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Group Formation Criteria of Money lending Associations in Rubirizi District, Western Uganda

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Abstract: The study investigated the impact of Group formation criteria of money lending associations on poverty alleviation in Rubirizi District.The study was conducted using questionnaires and interviews as instruments of the study to answer research questions on formation criteria of group lending associations on poverty alleviation in Rubirizi district, Western uganda.. The data was analysed using descriptive statistical techniques and presented using frequencies and percentage, pie charts and bar graphs.The study findings revealed that Joint Group Lending associations are formed among members of equal or same risk interests. It further revealed that saving and credit registered groups are common in Rubirizi district with average members of 25-30 men and women from the same village or parish for easy loan management. It was also revealed that loan is given to those who have applied for it and have gone through a training of loan management.It was further found out that most people in Joint Groups have benefited by improving on their Household wellbeing in terms of access to food , medical care, education to their children, safe water, better housing conditions, family assets and family comfort. The study recommended that Micro credit lending institutions should penetrate and reach out to even the poorest people in most rural and urban areas. Also it is recommended that members should first be trained on loan management before accessing the loan. Lastly, the research recommended that loans should be given to those who have existing or running business to be supplemented by the loans.
Keywords: Group Formation Criteria, Poverty Alleviation, Lending Associations, Uganda

INTRODUCTION

In the year 2000, at Millennium Summit held in New York, the World Heads of state agreed on a common ground of alleviating extreme poverty in the World. The summit adopted UN Millennium Declaration in all the nations of the World and made commitments to renew global partnership to reduce poverty. It has been acknowledged that poverty is a multi-dimensional phenomenon Rippin [11]. Progress has been made towards achieving the Millennium Development Goals, (MDGs) but still 1.4 billion people continue to live in extreme poverty, struggling to survive on less than US$1.25 a day. Today, it is estimated that, less than 35 per cent of the total rural population of developing countries is classified as extremely poor, down from around 54 per cent in 1988, while the corresponding percentage for the US$2 a day poverty line is just above 60 per cent, down from over 80 per cent in 1988. This is mainly due to a massive reduction in rural poverty in East Asia, where today the incidence of rural poverty is around 15 per cent for the US$1.25 a day and 35 per cent for the US$2 per day Besigye [2]. Rural poverty has declined slowly in South Asia, where the incidence is still more than 45 per cent for extreme poverty and over 80 per cent for US$2 a day. Also in sub-Saharan Africa, more than 60 per cent of the rural population lives on less than US$1.25 a day, and almost 90 per cent live on less than US$2 a day Hulme [15]. These positive changes in the developed and developing countries have been in the one way or the other attributed to Joint Group Lending Microfinance Model Schreiner [13].

Following the World Summit for Social Development in Copenhagen in March 1995, some flexible business approaches to microfinance emerged. For a recommended a more practical orientation to dynamic institutional standards rooted in financial performance, increased client outreach and better business practice. The provision of financial access and not subsidies was prioritized. To spearhead the successful introduction of microfinance, the World Bank established the Consultative Group to Assist the Poor (CGAP) to ensure capacity building and institutional strengthening and encourage the spread of best practices in microfinance that emphasize building large-scale financial service systems. According to Consultative Group to Assist the Poor (CGAP) MFIs have spread around the world, not only in developing countries, but also in many richer western countries. It is estimated that 500 million poor people worldwide demand financial services, while MFIs reach only 15 to 70 million of them Yunus [18]. The Grameen bank for example, provided approaches for a diversified financial landscape that replaced the inadequacies of conventional financial institutions. The popularity of microfinance among other development practitioners and poor clients grew from its focus on "poor people" by adopting a Joint Group Lending approach Besigye [2].

METHODOLOGY

The study employed a descriptive, survey research design. The design further made use of qualitative and quantitative research paradigms. Data was garnered using questionnaires and interviews to answer research questions of interest as the information about the experiences of JGL Microfinance and poverty alleviation represents what goes on. The survey design was opted in this study because it is relatively quick and easy to conduct involving short periods of follow-up Diagne [3]. Descriptive research design was used in order to describe a phenomenon and its data characteristics); while the survey research design was used to garner data from respondents at once Amin [1].

For purposes of this study, the target population was 640 members of Joint Group Lending microfinance institutions operating in Rubirizi District. A sample size of 323 participants was reached at using slovens formula. Hence, questionnaires and interviews were administered to 323 respondents for the purposes of eliciting the right information from the population of Rubirizi District. The researcher employed stratified random sampling to garner quatitative data and purposive sampling for qualitative data. The validity of the structured questionnaire was arrived at by utilizing content validity index (CVI).The researcher obtained the CVI of 1 which was above 0.70 indicating that the instrument was valid to collect that for the study Amin [1]. However, the validity of the interview schedule was arrived at by providing a complete and candind report without manipulation Gibbs [5].The reliability of the structured questionnaire was obtained by using cronbanch's alpha coefficient formula where the calculation gave 0.947 alpha value suggesting that the instrument was reliable to garner data needed for the study.Nevertheless, the reliability of the interview schedule was reached at by checking the appropriateness of terms of reference of interpretations and their assessment (Gibbs [5]. Tools that were used to analyze data included descriptive statistics including tables ,pie charts, bar graphs frequencies and percentages.

RESULTS

With the help of structured questionnaires, participants were asked how and why they organize themselves in groups before getting micro-credit services. Findings revealed that participants organized themselves into groups purposely for economic empowerment. It was discovered that 259 respondents out of 323 (80%), revealed that groups come into existence due to savings and credit motives. Other statistics revealed that some groups are formed for social, political, religious, and cultural motives. The table1 below shows the respondents group formation criteria.

Table-1: Joint Group Organisational motives

Group purpose	Frequency	Percentages
Economic motives	259	80
Social-cultural motives	37	12
Political motives	13	4
Religious motives	14	4
TOTAL	323	100

Source: primary data

From table 1 , it was revealed that the majority of participants join groups of micro finance nature due to economic motives 259/323(80%), followed by social cultural motives 37/323(12%) and a few participants join the same groups due to political motives 13/323 (4%) and religious motives 14/323(4%). This implied that people are sensitive about the acquisition of capital for business development with a view to fight poverty in society.

It was revealed that most groups are formed from the neighbourhood; out of 323 household surveyed a total of 145/323 (49%) respondents revealed that they were approached by neighbours for joining the groups. Other participants studied included, relatives with 54/323 (17%) respondents, community development officers with 22/323 (7%) respondents, loans officers with 37/323 (11%) respondents and friendship with 39/323 (12%) respondents. This was in accordance with the radius coverage of the members in the group.

A community development officer of Rubirizi town council in a focus group discussion (FGD) stated:

> "a group can achieve its dreams when members are from nearby (one village) because members in that group know each other very well in terms of behaviors, the kind of work they do and can attend meetings unless otherwise".

This suggested that group members of micro finance institutions have a lot of cooperation emanating from the fact that they come within almost the same vicinity and that this cooperation may go a long way in fostering development and alleviating poverty.

It was revealed that after members come together with the purpose of forming a group, they first look for leaders who would take up the mantle of leadership. In most groups visited respondents revealed that groups have an average of 3 to 5 leaders including chairman, secretary and treasurer who are in most cases elected by secret ballot voting as shown by statistical table 2 below.

Table-2: Leadership election type

Way of voting	No. of votes	Percentage vote
Secret ballot	253	78
Lining up	51	16
Appointment	19	6
TOTAL	323	100

Source: Primary data

From table 2 above, it showed that the majority of participants 253/323 (78%) revealed that people prefer to elect their leaders by secret ballot while a few respondents preferred lining up 51/323(16%) and appointments 19/323(6%).This meant that people are conscious about open hatred that might emanate from election of members for leadership positions in group associations.

It was also revealed that the leaders elected must guide, handle savings and credits books of accounts, lobby for the group and above all must have some properties acceptable in the bank as collateral security. It was leant that for the savings and credit cooperative societies (SACCOs) or any other financial institution, to extend a group loan the three leaders like the chairman, secretary and treasurer must present collateral security on behalf of group members. Other members access the credit according to the capacity and need after guaranteed by a fellow group member.

Joint group lending model is based on the standard that credit groups are formed among members of equal risk leading to the supposition of homogeneous matching. In India, the experience in this regard has been quite well documented Morduch [10] and Somanathan [14]. The underlying rationale is that there are efficiency gains from group formation that compensate for information asymmetries since group members know each other well. They have the ability to impose non-pecuniary punishments on fellow group members, thus the success of joint liability programs importantly depends on the principle of "trust". The survey made revealed that, the major binding factor for group formation were trust with 157/297 (53%) as indicated in figure 1 below.

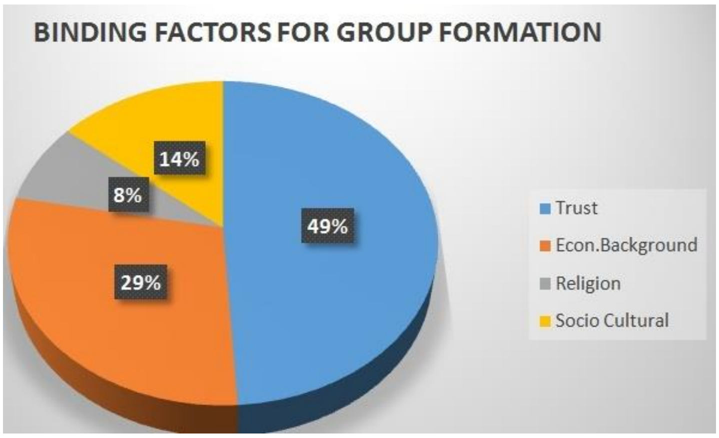

Fig-1: The Pie-chat showing binding factors for group formation. Source: primary data

From Figure 1 above , it was revealed that the majority of respondents believe that trustworthiness is most important in group formation 157/323 (49%), while other respondents rated low other binding factors for group formation like same economic background 96 (29%),religion 26 (8%), and social cultural bindings 44(14%).This suggested that the citizens or members value honesty and trustworthiness for the development , sustainability and growth of group associations in Rubirizi district.

The main goal of Joint Group Lending (J G L) micro-credit intervention to the poor and low income earners is to improve the welfare of household members Navajas [8] and Yunus [18]. In this regard, the researcher examined microcredit benefit meanwhile rating JGL client's household wellbeing in relation to the entire community. The rating was a long selection of household property attainment through group lending microcredit usage by men and women of Rubirizi district.

Table-3: Survey response of Joint Group Lending household well being to the entire community

House Hold attainment	Women	Percentage	Men	Percentage
Kitchen ware	81	27	19	06
Beddings	58	19	12	04
Furniture	23	08	15	05
School fees	95	29	121	37
Land	07	02	33	12
House construction	10	03	53	15
Domestic animals	17	04	33	09
Clothes	32	08	13	04
Second marriage	00	00	24	08
Total	**323**	**100**	**323**	**100**

Source: Primary data

As illustrated in table 3 above, majority of the respondents such as 121/323 (37 percent) and 95 (29 percent), men and women respectively described the attainment of school fees payment for their children. It is observed that, women's attainment order according to the above results is quite different from men's attainment order. Whereas women attainment order of household properties are, kitchen ware 81/323 (27%), beddings58 (19%), furniture and clothes 23/323 and 32/323 respectively each 8%, domestic animals17/323 (4%), house construction10/323 (3%) and finally land 07(2%).Then, men attainment category order include; house construction 53/323(15%), land 33/323 12%, domestic animals 33/323(9%), second marriages 24/323(8%), kitchen ware19/323 (6%), furniture 15/323 (5%), finally beddings and clothes12/323 and 24/323 respectively each(4 percent). This suggested that Women and men have different priorities in terms of needs for expenditure. Each category spends money got from the village banks according to the cultural roles expected from men and women traditionally.

The researcher examined respondents rating of their household well being before joining groups for accessing Micro credit services in relation to the current entire community. The rating was along the assortment of very high, high, moderate, low and very low. The figure 2 below illustrates respondents' response from surveyed population rating of the household wellbeing before accessing credit.

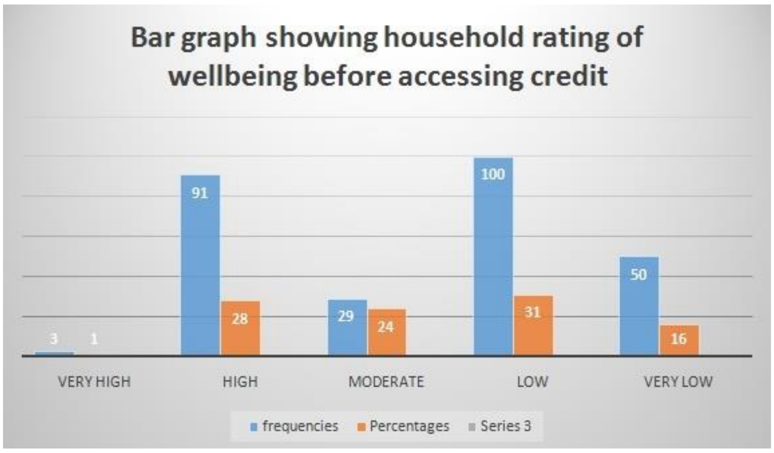

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Fig-2: Household rating. Source: Primary data

From Figure 2 above , it showed that 100/323 (31%) respondents were at a low standard of living while 03/323 (01%) respondents were at a very high standard of living. Others categorised at a high standard of living were 91/323 (28%), moderate 29/323 (24%) and very low 50/323 (16%).This implied that the majority were still living under low standards before accessing credit in micro finance institutions.And that micro finance institutions are a relief to poverty if the money got from them by citizens is well utilised.

DISCUSSION

Today, microfinance is a model for lending resource programs to the poor and a development tool for poverty alleviation. Microfinance has extended credit to the poor beyond the traditional financial frontiers and lack of collateral assets has been overcome by group lending strategy in low income communities.

The findings of this study agreed with the study conducted by Mandre [16] about the impact of micro finance institutions on house hold income. He found out that without lending or borrowing, it is almost impossible to prosper and realize big economic gains. Another interesting finding in the study is the absence of exclusive and universal measurements of the outcome and benefits of micro-credit because most times credit interventions are not always in isolation with other income interventions such as employment and agriculture in the households. Most times micro-credit intervention is a complementary strategy to the already existing avenues to improve household income. Even though there are benefits accruing from Joint Group Lending micro-credits, there are also negative consequences to using micro-loans.

Goldstein [6] documented that group formation is not exogenous (doesn't happen all over sudden or unexpectedly). For instance he found out that, informal insurance networks involve kinship, neighbours and gender groups. However, Fafchamps [4] found out that, risk sharing occurs within a cluster of small households. In the study, using innovative matching *techniques* Weerdt [17] found out that, kinship, geographical proximity, and religious affiliation determine the formation of risk sharing networks in rural Tanzania. The findings of these scholars mentioned here above concurred with this study. One of the most important aspects in borrowing and using small loans is the organization criteria of credit users to effectively put to use micro-credit facilities. As a way of easy access to credit, many poor people in Rubirizi district form credit groups like solidarity group or joint group lending which collectively form social collateral securities. Since poor borrowers "lack property" and other physical collateral securities, social capital is the basic asset to get a loan from micro finance institutions. The group membership is hinged on "trust" and network relations such as friendship, workmates, relatives and people living in the same dwelling or neighbourhood. Therefore, unconventional collateral security is the main collateral security which majority of poor people present to lending institutions in order to get a loan facility. The findings of this study did not concur with the study conducted by Sengupta [12] on The Micro Finance Revolution in the Federal Reserve Bank of St. Louis. He found out that micro finance institutions are moving towards accepting only individual collateral for loan acquisition.

The study also revealed that joint group lending model is based on the standard that credit groups are formed among members of equal risk leading to the supposition of homogeneous matching. This implies that the safest borrowers are only accepted to other group members with similar risk profiles. At the same time, the riskiest borrowers can only group with partners of similar levels of risk. Therefore, there was homogeneous matching of group members in terms of age group, business done, marital and financial status, and finally education levels. However members have it in mind that their leadership especially the chair person, secretary and treasurer, must have some properties that must be acceptable in the bank. It was revealed that the group leadership presents collateral security on behalf of the entire group members. The findings concurred with the study conducted by Pitt [9] on empowering women with micro finance evidence from Bangladesh. He found out that alleviating poverty in rural areas needs a lot of investment in social capital.

The study revealed that joint groups in Rubirizi district have some "sort of plan" as a guide to effectively invest the loan facility. The planning strategies are on the basis of priority investment activities of borrowers. However, though many micro-loan borrowers claimed to have business plans for the income generating activities engaged in, many hardly had the plans written down on paper. Many borrowers have business plan strategies for using micro-credit but the business plans are in abstract form of thoughts, imaginations and mental images or dreams which would ideally not be regarded as plans in the contemporary business administration and management. But this should be appreciated in line with the socio-economic context, education background, training and experience of borrowers.

The study revealed that Many times people look out for credit to boost their businesses and different micro finance institutions are readily available to grant credit to such people. The paradox however, is that many poor people though are in horrible need for micro-credit facilities, the challenge is whether they have qualifications to effectively use the facility to enhance their income levels Mandre [16] .The findings were not in consonance with that study conducted by Harvey [7] on Strategic Planning as a Valuable Tool for

Family Business. He found out that the ability to prosper in business does not depend on qualifications but in most cases it may depend on luck and on how well one is able to be consistent with his or her plans of borrowing money from micro finance institutions.

Other scholars including Hulme [15] argue that where some people think credit is another intervention to deeply sink the poorest of the poor in a pool of poverty. In the study conducted in 13 micro finance institutions in seven developing countries, they found out that household income tended to decrease, as the poor people's income and asset position were confiscated by micro finance institutions. This raises a serious concern whether the poorest can benefit from borrowing and using micro-loan facilities Diagne [3]. It is important to assess the usage of micro-loan intervention with a view that not at all times and to all people small loans yield positive results to the borrowers. Some people can and have indeed reaped from using small loans, but on the other hand others have not benefited positively as expected. Therefore, the analysis of the outcome of micro-loan intervention to the wellbeing of households grouped up together should not be seen in one direction as only being positive, but the reverse may also be true.

Therefore, micro-credit programs have the potential to contribute to household empowerment. This study revealed that women play an active role of borrowing and using micro-loans within the household. Women have increasingly engaged themselves directly in micro-credit utilization and control over credit, although this is not always on a silver plate due to the male dominated social structure where women activities are constrained. Women, whose contributions in development frontiers were not considered, are now actively engaged in productive micro-enterprises because of using small loans. This has contributed to the social setting and empowerment of women in the household and generally in the community.

CONCLUSION

The study found out that most groups are formed on the basis of neighbourhood, relatives, education levels, friendship and radius coverage. It was further revealed that groups formed can effectively achieve their dreams when members are from nearby (one village) because members in that group know each other very well in terms of behaviours and working capability. Government should encourage its people to form strong and trustable groups and keep channeling a great deal of money to their groups for self-help projects. Other binding factors identified as organizational criteria joint group lending include trust, same economic background, religion, and social-cultural ties and at times political ties.

These factors have shaped the joint group lending associations towards poverty alleviation through various economic activities after accessing loan from joint group lending institutions. Micro-credit services through MFIs across the globe and particularly in the third world countries have experienced explosive growth since the 1980s, and have been discovered to have the potential to alleviate poverty among the marginalized poor populations especially in the rural areas. Micro-credit is an essential input to increase productivity at household level. Government through bank of Uganda should regulate the rate at which these micro finance institutions are lending money to the rural poor people. It should ensure that the lending rate is at a low percentage so that the rural citizens can have better returns from their businesses in order to fight poverty.

It was found out that, micro-credit (loan) facilities have enormous outcomes to borrowers at the household level in both the rural and urban communities in Rubirizi district. Borrowing and using micro-loan has increased on the capacity of the poor people to overcome financial vulnerability and be able to generate income. Many credit users have ably met household needs like food, medical care and education services hence improvement in their standards of living. It is found out that Micro-credit has boosted businesses and many micro-entrepreneurs owe success to borrowing and using micro-loans. Government should encourage the managers and bureaucrats of micro finance organizations to always organize training sessions in terms of seminars to sensitize rural poor people on how to borrow, budget and utilize the money got from credit organizations.

It was further discovered that the outcome of credit usage varies from person to person, time to time and across households. People of different socio-economic status, knowledge, experience, exposure and geographical location; either rural or urban setting have different success stories concerning micro-loan usage.

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