

# ***Success factors of Microfinance***

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## Abstract

This master thesis is about the success factors of microfinance. The goal of this research is to help investors in their search to find financially sustainable regions where they can invest their money. This research should be seen as a guideline to determine when a project can be successful or not. In their research they can figure out with the help of this master thesis if the success factors are present and how they can influence the outcome.

We have chosen microfinance as the subject of this research because microfinance is seen as the tool to fight poverty. A lot of research is done on the impact of microfinance and the way it helps the poor to escape the poverty line. But we couldn't find any information what the success factors are to make a microfinance project work. So we think there is a research gap on this subject. We have decided to conduct research on the regional and national success factors of microfinance. This means that we want to know which regional and national conditions a country needs to have to make the microfinance institution (MFI) or microfinance project a success. In this research we use the definition of microcredit summit (2007) to define microfinance; "Microfinance are programs extending small loans, and other financial services such as savings, to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families". In this thesis we define success as: "the client is able to turn the microfinance loan in a successful business and in this way he/she is able to pay the loan and interest back to the microfinance institution". We describe success of microfinance projects as helping people with a loan to make a success out of their business so they are able to pay the loan and interest back to the microfinance institution. For success we look at the percentage of people that have paid the loan and interest rate back to the investor (repayment rate). The definition for success factors is according to Biehl (2007) "factors that are influencing the success or failure of projects". In our research we use the definition of Biehl for success factors.

To fulfill this research goal a research question was formulated. The research question of this master thesis is "*What are the success factors, on national and regional level, which can influence the success of a microfinance project?*" To answer the research question a literature research about the success factors for MFIs has been done. The success factors found in the literature can be divided into three groups, the social and cultural factors, the political factors and the economic factors. For the social and cultural factors we found the following factors as success factors; level of education, influence of religion and percentage male / female. For the political factors we found the following factors as success factors; level of corruption, country / politically stability, freedom of markets, and government policy. For the economic factors

we found the following factors as success factors; interest rate, poverty rate, inflation rate, and infrastructure.

We analyzed two existing microfinance projects in Africa to see how the success factors found in the literature are influencing the outcome of these projects. We want to know what the impact of the success factors is on the outcome of the project. We want to see if all success factors have to be present to make the outcome of a project successful. After analyzing the Alfred Lakwo project in Uganda, we found that three factors have a negative influence and two factors do not have any (or little) influence on the MFI, but still the outcome of the project is successful. Therefore we can conclude from this project that not all success factors have to be positive to make the outcome of a project successful. We found the same outcome for the microfinance institution Tchuma in Mozambique. There are two negative success factors and two neutral factors for the project in Mozambique with a successful outcome. So we can also conclude from this project that the outcome can be positive with negative and neutral success factors. It can be concluded that not all success factors are found positive with the microfinance projects. So we can conclude from this that not all factors have to be positive to create a successful outcome for a microfinance project.

The research goal of this master thesis is to identify the national success factors for MFIs. Investors can with the help of this research identify the success factors, in their search to find financially sustainable regions where they can invest their money. The investors should keep in mind that not all the success factors in a country have to be positive for a MFI to be successful.

## **Foreword**

Microfinance is a booming subject all over the world. Especially since the United Nations announced 2005 as the international year of Microfinance. Therefore, we decided to write our master thesis about this subject. We had to write the thesis in a short time scope, therefore we want to thank our supervisor, Mr. H. Stek, for making it able to finish this thesis within this time period and for his cooperation in the process.

We have written the research design, introduction to the research, methodology and the success factor analysis together. To make a distinction in this thesis, we decided to look at the projects separately. Lianne Dingemanse analyzed the Lakwo project in Uganda and Ilana Samson the Tchuma project in Mozambique.

## Table of contents

<i>Table of contents</i>	5
<b>1. Introduction to the research</b>	<b>6</b>
<b>2. Methodology</b>	<b>10</b>
2.1 Research goal	10
2.2 Type of research	10
2.3 Research Question	10
2.4 Management situation	12
<b>3. Success Factor Analysis</b>	<b>13</b>
3.1 Success factors	13
3.1.1 Social and Cultural Success Factors	18
3.1.2 Political Success Factors	22
3.1.3 Economical Success Factors	27
3.1 Conclusion of the success factors	32
<b>4. The success factors for the Alwi Parish project in Uganda</b>	<b>34</b>
4.1 Background Information about the project	34
4.2 Background information about Uganda and the Nebbi district	35
4.3 Success factors of the project analyzed	37
4.3.1 Social and Cultural Success Factors	37
4.3.2 Political Success Factors	40
4.3.3 Economical Success Factors	43
4.4 Conclusion of the Lakwo microfinance project	47
<b>5. The success factors for the Tchuma project in Mozambique</b>	<b>49</b>
5.1 Background information on Tchuma	49
5.2 Background information about Mozambique	51
5.3 Analyzing the success factors for Tchuma in Mozambique	52
5.3.1 Social and cultural success factors	52
5.3.2 Economical success factors	54
5.3.3 Political success factors	58
5.4 Conclusion of the Tchuma microfinance project	60
<b>6. Conclusions</b>	<b>62</b>
<b>7. Limitations and suggestions for Future Research</b>	<b>65</b>
<b>8. References</b>	<b>66</b>

## **1. Introduction to the research**

Microfinance emerged in the 1970s as social innovators began to offer financial services to the working poor. Those people were during that time considered “un-bankable” because of their lack of collateral. Since three decades there is a change in the banking industry which made loans for poor people possible. The most famous story on microfinance is that of Muhammad Yunus, who is a professor on the University of Bangladesh. He started giving out small loans to poor people and went on founding the now-famous Grameen Bank. In 2003 the Grameen Bank has almost 3.1 million clients for a micro-loan. Over the last fifteen years the Grameen Bank was an example for microfinance institutions and many followed the footsteps of the bank (Kaushik, 2006). The mission of the Grameen Foundation and Grameen Bank is to empower the world's poorest people to lift themselves out of poverty with dignity through access to financial services and to information (Grameen Foundation, 2007). The Grameen Foundation helps people, mostly women, with loans, financial services and technology to start self-sustaining businesses to escape poverty. Once given the opportunity, not only did clients of Microfinance Institutions (MFIs) expand their businesses and increase their incomes, but their high repayment rates demonstrated that the poor are capable of transforming their own lives given the chance. Microfinance was born. Since then, microfinance has become one of the most sustainable and effective tools in the fight against global poverty (Unitus, 2007). Next to the fact that microfinance is a very effective tool, microfinance is also a very flexible tool that can be adapted in every environment, based on the local needs and economic and financial situation (Segrado, 2005).

Several definitions of Microfinance are provided in the literature; The Grameen Foundation (2007) defines microfinance as “providing small loans, usually less than \$200, to individuals, usually women, to establish or expand a small, self-sustaining business”. Microfinance are programs extending small loans, and other financial services such as savings, to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families (Microcredit Summit, 2007). The term microfinance refers to the provision of financial services to low-income clients, including the self-employed (Ledgerwood, 2000). Barr (2005) defines microfinance as “a form of financial development that is primarily focused on alleviating poverty through providing financial services to the poor”. Gow (2001) defines micro credit is a system of providing credit to those people who cannot borrow money from the usual formal sources of credit because they are too poor and

have no collateral. They are usually women, and if they borrow from traditional moneylenders, are exploited and then become part of the continuing cycle of poverty.

Before continuing reading this research it is important to know which definition of microfinance we use. We feel that the definition of microcredit summit (2007) fits our research the most and we will continue with this definition. This definition covers the poor, the small loans and the self-employment. These are three important aspects for our research because we want to know what the success factors are for a microfinance project. A microfinance project includes poor people that receive small loans so they can extend their business or set-up a business. A microfinance project is a project in a certain region where the microfinance institutions provide several loans to the people in that region to help them to expand or set-up their business. The definition of the Grameen Bank is focused on the empowerment of women. The definition of Ledgerwood does not include the poor and small loans aspect. The definition of Barr is focused on alleviating poverty. The definition of Gow does not cover the self-employment. So for this reason we use the definition of microcredit summit (2007) and we define microfinance as; “Microfinance are programs extending small loans, and other financial services such as savings, to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families” (Microcredit Summit, 2007).

Microfinance loans can dramatically change lives by giving poor people the means to break out of the poverty trap. A small loan can allow a poor person to buy an animal, tool, or other productive asset needed to start or grow her own business and gain a foothold against poverty. As an entrepreneur’s business grows, so does her social standing, the family’s well-being, and the educational opportunities available for children (Grameen Foundation, 2007). Poor people were seen as un-bankable because they do not have the collateral as a security for the loan. Formal banking sources found this risk to high so the poor people only have the informal sources for their loans. As you have read earlier in this chapter Muhammad Yunus was the first person to help the poor people in receiving loans. Nowadays microfinance is a booming subject all over the world. Especially since the United nations announced 2005 as the international year of Microfinance (Year of micro credit, 2007). Furthermore, in 2006 the Nobel Peace Prize committee announced that the award went to jointly Bangladesh economist Muhammad Yunus and his Grameen Bank as one of the pioneer groups helping to overcome poverty, especially in developing nations (Christian Century, 2006). We have chosen microfinance as the subject of this research because microfinance is seen as the tool to fight

poverty. A lot of research is done on the impact of microfinance and the way it helps the poor to escape the poverty line. But we couldn't find much information about what the success factors are to make a microfinance project work. Only some information about the success factors for MFIs on institutional level. So we think there is a research gap on this subject. We have decided to conduct research on the regional and national success factors of microfinance. This means that we want to know which regional and national conditions a country needs to have to make the MFI or microfinance project a success.

Before we continue we first have to describe what we define as success. We describe success of microfinance projects as helping people with a loan to make a success out of their business so they are able to pay the loan and interest back to the microfinance institution. For success we only look at the percentage of people that have paid the loan and interest rate back to the investor. We do not look at the improvement of the financial situation of the clients because this is a management study and it is only interesting for the investors to know the percentage of the loans and interest that have been paid back. Now we define Success as: "the client is able to turn the microfinance loan in a successful business and in this way he/she is able to pay the loan and interest back to the microfinance institution". Now we are moving defining success factors and critical success factors. According to Barat (1992) critical success factors are events and conditions in "a few areas which absolutely must go right in order for the business to succeed. This means that these success factors are critical and necessary for this business. Kotler (1999) adds to this that critical success factors are not only the strengths but also the weaknesses that almost critically affect an organization's success. In this research we are not analyzing "critical success factors" but "success factors". The definition of success factors is according to Biehl (2007) "factors that are influencing the success or failure of projects". This means the difference between the two is that the critical success factors are necessary or almost critical, whereas the success factors are influencing the outcome of a project or business, but are not necessary to have. We decided to focus only on the success factors, because this research is to help investors in their search to find financially sustainable regions where they can invest their money. And to find these sustainable regions it can be the case that not all success factors are present and the MFI is still able to operate in this region.

Microfinance can create long lasting impact in the economic and social lives of the clients. If microfinance is a success they should be able to create economic growth through loans, donations and expanding services (Epstein, 2005). There are also the financial and human



constraints on the success of a MicroFinance Institution (MFI) in a country. First you have the financial resources to provide loans and pay and train the staff. Secondly, they need educated people who are willing to work at reasonable salaries as officers and managers for the MFI. If an MFI must spend a significant amount of money and time to develop a capable staff this may cause constraints for the success of the MFI in the particular country. In this research we are only going to look at the factors at regional and national level where investors do not have any influence on, but these factors can have an influence on the MFI. The factors at MFI level which can be influenced do not fit in our research scope. A lot of research is already been done on the impact of institutional factors on the outcome of a microfinance project, therefore we decided that the institutional factors already have been covered. For this reason we only look at regional and national level because we found this is a research gap on this subject. This is important for our research because we want to provide a guideline for the investors on the success factors. We are interested in the impact of the condition on regional and national level instead of the institutional factors. Three assumptions have to be met to make microfinance a success. First the finance has to be targeted. The finance has to reach directly the individuals and their communities. Secondly it has to impact effectively on the labour market and community and third, it has to be financially sustainable. The loans have to be paid back. The goal of this research is to help investors in their search to find financially sustainable regions where they can invest their money. This research should be seen as a guideline to determine when a project can be successful or not. In their research they can figure out with the help of this master thesis if the success factors are present and how they can influence the outcome.

First we are going to look into literature to find out which the most important success factors are. Secondly, we are going to analyze two existing microfinance projects to see what the success factors are in these projects. We want to know what the impact of the success factors is on the outcome of the project. We want to see if all success factors have to be present to make the outcome of a project successful. The first project is by Alfred Lakwo in Uganda. The second project is from the MFI Tchuma in Mozambique. Both outcomes of the projects are successful. The goal of the projects is to investigate if all success factors have to be present to create a successful outcome of a microfinance project.

## **2. Methodology**

### **2.1 Research goal**

As explained in the previous chapter our research goal is to identify the success factors for MFIs on regional and national level. This research is to help investors in their search to find financially sustainable regions where they can invest their money. This research should be seen as a guideline to determine when a project can be successful or not. In their research they can figure out with the help of this master thesis if the success factors are present and how they can influence the outcome of their microfinance project.

### **2.2 Type of research**

The type of research we want to conduct is an explanatory study (Cooper and Schindler, 1998). This because of the fact that we do not only describe or define the subject of microfinance, but we also want to analyze relationships (e.g. between the success factors in MFIs and microfinance projects). Explanatory research goes beyond the description and attempts to explain the reasons for the phenomenon (in this case the success factors of microfinance). In the literature analysis we make use of secondary data in the form of academic articles, articles which are published by the World Bank and International Monetary Fund, and data available on the website of the World Bank, IMF, Grameen Bank, and other microfinance websites. In the second part we want to analyze two existing microfinance projects. With this analysis we want to find out if there are differences between the success factors found in the literature and the success factors found in the two projects.

### **2.3 Research Question**

Based upon the literature found and the research goal, we formulated the following research question:

*“What are the success factors, on national and regional level, which can influence the success of a microfinance project?”*

According to Barat (1992) critical success factors are events and conditions in “a few areas which absolutely must go right in order for the business to succeed. This means that these

success factors are critical and necessary for this business. Kotler (1999) adds to this that critical success factors are not only the strengths but also the weaknesses that almost critically affect an organization's success. In this research we are not analyzing "critical success factors" but "success factors". The definition of success factors is according to Biehl (2007) "factors that are influencing the success or failure of projects". This means the difference between the two is that the critical success factors are necessary or almost critical, whereas the success factors are influencing the outcome of a project or business, but are not necessary to have.

Sub questions:

1. *What are the success factors for microfinance projects found in the literature?* Our research goal is to identify the success factors for MFIs in a country. MFIs are then able to see if a country they want to invest in has certain factors which can have an influence on the microfinance project.
2. *In which way do these success factors influence microfinance projects?* It is important to know in which way the success factors found in our research have an influence on MFIs and microfinance projects. MFIs need to know if the success factors can have a positive or negative influence on the projects.
3. *In what way do the success factors found in the literature influence the two microfinance projects used in this research?* After the literature analysis we are analyzing two microfinance projects in Mozambique and Uganda. With this analysis we want determine what the influences are of the success factors found in the literature on the two projects in Africa.
4. *Do all the success factors need to have a positive influence for a project to be successful?* With the analysis of the success factors in the microfinance projects we want to determine if all factors have to be positive to create a successful outcome of a project.

## **2.4    *Management situation***

For this master thesis we want to investigate what the national and regional factors are which influence the success of the microfinance project. In this way investigators can be aware what the success factors are, which can make a success out of there microfinance project. We will look at the national and regional success factors of a country and in this way this research can help investors in their search to find financially sustainable regions where they can invest their money.

Furthermore, we will look at two microfinance projects to investigate what the influences are of the success factors found in the literature on the two projects in Africa. With the analysis of the success factors in the microfinance projects we want to determine if all factors have to be positive to create a successful outcome of a project.

### **3. Success Factor Analysis**

In this chapter a literature study is conducted on success factors in microfinance on the national and regional level. The research is based on the regional and national success factors economy, politics, and social/cultural. MFIs can identify with the help of this research which national/regional success factors can have an influence on the MFI or microfinance project, and thus if the investment in this region/country has a bigger change to be a success.

#### **3.1 Success factors**

In the literature we found several authors who describe the success factors which can have an influence on MFIs and microfinance projects. First, we will discuss the different success factors of these authors. Second, we will make a selection of these success factors based on the arguments and literature provided by the authors. Lastly, we will analyze the success factors selected on national and regional level and the level of influence on a MFI.

Karmakar (1999) defines four sectors of factors which may have an influence on MFIs. These sectors are:

1. Social factors: population growth, literacy rates, poverty, education, inequality (e.g. castes), media, and labor unrest.
2. Economical factors: monetary/fiscal policies, inflation, GNP/GDP, infrastructure, taxation policies, and balance of payments.
3. Technological factors: communication, transport, exports, basic research, and Bio technology.
4. Political factors: Centre-State relations, stability, types of politics, international relations and law order.

Sebstad and Chen (1996) also defined factors of success for microfinance. They divided those factors in the following groups: First there is the political, social and cultural environment of the country. These measures include government corruption, business corruption, political stability and gender bias. The second group is the economic environment of the country. These measures include the economic stability of the country, the infrastructure and the competition of the local business. On these measures the MFI have little ability to change or control. If a country is political or economical unstable this may effect the decision of a MFI

entering the country. If they do enter such a country they have to develop a good strategy and structure to deal with these constraints.

Furthermore, Zohir and Matin (2004) conducted research on the wider impact of microfinance and the influences of factors on microfinance projects. The authors defined several groups which are overlapping. In the economic group the factors are: Inequality, Poverty, GDP, Labor market, financial market, Product market, and Infrastructure. In the political group the factors are: Mobilization, Civil rights, and influences on politics. And the last group are the social and cultural factors, which include: Education, gender, systems of beliefs, and religion. Lastly, we found the microfinance contribution model of Epstein and Crane (2005). In this model the authors state several groups of factors which can have an influence or contribution on microfinance. They have the political, social and cultural environment factors, which are: gender bias, poverty level woman violence, education, corruption, and government stability. And the second group are the competition and economic structure factors, which are: inflation rate, infrastructure, and interest rate.

After careful analysis of the models of Karmakar (1999), Zohir and Matin (2004), Epstein (2005) and Sebstad and Chen (1996) we made a selection of regional and national success factors which can have an influence on MFIs and microfinance projects. We decided to conduct a literature research on the success factors stated below. The arguments why we have chosen for these factors are described below.

#### **Regional and National Success Factors:**

- Social / cultural success factors: Influence of religion, level of education, and percentage male/female.
- Political success factors: freedom of markets, government policy, country/political stability, and level of corruption.
- Economic success factors: Interest rate, inflation rate, poverty rate, infrastructure, and labor market stability.

We have chosen for these factors after careful analysis of the models of Karmakar (1999), Zohir and Matin (2004), Epstein (2005) and Sebstad and Chen (1996), and other literature sources.

The World Bank (2007) discusses the fact that in order to be effective, development processes to reduce poverty must be created with an understanding of the culture, or while taking the

culture into account, for two reasons: First, culture influences what is valued in a society; in particular, it shapes the 'ends' of development that are valuable to the poor. Second, culture influences how individuals, communities, informal and formal institutions respond to developmental changes, so knowledge of culture(s) is a means to effective poverty reduction. Furthermore, Zohir and Matin (2004) provide some examples of cultural impacts of social intermediation that could have an affect on the social domain of our framework includes for instance attitude towards acceptable age of women's marriage, domestic violence, dowry, hygiene, or even the perception of and behavior with outsiders. According to the authors it could also influence gender norms and roles within the household and beyond or bring about changes in the ways in which the functions of community organizations is perceived and understood. Therefore, it is important that the social and cultural group of success factors is analyzed, to find out if the factors in this group have an influence on MFIs and microfinance projects. Within the culture group, the authors all discussed the point of gender, gender bias, inequality, and woman violence. We decided to cover these factors into a broad group of percentage male/female. When analyzing the success factor percentage male/female the aspects of gender inequality, gender bias and woman violence will be covered, because these factors are all connected to each other. How these factors are connected to each other will be shown in the analysis of this success factor.

The success factor Influence of religion will be analyzed and will cover the factors systems of beliefs and religion. Lastly, the success factor Education is a factor which all four authors pointed out as important, we agree on the importance of the education factor and thus this factor will be included in our research. Karmakar (1999) also discusses the factors media and labor unrest within the social group. Labor unrest is more a political success factor and therefore placed in this group (which will be discussed later). Media is a success factor which can have an influence on large companies and multinationals, but the media will not spent attention to the little businesses of microfinance clients, and even if they do these businesses will not be affected by the media. For this reason we do not cover this aspect in our research.

Donaghue (2004) argues that a favorable macroeconomic environment and the liberalization of the financial sector are key enabling factors in the transformation of village units and regional areas. A macroeconomic policy framework with excessive government deficits too often crowds out credit to the private sector just as an excessively tight macroeconomic policy too often chokes off economic growth and private demand for credit. General institutional weaknesses in a country can impede its development, including poor public sector

governance, limited effectiveness of the courts and excessive or corrupt bureaucratic procedures (United Nations, 2006). Robinson (1995) adds to this that starting up a MFI, requires an enabling macro-economy, an appropriate legal and regulatory environment, reasonable level of political stability, and suitable demographic conditions. Because of these arguments and the success factors analyzed by Karmakar (1999), Zohir and Matin (2004), Epstein (2005) and Sebstad and Chen (1996), it is decided that political success factors are important for this research and need to be included.

Within the second group, the political success factors, the authors discuss corruption. We agree with the authors that this is an important factor which can have an influence on the success of an MFI and therefore we included this aspect in our research. Furthermore, we will discuss the country/political stability, freedom of markets and government policy. These factors will be cover government stability, influencing politics, political mobilization, civil rights, centre-state relations, types of politics, international relations, and law order.

For the last group, Ledgerwood (2000) discusses the fact that economic policies do have an influence on the ability of an MFI to provide effectively financial services. Economic policies can affect the inflation rate, the growth of the economy, or the degree of openness of the markets which will have a direct influence on the interest rate of the MFI loans. This all also has an effect on the successfulness of the micro entrepreneurs for their business and the ability to utilize financial services. The investment of the government into the financial infrastructure, the scale and depth of the poverty and the access to social services all affect the way a microfinance organization operates their business. Because of poor roads micro entrepreneurs are not able to reach the markets, health services or the school for their children. All these activities are affected to their use of financial services. The report of the United Nations (2006) supports this. In this report it is argued that when the financial sector is weak, MFIs will have limited opportunities to tap into domestic or international funds and credit for households and small firms are likely to develop more slowly and on a more limited basis. The less robust the domestic financial sector and the more fragmented its supportive infrastructure, the more likely it is that microfinance institutions will rely on government and international donors and the credit enhancements they offer. For these reasons and the success factors discussed by Karmakar (1999), Zohir and Matin (2004), Epstein (2005) and Sebstad and Chen (1996), it is decided that economic success factors can have an influence on MFIs and microfinance projects.



Therefore, in this last group of factors, the economical factors, we will discuss the labor market stability. This factor will cover the factors labor unrest, labor market, and unemployment as discussed by the authors. Furthermore, the factors infrastructure, inflation rate, interest rate, and poverty rate will be analyzed. In our opinion the factors financial market, GDP, monetary/ fiscal policy, taxation policies and economical stability are covered in the political success factors country/political stability and government policy.

Lastly, Karmakar (1999) discusses a fourth group in its success factor model, namely technological success factors. We decided that the factors communication and transport fall into the group of infrastructure. Export is excluded from our research with the reason that microfinance loan are very small loans with which the people can set up very small businesses. The people sell their products in on the market in their own village or in the nearest bigger village. This means that these people never get involved into export, their business is simply too small. Furthermore, the success factors basic research and bio technology are also excluded from our research, because bio technology and basic research are research and development activities of the government of a country for country development and growth. These activities only have a neglect able effect on microfinance and the businesses of microfinance clients. Furthermore, these aspects are also covered in the factor of government policies, and for these reasons it is decided to exclude these factors from our research.

### *3.1.1 Social and Cultural Success Factors*

Within this paragraph of the research the social and cultural success factors are analyzed. These success factors are: influence of religion, level of education, and percentage male/female. The goal is to identify if these social and cultural factors analyzed are success factors which can have an influence on MFIs and microfinance projects, and in which way the social and cultural factors can have an influence on MFIs and microfinance projects.

#### **Influence of religion**

While some cultural barriers are reinforced by the legal system, others are based on deeply rooted social traditions that influence how people treat each other in society (United Nations, 2006). Microfinance is a very flexible tool that can be adapted in every environment, based on the local needs and economic and financial situation. For this reason Segrado (2005) argues that microfinance can easily be adapted to certain cultural environments, such as countries characterized by a majority of Muslims that follow the Islamic law. The author discusses the fact that microfinance in Islamic countries can be seen as the maximization of social benefits as opposed to profit maximization, through the creation of healthier financial institutions that can provide effective financial services. In this way microfinance can be adapted towards the religious beliefs of this culture. Based on these facts found, it can thus be said that when starting up a MFI or microfinance project there are no limitations based on religion. It is only important to adapt the values of the project to the values and beliefs of that particular culture. This means that religion is a success factor, because adaptation of the MFIs towards the culture of the country or region is necessary and thus the religion is influencing the MFI or microfinance project. But when the adaptation is done properly the MFI can grow successful.

#### **Level of education**

Limited literacy, particularly financial literacy, is often cited as a significant constraint on demand. People with limited literacy skills are also generally unaware of their rights and can be intimidated by banking systems and procedures that include complex contracts and documentation they cannot read and do not understand (United Nations, 2006). Furthermore, when discussing level of education, children's education is an important part of this subject. Microfinance does not directly target children's education, but it affects this subject in an indirect way. Holvoet (2002) argues that "credit enters the household and might influence several of the factors that determine children's education, including the overall financial

budget as well as the individual parent's budget, the time allocation, the individual parent's degree of participation in household decision making, and the perceptions regarding the importance of children's education". Queagebeur and Marthi (2005) state that "Recent theoretical models portrayed human capital investment as a primary engine of economic growth". Education, therefore, is a crucial element in poverty alleviation and economic growth on the macro level as well as on the household level. However, even though poor households want their children to be educated, many of them do not send their children to school. This because the lack of financial means is an important factor in this decision, many poor households do not have the funds to pay for the costs of schooling for their children. Even when there are no school-fees charged schooling usually involves indirect costs, such as expenses for uniforms, books, and transport. The benefits of microfinance therefore reach beyond the microfinance client himself; it increases the educational opportunities of the client's children, which could result in a less burdened future.

The level of education has a 10% influence level on the outcome of the success of microfinance according to Baptista et al (2006). Baptista et al. have done research at the development of microfinance at the Cape Verde in Africa. With the education level they mean number of years schooling. The average number of years for men is 7.4 years and for women is 5 years. Baptista et al. also found a positive relationship between the size of the micro enterprise and level of education. This is explained by the fact that well-educated micro-entrepreneurs have better developed technical skill, business knowledge, ambition and self-confidence. They are also less reluctant to expose themselves to the risk that comes with large loans because they have a better understanding of the functioning of the credit market and the availability of alternative financing sources.

As Baptista et al. (2006) argue the level of education has a positive influence on the success of microfinance. Basic knowledge of reading and counting is necessary (for calculating the weekly repayments with interest etc.) Furthermore, having a basic literacy level helps the people in exploiting their business and generating money to pay the loan back. This basic knowledge of literacy is mostly gained through education. Also the benefits of microfinance reach beyond the microfinance client him or herself. This because generating money through microfinance increases the educational opportunities of the client's children, which could result in a less burdened future. Because of the fact that the level of education does have an influence on MFIs and microfinance projects, it can be concluded that the level of education is a success factor for MFIs and microfinance projects.

**Percentage male/female**

The World Bank (2007) says that gender inequality slows economic growth and increases the difficulty of overcoming poverty. Women's empowerment is especially important for determining a country's demographic trends. These trends affect its economic success and environmental sustainability. Earlier research found that the outcome of microfinance participation differs by gender. According to Pitt and Khandler (1998) the flow of consumption expenditure increases 18 taka (Taka is the currency of Bangladesh) for every 100 taka by woman, this differs with the men because they only show an increase of 11 taka for every 100 taka. Pitt et al. (2003) also claim that the credit provided by woman improves their health and nutrition situation while the credit provided by men does not show a significant effect. Gow (2001) agrees with these statements. He says that "woman have proven to be good credit risks, while generally man have not been faithful repayers of loans". Recent data by Pearson (2001) shows that a growing percentage of women are head of the households and that the family is dependent on the women for income. This explains the eager and responsibility of the women to make money and conduct in microfinance loans to do business. According to a study by Hashemi et al (1996) the importance of a women's contribution to family support is the most important variable from the effect of women on the impact of microfinance. Hashemi et al used eight indicators in the research from women empowerment: women's economic contribution to the household, ability to make large purchases, ability to make small purchases, involvement in major decisions, ownership of productive assets, political awareness and freedom from family domination. Kabeer (2001), claims that a micro loan increases the bargaining situation of women in their households, which motivates them to make a success out of their business. Moreover, as FINCA (2007) argues, "It has been proven time after time that increasing the incomes of poor mothers result in an almost immediate improvement in the diet of their children. The greatest benefit is that, when a woman's income grows, the first thing she does is to send her children to school. And when a child is educated, he or she has better opportunities to live outside of poverty". It therefore can be said that when starting up a MFI or microfinance project, it is helpful to start this business in a region or country where woman are becoming more and more emancipated. This because MFI want to provide loans especially to woman, and in regions or countries where woman still have a minority role their husbands or fathers will never allow them to start their own business, and a MFI is not able to grow. Because of the fact that the percentage male/female has an influence on MFIs and microfinance projects, it can be concluded that the percentage male/female is a success factor for MFIs and microfinance projects.

### **Summary social / cultural success factors**

After analyzing the social and cultural factors selected, it can be concluded that influence of religion, level of education, and percentage male/female are important success factors which can have an influence on MFIs and microfinance projects.

The first factor we describe is religion. We found that there are no limitations based on religion when starting up a microfinance project. It is only important to adapt the values of the project to the values and beliefs of that particular culture. The second factor of the social and cultural factors we describe in this research is the level of education. We found that there is some basic knowledge required to make a microfinance project work. This is because of the fact that people who acquire for microfinance loan need to have basic knowledge of reading and accounting. Furthermore, having a basic literacy level helps the people in exploiting their business and generating money to pay the loan back. The third and last factor is the percentage male / female in the region of the microfinance project. We found that it is helpful to start up a microfinance project in a region where women become more and more emancipated. This because MFI want to provide loans especially to women, and in regions or countries where woman still have a minority role their husbands or fathers will never allow them to start their own business, and a MFI is not able to grow.

### *3.1.2 Political Success Factors*

Within this paragraph the political success factors are analyzed. These success factors are: freedom of markets, government policy, country/political stability, and level of corruption. The goal is to identify if these political factors analyzed are success factors which can have an influence on MFIs and microfinance projects, and in which way the political factors can have an influence on MFIs and microfinance projects.

#### **Country / Politically Stability**

Vanroose (2007) argues that microfinance tends to serve more clients in economically instable environments (this is an indicator of the difference between MFIs and formal financial institutions). The author argues that this is the case because financial instability renders people familiar with the higher interest rates that such MFIs frequently ask. The formal banking sector may be more reluctant to provide financial services in instable areas to the poorer sections of the population, therefore leaving a bigger market potential for MFIs.

War can have a large impact on the stability of a country and thus the economical and environmental stability. War can have a wide ranging impact and potential damage not only to the borrowers and the MFIs, but also to the wider social, economical and political environment. War directly has an impact on both the borrowers and the MFIs. On the borrowers side war can immobilize their livelihood activities and can result in lower income that could translate in lower capacity for savings and loan repayment. As this takes place, on the MFI side, the decreasing revenues can affect its profitability and can stunt the growth of outreach (Rivera, 2003). Barr (2005) argues that MFIs can thrive in weak legal and other formal institutional environments because they largely do not have to rely on such formal institutions to operate.

MFIs can thrive very well in unstable countries, whether this is economical or politically unstable. But as Rivera (2003) says MFIs in areas where they are affected directly by war (not the aftermath) are not functioning well. Thus we can conclude that MFIs can be successful in unstable regions/countries, as long as these regions/countries are not affected directly by war. But the country and political stability do have an influence on MFIs and microfinance projects, therefore, it can be concluded that the country / political stability is a success factor for MFIs and microfinance projects.

### **Freedom of markets**

The World Bank (2007) promotes market liberalization coupled with privatization. Opening up national markets to international trade promotes a global partnership for development, as well as ensures the success of privatization programs. Privatization works best when part of larger reforms, which opens markets to international trade and promotes competition. Exposure to competitive international trade is a powerful stimulus for efficiency, which in turn, contributes to economic growth and rising incomes. Therefore, it is vital that the liberalization of markets is prioritized in order to foster economic growth and reduce poverty immediately. Vanroose (2007) discusses the fact that liberalization (or privatization) of the financial sector helps foster the emergence of microfinance. She says that “increased competition, supported by entries of foreign banks, makes commercial banks refocus on their core business, reducing downscaling efforts and thus creating a market niche for MFIs”. Ledgerwood (2000) argues that transition economies, whether in situations of liberalization, situations of conflict or political unrest, where existing systems of social networks have broken down and need to be reestablished, pose additional concerns for MFIs. She says that “transition economies, by definition, are beginning to develop private sector markets and businesses. Often most microfinance clients are not familiar with business transactions and are generally not entrepreneurial in nature”. Furthermore, Ledgerwood (2000) discusses the fact that an MFI needs to operate in a country in which the financial sector has been liberalized to mobilize savings effectively. This includes abolishing interest rate ceilings and foreign exchange controls, admitting new entrants into the market, as well as establishing reasonable capital requirements.

We can conclude that liberalization and privatization are favorable for MFIs. This because of the fact that the increased competition, supported by entries of foreign banks, makes commercial banks refocus on their core business, reducing downscaling efforts and thus creating a market niche for MFIs, as Vanroose (2007) discussed. Furthermore, the liberalization of financial markets helps MFIs to mobilize their savings more effectively. Because of the fact that the freedom of markets has an influence on MFIs and microfinance projects, it can be concluded that the freedom of markets is a success factor for MFIs and microfinance projects.

### **Government policies**

Arun (2005) concluded that in many countries, the MFIs are not usually included under the financial regulation legislations which restrict them to access deposits from the public. He

argues that “most of the governments had followed a *laissez-faire* approach in regulating microfinance institutions which has affected these institutions to obtain long-term source of capital at a reduced cost”. In his article Arun (2005) discusses the aspect that some governments are concerned about the high interest rates when the government handles a *laissez-faire* approach, but it shows that non-involvement by the government has helped the microfinance institutions immensely in their early stages. Most of the countries had legally permissible lower levels of interest rates, which are not enough for a sustainable operation by microfinance institution and which compels them to operate as non-governmental organizations. Furthermore, Arun (2005) discusses that the governments are also keen to regulate the MFI’s to protect depositor’s interest, particularly in the case of those MFI’s which are already taking deposits.

Barr (2005) discusses the fact that microfinance might be an important financial development strategy in the face of weak, incompetent, or corrupt governance, and in post-conflict reconstruction efforts. He says that “bad governance can hinder microfinance’s growth, and on the other hand good governmental policies certainly can, and should be used to advance microfinance”. Mosley et al. (2004) add to this that the civic knowledge literature leads them to suggest that civic knowledge increases trust in government, increases support for democratic values, and increases political participation. They argue: “The more knowledge citizens have of civic affairs, the less likely they are to experience a generalized mistrust of, or alienation from, public life”.

As Arun (2005) discusses the *laissez-faire* approach towards microfinance of several governments have helped the MFIs to go through a good start up phase, because they could define and implement their strategy in their own way without government interruptions. On the other hand some government interruptions and rules are needed for microfinance, to prevent for example corruption and high interest rates. Because of the fact that government policies have an influence on MFIs and microfinance projects, it can be concluded that the government policies are a success factor for MFIs and microfinance projects.

### **Level of Corruption**

The World Bank (2007) has identified corruption as among the greatest obstacles to economic and social development. It undermines development by distorting the rule of law and weakening the institutional foundation on which economic growth depends. They argue that “the harmful effects of corruption are especially severe on the poor, who are hardest hit by economic decline, are most reliant on the provision of public services, and are least capable of



paying the extra costs associated with bribery, fraud, and the misappropriation of economic privileges”. Blackburn et al. (2006) discuss the fact that there is overwhelming evidence of a significant negative relationship between the incidence of corruption and economic growth. According to them, the principal mechanism through which corruption affects growth is a change in private investment; an improvement in the corruption index by one standard deviation is estimated to increase investment by as much as 3 percent of output.

Savavian (2001) argues that the effect of corruption on micro enterprises can be harmful on both the sector and individual firm level. Policies that restrain the development of a micro enterprise sector have also implications for the poverty reduction. The author says that “corruption may also cause a loss of efficiency for individual firms because it may force firms to incur a number of unproductive costs, thereby leading to a welfare reducing allocation of resources”.

It therefore can be concluded that corruption can have a negative effect on MFIs. When there is too much corruption in a country or region, this may have an effect on the business of the clients of MFIs. When their business is affected too much by corruption, they may not be able to repay their loans on time or not at all, which in turn affects the MFI. Because of the fact that the level of corruption has a negative influence on MFIs and microfinance projects, it can be concluded that the level of corruption is a success factor for MFIs and microfinance projects.

### **Summary Political success factors**

After analyzing the social and cultural factors selected, it can be concluded that influence of religion, level of education, and percentage male/female are important success factors which can have an influence on MFIs and microfinance projects.

We found different political factors in the literature that could have a significant effect on a “successful” outcome of a microfinance loan. The first factor is the country and politically stability. We found that MFIs can thrive very well in unstable countries, whether this is economical or politically unstable. But on the other hand MFIs in areas where they are affected directly by war (not the aftermath) are not functioning well. Thus we can conclude that MFIs can be successful in unstable regions/countries, as long as these regions/countries are not affected directly by war. The second factor is the freedom of markets in a country. We found that liberalization and privatization are favorable for MFIs. This because of the fact that increased competition creates a market niche for MFIs. Furthermore, the liberalization of

financial markets helps MFIs to mobilize their savings more effectively. The third factor we describe in this research are the government policies. We can conclude that the laissez-faire approach towards microfinance of several governments have helped the MFIs to go through a good start up phase, because they could define and implement their strategy in their own way without government interruptions. On the other hand some government interruptions and rules are needed for microfinance, to prevent for example corruption and high interest rates. The fourth and last factor in this group is the level of corruption. We have found that corruption can have a negative effect on MFIs. When there is too much corruption in a country or region, this may have an effect on the business of the clients of MFIs. When their business is affected too much by corruption, they may not be able to repay their loans on time or not at all, which in turn affects the MFI.

### *3.1.3 Economical Success Factors*

In this paragraph the economic success factors are analyzed. These success factors are: Interest rate, inflation rate, poverty rate, infrastructure, and labor market stability. The goal is to identify if these economic factors analyzed are success factors which can have an influence on MFIs and microfinance projects, and in which way the economic factors can have an influence on MFIs and microfinance projects.

#### **Interest rate**

We have seen that most MFIs have interest rates which are very high compared to interest rates which are charged on commercial loans. Fernando (2006) argues that MFIs need to charge prices high enough to cover costs. This is an essential practice for any business enterprise that intends to continue its operations beyond the short-term. Thus, Fernando (2006) says that many MFIs have thus adopted cost recovery interest rates on micro credit. A significant number of such institutions have been able to expand the depth and breadth of their operations. The nominal interest rates charged by most MFIs range from 30% to 70% a year (on a reducing balance basis). The effective interest rates are even higher because of commissions and fees charged by MFIs. On the contrary it is discussed that these high interest rates have negative effects. In the report of the United Nations (2006) it is argued that they may reduce profitable business opportunities for the poor, and they may reduce their ability to accumulate assets. High interest rates may also lead inexperienced or financially unsophisticated poor or low-income borrowers into debt traps. These factors together lead to concerns that high interest rates are neither socially nor economically acceptable. Therefore interest rate ceilings continue to exist and have been reintroduced in several countries. However, Barr (2005) argues that in financially undeveloped countries, micro credit can serve to reduce prevailing high interest rates in the informal sector through bringing increased levels of competition.

As Fernando (2006) argues that high interest rates are necessary for MFIs to cover all cost, we therefore can conclude that it must be possible for MFIs to charge higher interest rates than commercial banks in the country/region where they want to start up. It is thus important that if a country handles an interest rate ceiling, this ceiling must not be too low. But on the other hand MFIs should not handle interest rates which are too high, to prevent clients to come in a debt trap. Because of the fact that the interest rate has an influence on MFIs and microfinance

projects, it can be concluded that the interest rate is a success factor for MFIs and microfinance projects.

### **Poverty rate**

On the website of Unitus (2007) it is stated that poverty is a macro problem, with causes as wide as they are deep. Political instability, natural disasters, corruption, socio-economic disparities and prejudice, lack of access to education and lack of infrastructure are just a few of the key reasons that people all over the world are poor and remain poor. The world poverty percentages are based on a report of the World Bank out of 2006. This report states that "... the original international poverty line of \$1 a day in 1985, but PPP terms is now about \$1.08 a day". But countries do all have their own poverty lines, based on the poverty percentages and national wealth situations in that country.

Karmakar (1999) argues that the poorest groups in Bangladesh are the most reliable to lend to. The richest, those who have sufficient social, technical, economic, and political power to obtain industrial loans, appear to be the worst. According to a study by Mosley et. Al. (1998) households who are living above the poverty line experience a higher financial impact with a loan then households who are below the poverty line. This research was conducted under 13 microfinance institutions in seven developing countries.

Based on the literature found we can conclude that the households who are living below the poverty line (whether this is the world or national poverty line) experience less financial growth then the households who are living above the poverty line. According to the study by Karmakar (1999) the poorest groups are the most reliable households to lend to. According to the study by Mosley (1998) the poorest groups experience the slowest financial growth because they have to come from a long way before they exceed the poverty line. Based on the literature we can say that the poorest are the most reliable people to lend to, because they need it the most and are the most driven to make it to a success. Because of the fact that the poverty rate has an influence on MFIs and microfinance projects, it can be concluded that the poverty rate is a success factor for MFIs and microfinance projects.

### **Labor market stability**

By creating opportunities for work (by for example providing micro credits), efficient labor markets directly contribute to poverty reduction. Sound labor market policies and programs help workers manage risks associated with unemployment, lost income, and poor working conditions (World Bank, 2007). According to Mosley & Rock (2004) microcredit offered to

the non-poor can have a significant effect on the poverty rate in the region as well. Loans offered to the non-poor create a labor market for the employees of the microfinance clients. Labor market stability does not have a significant effect on the outcome of a microfinance project. Therefore, it can be concluded that the labor market stability is not a success factor. Labor market is more a measure of the impact of microfinance. Microfinance can create more jobs in the region which has an influence on the welfare of the region. There are no requirements needed in the labor market to make a success of microfinance.

### **Inflation rate**

Some degree of inflation is present in countries. Investors and donors should be aware of the inflation rate when investing in microfinance. Inflation can result in real costs for the MFI's and must be covered by the required interest rate. MFI's often operate in countries with hyperinflation. A country's GDP provides an indication of the economic stability of the country and the future economic growth. A positive GDP is mostly preferred but stagnant economies can also be potential markets for providing microfinance services if the unemployment rate increases and more people become micro entrepreneurs (Ledgerwood, 2000). But stagnant or falling GDP can also result in lower incomes and less demand for products and services which could result in the failure of micro enterprises. The stability of the financial market and other markets makes the micro enterprises more stable and viable.

Transition economies of countries with political unrest or conflicts are cause for additional concerns for MFI's. Political instability, corruption and civil war all have a direct effect on the economy such as internal migration, out-migration, capital flight and currency instability. There are also less tangible effects like the way people see their future, how much they want to spend on their products, where they want to invest their money to set up a permanent shop and the kind of products they want to trade in are all affected by the political atmosphere.

Ledgerwood (2000) argues that investors and donors should be aware of the inflation rate when investing in microfinance. Inflation can result in real costs for the MFI's and must be covered by the required interest rate. Furthermore, MFIs can thrive well in markets with hyperinflation, or stagnant markets, because of the big market for potential clients. On the other hand stagnating markets can mean less demand for products, which results in less income for the clients and thus the possibility that those clients are not able to pay back their loan and interest. Because of the fact that the inflation rate has an influence on MFIs and microfinance projects, it can be concluded that the inflation rate is a success factor for MFIs and microfinance projects.

**Infrastructure**

An important consideration when providing microfinance services is the existence of adequate infrastructure (roads, communication facilities, water and sewer systems etc.). A lack of these and other infrastructure facilities will affect the means by which a MFI and the micro enterprises it supports operate and should be taken into consideration when setting up a MFI (Ledgerwood, 2000). Gow (2001) determined some situations in which microfinance would not be very effective. One of these situations is the case in which the infrastructure is absent or badly developed. The author argues that “villages without access to transport or other infrastructure are considered as high risk areas”. Zohir and Matin (2004) discuss that, especially in Asian countries, a significant proportion of MFI loans is reportedly invested on buying a rickshaw or van. Normally, such investments are only made in areas where appropriate physical infrastructure is already in place.

We can conclude that some basic form of infrastructure is needed for MFIs to be successful. This because of the fact that infrastructure, as transport and roads, are needed for some clients to make their business successful (for example good roads towards the markets to sell their products). Furthermore, some basic transport, roads and technological infrastructure is needed for the MFIs themselves to do business. Therefore, it can be concluded that infrastructure has an influence on MFIs and microfinance projects, and thus infrastructure is a success factor for MFIs and microfinance projects.

**Summary Economical success factors**

We found different economical factors in the literature that could have a significant effect on a “successful” outcome of a microfinance loan. The first factor we found is interest rate.

We found that the interest rate can be higher by the MFI’s charged then by the commercial banks. This is necessary to cover all cost made by the MFI’s. But on the other hand MFIs should not handle interest rates which are too high, to prevent clients to come in a debt trap. The second factor we describe is poverty. We found that the poorest are the most reliable and that the clients who just exceed the poverty line are the ones who have the quickest results. Because we mean with success when clients are capable to pay the loan and interest rate back to the microfinance institution we say that the poorest of the clients are the ones with the significant influence on the outcome of microfinance. The third factor is labor market stability. We found that the labor market stability does not have a significant influence on success of a microfinance project. Labor market stability is more a tool to measure the impact of microfinance instead of influencing the impact of microfinance. The fourth and last factor

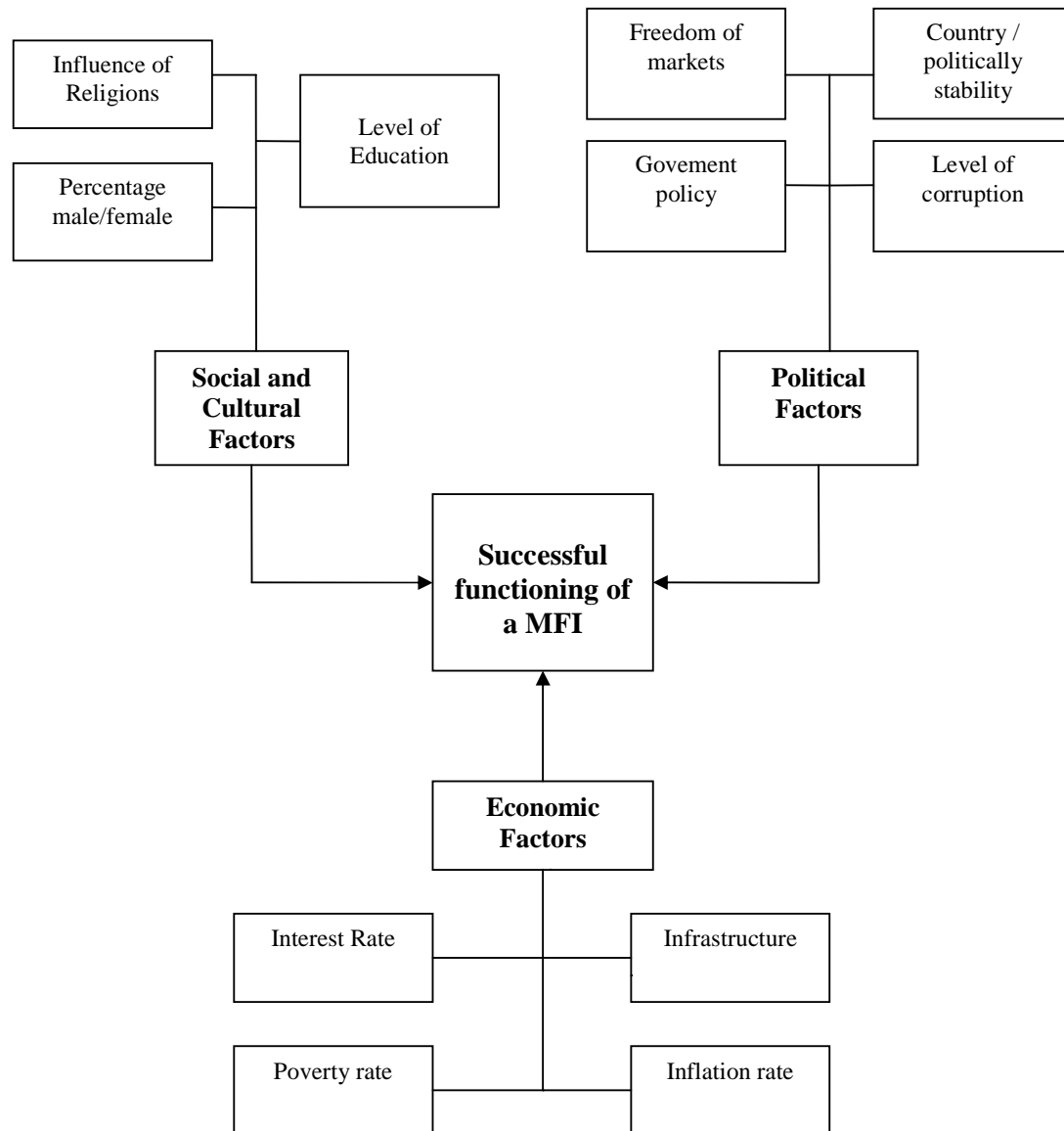
is the inflation rate. We found that MFIs can thrive well in markets with hyperinflation, or stagnant markets, because of the big market for potential clients. On the other hand stagnating markets can mean less demand for products, which results in less income for the clients and thus the possibility that those clients are not able to pay back their loan and interest. The fifth factor and last factor we found in the group of economical success factors is the infrastructure. We can conclude that some basic form of infrastructure is needed for MFIs to be successful. This because of the fact that infrastructure, as transport and roads, are needed for some clients to make their business successful (for example good roads towards the markets to sell their products). Furthermore, some basic transport, roads and technological infrastructure is needed for the MFIs themselves to do business.

### **3.1 *Conclusion of the success factors***

Based on the literature research conducted for the social and cultural factors it can be concluded that influence of religion, the level of education, and the percentage male/female are national and/or regional success factors for MFIs and microfinance projects. For the political success factors: freedom of markets, government policy, country/political stability, and level of corruption, it also can be concluded that these factors are national and/or regional success factors for MFIs and microfinance projects. For the last group of factors, the economic success factors, it can be concluded that the interest rate, inflation rate, poverty rate, and infrastructure are national and/or regional success factors for MFIs and microfinance projects. The only factor which is not a success factor is the labor market stability. This because of the fact that labor market stability does not has an influence on MFIs and microfinance projects. Labor market is more a measure of the impact of microfinance. Microfinance can create more jobs in the region which has an influence on the welfare of the region. In figure 3.2 the success factors found in the literature are shown.



**Figure 3.2**  
**Success Factors influencing MFIs**



#### **4. The success factors for the Alwi Parish project in Uganda**

In the previous chapter literature research was conducted about the success factors which have an influence on MFIs and/or microfinance projects. In this chapter these success factors will be analyzed in a microfinance project in Uganda. With this analysis we want determine what the influences are of the success factors found in the literature on this projects in Africa. The goal of this chapter is to conclude if all factors have to be positive and present to make a success out of a project.

First, some background information about the project the MFI and the research will be given. After that the social and cultural, political, and economical success factors of the microfinance project will be analyzed.

##### ***4.1 Background Information about the project***

In this case study the project of Alfred Lakwo (2007) is used. The microfinance project is based in Uganda in the Nebbi district in the north-west of the country. Time period of this project was from February 2002 to December 2003. The project was carried out by the MFI Pakwach Nam Cooperative Savings and Credit Society Ltd. (PNVB), this MFI is operating already for several years in this region. Furthermore, Lakwo obtained help and data from the Agency for Acceleration Regional Development (AFARD), this is a Non-Governmental Organization (NGO), and West Nile Private Sector Development Promotion Center (WNPSDPC) and this organization had only data about commercial MFIs.

The Nebbi district and then especially Alwi Parish was chosen by the PNVB for this microfinance project, because this district has a broad diversity. The regions in this district are very distinct in ethnicity and social practice.

The PNVB has its headquarters in the Pakwach town council. The bank is a member-owned, member-used, and member-controlled MFI. The mission of the bank is “alleviation of poverty through provision of microfinance services to the poor but economically active youths, women and men within the community using microfinance best practices”. The bank deals only with its members, which is dominated by women and youths (80 percent) as its primary market segment clients (see table 4.1). The bank provides both financial and non-financial services, these include:

- Provision of saving facilities to cater for the needs of the growing financial services among the members. Savings products offered are personal saving accounts, joint

saving accounts, and group saving accounts. No interest is paid to members on saving accounts since the income of the society is still very low.

- Provision of credit facilities to members. Loans are given both to individuals and groups, to support on-going enterprises and income generating activities at an interest fee of 3 percent per month (36 percent per annual).
- Member mobilization through the sales of shares, and periodic public education.
- Training in micro enterprise management skills to clients. These trainings are given to members in the areas of loan management, business skills, and simple record keeping to improve the client's management and their business.
- Business counseling and training of members aimed at building knowledge, skills and confidence in them.
- Capacity building through basic training to the management and committee members on some modules in microfinance.

(Source: Lakwo, 2007)

**Table 4.1**  
**Growth overview PNVB**

<b>Year</b>	<b>Total income (US\$)</b>	<b>Amount disbursed (US\$)</b>	<b>Repayment rate (%)</b>	<b>Total of loanees</b>	<b>Percentage woman</b>
2001	-	102,106.54	74	-	-
2002	59,552.13	169,267.10	78	-	-
2003	84,498.59	226,715.55	80	506	64.0
2004	126,947.57	307,849.51	81	786	55.2
2005	255,470.24	373,159.39	79	1116	25.6

Source: Lakwo (2007), Uganda shilling (Ushs) converted to US\$ with xe.com converter

#### **4.2 Background information about Uganda and the Nebbi district**

Uganda is an Eastern African country, and shares its borders with Democratic Republic of Congo, Kenya, Rwanda, Sudan, and Tanzania. Uganda has a Republic government and the country economy relies on the agricultural sub sector, which contributes to 70 percent of its Gross Domestic Product (GDP) and employs 80 percent of the country's labor force (Lakwo, 2007). Uganda experienced a dramatic population growth between 1980 and 2004 and in the country an estimated total of 43 percent of the people is lacking access to (formal) financial services especially in rural areas, because MFIs are urban concentrated (Lakwo, 2007). In table 5.1 the development indicators of Uganda are displayed. The development indicators of

the Netherlands can be seen in the column next to the column of Uganda to show the development differences of both countries.

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**Table 4.2**  
**Country Indicators Uganda and the Netherlands (2005)**

<b>World Development Indicators</b>	<b>Uganda</b>	<b>Netherlands</b>
Population, total (millions)	28.8	16.3
Population growth (annual %)	3.5	0.2
Surface area (sq. km) (thousands)	241.0	41.530
Life expectancy at birth, total (years)	50.0	79.3
Mortality rate, infant (per 1,000 live births)	79.0	4.0
GNI (USD) (billions)	8.0	642
GNI per capita (USD)	280.0	39,340
Prevalence of HIV, total (% of population ages 15-49)	6.4	0.2
GDP (USD) (billions)	8.6	624.2
GDP growth ( annual %)	6.6	7.7
Inflation	8.2	6.4

Source: Worldbank, 2007

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The Nebbi district is situated in the North-West of Uganda, and the district has a population over 433,466 people, out of which 226,044 females and 207,422 Males (Uganda Travel Guide, 2007). The main activity lies in agriculture with the emphasis on food crops such as millet, potatoes, beans, and cassava. Cash crops include Coffee, Cotton and sugar cane. Fruits and vegetables include Tomatoes, paw paws, avocados, mangoes, oranges, lime, onions and cabbages. Furthermore, there are also fishing activities possible on the River Nile.

### **4.3 Success factors of the project analyzed**

In this part of chapter 4, the success factors found in the literature will be analyzed for the microfinance project of PNVB and Alfred Lakwo. The Social and Cultural, Economical, and Political success factors are analyzed according the situation in Uganda and the Nebbi district.

#### **4.3.1 Social and Cultural Success Factors**

##### **Influence of religion**

In the late 1980s, Ugandan officials estimated that 66 percent of the population was Christian (almost equally divided among Protestants and Roman Catholics). And approximately 15 percent of Ugandans were Muslims. Throughout Uganda's colonial and postcolonial history, religious identity has had economic and political implications. Church membership has influenced opportunities for education, employment, and social advancement. As a result, the distinction between material and spiritual benefits of religion has not been considered very important, nor have the rewards of religious participation been expected to arrive only in an afterlife (Country Studies, 2007). In the literature it was found that religion is a success factor, because adaptation of the MFIs towards the culture of the country or region is necessary and thus the religion is influencing the MFI or microfinance project. But when the adaptation is done properly the MFI can grow successful. Since the PNVB is a MFI only based in Uganda and the Nebbi district, they know what the values and beliefs are in this population and are adapted well towards it, thus it can be concluded that religion has a positive influence on the microfinance project of the PNVB.

##### **Level of education**

In Uganda formal education has four levels. The first level consists of seven primary-school grades (standards one through seven), usually beginning about age six. Based on test scores in seventh grade, pupils can enter one of the several types of institutions; a four-year secondary school ("O-level"), a three-year technical training institution, or a four-year teacher training college. About 40 percent of those who pass "O-level" examinations continue their education through one of several options which follow after that; namely an advanced two-year secondary course ("A-level"), an advanced two year teacher training course, a technical institute, or a specialized training program provided by the government. Those who complete "A-level" examinations might study at Makerere University in Kampala or they might study

abroad. Other options for "A-level" graduates are the Uganda Technical College, the Institute of Teachers' Education (formerly the National Teachers' College), or National College of Business Studies (Country Studies, 2007). The net enrollment rates for primary schooling increased from a total 62.3 percent in 1992 to 86 percent of girls and 87 percent of boys in 2004. The gender gap (ratio of girls to boys) in primary and secondary schooling improved from 93 in 1992 to 99 percent today and from 67 percent in 1997 to 86 percent today, respectively (World Bank, 2007).

The Nebbi district has a total of 218 primary schools with 201 government schools, 3 private and 14 community schools. For secondary schools, the district has over 21 schools, 9 are government, 3 private and 9 community. There is 1 Technical Institution and 1 Teacher training college (Uganda Travel Guide, 2007). Although the Nebbi district has this many schools, the introduction of "fee-free" education has only made small improvements in the general education of children in this area. A majority of the household population had formal education. This was largely in primary education (53.5 percent), equally a majority are literate (83.7 percent). However, gender disparity exists in educational attainment (see table 5.2). The majority of women only has primary education (53.2 percent) compared to men where the majority has O'level education (34.2 percent). Disparity in access, retention, progression, and performance persist between boys and girls. It is considered that education introduces bad values for girls.

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**Table 4.3**  
**Educational status Microfinance clients**  
**Nebbi district Uganda**

<b>Educational level</b>	<b>Women</b>	<b>Men</b>
None	13.9%	12.7%
Primary	53.2%	30.4%
O'level	31.6%	34.2%
A'level	1.3%	13.9%
Tertiary	-	8.9%

Source: Lakwo, 2007

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In the literature we found that education is a success factor for MFIs and microfinance projects, because there is some basic knowledge required to make a microfinance project work. We found that in Alwi Parish the majority of women have primary education and the level of education for men lies even higher. As can be seen in table 5.2 only small percentages

for both women and men did not have any education. Therefore, it can be concluded that the level of education has a positive influence on the PNVB and its microfinance project in the Nebbi district in Uganda.

### **Percentage male/female**

In terms of education, women are way less literate compared to men. In Uganda and the Nebbi district women suffer gender inequalities, partly because of their individual self-oppression and subjugation. However, these gender discriminations are rooted in a society's institutional norms. Furthermore, Lakwo (2007) found that traditionally, husbands are expected to take the lead in making enrolment and educational expenses decisions. However, this trend is more eroded among microfinance clients in Alwi Parish. In this area the women are increasingly participating in decision-making processes regarding education.

In the literature about this success factor we found that it is helpful to start up a microfinance project in a region where women become more and more emancipated. In Uganda and the Nebbi district women suffer enormous gender inequalities. These inequalities are deeply rooted in the cultural norms and beliefs. We found that women who are participating in a microfinance project in the Nebbi district are becoming more emancipated. Therefore, it can be concluded that the percentage male/female has a positive influence on the PNVB and its microfinance project in the Nebbi district in Uganda.

#### *4.3.2 Political Success Factors*

##### **Country / Politically Stability**

Between 1971 and 1985 the country was tortured by dictatorship and guerilla wars. Since 1986, the government has bolstered the economy with policies aimed at dampening inflation and boosting production and export earnings, to overcome the aftermaths of the dictatorship and war (FINCA, 2007). Also in 1986, the National Resistance Movement (NRM) succeeded in stabilizing most of the nation and began to diversify agricultural exports away from the near-total dependence on coffee (Country Studies, 2007). During the last years Uganda's performance has generally improved. Poverty levels have declined, with only one in three persons poor. But there are also factors which hold back these performances. First, the economic growth is eroded by both a high inflation rate and population growth. Furthermore, this decline in growth can be attributed to the impact of prolonged drought conditions in most parts of the country on agricultural output; the effect of energy shortages on industrial production; and the high and volatile world oil prices. Second, with no accompanying changes in agricultural technology, low capital accumulation through domestic savings, a high prevalence rate of HIV/AIDS, and corruption (17<sup>th</sup> most corrupt state in the world), its sustainability remains questionable (Lakwo, 2007).

In the literature about this success factor it was concluded that MFIs can be successful in unstable regions/countries, as long as these regions/countries are not affected directly by war. In the case of Uganda it can be said that the country is working hard to overcome the long period of dictatorship and war. The country and political situation are of Uganda are developing, but stable at this moment. Thus it can be concluded that for this factor Uganda is a good country to start up a MFI or microfinance project. And this success factor has a positive influence on the PNVB and its microfinance project.

##### **Freedom of markets**

In July 1988, government officials announced that they would sell twenty-two companies that were entirely or partially government owned, in an effort to trim government costs and curb runaway inflation; this was the first step of the country towards liberalization. These enterprises included textile mills, vehicle import companies, and iron and gold mines (Country Studies, 2007). The Government of Uganda (GoU) has joined the international community in the commitment to eradicate poverty as guided by the Millennium Development Goals. By so doing, a number of policies are put in place to facilitate joint



action in the fight against poverty. For instance, decentralization aims at making rural communities shape their destiny, liberalization and privatization focuses at making private sector and the market a vibrant actor besides the state, and legal reforms such as commercial courts facilitate the freeness with which operational contracts can be honored (AFARD, 2004). But Lakwo (2007) argues in his report that “although Uganda is presented as a fascinating example of a very poor country that has ‘successfully’ carried out a fundamental liberalization of the economy, the consequences of such rapid opening up to multilateral capital have often been adverse for indigenous firms and farms who benefit less from production subsidies and have limited help towards access to markets”. The country is lacking antipoverty strategies and job creation policies, and together with widespread corruption and increasing inequalities, the majority of the population remains in vulnerable circumstances.

In the literature for this success factor it was found that liberalization and privatization are favorable for MFIs. In the case of Uganda, the country implemented liberalization and privatization strategies, but next to that the country is lacking antipoverty strategies and job creation policies which are needed when implementing liberalization/privatization strategies. It can be concluded here that establishing MFIs in Uganda can help the government with creating job opportunities and thus reducing the poverty rate. Therefore, the freedom of markets has a positive influence on the PNVB and its microfinance project in the Nebbi district in Uganda.

### **Government policies**

After Uganda had to face the National Resistance Movement (NRM) led by Yoweri Kaguta Museveni, who came to power in January 1986, it was the question whether or not this new government could break the cycle of insecurity and decay that had affected the country since its independence in 1962. New civil wars and ill-chosen economic policies diverted the government's energies from many of its ambitious political and economic reforms (Country Studies, 2007). The government of Uganda started a reforming process for the microfinance sector in 1998, although the need for this transformation became urgent in mid-2003, when the Ugandan parliament passed an Act establishing a new type of institution, called a microfinance deposit-taking institution (MDI). The Act also set a time frame for prohibiting intermediation of compulsory savings (minimum savings required from clients before accessing a loan), which had previously been the major source of loan capital for most MFIs. The MDI Act 2003 also disallowed non-licensed institutions from making loans using compulsory savings (Ssebukulu, 2005).

In the literature for this success factor it was concluded that a laissez-faire approach of the government towards microfinance helped MFIs to go through a good start up phase, because they could define and implement their strategy in their own way without government interruptions. On the other hand some government interruptions and rules are needed for microfinance, to prevent for example corruption and high interest rates. In the case of Uganda the government interrupted by introducing a new Act, which caused the MFIs to change their strategy in a way which was not very helpful for them. Therefore, it can be concluded that the government policies have a negative influence on PNVB and its microfinance project in the Nebbi district in Uganda.

### **Level of Corruption**

But there are also factors which hold back good performances of the country. One of these factors is the corruption in the county. Uganda is the 17<sup>th</sup> most corrupt state in the world (Lakwo, 2007). Uganda is weak in freedom from corruption, property rights, and business freedom. Regulations make commercial licensing burdensome and are not always enforced consistently. Uganda opened its first commercial court several years ago, but slow resolution and understaffing lead most investors to seek settlements or outside arbitration (Index of Economic freedom, 2007).

In the literature about this factor it was have found that corruption can have a negative effect on MFIs. When there is too much corruption in a country or region, this may have an effect on the business of the clients of MFIs. In the case of Uganda it can be said that the country is very corrupt and MFIs can be affected by this. It can thus be concluded that for this success factor Uganda is not a good country to start up a MFI or microfinance project. Therefore, the level of corruption has a negative influence on the PNVB and its microfinance project in the Nebbi district in Uganda.

#### *4.3.3 Economical Success Factors*

##### **Interest rate**

Pakwach Nam Cooperative Savings and Credit Society Ltd. charges an interest fee of 3 percent per month (36 percent per annual). But as discussed in the success factor model, high interest rates are necessary for MFIs to cover all cost. The interest rate of 36 percent which the PNVB charge is not very high, and therefore acceptable for an MFI. The government of Uganda does not handle interest rate ceilings, and thus the MFIs establishing in this country do not need to take this into account. Therefore, it can be concluded that the interest rate do not have an influence on the PNVB and its microfinance project in the Nebbi district in Uganda.

##### **Poverty rate**

In the report of Lakwo (2007) he addresses the point that chronic poverty has remained unaddressed. Many people are caught in chronic poverty dynamics. While 46 percent of the initially chronic poor households moved out into moderate poverty, 57 percent instead moved back into chronic poverty. The poorest population has remained poor. On the other hand the World Bank (2007) states that poverty declined rapidly from 1992 to 2003, as a result of high and broad-based economic growth. The poverty headcount dropped from 56 percent in 1992 to 38 percent in 2003. Although, poverty remains undisputable high in rural, northern, and eastern Uganda, Lakwo (2007) agrees with this, he says that the majority of people in northern region (64 percent) are poorer than those in central (22 percent), western (31 percent), and eastern (46 percent) regions. Furthermore, the people in Alwi Parish are basically poor materially. Lakwo (2007) states that it was difficult to estimate the household income levels in this area, since results of national studies are not disaggregated by districts. However he concluded that the national poverty line calculated Ushs. 16,440 (approximately US\$10) per adult per month is far beyond the reach of households in this area.

In the literature about this success factor, it was explained that the poorest people are the most reliable people to lend to, because they need it the most and are the most driven to make a success out of their micro credit. Success is defined as: “success of microfinance projects as helping people with a loan to make a success out of their business so they are able to pay the loan and interest back to the microfinance institution”. We say that the poorest group has the most chance on success of a microfinance loan. In Uganda the poorest people live under the national poverty line of 16,440 Ushs. (approximately US\$10) per adult per month. It was

found that in the northern region of Uganda (where the Nebbi district is situated) 64 percent of the people live below this poverty line. This means that this district is a good region for MFIs to start up a microfinance project. And the poverty rate has a positive influence on the PNVB and its microfinance project in the Nebbi district in Uganda.

### **Labor market stability**

In the late 1980s, most Ugandans worked outside the monetary economy, in part because the number of jobs in industry was dwindling and the value of Ugandan salaries was declining (Country Studies, 2007). In the microfinance project in the Nebbi district analyzed here women predominate (with 74 percent) in the informal non-waged, unskilled and drudgery technique-based labor force sector (Lakwo, 2007). He argues in his article that the 2003 labor force survey indicated that women participate less in the labor market than men and their wages are significantly lower than men's (a factor partly due to educational difference and labor market discrimination). But Lakwo (2007) also argues that there is a shifting pattern of work women are engaged in. Because women are supported with microfinance loans there is a shifting labor value in the community. Microfinance clients are still trapped in the use of family labor in the implementation of their enterprises, but 9.9 percent of the clients are using hired labor (and this percentage is growing). The hired laborer works on enterprises owned by women, their family and jointly. The hired labor enables the women to run their micro-enterprises and also fulfill their domestic work.

As concluded in the literature about this factor, labor market is more a measure of the impact of microfinance. In the project it was found that there is a shifting pattern of work women are engaged in. Because women are supported with microfinance loans there is a shifting labor value in the community. At this moment 9.9 percent of the clients are using hired labor (and this percentage is growing). Therefore, it can be concluded that the factor of labor market stability is also in the Nebbi district more a measure of the impact of microfinance. Microfinance can create more jobs in the region which has an influence on the welfare of the region.

### **Inflation rate**

One of the factors which are holding back a promising growth of the country is the high and instable inflation rate (see table 4.4). The economic growth of Uganda is eroded by this high inflation rate, which is fluctuating through the years (Lakwo, 2007).

**Table 4.4**  
**Inflation rates Uganda**

<b>Year</b>	<b>Inflation rate (%)</b>
2000	2.83
2001	2.00
2002	0.32
2003	7.83
2004	3.33
2005	8.15

Source: Mixmarket (2007)

As can be seen in table 4.4 the inflation rate during the year 2005 was 8.15 in Uganda. In the literature about this factor it was found that MFIs can thrive well in markets with hyperinflation, or stagnant markets, because of the big market for potential clients. On the other hand stagnating markets can mean less demand for products, which results in less income for the clients and thus the possibility that those clients are not able to pay back their loan and interest. Uganda has a high inflation rate, thus MFIs establishing here should take this into account, because high inflation can result in real costs for the MFI and must be covered by the required interest rate. Furthermore, the country GDP, together with the inflation rate, provides a good indication of the financial situation and economic growth of the country. As can be seen in table 4.5, the GDP growth of the country was also fluctuating through the years. This also indicates (as with the inflation rate) that the financial and economic situation of the country was not stable.

**Table 4.5**  
**GDP Growth**

<b>Year</b>	<b>GDP in US\$ (thousand)</b>	<b>Annual GDP Growth per capita (%)</b>
2000	5,891,227	1.17
2001	5,640,876	1.46
2002	5,803,020	2.76
2003	6,197,737	0.82
2004	6,833,278	3.12
2005	8,711,725	1.91

Source: Mixmarket (2007)

It can be concluded that, if the MFIs take the high inflation rate and the unstable financial and economical situation of Uganda into account, the inflation rate has a negative influence on the PNVB and its microfinance project in the Nebbi district in Uganda.

### **Infrastructure**

Between 1987 and 2003, foreign aid made up 65.4% of total government expenditures, and was 13.7% of total national income. With the help of this foreign aid budget the local infrastructure has improved (Maggiano, 2006). But although local infrastructure has improved, the infrastructure of the Nebbi district still remains poor. The Nebbis district and Alwi Parish has a poor transport network which has a great hindrance on the transportation of Agricultural products (Uganda Travel Guide, 2007).

In the literature about this success factor it was found that some basic form of infrastructure is needed for MFIs to be successful. In the state of Uganda the infrastructure has improved over the last decade and meets the basic requirements. But the Nebbi district still suffers from badly developed infrastructure. But, microfinance clients and the MFI seem to thrive well in this area and do not seem to be affected by the badly developed infrastructure. Therefore, it can be concluded that infrastructure does not have an influence on the PNVB and its microfinance project in the Nebbi district in Uganda.

#### **4.4 Conclusion of the Lakwo microfinance project**

When looking at the success factors which are analyzed here for Uganda and the Nebbi district it can be concluded that there most of the success factors have a positive influence on the MFI and its microfinance project. But, there are also factors which do not have any or a negative influence on the MFI and its microfinance project.

The success factors which have a positive influence on the performance of the PNVB and its microfinance projects are: influence of religion, level of education, percentage male/female, country/political stability, freedom of markets, and poverty rate.

For the influence of religion it was found that, the PNVB is a MFI only based in Uganda and the Nebbi district, they know what the values and beliefs are in this population and are adapted well towards it, thus it can be concluded that this success factor has a positive influence for this microfinance project of the PNVB. For the level of education it was found that Alwi Parish (the Nebbi district) the majority of women have primary education and the level of education for men lies even higher. For the percentage male/female it was found that women who are participating in a microfinance project in the Nebbi district are becoming more emancipated. For the country/political stability, it was found that the country and political situation of Uganda are developing, but stable at this moment. For Freedom of Markets it was concluded that establishing MFIs in Uganda can help the government with creating job opportunities and thus reducing the poverty rate. For the poverty rate it was concluded that in the northern region of Uganda (where the Nebbi district is situated) this rate is very high. 64 percent of the people live below the poverty line. This means that this district is a good region for MFIs to start up a microfinance project.

The success factors which have a negative influence on the PNVB and its microfinance project in the Nebbi district are: Government policies, level of corruption, and inflation rate. For the government policies factor it was found that in Uganda the government interrupted by introducing a new Act, which caused the MFIs to change their strategy in a way which was not very helpful for them. For the factor level of corruption it can be said that Uganda is very corrupt and MFIs can be affected by this. It can thus be concluded that for this success factor Uganda is not a good country to start up a MFI or microfinance project. And lastly for the Inflation rate it was found that Uganda has a high and instable inflation rate, thus MFIs establishing here should take this into account.

The success factors which are neutral in this project are the interest rate and the infrastructure. For the Interest rate it was found that the government of Uganda does not handle interest rate ceilings, and thus the MFIs establishing in this country do not need to take this into account. Therefore, it can be concluded that the interest rate does not have an influence on the PNVB and its microfinance project in the Nebbi district in Uganda. For the success factor infrastructure it was concluded that the Nebbi district still suffers from badly developed infrastructure. But, microfinance clients and the MFI seem to thrive well in this area and do not seem to be affected by the badly developed infrastructure. Therefore, it can be concluded that infrastructure does not have an influence on the PNVB and its microfinance project in the Nebbi district in Uganda.

When analyzing the project in the Nebbi district with the success factors found in the literature, we can conclude that three success factors have a negative influence and two factors do not have any (or a little) influence on the performance of the MFI. But when looking at the project of PNVB and Alfred Lakwo it was concluded that the microfinance project in this region did work out as a success. This means that a MFI is able to start up and perform well in a country where not all the success factors of the literature turn out to have a positive influence.



## **5. The success factors for the Tchuma project in Mozambique**

In the previous chapter we defined the success factors for a successful microfinance project and how the impact of those factors is on the outcome of a project. In this chapter we will look at the different success factors for the MFI Tchuma in Mozambique. The goal of this chapter is to conclude if all factors have to be positive and present to make a success out of a project. First, some background information about the project the MFI and the research will be given. After that the social and cultural, political, and economical success factors of the microfinance project will be analyzed with help of the literature.

### **5.1 Background information on Tchuma**

For this study a research about the impact of microfinance institution Tchuma in Mozambique is used. In this chapter we will give some background information about the MFI Tchuma to give a clear overview of the whole situation. This research is conducted from the period June 2004 till February 2006. Tchuma Cooperative de Crédito e Poupanca is a Mozambican credit and savings institution established as a pilot project in 1996 and re-launched in 1998. Most of the clients of Tchuma are located in Maputo which is the capital of Mozambique. The number of client of Tchuma is around the 9,194 persons. The number of outstanding loans has a value of 1,361,886 USD. The number of clients increases every year with at least 10 percent. The average loan balance of Tchuma lies around the 293 USD. Around 36 percent of Tchuma clients exist on self-employment, most commonly in small enterprises like retail, chicken, farming, carpentry and sewing. Tchuma mainly serves clients, whose businesses are in commerce, supplying food and other necessities to the urban population. Due to civil war and high incidence of male migrant labor there are a large percentage of female-headed households. As of mid-2004, 64 percent of Tchuma's clients consist of women entrepreneurs, most of whom were widows or single mothers. Tchuma mission is to provide credit and savings services to the emerging entrepreneurs of Mozambique, particularly women. Tchuma currently operates in Maputo, serving the capital and the neighboring district of Matola, and has two offices in the nearby towns Marracuene and Boane.

The repayment capacity of the male Tchuma clients lies around the 68 percent and for the women this percentage is 74. But the growth in the repayments has shown a strong increase over two years. The repayment capacity for the men showed an increase of 80 percent over

two years and for women this percentage is 100 percent. If you look at this growth you can conclude that this project becomes very successful.

In table 5.1 you can see the program growth of the Tchuma institution. As you can see the number of clients and active portfolio shows a large increase for every year.

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**Table 5.1**  
**Program Growth:**

<b>Year</b>	<b>Active Portfolio</b>	<b>Amount Disbursed</b>	<b>Active Clients</b>	<b>Average Loan</b>	<b>Percentage of Women Clients</b>
<b>1999</b>	\$88,328	N/A	842	\$109	73%
<b>2000</b>	\$268,382	N/A	2,095	\$128	68%
<b>2001</b>	\$447,000	\$1,739,000	3,393	\$131	65%
<b>2002</b>	\$912,494	\$3,310,678	5,127	\$178	63%
<b>2003</b>	\$1,332,311	\$4,080,974	6,154	\$216	N/A
<b>2004</b>	\$2,467,860	\$6,354,513	7,229	\$341	N/A
<b>2005*</b>	\$2,691,822	\$5,891,197	9,194	\$293	N/A

Source: Accion international

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The main goals of Tchuma are:

- Promote, through credit, the development of small businesses by persons that do not have access to commercial bank loans;
- Offer savings to funeral clubs and other associations and individuals associated to Tchuma; and
- Develop other financial services that are of interest to the members.

## 5.2 *Background information about Mozambique*

In this chapter we will give some background information about Mozambique to give a clear view about the situation in that country. Mozambique is a country in Africa with a population of 19.8 million. The country was in civil war for almost 16 years and a peace accord was signed in 1992. The first democratic election in the country was held in 1994. The country is now characterized by reconstruction and development. The country has since the peace accord experienced economic growth but much of this economic growth has been accounted for by a few big projects.

The poverty levels in Mozambique have decreased significantly over the past few years. However, the majority of the population (54 percent) still lives below the poverty line. In table 5.2 you can see the world development indicators for Mozambique as well as the Netherlands to give an indication of the situation the country is in.

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**Table 5.2**  
**Country Indicators Mozambique and the Netherlands**

<b>World Development Indicators</b>	<b>Mozambique</b>	<b>Netherlands</b>
Population, total (millions)	19,8	16,3
Population growth (annual %)	1.9	0.2
Surface area (sq. km) (thousands)	801,6	41,530
Life expectancy at birth, total (years)	41.8	79.3
Mortality rate, infant (per 1,000 live births)	100	4.0
GNI (USD) (billions)	6.2	642
GNI per capita (USD)	310	39,340
Prevalence of HIV, total (% of population ages 15-49)	16.1	0.2
GDP (USD) (billions)	6.6	624.2
GDP growth (annual %)	1.1	7.7
Inflation	1.6	6.4

Source: Worldbank

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### 5.3 *Analyzing the success factors for Tchuma in Mozambique*

In this part of chapter 5 the microfinance project of Tchuma in Mozambique will be analyzed on the presence and impact of the success factors we found in the literature. The Social and Cultural, Economical, and Political success factors are analyzed according the situation in Maputo, Mozambique.

#### 5.3.1 *Social and cultural success factors*

##### **Education level**

We found that a basic level of education is required by the clients for the success of their loan. 7 Percent of the clients of Tchuma do not have any formal education at all. 60 percent of the clients of Tchuma completed their primary education level. 27 percent of the clients of Tchuma have completed secondary education. 3 percent of the clients of Tchuma have attained university. According to these figures you can say that 60 percent of the clients of Tchuma have the basic knowledge required to make a success out of microfinance. In table 5.3 you can see the nett enrollment in percentage of the education level of the population in Mozambique.

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**Table 5.3**  
**Education**

Nett enrollment education in %	2000	2005
Primary level	55.5	78.7
Secondary level	3.2	7.1
Tertiary	0.7	1.2

Source: WorldBank

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You can see that there is a big increase in the education level of the population in Mozambique. Around the 60 percent of the clients of Tchuma have the basic knowledge and 27 percent of the clients even exceed this basic knowledge with their attendance of the secondary education level. If you look at all these figures you can conclude that the requirements for the basic knowledge of the clients are available in the microfinance market in Mozambique and with the clients of Tchuma. You can conclude that the success factor education level in Mozambique is positive.

### **Percentage male / female**

As you can see in the table of chapter 5.1 more than the half of the clients of Tchuma exists out of female. This is due to the civil war and high labor migrants. The focus of Tchuma also lies on the empowerment of women. In their mission they stated they provide credit and savings to small entrepreneurs, particularly women. In the literature on success factors we found that it is helpful to start up a microfinance project in a region where women become more and more emancipated. In Mozambique there are a large number of female headed households who have to provide for the primary living conditions for the whole family. In the literature on success factors we also found that women are more motivated to make a success out of their business because they have to take care of their family. They are smarter investors with their money because it is their only change to escape the poverty. The clients of Tchuma belong to this group who has to take care of their family because their husband gets killed in civil war or became a labor migrant. So you can conclude for this success factor that it is positive in Mozambique.

### **Influence of religion**

The constitution in Mozambique provides for freedom of religion and also respects this. The government tries to protect this right at full at all levels and does not tolerate abuse of it, either by governmental or private actors. The government does not favor a particular religion, nor is there a state or dominant religion. Around the 50 percent of the population of Mozambique has a local religion. About 20 percent of the population is christen and 30 percent of the population is a Muslim. As concluded in the literature on success factors, religion does not have any effect on MFIs or microfinance projects. It is only important to adapt the values of the project to the values and beliefs of that particular culture. There is not a dominant or state religion in Mozambique which is in control who can have an influence on the microfinance market. Because of the freedom of religion in Mozambique there are a lot of different religions but without strong control or influence. So you can conclude that there is not any influence of religion on the microfinance market in Mozambique. The outcome of this success factor in Mozambique is neutral, it is not positive but it also is not negative.

### 5.3.2 Economical success factors

#### **Inflation rate**

The inflation rate in 2004 in Mozambique was 11 percent. In the table below you can see the interest rate for the years of 1999 till 2004. You can see that there is not a stable rate for the inflation; it is characterized by a lot of fluctuations. From 1999 to 2000 there was a major increase. After 2000 the inflation rate decreased for a year which is followed by an increase. After 2002 it goes down again with a few percent a year. The policy of the government is focused on maintaining the strong economic growth of the last years and will do anything to keep the inflation rate stable and low.

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**Table 5.4**  
**Inflation rates**

<b>Year</b>	<b>Inflation rate (%)</b>
1999	2.86
2000	12.72
2001	9.05
2002	16.78
2003	13.43
2004	11.1

Source: MixMarket

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The inflation rate in the country have fluctuated a lot the last years. The government is now trying to keep it stable and low. Political instability, civil war and corruption are all reasons for the inflation rate to fluctuate. Mozambique has been in civil war for many years but the country is now in peace. The country is also political stable for many years now and democracy is respected. Also the GDP of the country shows if the country is stable (Ledgewood, 2000). In table 5.5 we show the GDP for Mozambique in thousand of USD and the annual GDP growth per capita in percentages.

**Table 5.5**  
**GDP Growth**

	<b>GDP in US\$ (thousand)</b>	<b>Annual GDP Growth per capita (%)</b>
1999	3,984,553	5.46
2000	3,684,663	0.73
2001	3,435,864	10.62
2002	3,598,551	5.56
2003	4,320,385	4.99
2004	5,547,729	5.86

Source: MixMarket

As you can see in the table the annual growth of the GDP have become stable from 2002 this also counts for the inflation rate. A country GDP provides a well indication of the financial situation and economic growth of the country. If you look at the figures you can conclude from this that the economy in the country has become stable. So for the success factor inflation rate the outcome is positive.

### **Interest rate**

Tchuma charges a monthly interest rate of 5 percent. The client has to pay back by monthly payments. The interest rate Tchuma is average compared to other microfinance institutions. According to Fernando (2006) MFI's need to charge high interest rate to cover all cost. It is the only way to make it possible for MFI to provide loans for the poor. Because the interest rate Tchuma charge is average you can conclude that the interest rate does not have a large influence on the outcome of the project. The outcome of this success factor is neutral. The interest rate does not have a negative or positive effect on the success of a microfinance project.

### **Poverty rate**

The average Purchasing Power Price of the clients of Tchuma is around the 9.94 US\$ a day. A small minority of the clients of Tchuma, 13.6 percent, live below the poverty line. The clients of Tchuma can be divided into 5 categories in Purchasing Power Prices in US\$.

**Table 5.6**  
**Categories of PPP in US\$**

In US\$ PPP	Percentage of clients
< 2,17	2.5%
2,17 < 3,38	8.1%
3,38 – 5,07	13%
5,07 – 9,68	32.9%
9,68 +	43.5%

Source: MixMarket

In this research we defined success as “the client is able to turn the microfinance loan in a successful business and in this way he/she is able to pay the loan and interest back to the microfinance institution”. From the literature we conclude that the poorest group has the most chance on success of a microfinance loan. The poorest group lives below the stated poverty line of Mozambique. It was found that 13.6 percent of the clients of Tchuma live below the poverty line and 56 percent of the population in general. As you can see in the table a great percentage has a few dollars a day to spend so you can conclude that it is an interesting market for MFI's. So we can say that the success factor poverty rate in Mozambique is positive.

### **Infrastructure**

A problem in Mozambique is the infrastructure. The economy is growing very fast and almost 80 percent of the population is living of the agriculture. But the underdeveloped infrastructure is stagnating the economy in the regions of Mozambique. The country is missing well developed transport routes which make it possible for the agriculture to exploit the markets (ministerie van buitenlandse zaken, 2007). (Ledgerwood, 2000). Gow (2001) determined some situations in which microfinance would not be very effective. One of these situations is the case in which the infrastructure is absent or badly developed. The author argues that “villages without access to transport or other infrastructure are considered as high risk areas”. Zohir and Matin (2004) discuss that, especially in Asian countries, a significant proportion of MFI loans is reportedly invested on buying a rickshaw or van. Normally, such investments are only made in areas where appropriate physical infrastructure is already in place. We can conclude that some basic form of infrastructure is needed for MFIs to be successful. On the one hand infrastructure, as transport and roads, are needed for some clients to make their



business successful (for example good roads towards the markets to sell their products). On the other hand some basic transport, roads and technological infrastructure is needed for the MFIs themselves to do business. In the case of Mozambique we can conclude that the infrastructure is a critical point for the development of successful microfinance projects. They need to work on the infrastructure for the further development and success of the microfinance projects. If they develop the roads better then the poor people in the regions who's main income is the agriculture have a change on a better life. For this success factor we can conclude that it has a negative influence on the success of the microfinance project in Mozambique.

### 5.3.3 *Political success factors*

#### **Government policies**

The priority of the government these days is to reduce poverty. One way to fight the poverty is the strong economical growth in the country and the government is working hard to maintain this growth. This is shown in policy of the government to increase the education level of the people which will contribute to more employment. The focus of the government is on the regions of the country so they can reach the poor. The government is delegating power and tools to the regions so they can work more effectively in the regions to fight the poverty. The strong economical growth is crucial for the reduction of the government and to maintain this growth they set up the Poverty Reducation Strategy Paper (ministerie van buitenlandse zaken, 2007). The government is also focused on the freedom of markets. There policies stimulated the working of free markets and the economy. From this information you can conclude that the government is willing to work with the MFI's to reduce the poverty and make the project to a success. So the outcome of this success factor is positive.

#### **Freedom of markets**

The new government is for free markets. Since the new constitution in 2004 the right of the free market economy is protected. The government is respecting and stimulating the free market economy. Because of the liberalization and restructuring of the economy a lot of state owned companies were privatized. This was a great success for the economy of the country and attracted a lot of foreign investors (ministerie van buitenlandse zaken, 2007). The economy is growing very fast and has a government who is stimulating this trend and protecting the free market economy. We found that that liberalization and privatization are favorable for MFIs. This because of the fact that the increased competition, supported by entries of foreign banks, makes commercial banks refocus on their core business, reducing downscaling efforts and thus creating a market niche for MFIs, as Vanroose (2007) discussed. Furthermore, the liberalization of financial markets helps MFIs to mobilize their savings more effectively. So the liberalization and privatization in Mozambique are favorable for the microfinance market. The outcome of the success factor freedom of markets is positive.

#### **Level of corruption**

The control of corruption measures the extent to which public power is exercised for private gain, including petty and grand forms of corruption. Mozambique score on the control of

corruption index by the worldbank (2007) is a -1.01. The score of the index varieties from -2.5 to 2.5. A high or positive number means a high control of corruption. The number -1.01 means that there is a lot of corruption in Mozambique and there isn't any control on it. To compare it with Holland who's score on the index is 2.15. In the literature on success factors it was found that corruption can have a negative effect on MFIs. When there is too much corruption in a country or region, this may have an effect on the business of the clients of MFIs. In the case of Mozambique it can be said that the country is very corrupt and MFIs can be affected by this. It can thus be concluded that for this success factor the outcome is negative in Mozambique and it is not the ideal country to start up a microfinance project.

### **Country / political stability**

The country was in civil war for more then 16 years. Since 1992 there is peace in the country. And since 1992 the country became a democracy. Since 2004 with the introduction of the new constitution the democracy is lifted up to a new level. Every five years a new president is chosen. The political situation in Mozambique is very stable the last years. We found in the literature that MFIs can thrive very well in unstable countries, whether this is economical or politically unstable. But as Rivera (2003) says MFIs in areas where they are affected directly by war (not the aftermath) are not functioning well. Thus we can conclude that MFIs can be successful in unstable regions/countries, as long as these regions/countries are not affected directly by war. Since Mozambique is a stable country we can conclude for this success factor that the outcome is positive and that it is safe for a MFI to start up a project in Mozambique.

#### **5.4 Conclusion of the Tchuma microfinance project**

When looking at the success factors which are analyzed here for the MFI Tchuma in Mozambique it can be concluded that some of the success factors in this country/region are positive, some are neutral and some are negative.

The success factors that are positive are; education level, percentage male / female, inflation rate, poverty rate, government policies, freedom of markets and country / political stability. For the success factor education level we found that 60 percent of the clients of Tchuma have the basic knowledge and 27 percent of the clients even exceed this basic knowledge with their attendance of the secondary education level. If you look at all these figures you can conclude that the requirements for the basic knowledge of the clients are available in the microfinance market in Mozambique and with the clients of Tchuma. For the success factor percentage male / female we found that more than the half of the clients of Tchuma exists out of female. This is positive because we found in the literature that women are smarter investors with their money because it is their only way out of poverty. For the success factor inflation rate we found that the inflation rate in Mozambique has fluctuated over the past years. We also found in the literature that MFI's can be successful in countries with fluctuating inflation rate. The last years the inflation rate and GDP are stable in Mozambique so the situation is positive for a MFI to set up a microfinance project. For the success factor poverty rate we found that 13.6 percent of the clients Tchuma lives below the poverty line and 56 percent of the population in Mozambique in general. This is positive for MFI's because we found in the literature that poor people are more reliable clients than people who have more money to spend. For the success factor government policies we found that the government of Mozambique has a policy to fight the poverty and maintain the strong economic growth. This is positive for the MFI's because the government helps them to fight the poverty. For the success factor freedom of markets we found that since 2004 a free market economy is respected and protected with the new constitution. Furthermore, the liberalization of financial markets helps MFIs to mobilize their savings more effectively. So the liberalization and privatization in Mozambique are favorable for the microfinance market. For the success factor country / political stability we found that since the civil war ended in 1992 Mozambique became a stable country. The country is now for many years in peace and it became a democracy. In the literature we found that MFI's can be successful in unstable regions and countries as long they are not affected

directly by war. Since Mozambique is a stable country we can conclude for this success factor that it is safe for a MFI to start up a project in Mozambique.

We found two success factors that did not have any influence at all. These success factors are influence of religion and interest rate. For the success factor influence of religion we found that there is no influence of religion on the microfinance market in Mozambique. For the success factor interest rate we found that the rate Tchuma charges for their loans is average compared to other MFI's in the region. So the interest rate does not have a significant influence on the success but it is not negative either.

The success factors that are negative are; infrastructure and level of corruption. For the success factor infrastructure we found that in the case of Mozambique we can conclude that the infrastructure is a critical point for the development of successful microfinance projects. They need to work on the infrastructure for the further development and success of the microfinance projects. If they develop the roads better then the poor people in the regions who's main income is the agriculture have a change on a better life. For the success factor level of corruption we found in the case of Mozambique it can be said that the country is very corrupt and MFIs can be affected by this. It can thus be concluded that for this success factor Mozambique is not the ideal country to start up a microfinance project.

When analyzing the success factors for the microfinance project of Tchuma in Mozambique we can conclude that the district is a serious option to start up a MFI or microfinance project. There are a lot of positive success factor, two neutral and two negative success factors which are out of control of the MFI. The success factors interest rate and influence of religion does not have a significant influence on the outcome. If we look at the project it will confirm that the outcome of a microfinance project in Mozambique can be successful with two negative and two neutral success factors.

## 6. Conclusions

The research goal is to identify the success factors for MFIs on regional and national level. The objective of this research is to help investors, with identifying success factors, in their search to find financially sustainable regions where they can invest their money. This research should be seen as a guideline to determine when a project can be successful or not. In their research they can figure out with the help of this master thesis if the success factors are present and how they can influence the outcome of their microfinance project.

To fulfill this research goal a research question was formulated. The research question is: *“What are the success factors, on national and regional level, which can influence the success of a microfinance project?”* To get an answer to this research question, four sub-questions were formulated. When answering these sub-questions, an answer to the research question should be found. While exploring this research and answering the research question, our research goal was reached, namely identifying the national and regional success factors for a MFI and microfinance project.

*What are the success factors for microfinance projects found in the literature?*

For the social and cultural factors we found the following factors as success factors; level of education, influence of religion and percentage male / female. For the political factors we found the following factors as success factors; level of corruption, country / politically stability, freedom of markets, and government policy. For the economic factors we found the following factors as success factors; interest rate, poverty rate, inflation rate, and infrastructure. We have excluded the factor labor market stability because this is more a measurement tool then a success factor that can have an influence on the outcome of a project.

*In which way do these success factors influence microfinance projects?*

For the success factor religion we found that there are no limitations based on religion when starting up a microfinance project. It is only important to adapt the values of the project to the values and beliefs of that particular culture. For level of education we found that there is some basic knowledge required to make a microfinance project work. This is because of the fact that people who acquire for microfinance loan need to have basic knowledge of reading and accounting. For the factor percentage male / female we found that it is helpful to start up a microfinance project in a region where women become more and more emancipated. This because MFI want to provide loans especially to women, and in regions or countries where

woman still have a minority role their husbands or fathers will never allow them to start their own business, and a MFI is not able to grow.

For the factor country and politically stability we found that MFIs can thrive very well in unstable countries, whether this is economical or politically unstable. But on the other hand MFIs in areas where they are affected directly by war (not the aftermath) are not functioning well. Thus we can conclude that MFIs can be successful in unstable regions/countries, as long as these regions/countries are not affected directly by war. For the factor freedom of markets we found that liberalization and privatization are favorable for MFIs. This because of the fact that increased competition creates a market niche for MFIs. For the factor government policies we can conclude that the laissez-faire approach towards microfinance of several governments have helped the MFIs to go through a good start up phase, because they could define and implement their strategy in their own way without government interruptions. On the other hand some government interruptions and rules are needed for microfinance, to prevent for example corruption and high interest rates. For the level of corruption we have found that corruption can have a negative effect on MFIs. When there is too much corruption in a country or region, this may have an effect on the business of the clients of MFIs. When their business is affected too much by corruption, they may not be able to repay their loans on time or not at all, which in turn affects the MFI.

For the success factor interest rate we found that the interest rate can be higher by the MFI's charged than by the commercial banks. This is necessary to cover all cost made by the MFI's. But on the other hand MFIs should not handle interest rates which are too high, to prevent clients to come in a debt trap. For the success factor poverty we found that the poorest are the most reliable and that the clients who just exceed the poverty line are the ones who have the quickest results. For the success factor inflation rate we found that MFIs can thrive well in markets with hyperinflation, or stagnant markets, because of the big market for potential clients. On the other hand stagnating markets can mean less demand for products, which results in less income for the clients and thus the possibility that those clients are not able to pay back their loan and interest. For infrastructure we can conclude that some basic form of infrastructure is needed for MFIs to be successful. This because of the fact that infrastructure, as transport and roads, are needed for some clients to make their business successful (for example good roads towards the markets to sell their products). Furthermore, some basic

transport, roads and technological infrastructure is needed for the MFIs themselves to do business.

*In what way do the success factors found in the literature influence the two microfinance projects used in this research?*

After analyzing the success factors in the projects we found that a lot of factors have a positive influence, some have a negative influence and some did not have any (or very little) influence at all. When analyzing the project in the Nebbi district with the success factors found in the literature, we can conclude that three success factors have a negative influence and two success factors do not any have a negative influence on the performance of the MFI, namely the level of corruption and the inflation rate. But when looking at the project of PNVB and Alfred Lakwo it was concluded that the microfinance project in this region did work out as a success. This means that a MFI is able to start up and perform well in a country where not all the success factors of the literature turn out to have a positive influence.

For the project of Tchuma in Mozambique there are a lot of positive success factors and only two negative success factors which are out of control of the MFI. The success factors interest rate and influence of religion does not have a significant influence on the outcome. If we look at the project it will confirm that the outcome of a microfinance project in Mozambique can be successful with two negative and two neutral success factors.

*Do all the success factors need to have a positive influence for a project to be successful?*

As already mentioned before not all success factors are found positive with the microfinance projects. So we can conclude from this that not all factors have to be positive to create a successful outcome for a microfinance projects. For the project of Alfred Lakwo in Uganda we found that two factors did have a negative influence and the outcome of the project was successful. For the MFI tchuma in Mozambique we found two negative factors and two neutral factors and the outcome of the project was also successful.

The research goal of this master thesis was to identify the national success factors for MFIs. Investors can with the help of this research identify the success factors, in their search to find financially sustainable regions where they can invest their money. The investors should keep in mind that not all the success factors in a country have to be positive for a MFI to be successful.



## **7. Limitations and suggestions for Future Research**

When considering our findings and their interpretation, a number of limitations should be taken into account, as it follows:

- In this research we focused especially on the national and regional factors, which can have an influence on a MFI or microfinance project. The factors we focus on fall into the groups, social/cultural, political, and economical factors. The limitation of this research is that there exist more national and regional success factors next to the Social/Cultural, Economical, and Political factors we conducted research about. It is a suggestion for future research to develop our success factors further, with other success factors which might have an influence.
- We did not provide empirical testing, which was beyond the scope of our exploratory methodology of study. Thus, to a certain extent our results can be biased due to our own interpretation and/or judgment of facts.
- The success factors found in the literature were compared with the success factors of two existing successful performing projects in Uganda and Mozambique. We concluded that the success factors found in the literature, do not all need to be present in a country or region for a MFI to be successful. But, the goal of our research is to find out what the national and regional success factors are, and MFIs use our research to analyze a country/region before starting up a microfinance project. Therefore, it can be a suggestion for future research to apply our success factors found in the literature in a field study, to conduct research if the success factors also can be applied in 'real life'.

Lastly, we consider this to be a rather rich and actual topic, with a large variety of possibilities for further research. This because of the fact that much research already has been done about microfinance and the impact of microfinance on individual, regional and country level. Therefore, we consider this topic as rather new and there is room for future research to develop our success factors further.

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