FINANCIAL DEEPENING AND POVERTY REDUCTION IN KAMULI TOWN COUNCIL, KAMULI DISTRICT IN UGANDA

BY

BARBARA MIREMBE

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DECLARATION

I, Barbara Mirembe declare that this dissertation entitled "Financial Deepening and Poverty Reduction in Kamuli Town Council-Kamuli District Uganda" is my original work and has not been submitted to any institution of learning for the award of any degree or any other award.

Signature: ....

Date: ....

APPROVAL

This dissertation is submitted for examination with my approval as supervisor.

Dr.Benon Basheka

UMI-Based Supervisor

Uganda Management Institute

Signature: ....

Date: ....

DEDICATION

This study is dedicated to my mother Mrs Geraldine Kimbowa Namwanja who has tirelessly made sure that I further my education career, my dear husband Paul Ssensamba who has supported me both physically and financially in order to come up with such piece of work and my children: Patricia, Phillip, Peter and Paula who have always endured the times I have been away putting my research work together.

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ABBREVIATIONS AND ACRONYMS

ATM :- Automated Teller Machine

BTTB :- Background To The Budget

DFID :- Department For International Development

DV :- Dependent Variable

FDI :- Foreign Direct Investments

FY :- Fiscal Year

GDP :- Gross Domestic Product

HDI :- Human Development Index

IMF :- International Monetary Fund

IV :- Independent Variable

MDGs :- Millenium Development Goals

MDIs :- Microfinance Deposit taking Institutions

MFIs :- Microfinance Institutions

MFPED :- Ministry of Finance Planning and Economic Development

NDP :- National Development Plan

ODA :- Overseas Development Assistance

OECD :- Organisation for Eonomic Cooperation and Development

PBO :- Parliamentary Budget Office

PEAP :- Poverty Eradication Action Plan

PRSP :- Poverty Reduction Strategy Plan

SACCOs :- Savings and Credit Cooperatives

SPSS :-Statistical Package for Social Scientists

UBOS :- Uganda Bureau Of Statistics

UMI :- Uganda Management Institute

UNHS :- Uganda National Household Survey

ABSTRACT

The study assessed the effect of financial deepening on poverty reduction in Kamuli Town Council in Eastern Uganda. The objectives of the study included: to establish the relationship between savings and poverty reduction in Kamuli Town Council; to examine the effect of credit accessibility on poverty reduction in Kamuli Town Council; to find out how remittances from abroad and locally contribute to poverty reduction in Kamuli Town Council. The Case study and Correlation research designs were adopted with a triangulation of both qualitative and quantitative approaches of data collection and analysis. Out of the targeted sample size of 354 respondents, 215 respondents were covered suggesting a response rate of 59.3%. The quantitative data was analyzed using descriptive statistics, Pearson correlation and regression analysis techniques. Qualitative data was summarized and presented using verbatim statements. The findings showed that, remittances from abroad and locally had the greatest contribution towards poverty reduction in Kamuli Town Council by 6.1%.Savings had a 5.6% effect on poverty reduction. Access to credit had the least effect on reduction of poverty at 0.8%. In conclusion, the growth of financial services in Kamuli Town Council positively relates with improved standard of living through increased household income which in turn reduces the poverty incidence. However, dealing with issues of health, education and infrastructure could go a long way in empowering the people in order to engage in small businesses. The study recommended that mobile money transfers be regulated by Bank of Uganda as they are largely used to transfer money country wide, Post Bank Uganda that is mandated to channel government funds to SACCOs should be strengthened through policy reforms. Financial literacy by both government and financial institutions will largely empower the people economically and lastly, banks and MDIs should develop new products that enable poor people access funds.

CHAPTER ONE

INTRODUCTION

1.1. Introduction

This study sought to assess the effect of financial deepening on poverty reduction in Kamuli Town Council in Eastern Uganda. The study conceptualized financial deepening as: Savings, access to credit and remittances as offered by the financial institutions in Kamuli Town Council. In building the background of the study, the researcher adopted the broader approach as suggested by Amin (2005). Finance is at the core of the development process. Backed by solid empirical evidence, development practitioners are becoming increasingly convinced that efficient, well-functioning financial systems are crucial in channeling funds to the most productive uses and in allocating risks to those who can best bear them, thus boosting economic growth, improving opportunities, income distribution and reducing poverty alongside most of the alternatives (King & Levine, 1993). In this study, financial deepening constituted the Independent Variable (IV) while poverty reduction constituted the Dependent Variable (DV). This chapter presents the background to the study, statement of the problem, purpose of the study, specific objectives, research questions, hypotheses of the study, conceptual framework, significance of the study, scope of the study, and operational definitions.

1.2. Background of the Study

1.2.1 Historical Background

Uganda's economic performance was progressing well in the early years of independence (1962-1967) with an average economic growth of 6.7% per year. By the end of the 1960's, commercial agriculture accounted for more than one-third of GDP and industrial output had increased to

nearly nine percent of GDP, given the new food processing industries. In the early 1970's, the government targeted an annual GDP growth rate of about 5.6%. However, the political instability and associated economic mismanagement resulted in a persistent economic decline that left Uganda among the World's poorest and least developed Countries (World Bank, 2001).

The early literature on financial development by McKinnon and Shaw (1973) highlights ill-conceived government interventions, such as interest rate controls, high reserve requirements and capital controls, as the main source of financial underdevelopment. They further argued that ceilings on deposit and/or lending rates, because of high inflation rates, frequently resulted in negative real rates of interest, discouraging saving and leading to an excess demand for loanable funds, the problem was exacerbated by governments that interfered in credit allocation, providing credit to 'priority sectors', frequently a euphemism for cronyism and corruption. Removing interest rate ceilings, reducing reserve requirements and abolishing priority lending in other words, freeing the financial system from government interventions was seen as critical in delivering financial development Demetriades and Andrianova (2005).

In early 1980s, Structural Adjustment programs (SAPs) were introduced which led to strong economic growth of Gross Domestic Product (GDP). Hence, the period that followed showed a remarkable increase in productivity and output. This was given impetus by macroeconomic stability resulting from the macroeconomic reforms like; controlling inflation, ensuring a competitive exchange rate and maintaining adequate foreign reserves. This led to the economy reverting to its high GDP growth rates and low and stable inflation from the 1990's to present UNHS (2005/06). More recently a number of developing countries have undergone significant

financial sector reforms over the last two decades, leading to a widely observed increase in the degree of financial integration globally Ang (2009).

Recent data by the Uganda Bureau of Statistics (UBOS) indicate that Uganda's economy has continued to grow at high rates, registering a robust rate of 7.0% in 2008/09 at market prices despite the global financial crisis and recession which have adversely affected the global economy. However, this was lower than the growth rate of 9.0% per annum that was achieved last financial year 2007/08.Until the earlier period, agricultural contribution to GDP has been falling, currently agriculture contributes 2.6% to GDP, and financial services accounted for 20% of the growth attained in the services sector in FY2008/09 (BTTB09-10).

In 1997, 44% of the population was estimated to consume less than what was required to meet the basic needs of life. Low rates of economic growth, and the effects of civil disorder, are important historical factors that caused poverty in Uganda. Incomes are still highly unequally distributed, which reduces the impact of economic growth on poverty reduction. At the level of the household, poverty is related to rural residence (specifically to living in the north or the east), land shortage, low levels of education, being headed by a female widow or by someone old, and limited access to markets. Unequal sharing of resources within the household reflects not only cultural factors but unequal access to education and physical assets such as land, in which women are disadvantaged (Ssali et al, 2007).

The 1999/2000 survey carried out by UBOS showed a decline in poverty from the previous survey (this survey went back to the consumption module used in the 1992/3 survey) with a large decline in the Eastern Region. The UNHS (2002/03) data showed an increase in the poverty

headcount especially in the Eastern region.Busoga region has been portrayed as one of the very poor regions in the country (New Vision Oct 5, 2009).This may be due to its stagnated poverty levels at 49% for the past two household surveys carried out by UBOS.The region mainly has three districts that is Jinja, Kamuli and Iganga, though with the decentralization policy, more districts have been created and the regions boosts of about 10 districts now.

Dollar and Kraay (2001) state that financial development may hold the key to economic prosperity and may, consequently, be a powerful mechanism for reducing poverty worldwide. Berg and Krueger (2003) affirm that changes in average per capita income are the main determinants of changes in poverty. Throughout the world, over three billion people live on less than $2.50 a day. Around 27-28% of all children in developing countries are estimated to be underweight or stunted. The two regions that account for the bulk of the deficit are South Asia and Sub-Saharan Africa. If current trends continue, the MDGs target of halving the proportion of underweight children will be missed by 30 million children largely because of slow progress in South Asia and Sub-Saharan Africa (World Bank, 2008).

Ravaillon and Squire (1998) assert that the impact of financial development on economic growth and its impact on the reduction of poverty are related issues, as growth is a powerful way to reduce poverty. However, it is possible that in certain countries the benefit of growth for the poor is undermined or even offset by the increases in inequality which may accompany growth.There is almost consensual belief as stated by Wachtel (2001) that sustained economic growth follows from financial development. The World Bank further argues that financial development is central to poverty reduction as it contributes significantly to growth which directly benefits the poorer

segments of society and is associated with improvements in income distribution (World Bank, 2001).

Notably, many studies in the past and in recent years concern the relationship between financial development and growth (Roubini & Sala, 1992; King & Levine, 1993; Easterly 1993; Pagano 1993; Gertler & Rose, 1994; Levine 1997; Levine, Loayza & Beck, 2000; Khan & Senhadji, 2003; Chistopoulos & Tsionas, 2004). Most recently, Arimah (2010) contends that greater financial depth is one of the factors that can alleviate urban poverty. However, the question of whether financial development contributes to reducing poverty has been the subject of remarkably little empirical work in economic literature. Hence the ardour to study how financial deepening impacts on growth which enables reduction in poverty levels especially at the local government level.

1.2.2 Theoretical Background

This study was based on the Keynesian theory founded by John Maynard Keynes (1936) and the Classical theory founded by Adam Smith (1776). The two theories mainly relate savings and investment and eventually growth. Furthermore, modern development theory studies the evolution of growth, relative income inequalities, and their persistence in unified models. This theory relates more to access to credit and its implications to economic growth. The theories behind remittances from abroad are summarized in four approaches; The Altruistic Motive, Self-Interest Motive, Implicit Family Contract (Loan Repayment) and Implicit Family Contract (Co-Insurance).

The Keynesian school of economics is greatly founded on ‘The General Theory of Employment, Interest and Money’. The theories forming the basis of Keynesian economics were first presented in “The General Theory of Employment, Interest & Money” in 1936. Keynesian economic models stress the fact that Government intervention is absolutely necessary to ensure growth and economic stability. While classical economists believe that the best monetary policy is no monetary policy, Keynesian economists believe otherwise. In the Keynesian economic model, the government has the very important job of smoothening out the business cycle bumps. They stress on the importance of measures like government spending, tax breaks and hikes and interest rate regulation for the best functioning of the economy. Keynesian economists believe that household savings and investments are based on disposable incomes and the desire to save for the future and commercial capital investments are solely based on the expected profitability of the endeavour Hemachandra, (1997).

The Keynes theory was largely referred to in our study as it relates improved household incomes to savings then investment and eventually economic growth and does strongly agitate for government intervention. The researcher found out that through engagement in economic activities like farming, retail and wholesale businesses, people in the area are able to gain an income from which they can save after covering their household expenses and government intervention is largely achieved through government expenditure on various goods and supplies within the town council and salaries for the civil servants. Eventually the accumulated savings are invested for further growth.

Adam Smith is the great economist, who is known as the founder of the classical economics school of thought. The Classical economists assume that household saving equals capital investment expenditures. This is rarely the case. Yet, should the savings not equal the investment, the 'flexible' interest rates should be able to restore the equilibrium. In the beautiful free world of classical economics, no human intervention is required to lead the capital markets to equilibrium as well. If savings exceed investment, the interest rates fall and the market achieves equilibrium again. On the other hand, if savings fall short of investments, the interest rates rise and once again, the economy reaches its own equilibrium (Hemachandra, 1997). The Classical theory greatly assumes savings and investment being determined by the market forces which is ideal but may not always be the case. Given the fact that most financial institutions are reluctant to offer interest rates for members' savings the classical theory may not be favourable as it assumes restoration of equilibrium in the market mainly through interest rates on savings without government intervention.

Modern development theory studies the evolution of growth, relative income inequalities, and their persistence in unified models. In many of these models, financial market imperfections play a central role, influencing key decisions regarding human and physical capital accumulation and occupational choices. For example, in theories stressing capital accumulation, financial market imperfections determine the extent to which the poor can borrow to invest in schooling or physical capital. In theories stressing entrepreneurship, financial market imperfections determine the extent to which talented but poor individuals can raise external funds to initiate projects. Thus, the evolution of financial development, growth, and intergenerational income dynamics are closely intertwined. Lawrence (2006) argues that modern growth theory has emphasised the

importance of other factors such as education, but the existence of a well-functioning financial system is regarded as critical.

According to Solimano (2003), the analytical literature on the motives behind remittances can be summarized in four approaches. These motives include; The Altruistic Motive, The Self-Interest Motive, Implicit Family Contract: Loan Repayment and Implicit Family Contract: Co-Insurance. The altruism or livelihoods school of thought considers remitting to be an obligation to the household. Remittances are sent out of affection and responsibility towards the family. According to the altruistic model, sending remittances yields a satisfaction to the migrant out of a concern for the welfare of his family Stark (1991). The Self-Interest Motive argues that, at every point in time, the successful migrant in the foreign country saves. Then, the need arises to invest and where to invest. It is always prudent to invest part of his assets in the home country by buying property, land, financial assets and so on. In turn, the family can administer, during the emigration period, those assets for the migrant, thus acting as a trusted agent (Addison, 2004).

Economic theory has developed explanations of the remittances process that take the family– rather than the individual– as the main unit of analysis. According to the implicit family contract (loan repayment) theory, families tend to develop an implicit contract among those who choose to live abroad, the migrant, and those who stay at home. The contract combines elements of investment and repayment. In the loan repayment theory the family invests in the education of the migrant and usually finances the costs of migrating (travel and subsistence costs in the host country).This is the loan (investment) element of the theory. The repayment part comes after the migrant settles in the foreign country and his income profile starts rising over time and is in a

condition to start repaying the loan (principal and interests) back to the family in the form of remittances (Poirine & Brown, 1997).

The Implicit Family Contract (Co-Insurance) theory of remittances also considers an implicit family contract between the migrant and those at home which relies on the notion of risk diversification. Assuming that economic risks between the sending and foreign country are not positively correlated then it becomes a convenient strategy for the family as a whole, to send some of its members abroad (often the most educated) to diversify economic risks. The migrant, then, can help to support his family in bad times at home. Conversely, for the migrant, having a family in the home country is insurance as bad times can also occur in the foreign country. In this model, migration becomes a co-insurance strategy with remittances playing the role of an insurance claim. However, we can expect enforcement to be simpler, in principle, due to the fact that these are implicit family contracts, helped by considerations of family trust and altruism Addison (2004).The study related the altruism theory to the improved household income, which could be for consumption and education, the self-interest motive greatly advocates for remittances mainly for investing which also leads to economic growth.

1.2.3 Conceptual Background

This study was guided by the two concepts of financial deepening and poverty reductions the respective independent and dependent variables.

In this study, financial deepening is looked at in terms of the financial services offered in the area and their role in the growth of the area. Furthermore, Odhiambo and Oludele (2009) define financial deepening as the increase in the relative size and role of the financial system in an economy. They further state that interest rate liberalization succeeds in increasing economic

growth through its influence on financial depth. It is argued that deepening financial intermediation may promote economic growth by mobilizing more investments, and lifting returns to financial resources, which raises productivity. McKinnon and Shaw (1973) define the deepening process of financial intermediation as a process of banking liberalization from state control, reductions in or elimination of directed credits and liberalization of financial parameters like the interest rates and foreign exchange rates.

The Human Development Index (HDI) combines three dimensions in describing human development (human wellbeing) and these are: Life expectancy at birth, as an index of population health and longevity, Knowledge and education, as measured by the adult literacy rate (with two-thirds weighting) and the combined primary, secondary, and tertiary gross enrollment ratio (with one-third weighting) and Standard of living, as measured by the natural logarithm of gross domestic product per capita at purchasing power parity (http://en.wikipedia.org/wiki).

The study defined poverty as the proportion of individuals in developing countries who live on less than $1.25 a day (based on purchasing power parity 2005 constant prices) as stated in the Global Monitoring Report by IMF, (2009).As per the report, 50.9% of the population in Sub-Saharan Africa live below the poverty line (US$1.25).It is generally agreed that there is no universally accepted definition of poverty. However, several attempts have been made by different authors and international institutions to find an “acceptable norm” for defining poverty. It is expressed in terms of the income that a household or individual would require to purchase goods and services deemed necessary to sustain his or her physical and social existence.

The OECD (2001) describes poverty as an unacceptable human deprivation in terms of economic opportunity, education, health and nutrition, lack of empowerment and security. In general, poverty is viewed as the inability of people to meet economic, social and other standards of well-being. Poverty also reflects society-wide phenomena including insecurity, the quality of public services, the availability of productive employment, macroeconomic stability and the functioning of markets, health information, and the technical information available throughout society. (MFPED PRSP, 2000)

In this study, Poverty reduction was often used as a short-hand for promoting economic growth that would permanently lift as many people as possible over the poverty line Allen et al (1999). McKay (1997) argues that, reduction in poverty can come about through redistributions among households at an existing level of average income, or through growth in average incomes, or through a combination of the two. Schneider (1999) further states that empowerment of the poor is one ingredient in effective poverty reduction. Avom, and Chowdhury, (2009) describe poverty reduction as a combination of both positive growth and redistribution of income mainly through financial activities (saving and borrowing).

Although financial deepening concepts were brought into salience with the seminal work of McKinnon and Shaw (1973), these ideas can be found in the Keynesian theories. In the Keynesian theory, financial deepening occurs due to an expansion in government expenditure. In order to reach full employment, the government should inject money into the economy by increasing government expenditure during a recession and reduce the level of government spending during a boom in order to attain full employment.

However, Klasen (2005) states that while economic growth is the basis for increasing national income, it does not necessarily result in poverty reduction since policies that merely concentrate on growth may only be looking at a part of the development problem. However Bruno et al (1998) argue that the impact of financial development on economic growth and its impact on the reduction of poverty are related issues, as growth is a powerful way to reduce poverty.Rodrik (2000) further argues that it's important to note that only policies that target growth can reduce poverty and only policies that reduce poverty can boost overall economic growth.

Honohan considers the relationship between financial development and absolute poverty while Beck *et al.* examine whether financial development boosts the income growth of the poor more than the average. Beck *et al.* show that financial intermediary development reduces inequality by disproportionately boosting the income growth of the poor, while Honohan shows that financial intermediary development reduces the share of population below one dollar a day while controlling for GDP per capita.

In any development endeavour, there are two key components that is saving and investment and both of these relate to the availability of financial services in an area. These two components are to a greater extent believed to be the best way of increasing household income and boosting productivity in an attempt to break through the vicious cycle of poverty. The myth that poor households in developing countries, who often earn less than a dollar a day, are not creditworthy or able to save has been firmly put to rest in recent years. It has been found, poor households place special value on reliable and continued access to different types of financial services, available at reasonable cost and catering to their specific needs. Credit and savings facilities can

help poor rural households manage and often augment their otherwise meager sources and acquire assets and other basic necessities for their families. Credit facilities enable them to tap financial resources beyond their own and take advantage of potentially profitable investment opportunities (Zeller & Sharma, 1998).

Remittances from abroad and domestic transfers are an important source of income for the poor, and provide an additional means for them to diversify their sources of income thus reducing vulnerability (DFID report, 2004). Gubert (2005) observes that, the impact of remittances is intrinsically linked to their allocation and more specifically to the breakdown between consumption and investment. Therefore it's very important to ascertain the remittances received by a given household, the proportion consumed and how much is actually saved for investment purposes. This study was carried out to assess how the variables of financial deepening can assist reduce poverty in Kamuli Town Council as they complement each other.

1.2.4 Contextual Background

Over the last 19 years, the Government of Uganda has implemented policies geared towards eradicating poverty among its people. These policies have led to a substantial reduction in poverty levels from 56% in 1992 to 39% in 2003. The proportion of the poor population reduced from 39% in 2002/03 and is currently at 31% as per the national survey of 2005/06.On average, income inequality decreased from 0.428 in 2002/03 to 0.408 in 2005/06. An increase in monthly household expenditure was recorded at 11% between 2002/03 and 2005/06, though 45% of the household expenditure was on food, beverage and tobacco, it should be noted that the currency deposits in commercial banks increased by 31.6%, there by showing an increase in savings in 2008/09 as compared to the previous financial year 2007/08 (UBOS, 2009).

In 1997, the Poverty Eradication Action Plan (PEAP), a framework for addressing the key poverty challenges, was developed and launched. The PEAP target was for a GDP growth rate of 5.2% in 2003, and an average of 7% thereafter. The PEAP provided an over-arching framework to guide public action to eradicate poverty. Government's aim was to increase the ability of the poorer households to participate in economic growth through self-employment inside and outside agriculture and wage employment mainly through access to credit. Currently the 7% growth rate that was targeted has been achieved and the PEAP is being revised into the National Development Plan (NDP) (BTTB09-10).

According to the UNHS (2005/06), 31% of the households in Uganda were classified as poor, corresponding to nearly 8.4 million persons. The poverty incidence was highest in Northern region (60.7 %) with the lowest in Central region (16.4 %) and the Eastern region recorded 35.9% of its population as poor. The proportion of people in poverty in Eastern region declined from 46% to 35.9%, the decline in Eastern region was driven by the rural areas which experienced a 10.8% point drop. The poverty incidence in Kamuli was 49% of the population, it is evident that poverty levels were highest in the North, East and lowest in the Central and south west.

The main focus area of our study is Kamuli Town Council which houses the administration headquarters of Kamuli district and is situated within Bugabula County. Kamuli District Borders the districts of Tororo in the East, Jinja and Iganga in the South, Mukono in the West and Lake Kyoga in the North. It is part of former Busoga district. It covers 4,348 sq kms. It has a population of 485,214 people: female 247,701, male 237,513, urban dwellers 8,262 rural dwellers 476,952. The main towns include Kamuli Town and Kaliro. It is formed by the

following counties – Budiope, Bugabula, Bulamogi and Buzaaya with a total of 21 sub-counties. (Kidara, Nkondo, Balawoli, Buyende, Kagulu, Nawakoke, Gadumire, Namwiwa, Bumanya, Namugongo, Bugaya, Namwendwa, Kitayunjwa, Bulopa, Bugulubya, Wankole, Kisozi, Nawanyago, Butansi, Namasagali and Mbulamuti).This is a multi-ethnic community, with the predominant ethnic group being the Basoga with 76% followed by the Itesot at 3.9% and the Banyoro-Bagungu with 1.8%. The predominantly language spoken in Kamuli is Lusoga, a little Luganda and English the national language.

In Bugabula County as per the national household survey of 2002, 44% of the people lived under the poverty line. Considering the recent poverty statistics of Kamuli district as per the 2005/06 household survey carried out by UBOS, not much has changed as the population below the poverty line is at 49% similar to that of the 2002 household survey. Poverty inequality has also not changed at all at a gini coefficient of 0.40,the estimated number of poor individuals in 2002 was 347,114 people out of 707,242,and in 2005 the estimated number of poor individuals was 320,585 out of 653,188 individuals. This could mainly be attributed to the fact that majority of the population is dependent on agriculture and mainly for subsistence.

The majority of the population (over 90%) depends on Agriculture sector for their livelihood. Needless to say, this sector has been not been well funded and farmers continue practicing subsistence farming. Fishing is a major economic activity in the waters of L. Kyoga and River Nile. This would be a big potential for revenue area for the district but there is still a lot of mismanagement. The fishermen entirely depend on fishing with no alternative income generation

projects. This has caused temptations and use of unscrupulous methods of fishing such as use of undersized nets and smuggling accelerating the depletion of the fish resource.

As per the household survey, the sanitation conditions of the people in northern and eastern Uganda were very low due to factors like safe drinking water; boreholes are more used in the Eastern and Northern regions compared to the western region where they are least used (9 %). On the other hand protected wells/springs are most used in the western (29 %) and least used in the Eastern region (21 %). Kamuli largely depends on boreholes as the main source of reliable water, the areas around Lake Kyoga in the North and Northeast fetch from those sources. Kamuli Town Council is supplied with piped water from the valley tank at Namalemba, 4 kms from town and 3 production boreholes just outside the council boundaries.

Health services in Kamuli are still lacking, in order to improve and take health services nearer to the people, the construction and renovation of health units under the Spanish loan has been accomplished to reinforce the already existing Kamuli district hospital which is not functional. The district has 8 Government dispensaries (II), 17 health centres (III) at county, 5 health centres (IV) at sub-district with no hospital. More so, it has 23 private/NGO dispensaries, 13 clinics and no health centre (III) and hospital. There is also Kamuli Mission Hospital with 153 beds.

During FY 2008/09, Kamuli district had a total of 268 primary schools with an estimated enrollment of 187,438 pupils. An estimated 50.6 percent of the enrolled pupils were female while 49.4 percent were male. The district had a high teacher to population ratio of 1:61 compared with the national average of 1:50. On the other hand, the pupil: classroom ratio stood

at 54:1 compared to the national average of 70:1 although only 55 percent of the classrooms in the district have permanent structures. For secondary schools, the district has over 56 schools, 15 are government, 23 private and 18 community. There is only one government-aided Technical Institute in the District, located at Kaliro and two private ones at Lubaga and Irundu. The only polytechnic was recently closed by Government. Major impediments impinging on the sector include the lack of commitment on part of the teachers, poor facilitation by the central government for library facilities and poor deployment and supervision of teachers in the district. Poor attendance of Functional Adult Literacy programmes was also noted Francis et al, (2010).

Financial development has been theorized as having an impact on economic growth both directly and indirectly which in turn leads to reduction in poverty, Kamuli town council boosts of a commercial bank (Stanbic Bank), several SACCOs but the main focus of the study will be centered on the two biggest (Twisania SACCO and Naluwoli Tubewalala SACCO) and MDIs (FINCA and Uganda Finance Trust).

1.3. Statement of the Problem

Accessibility to credit is a key development endeavour and is a means towards increasing household income and boosting productivity in an attempt to break through the vicious circle of Poverty. However, it has also been argued that transaction costs for accessing bank loans are too high for many potential borrowers relative to their wealth. As a result, the microfinance institutions have taken over the vacuum left by banks (Bossone, Malanya and Zalin 2002). According to the UNHS (2005/06), 31% of the households in Uganda were classified as poor, corresponding to nearly 8.4 million persons. The poverty incidence was highest in Northern region (60.7 %) with the lowest in Central region (16.4 %) and the Eastern region recorded

35.9% of its population as poor. The poverty incidence in Kamuli was 49% in the survey carried out in 2002/03 and it stagnated in the survey carried out in 2005/06 by UBOS. Poverty inequality has also not changed at all at a gini coefficient of 0.40.This trend needs urgent attention, since its persistence could easily generate into childhood poverty later in life as a result of adult poverty and the viscous cycle of poverty will carry on. Bugabula County (where Kamuli Town Council falls) is the urban centre for Kamuli district and boosts of three financial institutions and SACCOs, Stanbic Bank, MDIs (FINCA and Uganda Finance Trust) and a number of SACCOs.This study mainly focused on the two biggest SACCOs, (Twisania SACCO and Naluwoli Tubewalala SACCO). The question of the study was, “Has access to financial services helped in any way to avert the poverty situation in Kamuli Town Council?”

1.4. Purpose of the Study

The purpose of this study was to assess how financial deepening contributes to the reduction of poverty levels in Kamuli Town Council, Kamuli District.

1.5. Objectives of the study

The study was guided by the following objectives;

1) To establish the relationship between savings and poverty reduction in Kamuli Town Council.
2) To examine the effect of credit accessibility on poverty reduction in Kamuli Town Council.
3) To find out how remittances from abroad and locally contribute to poverty reduction in Kamuli Town Council.

1.6. Research Questions

1). What is the relationship between savings and poverty reduction in Kamuli Town Council?

2). How has access to credit contributed to poverty reduction in Kamuli Town Council?

3). How do remittances from abroad and locally contribute to poverty reduction in Kamuli Town Council?

1.7. Hypothesis of the Study

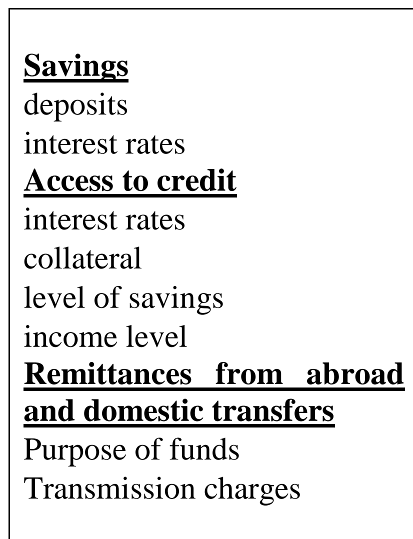
This study's hypotheses were;

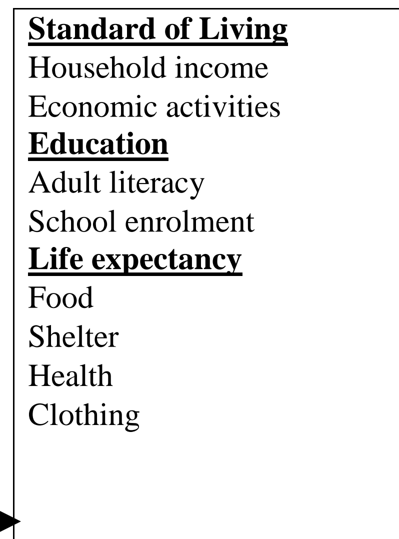
1) There is a significant relationship between savings and poverty reduction in Kamuli Town Council.
2) Access to credit significantly contributes to poverty reduction in Kamuli Town Council.
3) Remittances from abroad and locally significantly contribute to poverty reduction in Kamuli Town Council.

1.8. Conceptual Framework

Independent Variable (IV)
Financial Deepening

Dependent Variable (DV)
Poverty Reduction





Adapted from: *"The General Theory of Employment, Interest and Money' by Keynes (1936) (Jalilian & Kirkpatrick (2001), Eswaran & Kotwal, (1990), Green et al (2005), Zucula & Massinga, (1992) & Addison (2004),*

Figure 1: Conceptual Model

The conceptual framework clearly links the independent and dependent variables as shown below. The Independent Variable (IV) which is financial deepening demonstrates the different financial services as a result of financial deepening and their impact on poverty reduction (DV). The Variables highlighted in the model include; Savings, which are normally deposits made to the bank and are highly correlated with the interest rates, Access to credit greatly relies on the interest rates, availability of collateral, level of savings and income levels, remittances from abroad and domestic transfers could be for consumption, saving or investment. Further on in the study, the impact of the independent variables on the household income is clearly shown. On the other hand, the dependent Variable (DV) also clearly showed how poverty can be reduced as a result of the activities of financial deepening (IV).

It is expected that with the availability of the financial services offered as mentioned above as IVs, members' are able to improve their standard of living through improved household income and engagement in other economic activities, members' are able to increase on their literacy levels through adult literacy programmes and enrolment of their children in school and more still members will be able to increase their life expectancy as a result of attaining the basics of life like food,shelter,clothing and health (DVs).

1.9. Significance of the Study

This study greatly contributes to the academic world in addition to the various studies and researches that have been carried out globally, regionally and nationally in regards to financial development and poverty reduction. It should be noted however that most studies carried out bring out the macro relation of financial deepening and poverty reduction, so this study brings out the relationship between financial deepening and poverty reduction at a micro level. And

more still as an Economist in the Parliamentary Budget Office, my study could influence policy allocation of resources at a decentralized level.

1.10. Scope of the Study

The study mainly focused on the relationship between financial services like savings, access to credit, remittances from abroad and domestic transfers and poverty reduction through improved household incomes, education levels, sanitation and health, and assets.

Geographically, Kamuli District, borders districts of Kaliro in the east, Jinja and Iganga in south, Kayunga in the west and Byende in the North. Kamuli Town Council found in Bugabula county boosts of a commercial bank (Stanbic Bank), several SACCOs but our main focus will be centered on the two biggest (Twisania SACCO and Naluwoli Tubewalala SACCO), MDIs (FINCA and Uganda Finance Trust). The study covered a period of five years (2005-2009).This is the time when the UNHS survey 2005/6 by UBOS was carried out and it showed a stagnation in poverty levels in Kamuli District.

1.11. Operational Definitions

Poverty as defined by the Millennium Development Goals (MDGs), refers to all households that earn or live on less than a dollar ($) a day.

Financial deepening is a term used often by economic development experts. It refers to the increased provision of financial services with a wider choice of services geared to all levels of society.

Economic growth is the increase in per capita Gross Domestic Product (GDP) or measure of aggregate income. It only refers to the quantity of goods and services produced.

Housing is not limited to just a shelter but it encompasses all the ancillary services and community facilities which are necessary to human well-being. These include the land, utilities and services (infrastructure) as well as the structure or shelter itself.

Household welfare is a measure of the quality of life of the household members. The welfare of households, to a large extent, depends on their asset base as well as the economic activities undertaken.

Human Development Index (HDI) is a composite index based on three indicators: longevity, as measured by life expectancy at birth; educational attainment, as measured by a combination of adult literacy (two-thirds weight) and the combined gross primary, secondary and tertiary enrolment ratio (one-third weight); and standard of living, as measured by per capita GDP (in PPP US$).

Poverty Incidence is the proportion of the population below the poverty line.

Absolute poverty refers to people who are struggling to stay alive.

Relative poverty refers to comparative inequality of welfare of different groups.

Poverty line is an indicator based on minimum amount of income needed to acquire a basket of basic needs.

Financial sector refers to the wholesale, retail, formal and informal institutions in an economy offering financial services to consumers, businesses and other financial institutions.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This chapter presents the literature that has been reviewed. Its main focus is on how poverty reduction is influenced by savings, access to credit and remittances at local government level. It has been arranged under different sub-headings; Overview of financial deepening; Theoretical Review; Actual Review and Summary of the Literature.

2.2. Theoretical Review

Different theories were used in the study to explain the concept of financial deepening and poverty reduction. Classical economists led by Adam Smith assume that household saving equals capital investment expenditure, which is rarely the case. Keynes disputed this assumption once again because he had less faith in markets as economics 'miracle cure'. He argued that any increase in savings would mean people spent less. This would mean a decrease in aggregate demand. This would in turn make things worse, as firms would be less inclined to invest because of the fall in demand for their products. According to Keynes, he felt that investment depended much more on business expectations as adapted by Hemachandra (1997), he further contends that in the Keynesian theory, financial deepening occurs due to an expansion in government expenditure. In order to reach full employment, the government should inject money into the economy by increasing government expenditure. An increase in government expenditure increases aggregate demand and income, thereby raising demand for money.

It is worth noting that while the Keynesian theory believed in prior-investment, the McKinnon-Shaw school believed in prior-savings as stated above. In the 1970s, the applicability of the Keynesian view to analyzing the role of financial intermediaries and financial markets in the development process was cogently challenged by McKinnon (1973) and Shaw (1973). The McKinnon model assumes that investment in a typical developing economy is mostly self-financed, and that given its lumpy nature, investment cannot materialize unless sufficient saving is accumulated in the form of bank deposits. This assumption on investment has also been challenged mainly by Keynes who believes in investing first to generate income that can further be re-invested and the excess saved, which appears more realistic.

McKinnon (1973) further notes that it is the supply rather than the demand for loanable funds which constrains investment in developing countries. This is mainly because the financial sectors in developing countries are highly repressed and the demand for loanable funds exceeds supply. Odhiambo (2009) compliments this argument by suggesting an increase in interest rate which will unambiguously attract deposits (loanable) funds, thereby leading to an increase in financial deepening, investment and economic growth. This assumption can only be considered if other factors are held constant like the reserve requirements of the commercial banks and the lending interest rates.

Related literature has been, to a great extent, based on the neoclassical view that financial liberalization mobilizes savings and allocates capital to more productive uses, both of which help increase the amount of physical capital and its productivity. By this means, financial liberalization increases economic growth. The logic follows that economic growth caused by (or

accompanied by) financial liberalization increases incomes and therefore reduces poverty as stated by Arestis and Asena (2004).

Much criticism of the financial liberalization theory has been conducted on the dubious assumption that markets, if left on their own, will work reasonably efficiently. It should however be noted that financial liberalization has got both short term and long term effects since it involves many dimensions. As clearly observed by Bayoumi (1993), increasing competition among the providers of financial intermediation, boosts borrowing by agents that were constrained before in the financially repressive regimes. However, this will lead to a fall in savings. However, if financial liberalization involves the foreign exchange market which may induce large capital inflows, it may result in a surge in real income and a positive direct but transitory effect on savings. It should also be noted that liberalization of interest rates may discourage saving, if the income effect dominates the substitution effect. Bandiera et al, (2000) observes that, liberalization of the stock market provides a wider range of saving instruments that help channel funds into the formal financial sector from the informal sector.

The Keynesian models as elaborated by Burkett and Dutt (1991), stress the role of effective demand. In these models a rise in the deposit interest rate increases the marginal propensity to save and therefore reduces aggregate demand. If aggregate demand and output fell, then the rate of profit would be reduced and, thereby investment would decrease. As a result, investment in a financially liberalized economy could be lower than that in a repressed one. The neo-structuralist view agrees with the Keynesian view in that, following the removal of deposit interest rate ceilings, an increase in the desire to save reduces aggregate demand and makes contraction more

likely than growth. It adds that as the rate of interest and bank deposits increase, the availability of credit may or may not increase. Taylor (1983) further argues that, if deposits come from assets that were previously unproductive (such as jewelry) then total availability of credit increases. But if deposits flow to the banking system from the informal sector, then the total supply of credit in the economy could contract, since banks are subject to reserve requirements while the informal market is not.

Modern growth theory has emphasised the importance of other factors such as education, but the existence of a well-functioning financial system is regarded as critical. Investment also depends on prior output so it could be argued that the financial sector development requires significant pre-existing economic activity. However, imposing 'institutions conditioned by the requirements of developed countries on financially unsophisticated economies leaves a very large gap in the financial system' Newlyn (1977). He further elaborates that the existence of institutions that channel credit to productive use does not necessarily mean that all productive credit needs will be fulfilled. Mainly because it is unlikely that such institutions will lend to people without collateral. Lawrence (2006) reiterates that, currently with the existence of SACCOs at the local levels, this is no longer the case and people can access loans without collateral. Although SACCOs in Kamuli have emerged as a powerful tool in promoting access to financial services, their growth has been largely affected by the emergency and disappearance of fake and dubious rural lending schemes.

The altruism or livelihoods school of thought considers remittances to be an obligation to the household. Remittances are sent out of affection and responsibility towards the family.

According to the altruistic model, sending remittances yields a satisfaction to the migrant out of a concern for the welfare of his family (Stark, 1991). The Self-Interest Motive argues that, at every point in time, the successful migrant in the foreign country saves. Then, the need arises to invest and where to invest. It is always prudent to invest part of his assets in the home country by buying property, land, financial assets and so on. In turn, the family can administer, during the emigration period, those assets for the migrant, thus acting as a trusted agent (Addison, 2004).

Economic theory has developed explanations of the remittances process that take the family– rather than the individual– as the main unit of analysis. According to the implicit family contract (loan repayment) theory, families tend to develop an implicit contract among those who choose to live abroad, the migrant, and those who stay at home. The contract combines elements of investment and repayment. In the loan repayment theory the family invests in the education of the migrant and usually finances the costs of migrating (travel and subsistence costs in the host country).This is the loan (investment) element of the theory. The repayment part comes after the migrant settles in the foreign country and his income profile starts rising over time and is in a condition to start repaying the loan (principal and interests) back to the family in the form of remittances (Poirine & Brown 1997).

The Implicit Family Contract (Co-Insurance) theory of remittances also considers an implicit family contract between the migrant and those at home which relies on the notion of risk diversification. Assuming that economic risks between the sending and foreign country are not positively correlated then it becomes a convenient strategy for the family as a whole, to send some of its members abroad (often the most educated) to diversify economic risks. The migrant, then, can help to support his family in bad times at home. Conversely, for the migrant, having a

family in the home country is insurance as bad times can also occur in the foreign country. In this model, migration becomes a co-insurance strategy with remittances playing the role of an insurance claim. However, we can expect enforcement to be simpler, in principle, due to the fact that these are implicit family contracts, helped by considerations of family trust and altruism (Addison, 2004). The study adopted mainly the Keynes General Theory of Employment, interest and money and the altruism school of thought.

2.3 Relationship between Savings and Poverty Reduction

Kyereboahand and Osei (2006) argue that financial services generally include savings and credit; however some micro-finance organisations also do provide insurance and payment services. The term microfinance could be defined as not only banking but rather availing financial resources to the productive poor. Karlan and Zinman (2009) contend that microcredit is an increasingly common weapon in the fight to reduce poverty and promote economic growth.

Molho (1986) argues that a dynamic relationship between interest rate liberalization and economic growth has always been an issue of intense debate both from the theoretical and empirical fronts. He further notes that, until the early 1970s, it was believed that low interest rates would promote investment spending and economic growth in both developed and developing countries alike, in accordance with the Keynesian and neo-classical theories. The argument that advocates that interest rate liberalization leads to financial development and eventually to economic growth is based on the theoretical framework and analytical underpinning by McKinnon (1973) and Shaw (1973). According to the financial liberalization theory in which interest rate liberalization is the centerpiece, the liberalization of the financial sector enables savers to switch some of their savings from unproductive real assets to financial assets hence expanding the supply of credit in the economy. In this way, financial liberalisation

impacts on economic growth, inter alia, through its influence on savings, financial deepening and investment.

The mobilization of savings is perhaps the most obvious and important function of the financial sector. The provision of savings facilities or transaction bank accounts enables households to store their money in a secure place, and allows this money to be put to productive use i.e. lent to individuals or enterprises to finance investment, thus encouraging capital accumulation and promoting private sector development. Lack of access to secure savings facilities leads people to save in physical assets such as jewellery, or store their savings at home, instead of bringing them into the financial sector where they can be utilized productively. In addition, the returns on investment can create positive expected returns for the savers, which may in turn increase savings (DFID working report 2004).The mobilisation of savings also creates an opportunity for re-lending the collected funds into the community. The availability of credit can strengthen the productive assets of the poor by enabling them to invest in productivity, thereby enhancing new technologies such as new and better tools, equipment, or fertilizers etc, or to invest in education and health, all of which may be difficult to finance out of regular household income, but which could provide for a higher income in future.

However, Nathan Were a Business columnist in the Daily Monitor dated (2011-05-24) argued that although SACCOs had emerged as a powerful tool for promoting access to rural and agricultural finance in Busoga region, they had been greatly affected by fake and dubious lending schemes, a point that was greatly applauded to by most of the respondents interviewed during the study. He further states that many people were affected by schemes like, Team, Dutch and Front Page which used to promise the prospective savers and borrowers, 100% interest

return on their savings upon maturity which was six months. So the SACCOs are finding a huge challenge in convincing prospective savers and borrowers to join and benefit from the various financial services.

Okurut et al argues that, the poor can save but all they lack is access to flexible savings products. Savings are key products of micro finance activity and both MFIs and clients value savings as important complements to the financial management, institution/client relationships and to the livelihoods of the low income population. For rural households who do not own land, credit and savings facilities can help establish or expand family enterprises, potentially making the difference between grinding poverty and an economically secure life. Short-term borrowing or savings are often used to maintain consumption of basic necessities when household incomes decline temporarily after a bad harvest or between agricultural seasons argues Zeller and Sharma (1998). By enabling the poor to save in a secure place, the provision of bank accounts (or other savings facilities) and insurance allows the poor to establish a buffer against shocks, thus reducing vulnerability and minimising the need for other coping strategies such as asset sales that may damage long-term income prospects. DFID working report (2004).

2.4 Effect of Credit Accessibility on Poverty Reduction

The myth that poor households in developing countries, who often earn less than a dollar a day, are not credit worthy or able to save has been firmly put to rest in recent years. It has been found that, poor households place special value on reliable and continued access to different types of financial services, available at reasonable cost and catering to their specific needs as per the IBRD World Bank report (2005).Credit and savings facilities can help poor rural households manage and often augment their otherwise meagre sources for investment, acquire assets and

other basic necessities for their families. Access to credit can also reduce the vulnerability of the poor to shocks in the absence of savings or insurance. This can have knock-on benefits.

Microfinance is a key policy strategy for poverty alleviation. Inadequate access to credit by the poor has been identified as one of the contributing factors to poverty. To redress the issue, the policy of increasing access to both production and consumption credit by the poor has been articulated. For sustainable poverty alleviation the policy also emphasizes the sustainability of the Micro Finance Institutions (MFIs) that deliver services to the poor Okurut, Banga and Mukungu, (2004). I do concur with their argument of access to production credit in order to alleviate poverty though I do not entirely support access to credit for consumption.

Eswaran & Kotwal (1990) argue that just the knowledge that credit will be available to cushion consumption against income shocks is a potentially profitable but risky investment should it turn out badly, however, this can make the household more willing to adopt more risky technologies. This will in turn increase productivity and hence income enhancing and the benefits associated thereby scaling down on poverty levels. When considered this way, this would be ok, as opposed to accessing credit for consumption.

Zeller and Sharma (1998) argue that, the task of providing financial services at a reasonable cost to those who have limited assets has not been easy. Until the 1980s in many developing countries, state run agricultural development banks took the lead in establishing formal credit markets in rural areas. However, the short comings of the banking principles is that they were based on collateralized lending, an organizational setup without any incentives to do business with the poor, excessive dependence on government funding, and pervasive political patronage

severely handicapped their performance. The provision of savings services was also largely neglected because the importance of providing deposit services to the poor was not appreciated and because donor finance was available on attractive terms. Distributing loans at subsidized interest rates was emphasized.

In the case of Uganda, the issue of the importance of improving access to the poor was identified as a key development strategy right from the 1960's.The formal banks that were inherited from the colonial government were judged to be serving the trade sector and neglecting the agricultural sector that was the backbone of Uganda's economy employing over 80% of the population especially in the rural sector. This motivated the government to set up state owned banks (like former Uganda Commercial Bank Ltd) whose mandate included among others to provide credit to the rural sector including agricultural credit Muwanga, (2000). Okurut et al, state that the credit to the poor was given mainly in kind, supplies like fertilizers, high yield seeds and tractors hire services through bank schemes like the Rural Farmers Schemes. Due to perceptions that these were government grants and the lack of linkage between production and marketing, recovery of this credit was poor. There was also concern that this directed credit was not reaching the poorest of the poor as it was the non-poor with good political connections who mainly accessed the credit.

Through the Prosperity For All programmes (PFA) that have been set up by the government to fight poverty, SACCOs have played a pivotal role in ensuring that the rural communities access financial services.SACCOs are an important player in the PFA under pillar number four-Rural Financial Services Strategy, they have proved to be a more powerful tool for rural finance as

compared to the commercial banks and MDIs, though they still need to build trust and confidence in the communities. However, the access of poor households to bank credit may be impeded by the high unit cost of small loans and so financial development may be regressive for the poor. This is the prediction of the well-known model developed by Greenwood and Jovanovic (1990) at the early stage of development. According to this model, benefiting from the screening and risk pooling that financial intermediation offers, requires an initial set-up cost that poor households cannot afford. As they are not in a position to use their savings for this outlay, they fall further below in the income distribution. This is why international aid is largely involved in the implementation of micro-credit institutions. Stiglitz (1998) likens the financial system to the 'brain' of the economy, performing the task of allocating resources across space and time in an environment of uncertainty.Credit facilities enable households tap financial sources beyond their own and take advantage of potentially profitable investment opportunities.

Deaton (1991),states that access to credit and other financial services is likely to decrease the proportion of low-risk, low-return assets held by the poor households for precautionary purposes (such as jewellery),and enable them to invest in potentially higher risk but higher return assets,(such as education) with overall long-term income enhancing impacts. This is in line with the various credit accounts offered by the financial institutions, like the school fees loans. However it should also be noted that the poor in developing countries often do not have access to ongoing, formal financial services, so they are forced to rely on often expensive and more risky informal services which incapacitates them from fully participating in markets to increase their incomes and contribute to economic growth (DFID, 2004). Dean and Jonathan (2009) contend that, in theory, expanding credit access may well have null or even negative effects on

borrowers. Formal sector access could crowd-out relatively efficient informal credit and insurance mechanisms. The often high cost of microcredit (60% APR in our setting) means that high returns to capital are required for microcredit to produce improvements in tangible outcomes like household or business income.

2.5 How Remittances both from abroad and locally contribute to Poverty Reduction

Remittances from abroad and domestic transfers are an important source of income for the poor, and provide an additional means for them to diversify their sources of income thus reducing vulnerability (DFID, 2004). In Uganda workers' remittance are estimated as a residual in the Balance of Payments (BOP).In December 2009 workers remittances amounted to US$ 77.6M (BOU Report, 2010). In many developing countries remittances now constitute the second largest capital flow after Foreign Direct Investment (FDI) and ahead of Overseas Development Assistance (ODA).

Remittances are an important means to poverty reduction. One challenge for donors and governments is therefore to find ways that provide funds transfer mechanism for migrants including illegal migrants. This would enable them to benefit from reduced transmission charges and other support programmes and hence encourages remittances. This is indeed a challenge for Uganda. There is emerging empirical evidence of a strong correlation between remittance flows through proactive legislative and regulatory policies. The way remittances are invested by households however varies considerably according to culture, the local climate for investment, and gender. Muwanga, (2004) argues that the remittances and their investment are significantly hampered by inefficiencies and access barriers in financial systems and services both in sending

and receiving countries. It is estimated that on average one third of remittances flow through informal channels. Various private sector entities and some countries have implemented new products, incentives and policies to encourage individuals and institutions to shift from informal to formal remittances systems. Unfortunately, apart from Money Gram and Western Union Money Transfer services not much has hitherto been undertaken in Uganda. Perhaps one can also consider the proposed Dual Citizenship Law in the offing as one of the initiatives (Muwanga, 2004).

Gubert, (2005) observes that, the impact of remittances is intrinsically linked to their allocation and more specifically to the breakdown between consumption and investment. He further states that, when migration is undertaken in conditions of great poverty, remittances are spent largely on daily consumption thereby making very little contribution to local household development. But when migration is a response to credit market failures, remittances enable capital investment and thereby promote output growth. Taylor and Wyatt (1996) and Taylor (1999) found confirmation for the hypothesis that 'remittances had an equalising effect on income distribution in Tonga and México.' For Tongan houses for example, the Gini Coefficient for total income declined from 0.37 to 0.34 with the receipt of remittances. Evidence from Egypt however shows that despite the poverty reduction (because a number of poor households receive remittances) remittances induced income inequality to rise (Adams, 1991).

At the macro/national level, one of the most significant benefits of the inflows of remittances to a country is that they increase the foreign exchange earnings of the labor exporting country Ratha, (2003) and Pernia, (2006). Cattaneo (2005) adds that, workers' remittances exert a positive

impact on the balance of payments of many developing countries as well as promoting economic growth, through their direct effects on savings and investment (human and physical capital) and indirect effects through consumption.

Hanson et al (2003) have found evidence for 'forward' linkages between remittances and human capital formation in Latin America. More still, Ratha (2003) suggested that remittances that raise the consumption levels of rural households might have substantial multiplier effects because they are more likely to be spent on domestically produced goods. However, as for countries with low GDP, remittance receipts can distort the functions of formal capital markets and also destabilize exchange rate regimes through the creation of parallel currency markets suggests (Chimhowu *et al.*, 2003).

IMF (2005) found positive and significant impacts of remittances on poverty reduction. Jongwanich (2007) examined the impact of workers' remittances on growth and poverty reduction in developing Asia-Pacific countries using panel data over the period 1993–2003. The result showed that, while remittances do have a significant impact on poverty reduction through increasing income, smoothing consumption and easing capital constraints of the poor, they have only a marginal impact on growth operating through domestic investment and human capital development. More so, a study by Adams and Page (2005) strongly associated remittances with poverty reduction, using a 71-country multi-variate data set, arguing that a 10 percent increase in international remittances from each individual migrant will lead to a 3.5 percent decline in the proportion of people living in poverty, such that remittances are said to significantly reduce the

level, depth and severity of poverty in developing countries (see also Anyanwu and Erhijakpor, 2009).

Quartey and Blankson (2004) have concluded that migrant remittances to Ghana are in fact countercyclical and are effective in helping smooth household consumption and welfare over time, especially for food crop farmers, who are typically the most disadvantaged socioeconomic group. Most research seems to agree to the fact that remittances plays a great role in improving the welfare of poor households and hence reducing on the poverty incidence in a given area or country.

2.6 Summary of Literature Review

In the literature of development economics, it is generally held that the depth of financial development promotes economic growth in two ways. First, it facilitates resource mobilization, reduces the transaction costs of financing investments, and therefore, induces more investments (Merton and Bodie, 1995).Second; it helps improve the allocative efficiency of financial resources, and thus lift the returns to financial resources, which raises productivity (King and Levine 1993, Beck et al. 2000). Classical economists led by Adam Smith assume that household saving equals capital investment expenditures. This theory is greatly supported by McKinnon (1973) and Shaw (1973). Keynes believed in prior-investment rather than prior savings, and according to him success in investment depended on the business expectations as well as government intervention especially in the regulation of the commercial banks in order to protect the consumers.This study supports the Keynes theory where by the forces of demand determine the success of the investment and it's from the investment that income is partly consumed and

partly saved. The Modern growth theory emphasised the importance of factors such as education and a good financial system in attaining financial development. Remittances can be sent as an obligation to the household, means of investment in the country of origin, for purposes of insurance against the future or loan repayment.

From the literature it was also noted that education, acquisition of productive assets and health capabilities are among the primary dimensions of individual well-being and these can mainly be made possible through the development of the financial systems in an area through the provision of savings, credit and remittances facilities.The major issue with the remittances is to capture the correct statistics, reduce user charges and minimize informal transfers. This has to be undertaken at a national level and should involve commercial banks, nonbanks (micro finance) and other systems e.g. money transfer services which are recognized internationally.

However, most of the literature reviewed is centred on financial development and growth and little has been researched on the channels of financial development and growth at the micro level rather than macro; such that the research dissertation has filled in the gaps in order to examine the contribution of the various financial services on poverty reduction and growth at the micro level which is the local government.

CHAPTER THREE

METHODOLOGY

3.1. Introduction

The chapter details the methodology employed in the study. It discusses the research design, population under study, sampling techniques, sample size and selection, data collection instruments, pretesting of research instruments, procedure of data collection and data analysis techniques.

3.2. Research Design

The Case study design and Correlation design were used given the flexibility and holistic nature of handling situations of the Case study design as stated by Shuttleworth, (2008) and the Correlation design which shows to what degree a relationship exists between two or more variables, the degree of the relationship is expressed as a correlation coefficient (Amin,2005).

In particular, the simple correlation studies method was used to bring out the degree to which the two variables were related. The triangulation approach was adopted. The researcher used both qualitative and quantitative designs. The qualitative design was adopted by interviewing the managers at all the five financial institutions namely; Stanbic Bank, Uganda Finance Trust, FINCA, Twisannia SACCO and Naluwoli SACCO and further adopted through the non structured questions in the questionnaire. The quantitative design was adopted through the structured questions in the questionnaire.The justification for the use of triangulation approach was that, one single method could not serve all the purpose of all types of research problems (Mugenda, 2006) that allowed the researcher get various responses from the respondents.

3.3. Study Population

The study population comprised of clients of Stanbic Bank and members of Uganda Finance Trust, FINCA, Twisania SACCO and Naluwoli SACCO. The study also involved the managers of the five financial institutions stated above. The study population was limited to 4,500 people,10 in management positions and a total sample of 354 clients (Savers, borrowers and money transfers) of Commercial bank (Stanbic Bank), SACCOs (Twisania SACCO and Naluwoli Tubewalala SACCO), MDIs (FINCA and Uganda Finance Trust) in Kamuli Town Council. The sample of 354 respondents was selected using Krejeie and Morgan (1970) table for sample size determination. While the researcher had anticipated to interview two managers per institution, this was not possible as most institutions had only one manager overseeing the branch operations, therefore only five interviews were carried out in the management positions.

3.4. Sample Size and Selection

The researcher used the table that provides a good decision model as provided by Krejeie and Morgan (1970). As stated by Amin (2005), it's a very easy means of estimating the sample size and needs little information.Below is the table for sample size selection and sampling technique that was used in the study. With a total population of 4,500 people, the sample was estimated at 354 using the Krejeie and Morgan (1970) table for sample size determination as shown below. However as stated earlier the interviews that were meant for both top management and supervisors were only done by the branch managers of the five institutions, thus five interviews instead of ten were done using purposive sampling method.

Table 1: Population, Sample and Sampling Techniques used in the study

Population Strata	Total Population	Sample Population	Sampling Techniques
Top management	5	5	Purposive Sampling
Stanbic Bank	1,000	79	Simple Random Sampling
Twisania SACCO	1,200	94	Simple Random Sampling
Naluwoli Tubewalala SACCO	700	55	Simple Random Sampling
FINCA	650	51	Simple Random Sampling
Uganda Finance Trust	950	75	Simple Random Sampling
Total Population/Sample	4,500	354	

***Source**: Field data*

Both the probability and non-probability sampling techniques were used; Simple random sampling was used in the selection of respondents for the study population so that every person could get an equal chance of being selected. For key informants, non-random purposive sampling method was used.

A sample size of 354 was attained out of a population of 4,500, according to the Krejeie and Morgan (1970) table. So when, *354/4500=0.079* this was represented as the multiplier (f) that was multiplied with the each of the population of all the five institutions in order to get the stratum per institution. For example Stanbic bank, *0.079*1000=79* respondents and this applies for all the others. From each stratum, the simple random sampling method was used to get the respondents per institution. This has been further explained below under stratified sampling method.

3.5. Sampling methods and procedure

3.5.1 Purposive Sampling

Mugenda and Mugenda (1999) observe that purposive sampling technique allows a researcher use cases that have the required information with respect to the objectives of his/her study. In the study, purposive sampling was used to select the key informants. One branch manager was interviewed from each financial institution, it was not possible to interview the supervisors as had earlier proposed since each institution had only one manager and the rest were operational staff. The managers interviewed gave the researcher an overview of the general operations of the institution.

3.5.2 Stratified Sampling

Stratified sampling is used when representatives from each subgroup within the population need to be represented in the sample. The first step in stratified sampling is to divide the population into subgroups (strata) based on mutually exclusive criteria. Random or systematic samples are then taken from each subgroup (Westfall, 2009). The researcher implored the simple random sampling method after apportioning the strata. Kothari, (2004) further affirms to stratified sampling as a desired method in achieving representation from various sub-groups in a population.

In the study we used the following basic terms;

- N= number of cases in the sampling frame
- **n** = the number of cases in the sample
- $_{N}C_{n}$ = the number of combinations (subsets) of n from N

- $f = n/N$ = the sampling fraction

Whereby, the population size N was divided into k strata with sizes

$N_1, N_2......N_k$ such that $N=N_1+N_2+....+N_k$

The sample size n was also divided into k strata whereby,

$N=n_1+n_2+....+n_k$

Using proportionate approach, the sample size from each stratum is proportional to the size of the stratum. i.e $n_1/N_1=n_2/N_2=.....n_k/N_k=n/N=f$

The sub-populations included the five financial institutions. Simple Random sampling method was adopted to select respondents from each stratum and hence a total number of 354 respondents were attained.

3.6. Data Collection Methods

The researcher used the triangulation method to collect both qualitative and quantitative data. Meredith et al, (2003) as cited in Amin (2005), state that triangulation is a process of using multiple data collection methods. This included questionnaires which were used for collecting both qualitative and quantitative data and the face-to-face interviews which were mainly used for collecting qualitative data and documentation for collecting the secondary data.

3.6.1 Survey (Questionnaire Method)

Data was collected with the aid of a questionnaire that comprised of 97 questions, 92 structured mainly to capture quantitative data and 5 unstructured, meant mainly to capture qualitative data. A questionnaire is a self-report instrument used for gathering information about variables of interest in an investigation. It was structured on a three point likert scale of 1= agree, 2 = not sure, 3 = disagree.

3.6.2 Interview

An interview is an oral questionnaire where the investigator gathers data through direct verbal interaction with participants. Face to face interviews were conducted with managers for each financial institution that is the manager for Stanbic Bank, FINCA, Finance Trust, Naluwoli and Twisania SACCOs in Kamuli Town Council. This enabled the researcher get more elaborate information about the operations of the institution and the clients and this was mainly achieved through probing and open ended questions.

3.6.3 Documentary Review

This method involves delivering information by carefully studying written documents, or visual information from sources called documents. Various books and journals were viewed mainly to get literature written by different authors on the topic of study and their findings as well. The researcher was also able to get some documents from the financial institutions that were informative in regards to the products they offer, the target customers and the rates charged.

3.7. Data Collection Instruments

The instruments used included a questionnaire, an interview guide and a documentation checklist.

3.7.1. Questionnaire

Key, (1997) defines a questionnaire as a means of eliciting the feelings, beliefs, experiences, perceptions, or attitudes of some sample of individuals. As a data collecting instrument, it could be structured or unstructured. He further states that, the questionnaire is most frequently a very concise, preplanned set of questions designed to yield specific information to meet a particular

need for research information about a pertinent topic.The questionnaire was used to collect both qualitative and quantitative data.

3.7.2 Interview Guide

Ahuja, 2001 refers to the interview guide as a tool that can easily be constructed and hence being one of the most appropriate instruments for collecting data for testing study hypotheses. An interview is usually guided by an interview guide which will lead the researcher on what information to get and chronology in which the questions will be asked. In the study, the interview guide was used to collect qualitative data from key informants.

Both the questionnaire and interview guide were designed to answer all the key research questions of the study, the interview guide was mainly used to collect qualitative data.

3.7.3 Documentation Checklist

The documentation checklist was mainly used to guide the researcher on the points to note for referencing the books and journals used while collecting data. The checklist mainly assists the researcher in capturing information on the journals, books and magazines read and further stating all the necessary referencing information, like the author, edition, publisher and year published.

3.8. Pretesting of Data Collection Instruments

3.8.1 Validity

Validity is the appropriateness of the instrument. Content validity was used since it focuses on the extent to which the content of an instrument corresponds to the content of the theoretical concept it is designed to measure (Amin, 2005). He further states that for an instrument to be accepted as valid, the average index should be 0.7 or above. The researcher consulted colleagues,

supervisors and other researchers, who sat down and reviewed the instruments before they were sent out for a pilot study. A pilot study was done to test the questionnaire and out of the 102 items, 97 were declared valid for the study, as they included all the intended variables of the study. Cluttered questions were reviewed, corrected and a few questions added before the actual data collection exercise took place. All the items in the interview guide were declared valid with some editions. So all this helped test the content validity of the questionnaire and interview guide, the results were as shown below;

$$\text{Content Validity Index (CVI)} = \left(\frac{\text{No. of items declared valid}}{\text{Total no. of items}}\right)$$

$$CVI = \frac{97}{102} = 0.95.$$

Given a Content Validity Index (CVI) of 0.95, this showed that the contents of the instrument that was used to carry out the study were valid as the result was above 0.7, the generally acceptable average index as stated by Amin (2005).

3.8.2 Reliability

Reliability refers to the consistency of the instrument in measuring whatever it is intended to measure. Sekaran, (2000) argues that reliability of an instrument indicates the stability and consistency with which the instrument measures the concept and helps to assess the goodness of a measure. The method of internal consistency was adopted by the researcher, a pilot study was carried out to check the consistency and logical flow of the questions before data collection.

Table 2: Reliability Statistics

Dimension	Cronbach's Alpha	No. of items
Savings	0.770	9
Access to Credit	0.803	14
Remittances	0.759	14
Poverty reduction	0.705	47

Cronbach's Alpha	No. of Items
.759	84

A pilot study of ten questionnaires was done, the data was entered into the SPSS computer package and subjected to the cronbach's alpha calculation giving a reliability coefficient of 0.759 out of 84 items indicating averagely a high reliability as shown above. which is regarded acceptable (Amin, 2005), given that its above the required (Cronbach's Alpha>0.7) and therefore was adopted.

3.9. Data Collection Procedure

This subsection looks at how the researcher will go about collecting his/her data that is how the data collection instruments were disseminated to get information. After getting a letter from UMI giving the researcher a go ahead to do fieldwork, the researcher went ahead to train the research assistants who were to assist in data collection. Given the nature of the questions structured out in the questionnaire, the researcher had to use research assistants to ask the respondents the questions and guide them through as the questions were meant to capture financial deepening aspects which needed interpretation given the study population was largely semi-literate. So the

research assistants asked the respondents question by question as they recorded their responses on the questionnaires provided. The researcher carried out the interviews with the managers of the institutions after scheduling appointments with them. The researcher also consulted various materials that related to the topic under study in order to enrich the researcher's findings.

3.10. Measurement of Variables

There were variables measured at nominal, ordinal and interval ratio levels depending on the items in the instrument Nominal scale was largely used to measure the demographic characteristics of the respondents, the ordinal scale was using a three likert scale of Disagree (3), Not sure (2) and Agree (1), (Ahuja, 2001) maintains that this type of scale is often referred to as a "Likert Scale," named after one of its originators,Likert and the interval scale was also used when considering income levels, savings, credit, age and acreage levels.

3.11. Data Analysis

3.11.1. Quantitative analysis

After the questionnaires were returned and interviews concluded, the researcher edited the raw data for completeness, accuracy, uniformity and comprehensiveness, the questionnaires were properly coded prior to their entry into the SPSS package. Responses from qualitative data were grouped according to the variables and the quantitative data was then logically arranged to allow for meaningful coding and patterns of computation. Statistical Package for Social Sciences (SPSS version 16) was used to process and analyze the data because of its simple usability. Data was analyzed by way of Pearson product Moment correlations and regression to determine the relationships (Mugenda and Mugenda, 1999). "Correlation analysis measures the relationship between two items, the resulting value (called the "correlation coefficient") shows if changes in

one item (e.g., an indicator) will result in changes in the other item" as defined by Achelis, (2010).He further interprets this as; the correlation coefficient can range between + or - 1.0. A coefficient of +1.0, shows a "perfect positive correlation," means that changes in the independent item will result in an identical change in the dependent item. A coefficient of -1.0, a "perfect negative correlation," means that changes in the independent item will result in an identical change in the dependent item, but the change will be in the opposite direction. A coefficient of zero means there is no relationship between the two items and that a change in the independent item will have no effect in the dependent item.

Correlation and regression analysis were used to test the relationship between the variables. The analysis yielded statistics that were used to test the hypotheses as stated in chapter one. The presentation of the above quantitative results was made in descriptive formats such as tables, frequencies, percentages, pie-chart, and graphs.

3.11.2 Qualitative analysis

Qualitative data analysis is a type of data analysis that is mostly used in qualitative research in which the data are analyzed to non-empirical form as in qualitative research; data are in the form of texts, materials or photographs which describe events and occurrences (Mugenda and Mugenda, 1999). Qualitative data was obtained through the use of the interviews and documentary review that were thoroughly, sorted, classified and categorized into the various variables. The presentation of the above qualitative results was made in verbatim statement to support findings from the quantitative analysis and conclusions were drawn.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

4.1. Introduction

The study sought to find out the effect of financial deepening on poverty reduction in local governments, a case study of Kamuli Town Council. This chapter consists of the response rate of the respondents, the demographic characteristics of the respondents and the descriptive statistics of the variables, both the independent and the dependent variables. Presentation of the results is according to the objectives of the study. These statistics include frequencies, correlations and regressions. The upper level of statistical significance for null hypothesis testing was set at 5%.All the statistical test results were computed using the 2-tailed level of significance in accordance with the non-directional hypotheses testing (Sekaran,2001).The qualitative data collected was also presented according to the objectives of the study right after the quantitative data presentation.

4.2 Response Rate

Out of the targeted sample size of 354 respondents, 215 respondents were achieved. A total of 210 were returned. However, 5 questionnaires were not fully completed hence leaving us with 205 duly filled in. Five key informants were interviewed. The total number of respondents was 210 out of a sample of 354, constituting a response rate of 59.3% which is internationally acceptable since it's above the 50% rate (Mugenda and Mugenda, 2003) which shows that over 50% of the targeted sample size participated in the study.

4.3 Demographic Characteristics of the Respondents.

The questionnaire was administered to the sample size with the help of research assistants that took the respondents through the questions given the technical aspect of the topic under study for effective results. The demographic characteristics included; gender, age, marital status, level of education, occupation, financial institution and the years spent in that financial institution. Qualitatively, the researcher was able to capture data on house hold heads and household composition of the respondents.

4.3.1 Gender of Respondents

The researcher sought to find out the gender of the respondents in relation to the variables under the study. Especially how the male Vis a Vis the female were able to access financial services in Kamuli Town Council. The findings are summarized in the figure below.

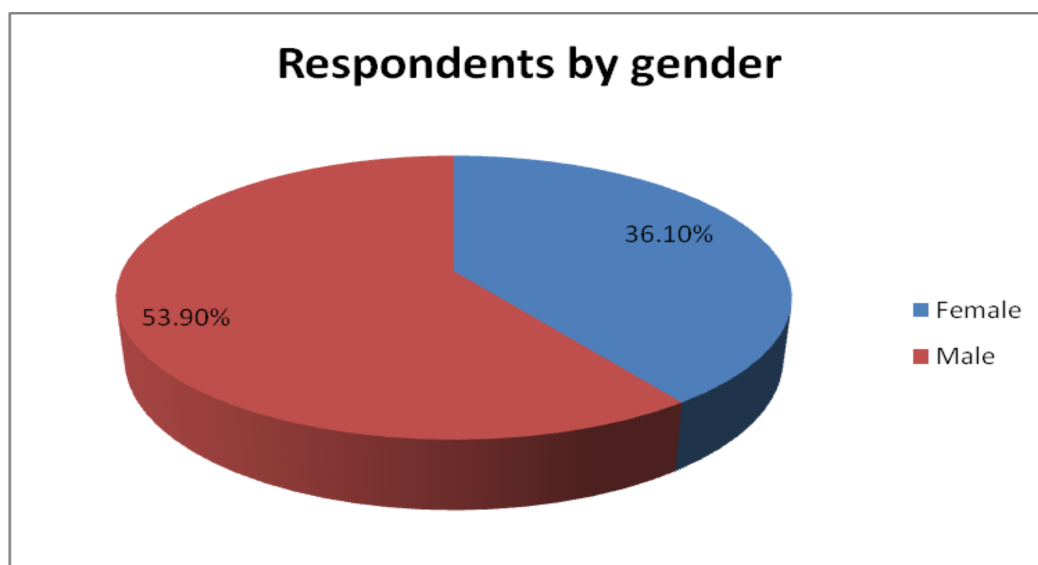


Figure 2; Respondents by Gender

The results above show that 63.9 % (131) of the respondents were male and 36.1 % (74) of the respondents were female. And this showed also showed the aspect of the male participating more in financial activities as compared to the females due to various reasons as clearly highlighted in chapter five.

4.3.2 Marital Status of Respondents

The respondents were requested to state their marital status. The researcher sought to find out the financial behaviors of the different categories of respondents, that is the single, married, divorced and widowed. The figure below shows the findings of the researcher.

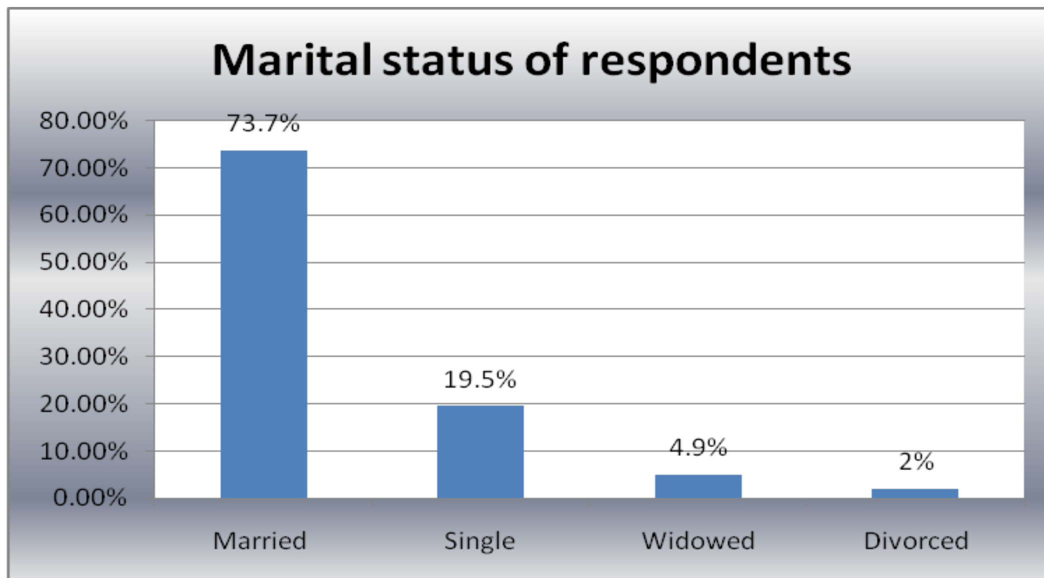


Figure 3; Marital status of respondents

The findings of the study indicate that 73.7% (151) of the respondents were married as shown in the bar graph above, 19.5% (40) were single, 4.9% (10) were widowed and 2.0% (4) were divorced. There by indicating that over 50% of the respondents engaged in financial services in Kamuli Town Council were married mainly to boost their household income.

4.3.3 Respondents by Age

Age is an important variable in determining how different age groups relate to the variables under study. The researcher wanted to find out the different age groups of the respondents and how they related to the variables under study. Below are the finings as shown in the pie chart below.

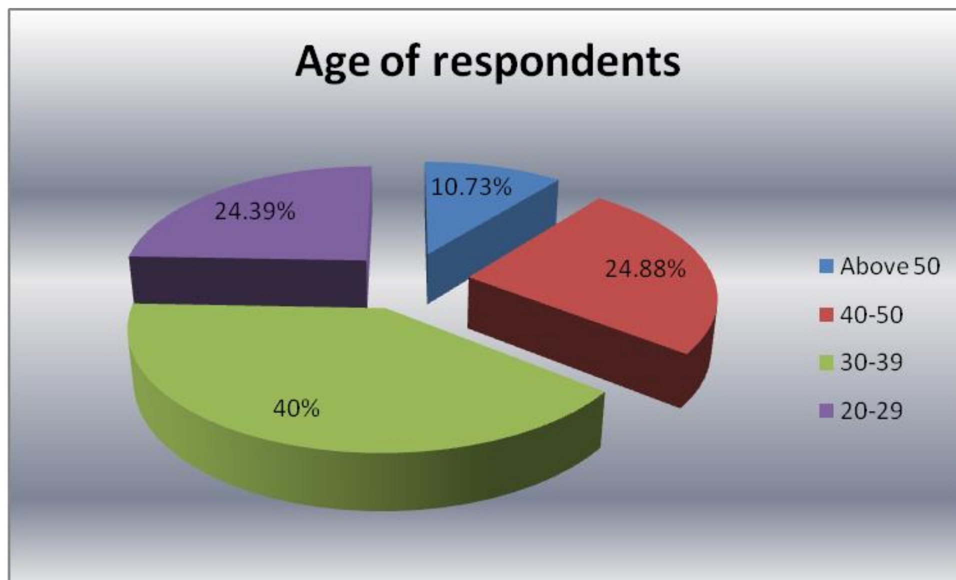


Figure 4; Age of Respondents

As shown in the results of the study above,40% (82) of the respondents were between the age of 30-39 years,24.9% (51) of the respondents were between the age of 40-50 years thus which also greatly underscores the point of the majority of the respondents being married.24.4% (50) of the respondents were between the age of 20-29 years and 10.7% (22) were greater than 50years.This could mainly be due to the fact that financial institutions are reluctant to loan money to persons over 50 years of age without any collateral as security.

4.3.4 Respondents by Level of Education

The researcher wanted to find out how a respondent's level education relates with both variables especially a respondent's ability to access financial services and effectively make use of the services. The findings are stated in table 3 below.

Table 3: Respondents by Level of Education.

Items	**Frequency**	**Percentage**
No Schooling	9	4.4%
Primary Level	39	19.0%
Secondary Level	57	27.8%
Tertiary Level	72	35.1%
University Level	28	13.7%
Total	**205**	**100%**

Source: Field data

Given the statistics shown above, 35.1% (72) of the respondents were educated up to tertiary level, 27.8% (57) were educated up to Secondary level, 19% (39) were educated up to primary level, 13.7% (28) respondents had attained the university level of education and 4.4% (9) had not gone to school at all. At least on average over 80% of the respondents had attained some level of education which is a good indicator of poverty reduction at the local governments. And the respondent is also able to understand the various services offered by the financial institutions in addition to the trainings offered.

4.3.5 Respondents by Occupation

By capturing this demographic characteristic, the researcher sought to find out what the respondents do for a living and how it relates to their ability to access and utilize financial services offered by the bank and microfinance institutions. The results are shown in the table below.

Table 4: Respondents by Occupation.

Items	**Frequency**	**Percentage**
Unemployed	26	12.7%
Civil Servant	45	22.0%
Private sector	36	17.6%
Farmer	27	13.2%
Self employed	69	33.7%
Others	2	1.0%
Total	**205**	**100%**

Source: Field data

As shown in Table 4 above, 33.7% (69) of the respondents were self employed, 22% (45) were civil servants, 17.6% (36) were employed in the private sector, 13.2% (27) of the respondents were engaged in farming, 12.7% (26) were unemployed and 1% (2) represented others.

This showed that those involved in self employment accessed and utilized financial services the most as compared to other categories this could largely be attributed to the fact that they are

heavily engaged in business and investment which need funding as well. Civil servants were second with 22% and this could also be attributed to the fact that their payments are made through financial institutions hence all civil servants utilize financial services in one way or another and they are able to boost their incomes through accessing credit and thus reducing poverty. There are still few farmers that access financial services and this could mainly be due to the risks and uncertainties involved with farming which the financial institutions may not be eager to take on. There by retarding their ability to boost their household incomes.

4.3.6 Respondents by Financial Institution

Given the five financial institutions that were covered under the study, the researcher sought to find out which financial institution the respondents belonged to and the various products that the institutions offered them. Below is Table 5 that shows the distribution of the respondents among the five financial institutions that were studied.

Table 5: Respondents by Financial Institution

Items	Frequency	Percentage
FINCA	14	6.8%
Uganda Finance Trust	51	24.9%
Twisania SACCO	46	22.4%
Naluwoli SACCO	47	22.9%
Stanbic Bank	46	22.4%
None	1	0.5%
Total	**205**	**100%**

Source: Field data

Table 5 above shows an average distribution of the respondents among the five institutions that were studied, 24.9% (51) of the respondents were from Uganda Finance Trust, 22.9% (47) were from Naluwoli SACCO, 22.4% (46) were from Stanbic Bank, 22.4% (46) were from Twisannia SACCO, 6.8% (14) of the respondents were from FINCA and 1 of the respondents didn't belong to any of those stated above. This average distribution clearly gave the study an insight about the products of the different financial institutions and accessibility to the products by their clients and more so how they had assisted in growing the household incomes of their clients.

4.3.7 Respondents by membership period with Financial Institution.

The researcher wanted to find out the average period the respondent had spent with the financial institution they bank with and the findings are stated in the table 4 below.

Table 6: Respondents by membership period with Financial Institution.

Items	**Frequency**	**Percentage**
➢ 5 years	87	42.4%
4-5 years	31	15.1%
2-3 years	36	17.6%
< 2 years	45	22.0%
Others	6	2.9%
Total	**205**	**100%**

Source: Field data

The results in Table 6 above showed that 42.4% (87) of the respondents had banked with the institution for more than 5 years,22% (45) less than 2 years,17.6% (36) between 2-3 years,15.1%

(31) for a period of 4-5 years and 2.9% (6) of the respondents had banked with the institutions for a much lesser period. Given that most of the respondents had banked with their institutions for more than 5 years, the researcher was able to gather enough information on the products they offered and how the members had benefited from these financial institutions.

Other demographic characteristics that were captured qualitatively using open ended questions, showed that 82 % (169) of the households of the respondents were male headed and only 17.6 % (36) were female headed. And the household composition of the respondents averaged at 10 members per household thus showing a high rate of dependency as over 50% of most of the members of the household were still schooling and about 53.6% of the respondents banked with more than one financial institution.

4.4. Empirical Findings

The researcher's main objective of the study was finding out how financial deepening contributes to the reduction of poverty levels in local governments in Uganda with reference to Kamuli Town Council. The analysis of the findings which follow was presented according to the objectives of the study as Descriptive statistics, Correlations, regressions and the qualitative results as was obtained from the questionnaire administered and the interviews of key informants.

4.4.1 Savings and Poverty reduction in Kamuli Town Council.

The first objective of the study was to find out how savings impacts on poverty reduction in local governments with reference to Kamuli Town Council. This objective sought to find out how empowering the community to save would uplift their household incomes and thus reduce

poverty levels of the households. With the independent variable being Savings and the dependent variable was poverty reduction which was defined by education, standard of living and life expectancy. The findings obtained from the questionnaire are summarized in Table 7 below.

Table 7A; Respondents' views on Savings (Responses in percentages %)

No.	Item questions	Agree	Not Sure	Disagree
1.	My financial institution helps me determine how much to save.	25.4	4.4	64.4
2.	When I save with my institution I get interest at year end.	28.3	12.7	49.8
3.	My institution offers various savings accounts.	65.9	12.2	12.7
4.	As a result of saving with my institution I get benefits.	36.6	3.4	50.7
5.	Through saving with my institution I do attend trainings they offer.	45.4	2.0	42.9
6.	This training has motivated me to save more.	42.9	3.9	42.0

Source: Field data

Table 7B; Members who save

No.	Item question	Yes	No
7.	Do you save?	88.8%	11.2%

Table 7C; How much members save

No.	Item question	>500,000	400,000-500,000	300,000-399,999	200,000-299,999	100,000-199,999	<100,000
8.	How much do you save?	10.7%	2.3%	6.3%	5.1%	12.7%	51.7%

Table 7D; How often members save

No.	Item question	Daily	Weekly	Bi-weekly	Monthly	Quarterly
9.	How often do you save?	4%	12.7%	8.7%	56.1%	7.3%

Table 7A above represents the respondents' views and attitude on savings. The study used 9 questions to capture the respondents' views on savings, 6 questions out of the 9 were based on a three Likert scale to measure this variable, and the other 3 questions were scaled as shown above. When respondents were asked whether their financial institutions help them determine how much to save, out of the 205 respondents, 193 answered and 12 did not answer. Those who answered, 64.4% disagreed, 25.4% agreed and 4.4% were not sure. This showed that most financial institutions do not guide their members on how much to save since over 60% of the respondents disagreed. On whether interest is paid to the members who save at the end of the year, 49.8% of the respondents disagreed, 28.3% agreed and 12.7% were not sure. This showed that almost half of the respondents 49.8% do not get interest for the amount they save at the end of the year (this discourages the savers), or if it's earned, it may not be clearly explained to the members. Though on the other hand 28.3% of the respondents agreed that they do get interest at year end.65.9% of the respondents agreed that their financial institutions have various savings accounts, 12.7% disagreed and 12.2% were not sure. This clearly showed that most financial institutions offered their members various savings accounts based on their needs or what they were saving for given that over 60% of the respondents agreed to this. When the respondents were asked as to whether they get any other benefits as a result of saving with their financial institutions, 36.6% agreed, 50.7% disagreed and 3.4% were not sure. This shows that there is either little or no motivation for the members of the financial institutions to save with them.

Some financial institutions do offer trainings for their members and 45.4% did agree to attending the trainings, 42.9% disagreed and 2.0% were not sure. This shows that at least on average most of the respondents have attended trainings organised by their financial institutions which usually

enlighten them on financial services like savings. Though on the other hand almost half of the respondents do not participate in the trainings which could also be due lack of sufficient information about the trainings on the part of the financial institutions. Those who have attended the trainings have been motivated to save more, 42.9% of the respondents agree to this, 42% disagree and 3.9% are not sure. Given the percentage of the respondents who attend, it showed that most of them were motivated to save more.

Furthermore, out of the 205 respondents, 182 said that they save and 23 do not save. This represents 88.8% and 11.2% respectively as shown in Table 7B. Table 7C further shows that, from the 182 respondents who save, 106 of them save less than 100,000shs representing 51.7% of the respondents, 12.7%save between 100,000-199,999shs, 10.7% save more than 500,000shs and 13.7% represents respondents who save between 400,000-500,000shs, 300,000-399,999shs and 200,000-299,999shs.This showed that the majority of the savers were low to medium income earners who can only save a small amount of their meagre earnings. The researcher also found out that 56.1% of the respondents who save, save on a monthly basis, 12.7% on a weekly basis and a total of 12.7% on a daily, biweekly and quarterly basis as shown in Table 7D above. This showed that majority of the respondents who save bank their savings on a monthly basis mainly because most payments are realised at the end of the month.

Qualitatively, the researcher was able to gather the respondents' opinions on savings which have been incorporated within the analysis of the results and the information got from the key informants follows below;

The key informants from the financial institutions talked the researcher about the savings products that they offer their members; FINCA offers between 3-4% interest per annum depending on the account type which include, FINCA easy, FINCA junior and Group accounts.

Stanbic Bank offers a 3.5% interest on savings on quarterly basis, Naluwoli SACCO offers 15% per annum on savings by members on quarterly basis, Finance Trust offers 2% every after 6months and Twisania SACCO does not offer any interest on members' savings. Over all the financial institutions consider the member's savings before they are given credit. The findings of the researcher were further analysed using Pearson correlation to establish the relationship between the independent variable Savings and the dependent variable poverty reduction. The results are shown in Table 8 below.

Table 8: Correlation between savings and poverty reduction

		Savings	*Poverty reduction*
Savings	Pearson Correlation	1	.237(**)
	Sig. (2-tailed)	.	.001
	N	**205**	**205**
Poverty reduction	Pearson Correlation	.237(**)	1
	Sig. (2-tailed)	.001	.
	N	**205**	**205**

** Correlation is significant at the 0.01 level (2-tailed).

Pearson Correlation results of 0.237** in table 8 above revealed that there is a moderate but positive and significant relationship between savings and poverty reduction in Kamuli town

council. Achelis, (2010) asserts that, "A low correlation coefficient (e.g., less than 0.10) suggests that the relationship between two items is weak or non-existent". Since the result above is greater than 0.10 and positive, this implies that when savings are increased, there is a likelihood of a reduction in poverty and when savings are reduced there is a likelihood of an increase in poverty. The weak relationship is mainly explained by the fact that over 60% of the respondents alluded to the fact that they were not guided by their financial institutions on how to save and that the overall hospitality of most of the financial institutions' staff especially at Stanbic bank was lacking, may be this is as a result of the large number of people that the staff have to serve daily. Over 40% of the respondents said that they were not aware of any interest earned as a result of saving regularly. One of the respondents said that "I*nterest rates offered to savings accounts should be increased*". Some respondents said they are not motivated to save since they are charged high ledger fees and yet there is no interest on savings.

The findings further indicate that the sig value is .001, meaning that the relationship between savings and poverty reduction is statistically significant since .001 is less than 0.05, the significance level at which the relationship was tested. A respondent from Twisania SACCO said that "They *encourage us to save and invest and share experience with others*". This accounts for the significant relationship attained from the findings. A respondent from FINCA said that it has helped them save more money, thus appreciating the services of FINCA. Therefore, from the findings stated above, the hypothesis that "There is a significant relationship between savings and poverty reduction in Kamuli Town Council" has been validated. The researcher further used a regression analysis to confirm whether Savings had had an effect on poverty reduction in Kamuli Town Council. The emerging results are presented in Table 9.

Table 9: Regression analysis for savings and poverty reduction

Coefficients (a)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.782	.060		29.852	.000
Savings	.088	.025	.237	3.470	.001

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.237(a)	.056	.051	.140

a Dependent Variable: Poverty reduction

The table above shows that the effect of a dependent variable (poverty reduction) is measured by a standardized regression coefficient (Beta). This was used to determine whether the independent variable (savings) had a controlling effect on poverty reduction in Kamui Town Council. The results show that statistically , savings standardized regression coefficient (Beta) was 0.237; meaning that savings as an independent variable dimension explains the variations of the dependent variable poverty reduction in Kamuli Town Council by 23.7 %. Thus, this implies that savings is positively related with poverty reduction in Kamuli Town Council. On the other hand, the table also shows that savings had R squared (R^2) = 0.056 or 5.6% (R^2 tells how a set of independent variables explains variations of a dependent variable). This means that the

independent variable (savings) accounts for 5.6% of the variations of the dependent variable (poverty reduction).This can further be alluded to by the fact that all the financial institutions consider members' savings before giving credit. This also greatly encourages savings in order to access credit in future. This justifies the fact that savings play a great role in poverty reduction. The findings suggest that the independent variable is positively related to the dependent variable by 5.6%, other variables could account for the other variance in poverty reduction in Kamuli Town Council. The findings above further reveal or confirm the findings from the literature review that savings are crucial for the financial sector to develop, for one to be considered a member of any of the financial institutions stated above, you need to first save with them and it's from these savings that a member is also entitled to credit. However it should also be noted that with meager income and economic activities it becomes difficult for households to make any savings after covering the basic household expenses and this accounts for the low levels of savings in the area.

4.4.2 Access to Credit and Poverty reduction.

The second objective of the study was to find out how access to credit impacts on poverty reduction in local governments with reference to Kamuli Town Council. This objective sought to find out how empowering the community through giving them credit would uplift their household incomes and thus reduce poverty levels of the households. With the independent variable being Credit access and the dependent variable was poverty reduction which was defined by education, standard of living and life expectancy. The findings obtained from the questionnaire are summarized in Table 10 below.

Table 10A: Respondents' views on Credit Access. (Responses in percentages %)

No.	Item questions	Agree	Not Sure	Disagree
1.	My institution offers various loan accounts	77.1	4.4	6.8
2.	As a member I can negotiate interest rates	8.3	2.9	71.7
3.	Having collateral makes it easy to get credit	71.2	8.3	8.8
4.	Women groups are supported to get credit without collateral	33.2	19.0	36.1
5.	My savings play a big role in determining how much credit I access	69.8	4.4	11.7
6.	My income determines how much credit I access	74.6	4.9	6.8
7.	My institution explains every doc I need to borrow	64.4	2.9	11.2
8.	I use over 50% amount borrowed on investment	56.1	1.0	14.1
9.	I use over 50% amount borrowed on consumption	13.2	0.5	57.1
10.	My institution trains us on how to effectively use the money borrowed	38.5	2.4	32.7

Table 10B: Members who borrow

No.	Item question	Yes	No
11.	Do you borrow?	70%	30%

Table 10C: Interest rates charged

No.	Item question	High (>19%)	Low (<19%)
12.	Are interest rates high or low?	55.6%	14.1%

Table 10D: How much members borrow and pay back

No.	Item question	>500,000	400,000-500,000	300,000-399,999	200,000-299,999	100,000-199,999	<100,000
13.	How much do you borrow?	47.3%	6.3%	2.4%	7.8%	2.5%	3.5%
14.	How much do you pay back monthly?	2.6%	3.4%	4.8%	10.7%	19%	29.3%

Source: Field data

Table 10A above represents the respondents' views and attitude on access to credit. The study used 14 questions to capture the respondents' views on access to credit, 10 questions out of 14 were based on a three Likert scale to measure this variable, and the other 4 questions were scaled as shown above. When respondents were asked whether their financial institution offers various loans, 77.1% of the respondents agreed, 6.8% disagreed and 4.4% were not sure. This showed that most financial institutions were offering their members different loan products to suit their needs. On whether members are able to negotiate the interest rate when borrowing, 71.7% of the respondents disagreed, 8.3% agreed and 2.9% were not sure. This showed that over 50% of the members are not given a chance to negotiate favourable interest rates with the banks depending on the intended use of the credit. 71.2% of the respondents agreed that having collateral makes it easy for them to get credit, 8.8% disagreed and 8.3% were not sure. This clearly showed that most financial institutions were only willing to lend money to members who had some form of collateral. Hence making it difficult for members who don't have collateral to borrow and this in turn makes it incapacitates members' access to credit as a dependent variable to reduce poverty in the area.

When the respondents were asked as to whether savings do play a major role in determining how much credit they can access from the financial institutions,69.8% agreed, 11.7% disagreed and4.4% were not sure. This showed that most financial institutions consider the members savings in a given period before giving them credit, therefore savings does play a great role in credit access. And for more still, 74.6% of the respondents did agree that their income does play a great role in their access to credit, 6.8% disagreed and 4.9% were not sure. This is mainly due to the fact that financial institutions do consider a member's income flow either as a salary earner

or from business in order to determine how much credit to give the member.64.4% of the respondents agreed that their financial institutions do explain to them every document that they give them, 11.2% disagreed and 2.9% were not sure. This showed that most financial institutions made an effort to explain clearly to their members' the different documents they needed for their transactions. Asked as to whether they spend 50% of their credit got on investment, 56.1% agreed, 14.1% disagreed and 1.0% were not sure. On whether they spend over 50% of their credit on consumption, 57.1% disagreed, 13.2% agreed and 0.5% were not sure, so this showed that most of the respondents used their credit got for investment purposes mainly other than consumption which is a good thing for poverty reduction. On whether their financial institutions train them on how to effectively use the credit got, 38.5% agreed, 32.7% disagreed and 2.4% were not sure. This showed that just a few financial institutions were going an extra mile to train their members on how best to utilise their credit and some financial institutions were not bothered on how their members utilised their credit got which also does impact on the dependent variable of poverty reduction.

Out of the 205 respondents, 143 said that they borrow and 62 do not borrow. This represents 70% and 30% respectively as shown in Table 10B. From the 143 respondents who borrow,97of them borrow more than 500,000shs representing 47.3% of the respondents,7.8% borrow between 200,000-299,999shs, 6.3% borrow between 400,000shs-500,000shs and 8.4% represents respondents who borrow between 300,000-399,999shs, 100,000-199,999shs and less than 100,000shs. This showed that the almost half of the borrowers were getting amounts greater than 500,000shs which is substantial credit for meaningful investment, though these amounts seemed to be accessible to members mainly who earn a substantial salary or income from their

businesses for the financial institutions to lend them such huge amounts. From the findings as shown in Table 10D it was also noted that 29.3% of those who borrow pay back less than 100,000shs on a monthly basis, 19% pay back between 100,000shs-199,999shs, 10.7% pay back between 200,000shs-299,999shs and the remaining 10.8% pay back more than 300,000shs on a monthly basis. From the amount paid back, it also showed that with a high interest rate, a member would take a relatively long time to clear their debt. Table 10C shows that, 55.6% of the respondents said that their financial institutions offer them an interest rate that is high (>19%) and 14.1% offer an interest rate that is relatively low (<19%). As the researcher analysed the findings of the study, it was noted that most respondents were not quite sure of and how the interest rates for borrowing are arrived at and charged off their accounts, however this credit has assisted most of the respondents attain property hence fight poverty in households. The researcher also found out that over 70% of the respondents had to provide collateral for them to access credit from their various financial institutions. Qualitatively, the researcher was able to gather the respondents' opinions on credit access which has been incorporated within the analysis of the results and the information got from the key informants follows below;

The key informants from the financial institutions informed the researcher about the credit products that they offer their members; FINCA offers different loan products ranging from school fees loans, normal loans, special loans and business loans with an interest rate that above 20%,a member's savings are considered when giving them credit and they usually offer advice and training to their members on how to utilise the loans, collateral and 2 guarantors are always needed for a member to access credit.

Finance Trust offers school fees loans, business loans, salary loans and big loans with interest rates in the range of 25%-36% annually. They do not really advise their customers on how to

utilise the loans though they do offer them trainings on accounting and record keeping and they do greatly consider collateral before offering a member a loan. Stanbic bank offers loans to its members at an interest rate of 23%, its main clients are salary earners and business people, in order to access credit from Stanbic bank, one has to show proof of employment or business, they do advise and train their clients on how to utilise their credit through organised customer meetings. Naluwoli SACCO offers credit to its members, its target customers are the rural, its members are trained in identification of viable projects before accessing credit, Naluwoli has helped uplift the people of Kamuli from poverty through offering those loans on crop farming, business loans, livestock farming and educational loans. For a member to access credit, they should have collateral, two guarantors, approval from spouse and 20% in savings of the credit they wish to access.Twisania SACCO offers, business, agricultural, health, home and educational loans and the interest rate charged is 30% annually, no trainings are offered though they do visit groups to check on their progress in regards to the credit they accessed and a member should have on account 20% savings of what they want to borrow. The challenge faced by the financial institutions mainly is the defaulting clients.

The findings of the researcher were further analysed using the Pearson’s Correlation to establish the relationship between the independent variable credit access and dependent variable poverty reduction. The results are shown in Table 11 below.

Table 11: Correlation between access to credit and poverty reduction

		Access to credit	*Poverty reduction*
Access to credit	Pearson Correlation	1	.091
	Sig. (2-tailed)	.	.198
	N	**205**	**205**
Poverty reduction	Pearson Correlation	.091	1
	Sig. (2-tailed)	.198	.
	N	**205**	**205**

The findings in the table above indicated a very weak and statistically insignificant relationship between access to credit and poverty reduction in Kamuli Town Council. This is evidenced from the value of the Pearson correlation (0.091) – which is way below 1, and the significance value (0.198), which is far greater than 0.05, the level at which the relationship was tested. This implies that access to credit has a positive relationship with poverty reduction though not significant in regards to the people of Kamuli Town Council. Mainly due the infrastructural issues that need to be addressed in order to boost the area economically. This can further be confirmed by the statements got from the respondents where by majority of them alluded to the fact that; poor roads, lack of health facilities and the challenges they face with the only commercial bank in the area like, the interest rates charges are so high, some complained of the long loan processing period and very poor customer service especially with Stanbic Bank. One of the respondents who banks with Stanbic bank had this to say "*Stanbic cuts any money on account when you have a loan even before the salary is out when you have a salary loan*". A

respondent from Finance Trust had this to say "*As a farmer I need an agricultural loan which they don't have*". It was also noted that lack of ATMs makes withdrawal of money hectic.

A respondent from FINCA said that the grace period for paying the loan is long enough, however when you access a loan as a group, none of the members can get an individual loan. A respondent also noted that "*There should be clear explanation of the documents required as collateral and interest rates*". Considering the SACCOs, the respondents said that," *They ask for guarantors who should have savings worth 100,000shs or more in order to get a loan, even when you have collateral*", They do not have ATMs, so you can only access money between 8am-4pm on working days, when a member applies for a loan, it's not worked on immediately, they are only handled after they have accumulated and another respondent complained that "*You have to bring your spouse before approving your loan and yet people have more than one which causes confusion*". A respondent from Naluwoli SACCO said that, "*They want us to start paying as soon as we get the loan and yet as farmers we need a grace period*". It was also noted that Government should provide more money to the SACCOs in order for the people to access meaningful amounts. However the respondents also agreed that SACCOs encourage them to save and they are able to share experiences with other members. This accounts for the positive relationship between access to credit and poverty reduction, though weak. Another respondent appreciated the services of Finance Trust since he was able to get a loan to send his children to school.

The researcher further used a regression analysis to confirm whether access to credit had had an effect on poverty reduction in Kamuli Town Council. The emerging results are presented in Table 12 below.

Table 12: Regression analysis on access to credit and poverty reduction

Coefficients (a)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.890	.073		25.960	.000
Credit	.051	.039	.091	1.291	.198

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.091(a)	.008	.003	.143

a Dependent Variable: Poverty reduction

The findings in the table above indicate a standardised coefficient of 0.091, between access to credit and poverty reduction in Kamuli Town Council. The coefficient is positive, which means that improving access to credit improves poverty reduction. The value of t-statistic for the coefficient equal to .198 which is insignificant (p-value, .198 is greater than 0.05). This means that the level of poverty reduction is not statistically dependant on access to credit. The result therefore suggests that access to credit has not reduced the poverty levels in Kamuli Town Council. Mainly on account of the challenges as stated above attached to accessing credit in rural areas. So until these challenges have been addressed, availing credit to the people of Kamuli Town Council may not impact on the poverty levels in the area. According to the findings, R square (R^2 tells how a set of independent variables explains variations of a dependent variable)

value is 0.008, indicating that access to credit accounts for 0.8% of poverty reduction, when all other variables are kept constant.

4.4.3 Remittances and Poverty reduction

The third objective of the study was to find out how remittances impact on poverty reduction in local governments with reference to Kamuli Town Council. This objective sought to find out how the money those households get from their relatives or friends through transfer means like western union, money gram, mobile money and buses have uplifted them from poverty by improving on their household income. With the independent variable being remittances and the dependent variable poverty reduction whose dimensions include, standard of living, education, life expectancy and asset ownership. The findings obtained from the questionnaire are summarized in Table 13 below.

Table 13; Respondents' views on Remittances

No.	Item questions	Agree	Not Sure	Disagree
1.	I receive money from my relatives and friends abroad	10.2	-	47.3
2.	I send money to my relatives and friends abroad.	2.0	-	54.6
3.	I receive money from my relatives and friends locally	49.8	-	7.8
4.	I send money to my relatives and friends locally	33.2	-	21.5
5.	My financial institution guides me on how to get my money	26.8	9.8	19.5
6.	I use over 50% of this money for consumption	31.2	-	23.4
7.	I use over 50% of this money on investment	22.0	0.5	32.2
8.	Transaction costs for sending money are clearly displayed.	27.3	11.2	16.6
9.	I get benefits from my financial institution by sending or receiving	7.8	2.9	45.9

Source: Field data

Table 13 above represents the respondents' views and attitude on remittances. The study used 14 questions to capture the respondents' views on remittances, 9 questions out of 14 were based on a three Likert scale to measure this variable. When respondents were asked whether they receive money from relatives abroad, out of the 205 respondents, 118 answered and 87 did not answer. Those who answered, 47.3% disagreed, 10.2% agreed. This showed that among the respondents interviewed some received money from abroad monthly (routinely) and some only once. Respondents were also asked as to whether they send money abroad,54.6% disagreed and only 2.0% agreed, thereby showing that remittances from abroad are more frequently received than sending as about only 2% of the respondents agreed to ever sending money abroad.49.8% of the respondents agreed to receiving money from friends and relatives locally,7.8% disagreed this showed that most of the transfers were within the country and it was also noted that most respondents used the mobile money service through the telecommunications.33.2% of the respondents agreed to sending money within the country and 21.5% disagreed.

On whether the financial institutions guide the respondents on how to get their money,26.8% agreed,9.8% were not sure and 19.5% disagreed, which showed that a few of the respondents are guided on how to receive their money.31.2% of the respondents agreed to spending over 50% of the remittances received on consumption and 23.4% disagreed.22% agreed to spending over 50% on investments and 32.2% disagreed, so this showed that most of the respondents spent the money received on consumption rather than investment. On whether the transaction costs were clearly known to the respondent,27.3% agreed,11.2% were not sure and 16.6% disagreed, which showed that the financial institution still had a lot to do in explaining to the customers the process and transaction costs involved with remittances both receiving and sending. Of the

respondents who receive and send money,45.9% disagreed when asked as to whether the financial institutions give them any benefits for using their services,7.8% agreed and 2.9% were not sure, which showed that most of the respondents who send and receive money are not motivated with any promotional materials like t-shirt, pens or umbrella.

Qualitatively, the researcher was able to gather the respondents' opinions on remittances which have been incorporated within the analysis of the results and the information got from the key informants follows below;

The key informants from the financial institutions also informed the researcher that about the transfer services that they offer and the kind of clients they serve; FINCA offers western union services and its main clients are mainly receivers in the category of students, housewives and business men mainly receiving from abroad and most of them have opened up accounts with FINCA to deposit their money when received.

Stanbic Bank offers money transfer services through money gram and its main clients are students and businessmen and its lowest charge is 2,000shs and it does encourage clients to open up accounts with the bank. Finance Trust offers western union transfer services and it serves mainly students, house wives and business people who also open up accounts with the institution.

The findings of the researcher were further analysed using Pearson correlation to establish the relationship between the independent variable remittances and the dependent variable poverty reduction. The results are shown in Table 14 below.

Table 14: Correlation between remittances and poverty reduction

		Remittances	***Poverty reduction***
Remittances	Pearson Correlation	1	.247(**)
	Sig. (2-tailed)	.	.007
	N	**205**	**205**
Poverty reduction	Pearson Correlation	.247(**)	1
	Sig. (2-tailed)	.007	.
	N	**205**	**205**

** Correlation is significant at the 0.01 level (2-tailed).

The results in table 14 show that the correlation between remittances and poverty reduction is .247**, meaning there is a highly significant positive correlation between remittances and poverty reduction. The P-value corresponding to this is .007, since it is less than 0.05, the level at which it was tested; the correlation between the two variables is statistically significant. This means that remittances from both abroad and locally have a weak but significant positive correlation with poverty reduction in Kamuli Town Council and in effect, it implies that with any alteration in remittances, there is likely to be a corresponding effect in Poverty reduction in Kamuli Town Council. A few of the respondents commented on the service experienced when sending and receiving money and the researcher realised that most of them use the mobile money service other than western union (FINCA and Finance Trust) and money gram (Stanbic) because it's cheaper and since most of their transactions are local (with in the country). One of the respondents said that "Stanbic bank has many customers and this makes their services slow due to long lines in the bank". This customer usually receives money through money gram. So this

explains why most respondents use mobile money services which they find fast and efficient. Hence, the hypothesis that 'Remittances from abroad and locally significantly contribute to poverty reduction in Kamuli Town Council' has been substantiated.

The researcher further used a regression analysis to confirm whether remittances had had an effect on poverty reduction in Kamuli Town Council. The emerging results are presented in Table 15 below.

Table 15: Regression analysis for remittances and poverty reduction

Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.653	.107		15.437	.000
	Remittances	.106	.039	.247	2.744	.007

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.247(a)	.061	.053	.134

a Dependent Variable: Poverty reduction

The regression model results between remittances and poverty reduction in Kamuli Town was positive and significant. The results also indicated that the R squared (R^2) =0.061 or 6.1% (R^2 tells how a set of independent variables explains variations of a dependent variable). This means

that the independent variable dimension; remittances, accounts for 6.1% of the variations in poverty reduction in Kamuli Town Council and the rest of the variation could be attributed to other factors, other than remittances. Further still, the standardized coefficient of remittances was positive (.247). This suggests that holding other factors constant, remittances would result into an improvement in poverty reduction by a magnitude of 0.247 units (24.7%). This result greatly accounts for the fact that most benefactors of remittances are students and housewives who receive money mainly for school fees and household upkeep which are main dimensions in reducing poverty in households. This is in agreement with the correlation results in table 7 above and therefore confirms the hypothesis that 'Remittances from abroad and domestic transfers significantly contribute to poverty reduction in Kamuli Town Council'.

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

This chapter basically, presents a summary of the main findings of the study, discusses them, concludes and makes recommendations for areas that can be improved and further research. The chapter will be presented according to the objectives of the study as was presented in the previous chapter, starting with the summary of the main findings, discussions, conclusions and recommendations according to the objectives of the study.

5.2. Summary of the main findings

The study set to find out the effect of financial deepening on poverty reduction mainly at the local governments, taking Kamuli Town Council as a case study. The researcher based the study on two main concepts, financial deepening and poverty reduction through three main financial dimensions that contribute to poverty reduction at the local governments which included; savings, access to credit and remittances. These were well defined in the following objectives that guided the study; to establish the relationship between savings and poverty reduction in Kamuli Town Council; to examine the effect of credit accessibility on poverty reduction in Kamuli Town Council; to find out how remittances from abroad and locally contribute to poverty reduction in Kamuli Town Council.

The study further revealed that there was a positive relationship between savings, access to credit, remittances and poverty reduction though savings and remittances were noted as being

significant in regards to the changes in poverty levels in Kamuli Town Council. Frequencies, Correlations and regressions were carried out and the summary of the findings are presented according to objectives below;

5.2.1. Relationship between Savings and Poverty Reduction

The researcher found out that, 89% of the respondents save part of their income earned. More still, the financial institutions offer various savings accounts, like school fees accounts, etc.However,not all financial institutions offer interest to the savers at the end of the year. Furthermore, members of the financial institutions are not well guided on how to save. Important to note is that, members saving with the financial institutions are offered trainings on financial management and this greatly motivates them. Most people in Kamuli Town Council save less than 100,000shs a month. However, people saving with the SACCOs mainly benefit from sharing their experiences amongst themselves mainly on how to invest their savings. Savings are mainly made on a monthly basis.

5.2.2 Relationship between Access to Credit and Poverty Reduction

Findings from the study showed that, financial Institutions offer various loan accounts to suite the different needs of their members. However, financial institutions like the banks and MDIs do not offer agricultural loans to cater for the farmers, but the SACCOs do offer credit to the farmers for agriculture. The researcher also realized that, members hardly negotiate their interest rate when borrowing and that collateral is very vital in acquiring credit from all the financial institutions. It was also noted that some women groups are supported to access credit. Members' savings play a major role in determining the amount of credit a member can access and members' income is also a major determinant in terms of the amount a member can borrow from

the financial institutions. More still, some financial institutions train their members on how to invest the money borrowed. They also carry out follow up visits to support their members. Findings of the study also revealed that the money borrowed by members is largely invested in various forms like, businesses and education and that, most members pay back the money borrowed with an interest rate of over 19%.it was also revealed that, with the SACCOs, approval from the spouse is seriously considered when borrowing.

5.2.3 Relationship between Remittances and Poverty Reduction

The following findings were noted; Remittances are received mainly locally and a small percentage from abroad. Furthermore, remittances sent are also mainly local. The researcher also found out that, mobile money is the most commonly used method to send and receive money. Clients are guided on how to send and receive money. Remittances received by members are mainly used for consumption. Another finding was that, transaction costs are clearly displayed for the clients to access. Some small promotional materials are given to the clients who transact. Western union and Money gram charges are considered high by the locals. Important to note was that, students, business people and house wives are the major client and that, some clients' bank the money received directly on to their accounts with the various financial institutions.

5.3. Discussions of the study findings

The findings summarised above has been discussed below.

5.3.1 Savings and poverty reduction in Kamuli Town Council

The researcher wanted to establish the relationship between savings and poverty reduction in Kamuli Town Council. The Pearson correlation findings (r=0.237**< P0.01), Table 8 showed that there was a significant positive relationship between savings and poverty reduction in

Kamuli Town Council. The regression analysis result also showed that savings explained 5.6% (Table 9) of the variations in poverty reduction in Kamuli Town Council. This is evidenced from the findings in the descriptive statistics where by 89% of the respondents agreed to saving part of their income earned and more still 65.9% of the respondents agreed to being offered various savings accounts to suit their various needs. Through saving with the various financial institutions, members have been trained on issues of financial literacy which has motivated them to save further as shown in the statistics (42.9%),this is further supported by the fact that most of the members had saved with their respective financial institutions for more than five years 87(42.4%).

However, it should be noted that from the empirical findings, savings though being positive its significance to poverty reduction in Kamuli Town Council is moderate and this is attributed to the fact that, the respondents were largely self employed 69(33.7%),married 151(73.7%) and within the age of 30-39 82(40%).When analyzing the variables stated above, the researcher noted that usually very little if any will be left by the respondents for saving from their earned income at the end of the month as a result of the spending pressures given that people within this age bracket and the level of commitment are usually starting up families with many spending pressures in the home, this could further account for the low savings as the researcher found out that 106(51.7%) of the respondents save less than 100,000shs a month. The issue of interest earned plays a significant role in boosting savings, from the descriptive statistics 49.8% of the respondents said that they do not earn any interest on their savings, however the key informants from the financial institutions disagreed with this, FINCA says that they offer 3-4% per annum, Stanbic Bank 3.5% on quarterly basis, Finance Trust 2% half yearly, Naluwoli SACCO 15% per

annum and its only Twisannia SACCO that doesn't offer interest on savings. One of the respondents noted that "*The interest earned is too insignificant to be noticed*" May be this could account for the respondents that disagreed to earning any interest on their savings accounts. Nevertheless, savings does play a pivotal role in boosting household incomes, because it's usually through these savings that credit can easily be accessed.

The results above compare well with the existing literature. For example, McKinnon and Shaw (1973), who argue that, according to the financial liberalization theory in which interest rate liberalization is the centerpiece, the liberalization of the financial sector enables savers to switch some of their savings from unproductive real assets to financial assets hence expanding the supply of credit in the economy. In this way, financial liberalization impacts on economic growth, inter alia, through its influence on savings, financial deepening and investment.

However, given the central importance of finance for economic development and poverty alleviation, the superficiality of African finance is alarming. African financial systems are small, both in absolute and relative terms. In addition, Africa's financial systems are characterised by very limited outreach, with less than one in five households having access to any formal banking service World Bank, (2007). Beck et al. (2008,) and World Bank, (2007) reiterate that, banking is inefficient and expensive in Africa, as reflected by high interest spreads and margins and high overhead costs. Banking is also very expensive for deposit customers, as reflected by very high minimum balance requirements and annual fees in many African countries. High documentation requirements to open an account that is, the need to present several documents of identification also represent significant barriers given that large parts of the population live and work in the

informal sector. Similarly, physical access is limited, as the low bank branch and ATM penetration numbers for Africa illustrate and this was also largely highlighted by the respondents who continuously complained of lack of ATMs in their area.

Furthermore, Mutebile at the 17th Joseph Mubiru Memorial Lecture said that, “interest rates were not the cause for lack of financial inclusion of the people but it’s due to low domestic savings”. This coupled with illegal micro finance institutions all discourage savings, information from Bank of Uganda indicated that over 1000 microfinance institutions that were illegally operating but taking customers deposits despite several warning from the central bank (Olanyo,2009).And these fake microfinance institutions also robbed many of their hard earned savings in Kamuli as was attested to by the locals, Nathan Were a Business columnist in the Daily Monitor dated (2011-05-24) argued that although SACCOs had emerged as a powerful tool for promoting access to rural and agricultural finance in Busoga region, they had been greatly affected by fake and dubious lending schemes, a point that was greatly applauded to by most of the respondents interviewed during the study. He further states that many people were affected by schemes like, Team, Dutch and Front Page which used to promise the prospective savers and borrowers, 100% interest return on their savings upon maturity which was six months. So the SACCOs are finding a huge challenge in convincing prospective savers and borrowers to join and benefit from the various financial services. This under pins the point that Bank of Uganda should urgently revise its supervision policy to regulate SACCOs and any other tier 4 financial institutions.SACCOs have the potential to support poor people to overcome income poverty, what is required is to restructure and strengthen their operations.

However, there are a few other issues which were generally raised by the respondents which could as well account for the low level of savings in Kamuli Town Council; issues like having only one commercial bank that is Stanbic bank which handles all the civil servant salaries in the area hence making it very congested most of the time with faulty ATMs.The unfriendly staff at the bank also scare the locals away as they view the whole process of banking as being complicated and for the well to do. There is need for the financial sector to set up more commercial banks in the area and avail banking products that are suitable for the population in addition to the available microfinance institutions and SACCOs.Sensitisation drives would also go a long way in boosting the confidence of the locals in using the financial institutions.

5.3.2 Access to credit and poverty reduction in Kamuli Town Council

The researcher wanted to examine the effect of credit accessibility on poverty reduction in Kamuli Town Council. The Pearson correlation findings (r=0.091< P0.01) as shown in Table 11 reflected an insignificant and weak though positive relationship between access to credit and poverty reduction in Kamuli Town Council. The regression analysis result also showed that access to credit explained 0.8% (Table 12) of the variations in poverty reduction in Kamuli Town Council, a percentage that is rather low. This is evidenced from the findings in the descriptive statistics whereby despite 77.1% of the respondents agreeing to have access to various loan accounts, they cannot negotiate the interest rates offered by the financial institutions when borrowing as evidenced by 71.7% of the respondents from the descriptive statistics. More still, credit can only be easily accessed by those who have collateral as alluded to in the statistics where 71.2% agreed to accessing credit as a result of having collateral. It should also be noted that 69.8% of the respondents agreed to the fact that savings do play a pivotal role in determining how much credit that a member can access, and with most members saving less than Ushs

100,000 as earlier noted above, it becomes difficult for a member to access meaningful credit after all.

The researcher also noted that a member's income earned greatly affects the amount of credit accessible by that member, however, over 50% of the respondents agreed to investing over 50% of the credit sought as opposed to consumption which is a positive indicator towards eradicating poverty in Kamuli Town Council though empowering members' households and thereby achieving growth in the area. It also showed that with a high interest rate, a member would take a relatively long time to clear their debt. 55.6% of the respondents said that their financial institutions offer them an interest rate that is high (>19%) and 14.1% offer an interest rate that is relatively low (<19%), the researcher was informed by the key informants from the various financial institutions that the interest charged on borrowing is above 20%. Some respondents complained of the long loan processing period especially with Stanbic Bank. One of the respondents who banks with Stanbic bank had this to say "*Stanbic cuts any money on account when you have a loan even before the salary is out when you have a salary loan*" all these factors discourage the locals from borrowing and even when they borrow, what they have to pay back is almost twice the amount that was borrowed due to the high rates.

The results above compare well with the existing literature. For example, Bossone, Malanya and Zalin (2002) argue that, accessibility to credit is a key development endeavour and is a means towards increasing household income and boosting productivity in an attempt to break through the vicious circle of Poverty. However, it has also been argued that transaction costs for

accessing bank loans are too high for many potential borrowers relative to their wealth. As a result, the microfinance institutions have taken over the vacuum left by banks.

The IBRD World Bank report (2005) states that, credit and savings facilities can help poor rural households manage and often augment their otherwise meagre sources for investment, acquire assets and other basic necessities for their families. Access to credit can also reduce the vulnerability of the poor to shocks in the absence of savings or insurance. However, microfinance has been sighted as a key policy strategy for poverty alleviation. Inadequate access to credit by the poor has been identified as one of the contributing factors to poverty. To redress the issue, the policy of increasing access to both production and consumption credit by the poor has been articulated. However as noted in the research findings, the credit given to the poor ought to address the financial needs of the people in the area.

As economic growth is a necessary condition for sustainable poverty reduction, financial instability hurts the poor through its detrimental impact on growth.However, Guillaumont and Kpodar, (2005) argue that growth of average household incomes is likely to be necessary to achieve sustained long-term poverty reduction. But the pattern of this growth is important. They further argue that a growth pattern where the benefits accrue disproportionately to the richest in a society will have less poverty impact than one where the benefits are equally distributed or biased towards the poor. On the other hand, Rioja et al (2004) suggest that the relationship between finance and growth is very weak in low-income countries. Financial development may well be ineffective in promoting growth and thus, may be ineffective in alleviating poverty in those countries where poverty is particularly concentrated or acute. However, even in these cases

it is important to understand why financial development is ineffective, this may help inform Policymaking. As earlier pointed out infrastructural development is crucial for the people to engage in economic activities which will in turn boost financial activities in the area.

Okurut, Banga and Mukungu, (2004) argue that access to production credit in order to alleviate poverty should be supported though they do not entirely support access to credit for consumption. On the other hand Zeller and Sharma (1998) argue that, the task of providing financial services at a reasonable cost to those who have limited assets has not been easy. Until the 1980s in many developing countries, state run agricultural development banks took the lead in establishing formal credit markets in rural areas. However, the short comings of the banking principles is that they were based on collateralized lending, an organizational setup without any incentives to do business with the poor, excessive dependence on government funding, and pervasive political patronage severely handicapped their performance.

And from the researcher's findings, it was noted that most banks are not interested in lending to the poor because they consider them as high risk given that most of them depend on agriculture for a living and this explains the weak relationship between access to credit and poverty reduction in the area. The banks and MDIs are willing to lend to members with collateral and the SACCOs too support groups and not individuals and it could be difficult for a member to cater for their needs in a group, one has to go by the groups' interests which is also a challenge in a way. So the return of the state run agricultural banks would go a long way in ensuring that the rural benefit from the financial institutions as they usually lend at averagely low interest rates(<19%) and are tailored towards serving the rural community. It should also be noted that

most of the members of the financial institutions are not well informed about how much they have to pay back in case they borrow and how often they have to make the payments, so all this lack of information makes the locals view access to credit as a very complicated process which is not the case. Therefore in order to financially empower the rural people, financial literacy should be paramount and the financial products should be tailored to their needs as per the area or region as they all have unique needs in order to alleviate poverty.

5.3.4 Remittances and poverty reduction in Kamuli Town Council

The researcher wanted to find out how remittances from abroad and locally contribute to poverty reduction in Kamuli Town Council. The Pearson correlation findings (r=0.247**< P0.01) as shown in Table 14 showed a highly significant positive correlation between remittances and poverty reduction in Kamuli Town Council. The regression analysis result also showed that remittances explained 6.1% (Table 15) of the variations in poverty reduction in Kamuli Town Council. This is evidenced from the findings in the descriptive statistics whereby 49.8% of the respondents agreed to receiving money from their relatives and friends locally, that is within the country and about 10.2% receive money from their relatives and friends abroad.33.2% of the respondents agreed to sending with in the country and only 2% agreed to sending money abroad. These statistics clearly show that remittances are mainly from within the country. Wives, students and business people are the main clients as they mainly receive/send money for basic goods, school fees and business respectively. It should also be noted that unlike credit, remittances are mainly for consumption and this is evidenced from the descriptive statistics which shows that 31.2% agreed to consuming more than 50% of the money sent and 22% agreed to investing more than 50% of the money sent. Transaction costs are also well known to the clients and the researcher was able to find out that the respondents mainly use mobile money and

bus services which are considered to be cheaper than western union and money gram. However it should also be noted that some remittances do come into the country through informal means like through friends or relatives and unregistered mails. And all these do subsidize household incomes.

The results above compare well with the existing literature. For example Gubert, (2005) observed that, the impact of remittances is intrinsically linked to their allocation and more specifically to the breakdown between consumption and investment. He further stated that, when migration is undertaken in conditions of great poverty, remittances are spent largely on daily consumption thereby making very little contribution to local household development. But when migration is a response to credit market failures, remittances enable capital investment and thereby promote output growth.

Other researchers like Hanson et al, (2003) have found evidence for 'forward' linkages between remittances and human capital formation in Latin America. Ratha (2003) suggested that remittances that raise the consumption levels of rural households might have substantial multiplier effects because they are more likely to be spent on domestically produced goods. This point was further under pinned by Adams and Page (2005) who strongly associated remittances with poverty reduction, using a 71-country multi-variate data set, arguing that a 10 percent increase in international remittances from each individual migrant will lead to a 3.5 percent decline in the proportion of people living in poverty, such that remittances are said to significantly reduce the level, depth and severity of poverty in developing countries (see also Anyanwu and Erhijakpor, 2009).These forward linkages were confirmed by the key informants

who agreed to the fact that most of their clients are housewives receiving money to spend at home on basics like food, students receiving money for school fees and business people receiving and sending money for business purposes. This greatly helps in smoothening out the income challenges faced by the households and thereby reducing poverty in the households of the beneficiaries. However, Mobile money facilities should be well regulated so that they do not take advantage of the users and to ensure safety of the funds transferred.

5.4. Conclusions

The general objective of the study was to assess the effect of financial deepening on poverty reduction in Kamuli Town Council in Eastern Uganda. The conclusions are drawn and presented according to the objectives of the study.

5.4.1 Savings and Poverty reduction in Kamuli Town Council

Based on the findings presented in chapter four and the discussions above, the study concludes that savings significantly affects poverty reduction in Kamuli Town Council. Therefore the hypothesis that there is a significant relationship between savings and poverty reduction in Kamuli Town Council is supported by the findings from the field that were adopted. The study therefore concludes that once a household saves part of their income through the various financial institutions like the banks,MDIs,and SAACOs,they are in the long run able to improve their standard of living as it is form the savings that they earn interest and are also able to get credit from the financial institutions that can boost their investments like businesses and education and consumption as well like health and basics like food shelter and clothing, thereby reducing the incidence of poverty in a given household.

However, the study also concludes that factors like the opening times of the financial institutions, functional ATMs, information, trainings, long queues, attitude of the staff and genuine MDIs and SACCOs should be addressed in order to have the local people fully entrust these financial institutions with their hard earned savings.SACCOs and MDIs should also greatly support the locals to save with them as they seem to easily identify with them as compared to commercial banks.

5.4.2 Access to Credit and Poverty reduction in Kamuli Town Council

Considering the correlations from the empirical findings in chapter four and the discussions above, the study concludes that there is a weak and statistically insignificant relationship between access to credit and poverty reduction in Kamuli Town Council. The hypothesis that access to credit significantly contributes to poverty reduction in Kamuli Town Council was not supported by the findings from the field.

As evidenced from the Pearson correlation results, they show a weak though positive relationship at 0.091 with a significance of 0.198 where p is way greater than 0.01(significance level) hence showing that access to credit does not significantly affect poverty reduction in Kamuli Town Council. The study therefore concludes that access to credit by the people of Kamuli Town Council is not critical in averting poverty in the area especially if the household savings are still low. With low household savings, repayment of the loans acquired becomes very difficult hence creating more problems for the members. The locals need to save in order to access meaningful credit, locals also need to be empowered asset wise since most of the financial institutions require collateral before giving credit. The study further concludes that building confidence in

the locals through financial literacy trainings is vital or cannot be overlooked such that the money borrowed is put to its intended use.

Indeed, as stated by Dorothy Tuma in a news paper (Nov 2010) in conversations with women entrepreneurs, poor access to credit inevitably comes up. Access to credit for women is a more daunting hurdle than it is for their male counterparts because commercial banks in Uganda have typically required a land title as loan collateral. (This disqualifies many since historically women don't own land).

This has been supported by the findings from the study whereby over 50% of the respondents (53.9%) were male and only 33.2% of the respondents agreed to the fact that financial institutions offer credit to women groups without necessarily offering collateral and 71.2% greed that having collateral makes access to credit much easier.

And more still given the current happenings in the economy, where the commercial banks are increasing the interest rates of both new and existing rates, lot of sensitisation should be done to encourage mainly the business community to take time to internalise all the clauses before signing the agreements with the banks or credit institutions such that they are not taken by surprise.

5.4.3 Remittances and Poverty reduction in Kamuli Town Council

From the findings and correlations presented in chapter four and the discussions above, the study concludes that remittances significantly affect poverty reduction in Kamuli Town Council. Therefore the hypothesis that remittances from abroad and locally significantly contribute to poverty reduction in Kamuli Town Council is supported by the findings from the field that were

adopted. And among the three independent variables of the study, remittances has got a stronger significance towards poverty reduction in Kamuli Town Council as shown from the Pearson correlation of 0.247**,thereby showing a positive correlation between remittances and poverty reduction. The P-value corresponding to this is .007, since it is less than 0.01, the level at which it was tested; the correlation between the two variables is statistically significant.

The study therefore concludes that remittances from abroad and locally are critical in reducing poverty in Kamuli Town Council as they greatly supplement household income. This was further evidenced by the respondents and key informants who agreed to using the money transfer services to get money from their relatives and friends. The study also concludes that the main beneficiaries of the money transfers, are housewives, students and to some extent business people and that the people of Kamuli mainly use the mobile money transfer service as its considered to be cheaper than the rest.

Remittances are largely related to improved standard of living through increased household income which also positively relates with an increase in educational attainment, health, shelter and acquisition of assets. This in turn leads to an increase in savings and hence access to credit also becomes easier with savings and assets acquired, in the long run this directly leads to a reduction in poverty in the area through its impact on economic growth.

5.5 Recommendations

Poverty incidence in Kamuli had stagnated at 49% in the surveys carried out in 2002/03 and 2005/06 by UBOS. Financial deepening has been alluded to by many authors as a tool for poverty reduction mainly through realizing economic growth; however for sustainable poverty alleviation to be achieved, emphasis should be put on sustainable MDIs and SACCOs that

deliver services to the poor. Dealing with issues of health, education and infrastructure could go a long way in empowering the people in order to engage in small businesses that will boost their house hold incomes. From the analysis made, the empirical findings and the conclusions drawn above, the following recommendations have been made in order to realize reduced poverty levels in Kamuli Town Council. The recommendations are presented according to the objectives of the study.

5.5.1 Savings and Poverty reduction in Kamuli Town Council

- It is recommended that more indulgence in SACCOs with government support will go a long way in empowering the people to indulge in meaningful business which can be used to gain credit from MDIs and commercial banks.

- Income is crucial if basic needs are to be met in a sustainable manner. Yet income is only generated by individuals who have an opportunity to take part in economic activities. Therefore government should empower the people of Kamuli through government programmes like NAADS and prosperity for all in order for them to make meaningful savings.

- Bank of Uganda should revise its supervision policy to regulate SACCOs and other tier 4 financial institutions. This is to curb or control theft of members' savings by informal financial institutions.

- Commercial banks and MDIs should encourage their members to save by rewarding savers with an interest rate above 5%.Members should be able to mobilize savings/deposits for productive investment. Behavioural change is very necessary to achieve this as well.

- Post Bank that is mandated to channel government funds to the SACCOs should be strengthened through policy reforms. Like Specific regulatory provisions on the administration, supervision and accountability of such funds.

- Microfinance and SACCOs should be recognized as an important element in poverty alleviation strategies since they benefit a sizeable segment of the society cannot be overlooked.

5.5.2 Access to credit and Poverty reduction in Kamuli Town Council

- Intervention by Uganda Land Commission is needed to ensure that the residents get their land surveyed and titled as most financial institutions require collateral in order to give out credit.

- Bank of Uganda should also set up a programme to educate the people especially in rural areas about financial matters so that they are not exploited by the different financial institutions especially the illegal ones.

- Capital Gains taxes on SACCOs and MDIs should be reduced in order to reduce on the cost of borrowing by members.

- SACCOs should consider increasing the repayment period of 9months to at least one year to enable members spread the payments of the monies borrowed.

- User-friendly financial institutions. Customer Care should be seriously practiced by the financial institutions' staff as most of the respondents complained of rude staff. Issues like ATM failures, long queues should be looked considered.

- Financial Institutions should take an extra mile to follow up their clients on the utilization of the funds borrowed and advise them as well in order to reap returns from the credit sought. People should borrow to invest in income-enhancing assets, as well as human assets like health and education.

- Customers should always negotiate for fixed interest rates when borrowing from financial institutions to avoid change rates especially like in the recent times when interest rates were hiked even on the existing loans.

- Infrastructural development in terms of roads, schools, health centres and farming is paramount and should be prioritized by government in order to empower the people of Kamuli Town Council economically for them to access meaningful credit.

5.5.3 Remittances and Poverty reduction in Kamuli Town Council

- Mobile money transfer services should be well regulated by Bank of Uganda to avoid exploitation of the customers since it's the most frequently used money transfer service. A healthy regulatory environment is very vital.
- Technological improvements in the financial sector could also significantly reduce transaction costs. New banking technologies that can expedite check clearance, reduce exchange losses, and improve disclosure, especially in rural areas. New technology offers potential for greater efficiency, lower costs, and extended outreach. More innovative financial products like the mobile telephone transfer services are worth noting and many more of these are encouraged, therefore government should encourage investors in that area by reducing taxes on acquisition of capital purchases especially those investors setting up in the local governments.

- Partnerships between registered banks and non-bank financial institutions, such as savings and credit cooperatives, micro-finance businesses and postal offices. A bank, for instance, can extend access by receiving remittance payments through inter-account transfers, and then making an arrangement with post offices in rural areas. These arrangements can open the financial system particularly to the rural poor, give non-bank financial institutions wider access, and reach out to lower-income communities and isolated rural areas traditionally overlooked by large commercial banks, an area that can be considered widely by Posta Uganda.
- There is a need to facilitate the shift from informal to formal transfer systems. It has been argued that remittances diverted through informal means do not have the same multiplier effect as bank deposits and thus have less impact on development. Remittances channelled through banks or financial institutions can also deepen financial systems in the developing world because they can then increase the availability of resources to finance economic activities. This is also good for security purposes as the informal transfer systems are associated with a number of criminal activities from money laundering to terrorist financing. The financial institutions should once in a while carry out promotions where their customers win prices, this creates loyalty among the customers and continued use of their services and cheaper rates affordable by the majority.
- Promoting financial literacy among remittance receivers can increase the consumption smoothing effect of remittances and enhance the capacity of remittance receivers to use remittances to create sustainable livelihoods. This can be enforced by the different players in the money transfer business and financial institutions in the area.

5.6. Limitations of the study and proposals on how they should be addressed

- The first limitation was comprehension of the questions in the questionnaire by the respondents, being a financial study, the locals needed a lot of explanation in regards to some of the financial terms used. And this was ably done by the research assistants though it had huge financial implications on the researcher. In future, adequate financial resources have to be mobilised first for such studies in order to have enough assistants help with interviewing.
- Another limitation is that the study was costly both in terms of transport and facilitation, some of the research assistants found resistance from the respondents who wanted to be given some transport refund first before they could give in any information, especially the ones who belonged to the SACCOs.The researcher should budget for some form of incentives to give the respondents especially those who belong to SACCOs who have to travel.
- Some of the financial institutions were not cooperative as they thought that the data being gathered was to be used by their competitors. But after discussions with their mangers at the headquarters the research assistants were allowed to gather the data needed. The researcher realized that it was wiser to first get clearance from the head office before proceeding to the region.
- Given the nature of the study, financial records kept by the clients were vital, however there was a problem of poor record keeping among the clients especially the documents in regards to the utilization of the credit received. The people should be further sensitised on how to keep their documents safely.

5.7. Contributions of the Study

- Theoretically, the study has added more empirical literature and knowledge on the effect of financial deepening on poverty reduction in local governments. This study will be used for future reference by researchers in the area of savings, access to credit and remittances and how they impact on the poor especially at the local government level.
- At the managerial level, this study should further interest the central government and the microfinance support centre on how best the poor can benefit from micro credit since they constitute the greater part of our communities. The bankable population is still very low and it's only by bringing the local community on board that it can grow.
- The study also highlighted the loop holes in the rules and regulations governing the Tier 4 financial institutions, these should be revised and disseminated by the central government in the local dialects as well for the rural areas in order to have an informed public.

5.8. Areas for Further Research

The findings of this study focussed on Financial Deepening and Poverty Reduction in Kamuli Town Council in eastern Uganda. However, further research could consider some of the following areas;

- The effect of liberalising the pension sector on financial deepening especially at the local governments.
- The role of infrastructure in boosting the financial sector in local governments.
- Why microcredit has not yet achieved results in empowering the poor and hence reducing poverty in rural areas.

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Appendix B: QUESTIONNAIRE FOR STUDY

Purpose:

This study aims at assessing the effect of financial deepening on poverty reduction in the local governments: Case study of Kamuli Town Council.

Respondents:

Respondents represent cross section of members of Stanbic Bank, FINCA, Uganda Finance Trust, and Twisania & Naluwoli SACCOs. The identity of the respondent is not necessary.

Confidentiality:

You are requested to respond candidly and honestly. All the responses obtained will be used solely for the study and will be kept strictly confidential.

Method:

Place a tick in the box for the most appropriate response for each question. Or filling in the space provided.

Acknowledgement:

I sincerely thank you for taking off time to complete the questionnaire.

Section A: Background

Please Tick one box per question or answer accordingly in the space provided.

1. Gender: male ☐ female ☐

2. Marital status: single ☐ married ☐ widowed ☐ divorced ☐

3. Age: > 50 ☐

40-50 ☐

30-39 ☐

20-29 ☐

4. Level of Education: no schooling ☐ Primary education ☐ Secondary education ☐

Tertiary ☐ University ☐ Others specify…………………………………..

5. What do you do for a living? Unemployed ☐ Civil servant ☐ Private sector ☐

Farmer ☐ Self employed ☐ Others specify………………………………………

6. Who is the head of your household? ……………………………………………………….

7. What is your average household composition? a) Infants………………………………………

b) Children……………………………….c) Adults………………………………………………

8. In which of the listed Financial Institutions below are you a member? (The one you use most)

FINCA ☐

Uganda Finance Trust ☐

Twisania SACCO ☐

Naluwoli Tubewalala SACCO ☐

Stanbic Bank ☐

Other than the one you have ticked above, which other financial institution do you bank/save with?

…………………………………………………………………………………………………

9. For how long have you been a member with the Financial Institution ticked in 8 above?

>5years ☐

4-5 years ☐

2-3years ☐

<2 years ☐

Others specify…………………………………………….

10. For how long have you banked/saved with the other financial institution other than the one ticked above?

…………………………………………………………………………………………………

Section B: Independent Variable; Financial Deepening with emphasis on Savings, Access to Credit & Remittances.

The following are some of the questions that inquire about your opinion on the services offered by the financial institutions you bank with.

1. Savings

Please Tick one box per question or answer accordingly in the space provided.

a) Do you save? Yes ☐ No ☐

b) How much do you save?

>500,000 ☐

400,000-500,000 ☐

300,000-399,999 ☐

200,000-299,999 ☐

100,000-199,999 ☐

<100,000 ☐

c) How often do you save?

Daily ☐

☐

Weekly ☐

Monthly

Others specify…………………………………………………………

Please Tick one number per statement using the following scale:

1	2	3
Agree	**Not Sure**	**Disagree**

		1	2	3
i.	My financial institution helps me determine how much to save.			
ii.	When I save with my financial institution I get interest at year end.			
iii.	My financial institution offers various savings products.ie fixed deposit, children savings etc			
iv.	As a result of saving with my institution I get benefits.ie promotional items like pens, calendars etc.			
v.	Through saving with the financial institutions, I do attend trainings by my financial institution.			
vi.	This training has motivated me to save more.			

2. Access to Credit.

Please Tick one box per question or answer accordingly in the space provided.

a) Do you borrow? Yes ☐ No ☐

b) How much do you borrow?

>500,000 ☐

400,000-500,000 ☐

300,000-399,999 ☐

200,000-299,999 ☐

100,000-199,999 ☐

<100,000 ☐

c) How much do you pay back monthly?

>500,000 ☐

400,000-500,000 ☐

300,000-399,999 ☐

200,000-299,999 ☐

100,000-199,999 ☐

<100,000 ☐

d) Are the interest rates high or low? **Range < 19% p.a (low) and > 19% p.a (high)**……………………………………………………………………………………….

e) What collateral is needed to borrow?..

Please Tick one number per statement using the following scale:

1	**2**	**3**
Agree	**Not Sure**	**Disagree**

	1	**2**	**3**
i. My financial institution offers a variety of loan products.			

ii.	As a member, I negotiate the interest rates when borrowing.			
iii.	With my financial institution having collateral makes it easy to get credit.			
iv.	Women are supported to get credit even without collateral			
v.	My savings play a big role in determining how much credit I can access from my financial institution.			
vi.	My Income determines how much credit I can access.			
vii.	My financial institution clearly explains to me every document I need in order to borrow money.			
viii.	I use over 50% amount of money I have borrowed on investment.			
ix.	I use over 50% amount of money I have borrowed on consumption.			
x.	My financial institution trains us on how to effectively use the money we have borrowed.			

3. Remittances

Please Tick one box per question or answer accordingly in the space provided.

a) Do you send/receive money?

Sender ☐
Receiver ☐
Both ☐

b) If you are a sender, how much do you send?

>500,000 ☐
400,000-500,000 ☐

300,000-399,999 ☐

200,000-299,999 ☐

100,000-199,999 ☐

<100,000 ☐

c) If you are a receiver, how much do you receive?

>500,000 ☐

400,000-500,000 ☐

300,000-399,999 ☐

200,000-299,999 ☐

100,000-199,999 ☐

<100,000 ☐

d) How often do you send?

Daily ☐

Weekly ☐

Monthly ☐

Others specify…………………………………………………………

e) How often do you receive?

Daily ☐

Weekly ☐

Monthly ☐

Others specify…………………………………………………………

Please Tick one number per statement using the following scale:

1	2	3
Agree	**Not Sure**	**Disagree**

		1	2	3
i.	I receive money from my relatives and friends abroad.			
ii.	I send money to my relatives and friends abroad.			
iii.	I receive money from my relatives and friends with in the country.			
iv.	I send money to my relatives and friends with in the country.			
v.	My financial institution guides me on how to get my money from both within and abroad.			
vi.	I use over 50% of this money for consumption.			
vii.	I use over 50% of this money on investment.			
viii.	The transaction costs for sending money are well displayed in the financial institution.			
ix.	I get other benefits from the financial institution as a result of receiving/sending money through them.ie promotional items			

Section C: Dependent Variable; Poverty Reduction measured by Standard of Living, Education and Life Expectancy.

The following are some of the questions that inquire about your household income, economic activities carried out, education and life expectancy of your household.

1. Standard of Living.

Please Tick one box per question or answer accordingly in the space provided.

a) What is your monthly household income?

>500,000 ☐
400,000-500,000 ☐
300,000-399,999 ☐

200,000-299,999 ☐

100,000-199,999 ☐

<100,000 ☐

b) What is your main source of income?

Salary ☐ Wholesale/retail business ☐

Agriculture ☐ Transportation ☐

Others specify……………………………………………………………………………..

Please Tick one number per statement using the following scale:

1	2	3
Agree	**Not Sure**	**Disagree**

		1	2	3
i.	I also earn some income from agriculture.			
ii.	I also earn some income from my wholesale/retail business.			
iii.	I also earn some income from transportation business.			
iv.	I also earn some income from my monthly salary.			
v.	I also earn some income from the money I receive either locally or from abroad.			
vi.	I spend more than 50% of my income educating my children.			
vii.	I spend more than 50% of my income on food.			
viii.	I spend more than 50% of my income on shelter.			
ix.	I spend more than 50% of my income on clothing.			
x.	I spend more than 50% of my income on health.			
xi.	My household members actively participate in carrying out the household's economic activities.			

2. Education.

Please Tick one box per question or answer accordingly in the space provided.

a) How many members of your household are in school?...

b) Do you participate in adult literacy classes? Yes ☐ No ☐

Please Tick one number per statement using the following scale:

1	2	3
Agree	**Not Sure**	**Disagree**

		1	2	3
i.	I have benefited from adult literacy classes.			
ii.	Adult literacy classes have helped me manage my household finances better.			
iii.	Adult literacy classes have helped me manage my business better.			
iv.	I have been able to send my children to school.			
v.	I have been able to educate my children only up to primary level. .(***indicate number of children at side)***			
vi.	I have been able to educate my children only up to secondary level. .(***indicate number of children at side)***			
vii.	I have been able to educate my children up to university level.(***indicate number of children at side)***			
viii.	The distance moved from home to school is averagely short (less than 5km).(***for day scholars)***			

3. Life Expectancy.

Please Tick one number per statement using the following scale:

1	2	3
Agree	**Not Sure**	**Disagree**

		1	2	3
i.	Our main source of food is the garden.			
ii.	I sometimes get food for my household from the market.			
iii.	We have 2 meals a day.			
iv.	We have less than two meals a day.			
v.	We have more than two meals a day.			
vi.	Iam able to provide milk for the children below 5 years daily.			
vii.	My household often has one or more sick members within a month.			
viii.	Having a sick member of the household affects my work.			
ix.	The distance moved from home to a nearby health centre is averagely short (less than 5km).			
x.	I have previously lost a household member below 5 years of age.			
xi.	In my home area mothers mainly use traditional birth attendants instead of going to hospital.			
xii.	All members of my household sleep under a mosquito net.			
xiii.	I often pay for consultation and medicines even in government hospitals.			
xiv.	Every member of the household has at least two sets of clothing.			
xv.	Every member of the household has at least a blanket.			
xvi.	Every member of the household has at least a pair of shoes.			

Section D: Housing conditions, assets owned and other economic activities.

Please Tick one box per question or answer accordingly in the space provided.

1. What type of shelter do you live in?

Permanent ☐
Semi-permanent ☐
Mud and wattle ☐
Hut ☐
Others specify…………………………………………………………………………….

2. What is your house roofed with?

Tiles ☐
Corrugated iron sheets ☐
Thatch (grass) ☐
Others (specify)……………………………………………………………………………

3. What is your tenure status?

Owned ☐
Rented (Normal) ☐
Supplied free by employer ☐
Supplied by relative or other person ☐
Other (specify)……………………………………………………………………………..

4. How much arable land (land under use) does your family posses?

>10 acres ☐
6- 10 acres ☐
1-5 acres ☐
<1 acre ☐
Others (specify)……………………………………………………………………………..

5. Do you keep domestic animals and birds; tick the relevant numbers where applicable

Animals/birds (domestic)

Numbers	Cows	Goats	Sheep	Pigs	rabbits	Turkeys	Chicken	Ducks
>10								
6-10								
1-5								

Others (specify)…………………………………………………………………………………

6. Do you read news paper in your home? Yes ☐ No ☐

If yes which one of those listed below do you read?

Bukedde ☐

New vision ☐

Weekly observer ☐

Red pepper ☐

The daily monitor ☐

Others specify……………………………………………………………………………..

7. What other source of information do you have at home?

Television ☐

Radio cassette ☐

Radio ☐

Others (specify) ………………………………………………………………………

8. Which of the following do you own?

Car ☐

Motorcycle ☐

Bicycle ☐

Telephone ☐

Refrigerator ☐

Others (specify)………………………………………………………………………….

9. Which of the following do you mainly use for Cooking?

Electricity ☐

Charcoal ☐

Solar ☐

Paraffin ☐

Firewood ☐

Others (specify)………………………………………………………………………

10. What is your opinion on the availability and access of financial services in Kamuli?

………………………………………………………………………………………..

………………………………………………………………………………………..

Check to make sure there is an answer recorded for every question

Thank you for your valuable time.

Appendix C: Interview Guide for management at the financial institutions.

For Management;

Qn.1 What regulatory frame work guides this institution?

Qn.2 What type of customers do you target?

Qn.3 Please provide the total membership of all clients who are affiliated to your institution.

Qn.4 Of the total membership of all clients who are affiliated to your institution, how many are women?

Qn.5 What benefits do your members gain as a result of banking with you?

Qn.6 Do you train your customers especially in business management skills and how to handle finances?

Qn.7 How does your institution plan on uplifting the people of Kamuli from poverty through the services you offer?

Qn.8 In what ways can the partnerships between Government and Commercial banks and MDIs be promoted in order to reduce poverty in Kamuli?

Qn.9 What interest do your customers get on savings?

Qn.10 After what period is the interest given?

Qn.11 Do you encourage your members to save?

Qn.12 If yes, How?

Qn.13 What interest is charged for members who want to borrow?

Qn.14 What are the requirements before a member can get a loan?

Qn.15 What type of loans/credit is offered by your institution?

Qn.16 Do you advise your members on how best to utilize their loans?

Qn.17 Does your institution provide education and/or training to its members?

Qn.18 If "YES", please describe the types of education and/or training provided to members of your institution.

Qn.19 Does the amount of savings matter for a member to borrow money?

Qn.20 Do you offer money transfer services?

Qn.21 Who are your main clients for this service?

Qn.22 What are the charges like for transferring/receiving money?

Qn.23 Do you encourage those clients to open up accounts with your institution?

Thank you for your time.

Appendix D: Documentary Review Checklist

This will include;

Journals- author, title, year and number of publication and where it was published.

News paper articles-Name of news paper, author, date (day, month and year).

Books- author, title, year and number of publication, where it was published and the Edition.

Reports- author, title, year, where it was presented.

Working Papers- author, title, year and number of publication and where it was published and where it was presented.

Institutional Framework-Regulations and guidelines for the members of the institution, mainly on how to save and borrow.

Appendix E: Letter of introduction from Uganda Management Institute

UGANDA MANAGEMENT INSTITUTE

Telephones: 256-41-4259722 /4223748 /4346620
256-31-2265138 /39 /40
256-75-2259722
Telefax: 256-41-4259581 /314
E-mail: admin@umi.ac.ug

Plot 44-52, Jinja Road
P.O. Box 20131
Kampala, Uganda
Website: http://www.umi.ac.ug

Your Ref:

Our Ref: G/35 10 June 2010

TO WHOM IT MAY CONCERN

MASTERS IN MANAGEMENT STUDIES DEGREE RESEARCH

Ms. Barbara mirembe is a student of the Masters Degree in Management Studies of Uganda Management Institute 18th Intake 2008/2009 specializing in Financial Management, Registration number: **09/MMSFM/18/072.**

The purpose of this letter is to formally request you to allow this participant to access any information in your custody/organisation, which is relevant to her research.

Her Research Topic is: ***"Financial Deepening and Poverty Reduction in Local Governments in Uganda: A Case Study of Kamuli Town Council".***

Benon C. Basheka
HEAD, HIGHER DEGREES DEPARTMENT/PROGRAMME MANAGER,
MASTERS DEGREES IN MANAGEMENT STUDIES

Appendix F: Table for Determining Sample Size from a given Population

Note: "N" is population size

"S" is sample size

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	246
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	354
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	181	1200	291	6000	361
45	40	180	118	400	196	1300	297	7000	364
50	44	190	123	420	201	1400	302	8000	367
55	48	200	127	440	205	1500	306	9000	368
60	52	210	132	460	210	1600	310	10000	373
65	56	220	136	480	214	1700	313	15000	375
70	59	230	140	500	217	1800	317	20000	377
75	63	240	144	550	225	1900	320	30000	379
80	66	250	148	600	234	2000	322	40000	380
85	70	260	152	650	242	2200	327	50000	381
90	73	270	155	700	248	2400	331	75000	382
95	76	270	159	750	256	2600	335	100000	384