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ASSESSMENT OF MICROFINANCE SERVICES ON BUSINESS PERFORMANCE: "A CASE STUDY OF ARUA DISTRICT OF UGANDA"

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ABSTRACT

In 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 that are economically active, but financially constrained and vulnerable. Most of the studies so far focused on small and medium enterprises leaving out micro enterprises. This study aimed to assess the impact of microfinance services on the performance of small- scale businesses in Arua district in Uganda. The most of the services provided by microfinance institutions contributed greatly to the performance of small-scale businesses. The results show that the education, savings, insurance, training and the amount of loans have significant impact on the performance of small-scale businesses.

Keywords: Microfinance, *Microfinance Institutions, Performance, Micro and small-scale Businesses*
JEL Classification: *G23, C13, O55*

İŞLETME PERFORMANSINDA MİKROFİNANS HİZMETLERİNİN DEĞERLENDİRİLMESİ: "UGANDA'NIN ARUA KENTİNE BİR DURUM ÇALIŞMASI"

ÖZET

Son yıllarda, Uganda'da ve özellikle Arua bölgesinde mikro ve küçük-ölçekli işletmelerin sayısı hızla artmakta fakat bu işletmelerin sürekliliği için gereken sermaye miktarındaki yetersizlik politika geliştirenlerin ilgi odağı haline gelmiştir. Yetersiz sermaye problemini çözmek için, Uganda hükümeti, özelleştirme sürecinde ekonomik olarak aktif ancak finansal bakımdan kısıtlı ve hassas işletmelere mikrokredi, tasarruflar, sigorta ve girişimcilerin eğitimi gibi finansal hizmetlerin sağlanabilmesi amacıyla mikrofinans kuruluşlarının gelişimini teşvik etmektedir. Daha once yapılan çalışmaların çoğu mikro ve küçük ölçekli işletmeler yerine orta ölçekli girişimler üzerinde yoğunlaşmıştır. Bu çalışma,

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Research Article

mikrofinans hizmetlerinin Uganda'nın Arua bölgesinde küçük ölçekli işletmelerin performansları üzerindeki etkilerini değerlendirmektedir. Mikrofinans kuruluşlarınca sağlanan hizmetlerin çoğunun işletmelerin performanslarını olumlu yönde etkilediği görülmüştür. Analiz sonuçları, eğitim, tasarruf, hizmet-içi eğitim ve kredi miktarlarının küçük-ölçekli işletmelerin performanslarını önemli derecede etkilediğini göstermektedir.

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

JEL Sınıflandırması: *G23, C13, O55*

1. INTRODUCTION

One of the biggest challange 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 that cannot lend micro credits to small-scale businesses whose collaterals are not sufficient to match the needs for obtaining the loans. This is also coupled with the fact that few microfinance institutions established to offer micro credits, savings and insurance services to such micro entrepreneurs hardly reach the needy people due to information asymmetry. This study will focus on the impact of microfinance services on the performance of micro and small-scale businesses in Arua district of Uganda. 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 have limited access to financial services. There has been demand by the low-income micro entrepreneurs to have microfinance institutions to provide financial services to meet their demands

A great number of individuals in sub-Saharan Africa as in many Least Developing Countries (LDCs) have to live without having access to banking and financial services due to scarcity of such services. This has been one of the hindrances for such countries to lag behind. People who live in areas where the financial services are mostly lacking try to use microfinance in an effort to finance their small sized investments (Van Rooyen, Stewart, & De Wet, 2012). The population who are far away from reaching to financial services comprise a large portion of small and medium-sized businesses and are the backbone of private sector occupying 90 percent of enterprises worldwide. These small and medium sized businesses are also important in creating 50-60 percent employment opportunities in Uganda (Hobohm, 2001). 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. Uganda is striving to achieve the SDGs 2030 Agenda as well as it has a vision to transform its society from a peasant to a modern and prosperous one via microfinance institutions by 2040.

It is not clear whether all parts of the country has access to 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).

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). The closure of micro and small businesses comes with various consequences such as 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.

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. 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) stated in the 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.

A number of studies point out that 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 businesses are paramount in order to achieve the 2030 Sustainable Development Goals (SDGs). Therefore, financing micro and small-scale enterprises such as 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 microfinance services need close attention and supervision by stakeholders 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 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 a similar research carried out by (Babajide, 2012) in which the researcher employed panel data, 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, and 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.

Micro and small-scale businesses are direct clients of microfinance institutions for decades in Uganda and Arua district in particular. However, since the prospect of financial inclusion of these micro entrepreneurs, the existence of a limited number of research studies have been the motivation in studying 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 the district. The units for this assessment among many other performance indicators include employment, income and gender equity (Theophilus, 2011). Business performance indicators such as profitability, growth, customer satisfaction, employee satisfaction, social performance, and environmental performance are also relevant factors 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 that this 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 that microfinance services have on the performance indicators for measuring the performance of MSBs. Although some previous studies exist regarding the impact of microfinance services on its clients in Uganda, most of these 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. 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 effect 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.

2. LITERATURE REVIEW

Many scholars based on the services they offer to their clients have explained the characteristics of microfinance. 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 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). 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. 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.

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 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). 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.

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). 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.

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). 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. 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. 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)

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.

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.

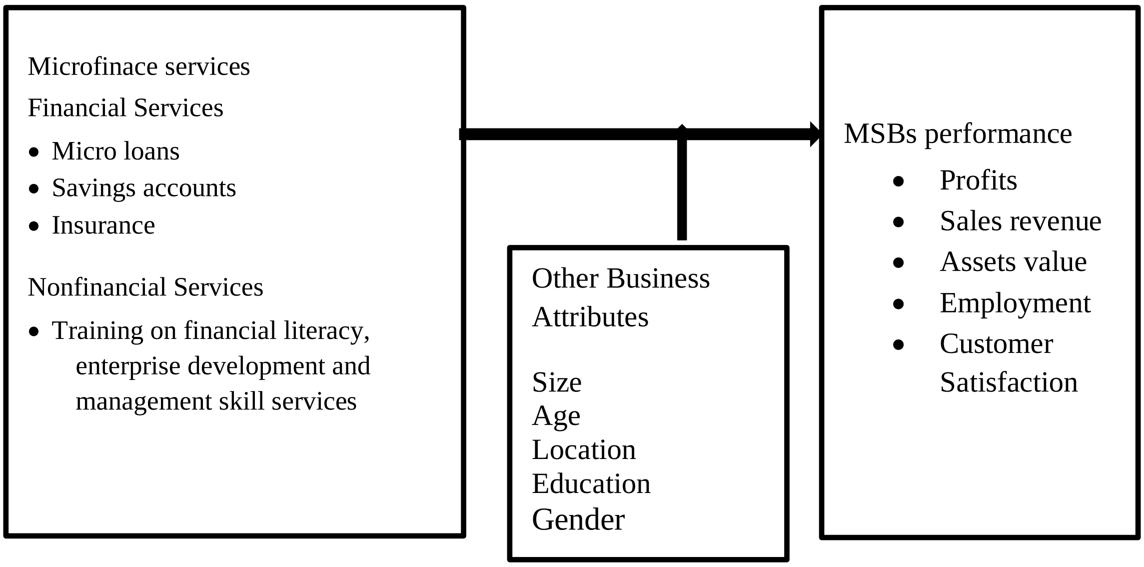
Carlton and Wien (2001) stated that due to the financial sector reforms of 1990s, many banks and bank branches were closed and as well as the drive for prudent operations and efficiency of the banking industry led to slow growth of micro and small enterprise sector in the country. Low-income population 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 has acted as a complementary service to commercial banking since 1990s. 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).

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 its 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. In a 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 study found that micro entrepreneurs received savings services, credit services and training services from the microfinance institutions and used these services to improve their business performance. Kaplan and Norton (2001) argued that the performance of a firm should not only be measured with financial factors, firm age, location, size and gender also be considered. Osunsan (2015) therefore, examined the impact of gender on business performance of small scale enterprises in Kampala, Uganda. Amran (2011) also conducted a study on the effect of owner's gender and age to firm performance in Malaysia using 182 listed companies on Bursa Malaysia over the period of 2003 to 2007. The results showed that there was a significant relationship between gender and performance but the study further stressed that and male owned enterprises performed better than the female owned businesses. These studies concluded that gender has significant effects on the performance of the small business and owner's gender and age do enhance company performance. Hassan (2011) 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. 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. 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.

Figure 1 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.

Figure 1: Conceptual Framework



3. RESEARCH METHODOLOGY

3.1. RESEARCH DESIGN AND LIMITATIONS

This study used cross-sectional micro level data. The data collected was non-repetitive data drawn from a specified population at a particular single period of time. 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. 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.

3.2. 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 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 that were found to have needed adjustments were corrected and final 250 questionnaires were distributed to the targeted respondents to get the raw data.

3.3. 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 analyzed based on primary survey data collected 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. The coded data was tabulated and analysed using Statistical Package for the Social Science (SPSS). This study also used a multiple regression model used by (Babajide & Taiwo, 2011) to measure the impact of microfinance and non-microfinance services on the performance of MSBs with some modifications as below:

$BP_{—} = a + b_1MC + b_2 SV + b_3TS + b_4MI + + b_6IR + b_7LE + U$

Where BP = Business performance (measured by revenue or profit levels)

Key Predictors

MC: Microcredit – Total amount of micro loan borrowed injected in the business.

SV: Savings – Total amount of savings made by the business

TS: Training services – Number of microfinance trainings attended by the business operator.

MI: Micro insurance cover taken by the business.

IR: Interest rates

LE: Level of education of the micro enterprise operator

U: The error term

A quantitative approach is employed 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 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.

Table 1: 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**

3.4. Business Characteristics of Respondents

In this section, the background and the business characteristics of micro and small-scale business, which participated in the survey is established. Identifying the background information about the micro and small scale business undertaken for the study, we 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 3 below shows the summary of the 200 sampled.

Table 3: 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**

4. FINDINGS AND ANALYSIS

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

The model in Table 4 shows the results of regression analysis for the impact assessment of microfinance services on the performance of MSBs that are based on revenues and / or sales.

Table 4: The Estimation Results Based on Revenue or Sales

Explanatory variables		**Coefficient**	**Prob. Value**
C		2.0023	0.0000
Education level		-0.2628***	0.0052
Savings		-0.1562*	0.0514
Interests rates		0.2304***	0.0081
Credit (Loans)		0.1458*	0.0600
Training		0.2101*	0.0871
Micro insurance		0.2198**	0.0107
R_2	0.3639	Durbin-Watson stat	1.8028

*,**, *** indicates statistical significance at 10 % , 5 % and 1 % levels respectively

The estimated results do not carry the problem of autocorrelation. The White test with cross terms of heteroskedasticity confirmed that there was heteroskedasticity. However, the robust estimates of the least squares method enabled us to have homoskedastic estimation results. The results show that the savings and the level of education are negatively related, while interest rates, the size of microcredit, insurance, and training are positively related with revenues.

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

The model in Table 5 shows the results of regression analysis for the impact assessment of microfinance services on the performance of MSBs that are based on net profit level.

Table 5: The Estimation Results Based on Net Profit Level

Explanatory variables		Coefficient	Prob. Value
C		1.4811	0.0000
Education level		-0.2802*	0.0003
Savings		0.2260*	0.0006
Interests rates		0.1767**	0.0121
Credit (Loans)		0.2164*	0.0006
Training		0.3978*	0.0001
Micro insurance		-0.1922*	0.0060
R_2	0.5904	Durbin-Watson stat	2.0852

,* indicates statistical significance at 5 % and 1 % levels respectively

The regression results are free of violations of basic assumptions of the least squares method. In economic sense, the results of these regressions came out consistently with our expectations and also similar to the findings reported by (Amran, 2011; Babajide & Taiwo, 2011; Kaplan & Norton, 2001; Osunsan, 2015). 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. The level of education was found to have negative impact on the performance of MSBs as reported by (Babajide & Taiwo, 2011) as well.

5. CONCLUSIONS AND DIRECTION FOR FUTURE RESEARCH

This 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 services 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 of the micro and small scale businesses in the district. The study was a case study in which questionnaire was the major instrument used for the necessary data collection.

The results indicated that the 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 sources other than microfinance microloans. The males mostly access the microfinance services and this makes them dominant to their female counterparts in businesses.

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 empowering the poor and vulnerable communities with most capital needed at relatively lower interest rates.

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 revenues. 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. The lower participation rate of youth may be due to fear of taking risks and the lack of business experience. The lower rate of participation of women indicates that there may be some barriers in their participation and the lack of courage.

Micro and small-scale businesses with 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 up employed some people after becoming microfinance client. This clearly implies that microfinance institutions contribute greatly to expansion of businesses and the growth.

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.

Microfinance institutions should make clarity in their terms and conditions regarding their services such as micro loans. Most micro and small scale business have been a victim of not being 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. This study also recommends that microfinance instructions should make their clients aware of the loan terms and conditions before proceeding to loan procession.

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. This study, therefore, recommends that if the commercial banks develop products that fit 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 business units should be given 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 basic amenities to attract more investors such as microfinance institutions to such areas.

The government needs to embark on Research and Development regarding implementation policies of microfinance and micro and small-scale businesses in the country. This will help to give proper information on which areas to invest such resources given that they are scare. Youths should be encouraged to take microfinance loans and venture into other income generating activities.

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