AN ASSESSMENT OF MICROFINANCE OUTREACH IN RURAL UGANDA – A CASE STUDY OF MUKONO DISTRICT

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ABSTRACT

Uganda's agriculture is largely dependent on small- and medium-scale farmers. In 2002, the government of Uganda implemented a Plan for Modernization of Agriculture (PMA) and the Microfinance Outreach Programme (MOP). The main goal was to improve income status of the rural poor, thus alleviating poverty. Despite the Microfinance Outreach programme, rural financial access remains limited - currently supporting only about 500,000 clients, with an estimated savings of U.shs. 65 billion (28 million Euros) and outstanding loans of U.shs.53 billion (23 million Euros). Besides, most micro-finance institutions are concentrated in Central and Southern areas of the country especially around the main towns and trading centers. There is therefore need to assess microfinance outreach in rural areas, as a step towards improving product design and to effectively target the rural poor. This research analyses the outreach of Development Microfinance (DMF) services in Seeta-Mukono District. A household survey of 140 randomly selected households (classified as client borrowers, client non-borrowers and non-clients) was conducted in the District and Principal Components Analysis (PCA) is used to construct poverty index from a set of selected poverty indicators. Descriptive statistics and econometric approaches are employed to analyze outreach and to develop tools for effective targeting. The analysis shows that the three groups differ significantly in terms of asset value and food security, as well as majority of the poor are not effectively reached by DMF. The results also confirm that the poor are rural based and engage in self-employed agriculture. Finally there appears to be a mismatch between present financial products of MFIs in Uganda and the financial needs of the poor. Better targeting and improvement in product design would therefore be necessary if microfinance has to address the poverty situation effectively.