View metadata, citation and similar papers at core.ac.uk

brought to you by CORE

provided by GSSRR.ORG: International Journals: Publishing Research Papers in all Fields

International Journal of Sciences: Basic and Applied Research (IJSBAR)

ISSN 2307-4531
(Print & Online)

http://gssrr.org/index.php?journal=JournalOfBasicAndApplied

Challenges Facing Female Headed Households in Accessing and Utilizing Microfinance Lending among Selected Municipalities of South West Uganda

John Busingye[a*], Charles Tushabomwe Kazooba[b], Manasseh Tumuhimbise[c]

[a]Ibanda university, [b]Mbarara University of Science and Technology, [c]Mbarara University of Science and Technology

[a]Email: johnbusingye@gmail.com

[b]Email: tkazooba@must.ac.ug

[c]Email: tumuhimbise.manasseh@must.ac.ug

Abstract

Sub-Saharan Africa is characterized by gender inequality in the form of income, health, education, employment and human rights; suggesting that efforts aimed at reducing extreme poverty benefit males relatively more than females. Access to microfinance is one single factor identified to contribute to reduction in gender inequality. However, female headed households continue to be excluded from utilizing microfinance services either due to their relatively low income levels and lack of assets as collateral. The central question of this paper is whether increased access to microfinance leads to reduction of poverty among female headed households in selected municipalities of south west Uganda. This paper contributes to the existing literature by examining the local context faced by female headed households; in relation to ownership of household assets, health and education expenditures. The study was carried out in Mbarara and Bushenyi-Ishaka Municipalities. Data was collected from a total of 209 respondents by use of questionnaires, interviews and focused group discussions.The study reveals that female headed household face accessibility challenges like bureaucracy, limited collateral security, discrimination, loan delays and high cost of borrowing. Challenges related to loan utilization included group tension over loan repayment, loan terms, grace period, interest rates, fines and penalties.

---

* Corresponding author.

There is need for government intervention so as to embrace flexible lending policies and accommodate the gender needs and challenges of FHH borrowers. The study findings will be used by policy and development planners to redesign microfinance strategies aimed at improving the plight of the marginalized groups like women in FHH.

Key words: Challenges; Microfinance Institutions; Female Headed Households and Poverty reduction.

1. Introduction

The constraints facing the poor is lack of access to formal sector funds to enable them to take advantage of economic opportunities to increase their level of output, hence move out of poverty [1] Microfinance was established so as to help those who cannot access the services of commercial banks because they lack security to mortgage. Among them is the Female Headed Households (FHHs) who are said to be the poorest of the poor who toil but do not benefit optimally from their labour [2]. It can however be argued that women's access to microcredit through participation in income generating activities in the informal sector is not a way of breaking the structure of control facing many poor women. Change in one dimension alone, however significant it may be, is insufficient by itself to bring major improvement in the position of women. Income generating activities aim to rectify income poverty, leaving untouched the gender, cultural and patriarchal relations which determine and discrimination against resource access and distribution among women. More wide-ranging strategies are necessary, based not on individual women's informal networks and associations, but on organizational forms of collective pressure to tackle gender biases within society. Studies have shown that compared to men, women generally have more limited social and business networks of the type that facilitate access to financial services and income [3]. Moreover, in order to balance the equation, there is a need to study female headed households' responses to the social injustices not of their own making. The interest in the household in this study stems from the desire to understand how female headed households' access and utilize microfinance in situations of economic and social adversity. The household is examined as a major site of women's oppression, and is a mediating variable not only between money and microfinance but also within the social relations that mediate decision making in society.The purpose of this study is therefore to examine the gender differential access to and utilization of micro-credit at the household level. The study also aims at suggesting Remedial actions as "best practices" to be adopted by microfinance stakeholders so as to reduce income inequality and urban poverty in Uganda and elsewhere in the developing countries. The survey in the two municipalities of Mbarara and Bushenyi-Ishaka in Western Uganda were carried out, challenges faced by Microfinance Female Headed Household clients and some remedial measures are discussed therein. Hopefully, this knowledge could help in mapping out the strategic measures for tackling the number of challenges faced by Microfinance female clients thereby contributing to poverty reduction, one of the development goals needed today.

2. Methodology

2.1. Study areas and population

The study areas are Mbarara and Bushenyi-Ishaka municipalities located in south western Uganda. Mbarara municipality is a main commercial centre and houses the political and administrative headquarters of Mbarara district with the population of 195,013 of which 52,923 females and 26 % are poor (UBOS, 2014). On the other hand Bushenyi and Ishaka were formerly towns within the same proximity that were merged to form Bushenyi-Ishaka Municipality. The municipality has a population of 41063 [4]. The municipality houses the administrative headquarters of Bushenyi district. Both towns have informal and formal business enterprises attracting establishment of microfinance institutions to give loans to small and medium enterprise operators. The two particular towns were chosen because of their close proximity, the observed increased economic activities in terms of new buildings, schools, hotels and restaurants among others as well as the establishment of microfinance institutions amidst poor housing facilities, low rate of business expansion, poor health and sanitation conditions and patriarchal tendencies.

2.2. Data collection

Data was collected from 209 microfinance female clients who also double as household female heads by interviewing them. Of these 97 (53.3 %) were from Mbarara and 85 (46.7 %) from Bushenyi-ishaka. Respondents were chosen using simple random sampling. MIFs were chosen by random sampling. Three methods were mainly employed in primary data collection. These are in-depth interviews, questionnaire and focused group discussion methods. Data from Mbarara and Bushenyi- Ishaka was collected using field tested questionnaires, interviews as well as focus group discussion. Data from female headed households (MFIs clients) was collected using questionnaires that were filled by them. One focus group was organized in Bushenyi- Ishaka attended by 6 women group leaders and one in Mbarara attended by 5 women group leaders. Microfinance loans officers and managers were interviewed. Seven (7) in Bushenyi participated in the interview, five (5) were loans officers while two were managers. As for Mbarara, 9 of them participated, 2 were microfinance managers while seven (7) were loans officers. It took 10 days to collect data from both towns.

2.3. limitations of the study

The study had geographical limitations. The study was conducted only in two municipalities of Mbarara and Bushenyi-Ishaka municipalities in western Uganda, yet the country has 22 municipalities, 174 town councils and 204 town boards (UBOS, 2014), all which reflect an urban setting in the country. The study would have been conducted on a countrywide geographical scope, in all the municipalities, towns and town boards. However, time and other logistical issues were not in the abundantly available to me. Nevertheless, I used the resources available effectively and efficiently with in the period scheduled to conduct the study. Household income and business information are, in most cases considered private and confidential. That could explain why some women looked reluctant to participate in the data collection exercise. However, I was able to convince them, and they provided information that I wanted. Nevertheless, their reluctance could in any way have affected the data.

3. Presentation of research findings

There was a very high response rate of the survey. All the one hundred eighty two (182) representing 100% of the respondents participated in filling the questionnaires. The high response rate was due to the fact that most of the questionnaires were filled on spot in the presence of research Assistants and principle investigator. The views of the respondents formed a basis for this research.

3.1.Challenges Faced While Accessing Loans and Business Performance

Respondents were asked to give the challenges that were affecting them while accessing loans and how their businesses performed. The respondents' views are presented in table 1 below:

Table 1: Challenges Faced While Accessing Loans and Business Performance

	Business performance		
challenges faced in accessing loans	Fairly Well (%)	Well (%)	Very well (%)
Bureaucracy	61.7	31.7	6.7
Limited collateral security	44.1	51.1	4.4
Corrupt officials		100.0	
Discrimination	66.7	33.3	
Delays	38.8	44.8	16.4
Initial expenses	50.0	50.0	
	Chi2=0.009	**Pr=0.167**	

Source: Field data 2015

4. Discussion of research findings

Bureaucracy was reported (61.7 %) to be one of the challenges affecting loan accessibility among the FHHs borrowers. Borrowers went through a lot of procedures before accessing loans. It involved a lot of paperwork like filling different forms of document, looking for guarantors, Local Council authorities, obtaining recommendations from the employers, collect signatures and photographs of the guarantors. The study found out that there procedures and delays in processing loan applications, evaluation of applicants' projects, assessment of the values of the collateral provided as well as verification of the sureties. These processes require a number of visits to the microfinance offices and looking for guarantors and recommendations letters. This discourages the applicants and sometimes dropped out before they obtain loans. It also has a cost implication.

Limited collateral security was a hindrance to women's access to microfinance loans. It is worth noting that collateral security is a pre-requisite for individual borrowers to access microfinance loans. This affects women from accessing big loan volumes for long term investments that could make long term income change. For example in one of the focused group discussions clients reported that one needs to have a land title in order to access a loan of ten million Uganda shillings while one needs an original land agreement in order to access more than one million Uganda shillings. In simple terms women lack property to mortgage so as to access loans.

Corrupt loans officers within MFIs extort money from women borrowers as reported by one of the respondents during FGDs in Mbarara municipality. One has to bribe the loans officers before the application form is approved for obtaining a loan. The practice not only makes it difficult to borrow but expensive as well. Corruption in a way exploits the clients, demoralizes them and increases on the cost of obtaining loans. Study findings show that among those whose businesses were performing fairly well, 100 % indicated corrupt loans officers as a challenge. The study established that although women were able to access services from MFIs. There are some constraints faced in accessing the loans. Fifty percent of the total respondents reported bout initial expenses as being too high for the poor FHHs to manage. It was found out that one was required to pay much more money to access a loan in Mbarara municipality which is purely urban that in Bushenyi-Ishaka peri-urban area. The reason is among others high cost of rent in Mbarara municipality. Table 2 below shows the loan requirements in the two study areas:

Table 2: Requirements for one to access a loan in Mbarara (MM) and Bushenyi-Ishaka (BIM) municipalities

Loan requirements	**MM**	**BIM**
Account opening	25,000	20,000
Membership fees	20,000	20,000
Passbook	5,000	5,000
Stationary	10,000	10,000
Loan application form	10,000	10,000
TOTAL	**70,000 UG.SHS**	**65,000 UG. SHS**

Source: Field Data, 2015

The study also found out that MFI charge Loan processing fees (LPF) of 4 % per loan, 10 % forced savings, 10 % of the loan is retained by the lending institution as loan security on top of collateral. FHHs are poor as such cannot fulfil such terms and conditions for loan accessibility.

4.1.Challenges affecting utilization of microfinance loans

The findings on Challenges affecting utilization of microfinance loans are presented in the table 3 below:

Table 3: Challenges Faced when Utilizing Loans and how businesses performed

challenges faced when utilizing loans	Fairly well (%)	Well (%)	Very well (%)
Group tension over loan repayment	53.8	33.8	12.3
Limited grace period	39.4	51.5	9.1
failure of loan repayment	51.4	40.0	8.6
Fines and penalties	37.5	56.2	6.2
high interest rate	52.4	42.9	4.8
Loan diversion	58.3	33.3	8.3
	Chi2=0.08	**Pr=0.57**	

Source: Survey, 2015

In terms of utilization challenges, Group tension over loan repayment, was reported to be high. Most female household heads do not access individual loans so because they cannot find anyone to guarantee them since everybody knows they are at a high risk of failing to pay the loans on a regular basis. Such circumstances force women borrowers into forced groups called joint liability groups meaning that they are jointly reliable for one particular loan. Loans are extended to them in groups although each individual receives a loan on her own. The idea is not to promote the spirit of togetherness but to ensure those women guarantee each other simply because they do not have substantial sureties to guarantee their loans in case they default. Note that in most microfinance institutions in the study areas, loan repayments are scheduled per week and groups meet in one particular hour and place to collect the instalments in a pool which they submit to the loans officers or the chairperson of their group who also submits to the loans officers. The fact remains that people cannot be ready to make weekly repayments at the sometime. If one member misses in one particular meeting the rest of the members in a group have to pool from their pockets so as to pay for the member who is absent. Such situation however, puts the borrowers into a state of quagmire.

Respondents reported lack of grace period. The time lag from the date of loan disbursement and the actual time when one starts to pay the loan was short. The borrower is required to begin loan repayment after one week or one month. It was reported to be a too short time to allow one to settle down for any business activity. This has sometimes resulted into searching for money elsewhere to pay the loans, resulting into multiple borrowing or borrowing from money lenders. This has increased the rate of loan defaulting by the borrowers or pay with difficulties. For example, a respondent business woman in Mbarara central market received a loan used to rear pigs that mature after six months. She had to use other sources to pay the loan but with difficulties of course. Another one used the loan money to rear chicken, but also ended up selling them before the maturity period because she couldn't contain pressure from microfinance officials.

Fines and penalties as a result of rigidity and strict policies of MFIs affect the borrowers' business performance as reported by 37.5 % of the total respondents. Withdrawal charges, administration fees. Loan processing fees, Purchase of forced shares. Fines, penalties charged on their clients for skipping payment schedules. This makes the cost of servicing the loan high, sometimes resulting into defaulting. Sometimes the borrowers are not communicated to so they only get to know about these deductions when they take their passbooks for updating. The study also found out that high interest rates were a major hindrance to the success of microfinance in dealing with microfinance loans. Currently, interest rates charged by MFIs are slightly higher than the one charged by Uganda's commercial banks that lend at 22 % interest rate per annum, as at 1st July 2016**,** (www.google.com) and lending institutions charge between 24-27% per month as told by a loans officer in one of the lending institutions. One of the loans officers who preferred her identity not to be mentioned told us that the interest charged by their Microfinance charge 48 % interest per annum. 52.4 % of the total respondents who consented to high interest rates are unaffordable given their current economic status. This explains the poor performance of women's informal businesses. Generally, findings indicate that there is ineffective access and utilization of microfinance services. The views of the respondents are considered vital because borrowers are the final consumers of microfinance services.

5. Comparison

The study was carried out in Mbarara (MM) and Bushenyi-Ishaka (BIM) municipalities. There is need to establish FHHs borrowers in different study areas were affected in the same way. Anova test below was used to find out if the challenges are the same or not.

Table 4

Challenges faced by FHH in accessing and utilizing microfinance loans	Location	SA	A	N	D	SD
	MMC	43.6	26.3	11	19.1	6
	BIMC	41.8	36.7	4.7	16.8	4.7

ANOVA

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	213.444	1	213.444	3.251118	0.109038	5.317655
Within Groups	525.22	8	65.6525			
Total	**738.664**	**9**				

After carrying out ANOVA test I found out that borrowers in the two study areas were affected in the same way since the P-value **(0.109038)** is greater than **0.05**. The difference is not statistically significant. Similarly, the two categories of challenges were studied i.e. challenges associated with loan accessibility and challenges associated with loan utilization and their influenced on business performance.

Correlation between problems faced while accessing loans and how business performed

Table 5

			Problems faced in accessing credit	How the business performed
Spearman's rho	Problems faced in accessing credit	Correlation Coefficient	1.000	**-.039**
		Sig. (2-tailed)	.	**.603**
		N	181	181
	how has the business performed	Correlation Coefficient	**0.084**	1.000
		Sig. (2-tailed)	.603	.
		N	181	182

The level of association is statistically significant since Pr= **0.084**. This is more than the critical number **0.05**, this implies that problems faced by microfinance borrowers while utilizing loans affected business performance. Therefore, when dealing with challenges affecting borrowers, focus should be on utilization challenges because they affect borrowers most.

Correlation between problems faced while using loans and Business performance

Table 6

			Problem faced when using loans	How the business performed
Spearman's rho	Problem faced when using loans	Correlation Coefficient	1.000	**-.084**
		Sig. (2-tailed)	.	**.262**
		N	182	182
	how has the business performed	Correlation Coefficient	**0.039**	1.000
		Sig. (2-tailed)	**.262**	.
		N	**182**	182

The association between loan utilization and business performance is statistically significant since P-value=. **0.039.** This is less than the critical number which is 0.05. Therefore problems faced when using loans affects business performance.

6. Strategies for improving microfinance services

Reduce interest rates, stop fines and penalties because they affect utilization of loans therefore affecting borrower's business performance. The majority 95.3 % of the borrowers whose businesses were not performing very well indicated fines and penalties were affecting their business. Regular trainings and workshops could be useful strategies for improving microfinance services. In a related study, [5] found out that of entrepreneurial training which was provided by the Peruvian village banking program on the client's savings, loan repayment and retentions rates and businesses knowledge was of great importance in microfinance provisions. This was confirmed by [6] when he explained that training is important in giving borrowers skills in business management, savings and bookkeeping. The author [6] further contends that hat those borrowers who did not receive training before receiving loans from MFI defaulted in repayment. It is therefore evident that regular trainings have been recommended by many scholars thus a good method of integrating with microfinance loans so as to reduce urban poverty.

Need for relief strategies to help poor women get involved in income generating activities instead of running to borrower at high interest each time need arises. some scholars have claimed that access to credit alone is not sufficient to enable women to influence decisions and to change the existing gender norms and culture within the household which contribute to women having a subordinate position and place men in a dominant position, giving them the decision making power [7]. This study advices the lending institutions to speed up the loan processing. One of the challenges of lending through microfinance is the delays in executing loans. It was found out that it takes long time ((30- 60 days) for one or a group to access a microfinance loan services. The procedures involved like filling so many documents, appraisal visits, searching for guarantors' photographs and signatures and getting recommendations from local council leaders or employers. Although one would argue that these correct procedures do reduce on defaulting rates, one would also argue that these steps shouldn't take a lot of time as it discourages the borrowers and contributes to loan diversion as a result of change of the original aim of borrowing.

The need for a grace period emerged as one of the best reforms to enhance the activities of MFIs so as to improve on the betterment of microfinance loans. Majority of the microfinance loan beneficiaries argued that most of the MFIs loan procedures seem not to understand the reality on the ground. According to Derban [8] the mode of payment imposed by MFIs improves access and utilization of microfinance services. Reduce loan acquisition costs so as to improve on accessibility and utilization of microfinance services. The monetary requirement for one to access loans was among the impediments to access microfinance services. The monetary costs swallow up the profits rendering businesses weak and lacking in financial sustainability. This has not only reduced the level of profitability but also results into indebtedness thus poverty reduction among women remains a parable.

7. Conclusion and recommendations

The challenges faced by FHHs in both accessing as well utilization of microfinance loans have been discussed. Result indicate bureaucracy, limited collateral security, high interest rates, high costs of borrowing, corrupt loans officers, group pressure over loan repayment, loan delays. The level of association between the challenges affecting clients while they are borrowing and challenges affecting them while they have already borrowed was carried out to establish the level of association i.e. the one which was more problematic than the other. The level of association was in regard to access challenges faced while borrowing was found not statistically significant since **Pr =0.084**. This is greater than the critical number which is **0.05.** Therefore problems faced when accessing loans do not influence business performance of the borrowers. It can then be concluded that problems faced while accessing loans do not affect the borrower so much.

The association between loan utilization challenges and business performance was also carried out. Findings indicate that the level of association was not statistically significant since pr =**0.039.** This is less than the critical number which is **0.05.** Therefore problems faced when using loans affects the borrowers. The conclusion is that whereas FHHs were able to access loans, usage was still a problem given the current working environment characterized by limited grace period, fines and penalties, high interest rates and loan diversion. Female households need to borrow from friends and relatives or draw from their savings to raise capital to start businesses enterprises rather than borrowing from MFIs which charge them interest. However, one can borrow to expand the existing business/ enterprise.

There is need for flexible lending policies to suit the challenges faced by FHHs. The study findings show that microfinance officials are strict, rigid and not willing to adjust. There is needed to make adjustments in loan agreements depending on circumstances that surround female headed households. This study recommends government to regulate microfinance institutions. In 1999, the Bank of Uganda Created a Policy Statement on Microfinance Regulation as a policy framework for Ugandan microfinance institutions [9]. The statement served the policy needs of commercial banks (tier 1) Credit institutions(tier 11)and microfinance deposit taking institutions (tier 111) leaving out microfinance institutions (tier 4) in the country to be owned, governed by the private members. This study holds that government intervention is paramount so to regulate and introduce uniform interest rates in all the four tiers and safeguard interests and wishes of all the borrowers.

References

[1]. Ebimobowei, A, Sophia. J. M. & Wisdom, S (2012), an Analysis of Microfinance and Poverty Reduction in Bayelsa State of Nigeria. Kuwait Chapter of Arabian Journal of Business and Management Review Vol. 1, No.7

[2]. Chant, S. (2006) 'Rethinking the Feminization of Poverty in Relation To Aggregate Gender Indices', Journal of Human Developm ent, Vol.7 No. 2, July, 2006, Routledge: London, pp.201-220.

[3]. Okpara, G. C. (2010), Microfinance Banks and Poverty Alleviation in Nigeria: Journal of SustainableDevelopment in Africa. Volume 12, No.6

[4]. UBOS Report. (2014).Uganda National Household survey, 2013/2014: Socio-Economic module Kampala: The Republic of Uganda.

[5]. Karlan and Valdivia (2006).Teaching Entrepreneurship: Impact of Business Training on Microfinance Clients and Institution: U.S.A: Economic Growth Centre (EGC), Yale University

[6]. Okibo (2013). Causes of loan defaulting within microfinance institutions in Kenya. Interdisciplinary journal of contemporary research in Business. Kenyatta University

[7]. Swain, R.B. and F.G. Wallentin (2009) Does Microfinance Empower Women? Evidence from Self - Help Groups in India. International Review of applied economics 23(5): 541-556.

[8]. Derban, W.K., Binner, J.M., and Mullineux, A. (2005). Loan repayment performance in community Development finance in the U.K Dhaka

[9]. Ministry of Finance, Planning, and Economic Development (MFPED, 2000). Uganda poverty Profile: What do we know about the poor? The Republic of Uganda, Kampala: Discussion paper3