

## Micro Finance Institutions and Small-Scale Businesses in Kisoro District: A Case Study of Kisoro Municipality

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### ABSTRACT.

The major objective of this study lied in finding out whether there was a relationship between micro finance institutions and the development of small-scale businesses in Kisoro Municipality. Other objectives included: To establish the level of performance of microfinance institutions in Kisoro Municipality and to find out the extent of development of small-scale businesses in Kisoro Municipality. The study employed a qualitative and quantitative research design and simple random probability sampling and purposive sampling techniques were used to obtain a sample size 80 respondents of from Kisoro Municipality using solvin's formula. Questionnaires and interview guides were used to collect data from respondents about the relationship between micro finance institutions and the development of small-scale businesses in Kisoro Municipality, and the researcher considered 38 traders, 40 community members, LC1 Chairperson and a district development officer. The researcher found out that there is a very strong positive relationship between micro finance institutions and small-scale businesses at  $r = 0.786$  and since the sig. value (.000) was far less than 0.01, which is the maximum level of significance required declaring a significant relationship between micro finance institutions and small-scale businesses, this implies when the level of growth of micro finance institutions is high, the level of growth of small-scale businesses is also high, and when the level of development of micro finance institutions is low, the level of development of small-scale businesses is also low. The researcher concluded that the extent of development of small-scale businesses is high and this is witnessed by many people involving in small business in Kiso Municipality. The researcher recommended the government to provide enough sensitization to the people about the use of the available micro finance institutions in Kisoro District.

**Key words: Micro Finance and Small – Scale Business.**

### Background of the study

According to (Innocent et al., 2023), micro financial institutions (MFIs) are financial companies that provide small loans to people who have no access to banking facilities. (K. Paul et al., 2023) define the term microfinance institutions as organizations that provide loans to low-income clients, including micro-enterprises and self-employed persons (Alex & Kazaara, 2023), who traditionally lack access to the main sources of finance from banking institutions (Washington et al., 2023). Microfinance institutions were defined by CGAP (1998) as “Organizations that offer to provide financial services to low-income

people” (Winny et al., 2023). In addition, George (2005) refers to microfinance institutions as groups that offer the provision of financial services to low-income households and micro and small enterprises, providing enormous potential to support the economic activities of the poor, thus contributing to poverty alleviation (Faridah et al., 2023). Microfinance can also be defined as the practice of providing financial services such as microcredit, micro savings or microinsurance to poor or disadvantaged individuals (Musaibah et al., 2023). In addition, (Rigan & Enock, n.d.) defines the term small business as a business that

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operates at a small scale level, involves less capital investment, less labor and fewer machines to operate (Kazaara & Christopher, 2023). . Also (District et al., 2023) defines a small-scale business as a type of business that is characterized by a limited number of employees and a limited flow of finance and materials, and (Racheal et al., 2023) also defined the term small-scale. business as a sole proprietorship, partnership, or sole proprietorship that has fewer employees and lower annual revenues than corporations or regular-sized businesses (W. Paul & Kazaara, 2023). International organizations recognize that MFIs are real and effective channels to ensure the effectiveness of program implementation, especially in poverty alleviation projects and first-hand knowledge of the needs and interests of the poor (Ronet et al., 2023). According to (Edith et al., 2023), the World Bank's Sustainable Banking with the Poor (SBP) project estimated in mid-1996 that there were more than 1,000 microfinance institutions in more than 100 countries, each with at least 1,000 members and 3 years of experience. In a 2006 survey, 73 percent of these

institutions were NGOs, 13.6 percent were credit unions, 7.8 percent were banks, and the rest were savings banks (Gracious, 2023). The vast majority of the world's poor live in third world countries. Various approaches have been used to alleviate poverty, one of which is pro-poor credit. Many now argue that enabling the poor to control resources through credit can contribute to poverty alleviation (Faridah et al., 2023). Microfinance pioneered in Bangladesh by Mohammed Yunus (1999) was to help low-income youth and men through micro-enterprises for their economic development (W. Paul & Kazaara, 2023). Growing concerns about poverty feature on policy agendas around the world (Phionah et al., 2023), as the persistence of poverty in even the richest countries is met with growing impatience (Zulaikah & Rebecca, 2023). Governments and international aid donors subsidize loans to small farmers in rural areas of many developing countries. These subsidized loans from donor non-governmental organizations (NGOs) have enabled large numbers of low-income people to access financial services.

### **Statement of the problem**

The problem lied in finding out whether there was a relationship between micro finance institutions and development of small-scale businesses in Kisoro District, Kisoro Municipality.

### **Major objective**

The major objective of the study was to find out the relationship between micro finance institutions and the development of small-scale businesses in Kisoro District, Kisoro Municipality.

### **Specific objectives**

1. To establish the level of performance of microfinance institutions in Kisoro Municipality.
2. To find out the extent of development of small-scale businesses in Kisoro Municipality.
3. To find out the relationship between micro finance institutions and the development of small-scale businesses in Kisoro District, Kisoro Municipality.

### **Research questions**

1. What is the level of performance of microfinance institutions in Kisoro municipality?

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2. What is the extent of development of small-scale businesses in Kisoro Municipality?
3. What is the relationship between micro finance institutions and the development of small-scale businesses in Kisoro District, Kisoro Municipality?

### **Methodology.**

The study adopted a triangulation of a case study design and a cross-sectional survey design, also deploying both qualitative and quantitative techniques to analyze data. A case study design was selected because the researcher neither had time nor financial resources to conduct a national survey of all Districts in Uganda (UGAPRIVI, 2012). The researcher considers Kisoro Municipality as a case study to find out the relationship between Micro finance institutions and development of small-scale businesses in this area.

The researcher targeted 100 residents in Kisoro municipality, from which a sample size of 80 respondents was determined using Slovene's formula of sample determination. The sampling procedures included simple random sampling and purposive sampling and were used to select respondents in the study. The study comprised of 40 community members, 38 Traders, LC1 chairperson and a district development officer of Kisoro Municipality. The sample size of the study was determined according to Slovene's formula of sample size determination. The participants in the study were selected using purposive sampling method and simple random sampling. The validity of the instruments was established under the guidance of the supervisor (Dr. Arinaitwe Julius). After constructing the questionnaire, the researcher contacted two research experts in order to determine whether his questionnaire tool is valid in a way of collecting information that was used in understanding the research problem. Hence the researcher constructed the validity of the instruments by using expert judgment method as suggested by Gay (1996). To establish the reliability of the research instruments, the researcher carried out a pilot test of the instruments using another similar group with the same characteristics as the one targeted in the study. The reliability of the instruments was computed using split half method with the help of Statistics Package for Social Sciences (SPSS) (Nelson et al., 2022), open ended questions were not tested for reliability. The researcher analyzed and interpreted quantitative data by using statistical package for social science (SPSS) program to compute the percentages, frequency and tabulation of responses and both use of quantitative and qualitative types of data. Data was edited to identify and eliminate errors made by respondents. Coding was then be done to translate question responses into specific categories. Descriptive statistics such as frequency distribution and percentages were used to analyze the data and correlation and regression analysis were considered for further analysis (Nelson et al., 2022). Qualitative data was analyzed using content analysis in which all the responses were categorized according to their thematic areas and analyzed according to their contents. Presentation was done on tables, figures and charts.

### **Results.**

#### **The level of performance of microfinance institutions in Kisoro Municipality**

This Section describes the independent variable (Microfinance institutions). The independent variable was addressed in Section B of the questionnaire for respondents.

**Table 1: The level of performance of microfinance institutions**

|       |          | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|----------|-----------|---------|---------------|--------------------|
| Valid | HIGH     | 11        | 18.3    | 18.3          | 18.3               |
|       | MODERATE | 14        | 23.3    | 23.3          | 41.7               |
|       | LOW      | 35        | 58.3    | 58.3          | 100.0              |
|       | Total    | 60        | 100.0   | 100.0         |                    |

The responses were interpreted as follows, 58.3% of the respondents agreed that the Level of performance of micro finance institutions in Kisoro Municipality is low, 18.3% argued that Level performance of micro finance institutions in Kisoro Municipality is high, 23.3% revealed that Level of performance of micro finance institutions in Municipality is Moderate. Under this study objective, the researcher asked respondents the factors that have hindered the growth of micro finance institutions and most revealed that high taxation, shortage of funds, lack of the needed skilled labor and price fluctuations. The respondents were also asked the measures that can be taken and most revealed that the government should reduce on taxes, provision of funds to micro finance businesses, sensitization of people about the uses of micro finance institutions and employing skilled labor.

#### **The extent of development of small-scale businesses in Kisoro Municipality**

This Section describes the dependent variable (Small scale businesses). The dependent variable was addressed in Section C of the questionnaire for respondents. Information regarding the extent of development of small-scale businesses in Kisoro Municipality was collected from respondents and analyzed using SPSS Software and the results were presented and tabulated in table 2 below.

|       |        | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|--------|-----------|---------|---------------|--------------------|
| Valid | HIGH   | 32        | 53.3    | 53.3          | 53.3               |
|       | MEDIUM | 15        | 25.0    | 25.0          | 78.3               |
|       | LOW    | 13        | 21.7    | 21.7          | 100.0              |
|       | Total  | 60        | 100.0   | 100.0         |                    |

The extent of development of small-scale businesses in Kisoro Municipality was found to be high because 53.3% of the total population in the study agreed that the development of small-scale business in Kisoro Municipality is high and this is attributed to many businesses in Kisoro town.

25.0% agreed that the extent of development of small-scale businesses in Kisoro Municipality is at a medium extent and only 21.7% revealed that the extent of development of small-scale businesses in Kisoro District is at a low extent. The latest study by Andrew Kaggwa (2018) revealed that Microfinance institutions have contributed to poverty eradication in rural areas especially through giving loans with low or no collateral security like motorcycle loans which has affected the performance of institutions as most of the people end up defaulting. The study further revealed that microfinance institutions' performance is greatly hindered by loan defaults. Under this second

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objective, the researcher went ahead to ask respondents using the 5 style Likert scale and the responses were analyzed using SPSS and presented in table 4.4.1 below.

**Table 3: Shows perception of respondents on Micro finance institutions gives loans to small scale businesses**

|       |                            | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|----------------------------|-----------|---------|---------------|--------------------|
| Valid | STRONGLY DISAGREE          | 6         | 10.0    | 10.0          | 10.0               |
|       | DISAGREE                   | 8         | 13.3    | 13.3          | 23.3               |
|       | NEITHER AGREE NOR DISAGREE | 6         | 10.0    | 10.0          | 33.3               |
|       | AGREE                      | 14        | 23.3    | 23.3          | 56.7               |
|       | STRONGLY AGREE             | 26        | 43.3    | 43.3          | 100.0              |
|       | Total                      | 60        | 100.0   | 100.0         |                    |

From the table 3, it was found out that 10.0% of the respondents strongly disagreed that micro finance institutions give loans to small scale businesses, 13.3% disagreed, 10.0% neither agreed nor disagreed, 23.3% agreed and 43.4% strongly agreed that micro finance institutions give loans to small scale businesses in Kisoro Municipality, Kisoro District.

#### **The relationship between Micro finance institutions and small-scale businesses**

|                        |                           | Micro finance institutions | Small scale businesses |
|------------------------|---------------------------|----------------------------|------------------------|
| finance institutions   | Pearson Micro Correlation | 1.00                       | .786                   |
|                        | Sig. (2-tailed)           |                            | .000                   |
|                        | N                         | 60                         | 60                     |
| Small scale businesses | Pearson Correlation       | .786                       | 1.00                   |
|                        | Sig. (2-tailed)           | .000                       |                        |
|                        | N                         | 60                         | 60                     |

**Table 4: Showing Pearson Correlation between micro finance institutions and small-scale institutions**

Table 4 indicates that there is a very strong positive relationship between micro finance institutions and small-scale businesses at  $r = 0.786$  and since the sig. value (.000) was far less than 0.01, which is the maximum level of significance required declaring a significant relationship between micro finance institutions and small-scale businesses, this implies when the level of growth of micro finance institutions is high, the level of growth of small-scale businesses is also high, and when the level of development of micro finance institutions is low, the level of development of small-scale businesses is also low (Nelson et al., 2023).

The findings were in line with the study conducted by Kondo et al. (2008) on the impact of microfinance on development of small and medium businesses in the Philippines. The study established that the impact of the availability of microfinance loans on per capita income is shown to be positive and marginally significant. This is also true for per capital total expenditure and per capital food expenditure.

### **Discussion of findings**

The discussion of the study findings was based on the three study objectives which included; to establish the level of performance of microfinance institutions in Kisoro Municipality, to find out the extent of development of small-scale businesses in Kisoro Municipality and to find out the relationship between micro finance institutions and the development of small-scale businesses in Kisoro District, Kisoro Municipality.

Under this study objective, the researcher asked respondents the factors that have hindered the growth of micro finance institutions and most revealed that high taxation, shortage of funds, lack of the needed skilled labor and price fluctuations. The respondents were also asked the measures that can be taken and most revealed that the government should reduce on taxes, provision of funds to micro finance businesses, sensitization of people about the uses of micro finance institutions and employing skilled labor. From the table 4.4.1, it was found out that 10.0% of the respondents strongly disagreed that micro finance institutions give loans to small scale businesses, 13.3% disagreed, 10.0% neither agreed nor disagreed, 23.3% agreed and 43.4% strongly agreed that micro finance institutions give loans to small scale businesses in Kisoro Municipality, Kisoro District. Under this study objective, the researcher found out that among the factors that affect the development of small-scale businesses include availability of capital, small population, and lack of inputs, poor transport means, high taxation and high cost of living. There is very strong positive relationship between micro finance institutions and small-scale businesses at  $r = 0.786$  and since the sig. value (.000) was far less than 0.01, which is the maximum level of significance required declaring a significant relationship between micro finance institutions and small-scale businesses, this implies when the level of growth of micro finance institutions is high, the level of growth of small-scale businesses is also high, and when the level of development of micro finance institutions is low, the level of development of small-scale businesses is also low.

### **Conclusion of the findings.**

The researcher concluded on this objective from the findings that the level of performance of micro finance businesses in Kisoro Municipality is low, because 58.3% of the respondents revealed it and this is because most people fear to borrow loans from these institutions due to lack of quarterly security to present to these institutions and also lack of enough sensitization of the masses about the importance of micro finance institutions is much in Kisoro Municipality, Kisoro District. The researcher concluded on this objective that the extent of development of small-scale businesses is high and this is witnessed by many people involving in small business in Kisoro Municipality. There is a high positive correlation/relationship between micro finance institutions and development of small-scale business at  $r = 0.786$ . The researcher concluded that the people in this area put in to use of the available micro finance institutions to borrow money and sponsor their business activities in Kisoro Municipality. Those businesses that put into use of micro finance institutions always develop their businesses very fast due to abundant capital which is always available.

### Recommendations of the study

On the basis of the findings of this study and conclusions drawn, the following are the recommendations regarding the relationship between micro finance institutions and development of small-scale business in Kisoro Municipality, Kisoro district

The researcher recommended the government to provide enough sensitization to the people about the use of the available micro finance institutions in Kisoro District.

The researcher recommends the small-scale business owners to always pay back the loans so that these institutions don't make losses.

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