

Microfinance services and household income among small-scale traders in Lira Municipality

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Abstract: This article aims to find out the impact of micro finance on the level of household income of small scale traders in Lira Municipality by focusing at the demographic characteristics of the beneficiaries; and impact of training, savings, and micro-credit on the level of household income of small scale traders. This study is qualitative in nature, biased towards a descriptive design, the research targets and extracts secondary data from a village savings and loan association Group and a Loan Office from one of the Microfinance Institutions that operates in Lira Municipality. It is revealed that 28 female and only 02 men comprised membership to the group of multi-lingual youthful members with an average age of 32.9 years. Training is found to lead to acquisition of basic financial management skills; the impact of savings on members is seen in terms of enabling households to raise the level of literacy for their children and acquisition of household assets; and, micro-credit impacts facilitates the expansion and stabilization of household enterprises. It is concluded that Microfinance Institutions work best in groups and training is useful for beginners in businesses, savings is essential for re-investments, and micro-credit serves as a stabilization fund. More branches of microfinance institutions should be opened-up in rural areas and the Microfinance Institutions in Lira Municipality need to consider stepping-up their out-reaches to rural areas for financial inclusiveness.

Keywords: Microfinance, Small scale traders, training, savings, microcredit.

1. INTRODUCTION

Microfinance has evolved as an economic approach intended to benefit the low income women and men. According to Ledger wood (2000), microfinance refers to the provision of financial services to low income clients, including the self-employed, and consumers who traditionally lack access to banking and related services. Schreiner and Sherraden (2006) explain that microfinance is the formal scheme designed to improve the wellbeing of poor people through better access to savings and services loans. The Commonwealth Women's Forum Report (2015) asserts that microfinance services should acknowledge the continuing role of private financing that are mandated to support women entrepreneurship with a target of 30% particularly for many women-headed poor households in the Commonwealth Nations. Microfinance is characterized by making small loans available directly to small-scale entrepreneurs to enable them either establish or expand micro-enterprises and small businesses. The Association of Micro Finance Institutions in Uganda (AMFIU) views microfinance as "those organizations that provide savings and credits facilities to micro and small scale businesses, and poor people who experience difficulty in obtaining these services from most formal financial institutions because their businesses, saving levels and credit needs are all small. AMFIU Reports (2019) indicates that there were 117 microfinance institutions in Uganda as of June 2018.

In the Ugandan context, the Value Added Tax Act (1996) explains the concept of "Small Scale Traders" to refer to small and social entrepreneurs whose annual balance sheet is less than US \$500 or UGX 1,850,000/= (One million, eight hundred fifty thousand shillings only); and that are not registered businesses with the Uganda Revenue Authority for Value Added Tax. Bank of Uganda also issues licenses to a number of banks that have embrace Agent banking, which goes a long way to improving access to services and thus enhancing financial inclusion (the Uganda Bureau of Statistics Report, 2018). The Government of Uganda is also undertaking several measures like the establishment of the Uganda Microfinance Regulatory Authority (UMRA) which is restoring investor and consumer confidence in Uganda's

microfinance industry whose reputation had been damaged by the rampant fraud in SACCOs and the unethical practices by some money lenders.

Tier 4 Microfinance Institutions and Money Lenders Act (2016), provides information to confirm that most Microfinance institutions in Uganda provide services ranging from training, savings and micro-credit. According to the Uganda Bureau of Statistics Report (2018), in Lira Municipality, there are many Microfinance Institutions which are fully operational: the Vision Fund, Pride Microfinance Limited, BRAC, Letshego, UgaFode, FINCA, and Bayport among others. All these institutions offer training on basic financial management, the provision of small loans to clients; savings and checking accounts; macro insurance and payment systems for clients who are saving money with them. Could there be any traceable impact of Microfinance Services on the level of household income of small scale traders? Generally, this study intends to establish the impact of micro finance on the level of household income of retail traders in Lira Municipality. The researchers prefer a 'Many-to-One approach' in the generation of specific objectives: (a) what are the demographic characteristics of microfinance's households beneficiaries in Lira Municipality?; (b) what impact does training have on the level of household income of small scale traders in Lira Municipality?; (c) what impact does savings have on the level of household income of retail traders in Lira Municipality? And (d) what impact does micro-credit on the level of household income of retail traders in Lira Municipality?

2. RESEARCH METHODOLOGY

Considering that Microfinance Services is the Independent Variable and Household Income is Dependent Variable, the paper presents majorly a qualitative report with a preference for a desk research. The study targets Cuk-Ebange village savings and loan association (VSLA) group and Pride Micro Finance Limited, Lira branch because of the availability of records that address the research objectives. The paper reviews secondary data which is extracted from the records of Cuk-Ebange VSLA Group and other literatures that address microfinance services and also tackle household income, and small scale traders or businesses.

3. RESULTS AND DISCUSSION

This section is presented within the framework of the four research questions, *viz.*: (a) what are the demographic characteristics of microfinance household beneficiaries in Lira Municipality? (b) What impact does training have on the level of household income of small scale traders in Lira Municipality? (c) What impact do savings have on the level of household income of retail traders in Lira Municipality? And (d) what impact does micro-credit on the level of household income of retail traders in Lira Municipality?

3.1 Demographic characteristics of microfinance beneficiaries

The records in Cuk-Ebange VSLA Group reveal that of the 30 members, there are 28 female and 02 male which translates to 93.3% and 6.7%, respectively. The record provided indicates that 19 is the minimum age of the group members, 63 is the maximum age and the average age of 32.9. This implies that more women are engaged in small scale businesses than men; and that Cuk-Ebange VSLA Group comprises of a youthful membership as being indicated by the average age of 32.9. This finding corresponds with research work by Sania (2013) in the India's South-Eastern City of Vijayawada which states that the microfinance project of 'saving up' is exemplified in the slums and comprised mainly of women... "this microfinance project functions as an unofficial banking system where Jyothi, a "female deposit collector", collects money from slum dwellers, mostly women, in order for them to accumulate savings. Jyothi does her rounds throughout the city, collecting Rs5 a day from people in the slums for 220 days, however not always 220 days in a row since these women do not always have the funds available to put them into savings. They ultimately end up with Rs1000 at the end of the process".

The record from Cuk-Ebange VSLA Group also shows the marital status of members where 20 are married, 02 divorced or separated, 01 is single and 07 are widows or widowers. The record further reflects on the education status of members in which 22 stopped in primary education, 07 reached at least a secondary level but 03 members did not attend to any formal school completely. At about 66.7%, the married members of the group signify that spouses undertake small-scale business than single persons. On the enterprises or businesses engaged, the record provides that three members are selling pan-cakes, one is having a restaurant, twelve are engaged in produce buying and selling, two operate commercial motorcycle (commonly known as Boda-boda) service, five sell second-hand clothes, two are operating saloon or hair dressing business and five are selling vegetables and fresh fruits. This bears an indication that there are many enterprises that could be undertaken, and such a trend points to the specialization by members of the group to avoid un-necessary

competition for buyers amongst them. On languages spoken or understood by the group members, three members can communicate verbally in Luo and Teso; fourteen can do that in English, Luo and Kiswahili; twelve are for English and Luo; and one is for English, Luo, Kiswahili, Luganda and Teso. The multi-lingual membership of this group signifies that they can communicate better to sellers and buyers of their goods or services.

3.2 The level of household income of small-scale traders

In this paper, training is conceived to mean “an act by Microfinance institutions to induct, prepare or guide small-scale traders on basic financial management; and business related skills and knowledge” (Karlan & Valdivia, 2011). The record reveals that training took place in two phases with the first being done before the group accessed any form of financial assistance from Pride Microfinance. Here, members are trained for 8 weeks at the group location in Cuk-Ebange market and each training sessions take a maximum of two hours. The second phase of training is done after the group accessed financial support and this is being done on every Mondays of all the new months for a maximum of one hour only at the group meeting venue in Cuk-Ebange market. This finding is in line with the literature by Karlan and Valdivia (2011) which states that by providing women with training before giving the initial capital, the women will be able to support themselves independent of men, in a manner which would encourage sustainable growth of enterprise and eventually a rise in household income.

These training of Cuk-Ebange VSAL group members is mainly on basic financial management and the most central theme is always record keeping which is deemed important to track the inflow and outflow of stock and cash in a business; capacity building which is important to enable group members to track important business events like losses, profits, risk, growth or stagnation of their enterprises. Training on how to manage expenditures is also undertaken. Training impacts positively on time keeping ethics by group members. During meeting hours for group activities, members are always very punctual and take exactly the stipulated time for such meetings before they return to their respective businesses. Record keeping and capacity building is also another impact of training. Members of the group always keep their individual records after the trainings are conducted. The group leaders always keep records of group transactions, for example records for the three years, namely 2015, 2016, and 2017 are properly kept. It is no wonder that Armendáriz and Szafarz (2011) made an observation that Micro financing produces many benefits for poverty stricken and low-income households through trainings because ‘Banks today simply will not extend loans to those with little to no assets, and generally do not engage in small size loans typically associated with micro financing if they are not trained’.

Enhancement of a sound financial discipline is also another impact of training. Tentatively, Cuk-Ebange VSLA group training impacts highly on members in that they are trained to diversify their earnings, avoid wasteful spending of their hard-earned money, re-invest their savings, and above all members are trained to prioritize their needs and expenditures. This finding is in compliance with the literature by Baker (2020) which states that “based on a comprehensive study of 1,700 small business owners in the United States of America, fewer than one in four owners of small businesses currently adopts all seven financial habits. Those who follow the best practices consistently outperform other small businesses based on annual revenue and report higher levels of satisfaction with their decision to be a small business owner”. These findings are agreement with Smith (2002) who observed that BRAC was ranked the number one NGO in the world in 2015 and 2016 by the Geneva-based NGO Advisor for putting emphasis on ‘training before lending’ to small scale businesses.

3.3 The level of household income of small-scale traders

The paper reveals that there are two types of savings that the group members practice. Rotated savings in which each member pays UGX 2,000 shillings daily to be collected and given to one of the 30 members who is determined by a lucky draw-scheme where a member who picks number 1 becomes the first to receive the 30 members’ daily collection. This is locally known as “*alulu*” in Luo or the ‘cash-round’ because all the group members must give their contribution to the collector and at the end of the 30 days, all the members shall have benefited from the scheme. As researchers, this saving scheme by Cuk-Ebange VSLA Group reminds us of the microfinance project of “saving through” in Nairobi, Kenya which includes a Rotating Savings and Credit Associations (ROSCAs) initiative. This, as described by Helms (2010) is an example of a small scale group of traders from which a woman in Nairobi narrated that “Everyday 15 women would save KSHS.100 shillings so there would be a lump sum of KSHS.1, 500 shillings and every day one of the 15 women would receive that lump sum. This would continue for 15 days and another woman within this group would receive the lump sum. At the end of the 15 days a new cycle would start. This ROSCA initiative is different from the “saving up” example above because there are no interest rates affiliated with the ROSCA; additionally everyone receives back what they put

forth. This initiative requires trust and social capital networks in order to work, and it allows for marginalized groups to receive a lump sum at one time in order to pay or save for specific needs they have". As researchers, it is prudent to believe that the scheme is equally promising to be adopted by local communities.

The second savings is known as "*bol-icap*" a Luo dialect which the group Chairperson loosely translates to mean 'drop or put it without expecting it back soon'. This saving scheme is done on every Mondays at Mid-day for about 30 minutes when the members meet to pay for their abled slot. A slot goes for UGX 2,000/= and there are a maximum of 5 slots to be saved on per day. A member is at liberty to save for any number of slots if he or she is financially Okayed. However, one cannot save pass the 5 slots because the space provided in the saving 'pass-book' is only for 5 slots. A stamp is always appended on the number of slots saved by members, and a cross is inserted on slots that a member fails to save for easy accountability on the savings of the day which is banked in-tack with Pride Microfinance Limited. In December every year, the savings are withdrawn to be distributed to members in accordance with the share rule that is stipulated in the group constitution and according to the number of slots or the amount of savings made by a member: the more slots you saved in such a year, the more savings you receive. According to Cooper (2015), approximately 665 million client accounts at over 3,000 institutions are serving people who are poorer. Of these accounts, 120 million were with institutions normally understood to practice microfinance. Reflecting the diverse historical roots of the movement, however, they also included postal savings banks (318 million accounts), state agricultural and development banks (172 million accounts), financial cooperatives and credit unions (35 million accounts) and specialized rural banks (19 million accounts).

Savings encourages the local people who had no interest in savings their money to do so; it reduces the greater risks of keeping money in places not recommended example burying it on the ground; and due accumulative savings by members of the group, there is an increased negotiating and purchasing power compared to non- group members. This finding from Cuk – Ebange VSLA group is in line with the words of Cooper (2015), which states that "a key aspect of the microfinance saving paradigm is that which places more attention on the efforts of poor people to reduce their money vulnerabilities by keeping more of what they earn and building up their assets". Another impact of saving on Cuk-Enange VSLA group is that it enables the group members to: handle emergencies; increase the level of their stock; and help the members to meet their daily household expenses like rent, food, clothing, health, and transport through the cash-round scheme. Rutherford and Arora (2009) confirm the findings of this study by recognizing a pivotal role of money saving in lives of the poor and in so doing so, it overturns the common misconception that they are 'too poor to save'. In a long run, saving impacts on Cuk- Ebange VSLA group members in that they are able to raise the literacy level in their households through paying school fees for their children; attainment of an improved standard of living; others had an increased household investment, for example purchase of land and construction of houses; and another impact is the development culture of hard work, unity and co-operation which savings with Microfinance is creating.

In a broader context, the saving culture by Cuk- Ebange VSLA group is the beginning of a great journey to 'Africanize' the culture of saving because statistics provided by Wright & Mutesasira (2015) gave Africa a low point in a regional analysis on savings with microfinance and found out that the highest concentration of saving accounts was in India (188 million accounts representing 18% of the total national population). The lowest concentrations were in Latin America and the Caribbean (14 million accounts representing 3% of the total population) and Africa (27 million accounts representing 4% of the total continent's population; and the highest rate of penetration in West Africa, and the highest growth rate in savings found to be in Eastern and Southern Africa).

3.4 The level of household income of small-scale traders

In this paper, micro-credit means "a small loan advanced to businesses which are not on large amount of millions, billions or trillions" (Sundaresan, 2008). In the group, there are two types of loan scheme: the internal borrowing which is within the group and is being given at the rate of 10% payable in three months by a member. In this scheme, the group leaders withdraw their savings from Pride Microfinance, the amount requested for by members to finance the members' loans. For example, if a member requests for UGX 300,000 from the group, this attracts an interest of 10% meaning that such a member pays UGX 330,000 as both principle and interest after the expiry of the three months. Another loan scheme is the group-guaranteed loan which has the following characteristics: It is given by Pride Microfinance limited; guaranteed by the group; Bank gives the group such a loan at an interest rate of 24% per annum; the group members share such a loan equally amongst members, for instance if the bank gives UGX 6,000,000 to the group, it is expected to be pay UGX 7,440,000 as principle and interest. The group later gives each member UGX 200,000 as loan which is repaid after 3

months at a group interest rate of 10%, meaning that each member pays back UGX 220,000 as principle and interest to the group.

In a year, a member signs for UGX 200,000 for about four times, hence he/she pays an interest of 20,000 for every 3 months that he/she receives which means that a member pays UGX 80,000 on top of the principle amount of UGX 200,000. In total, this transactions yields: UGX 280,000 by 30 group members which is UGX 840,000 and the group leaders later pays back the UGX 7,440,000/= which was principle of UGX 6,000,000 and interest of UGX 1,440,000. The group later remains with the excess profits of UGX 960,000 which they save from the bank's loan. The profit saved from the loan scheme is always distributed on equal share at the end of every year. As observed by Sundaresan (2008), "often, people do not have enough money when they face a need, so they borrow". This statement is in total agreement with the findings portrayed by the members of Cuk-Ebange VSAL Group. Impact of micro-credit on the level of household income of small scale traders in Lira Municipality is found to be the expansion and stabilization of enterprises because micro-credit serves the members as a stabilization fund. It also boosts the culture of hard work among members of the group because they have to work very hard in order pay back the loans. Co-operation and unity among members is also guaranteed by the scheme, and members also practice diversification to increase their fund base. These impacts of micro-credit accessed by members of Cuk-Ebange VSLA group comply with the literature by Sundaresan (2008) which states that "practitioners and donors from the charitable side of microfinance frequently argue for restricting microcredit to loans for productive purposes like starting or expanding a microenterprise".

4. CONCLUSION

This paper leads the two reearchers to conclude that Microfinance services work best in groups which are mainly youthful and comprised of women. The group which is engaged on different social enterprises can be better supported by Microfinance institutions. On the impacts of microfinance services on the level of household income of small scale traders, the paper concludes that training of members before any financial support is given to a group is much effective because it enables capacity of the group members to be built. Savings impacts on small scale traders by enabling the households to undertake investments in education and other permanent assets like land and building for the households, and that micro-credit impacts on household income by ensuring an increased opportunity towards the acquisition of stabilization fund, promotion of hard work ethics, co-operation and unity among group members in the long ran.

5. RECOMMENDATIONS

The paper recommends that microfinance institutions should endeavour to open-up more branches in up-country areas but not to concentrate their offices in few municipalities only. The existing Microfinance Institutions in Lira Municipality, and elsewhere should consider stepping-up the initiatives to reach out to many rural areas of Lira district but not to concertrate only in urban or peri-urban centres.

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