
**THE EFFECT OF MICROFINANCE INSTITUTIONS ON THE SOCIO-ECONOMIC
DEVELOPMENT OF COMMUNITIES IN UGANDA: A CASE STUDY OF KASUBI
MARKETRUBAGA DIVISION**

**1 Nalwanga Agnes, 2 Babirye Shamirah, 3 Akampurira Sarah
1, 2, 3 Metropolitan International University**

ABSTRACT

The study aimed at the effect of microfinance institutions on the socio-economic development of communities in Uganda and it was guided by the following objectives; To identify micro- credits offered by microfinance institutions, to evaluate the impact of non-financial advises of microfinance institutions on socio economic development of Kasubi market and to examine the impact of high interest rates imposed by microfinance institutions on the social economic development of Kasubi Market. The study used a correlational survey design and a cross-sectional research strategy in order to help determine the link between the key study variables. From the findings, 53 (38%) respondents agreed that company earnings affect the price shareholders are prepared to pay, while 10 (7%) disapproved, 4 (3%) disapproved, and 4 (3%) severely disagreed. According to the study's findings, 87 people (63%) strongly agreed that high interest rates increase annual payments, 35 people (25%) agreed, 14 people (10%) neither supported nor disapproved, and 2 people (1.5%) disapproved. The study recommends that microfinance institutions should provide minimal interest rates to the market vendors. This minimal interest rate will make the vendors utilize the loans provided by the microfinance institutions. The study further recommends that microfinance institutions should aim at providing educational services to the borrowers before borrowing.

Key words: microfinance institutions, socio-economic development and communities

Background of the study

The efforts of a number of MFIs to work via group-schemes have the possibility of provide a wide range of advantages, leveraging the significance of regional populations in Africa into programs that have been productive in other areas

(District et al., 2023). The Grameen Bank is perhaps best known for developing programs that have this potential. Cooperatives and groups use both collective and individual savings and credit schemes throughout Africa. With only 35 bank branches nationally serving a population of 7 million people, Benin's banking sector has extremely little reach. These branches are largely concentrated in and around the country's capital. In light of this, official saving and loan organizations (SLCs), the only MFIs that collect saves, have been able to mobilize a sizable quantity of savings through their substantial domestic branch network (Polycarp et al., 2023). At the end of 2003, deposits at the SLCs equaled 10% of deposits in commercial banks that do business with non-central governments (Christopher et al., 2022). The first important microfinance institutions in the nation were the FINCA and Uganda's Women Finance Trust (UWFT) in the 1990s. Because the government had failed to put in place efficient programs to combat unemployment and promote growth during this time, NGO's, grassroots organizations, and local Revolutionary Councils were extensively relied upon. Among the agricultural products in the Kampala Rubaga Division handled by the Kampala capital city administration are Kasubi Market, Natete, Kalelwe in Kawempe Division, and Wandegeya.

Statement of the problem

Despite the growing number of microfinance organizations, they should work to improve Ugandan women, low-income earners, and small-scale investments through their microfinance initiatives (Lydia et al., 2023). However, these microfinance organizations are engaged in offering economically savvy partners services related to microfinance, including accessible lending, savings, instruction, and the like. With emphasis on providing financial alternatives for those without accessibility to credit from traditional banks, financial organizations sometimes lend money to the poor at high interest rates. 2011's Sehwatetal. These microfinance organizations in Uganda, like others within the world, have missions and visions devoted to eradicating poverty and fostering social growth by offering affordable loans and other micro financing services to Ugandans who are productively poor, with a focus on countryside low-income earners in particular

(Collins et al., 2023). The savings gap, also known as quantitative investments, is a significant issue that many market vendors face since it makes it harder for them to finance ventures that support social and economic development (Walker, 1999).

Specific objective

- 1. To identify micro- credits offered by microfinance institutions.*
- 2. To evaluate the impact of non-financial advises of microfinance institutions on socio economic development of Kasubi market.*
- 3. To examine the impact of high interest rates imposed by microfinance institutions on the social economic development of Kasubi Market.*

Research questions

- 1. What are various micro-credits (loans) offered by microfinance institutions?*
- 2. What is the impact of non-financial service provisions by micro-finance institutions on the socio-economic development?*
- 3. What is the impact of high interest rates imposed by micro finance institutions on the social economic development in Uganda?*

Methodology

Research Design

The study used a correlational survey design and a cross-sectional research strategy in order to help determine the link between the key study variables. The correlational study design is important for studies looking at linear links and not necessary cause and effect linkages, as reported by Whitley & Kite (2013) and Amin (2005).

Study Participants

The study demonstrated the value of microfinance programs in Uganda that support social and economic development. Market sellers that work in Kasubi Market made up the population studied. These individuals participated in the study's microfinance services at several microfinance institutions.

Sample size and selection

Sample size was determined by use of Krejcie & Morgan tables (1970). With the

population of respondents, the sample size held representative of the population selected from which data was collected. The study applied simple random sampling because the population under study had a common category of respondents.

Table 1 sample Size Determination

<i>Population Category</i>	<i>Targeted Population</i>	<i>Sample size</i>	<i>Sampling Method</i>
<i>Market vendors</i>	<i>600</i>	<i>150</i>	<i>Simple random sampling</i>
<i>Local leaders</i>	<i>8</i>	<i>5</i>	<i>Simple random sampling</i>
<i>Market leaders</i>	<i>12</i>	<i>6</i>	<i>Purposive sampling</i>
<i>Politicians</i>	<i>5</i>	<i>3</i>	<i>Purposive sampling</i>
<i>Total</i>	<i>625</i>	<i>164</i>	

e Random Sampling

The study employed a simple random sampling on selected local masses (both market vendors and other local leaders) because it was taken scientific as it allowed equal chances to all members in the population to participate (Frerichs 2008). The method was used because the setting in which the study was conducted had a relatively big population.

Data Collection Methods

Questionnaire Survey Method

The information was gathered from randomly chosen participants using a questionnaire that was semi-structured. The participants selected received questionnaires to fill out, which were then collected after a predetermined period of time. As advised by (Kothari 2004), the questionnaire approach was chosen since it was less expensive, time-consuming, and allowed the study to employ first-hand information from many people over a brief period of time.

Data analysis

Since both qualitative and quantitative data was collected, there was an analysis of both quantitative and qualitative data.

Quantitative data analysis

The acquired data was coded, put into SPSS, revised, and verified before statistical data analysis to guarantee accuracy, completeness, and consistency (Nelson et al., 2022). The Statistical Package for Social Scientists (SPSS), which has a wider range of analysis options like proportions, frequencies, mean and standard deviation, charts and graphs that make it simpler to perform statistical analyses and make proper comprehension, was used to analyze the required data after it had been edited (Junker 2010). Using information from participants, statistical analysis was utilized to make judgments about the relationships between the variables.

Qualitative data analysis

Qualitative data from interviews was qualitatively analyzed. Data was sorted, edited, arranged and coded according to the study objectives.

The data was thematically analyzed. Basing on the study variable and objectives, themes were generated and narrative interpretations and conclusions made as explained by (Mugenda & Mugenda 2003).

RESULTS

Instrument return rate

The researcher administered 164 Questionnaires to the respondents. During data collection, a response rate of 50% is adequate for analysis and reporting, a rate of 60% is good and a response rate of 70% and above is excellent (Mugenda and Mugenda 1999). However, on the

164 administered questionnaires 138 questionnaires were returned from the respondents giving a response rate of (84%) as represented in table 2 below.

Table 1 showing return response rate

CATEGORY	Questionnaires administered		Response rate from the questionnaire	
	Frequency	%	Frequency	%
<i>Market vendors</i>	150	100	124	90
<i>Local leaders</i>	5	100	5	4
<i>Market leaders</i>	6	100	6	4

<i>politicians</i>	<i>3</i>	<i>100</i>	<i>3</i>	<i>2</i>
<i>Total</i>	<i>164</i>		<i>138</i>	<i>100</i>

Source: primary source

Basing on table 1 the response rate was excellent for the study (Mugenda and Mugemda

1999). This response rate was realized since the researcher personally conducted the study herself with the respondents on the purpose of the study.

The researcher carried out the study on 138 participants including 3 politicians, 6 market vendors, 5 local leaders, and 124 market vendors.

Gender of respondents

The researcher sought to establish the gender of all respondents. The results are tabulated below.

Table 2 showing gender of respondents

<i>Sex</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Male</i>	<i>79</i>	<i>57</i>
<i>Female</i>	<i>59</i>	<i>43</i>
<i>Total</i>	<i>138</i>	<i>100</i>

Source: primary source

From table 3 above it is evidenced that 79 (57%) of the respondents were male while 59 (43%) were female. From the above it is concluded that there was gender imbalance of the respondents.

Age of respondents

The researcher sought to establish the age group of respondents and the results are presented in table 3 below.

Table 3 below shows the age distribution of respondents.

<i>Age bracket</i>	<i>Frequency</i>	<i>Percentage</i>
<i>18-24</i>	<i>31</i>	<i>23</i>
<i>25-34</i>	<i>42</i>	<i>30</i>
<i>35-44</i>	<i>39</i>	<i>28</i>
<i>45-54</i>	<i>12</i>	<i>9</i>
<i>55-64</i>	<i>11</i>	<i>8</i>
<i>65-above</i>	<i>3</i>	<i>2</i>
<i>Total</i>	<i>138</i>	<i>100</i>

Source: primary source

From table 3 above it is evidenced that 42 (30%) of the respondents are in the age group of 25-34, 39 (28%) are in 35-44, 31 (23%) are in 18-24, 12 (9%) between 45-54, 11 (8%) between 55-64 and 3 (2%) were between 65and above.

Marital status of respondents

The researcher sought to examine the marital status of respondents since all categories are expected to be married, single, widowed or divorced.

Table 4 showing marital status

<i>Marital status</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Married</i>	<i>132</i>	<i>95</i>
<i>Single</i>	<i>5</i>	<i>4</i>
<i>Widowed</i>	<i>1</i>	<i>1</i>
<i>Total</i>	<i>138</i>	<i>100</i>

Source: primary source

From table 4 it shown that most of the respondents were married with 132 (95%), 5(4%) were single and 1 (1%) were widowed.

Education back ground of respondents

Table 5 showing education back ground of respondents

<i>Education level</i>	<i>Frequenc y</i>	<i>Percentag e</i>
<i>S.4 Certificate</i>	43	31
<i>S.6 Certificate</i>	37	27
<i>Diploma</i>	29	21
<i>Degree</i>	21	15
<i>Masters and above</i>	8	6
<i>Total</i>	138	100

*Source: primary
source*

From table 5 it shown that most of the respondents with 73 (43%) achieved a degree, 48 (28%) diploma, 29 (17%) S.6 Certificate, 16 (10%) S.4 Certificate and 3 (2%) were holding masters and above.

Working experience of respondents

The researcher sought to examine the working experience of the market leaders, local ladders and politicians. These groups are considered since they provide the fundamental information in regard to the study. The results are presented in table 6 below

Table 6 showing respondents working experience

<i>Year gap</i>	<i>Frequency</i>	<i>Percentage</i>
5-9	3	21
10-14	4	29

15-19	7	50
Total	14	100

Source: primary source

From table 6 it is evidenced that 7 (50%) of the respondents had a working experience between

15-19 years, 4 (29%) were between 10-14 and 3 (21%) were between 5-9.

Micro- credits offered by microfinance institutions.

The first objective sought to establish the micro credits offered by microfinance institutions. The results are shown in table 8 below

Table 7 showing the micro-credits offered by micro finance institutions.

Microfinance institutions provide	Strongly agree		Agree		Neither agree nor disagree		disagree		Strongly disagree	
	f	%	f	%	f	%	f	%	f	%
Group loaning	137	99			1	1				
Educational credit schemes	98	71	37	27	3	2				
Agricultural financing and equipment acquisition credits	138	100								
Working capital credits	138	100								

Source:
primary
source

Table 7 reveals that 138 respondents (100%) completely concurred that working capital is provided by microfinance institutions. 138 respondents (100%) of the

study's sample answered that microfinance institutions offer credits for financing of agriculture and equipment purchases. While 1 (%) and 137 (99%) strongly disagreed, group loans are offered by microfinance organizations. On the other hand, 98 (71%) strongly agreed, 37 (27%) agreed, and 3 (2%) were either in agreement or disagreement with the implementation of educational credit programs.

The impact of non-financial advises of microfinance institutions on socio economic development of Kasubi market

This was the second objective of the study. The researcher sought to establish the impact of non-financial advises of microfinance institutions. The respondents were asked to rate the degree of extent by using a 5 likert key scale which included strongly agree, agree, neither agree nor disagree, disagree and strongly disagree.

Table 8 showing non-financial advices of microfinance institutions.

Microfinance institutions provide	Strongl y agree		Agree		Neither agree nor disagree		disagree		Strongl y disagree	
	f	%	f	%	F	%	f	%	f	%
Social services	138	100								
Job creation	97	70	41	30						
Social change	59	43	43	31	34	25	2	1.5		
Profitable business plans	89	64.5	43	31			5	4	1	1
Social and political empowerment	98	71	21	15	17	12	2	1.5		

Source:

primary source

Table 8 reveals that 138 participants (100%) indicated that social services are offered by microfinance institutions. 41 people (30%) and 97 (70%) strongly agreed that microfinance organizations create jobs. The study also discovered that 98 people (71%) strongly agree that microfinance institutions promote social and political being empowered, whereas 21 people (15%) agree, 17 people (12%) are ambivalent about it, and two people (1.5%) disagree.

The impact of high interest rates imposed by microfinance institutions on the social economic development of Kasubi Market.

This was the third objective and the researcher sought to establish the impact of high interest rate by the microfinance institutions on the socio-economic development. Respondents were asked to rate the extent of the degree of the statement by using a 5 key likert scale which include strongly agree, agree, neither agree nor disagree, disagree and strongly disagree. The results are shown in table 9 below.

Table 9 showing impact of high interest's rates imposed by microfinance institutions

Microfinance institutions provide	Strongly agree		Agree		Neither agree nor disagree		disagree		Strongly disagree	
	f	%	f	%	F	%	f	%	f	%
Provide affordable sources of financial services.	138	100								
Contributes to financial repression	41	30	32	23	65	47				

<i>Interest rates influence the level of corporate profits which in turn influence the price that the investors are willing to pay.</i>	68	49	53	38	10	7	4	3	4	3
<i>High interest rate leads to an increased rate of saving.</i>	127	92	10	7	1	1				
<i>High interest rate makes it impossible for the poor to access credit facilities effectively.</i>	138	100								
<i>Increases an annual repayment</i>	87	63	35	25.4	14	10.1	2	1.5		

Source: primary source

138 (100%) of the people who responded to table 9 above completely concurred that high interest rates offer accessible financial services. 138 people (100%) said that it is not possible for the poor to successfully obtain credit facilities due to high interest rates. While 32 (23%) and 65 (47%) agreed or strongly disapproved that high interest rates cause financial hardship, 41 (30%) firmly believed that this is the case.

However, the rate of saving has climbed to 127 (92%).

10 (7%) people said they agreed, 1 (1%) strongly disagreed, and 10 (7%) said they agreed.

68 (49%) respondents to the poll strongly agreed that high interest rates affect the level of savings.

53 (38%) respondents agreed that company earnings affect the price shareholders are prepared to pay, while 10 (7%) disapproved, 4 (3%) disapproved, and 4 (3%)

severely disagreed. According to the study's findings, 87 people (63%) strongly agreed that high interest rates increase annual payments, 35 people (25%) agreed, 14 people (10%) neither supported nor disapproved, and 2 people (1.5%) disapproved.

Conclusions

According to the study's findings, men made up the majority of the sample, followed by women. The survey discovered that microfinance companies offer instructional credit programs, operational loans, group loans, agricultural funding, and credits for the purchase of equipment.

The survey also discovered that microfinance organizations offer social and political empowerment, business strategies that will be lucrative, social change, and the development of jobs. Microfinances continue to offer high interest rates, which make financial services more accessible, lead to financial repression, and affect company profitability, which in turn affect investor willingness to pay a certain price.

Recommendation

The study recommends that microfinance institutions should provide minimal interest rates to the market vendors. This minimal interest rate will make the vendors utilize the loans provided by the microfinance institutions. The study further recommends that microfinance institutions should aim at providing educational services to the borrowers before borrowing.

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