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Title : Relationship between Micro-Finance Development Loans and the Social-Economic Well-being of SACCO Members in Buhweju, Ibanda and Kamwenge Districts of Rural Uganda

By

Dr. Mawanda Michael Maranga,

School of Business & Economics, Atlantic International University, Pioneer Plaza, 900 Fort Street Mall 905, Honolulu, Hawaii 96813, USA

Abstract

The study titled 'Relationship between Micro-Finance Development loans and Social-Economic Wellbeing of SACCO members. The study specific research objective was to establish the relationship between development loans and the socio-economic wellbeing of SACCO members. The study adopted a cross sectional design to gather data using questionnaire and interview guide as well as documentary review guide. SPSS was used to analyse data. The study found out that development loans of SACCO were not significantly related to socio-economic wellbeing of members. Although there was development loans acquisition among SACCO members, there was no significantly improvement in socio-economic wellbeing of members. This was because not every member took up development loans since these kinds of loans are only optional. Many members therefore don't take them up for fear of interests and repayment repercussions accruing therefrom The study recommends that SACCO should reduce on the loan interest rates.

Keywords: Micro-Finance, Development Loans, Social-Economic Wellbeing, SACCO

Background to the Study

SACCOs have a relatively short but rich history tracing their origins from the Western World especially in Europe particularly in Germany with the popular Savings and Credit Cooperative League (SACCOL) of the 20th Century (Diagne, 2000). In Africa the introduction of SACCOs waited until 1900, having been introduced in South Africa from Netherlands (Barnes, et al., 2008). The effectiveness of the SACCOs in aiding socio-economic transformation across continents has since compelled international development partners and local agencies to adopt SACCOs as poverty eradication instruments. This tool is equally emphasized in Millennium Development Goals (MDGs) targeting to halve global poverty by 2025. In Egypt, for decades, the Egyptian SACCOs got involved in several business undertakings, from which the proceeds have been used to uplift the socio-economic welfare of people and dependents in Egypt, earning its self the acclaim of a formidable economy in Africa and one of the best in the world (Adelaide, 2015).

In Kenya, President Uhuru Kenyatta highlighted the need to look after the welfare of Kenya population. The president acknowledged the challenges that the people face, adding that the government will increase its support for Kenya's population. However, in both Egypt and Kenya, many people are still unable to cope with their day to day social-economic demands, such as health care, good accommodation, agricultural productivity and financial savings, among others (Adelaide, 2015). In Rwanda, the government works to improve peoples' welfare; this is why for 2014-2015 financial year, Rwf1.2billion was spent in improving peoples' welfare (Gahiji, 2015). Monthly allowance that had been given to people would increase from Rwf16000 to Rwf22000, signifying a 38 percent (Gahiji, 2015). However, certain gaps still remain in people' socio-economic wellbeing in Rwanda since many people are unable to cope with their day to day social-economic demands, such as affordable health care, housing conditions, nutrition and personal incomes. In Uganda, Savings and Credit Societies were started in 1960's mainly through the effort of churches (Katimbo-Mugwanya, 2019). Although initially the Government of Uganda was doubtful about their viability, in the mid 1970's doubts had evaporated and Government thereafter provided active support for Savings and Credit Societies in both urban and rural areas (Katimbo-Mugwanya, 2019). The Sustainable Livelihoods Approach (SLA) known as the sustainable livelihoods or SL approach) is a method of analyzing and changing the lives of people experiencing poverty and disadvantage (Lasse Krantz, 2021). The approach assumes that the livelihood comprises the capabilities, assets (including both material and social resources) and activities required for a means of living. A livelihood is sustainable when it can cope with and recover from stresses and shocks and maintain or enhance its capabilities and assets both now and in the future, while not undermining the natural resource base.

SACCOs are Micro Financial Institutions (MFIs) that offer handy financial services especially saving and 'soft' credit to clients by rotating saving among members (Hulme, 2000). In this study, the effect of Microfinance services was measured by development loans advanced to the people.

Microfinance pertain to the leading of small amount of capital to poor entrepreneurs in order to create a mechanism to alleviate poverty by providing the poor and destitute the resources that are available at a small scale (Adelaide, 2015).

Statement of the Problem

Despite the attempts by SACCO to enhance development among its members through development loans, there is still evident low levels of social-economic wellbeing, characterized by hunger, poor dressing, poor accommodation facilities, and lack of access to quality health services as well as competitive education services, coupled with low house hold incomes, low small scale enterprises, low agricultural production among the members (Lumu, 2015). Unless the social-economic wellbeing of people and their relatives is effectively guaranteed, the country is likely to see a demotivated work force, where many members may continue to lack real access to basic welfare services, hence the need for this study.

General Objective

To assess the relationship between development loans and the socio-economic wellbeing of SACCO members in the rural districts of Buhweju, Ibanda and Kamwenge - Rural Uganda.

Specific Objective

To establish the relationship between development loans and the socio-economic wellbeing of SACCO members.

Research Hypothesis

Development loans have no effect on the socio-economic wellbeing of SACCO members.

Development loans and socio-economic wellbeing of SACCO members Loans are borrowed funds by the clients with specified term and conditions of repayment (Tayebwa, 2023). However micro-finance institutions provide such credit facilities in small proportions and mainly for business related purposes, thus in the long run reducing levels of poverty among the population (Tayebwa, 2023). SACCOs provide development loans, such as, Housing loan, Business investment loan, Agriculture loan, Asset loans. Quick Loans are loans meant to solve current problems to members, such as School fees loans, Health, Clothing, and Food. Many SACCOs provide such loans on small scale basis, but also with interest (GTZ, 2020). Group-based lending is one of the novelest approaches of lending small amounts of money to a large number of clients who cannot offer collateral for loans. The size of the group depends, but most groups have between four to eight members. The group self-selects its members before acquiring a loan. Loans are granted to selected member (s) of the group first and then to the rest of the members. Most SACCOs require a percentage of the loan that is supposed to be saved in advance, which points out the ability to make regular payments and serve as collateral. Group members are jointly accountable for the repayment of each other's loans and usually meet weekly to collect repayments. To ensure repayment, peer pressure and joint liability works very well. The entire group will be disqualified and will not be eligible for further loans, even if one member of the group became a defaulter. The creditworthiness of the borrower is therefore determined by the members rather than by the SACCOs (Tayebwa, 2023).

SACCOs are very much instrumental in bring about social-economic wellbeing among members.

This transformation ranges from acquiring valuable assets in homes, business investment and boosting, to increased financial incomes at household level. These are achieved amidst several challenges, such as high interest rates, loan default on some members and inaccessibility to the loan services by some members due to several reasons such as geographical locations and institutional impediments. However, the review is generic and silent on how micro-finance services affect wellbeing of SACCO members. This left a research gap, both contextual and theoretical, which this study covered by investigating the relationship between Micro-Finance Services and the socio-economic wellbeing of SACCO members in the rural districts of Buhweju, Ibanda and Kamwenge.

Research Design

The study used a cross sectional research design where both quantitative and qualitative approaches of data collection were employed (Amin, 2015).

Study Population

The study involved SACCO members and their families, and staff of Uganda's Ministry of Finance, Planning and Economic Development. The study targeted 4800 people and these constituted the parent/target population from which the sample size was selected. Only respondents found in geographical location of the study area, and who meet the eligibility criteria were involved. Therefore, this mix of respondents provided adequate information as required by the study.

Sample Size determination

A sample size of 397 respondents was involved in the study. According to Krejcie and Morgan (1970), a sample size of 397 suffices for a population 48000 elements.

Therefore, a sample size of 397 respondents was appropriate to provide representative information.

Sampling Techniques

Both simple random sampling and purposive sampling techniques were used in the selection of respondents

Data Collection Instruments / tools

A self-administered questionnaire and interview guide were mainly used to collect primary data.

Data analysis

The Statistical Package for Social Scientists (SPSS) was used to analyze quantitative data, while qualitative data was analyzed through content and thematic analysis by categorizing each of the interview responses under common ideas and topics, with paraphrasing and direct quotation of responses in a narrative manner (Amin, 2015).

Limitations to the Study

The study was carried out on only a few selected respondents which may limit generalizing the findings. However, by ensuring validity and reliability of the research instruments, the researcher ensured that the findings are not only valid but also reliable. Besides, primary data findings were augmented with findings from secondary data sources such as documentary review and practical observation results.

Findings

Correlation analysis

Pearson correlation co-efficient test results between development loans of SACCO and socioeconomic wellbeing of members

		Development loans	Socio-economic wellbeing
Development loans	Pearson Correlation	1	-.011
	Sig. (2-tailed)		.828
	N	392	392
Socio-economic wellbeing	Pearson Correlation	-.011	1
	Sig. (2-tailed)	.828	
	N	392	392

**. Correlation is significant at the 0.05 level (2-tailed).

According to Pearson results, it was revealed that there is a negative significant relationship between development loans of SACCO and socio-economic wellbeing of members. However, the negative relationship is relatively high. The significance value (P = 0.828) which is bigger than the alpha value 0.05 suggests that development loans of SACCO was not significantly related to socio-economic wellbeing of members. This means that although there was development loans acquisition among SACCO members, there was no significant improvement in socio-economic wellbeing of members, such as building housing, animal rearing, clothing, health/treatment and poultry keeping and where there were no development loans the results were positive on members health conditions, education and others. This was possibly because not every member took up development loans since these kinds of loans are only optional. Many members therefore don't take them up for fear of interests and repayment repercussions accruing therefrom. Other people also opt for other loans such as quick loans. Others also prefer to use their mandatory savings in the SACCO. Therefore, the null hypothesis which stated that development loans of SACCO have no significant contribution on the socio-economic wellbeing of SACCO members was adopted.

Descriptive statistics on development loans

Item	N	Minimum	Maximum	Mean	Std. Deviation
What is the maturity date of Loans in SACCO?	392	1.00	6.00	1.5102	1.05350
What is the loan payment period in the SACCO?	392	1.00	5.00	4.4056	1.07102
Which one of the following loan categories do you receive in the SACCO?	392	1.00	5.00	3.9617	1.27581
What is the purpose of the loan?	392	1.00	6.00	3.9235	1.53868
Describe the interest rate charged to customers in SACCO?	392	1.00	3.00	1.8444	.64667
Valid N (listwise)	392				

The descriptive statistics table above indicates that many means were below 4; this implied that many of the items associated with development loans were not significantly contributing to socio-economic well-being of SACCO members; there could have been other factors then. However, of unique importance, some items of development loans were significantly related and others fairly related to the dependent variable, for instance the loan payment period in the SACCO (4.4056) indicated high positive contribution while the purpose of the loan (3.9235) and loan categories the members receive in the SACCO (3.9617) showed a fair contribution. The standard deviations were also below 2, which implied a low impact of the items on socio-economic well-being of SACCO members.

Discussion, Conclusions And Recommendations

The study found out that there is a negative relationship between development loans of SACCO and socio-economic indwelling of members where (r = -.011; sig. value. 828>0.05). This means that the existence of development loans aspects such as moderate interest rate charged on members, acquisition of different loans such as asset financing.

However, the study found that some of the strategies undertaken by SACCOs were instead a hindering factor to the development of women, for instance, the high interest loans charged, domination of men in the SACCO activities, and lack of adequate information to members. Some women had also not joined due to poor mobilization strategies undertaken by the SACCO, hence leaving out such women in vital development projects. The concept of Micro Finance Institutions was not a new phenomenon to women surveyed under the study; it was at least known to most people (exceeding 95%) of the respondents. This indicated that people knew that Micro Finance Institutions existed all over the country.

Development loans such as asset financing, agriculture loan, Nyumba loan, Biashara loan and quick loan that the SACCO allows its members to get is in line with GTZ (2020) who stated that SACCOs provide development loans, such as, housing loan, business investment loan, agriculture loan, asset loans and quick loans meant to solve current problems to members, such as School fees loans, Health, Clothing, and Food. Many SACCOs provide such loans on small scale basis, but also with interest.

The moderate interest rate charged to development loans by the SACCO is not in line with Mary et al (2014) who said that micro finance services charge high interest rates of about 30-60% in various parts of the world due to high cost of operation in staff cost identifying clients processing loan monitoring and follow-ups.

The study found that some development loans involve large sum of money the payment period was long compared to small loans in the financial institutions. Members reported the following challenges in getting and paying back development loans such as: delay in processing loan, high interest charged and price fluctuation of products which make it hard to repay in time and short period of time given to repay the loan. However, the challenge with financial asset loans is that they tend to be long term and require big collateral to be advanced, and for those members who cannot afford it, their social-economic wellbeing is negatively affected. This was found in contrast with MFPED (2022) report which found out that Uganda is a country with the most vibrant and successful microfinance industry in Africa. Some SACCOs have experienced strong growth and are now reaching a considerable number of clients, with three serving between 25,000 and 45,000 clients. A number of microfinance providers are close to financial sustainability or have already sur-passed it. MFPED (2022) report demonstrated that the provision of micro-finance services contributes to reduced client-vulnerability to economic risks, results in strengthening linkages of clients and their households to the agricultural sector, and enables clients to acquire valued skills. Moreover, all observers agree that the success of SACCOs in Uganda is closely linked to a number of enabling contextual factors specific to the country, such as easy SACCO formation and membership procedures. Yet, their contribution to the social-economic wellbeing of rural women has not been proportionally been felt across the country sides.

Conclusions

Development loans of SACCO were not significantly related to socio-economic wellbeing of members. This means that although there was development loans acquisition among SACCO members, there was no significantly improvement in socio-economic wellbeing of members. This was possibly for the reason that not every member took up development loans since these kinds of loans are only optional. Many members therefore don't take them up for fear of interests and repayment repercussions accruing therefrom. Other people also opt for other loans such as quick loans. Others also prefer to use their mandatory savings in the SACCO. However, lack of adequate collateral security and other assets required as security for one to acquire a loan also hinder people from getting the loans. Many people don't have enough land that can be valued to enable one acquire a loan to get engaged in development activities. Most people fear to utilize these Micro Finance Institutions, in particular SACCOs because of the high interest rates charged on the borrowed funds that are tricky for people to regenerate and pay back in a short period specified by the institution.

Recommendations

The study recommends that SACCO should reduce on the loan interest rate from the current 15% to at least 5%. This will enable members to remain with a considerably bigger amount of money which they can invest in productive projects such as housing, agriculture to improve on their social-economic wellbeing, since this loan money is just part of their own savings with the SACCO. Through additional services to members in SACCO such as marketing, project planning, monitoring and budgeting SACCO should offer financial investment advice to all members before they are given loans. Members should be introduced to different approaches of investment in that they are able to invest well such as long -term investment approach, short-term and by advising them to select the appropriate approach. This shall help members of SACCOs to avoid undertaking over ambitious projects which they may not accomplish in time.

Massive sensitization, mobilization and community education for the masses should be carried out by the scheme to provide reliable information on the good effects of SACCOs. This will provide enough light to the population on the good services offered by the scheme and how it is helpful in overcoming poverty.

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