses may or may not be poor based on the economic conditions; others are dynamic, innovative, and growth-oriented entrepreneurs who see their future and life in the field of business.

Therefore Micro and Small scale Businesses are defined and categorized by many authors based on number of the people they employ, turnover, and the economic conditions of the country. Sometimes the statistical definition of MSBs varies by country based on indicators such assets value and employees number. Hallberg (2000) used the number of employees as criteria to define Micro and Small Scale Business (MSBs). In his definitions, he defined Micro business as a family based business or self-employed person operated enterprise in the semi-formal and informal sectors. He continued to define Small business as an enterprise which usually employs a minimum of 5 workers and maximum of 100 employees. Micro businesses normally have little chances of growing into bigger and well recognized enterprises because they have limited access to bank finance.

However small scale businesses unlike micro businesses have high potential of accessing formal finance and grow to become larger firms. Some small scale businesses operate in a formal sector since they employ many people who earn wages and take part fully in organized markets. To curb the problem of micro business concerning access to finance the government has set up specific financial institutions and instruments as group based lending model of financing where all the group members can access finance through the group to keep their businesses active.

Hallberg (2000) however discouraged over reliance on the definition of MSBs based on employment since the number of employees in these enterprises is not consistent and vary from one economy or market to another. In developed economies like United States of America enterprises employing less than 50 people is considered as micro businesses and in this case, such categorization is relative to the size of U.S economy than such similar firm in least developing country such as Uganda. Moreover, some common features such as being small in size, single owner operated or family business which deals basically on basic goods and services, lack of organizational management skills, technological sophistication may be considered as prudent than relying on the number of employees as a segmentation factor.

2.5.1 Classification of MSBs by the Ministry of Trade, Industry and Cooperatives (MTIC) of Uganda

There exists a conflict in defining and classifying MSBs based on employment and assets criteria. In this regard the Ministry of Trade, Industry and Cooperatives of Uganda adopted both the employment and assets criteria to define and classify the MSBs in Uganda. As such MTIC (2015) asserts that micro and small and businesses includes all types of businesses irrespective of their legal form and type such as family owned businesses, sole proprietorships enterprises or cooperatives and also whether they are formal or informal business to ensure inclusiveness in the government business system. The government of Uganda through the MTIC has come up with a policy to ensure the growth of these MSBs as a means to ensure sustainable wealth creation and socio-economic transformation of the poor.

Quantitatively micro business is defined as an enterprise which employs less than 5 person and have a total assets value of not more than 10 million Uganda shillings. On the other hand MTIC defined small scale business as an enterprise which employs 5 to 49 people and have a total asset value minimum of 10 million Uganda shilling and maximum of 100 million Uganda shillings.

In 2011, Uganda Bureau of Statistics also used the same way to categorize MSBs in the Census of Business Establishments and this clearly indicates that employment-based classification and definition seem to give relatively a more stable definition, given the fact that macro-economic factors such as inflation which are unpredictable can easily exert unnecessary pressure on a country’s economy rendering the asset-based definition less stable.

Table 1: MTIC Classification of MSBs in Uganda

Business category	Number of Employees	Capital Investments	Capital Turnover
Micro Business	1-4 persons	0-10 million Uganda shillings	0-10 million Uganda shillings
Small Business	5-50 persons	10-100million Uganda shillings	10-100 million Uganda shillings

Source: MTIC (MSME) Policy report (2015)

2.5.2 Challenges MSBs face in accessing MFIs services

In Uganda, MFIs are expected to have facilitated the establishment of savings accounts and loan management services for the clients but such impacts are still small since accessing services of MFIs is involved with attending meetings on regular basis. These meetings are time consuming, women who are in need of the services of MFIs spend serval hours in line waiting to be served loans, and have to leave their domestic work in order to attend the MFIs trainings which at times erupts domestic violence (Odongo, 2014; Wakoko, 2003).

Most financial institutions in Uganda are urban based and this includes the few MFIs, Fendru (1995) alludes that location of such institutions in distant urban centres away from the majority poor who are village based pose critical problems in accessing microfinance services. The overall transaction costs for borrowing and lending are always high and the necessary collateral requirements imposed by some of the MFIs deter the clients from accessing the services. Majority of the rural population are poor and scattered and attempts to access them are not easy. Lwanga (2016), recounts that saving through mobile phones among the local entrepreneurs in Uganda is more predominant in urban areas than in rural areas because, the rural area population on average tends to have lower incomes which are further characterized with a lower propensity to save as compared with the urban dwellers. He further stated that the rural areas area have poor infrastructure in terms of the lack of electricity and poor telecommunication network coverage which limits their chances of accessing the mobile money services offered by the telecom companies through the MFIs.

Nyangoma (2012) claims that the credit terms for accessing the microfinance services by the micro entrepreneurs are not favourable since they are not in line with the objective of helping the poor making it difficult for the local entrepreneurs to afford borrowing loans. The lending terms of the MFIs greatly have impacts on the performance of the MSBs (Odongo, 2014).

Weak institutional framework for coordination, financing and implementation by many MFIs in Uganda have been observed to have stagnated the access and use of micro credit by small holder farmers despite the numerous interventions put in the agricultural financing by the government to boost small holder agriculture business (Munyambonera, Mayanja, Nampeewo, & Adong, 2014).

Calice, Chando, and Sekioua (2012), observed that in adequate information about the MSBs is the most important deterrent to their involvement in microfinancing segment. Most of the MSBs are not registered and lack proper information regarding their financial statements and records thus making it hard to determine their credit worthiness by the MFIs. Luyirika (2010), further stressed that some of the loans disbursed by the MFIs to their clients are very small amounts of money coupled with high interest rates, short grace of repayment period, unfavourable repayments terms and conditions, low returns of investments and risk of property confiscation in case of defaults.

2.6 Microfinance services offered to the Micro and Small scale Businesses

There is wide range of services offered by Microfinance Institutions to Micro and Small scale Business in Uganda and other places around the globe. These services vary from financial to non-financial services. The services provided by MFIs among others include savings, credit, insurance, remittances, and payments, and others non-financial services (Mader, 2016; Van Rooyen et al., 2012). The sole objective of these services is to help micro entrepreneurs start or expand their existing businesses and create employment to other people as well (BRACUganda, 2016).

2.6.1 Financial Services

The owners of the micro businesses do not only need productive loans, they also need other financial services in order to meet other specific needs. They can demand for credit or savings in order to start or expand their existing businesses, provide education for their children; they also need insurance services to deal with shock or unexpected emergency situations in their daily lives; they are required also to make savings and insurance services to meet future costs of old age and funeral services (La Torre, 2006). The financial services MFIs render to the clients includes small loans, savings accounts and insurance (Ledgerwood, 1998).

2.6.2 Loans products

Group loan: This loan is usually given to members groups who comprise of ten to thirty five people with homogenous or different types of business. The members use the group name as grantee to get further loans so long as a single member does not default repayment of the loans. The duration for the payment vary from four to six months depending on the choice of the beneficiary but the interest rates remain the same during the period. Microfinance Institutions use this method which has joint group liability to lend loans to small-scale entrepreneurs to start up or expand their businesses because there are high chances of loans recovery with the joint group liability. (Armendáriz de Aghion & Morduch, 2000).

Individual loans:

This loan is given to individuals based on their relationship with the Microfinance Institutions that is to say the loans are only available to individuals who are already having savings account with the Microfinance Institution for at least a period of one month. Entrepreneurs who have active businesses can use their enterprises as collateral security to process larger loans to grow up their businesses and create jobs for other people. Hermes and Lensink (2007), concluded that Individual-based microfinance loans seem better for the micro entrepreneurs as per the study they carried out, it indicated that the borrowers can easily get better profits with the borrowed loans in the long run but they again stated the that the model only favours increasingly wealthier clients since it demands account opening fees and maintenance of minimum account balance.

Energy Loans

Most of the Sub-Saharan Africa is faced with the problem of inadequate electricity; Microfinance Institutions therefore help their clients to purchase or lease clean electricity systems or products such as effective charcoal stoves, solar systems to be used at their homes or at their business places. The system greatly helps to preserve the environment and health of the clients as excessive use of kerosene and charcoal are minimised.

Agriculture Loans:

Agriculture is the backbone of Uganda's economy which contributes approximately 37% of the Gross Domestic Product Price Waterhouse Coopers Uganda (PWCUganda, n.d) some Microfinance Institutions (MFIs) have shown significant efforts in providing sustainable microfinance services such as agriculture loans to the rural poor to help them purchase seeds, fertilizer, livestock and equipment which greatly helps in resolving the agriculture credit problem in rural communities. The micro entrepreneurs in Uganda use agriculture to improve their business skills and diversify into a new market opportunity to earn more incomes.

2.6.3 Savings Accounts

Microfinance Institutions help their clients open savings accounts such that the monies saved in the accounts helps to build a cushion against hard times. The safeguarded money of the micro entrepreneurs can also serve as a buffer for many activities such as education, unforeseeable sicknesses which requires medical care, old age, and also for investment purposes which can eventually lead to business expansion and other long-term goals. The saving account service is normally a non -interests bearing account where by the customers deposit their funds and withdraw anytime they wish to use them without long procedure from the MFIs. Swaan and Linden (2006) explained that in existing rotating savings funds, microfinance institutions provide their members with an incentive to restrict consumption and save. The rotating fund ensures that members who often live in crowded homes without much protection against theft need not to hoard their savings themselves, nor entrust them to someone else (safe deposits may be very hard to come by).

2.6.4 Insurance

In order to mitigate the uncertainties and risks in their businesses, micro entrepreneurs take on the insurance services offered by various Microfinance Institutions. The insurance service further helps them reduce the financial stress of meeting major or unexpected expenses. The types of the insurance cover undertaken by the micro entrepreneurs include life insurance, property insurance, health insurance, funeral insurance and disability insurance. It is through these insurance services that the entrepreneurs can share their financial losses. Such services acts as motivator for many micro and small scale business owners and the ability to share risks can also encourage them to open up other businesses while bearing in mind that their insurance cover will reduce business risks. Theophilus (2011) stated that micro insurance is very important to the poor because most poor people need insurance to safeguard them against unforeseen circumstances. However many microfinance clients do not consider taking the product due to poor marketing strategy.

2.6.4 Non-Financial Services (NFS)

MFIs do not only provide financial services to their clients but also provide important advisory services, training, imparting information support, business clubs and other networking events to ensure that the financed businesses succeed. La Torre (2006) stated that these NFS represent a preliminary support with major objective of contributing to the development of the MSBs by providing business training, production training or marketing and technology services. Most MBSs do not have links with the market as their bigger counter parts do and for this reason their products may not find an outlet. In such circumstances, the NFS organized by MFI such as the sales network greatly assists the micro entrepreneurs with the sale and commercialization of their products. Richardson (2016) stated that this is not a new phenomenon since many financial institutions in advanced countries use the NFSs to help their customers improve the growth of their businesses. Of late most Microfinance Institutions are emulating the same system with their target being Micro and Small scale Businesses such that the provided NFSs can help them start up and grow their enterprises. The trainings provided by the MFIs usually focuses on helping the entrepreneurs to recognize their commercial value, also their ability to assess and recognize their own strengths and weaknesses in order to build the critical business skills needed by any entrepreneur to have a cutting edge over her competitors and achieve success in the current competitive market. In a nutshell, the non-financial services give the entrepreneurs relevant skills needed to start, manage, and grow their businesses by equipping them with adequate skills in book keeping, record management, planning on how to improve their goods and services. Some of the NFSs provided by the Microfinance Institutions include;

2.6.4.1 Financial Literacy

Financial literacy is one of the important aspects of business management in the current competitive market environment where resources like finance which are very useful for running the business are scarce. MFIs therefore give necessary credit and debt management skills to the MSBs to make financial decisions in a responsible manner. In reality most MSBs operators do not have adequate financial literacy which could otherwise help them make better financial decisions in their everyday life. Financial literacy provided by the MFIs is critical element in transforming MSBs into giant businesses, however the cost of providing financial literacy to the poor MFI clients is always a big challenge since the providers of this services are mostly the Deposit taking Microfinance Institutions (MDIs) and they fear losing due to the costs associated with financial literacy capacity building organized for the clients and passing such cost to the final client also makes MFIs also lose their objective and original concept of being friendly and suitable financial institutions for the poor communities (Kyale, 2013).

2.6.4.2 Enterprise Development and Management skills Services

These are integrated approach based services provided by the MFIs to ensure beneficiaries' business sustainability. These include regular business training in the areas of principles of management, pricing, book keeping skills, customer care and development, leadership development. MFIs clients before been issued the loans are normally given orientation on the use of the loan, penalty in case of default, other loan terms and conditions and training them on the most productive areas their loan intervention can used be effectively and efficiently to ensure profitability and business expansion (Theophilus, 2011). MFI are expected to offer managerial training services to MSBs in order to provide solution to many inadequacies in MSBs management system which retards their ability in growth and profitability hence reducing their effectiveness in contributing to sustainable development of the country. Managerial training and experience has been identified as one of the top services the operators of MSBs need most since owners of these businesses use trial and error approach to manage their enterprises. Lack of such managerial skills makes it hard for MSBs to face changes in the business environment since the majority of operators of MSBs are ordinary people whose educational background lacks much needed knowledge for making complex decisions (Kyale, 2013). Haider, Asad, Fatima, and Abidin (2017) reported that trainings offered by MFIs have an impact on performance indicators of MSBs and these included sales increase, income increase, assets increase, and increase employment.

2.6.4.3 Social Intermediation

MFIs provide social intermediation services to the clients and in such circumstances the organize workshops for their beneficiaries on how to form social groups through which microfinance services can easily be accessed, interactions with other group members to come up with way forward regarding the issues which faces group members. Some of the MFIs especially the NGO based MFIs provide women with leadership trainings, girl child education through offering bursaries programs, other social and health issues such as family planning, HIV awareness and nutritional needs for the clients and adult literacy through adults education which can further their knowledge on numeracy skills and other relevant skills.

2.6.4.4 Market facilitation

Micro and Small scale Business have inadequate market information and this act as big challenge for their expansion and growth. MFIs help these MSBs to form business clubs and other networking events in which they can be able to obtain trade-related information and form marketing associations, member of an industry association such as Uganda Small Scale Industries Association and through such professional bodies the MSBs can easily gain a competitive advantage in a business and ensure their growth and (Richardson, 2016).

2.7 Review of Literature Regarding the Impact Microfinance services on the Micro and Small scale Businesses

Microfinance services have adverse impact on the clients based on the models and purpose for which they are disbursed. This has resulted into several studies being carried out within Uganda and around the globe to ascertain the impact of microfinance on the growth and development of businesses especially the Micro and Small scale which are the major clients of the MFIs. The paradigm of microfinance operation takes into account financial and non-financial services to the low-income micro entrepreneurs.

2.7.1 Impact Studies of Financial Services of Microfinance on Micro and Small Business

2.7.1.1 Impact Studies of Microfinance Loans on Micro and Small Enterprises

Peprah and Ayayi (2015) examined the returns of micro-credit on retail businesses of clients and non-clients in two regions of Ghana, the results of the study showed micro-credit have impacts on sales, stock, expenses and profit for clients as compared with non-client. Copestake, Bhalotra, and Johnson (2001) evaluated the influence of a microcredit intervention on borrowers in Lusaka. The study found that those clients who took loans more than once experienced significant increase in growth of their business profits and household income, as compared with otherwise similar business operators.

Kinimi (2014) conducted a study on impact of microfinance institutions on the growth of small and medium size enterprises in the Democratic Republic of Congo and found that many micro entrepreneurs have viewed microfinance outreach in new areas around the country as a facilitator of small and medium enterprise growth. Loans credits advanced to micro entrepreneurs influence growth among the SMEs. Agyemang (2016) microfinance interventions provided to SMEs in the Bekwai Municipality in Ghana showed growth and increase working capital and average monthly earnings which facilitated the growth of small scale businesses however Wanambisi and Bwisa (2013) in their study found out despite the efforts of microfinance institutions to provide financial services, especially credit and saving facilities within the reach of poor people and MSEs that cannot easily access loans from the conventional formal financial system, growth and expansion of MSEs sector had not shown any sign of growth and expansion

Wang (2013) conducted a study on impact of microfinance on the development of small and medium enterprises in Taizhou, Zhejiang, the largest home of SMEs in China. He used multiple linear regression and dummy variables to analyse the survey data collected from SMEs in Taizhou, Zhejiang China. His study revealed that microfinance services play a crucial role in the revenue and profit growth of SMEs. He further explained that SMEs with higher financial risk and lower level of productivity seek microfinance services more than their counter parts. He also found that for the entrepreneurs in this region to access microfinance services, firm characteristics such as product innovation efforts, managerial and entrepreneurial attitudes play key role. Morris, G. and C. Barnes (2005), also noted that services offered by three MFIs namely; FINCA, Foundation for Credit and Community Assistance (FOCCAS Uganda), and PRIDE have major impact on their clients businesses. Their study revealed that microfinance clients in rural Mbale district, Kampala, and Masaka town in Uganda experienced increases in sales volume, reduced costs of inventory purchases, addition of new products and services, expanded business sites and markets due use of microfinance services as compared to their non-client groups.

However A. Babajide (2011) carried out a similar study in South-West of Nigeria but she came out with different results. In her study, she examined the effects of microfinance on micro and small business growth in Nigeria. The study employed panel data and multiple regression analysis to analyse a data collected from the survey comprising 502 enterprises financed by microfinance banks in Nigeria. The findings from the study were that MSBs access to microfinance services does not enhance their growth however, other firm characteristics such as business size and business location, were found to have positive effect on enterprise growth. Then she later on recommended that to ensure growth and expansion of MSBs by Microfinancing there should be recapitalization of the Microfinance banks.

Kisaka and Mwewa (2014) carried out a study on the effects of microfinance services on the growth of SMEs in Machakos County in Kenya. The purpose of the study was to examine the effect of microcredit, micro saving and training on the growth of the SMEs and with the use of multiple regression analysis, they found out that the predictors understudy contributed positively to the growth of SMEs research on effects of microfinance services on the growth of the SMEs. However training was not statistically significant as per their findings.

2.7.1.2 Impact Studies of Microfinance Insurance service on Micro and Small Enterprises

Giesbert, Steiner, and Bendig (2011), Investigated households' decisions to up micro life insurance and the use of other financial services in Ghana by use of multivariate probit model. Their finding showed that there is mutually reinforcing relationship between the use of the insurance services and other formal financial services. In similar study by Cohen and Sebstad (2005) there is a clear demand for providing the poor with micro insurance services to help them better manage risk. Micro insurance is a very important precautionary and loss management strategy in micro and small scale business management. Should there be a shock towards the business, business assets will remain uninterrupted. McCord (2001) also explained that self-insurance is paramount in management strategy to the poor. The study further explained a partner–agent model to relationship between microfinance clients of FINCA in Uganda and Nsambya Hospital Healthcare Plan (NHHP) (Kampala, Uganda). In this model clients save their premiums through the agent's existing microfinance mechanisms

2.7.2 Impact Studies of Non-Financial Services of Microfinance on Micro and Small Business

2.7.2.1 Impact Studies of Training on Micro and Small Enterprises

Haider et al. (2017) in their research titled "Microfinance and Performance of Micro and Small Enterprises: Does Training have an Impact." The study comprised of survey data collected from 384 MSEs which were selected on simple random basis in Pakistan. An independent sample t-test was applied using Levene's test for equality of variance and the tests showed that all the performance indicators of MSEs such as assets increase, sales increase, income increase, employment increase, and meeting household expenses were all very significant in the tests and this implied that training offered by the MFIs to their clients is of importance towards their businesses performance.

Karlan and Valdivia (2011) used a randomized control trial as means to measure the marginal impact of business training provided by FINCA microfinance to a Peruvian village banking program for female micro entrepreneurs. The group was trained with entrepreneurial skills during their normal weekly and monthly banking meeting for a period of one to two years. The results suggest that entrepreneurial trainings given by FINCA microfinance improved business knowledge, practices and revenues of micro entrepreneurs. The study further showed the skills acquired helped the micro entrepreneurs how to separate money for business and household use, how to reinvest profits into the business, how to maintain business records of sales and expenses, and think proactively about new markets and opportunities for profits.

A study carried out by Kessy and Temu (2010) in Tanzania about the impact of training on performance of micro and small enterprises served by microfinance institutions between the two groups of microfinance clients that is the enterprises whose owners have received business and entrepreneurship training against those who had never. The study examined a total of 225 micro and small scale enterprises who were micro credit recipients using an independent t-test for the comparative analysis. Three growth indicators were used in the performance analysis of the micro and small scale enterprises. These include sales revenue, employees' number and firms' assets value. The results of the study revealed that micro credit client enterprises owned by recipients of business training have higher level of assets and sales revenue as compared to enterprises owned by non-recipients of training. There was insignificant differential impact regarding employment creation due the entrepreneurship training received from the MFIs. In their study they therefore concluded that training in business skills for micro and small entrepreneurs is crucial for firm's performance, growth and in addition to credit access.

Agha, Balal, and Ogojo-Okello (2004) assessed impact business skills training provided by microfinance institutions on private sector midwives and client loyalty in Uganda. The data collected was analysed and tested using T-tests, variance analysis, and multivariate logistic regression analysis and the results showed that the training given improved the quality of care received at intervention clinics and higher level of client loyalty was also noticed.

2.7.3 Impact Studies of other Business Attributes other than Microfinance Services on Micro and Small Enterprises

Alimukhamedova, Filer, and Hanousek (2016), conducted a study on the importance of geographic access of microfinance and its impact on micro and small scale businesses for microcredit borrowers and non-borrowers in Uzbekistan. The study found that physical barriers to reach financial institutions have significant impact on business. The study further showed that enterprises located closer to microfinance institutions accumulated assets (savings), run larger businesses, employ more workers (who are more productive) and earn greater profits. Hassan (2011) also pointed out that firm attributes such as size of the firm and risk taking propensity of the entrepreneur have significant effect on the performance of small and medium firms Lahore.

In a study conducted by (A. Babajide, 2012) in South-West of Nigeria, the findings from the study were that micro and small scale businesses access to microfinance services does not enhance their growth however, other firm characteristics such as business size and business location, were found to have positive effect on enterprise growth. Osunsan (2015) on the other hand examined the impact of gender on business performance of small scale enterprises in Kampala, Uganda. The results showed that there is a significant relationship between gender and performance but the study further stressed that and male owned enterprises performed better that the female owned businesses however Copestake et al. (2001) argued that women-owned businesses produce higher returns from micro-credit than men-owned businesses.

2.8 Further Empirical Evidence

There are plethora of studies that have been conducted on impact microfinance services on the performances of micro and small scale businesses. Babajide and Taiwo (2011) did a study on the impact of microcredit loan and the business performance in Nigeria. The objective of the study was to examine the effects of micro credit on several business performances of microfinance institutions beneficiaries. They study used a survey in which simple random sampling technique was to select respondents in order to get primary data from the micro entrepreneurs. The collected data was analysed using multiple regression analysis. The results revealed that there is a positive relation between microcredit and profit of the microenterprise.

Fauster (2014) conducted a comparative research on the impact of microfinance on the performance of small scale enterprises for Sinapi Aba Trust and Maata-N-Tudu Associations in Wa Municipality in Ghana. The sole purpose of the study was to assess the impact microfinance institutions on their clients' business performance. With and-without approach, coupled with a quasi-longitudinal approaches were used for the study. Data was collected from the respondents using questionnaire and was analysed using simple percentages, Analysis of variance (ANOVA), Spearman's correlation coefficient (r) and coefficient of determination. The study concluded that microfinance institutions make positive impact on the mean sales revenues of their clients businesses and the study further indicated that there is a strong positive correlation between average sales revenue and microfinance services such as micro loans, training and clients' level of education.

Ekpe, Mat, and Razak (2010) investigated the relationship between services provided by microfinance institutions (credit, savings, training and social capital) and business performance of women entrepreneurs in Nigeria. The survey for the study involved use of structured questionnaires and in-depth interviews to obtain data from 161 respondents who were microfinance clients and secondary information from microfinance institutions. The collected data was analysed using descriptive statistics, multiple, linear and hierarchical regression. The study revealed that there was significant positive relationship between the services provided by microfinance institutions and the business performance of microfinance clients.

Another study carried out by Kinimi (2014) in the Democratic Republic of Congo on the effect of microfinance institutions on the performance of small and medium-sized enterprises with data collected from 77 small and medium entrepreneurs using questionnaires revealed that small and medium enterprises which accessed micro-loans and other services provided by microfinance institutions experienced enormous changes in business performance. The study further stated that micro-credits increased the productivity and customer base for the small and medium in the Democratic Republic of Congo.

Wanambisi and Bwisa (2013) analysed the different effects of microfinance lending on business performance for micro and small enterprises in Kitale Municipality in Kenya. This study adopted a descriptive survey research design in which semi- structured questionnaires were used to collect data from a sample of 120 micro and small enterprises. The relationship between the microfinance lending and the business performance was analysed by use of Chi square and correlation tests and it found out that the amount of loans given the micro entrepreneurs have significant and positive impact on the performance of micro and small enterprises in Kitale Municipality.

Chester (2014) conducted a research focusing on the impacts of microfinance programs in Guatemala. The study focused on microfinance programs being implemented in the villages of Guatemala and the impacts on the borrowers. The analysis from the research showed that the respondents surveyed seem very unsatisfied with the microfinance programs they are participating in because the loans they borrowed could hardly be used for expanding and improving the performance of their businesses since they were faced with many challenges such as spending consumption and having difficulties repaying their loans.

Oppong (2013) conducted a study in Ghana on impact of microfinance on small and medium scale enterprises. The study discussed how microfinance institutions impact on the growth of small and medium enterprises. The study found that microfinance institutions have had a positive effect on the growth of small and medium scale enterprises. Some of the contributions were greater access to credit, savings enhancement and provision of business, financial and managerial training. These contributions improved some of the performance indicators such sales, profits, productivity and employment levels of the enterprises.

Madole (2013) carried out a study on impact of microfinance credit on the performance of small and medium scale enterprises in Tanzania. The research used a case study and examined the performance of 80 users of microfinance credit program. Simple random and purposive sampling techniques were used to draw data collection from the respondent and interviews, questionnaires, observation and documentary review were used. Statistical Package of Social Science (SPSS) was used to analyse the data. Research results indicated that the credit advanced to the small and medium scale enterprise increased their business profit, increased sales turnover and increased business capital and assets but the study again stated that other non-microfinance services such as age or experience of the owners and business size also contributed greatly to the performance of the firms.

In similar study by Mbugua (2010) which examined the impact of microfinance services on financial performance of small and micro enterprises in Kenya. The study used systematic random sampling method and semi-structures and structured questionnaires to collect data from 47 small and micro enterprises in Nairobi. The data was analysed using descriptive and inferential statistics. The study found that micro entrepreneurs received savings services, credit services and training services from the microfinance institutions and used the services to improve their business performance.

Kaplan and Norton (2001) argued that the performance of a firm should not only be measured by use of financial factors since other firm attributes such firm age, location, size and gender. Osunsan (2015) therefore examined the impact of gender on business performance of small scale enterprises in Kampala, Uganda. The study used a four point Likert scale questionnaire to measure non-financial performance of 409 small scale enterprises. Simple regression and the independent sample t-test techniques were used to test the hypothesis. The results showed that there is a significant relationship between gender and performance but the study further stressed that and male owned enterprises performed better that the female owned businesses. The study therefore concluded that gender has significant effects on the performance the small business.

Amran (2011) also conducted a study on the effect of owner's gender and age to firm performance in Malaysia. The study used Tobin's Q (Q) and Earnings Per Share to examine the relationship between owner's gender and age with the business performance. The study used 182 listed companies on Bursa Malaysia over the period of 2003 to 2007. The study found that owner's gender and age do enhance company performance.

Hassan (2011) also established that firm attributes such as size of the firm and risk taking propensity of the entrepreneur have significant effect in determining the performance of small and medium firms Lahore. The study obtained these results from data collected from 36 firms by use of face to face structured interviews.

Conclusion

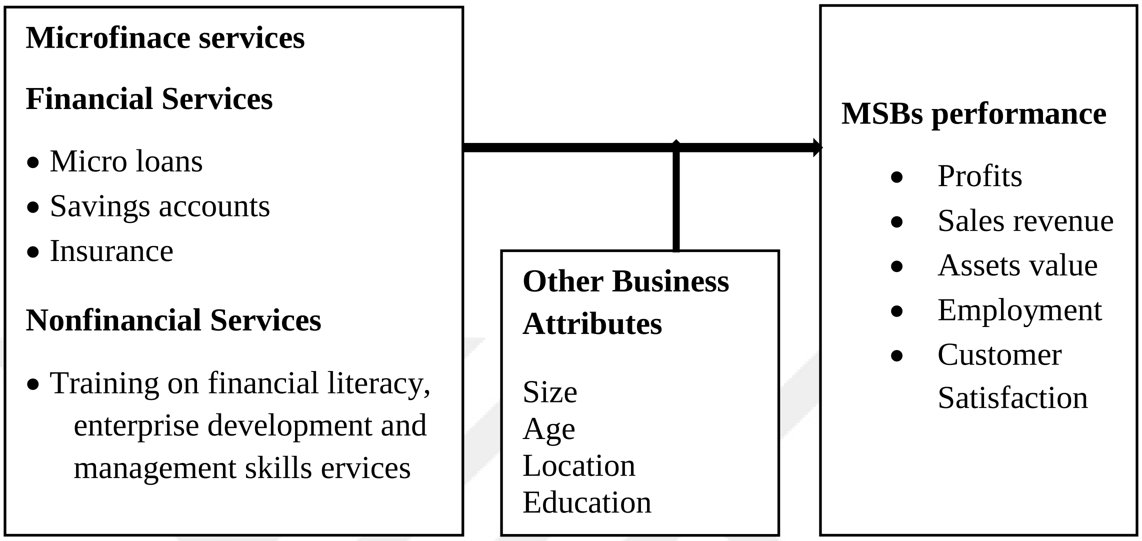
The owners of micro and small scale business usually use hybrid approaches in which they combine both financial and non-financial measures such as profit before tax, turnover, customers' satisfaction, referral rates, delivery time, waiting time and employees‟ turnover to evaluate performance of their SMEs against the predetermined goals and time. (Agyemang, 2016; Santos & Brito, 2012) stated that profitability, growth, customer satisfaction, employee satisfaction, social performance, and environmental performance are relevant construct in strategic management. Theophilus (2011) the most common ways adopted by the small scale businesses to measure business performance are employment and income. However Agyemang (2016) argued that profits as an approach for measuring business performance is not a reliable approach since they are subject to manipulations and interpretations. He then suggest that based on the studies of other researchers the best way for measuring performance is by use of a hybrid approach in which both financial and non-financial measures are engaged in the process (Mbugua, 2010; Waters, 1999). In this study the performance of micro and small scale business will be measured based on both financial and non-financial indicators such as revenues, profits, number of employees and the assets value within the study area.

Numerous of these studies regarding the impact of microfinance on the performance of micro and small scale businesses basically focused on one major microfinance factor that is micro loans or credits. Microfinance institutions provide variety of services to their clients and these services range from financial and non-financial services. The performance of these micro and small scale businesses sometimes is determined by firm attributes such as firm size, age, location gender, and educational level of the entrepreneurs. There is limited literature concerning the impact of services provided by microfinance institutions both financial and non-financial services on the performance of micro and small scale businesses in Arua district of Uganda. This study therefore would like fix this gap by assessing the impact of microfinance services on the performance of micro and small scale business in Arua. The study will consider the major financial and non-financial services of microfinance institutions and some specific firm attributes in assessing the performance of the of micro and small scale business in Arua.

2.9 Conceptual Framework

Eisenhart (1991) defined conceptual framework as a skeletal structure of justification used for explaining formal logic or theory and a guide for collecting and analysing data in a particular study. Ravitch and Riggan (2016) explains that conceptual framework is a lens or set of lens which a researcher uses for making useful ideas between or among variables. Thompson and Usiskin (2014) described conceptual framework as one effort towards beginning to establish a common language in a research study but Smyth (2004) perceived conceptual framework as a set of broad ideas and theories that help a researcher to ensure consistency in the discussion, provide a broad foundation for an investigation, increase in clarity of reporting the problem under study and framing their questions as well and he further explained that this will also help a researcher organise the content of the research to frame conclusions within the research context of related literature.

Figure 1: Conceptual Framework



(Source: Authors' compilation 2017).

Figure 1 above shows the conceptual framework for the study in which Microfinance Institutions provides wide range of services to their clients. These services are classified as financial ((Loons; Group loan, Individual loans, Energy loans, Agriculture loans), Savings accounts, Insurance) and nonfinancial services (Financial literacy, Enterprise Development and Management skills Services, Social Intermediation Market facilitation). These services impact on the performance of the Micro and Small scale Businesses depending on their efficiency and effectiveness to the beneficiaries. The services affect business performance in terms of increase in business stock, acquisition and increase in assets values, increase of business profits and ability to expand and employ more people.

2.9.1 Description of the framework

The conceptual framework depicted in Figure 1 indicates that Microfinance services are independent variables whereas performance of Micro and Small scale Business is the dependent variable. It also clearly shows the relationship between Microfinance services and performance of micro and small scale businesses. Wang (2013) claims that the performance of Micro and Small scale Business can be measured by the increase in sales revenue and profit levels, increase in asset value, ability of the MSBs' to survive, and finally the growth of the MSBs. Age and business experience, customer care, ethical considerations, the level of interest rates, inflation, financial regulations and taxation.

CHAPTER 3

3. RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research design used, description and detailed information about the area of study, the study population under consideration for that study, explanation of the sampling methods, finally data collection and analysis techniques.

3.2 Research Design

This study used cross-sectional research design. The data collected was non-repetitive as it examined data drawn from a specified population at a particular single period of time (Krosnick, Lavrakas, & Kim, 2014). Therefore the variables considered under the study were measured at same point of time (Bhattacherjee, 2012).

3.3 Research study area

The study was carried out in Arua district which lies between latitude 20 30'N and 30 50'N and longitude 300 30'E and 310 30'E in the north western part of Uganda and 520 kilometers away from Kampala, Uganda’s capital city. It is bordered by Yumbe in the North West, Moyo district in the north east, Maracha district in the North West, Democratic Republic of Congo in the west, Nebbi district in the south, and Amuru district in the east.

The district if further divided into five political areas namely; Terego East and West counties, Ayivu, Vurra, Madi counties and Arua municipality. Arua municipality is both the administrative and commercial headquarters of the district. The district has population of 782 thousand people (UBOS, 2014).

Majority of the population rely on agriculture for their livelihood. Beside agriculture, petty and formal trade has provided employment to many of the population. The survey for this study therefore tried to reach out to a total of 250 respondents from the five geopolitical areas of Arua who are actively engaged in micro and small scale businesses and at the same time serving as a client to microfinance institutions but 200 happened to completely fill the questionnaire.

3.4 Sampling

For any survey to find answers to research questions, data must be collected from the rightly selected individuals or events for the study and failure to observe this process in the right manner could make the study more harm than good and efforts to get solutions to the research problem could be in vain (Sekaran, 2003). This process is explained in target population and sample size as below.

3.4.1 Target Population

Sekaran (2003) suggested that a target population regarded for a research study refers to the entire group of people or events in which the researcher has interest for further to investigation. The target population for the study were the clients of microfinance institutions who are operators of micro and small scale businesses in Arua district. The client should have been an active client of microfinance institution in order to get a significant impact of the services provided by microfinance institutions on their businesses. Micro and small scale businesses to be identified in this survey included agribusinesses such as crop and animal production, hairdressing, bread baking, mechanical and electrical works, tailoring and furniture making, creative, arts and entertainment activities, salon businesses hotel and restaurant business. More data regarding the services provided by microfinance institutions were collected from the loan officers of the microfinance institutions whose branches are established in the district such as FINCA, BRAC, PRIDE, Finance Trust etc.

3.4.2 Sample size

Hoe (2008) claims that a minimum of 200 samples is good for any statistical analysis and in this regard the study considered neatly filled questionnaires from 200 clients of microfinance institutions active in micro and small scale businesses.

3.5 Sampling Techniques

The study applied purposive and simple random sampling. The purposive sampling technique was used to select the major trading centres, busy roads and towns in the five political divisions of the district leading in the number of operating micro and small scale businesses in the district. The logic behind this was that most of the enterprises are located in trading centres, busy roads and towns. Simple random sampling is a random sampling technique that involves selecting the sample for a study at random from the sampling frame (Saunders, Lewis, & Thornhill, 2012). The simple random sampling technique due to its representativeness, fairness and lack of biasness was used to select the actual 200 micro and small scale businesses such that at least all the samples in the study area stand a chance of being selected as respondent in the study.

3.6 Data collection Methods

The stage at which data was collected and carefully executed was very critical for the success of the research (Krosnick et al., 2014). This study used two types of data in this research that is to say primary data and secondary data. The instrument to be used for primary data collection was questionnaire and secondary data was collected from journal articles, selected texts and publications and records of microfinance institutions.

3.6.1 Development and construction of the questionnaire

Development and construction of the questionnaire was the first step preparation for data collection. The contents of issues reviewed in the literature review in relation with the study objectives and the impact of microfinance services on the performance of micro and small scale businesses was used to develop and construct a questionnaire that which was also used to collect data about respondents. Structured questionnaires were divided into: socio-demographic profile of the respondents, business characteristics, services provided by microfinance institutions and finally the performance of micro and small scale businesses. The study opted to structure the questionnaire because the author predicated that there is need to reduce variability in the importance possessed by the questions such that the information obtained can be easily comparable.

The questionnaire was be pre-tested by use of small sample of respondents (20 respondents) in order to ensure that the instrument can measure what it is supposed to measure in the study. The questions which were found to have needed readjustments were therefore corrected and final 250 questionnaires were distributed to the targeted respondents to get the raw data. The questionnaires were formulated in English such that they can be self-administered to the respondent.

3.7 Data processing and Analysis

The raw data collected from the respondents was coded and the coding process involved assigning symbols to each question in the sated groups. The data was be analysed using a quantitative approach based on primary survey data collected by the author in the field from 15th July to 5th September 2017. This approached has been preferred for this study because it helped to obtain more direct information from the clients of microfinance clients. Such down to earth case study provides significant data and information that large and general studies which uses aggregate data are unable to provide.

The coded data was be tabulated and analysed using Statistical Package for the Social Science (SPSS). Descriptive statistics, correlation, multiple and linear regression analyses were used to analyse the data.

This study also used a multiple regression analysis model used by (Babajide & Taiwo, 2011) to measure the impact of microfinance and non-microfinance services on the performance of MSBs as with some modifications as below.

$$Y_{-} = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + b_7X_7 + b_8X_8 + b_9X_9 + b_{10}X_{10} + b_{11}X_{11} + U$$

Where Y_{-} = Business performance (measured by revenue or profit levels) a = constant b_1, b_2, b_3, b_4, b_5, b_6, b_7, b_8, b_9, b_{10} and b_{11} are co-efficient associated with X_1, X_2, X_3, X_4, X_4, X_5, X_6, X_7, X_8, X_9 , X_{10} and X_{11} respectively.

Key predictor

X_1 = Microcredit – Total amount of micro loan borrowed injected in the business.

X_2 = Savings – Total amount of savings made by the business

X_3 = Training services – Number of microfinance trainings attended by the business operator.

X_4 = Micro insurance cover taken by the business.

X_5 = Loan duration

X_6 = Interest rates

X_7 = Level of education of the micro enterprise operator

X_8 = Entrepreneur Gender

X_9 = Marital status

X_{10} = Age of entrepreneur

X_{11} = Size of Business measured by number of employee

U= is the error term

3.8 Reliability of the Research Instrument

In order to construct the questionnaire, the researcher formulated the questions used in the research instrument from the literature review of (Babajide & Taiwo 2011). An email was sent to one of the researchers mentioned in the reference to seek permission to use some of their variables to assess the impact of microfinance services on the performance of the MSBs. After obtaining permission from one of the researchers, the final draft of the questionnaire was constructed. The questionnaire was divided into four main parts namely; background Information of the respondents, business characteristic of respondents, information on microfinance services, and performance of MSBs after becoming a client of MFIs.

The researcher used a quantitative approach to check reliability of the questionnaire for the study. The major objective to carry out this reliability check was to ensure that the instrument used for the research produce consistent results. Considerable numbers of strategies were also adopted to minimize biasness of the instruments such that the precision of the validity was improved. Cronbach's Alpha coefficient was therefore used to calculate the reliability of the internal consistency of the questionnaire. Kinimi, (2014) stated that Cronbach's Alpha coefficient of more than 0.7 is the more reliable scale of construct for any research questionnaire.

Table 2: Cronbach's Alpha Coefficient

N	Variable	Coefficient
1	Dependent variables: (Q23-Q36)	**.755**
2	Independent variables: Q1-Q10 & Q13-Q22)	**.793**
3	General Cronbach's Alpha coefficient	**.844**

Source: Data Simulation (SPSS) 2017

Table 2 indicates that the instrument used to measure the construct had Cronbach Alpha's values of .793 for the independent variables and .755 for the dependant variables and these values were all above the acceptable .70 recommended for measuring any reliability of a research instrument. These results proved that the items used in the questionnaire are over 70% consistent in collecting the data used for the study.

3.9 Validity of the Research Instrument

To test the practicability of the questionnaire, the researcher used content validity to examine whether the items in the questionnaire had some defects in relation to the ambiguity in instructions and measurability of variables adopted for the study. This was done through gathering the opinions of some experts who work with MFIs in Uganda. Then 10 copies of the questionnaire were distributed to some senior colleagues and microfinance officers or experts in some of the reputable microfinance institutions such as FINCA, PRIDE, Finance Trust, West Nile Private Sector Development Promotion Centre Ltd (WENIPS) and some of the community based SACCOs in the sub-counties within the district. These experts ensured that the validity of the questionnaire by checking the whether the questions were in line with the study objectives, comprehensiveness and suitability for potential respondents. The detected errors regarding the instrument were corrected and questionnaire was adjusted accordingly. Based on the corrections and recommendation of the experts, the questionnaire was adopted for the final survey since it was proved to have the ability to measure what intended it to measure. 250 copies of the questionnaire were printed and distributed to the respondents.

3.10 Ethical Considerations

This research involved collecting data from MSBs in Arua district by use of questionnaires. Ethics approval letter to conduct this study was obtained from the Institutional Review Board on 16 March 2017. To ensure the confidentiality of the respondents' maximum privacy of the respondents who participated in answering the survey questionnaires and the confidentiality of the data that was collected from them to be strictly kept in a manner that the respondents cannot be identified in the research report or any related publications.

CHAPTER 4

4. FINDINGS AND ANALYSIS

4.1 Introduction

The chapter is comprised of mainly five sub-divisions. These include the introduction, background information of the respondents, business characteristic of respondents, information on microfinance services and impact of the microfinance services on the performance of micro and small scale businesses.

The chapter therefore presents a comprehensive and detailed discussion and analysis of findings from the field study which was carried out from July to September in the district of Arua in Uganda. The results of the study were analysed using both descriptive and inferential statistics and the outcomes shown using tables and figures and charts.

4.2 Background Information

This section contains the socio-demographic profile of the respondents who participated in the survey. The items under this section includes: age, gender, marital status, and the education level of the respondents.

4.2.1 Age Group of the Respondents

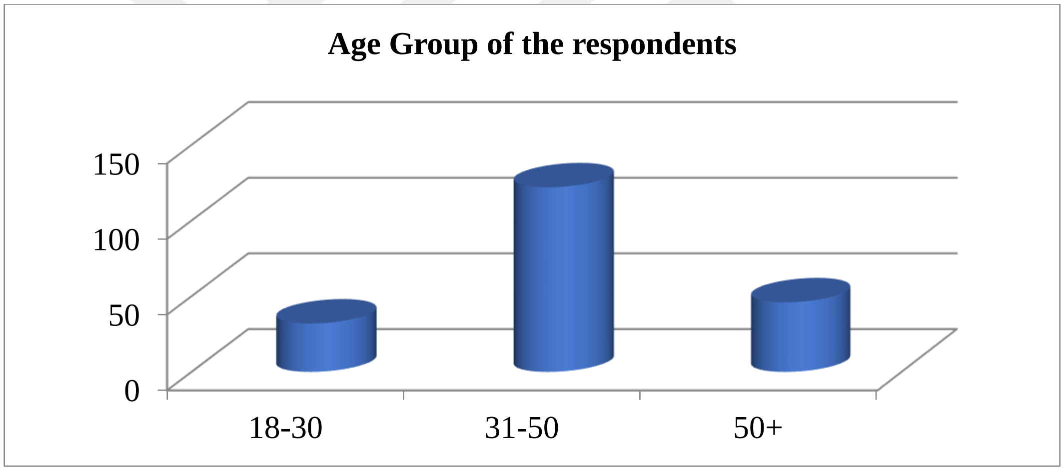
The purpose of this question was to establish the age group of the micro and small scale business participants

Table 3: Age Group of Respondents

Category		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-30	32	16.0	16.0	16.0
	31-50	122	61.0	61.0	77.0
	50 and above	46	23.0	23.0	100.0
	Total	200	100.0	100.0	

Source: Data Simulation (SPSS) 2017

Figure 2: Age Group of the Respondents



It was established that the largest number of the participants 122 which represented 61% of the total of 200 participants were between the age category of 31-50 years as shown on the table 3 and figure 2 above. 46 out of 200 of the total participants were in age category of 50 years and above this figure represent 23% of the total participants. The age category with the least number of the participants was 18-30 years. 32 participants fell under this category and they only represented 16% of the total population. In summary the majority of the participants are in the 30s and 40s (122 out of 200) with 61% and are in their active stage of life hence needs more attention and financial support to improve the economy.

4.2.2 Gender of the Respondents

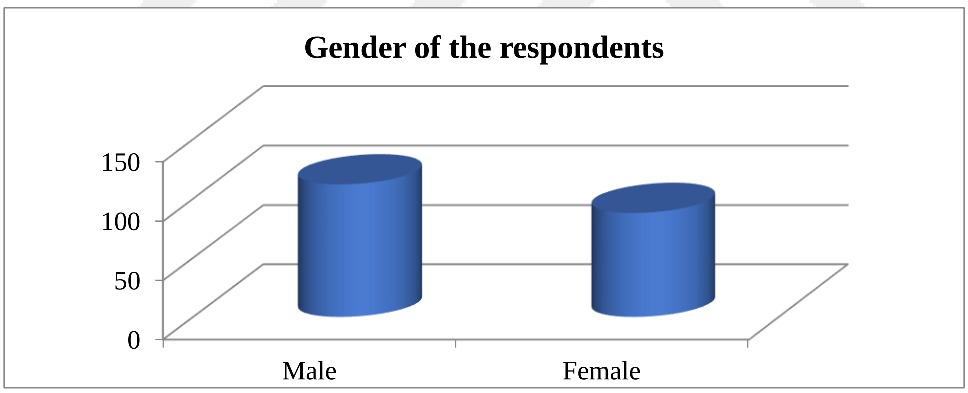
This question classifies the gender of the operators of MSBs who participated in the research study. The gender of the participants who responded to the questionnaire is shown in the below table and graph.

Table 4: Gender of the Respondents

Gender					
Category		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	112	56.0	56.0	56.0
	Female	88	44.0	44.0	100.0
	Total	200	100.0	100.0	

Source: Data Simulation (SPSS) 2017

Figure 3: Gender of the Respondents



Male were the largest participants who participated in answering the survey questionnaire between the two gender groups who took part in the survey with 112 participants out of 200 and this made them dominant with 56% while females were 88 out of 200 with 36.4. The result therefore indicated that in this area there are more male micro and small scale business entrepreneurs than their female counter part.

4.2.3 Marital Status of the Respondents

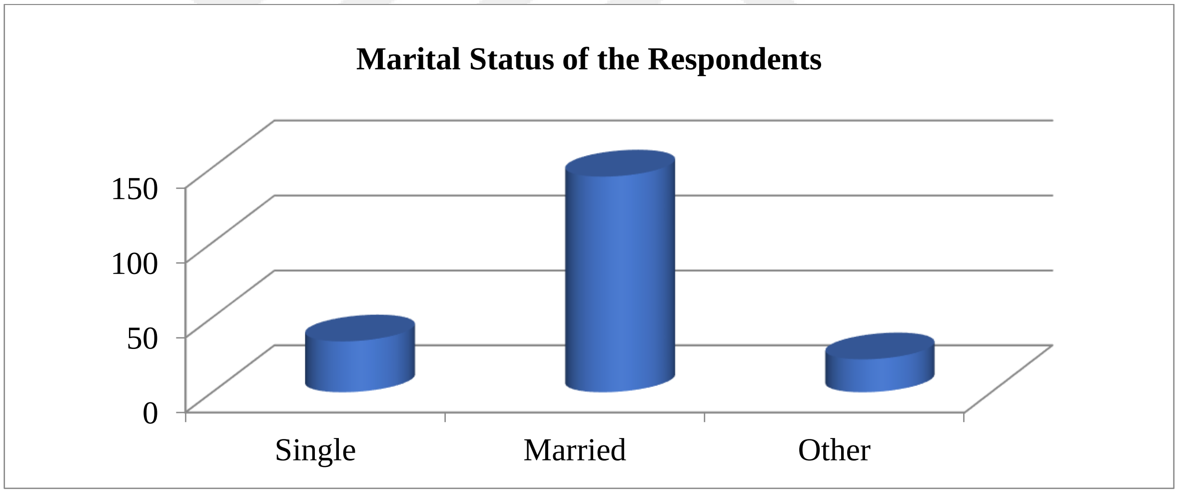
The purpose is to establish whether there is an association between or among entrepreneurial orientation and participant's marital status and this was only possible through establishment of the statistical composition of the respondents. This was depicted in the below table and graph.

Table 5: Marital Status of the Respondents

Marital status					
Category		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Single	34	17.0	17.0	17.0
	Married	144	72.0	72.0	89.0
	Other	22	11.0	11.0	100.0
	Total	200	100.0	100.0	

Source: Data Simulation (SPSS) 2017

Figure 4: Marital Status of the Respondents



The survey respondents were also asked of their marital as indicated on the table 5 and figure 4 above. Out of the 200 participants 144 (72%) were married entrepreneurs were married. 34 (17%) were single and lastly 22 (11%) belonged to other marital status.

4.2.4 Education Level of the Respondents

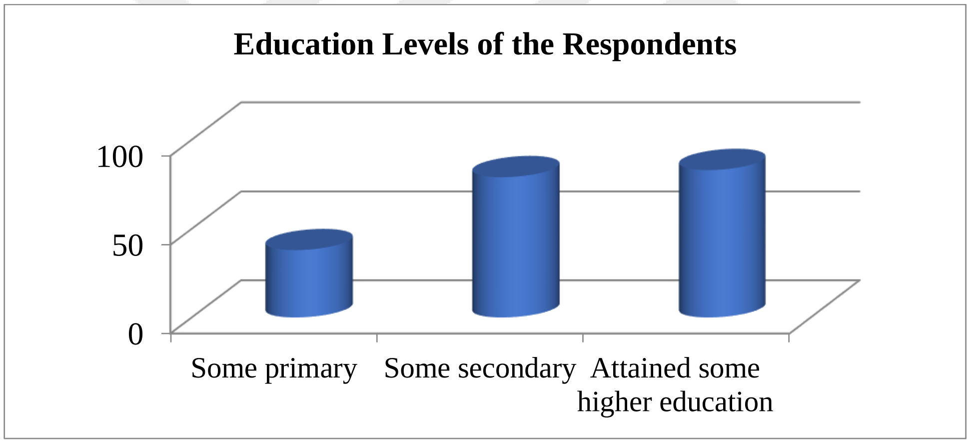
The survey covered among other things the educational levels of MSB operators in the study area of Arua. The findings of the educational level are indicated on the below table and graph.

Table 6: Education Level of Respondents

Education Level					
Category		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Some primary	38	19.0	19.0	19.0
	Some secondary	79	39.5	39.5	58.5
	Higher education	83	41.5	41.5	100.0
	Total	200	100.0	100.0	

Source: Data Simulation (SPSS) 2017

Figure 5: Education Levels of the Respondents



The microfinance clients who responded to questionnaire had varied educational levels based one the years spent at school and these were; primary, secondary and higher education. Most of the participants attained some higher education 83 out of 200 (41%), followed by those who attained some secondary 72 (39%) out of 200 and finally those who attained at least some primary education and these were 38 (19%) of the 200 participants who took part in the survey as shown above on table 6 and figure 5.

4.3 Business Characteristic of Respondents

In this subsection the researcher also established background and the business characteristics of micro and small scale business which participated in the survey. This section was viewed with importance in this study because the researcher wanted to know whether the business units undertaken for the study fit in the right category of businesses the research intended to find the impact of microfinance services on.

The reach this objective of identifying the background information about the micro and small scale business undertaken for the study, the researcher set questions on: business location, size of business, year business established type of business, form of business, source of initial capital, initial number of employees and current number of employees. These variables helped to know the extent of existence of the survived business units. Table 7 below shows the summary of the 200 sampled.

Table 7: Business Characteristic of Respondents

Variables	**Measuring group**	**Frequency**	**Percentage (%)**
Business Location	Urban area	120	60.0
	Rural area	80	40.0
	Total	**200**	**100**
Size of business	Micro scale business	136	68.0
	Small scale business	64	32
	Total	**200**	**100**
Year business established	Less than a year	11	5.5
	1 – 3 years	41	20.5
	4-5 years	53	26.5
	More than 5 years	95	47.5
	Total	**200**	**100**
Type of business	Trading	102	51.0
	Artisan	15	7.5
	Agriculture	46	23.0
	Service	37	18.5
	Total	**200**	**100**
Form of business	Sole ownership	86	43.0

	Family Business	28	14.0
	Partnership	71	35.5
	Other type	15	7.5
	Total	**200**	**100**
Source of initial capital	Loan from MFI	47	23.5
	Personal Savings	75	37.5
	Borrowed from friends	19	9.5
	Other Sources	59	29.5
	Total	**200**	**100**
Initial number of employees	None	34	17.0
	1-4	107	53.5
	5-10	43	21.5
	11-50	16	8.0
	Total	**200**	**100**
Current number of employees	None	9	4.5
	1-4	123	61.5
	5-10	17	8.5
	11-50	51	25.5
	Total	**200**	**100**

Source: Data Simulation (SPSS) 2017

4.3.1 Business Location of the Respondents

The purpose of this question was to find out the areas in which the micro and small scale business of the participants are located. Table 7 shows that out of the 200 participants who answered the survey questionnaire 120 (60%) had their businesses located in the urban areas mostly Arua town meanwhile 80 (40%) out of 200 participants have their businesses located outside the main town. These results therefore imply that most of the users of the microfinance services are based in urban areas where the rate of commercial activities is high.

4.3.2 Size of businesses of the respondents

The size of the business for this research was determined by the amount of capital the business has. Those with capital turnover of less 10,000,000 Uganda shilling are categorized as micro business and those with capital turnover of more than 10,000,000 Uganda shillings are referred to as small business. Table 7 shows that micro businesses were 136 (68%) out of 200 and small scale businesses were 64 (32%) out of 200 participants respectively.

4.3.3 Year business established

This question seeks to establish the years of experience in micro and small scale business of the participants. Results on table 7 shows 95 (47.5) of the participants have more than five years in business, 53 (26.5%) have four to five years in business, 41 (20.5%) have one to three years business experience and finally only 11 (5.5%) of the participants have less one year of business experience.

4.3.4 Type of business

The researcher also established the type of businesses the participants are engaged in and the business types such as; trading, artisan, agriculture and service were considered. The findings as indicated in table 7 were that most of the participants 102 (51%) out of 200 are engaged in trading which involves buying and selling merchandise, foodstuffs and other tradeable items at the local level. On the other hand 46 (23%) of the participants engaged in agriculture and these are mostly in rural areas growing vegetables, cash crops such tobacco and coffee and raring of animals as well. 37 (18.5%) of the participants engaged providing services such as mobile money business, secretarial works and local transport service called boda boda which involves use of motorcycles for local transportation. Finally 15 (7.5%) of the 200 participants are doing artisan business which includes welding, art and craft out of the local materials.

4.3.5 Form of business

There are majorly three forms of the micro and small scale businesses carried out in Arua these includes; sole ownership business, family owned business, partnership business and any other form which the researcher did not deem common in the area. Out of the 200 respondents 86 (43%) are sole ownership businesses, 71 (35.5%) are family owned businesses, 28 (14%) are partnership owned businesses and finally the remaining 15 (7.5%) belong to any other businesses as indicated in table 7.

4.3.6 Source of initial capital

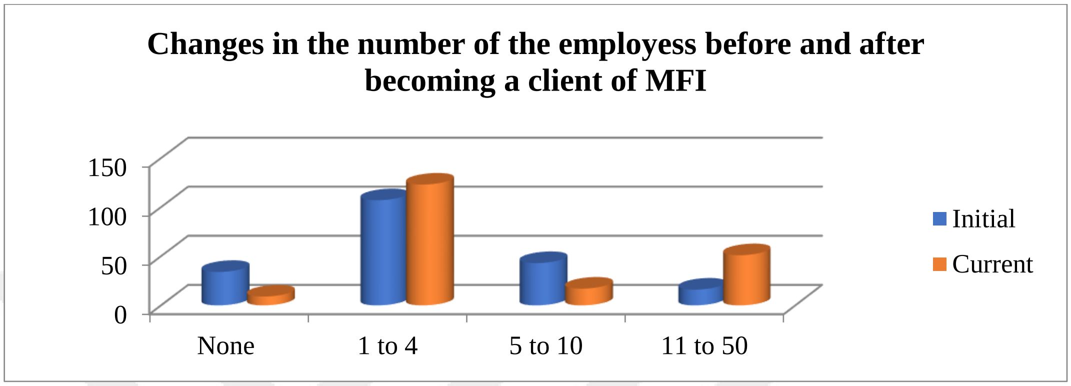
The MSB operators use different means of getting their startup capital such use of the personal savings, borrowing from microfinance institutions, contributions from friends and family members and others such accessing loans from the commercial banks. The result in table 7 shows that 75 (37.5%) of the 200 participants started their businesses using their own personal savings 59 (29.5%) started their businesses from capital received from other means other than personal saving, MFI loans or borrowings from friends, 47 (23.5%) used borrowed capital from MFIs to start their businesses and finally 19 (9.5%) started their businesses from loans obtained from friends and family members to start their businesses. Based on the findings, most of the people opened up their businesses using their own capital and this evidence is supported by the Financial Sector Deepening Uganda (FSDU, 2015) report that 89% of the Ugandan enterprises are owned by micro and small entrepreneurs who start up their businesses using their own funds.

4.3.7 Employment pattern in the MSBs

The performance of the MSBs was also established through employment records of the business units which participated in the survey. At the beginning of these businesses 107 (53%) have employees ranging from one to four (1-4) as indicated in the table 7, 43 (21.5%) started with employees ranging from five to ten (5-10), 34 (17%) had never employed anyone other than their owners and 16 (8%) businesses started with eleven to fifty employees (11-50). This employment pattern changed after these participants became clients of MFIs. Those business units which employs within the range of 1-4 increased from 107 (53%) to 123 (61.5%), those business units which employs from 11 to 50 increased from 43 (21.5%) to 51 (25.5%). The business units which did not employ anyone at all at the beginning dropped from 34 (17%) to 9 (4.5%). Though the number of the business units which employs 50-10 employees dropped from 43 (21.5%)

to 17 (8.5%), most business units once they become became a microfinance client, the number of people they employ increases.

Figure 6: Employment Pattern of the MSBs



4.4 Information on Microfinance Services

4.4.1 Years of MSB operator as a client of microfinance institutions

The purpose of this question is to seek to know foe how long the participant has been a client of microfinance in relation to his or her business.

Table 8: Shows the Participants Experience with MFIs in years

Years		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below one	35	17.5	17.5	17.5
	1-3 years	69	34.5	34.5	52.0
	4-5 years	55	27.5	27.5	79.5
	Above 5	41	20.5	20.5	100.0
	Total	200	100.0	100.0	

Source: Data Simulation (SPSS) 2017

As indicated in table 8 a total number of 69 (34.5%) participants indicated that they have 1-3 years of experience with microfinance institution, 55(27.5%) participants have 4-5 years with microfinance, 41 (20.5%) of the participants have more than five year experience of microfinance services and finally only 35 (17.5%) of the 200 participants have less than one year experience with microfinance services as shown above in Table 8.

4.4.2 Services received from the microfinance institutions

The purpose of this question was to indicate the type of service a MSB operator majorly gets from the microfinance institutions.

Table 9: Services received from MFIs

Category		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Credit (Loans)	81	40.5	40.5	40.5
	Savings	40	20.0	20.0	60.5
	Training	30	15.0	15.0	75.5
	Micro insurance	28	14.0	14.0	89.5
	Any other	21	10.5	10.5	100.0
	Total	200	100.0	100.0	

Source: Data Simulation (SPSS) 2017

In table 9 above 81 (40.5%) of the entrepreneurs showed that they obtained Credit (Loans) from microfinance institutions, 40 (20%) indicated that the major services undertake with microfinance institutions is savings, 30 (15%) received business and financial training from the microfinance institutions as their major service and 28 (15%) admitted to get micro insurance services from microfinance institutions meanwhile 21 (10%) of the remaining participants indicated to have involved themselves in getting other services not indicated in the available options.

4.4.3 Uses of the loan taken from MFIs

This question shows how the loan services offered by the microfinance instructions have been used by the participants.

Table 10: Uses of the loan taken from MFIs

Category		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Business capital	99	49.5	49.5	49.5
	Education for children	9	4.5	4.5	54.0
	Housing	4	2.0	2.0	56.0
	Agricultural activities	57	28.5	28.5	84.5
	Others	31	15.5	15.5	100.0
	Total	200	100.0	100.0	

Source: Data Simulation (SPSS) 2017

In a quest to establish on which priority areas were the loans obtained from MFIs used as shown in table 4.8, 99 (49.5%) out of 200 participants indicated that they used their loans as business capital, 57 (28.5%) invested their loans on agriculture, 31 (15.5%) used their loans for other priority areas, 9 (4.5%) used their loans as school fees for their children and 4 (2%) used their loans for building purpose.

4.4.4 Favourability of microfinance services

As a client of microfinance institutions, the participants were asked to indicate whether the services they obtain from microfinance institutions are favourable or not. They were required to indicate this by yes or no, according their opinions about the microfinance services.

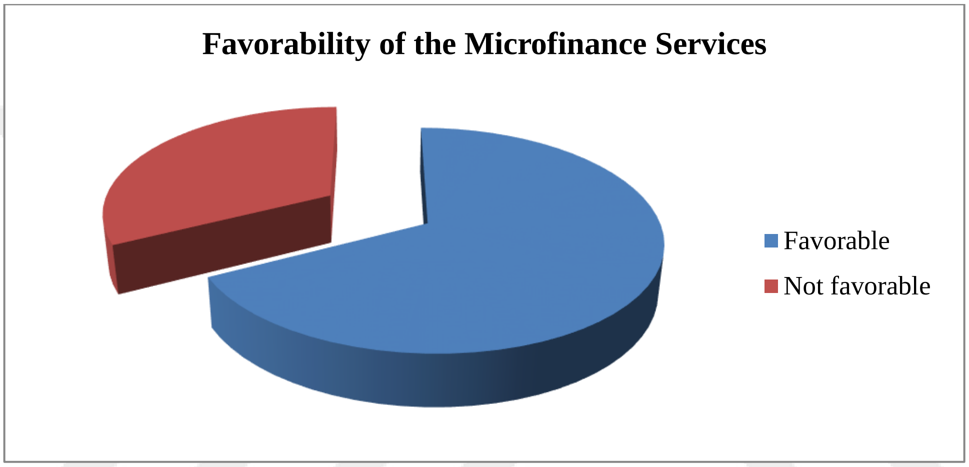
Table 11: Favourability of Microfinance Services

Category		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Favourable	135	67.5	67.5	67.5
	Not favourable	65	32.5	32.5	100.0
	Total	200	100.0	100.0	

Source: Data Simulation (SPSS) 2017

135 (67.5%) out of 200 participants accepted that the services provided by microfinance instructions are favourable for their businesses meanwhile 65 (32.5%) indicated that the services are not favourable for their businesses as shown above in table 11.The result of accepting microfinance services by the clients to be favourable is consisted with the findings of (Kinimi, 2014)

Figure 7: Favourability of Microfinance Services



4.5 Performance of Micro and Small scale businesses (MSBs) after becoming a client of MFIs

This section presents the analysis of agreement level of micro and small scale business performance after receiving the first microfinance service and also multiple regression analysis of the independent variables such; Savings, Interests, Credit (Loans), Training, Micro insurance, Loan duration, Age, Gender, marital status and education on the dependent variables in this case the small scale business indicators such; sales, level of net profit, increase in employee number and increase in stock level.

4.5.1 Agreement level of micro and small scale business performance after receiving the first microfinance service from the MFIs

The researcher had asked the participants to indicate their agreement level of how their business performance indicators such as sales, level of net profit, increase in employee number and increase in stock level after becoming a client of microfinance institutions in the rank of 5 and illustrated in form of mean and standard deviation in the table below.

Table 12: The Agreement Level of MSBs' Performance Indicators after becoming MFI Client

	Mean	Std. Deviation
Engagement in microfinance services has helped to increase the levels of your **Revenue (Sales)**	3.73	1.078
Microfinancing has impact on your general business **Net profit**	3.97	1.102
Microfinancing has helped to increase the number of your **business Employees**	3.68	1.232
The stock level of your business has increased due to microfinancing	3.86	0.930

Source: Data Simulation (SPSS) 2017

As indicated in table 12 above the participants agreed that their business net profits increased by mean score of 3.97, increased stock level by mean score of 3.86, business revenues (sales) increased by mean score of 3.73 and finally the MSBs also agreed that their business employees number also increased due to the services they contracted from microfinance institutions. These mean scores are all above the neutral mean score of 3.00 agreement level. The findings are in argument are in conformity with (Haider et al., 2017; Mandere et al., 2013; Wang, 2013) et all 2013) which showed that the microfinance institutions have influence on their clients levels of assets, sales, income and employment.

The researcher further used two different multiple regression analysis with the aid of statistical package for social sciences (SPSS) to establish the relationship among the variables. This process was performed by selecting the stepwise method to come up with the appropriate two models of regression analysis with more accurate variables' estimators within the few independent variables selected for the study. These models then explained how the predictors impact on the performance of micro and small scale businesses.

4.5.2 Regression analysis for the impact assessment of microfinance services on the performance of MSBs (Revenue or sales)

The model in the table 13 has the coefficient of determinant which explains the extent to which changes in the dependent variable (revenue) can be explained by changes in the independent variables (Education level, Savings, Interests rates, Credit (Loans), Training, and Micro insurance)

Table 13: Model summary of results based on Revenue or sales

Explanatory variables		Coefficient	Prob. Value
C		2.002334	0.0000
Education level		-0.262836***	0.0052
Savings		-0.156285*	0.0514
Interests rates		0.230446***	0.0081
Credit (Loans)		0.145886*	0.0600
Training		0.210166*	0.0871
Micro insurance		0.219824**	0.0107
R Square	0.363906	Durbin-Watson stat	1.802850

Source: Data Simulation (EViews) 2017

* It is statistically significant at the 1 % level

** It is statistically significant at the 5 % level

*** It is statistically significant at the 10 % level

From the table 13 above Durbin-Watson is found to be 1.802850 and this implied that there is no autocorrelation and therefore we reject the null hypothesis. The whole model is statistically significant based on the F-test. We further used white test with cross terms of heteroscedasticity and concluded that there was heteroscedasticity and the problem is taken care of by using the robust Ordinary Least Squares (OLS).

R^2=0.363906 and this implies that the percentage change in the MSB performance in terms of the revenue level explained by the six mentioned independent variables shows that the six independent variables in the model only explain 36.3906 % of the impact of microfinance services on the performance of micro and small scale businesses in Arua district. This relationship therefore means that 62.9% of the factors which contribute to the performance of MSBs are not included in this research thereby calling for more research to examine these factors. However the model seems not to fit the data well.

The independent Q17, Q18, Q19, Q20, Q21 and Q4 are Savings, Interests, Credit (Loans), Training, Micro insurance and Education level respectively.

With the aid of SPSS and stepwise technique, the original model constructed for the multiple regression analysis was transformed from equation (i) into equation (ii) with more accurate variables which clearly explains the relationship among the variable before further examining the results using Eviews as shown below.

$Y_{-} = a + b_1X_1 + b_2\ X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + b_7X_7 + b_8X_8 + b_9X_9 + b_{10}X_{10} + b_{11}X_{11} + u$….(i)

$Y_{-} = b_0 + b_1Q_4 + b_2\ Q_{17} + b_3Q_{18} + b_4Q_{19} + b_6Q_{20} + b_7Q_{21} + u$ …….. (ii)

As per the coefficients in table 13 above the equation (ii) becomes:

$Y_{-} = 2.002334 + -0.262836Q_4 + -0.156285Q_{17} + 0.230446Q_{18} - 0.145886Q_{19} + 0.210166Q_{20} – 0.219824Q_{21}$

Y_{-} is the dependent variable (revenue/sales turnover) which can be explained by changes in the independent variables Q4 is Education level, Q17 is the amount of savings made by the business, Q18 is Interest rates, Q19 is the Credit (Loans), Q20 is Training offered by the MFIs, Q21 micro insurance.

In accordance with regression equation established above, we explained our hypothesis as follows; assuming other factors remain constant the micro and small scale business performance taking into account revenue as performance indicator, business performance in terms of revenue will increase by 2.002334 in Arua district. As established in the findings shown in table 14 above, if all other six independent variables are assumed to be zero, a unit increase in microcredit (loan) will lead to 0.145886 unit increase in revenue levels of MSBs in Arua district, an increase in the amount of savings made by a client will lead -0.156285 unit decrease of their revenue, an increase in the number of trainings attended by a MF client will lead 0.210166 unit increase in revenue level of their business, a unit increase in the micro insurance will lead to 0.219824 unit increase in the revenues of MSBs, a unit decrease in interest rates will lead to 0.230446 unit increase in revenue level of their business and finally a unit increase in education level will lead to -0.262836 decrease in revenue of the MSBs. Findings in this survey are similar with results found in a survey by (Kisaka & Mwewa, 2014) which revealed that the major microfinance services such as microcredit and training contributes positively to the growth and performance of SMEs.

Most of variables such as Savings, Credit (Loans) and Training were significant at 1% level except Micro insurance which is significant at 5% level and Education level and Interests rates were significant at 10% level. Majority of the variables showed significant impact on the performance of revenue or sales of MSBs so this result implies that services provided by MFIs have impact on the performance of MSBs in Arua district.

4.5.3 Regression analysis for the impact assessment of microfinance services on the performance of MSBs (Net profit)

The model in the below table 14 represents the regression equation analysis which explains the extent to which changes in the dependent variable (Nep profit of MSBs) can be explained by changes in the independent variables (Savings, interest rates, credit (loans) size, training, education level)

Table 144: Model summary of results based on Net profit level

Explanatory variables		Coefficient	Prob. Value
C		1.481141	0.0000
Education level		-0.280289*	0.0003
Savings		0.226007*	0.0006
Interests rates		0.176786**	0.0121
Credit (Loans)		0.216433*	0.0006
Training		0.397801*	0.0001
Micro insurance		-0.192241*	0.0060
R Square	0.590438	Durbin-Watson stat	2.085296

Source: Data Simulation (EViews) 2017

* It is statistically significant at the 1 % level

** It is statistically significant at the 5 % level

From the table 14 above Durbin-Watson is found to be 2.085296 and this implied that there is no autocorrelation and therefore we reject the null hypothesis. The whole model is statistically significant based on the F-test. We further used white test of heteroscedasticity with cross terms and concluded that there was no heteroscedasticity.

The six (6) independent variables used in this model as indicated in the table 14 above only explains 59.0438% of the impact of microfinance services on the net profit levels of micro and small scale businesses in Arua district as denoted by the R^2. This results further shows that 41% of the factors affecting the profit level of micro and small scale businesses were not inclusive in the study and the researcher therefore calls more research into this area to investigate other factors which influence the profit level of microfinance clients in Arua district. The model fits the data well. The 59.0438% of R^2 coefficient is significant, which means that of the total variability of the level net profit performance of MSBs is explained by the explanatory variables.

The independent Q17, Q18, Q19, Q20, Q21 and Q4 are Savings, Interests, Credit (Loans), Training Micro insurance and Education level respectively.

The SPSS deduced equation for the interpretation of the relation among the variables is shown below.

$$Y_{-} = b_0 + b_1Q_4 + b_2\,Q_{17} + b_3Q_{18} + b_4Q_{19} + b_6Q_{20} + b_7Q_{21} + u \ldots \text{(iii)}$$

In accordance with the coefficients in table 14 above the equation (iii) becomes:

$$Y_{-} = 1.481 - 0.280289Q_4 + 0.226007Q_{17} + 0.176786Q_{18} + 0.216433Q_{19} + 0.397801Q_{20} - 0.192241Q_{21}$$

The dependent variable Y_{-} is the Net profit of MSBs which can be explained by changes in the independent variables Q_4 is Education level, Q_{17} is the amount of savings made by the business, Q_{18} is Interest rates, Q_{19} is the Credit (Loans), Q_{20} is Training offered by the MFIs, Q_{21} micro insurance.

As per the regression equation established above, the second hypothesis for this studies can explained as follows; assuming other factors remain constant the micro and small scale business performance will increase by 1.481141 in Arua district. According to the findings shown above in equation (iii) should the other five independent variables be assumed to be zero, a unit increase in microcredit (loan) will lead to 0.216433 unit increase in net profit levels of MSBs in Arua district, a unit increase in saving will lead 0.226007 increase in net profit level of MSB, an increase in the number of micro training attended by a client will lead 0.397801 unit increase of the clients net profit, a unit increase in micro insurance will lead -0.192241 decrease in the net profit levels of MSBs, a unit decrease in the interest rates will lead to 0.176786 unit increase in the net profits of MSBs, a unit increase in education level will lead to -0.280289 decrease in profits of the MSBs in Arua district.

Most of variables such as Education level, Savings, Credit (Loans), Training

Micro insurance were significant at 1% level except Interests rates which is significant at 5% level Majority of the variables showed significant impact on the performance of revenue or sales of MSBs so this result implies that services provided by MFIs have impact on the performance of MSBs in Arua district.

In summary the discussed and compiled results based on the two regressions, in economic sense the results of these regressions came out consistently with our expectations as the same results were also reported by (Amran, 2011; Babajide & Taiwo, 2011; Kaplan & Norton, 2001; Osunsan, 2015) in their study findings and they argued that the microcredit, training, micro insurance, loan duration, age , gender and interest rates have impact on the performance of micro and small scale businesses. Level of education was found to have negative impact on the performance of MSBs as reported by (Babajide & Taiwo, 2011)

CHAPTER 5

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section presents the key summary of findings, conclusion and recommendations for the study regarding the impact of microfinance services on the performance of micro and small scale businesses in Arua district in Uganda. The recommendations the researchers has given in this section will help the micro entrepreneurs, microfinance institutions and other policy makers in the pursuit to enhance economic development in the district and Uganda at large.

5.2 Summary

The study assessed the impact of microfinance services on the performance of micro and small scale businesses in Arua district in Uganda. The specific objectives of the research included discussing the financial and non-financial services offered by Microfinance to the Micro and Small scale Businesses, assessing the impacts of microfinance services on performance of sales of the micro and small scale businesses in Arua district, analysing the impact of microfinance serves on the performance of profit levels micro and small scale businesses in Arua district and examining the impact microfinance institutions on the number of employees and staff turnover of the micro and small scale businesses in Arua district in Uganda. The study was a case study in which questionnaire was the major instrument used for data collection. The dependent and the predictors were regressed using multiple regressions with the aid of Statistical Package for the Social Sciences (SPSS) and Eviews for dada analysis.

Results indicated that microfinance services such as microcredit, micro savings, micro insurance, loan duration and trainings obtained by the MSB entrepreneurs in Arua district contributed positively to the performance of their businesses. Most participants accepted that businesses performance indicators like sales, net profit, stock level increased due to the availability of funds received from the MFIs. The findings further showed that there was steady rise in the number of employees of MSBs after getting loans from Microfinance Institutions for their businesses.

The micro entrepreneurs generally accepted that microfinance is a favourable means of financing though most of them started their businesses using their personal savings and capital from other means other than microfinance microloans. In microfinance services are mostly accessed by men and this makes them to be dominant to their female counter parts in businesses.

It is concluded that the two models used to explain the relationship among the variable had 0.668 and 0.768 R values and these values indicated positive relationship among the variables. This was further explained by the R^2 for the two models which indicated that the independent variables used in model one and two explains 36.39% and 59.04% of the impact of microfinance services on the sales and net profit levels of micro and small scale businesses respectively in Arua district in Uganda.

5.3 Conclusion

Microfinancing for the case of Arua in particular is the fastest growing financial sector due to high demand brought by the high population and strategic location of the district. Microfinance institutions are important in bringing and empowering the poor and vulnerable communities with the much needed capital at relatively lower interest rates which in turn improves the country's economy. With the help of donors and government efforts to create more SACCOs in every sub county most of the micro entrepreneurs should be able to get finance to venture into more businesses areas. The conclusion for this study is therefore drawn from the foregoing discussion.

Finding from the impact of microfinance services on the performance of micro and small scale businesses indicated that microcredit, micro insurance, micro training and the loan durations can influence the performance of MSBs in Arua district. Should the government continue to pay more attention to the expansion of the MFIs in the region, many people would get the courage to get loans from the institutions and will trigger economic growth since many people will get employed and the taxes can greatly supplement the local government revenue. Clients could also experience self-reliance, women empowerment, improved literacy rate, improved health care and food production and can also relieve the country from foreign debts in the long run when the economy becomes stable.

Business background information and demographic information showed that MSBs are most owned by people who are active in their productive life from the age of 31-50 and those above the age of 50 years with fewer youths involved in business and the country is mainly composed of young population. This may be due to fear of taking risks and business experience. Less women participated in the study and this implies that there few woman who are clients of microfinance institutions. Most of the participants who took part in the survey had at least attained some higher education and this had negative significance based on the two models. This implies that the type of education they attained was not more businesses oriented.

From the findings based on businesses characteristic it's also indicated there were more micro businesses as compared to small businesses this could be due to the fact that the loan size provided by the microfinance institution cannot open business units which can employ more than 10 people.

Micro and small scale businesses which the help of microfinancing could employ more people as it has indicated in the study that most businesses which were not employing any person at the start employed some people after becoming microfinance client. This clearly implies that microfinance institutions contribute greatly to expansion of businesses and the growth.

5.4 Recommendations

The study has established that microfinance institutions play important role in business creation and performance micro and small scale businesses in Arua district. To ensure maximum utilization of microfinance institutions which can bring adequate economic growth and development in the country in regard to the activities of MSBs, the researcher there for provide the following recommendations based on the findings of the study.

Monitoring and audit of government programs which provides loans to the local entrepreneurs. The government of Uganda since 1996 onwards has been creating programs such as "Etandikua", Prosperity for all, Operation wealth creation etc. to cater for the financial needs of the micro and small scale entrepreneurs by providing them with required start-up capital for their businesses. Most times these programs are active and well monitored at take-off stage but due to lack of subsequent follow programs up the cease to exist and this has over the time led to rate of business failures. Periodic follow up of such government programs are very necessary if development of micro and small scale business are seriously considered as part economic development.

Most of the MFIs use minimalist model of lending and therefore other services such training appear as an additional expense to them. From the results of the study most people have attained curtained level of education capable of running MSBs and the government in partnership with the various vocational schools and MFIs in the regions should provide entrepreneurship skills, financial management and business skills to the youths and other stake holders to improve business activities in the district to achieve better economic development.

Microfinance institutions should make clarity in their terms and conditions regarding their services such micro loans. Most micro and small scale business have been a victim of not been aware of the terms and conditions of the loans they sign for and in case of any failure or default on the terms of loan repayment, they businesses are greatly affected since some of their stocks are taken in the loan recovery process. The researcher therefore recommends that microfinance instructions should make their clients aware of the loan terms and conditions before proceeding to loan procession.

Government should regulate the microfinance instructions such as the village SACCOs. Most of the village SACCOs are created and monitored by private individuals and groups and these groups have no legal reviewing body to insure efficiency in their services. Problems of high interest rates in such microfinance institutions are not supervised hence hindrance to the business performance of their clients. Government should undertake review of these SACCOs in line with the policies which govern microfinance institution to realize effective growth of micro and small scale businesses.

Government should encourage commercial banks to develop products that suit the demands of a common poor person in this region. For long period of time most commercial banks have regarded micro and scale business as risky clients and this has been due to the fact that the banks do not have suitable products for these entrepreneurs forcing them to take large sums of money which could not be of their interest hence mismanaging it. The researcher therefore recommends that if the commercial banks develop products that fits the needs of the common poor, this will help them to break the monopoly of the few microfinance institutions and also increase the level of finance inclusion in the district.

There should be an initiative by the government to encourage the MSBs to upgrade to medium and large scale enterprises. Some of the business units have existed for number of years without any sign of improvement and such businesses units should be give more incentives such as tax leaves, trainings and inputs especially for the farmers.

Government needs to improve on infrastructure. The rural areas have inaccessible roads and this makes it difficult for the farmers who take microfinance loans to reach the nearby markets and trading centres to sell their produce. The local markets do not also have electricity and health amenities to attract more investors such as microfinance institutions to such areas.

Youths should be encouraged to take microfinance loans and venture into other income generating activities. Based on the findings of the study the number of youths who participated in the survey was lower than any other category and this clearly shows that youths are not engaged in business and therefore there is need to motivate them to venture into business by giving them reasonable start-up capital through the microfinance system or government youth loan schemes.

The study also indicated that considerable percentage of microfinance clients believes that microfinance services are not favourable to the performance of their business. This minority group who disagreed with the services of MFIs should not be ignored since they must be having concrete reasons to support their disagreement and therefore more research should be done to identify these issues and the research also recommends that things like interest rates should be revised such that the clients get the true benefit of microfinance institutions.

The government needs to embark on Research and Development regarding implementation policies of microfinance and micro and small scale businesses in the countries. This will help to give proper information on which areas to invest such resources given they are scare.

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APPENDIX: A

QUESTIONNAIRE

Dear Sir/Madam

This questionnaire aims to collect data for partial fulfilment of the requirements for the award of Master Degree of MSc Banking and Finance of Ankara Yıldırım Beyazıt University-Turkey. The researcher intends to assess impact of microfinance services on the performance of micro and small scale businesses in Uganda using Arua district as a case study.

Therefore the researcher declares that, this research is for academic purpose only. You are kindly invited to complete this questionnaire as directed for a purpose of facilitating the study. Information from this document will be confidential and in no way will it be communicated to any person.

Thanks in advance

Respectfully,

Muzamil EDEMA (Mr.)

Graduate Student: MSc. Banking and Finance

Ankara Yıldırım Beyazıt University

Ankara, Turkey

PLEASE NOTE: Your name should not appear anywhere in this document.

Part I: Background Information

1. **Age**

   18-30

   31-50

   51 and above

2. Gender

   Male

Female

3. Marital Status

Single

Married

Other

4. Education Level

Some primary

Some secondary

Attained some higher education

Part II: Business Characteristic of Respondents

5. Business Location

Urban area

Rural area

6. Size of the Business

Micro Business (0-10,000,000 million Uganda shillings)

Small Business (10,000,001-100,000,000million Uganda shillings)

7. Year Business Established

Less than a year

1 – 3 years

4-5 years

More than 5 years

8. Type of Business

Trading

Artisan

Agriculture

Service

9. Form of Business

Sole ownership

Family Business

Partnership

Other type

10. Source of Initial Capital

Loan from MFI

Personal Savings

Borrowed from friends

Other Sources

11. Number of Employee when business Started

None

1-4

5-10

11-50

12. Number of Employee now

None

1-4

5-10

11-50

Part III: Information on microfinance services

13. For how long have you been a client of Microfinance?

Less than a year

1 – 3 years

4-5 years

More than 5 years

14. What services do you get from microfinance institutions?

Credit (Loans)

Savings

Training

Micro insurance

Any other (specify)

15. What were the uses of the loan taken from Microfinance Institutions?

Capital for business

Education for children

Housing

Agricultural activities

Others (mention)

16. Do you see microfinance services as favourable financing method for the development of your enterprise?

Yes

No

Part IV: Performance of Micro and Small scale businesses (MSBs) after becoming a client of MFIs

How will you rank the impact of the following microfinance service in respect to your business performance? Rank them in the scale of: Poor, Fair, Good, Very good and Excellent.

Put tick (√) in the appropriate box which you agree with according to the key.

	performance indicators	**Poor**	**Fair**	**Good**	**Very good**	**Excellent**
17	Savings					
18	Interests					
19	Credit (Loans)					
20	Training					
21	Micro insurance					
22	Loan duration					

Rank the impact of MFIs on the following performance indicators of your business in the scale of five (5) and put tick (√) in the appropriate box which you agree with according to the key.

		1	**2**	**3**	**4**	**5**
23	Engagement in microfinance services has helped to increase the levels of your **Revenue (Sales)**					
24	Microfinancing has impact on your general business **Net profit**					
25	Microfinancing has helped to increase the number of your business **Employees**					
26	The **stock level** of your business has increased due to microfinancing					

The End

Thank you for your cooperation

Gmail

Edema Muzamil <edemamuzamil@gmail.com>

Request to use variables

3 messages

Edema Muzamil <edemamuzamil@gmail.com> Fri, May 26, 2017 at 4:38 PM
To: abiola.babajide@covenantuniversity.edu.ng, abiolababajide@gmail.com

Dear Dr. Abiola Ayopo BABAJIDE,

I hope this email finds you in good health.

Am called Muzamil Edema a master's student at Ankara Yıldırım Beyazıt University-Turkey and currently writing my master thesis on '' Impact Assessment of Microfinance Services on the performance of Micro and Small scale Businesses (SMBs): Case Study Arua District of Uganda''.

I came across your doctoral dissertation titled "Effects of Microfinance on Micro and Small Enterprises (MSEs) Growth in Nigeria" and found some the variables (mentioned below) you used in your dissertation very important in construction of my survey questionnaire.

Entrepreneur Age, Entrepreneur Education, Business Age, Business form, Business Size, Business location, Business registration, Asset Loan Size received from Microfinance Bank, Asset Loan Duration, Asset Loan Repayment, Loan Interest, Technology Training received by entrepreneur in the last year .

After citing you in my thesis I hereby would wish to seek your kind permission to allow me use these variables mentioned above in constructing my survey questionnaire.

Thank you in advance for your kind cooperation.

I look forward to hearing from you soon.

Respectfully,

Muzamil EDEMA (Mr.)

Graduate Student: MSc. Banking and Finance

Ankara Yıldırım Beyazıt University

Ankara, Turkey

Email: edemamuzamil@gmail.com

Tel: +90 (531) 9803650

Babajide Abiola <abiolababajide@gmail.com> Fri, May 26, 2017 at 5:36 PM
To: Edema Muzamil <edemamuzamil@gmail.com>

Dear Muzamil,
Thanks for your mail. Please go ahead as requested.

Kind regards,

Babajide
[Quoted text hidden]
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Abiola Babajide ***(Ph.D)***
Covenant University
Dept. of Banking & Finance
KM 10, Idi-Iroko Road
Ota,
Ogun State
Nigeria.
Tel: 08033249533

Edema Muzamil <edemamuzamil@gmail.com> Fri, May 26, 2017 at 5:42 PM
To: Babajide Abiola <abiolababajide@gmail.com>

Dear Dr. BABAJIDE,

Many thanks for your swift reply.

Have a blessed evening.
[Quoted text hidden]
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Respectfully,

Muzamil EDEMA (Mr.)

Graduate Student: MSc. Banking and Finance

Ankara Yıldırım Beyazıt University

Ankara, Turkey

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