ISLAMIC UNIVERSITY JOURNAL OF SOCIAL SCIENCES VOL 3, NO 3, DEC 2024

ISSN: 2709-2429(Print), 2709-2437(Online)-Published on 30th Dec 2024

THE EFFECTS OF RETAIL BANKING SERVICES ON THE VIABILITY OF PRIDE MICROFINANCE LIMITED IN UGANDA: A CASE STUDY OF MASAKA DISTRICT

*NABUKEERA MADINAH (PHD)
Faculty of Management Studies
Department of Political Science and Public Administration
Assoc. Prof. Dr.
nabmadinah@gmail.com
Islamic University in Uganda Females Campus

KYAMBADDE FARIDAH (PHD)
Faculty of Science
Department of Computer Science
Lecturer
Farida.kyambadde@gmail.com
Islamic University in Uganda Females Campus

Abstract

The presence of microfinance institutions allows poor people and low-income clients to access the financial services such as credit, savings etc shunned by the mainstream banking sector because of lack of collateral. These financial services give the poor and low-income clients an opportunity to finance & support their economic activities, their household as well as their business's financial management and utilization needs. The financial viability or sustainability of a MFI is critical for its healthy financial and operating performance of MFI is more vital for their good performance and to serve their customers appropriately. Therefore, this study presents empirical analysis of financial and operating performance of Pride Micro Finance Limited (PMFL) from the point of financial viability. The purpose of this study was to assess the effects of retail banking services on the viability of Pride Microfinance in Uganda, and specifically the achievement of PMFL in outreach, financial sustainability, profitability and trend in performance assessment. Data used was obtained from both primary and secondary sources. The researcher used majorly secondary sources to analyze data using various statistical techniques and performance indicators as well as ratio and trend analysis for a six years' data from 2010 to 2015. The results of the study showed that PMFL has achieved some level outreach, and from financial sustainability (viability) perspective, PMFL has indicated mixed performance. The trends tell us there has been a steady decline of the main financial performance indicators of financial viability in terms of Financial Self- Sufficiency (FSS), Operational Self- Sufficiency (OSS) Return on Assets (ROA) and Return on Equity (ROE).

Key words: Retail Banking, Pride Micro finance, Uganda, Masaka

1.1 Background of the Study

It is a fact that about 4 billion people worldwide live on less than US$2 per day (Microfinance Bulletin, 2008) and poverty is one of the major problems that is still prevailing in today's world. Surprisingly more than 3 billion of these poor people seek access to basic financial services worldwide (Helms, 2006) but were ignored by commercial banks for a very long time. This is because formal commercial banks take into consideration the poor people as un-bankable as a result of their information irregularities or asymmetries and lack of collateral. Robinson estimates that about 90 percent of the people in developing countries have no access to institutional financial services (Robinson, 2001). Microfinance offers financial services to those who are not served by the traditional financial sector. Therefore, it was one of the most important tools to help to solve this problem and bridge the gap for the poor; even if it is not a magic solution that cures all poverty.

Microfinance Institutions have been expected to reduce poverty, which is considered as the most important development objective (World Bank, 2000). Robinson defines Microfinance as small-scale financial services for both credits and deposits that are provided to people who farm or fish or herd; operate small or micro enterprises where goods are produced, recycled, repaired or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and local groups in developing countries, in both rural and urban areas (Robinson,2001).

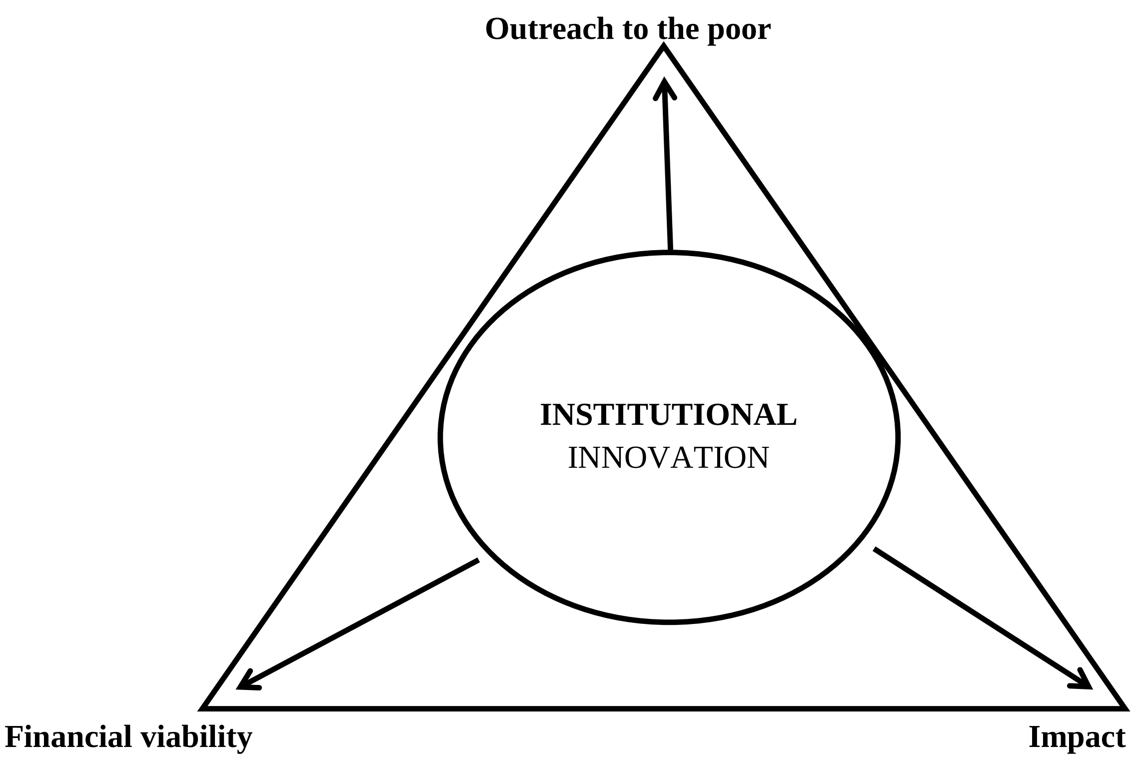
Micro finance is the supply of loans, savings, and other basic financial services to the poor. Like anyone else, poor people use financial services to seize business opportunities, improve their incomes, deal with other large expenses, and cope with emergencies (Littlefield & Rosenberg, 2004). The poor rarely access financial services through the formal financial sector. They address their need for financial services through a variety of financial relationships. Providers of financial services to the poor include donor supported, non-profit NGOs, cooperatives, community-based development institutions like self-help groups and credit unions, commercial and state banks, insurance and credit card companies, wire services, post office and other points of sale. The clients of microfinance include female heads of households, pensioners, displaced persons, retrenched workers, small farmers, micro-entrepreneurs and all these fall into four poverty levels: destitute, extreme poor, moderate poor, and vulnerable non-poor. Today however microfinance is referred to more generally as the provision of financial services to those excluded from the formal financial system (UNCDF, 2002; Cabraal, et al. 2006 & MIX, 2010).

1.1.1 Theoretical Perspective

Hence to assess MFIs performance both dimensions must be taken into account financial viability and performance. But as Blankenhol (2007) points out it is not always easy to measure the social aspect of microfinance: *"There are no widely accepted measure for assessing the social performance of MFIs, outreach always being defined in terms of several indicators, like percentages of female and rural clients or the average loan size"*. Accordingly, Meyer (2002) uses "The Critical Microfinance Triangle" to evaluate the performance of MFIs. This triangle is portrayed in Figure 1-1; there are three general policy objectives: outreach to the poor, financial sustainability, and welfare impact. There are required performance criteria for each objective and all three must be measured to thoroughly evaluate microfinance performance.

Meyer further explains that "The inner circle in the Figure 1-1 represents MFI innovations in technology, policies, organization, and management that affect how well each objective is met. The outer circle represents the environment within which microfinance operates that also affects performance. This environment broadly includes the human and social capital possessed by the poor, the economic policies of the country, and the quality of the financial infrastructure that supports financial transactions. Improvements in the environment make it easier for MFIs to reach the three objectives" (Meyer, 2002).

Figure 1-1: Critical Micro-finance Triangle



Source: Adopted from Zeller & Meyer, 2002

1.1.2 Conceptual perspective

The dependent variable in this study was financial viability which was perceived as the ability of an entity to continue to achieve its operating objectives and fulfill its mission over the long term. An organisation is viable where, given normal service conditions, it will produce sufficient inflow of resources to at least balance all operating costs, strategic outflows and forecasted risks to achieve the strategic plans and expectations of stakeholders in the short to medium term. Viability is not an absolute assessment but instead is generally expressed as being at a certain point currently or in the short to medium term under current or reasonably known conditions. The financial benchmark inherent in the definition is set as at least balancing revenues with operating, capital costs, and risks. In other words, the assessment of viability is to determine the minimum point at which a balancing is achievable (Linda, 2013).

An MFI that succeeds in recovering all of its operating expenses is said to have reached operational self-sufficiency (OSS). Where the institution is able to recover all of its operating costs, and make profit it is said to have reached financial self-sufficiency (FSS). The OSS and FSS are the necessary and sufficient conditions for institutional viability. Organizations that have attained institutional viability see interest and fees as the main source of operating income. Interest rates are key to sustainability, and their rates compete with those from informal finance. So when we talk of viable MFIs, we are referring to the MFIs that have attained OSS and FSS. A viable MFI can access commercial funding that could enable it expand its portfolio and reach more poor people (arsyad 2005) hence efficiency, productivity and profitability.

The independent variable in this study was Retail banking also known as Consumer Banking is the provision of services by a bank to individual consumers, rather than to companies, corporations or other banks. Services offered include savings and transactional accounts, mortgages, personal loans, debit cards, and credit cards. Retail banking sums up most of the services provided by the most of the MFIs like Pride Microfinance in Uganda (Arsyad, 2005;Srinivasan et al., 2006 & Zeller et al., 2003). Due to the fact that donor support is not unlimited in reality, financial viability of microfinance services is crucial for expanding outreach to large numbers of the world’s poor. Moreover the retention of profits of microfinance operations is important to capitalize growth (CGAP, 1998).

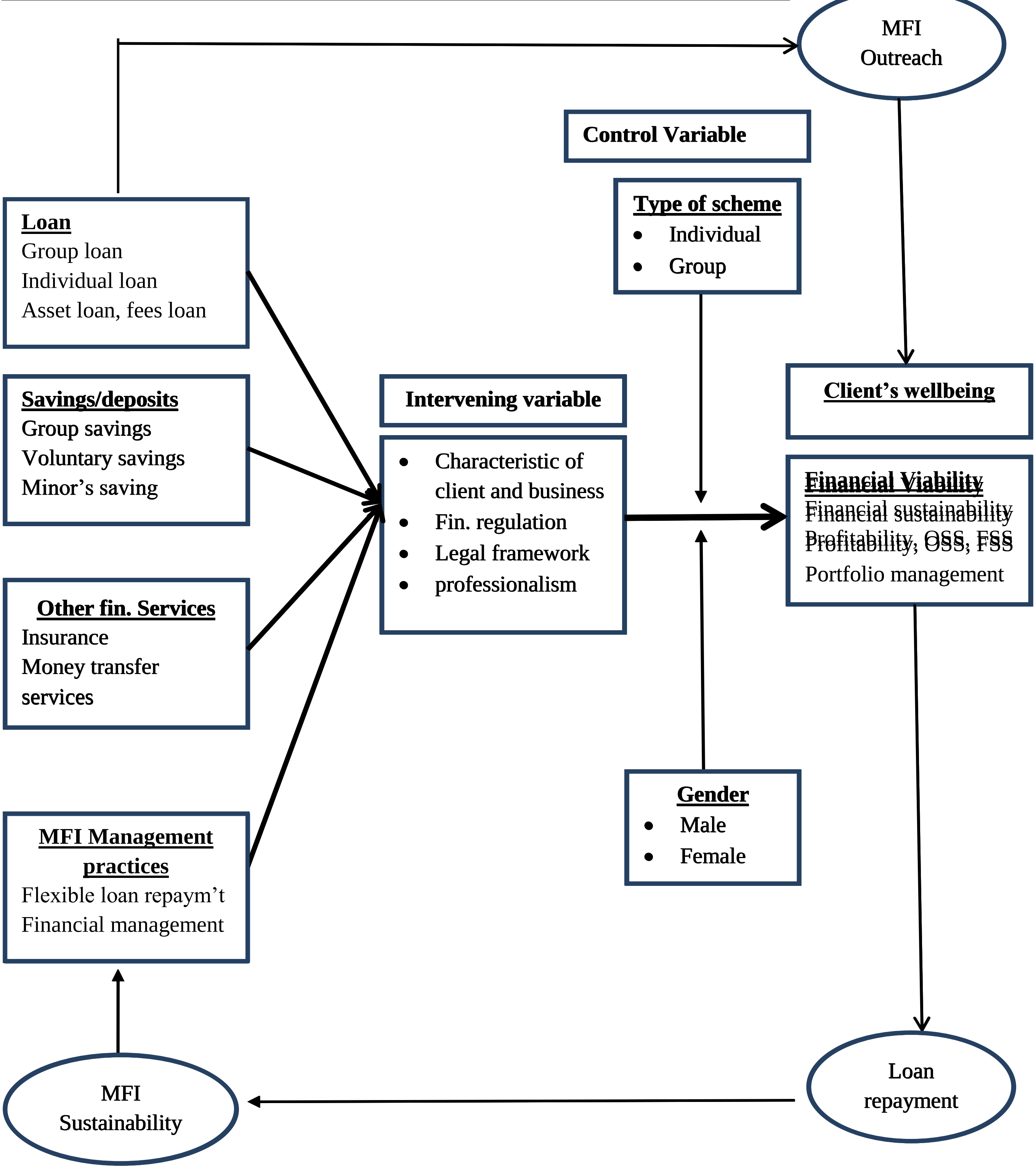
1.1.2.1 Conceptual Frame Work

In order to understand the impact of retail banking (MFI services) on financial viability of Pride Microfinance in Uganda a conceptual framework has been developed, which is shown below (Figure 1-2). This has been developed based on an initial literature review undertaken on the performance of microfinance. The conceptual framework consists of four major components; the loan services, saving services, other financial services, and MFI management practices representing the independent variable, financial viability and clients' wellbeing as dependent variable mediated by clients' and small businesses characteristics, financial regulation, policy framework.

First the financial services of microfinance are generally known as the credit and saving, insurance, payment and repayment services (Ledgerwood, 1999). Loan is a main product of microfinance institutions which refers to the small amount of credit given to poor people at reasonable interest for generating income through self-employment. The flexibility of loan disbursement which includes the facilities of easy access to services, time responsiveness and providing adequate information about the terms of service is important determinants for improving the clients' wellbeing. Moreover, the flexibility of loan repayment policy which includes loan grace period, repayment period, and interest rate all are critical factors for determining the viability of microfinance services and clients' wellbeing (Hulme, 1996; Robinson, 2001). Saving service is another product of microfinance which takes two forms of mandatory and voluntary savings. Both of mandatory and voluntary savings are important for enhancing the capability of poor to cope with the uncertainty shocks and reduce the financial cost of lending and secure a sustainable fund source, which too improves the financial viability of MFI.

Second, the nonfinancial services such as enterprises development trainings are important factors to effectively use the financial services and advance the clients' wellbeing and their businesses' performance, which helps on repayment rate that improves financial viability of the MFI. The commercialization of microfinance institutions led to a massive competition in the arena of microfinance market, forced them to develop and improve their products and services, and MFI management best practices which lead to enhance the sustainability of those institutions through reaching a large size of clients. However, in order to achieve deep outreach and financial performance, financial regulations and policies, legal framework, characteristics of clients must be enabling.

Figure 1-2: Conceptual framework for retail banking and financial viability



Source: Adopted *fromSayedSamer Ali Al-Shami, Izaidin Bin AdbulMajid, Nurulizwa Abdul Rashid&MohdSyaiful Rizal BinAbdul Hamid (2013).*

1.1.3 Contextual perspective

The Microfinance sector in Uganda is made of formal and informal microfinance finance institutions (Hanning 2000). The formal institutions are either companies which are regulated under the banking laws; financial intermediaries which are not banks but regulated by the government as Microfinance Deposit taking Institutions; non-regulated companies that offer only credits; or formally registered cooperatives and societies that serve their members. The formal institutions like Pride Microfinance limited are members of the Association of Microfinance Institutions of Uganda. Pride Microfinance Limited was founded in 1995 as a non-governmental organization with the support of the Norwegian Agency for Development Cooperation. Its major objective was to offer credit to the poor, targeting those in the agricultural sector. However, in 1999, it was incorporated as a limited company and changed its name to Pride Africa Uganda Limited that further in 2003 became Pride Microfinance Limited after the Uganda government acquired 100 percent shareholding in the enterprise. In 2005, it attained the status of an MDI (Microfinance Deposit-Taking Institutions) following the enactment of the Banking Act of 2003, and it is a member of the Association of Microfinance Institutions in Uganda.

Pride Microfinance Limited provides financial services to that a section of the Ugandan population who are not served or are unable to access financial services through Ugandan commercial banks. Its focus is the micro, small, and medium size entrepreneurs and types of Products/service offered are mainly deposit (saving) and Loan products as well as other financial services. These include; Group Guaranteed Loans, Individual Loans, Salary Loans, School Fees Loans, Mortgage and Asset Financing Loans, Agricultural Loans under the Loan category; Pride Smart Savings Account, Pride Akiba Savings Account, Fixed Deposit Account, Minor's Savings Account, Group Savings Account and Loan Insurance Fund in the deposit or saving category; and other services involve Insurance and Money Transfer Services. Pride Microfinance Limited as a MDI, is a Tier III Financial Institution and therefore prohibited from dealing in foreign exchange and cannot issue checking accounts. As of December 2013, the institution's total assets were valued at approximately US$56.84 million (UGX: 147.4 billion), with shareholders' equity of approximately US$18.1 million (UGX: 46.97 billion), and employed 585 people and served 373,667 customers in a total of 35 branches throughout Uganda (*PMFL, 2014)*.

Microfinance institutions in Uganda are always often faced with high operating costs to provide financial services to the poor people and Small and Medium Enterprises (Micro banking Bulletin 1998). As more microfinance institutions grow and become formal financial institutions, each Microfinance Institution has a unique profile and operational structure that determines which types of controls are appropriate to increase financial performance. Also, most Microfinance Institutions in Uganda like Pride Microfinance are unable to meet their obligations when they come due usually resulting from poor cash flow planning, failure to monitor portfolio quality closely and take action when necessary. Portfolio quality has deteriorated more rapidly in Microfinance institutions than in traditional financial institutions due to the short-term and unsecured nature of micro lending, micro loan portfolios which tend to be more volatile (Ssewanyana 2009). And most microfinance institutions are currently, independently financially unsustainable.

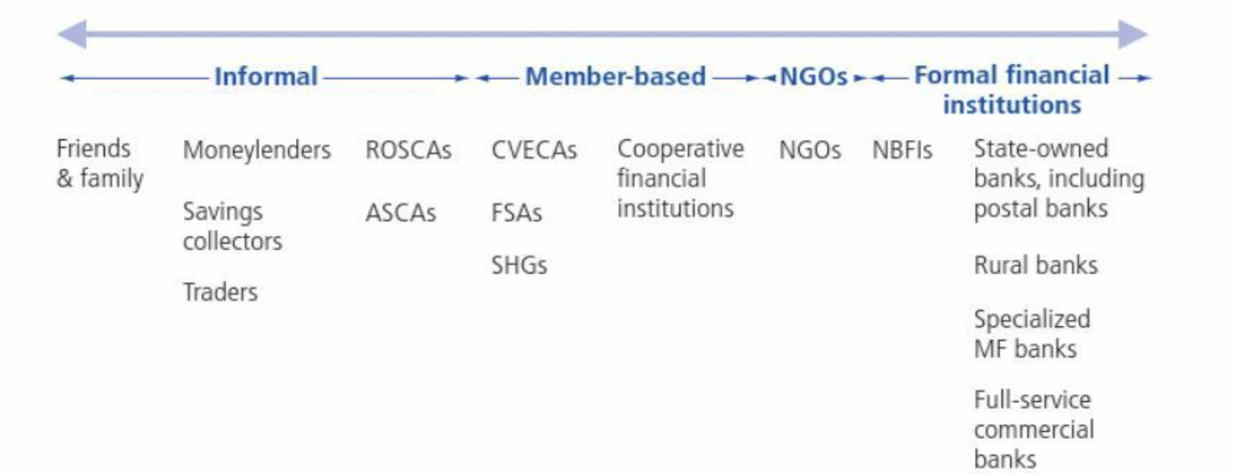
The extant business model of most of the MFIs involves huge operational costs since a lot of contact is required with the intended beneficiary. Also as for as the cost of funds are concerned, as the scale of operations goes up, MFIs need funds beyond the grant/soft loans etc. The commercial funding requires them to have risk capital with market interest rates. In this backdrop the sustainability of MFIs needs to be looked at very carefully even from a social performance standpoint. Therefore, there is a need for empirical work on the viability of MFIs. It is suggested that empirical understandings of microfinance will also be aided by studies that quantify the roles of the various mechanisms in driving microfinance performance. The present study attempts to analyze the financial performance of the Pride Microfinance primarily from a financial viability standpoint.

1.2 Statement of the Problem

Microfinance institutions have the objectives of serving as many poor and able people and maintaining their financial viability. In other words, outreach in terms of breadth and depth and financial viability are not a choice to MFIs. To attain both objectives, the microfinance institutions have to work in the direction of institutional sustainability. However, Pride Microfinance like most MFIs in sub-Saharan Africa struggles to survive. MFIs were found to lack the necessary skills, knowledge and experience with some being accused of fraud and embezzlement of depositors' funds. Also, inexperienced staff, questionable working practices, poor internal controls, substandard governance (Hartarska, 2005) and inadequate management information systems all contributes to Ugandan MFI underperformance (CGAP, 2009). Underperformance shadows Pride Microfinance development in Uganda and formal evaluations of impact assessment, program replication, client outreach and financial viability typically suggest that progress here lags significantly behind than what has been claimed for South Asia and Latin America (MIX, 2010 &Yulek, 2004). In this regard, studies have been undertaken in the area of sustainability of MFIs (Khandker et, al., 1995; Meyer, 2002; Basu&Woller, 2004; Kereta, 2006 and Kidane, 2007) and outreach (Adam, 1988; Kereta, 2007;Navajas, 2000; Hishigsuren, 2004). However, to the best of my knowledge, no study is conducted on the financial viability and outreach of Pride Microfinance Uganda. Then to what extent is the degree of financial viability of Pride Microfinance in its operation in Uganda?

2.1 Literature Review

Figure 2-1: The spectrum of microfinance providers



Note**: ROSCAs = rotating savings and credit associations; ASCAs = accumulating savings and credit associations; CVECAs = CaissesVillageoisesd'Èpargneet de CréditAutogérées; FSAs = financial service associations; SHGs = self-help groups; NGOs = nongovernmental organizations; NBFI = nonbank financial institution* ***Source: (Helms, 2006)

According to Hulme and Musley (1996) without the poor people the assumed MFI would no longer differ from a conventional bank because as stated by Ledgerwood (1999) the number of borrowers or clients as a measure of outreach takes into account only the total number of clients served from different services of MFIs without their relative level of poverty. Depth of outreach means the levels of poverty reached. It focused on analysis of the type of clients served and their poverty level that MFIs reach. Lafourcade et al. (2005) the depth of outreach is defined as efforts to increased microfinance services to peoples not served by financial institutions. As per CGAP (2009) discussed that the majority of, but not all, microfinance sectors have poverty alleviation as a clear or an explicit objective, and are like this needed to reach poor clients of rural and urban areas. For such sectors, there are different tools for measuring poverty levels of clients that MFIs reach, some of them costly and others cheap, but up to now there is no common understanding or agreements on any one of them. If the sector does not use a more advanced indicator, it should at a minimum account the following very beatify substitute for the poverty level of loan or savings clients at a moment in time:

$$\textbf{Average Outstanding Balance} = \frac{\text{Gross amount of outstanding loans or savings}}{\text{Number of active customers or accounts}}$$

This indicator usually indicates as a ratio of per capita Gross National Income (GNI):

$$\frac{\text{Average outstanding loans or savings balance per customer}}{\text{Gross National Income per Capital}}$$

An MFI that succeeds in recovering all of its operating expenses is said to have reached operational self-sufficiency (OSS). Where the institution is able to recover all of its operating costs, and make profit it is said to have reached financial self-sufficiency (FSS). The OSS and FSS are the necessary and sufficient conditions for institutional viability. Organizations that have attained institutional viability see interest and fees as the main source of operating income. Interest rates are key to sustainability, and their rates compete with those from informal finance. So when we talk of viable MFIs (VMFIs), we are referring to the MFIs that have attained OSS and FSS (Udeaja and Aforka, 2007).

According to AEMFI (2007) operational self-sustainability (OSS) takes into account the extent that financial revenue covers financial expenses, impairment losses on loans and operating expenses without performing adjustments for non-lending activities or other revenue like donation/grant and government support.

$$\textbf{OSS} = \frac{\text{Financial revenue}}{\text{(Financial expense +impairment losses on loans +operating expenses)}}$$

On the other hand, according to Meyer (2002) measuring financial self-sustainability of MFIs demands that maintain better financial accounts and follow accepted accounting practices that give full clarity for revenue, expenses, loan recovery, and potential losses. Financial Self-sufficiency (FSS) is a subsidy-adjusted indicator frequently employed by donor-funded microfinance NGOs. It measures the ability of the MFI to cover its adjusted costs from adjusted revenues (largely interest received) without grants (donation). MFIs with FSS exceeding 100% rates is indicating of a long-run sustainability (financially self-sufficient) and also if the FSS is below 100%, at that point the MFI has not still attained financial breakeven.

$$\textbf{FSS} = \frac{\text{Adjusted financial revenue (excluding grants)}}{\text{Adjusted (financial expense +impairment losses on loans+operating expense)}}$$

In any commercial institutions, the widespread measures of profitability are return on asset (ROA), which reflects the institution's net operating income as a ratio of average total assets. This means ROA measures how MFI utilize and manage its assets to produce optimum its profits. A mature MFI should produce a positive ROA. And another indicator is return on equity (ROE), which reflects the institution's net operating income as a ratio of average total equity (or net assets). This also measures to determine what the microfinance institution's returns produced will be on owners' equity investment. Both are determined as follows respectively.

$$\textbf{ROE} = \frac{\text{(Net Income After tax)}}{\text{Average total Equity}}$$

$$\textbf{ROA} = \frac{\text{(Net Income After tax)}}{\text{Average total Assets}}$$

The negative values ROA and ROE show the performance of microfinance institutions are not profitable. Positive rates of ROA and ROE reflect that the microfinance institutions have been able to perform as a profitable and sustainable microfinance. Are such measures of profitability applicable in this study to assess the viability of PMFL?

Issues surrounding MFI sustainability and self-sufficiency, and the implications/tradeoffs implied therein seem well-suited for finance researchers. Few rigorous studies have been conducted in a financial institutions framework to develop and test theory pertaining to MFI self-sufficiency or viability (Armendáriz de Aghion & Morduch, 2000; Morduch, 2000) lack of institutional viability (González Vega, 1998; Pitt, Khandker, & Cartwright, 2006) clients' households and their micro and small enterprises' performance. (Karlan & Valdivia, 2006) assured to the importance of entrepreneurial training (Hamdan & Hussin, 2012) future direction of microenterprises (Al-Shami, Majid, Rashid, & Hamid, 2014; Mensah & Benedict, 2010) argued entrepreneurship ease access to credit (Parvin, Rahman, & Jia, 2012) micro finance and women empowerment (Pitt et al., 2006) in Bangladesh women use borrowed funds more efficiently than men, (Ashe, Treanor, & Mahmood, 2011; D'espallier, Guérin, & Mersland, 2011; Kevane & Wydick, 2001). Micro finances continue providing financial service to the poor on a sustaining basis, the MFIs themselves must be viable and sustainable.

3.1 Research Design

The study followed a ddescriptive approach and summarized a set of data in concise way; it also helped to identify the general features and trends in a set of data to extract useful information; and was very important in conveying the final results of a study depicted for example in tables, graphs, numerical summary measures. The descriptive approach used relates to elements of the main operations (both financial and nonfinancial), the financial ratios and trends of ratios. This is to denote that the study employed both qualitative and quantitative designs. The study population was under Pride Microfinance Limited Masaka one of the 35 branches of Pride Microfinance Ltd countrywide providing financial services to over 93,667 peoples with over 25 employees focused on the micro, small, and medium size entrepreneurs and types of products/service offered are mainly deposit (saving) and Loan products as well as other financial services.

The sample size was chosen depending on the suggestions of Amin (2005) with the help of Chris Kregcie and Morgan (1970). Thus 23 members of Pride staffs were contacted and 97 depositors/clients of Pride Microfinance Masaka, and the sample size of 120 respondents were used. The sampling technique was purposive sampling. Customer respondents on the other hand were selected using simple random sampling method. Data sources were both primary and secondary. Secondary data sources have been from sources such as MIX (Microfinance Information Exchange) Market Inc. website (www.themixmarket.com), Micro banking Bulletins, journals, data from book, publications, internets and reports of various governmental, nongovernmental organizations such as Bank of Uganda and Association of Micro Finance Institutions of Uganda (AMFIU).

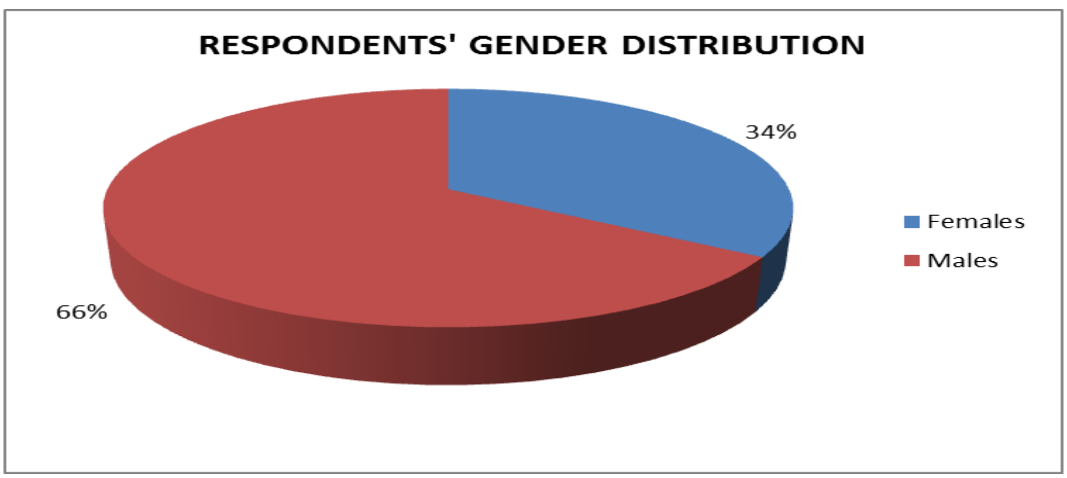
Secondary data was gathered from PMFL annual financial reports from 2011 to 2015, audited financial statements reported to the Bank of Uganda, reports of different governmental and nongovernmental organizations like AMFIU. Self-administered questionnaire techniques applied for the case of the 97 customer respondents in assessing Pride outreach performance. Data used was for 6 years from 2010 to 2015.

4.1 Data presentation, analysis and discussions of findings

4.2 Response Rate And Respondents' Bio Data

The response rate is the percentage of respondents in the sample who completed and returned questionnaires. In this study, out 97 hand-delivered respondent questionnaires only 90 were retrieved resulting in a successful response rate of 93%, which is of great significance in making generalization and conclusions for this study because according Babbie (2004), return rates of 50% are acceptable to analyze and publish, 60% is good and 70% is very good. In the respondents' bio data, the researcher describes the characteristics of the respondents in relation to retail banking services, and its impact on the financial viability of PMFL. Respondents' profile data include Age, gender, type of customer, reason for financial assistance, and clientele time with the PMFL; figures 4.1-4.5 below presents respondents' profile.

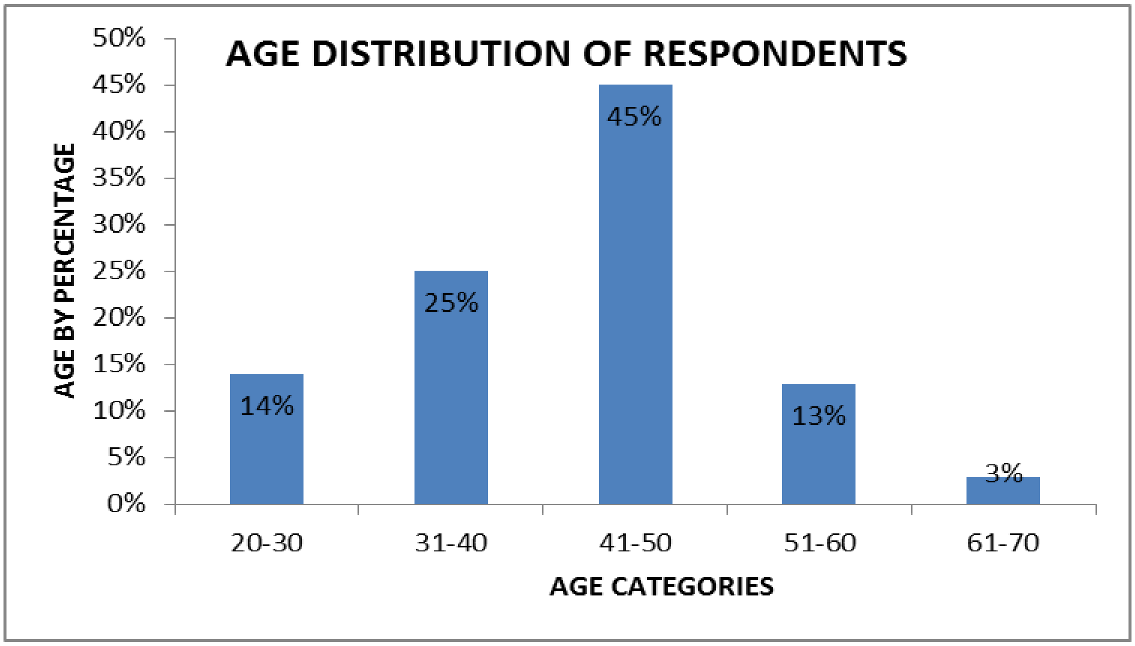
Figure 4.1: Respondents gender distribution for PMFL



Source: Primary Data(2024)

According to the data in figure 4.1 above, (n =59, 66%) of the respondents indicated they are males while (n =31, 34%) are females. This shows that the majority of the respondents or PMFL clients are males, which is not a good sign of a microfinance performance measured in terms of outreach that includes share of female borrowers, which are proxies for the depth of outreach used widely in prior microfinance literature according to Cull et al.,(2007).

Figure 4.2: Respondents' age distribution for PMFL



Source: Primary data

Data in figure 4.2 above shows that (n =40, 45%) of the respondents indicated they fall in the age group of 41-50 years, (n =23, 25%) indicated between 31-40 years, (n = 13, 14%) indicated 20-30 years, (n = 12, 13%) indicated the age of 51-60 with only (n=3, 3%) indicating to be within the age group of 61-70 years. This shows that the majority of PMFL clients are between the age of 30-50 years, an age with a lot of financial challenges and business acumen.

Table 4.1: Types of clients/customer of PMFL

PMFL Client type	**Frequency**	**Percentage**
Trader	15	17
Artisan	12	13
Farmer	9	10
Transporter	14	15
Parent/Guardian/Individual	22	25
Fishmonger	4	5
Group	14	15
Total	**90**	**100**

Source: Primary data

From the above table, (n=22, 25%) of the respondents are clients to PMFL as parents/guardian/individual, (n=15, 17%) are traders, (n=14, 15%) for each are group and transporter category while (n=12, 13%) are the artisans, farmers are (n=9, 10%), and (n=4, 5%) are fishmongers. This is an indication that PMFL clients cut across most economic activities and the typical customers of MFIs, which confirms what Ledgerwood (1999) and Robinson (2001) stated that microfinance is often provided to clients who are traders, street vendors, small farmers, service providers, craftsmen, small producers and to other individuals or groups at the local levels.

Table 4.2: Types of loans accessed by PMFL clients/customers

PMFL loans accessed	**Frequency**	**Percentage**
Group Guaranteed Loans	40	45
Individual Loans	14	15
Salary Loans	14	15
School Fees Loans	15	17
Mortgage and Asset Financing Loans	4	5
Agricultural Loans	3	3
Total	**90**	**100**

Source: Primary data

As reflected in table 4.2 above, (n = 40, 45%) of the respondents indicated to have accessed group guaranteed loans, followed by (n = 15, 17%) that accessed school fees loans with individual and salary loans coming third (n = 14, 15%) a piece while the least accessed type of loans were the mortgage and asset financing loans and agricultural loans at (n = 4, 5%) and (n = 3, 3%) respectively. This is clear manifestation that PMFL like most successful MFIs majorly dispenses group guaranteed loans hence echoing Littlefield & Rosenberg (2004) that the group-lending design which does not require collaterals but reduce risk through group guarantees has by far been the best credit technique and the "Village Banking model" by Ledgerwood (1999) that emphasize lending out credit to the group itself rather than to individuals.

Table 4.3: Client's reason for financial assistance from PMFL

Client's reason for financial assistance	**Frequency**	**Percentage**
School fees	14	15
Mortgage & Land	3	3
Asset & boda boda acquisition	14	15
Startup capital	20	22
Capital ejection	22	25

Personal	17	20
Total	**90**	**100**

Source: Primary data(2024)

Date in table 4.3 above shows that (n = 22, 25%) of the respondents indicated they sought financial assistance from PMFL as a capital ejection into their existing business or projects followed by (n = 20, 22%) that got financial assistance as startup capital with for personal reasons coming third (n = 17, 20%) while school fees and asset acquisition (boda boda) at (n = 14, 15%) came as the fourth reason and mortgage and land at (n = 3, 3%) as the least mentioned reason for seeking financial help from PMFL. This indicates that PMFL like most MFIs offers financial assistance to clients for various reasons, which is in agreement with what Littlefield & Rosenberg (2004) said, poor people use financial services to seize business opportunities, improve their incomes, deal with other large expenses, and cope with emergencies.

4.3 MFI best practices at PMFL

Efficient MFI management practices contributes significantly to accomplishing microfinance objectives, and descriptive means were used to determine the best MFI management practices followed by PMFL as data in table 4.4 below;

Table 4.4: MFI management practices at PMFL

MFI best practices statements	**N**	**Min**	**Max**	**Mean**
PMFL sets and uses an appropriate interest rate	90	1	5	3.54
PMFL emphasizes group lending and group loans	90	1	5	4.56
PMFL rely on social collateral within loan groups to secure their loans	90	1	5	4.55
PMFL always create lending relationship with customers	90	1	5	3.87
PMFL has not commercialized the MFI services	90	1	5	2.32
Average				**3.77**

Source: Primary data

Results in table 4.4 above show that respondents strongly agreed that PMFL emphasizes group lending and group loans (Mean=4.56) and that rely on social collateral within loan groups to secure their loans (Mean=4.55). The respondents also agreed that PMFL always create lending relationship with customers (Mean=3.87) and also that it sets and uses an appropriate interest rate (Mean=3.54). However, the respondents strongly disagreed that PMFL has not commercialized the MFI services (Mean=2.32). This is an indication PMFL follows most of the MFI best management practices as depicted by the mean average of 3.77, which contributes significantly to accomplishing microfinance objectives according to Park and Ren (2001).

4.4 Pride Microfinance Limited products and services

As much as it is argued that the only way for MFIs to become self-sufficient, obtain sustainability, and reach optimal scale is to concentrate on financial services, BDS and social services also make substantial, positive contributions to profits for MFIs. Tables 4.5 and 4.6 below represents the different types of MFI services at PMFL and how they affect its financial viability.

Table 4.5: Descriptive statistics for PMFL products and service

	Mean	**S.D.**	**Min**	**Max**
FSS	0.93	0.312	0.06	1.94
OSS	1.12	0.383	0.08	2.95
ROA	0.015	0.125	-0.9	0.79
LNAVLOAN	6.037	1.139	0	10.11
PERCWOMAN	0.729	0.251	0.09	1
MF_FIN	0.181	0.385	0	1
MF_BDS	0.068	0.252	0	1
MF_SOCIAL	0.113	0.317	0	1

Source: Primary data

In the first step of the analysis, the study examined the impact of PMFL services in general and data in table 4.5 differentiated the different forms of services with three binary dummy variables where *MF_FIN* equals 1 if the PMFL offers only financial services and 0 if it provides BDS training or social services. Second, *MF_BDS* equals to 1 if the PMFL offers financial services that integrates with BDS and 0 if it is only providing financial or integrates social services. Lastly, *MF_SOCIAL* equals 1 if the integrates social services and 0 if it is only providing financial or that integrates BDS training. This implies that the constant measures the impact of PMFL offering only financial services; the impact of PMFL also providing social services equals the sum of the constant and mf_social; and the impact of PMFL that also provide BDS equals the sum of the constant and mf_bds. Significant values of mf_bds or mf_social imply that the impact of PMFL offering other services differs from that when it specializes in financial services alone.

Table 4.6: Descriptive statistics for services offered by PMFL

	MF_BDS=1	***MF_SOCIAL=1***	***MF_FIN=1***
FSS	1.026154 (.2293195)	.822963 (.4185673)	.9342094 (.3012288)
OSS	1.168077 (.2580093)	.9222951 (.4320123)	1.139637 (.3811682)
ROA	.0353333 (.080327)	-.0034444 (.1414624)	.0159338 (.1261973)
LNAVLOAN	5.665549 (1.272797)	5.512657 (1.303492)	6.129878 (1.082931)
PERCWOMAN	.7585714 (.2683548)	.9128571 (.1694075)	.6949398 (.2492495)

Source: Primary data

Data in table 4.6 also provided general descriptive statistics regarding the relations of different types of service, as well as between financial performance and outreach. The data clearly suggests that when PMFL combine BDS with financial services perform better financially than when integrates social with financial services; it even perform more effectively than when it offers only financial services. In particular, the mean values for *FSS*, *OSS*, and *ROA* are higher when combining BDS with financial services than integrating with social services or financial alone. Moreover, providing more services seems to achieve better outreach. The mean value of *AVLOAN* is lower when PMFL provide additional BDS and social services than when they specialize in financial services. This finding indicates that PMFL, regardless of the type of services, focus more on poor borrowers, whose average loan sizes are much lower than those of wealthier borrowers.

4.5 Outreach performance of PMFL

Outreach as used in this research paper is the effort by microfinance institutions to extend loans and financial services to an ever-wider client (breadth of outreach) and particularly toward the poorest of the poor people (depth of outreach). Accordingly, the greatest measurement of outreach breadth is the number of active borrowers and the measurement of outreach depth (poverty level of client) is outstanding gross loan portfolio. In addition, the ratio of women clients, average outstanding balance or Average loan balance per borrower and the total amount of savings or deposits as substitute to measure the outreach performance of the microfinance institutions. For this study to assess outreach performance of PMFL (Srinivasan et al., 2006), the number of active borrowers served, percentage of female borrowers involved in it, Average loan balance per borrower per GNI per capital, number of depositors (savings), outstanding savings and average deposit account balance per GNI per capital were used as shown in table 4.7 below.

Table 4.7: Breadth & depth outreach performance of PMFL

Indicators (000's)							
Years	**Number of active borrowers**	**Percentage of Female borrowers**	**Gross loan portfolio**	**Average loan balance per borrower per GNI per capital**	**Number of depositors**	**Outstanding savings (Total value of all deposit accounts)**	**Average deposit account balance per GNI per capital**
2015	81,486	34%	131,060,506	76.2%	472,651	96,224,605	10%
2014	73,393	37.4%	109,586,506	87%	416,635	82,152,984	12%

***** **Ugandan** ***GNI = $670 for 2014 (source: The World Bank, 2016) * Exchange rate at 2,550 (2014) and 3,150 (2015) source: World's Trusted Currency Authority, 2017)***

According to data in table 4.7 above, Number of active borrowers who get access to loan service or who borrowed money from PMFL in the year 2015 are 81,486, and the number of active borrowers increased in this year as compared to the previous year from 73,393 (2014). This means that if all other things are held constant, there was a better breadth outreach, which was already highlighted by Woller & Schreiner (2002) that number of active borrowers is a measure of breadth of outreach (the number of poor people served by a MFI) because the greater the number of borrowers the better the outreach and as a result, it leads the microfinance institutions to become better sustainable. This is so since the increasing the number of borrowers per microfinance institution would reduce the average operating cost and would increase total operating costs lower than proportionately with the number of borrowers (Crombrugghe et al., 2007), which would lead to an increase in the financial self-sufficiency of an MFI (Melkamu, 2012).

From the same data in 4.7, from the number of active borrowers 34% of borrowers are female and the rest 66% are male in the year 2015 (see figure 4.1 above). As a result, it can be concluded that the PMFL's reach to the disadvantages especially female is limited to 34 percent and also male borrowers of the institution are greater than female borrowers considering the number of active borrowers served in the year 2015. When we compared to 37.4% percent of female borrowers in year 2014, there was lower percentage of female borrowers. This indicates that there was lower depth outreach performance by PMFL because female borrowers are the most important indicator of outreach because females are more vulnerable (weak) than male in getting the chance of being served by formal financial institutions and most of them in the developing world particularly in Uganda are less educated plus low income earners of the society.

On outstanding gross loan portfolio performance by PMFL in the year 2015 is UGX131, 060,506,000 and it increased in this year as compared to outstanding gross loan portfolio of UGX 109,586,506,000 in the year of 2014 covering all outstanding principal for all outstanding client loans including current, delinquent and restructured loans but not loans that have been written off. It excludes interest receivable and employee loans. When the outstanding gross loan portfolio of an institution is increased, mostly the outreach performance of this institution also improved. So, the outreach performance of PMFL in the year 2015 had increased and indications of outreach of a MFI but in this case the breadth of outreach.

The average loan size is a proxy measurement for depth of outreach and it measures the efficiency of microfinance institutions in selling loans and smaller loans are largely taken to denote greater depth of outreach. As presented in table 4.7 above, the average outstanding loan balance per borrower is the Gross amount of loans Outstanding as of 2015 divided by Number of active borrowers;

Average Outstanding loan balance per borrower = 131,060,506,000/81,486=1,608,381

Average Outstanding loan balance per borrower=1,608,381

Depth of Outreach= Average Outstanding loan balance per borrower/GNI per Capital

=1,608,381/$670

=1,608,381/(670x3150)

=1,608,381/2,110,500

=**76.2%**

As per CGAP (2009) also expressing average loan balance as a percentage of GNI per capita or national poverty line allows for a comparison of how deeply MFIs from different nations reach down in their own national income distributions. A number of regard an average outstanding loan balance lower 20% of per capita GNI as a rough indication that clients are poorer. The Microfinance Information Exchange (MIX) classifies lenders as being MFIs if their average outstanding loan balance is not higher than 250 % of per capital GNI. Based on these mentioned two benchmarks, average loan balance of 76.2 percent per capital GNI in the year 2015 indicates that clients of PMFL are not the poorer but the lenders of PMFL who are classified as microfinance institution lenders. The average loan size of PMFL in 2015 had lower in depth of outreach as compared to year 2014. This is supported the study conducted by Rombrugghe et al (2007), which indicated that the size of loans or average loan per borrower influences financial self-sufficiency (FSS) of microfinance institutions and the outcome by Woller and Schreiner (2002) is that depth of outreach is inversely related with financial self-sufficiency.

Also in table 4.7 is shown that the Number of depositors of PMFL in end of year 2015 is 472,651 and this increased as compared to 416,635 depositors in 2014. The number of depositors is the quantity or number of saver or client to deposit their money in the institution, and the depositors increase means the better the outreach performance and so, it leads to become more sustainable of the microfinance institutions

The Outstanding savings (total value of all deposit accounts) is the total of compulsory, voluntary saving, time deposit and demand deposit by clients in the microfinance institution and as indicated in table 4.7, the level of deposits mobilized by PMFL has shown a substantial increase from UGX 82,152,984,000 in 2014 to UGX 96,224,605,000 in 2015 showing the potentials for savings and a steady increase when compared to deposits for the years 2011-2014. To PMFL, this is an alternate source of finance, from the public and borrowed money for their regular business operations and expansions of the institution and it allows related less liquidity risk- MFIs are low open to attack to liquidity risk than it would be if more withdrawals were made from greater savings accounts.

Finally, data in table 4.7 looks at the Average outstanding savings balance. Accordingly, Average deposit balance per depositors is the Gross value of all deposit accounts as of 2015 divided by Number of depositors;

Average deposit balance per depositors=96,224,605,000/472,651=203,585

Average deposit balance per depositors =203,585

Average deposit balance per depositors/GNI per Capital

=203,585/$670

=203,585/ (670x3150)

=10%

The result of 10% for year 2015 shows that it is above the mean average deposit balance per depositors per GNI per capita of 9% for the 6 years under consideration of the study from 2011-2015 but less than 12% of year 2014. This is approximately related to client poverty, because rich clients tend to be not interested in smaller deposit accounts and is measure of depth of outreach.

4.5.2 Financial viability and Profitability indicators of PMFL in the year 2015

A viable financial institution is self-sustaining and valued by its clientele. This requires an agency that is able to cover its costs, that provides high quality services, that reaches an increasing number of customers, that is dynamic in providing new financial services and products, and that actively searches for ways of improving its efficiency, as reflected by the level and the degree of dispersion of the transaction costs incurred by its depositors, its borrowers, and the intermediary itself. Viable institutions possess credibility and are able to mobilize deposits from the public, to collect their loans, and to retain good management and staff. Therefore, viability of Microfinance Institutions (MFIs) is a continuous financial service provision to clients profitably as a going concern without depending on subsidies. Sustainability and Profitability ratios indicate the ability of microfinance institutions to continue operating and developing in the future periods of time. The ratios used in this study of PMFL are the most broadly accepted in the microfinance institutions that are measured and analyzed using operational and financial self-sufficiency; adjusted return on assets; and adjusted return on equity ratios as follows; Return on Assets (ROA), Return on Equity (ROE), Operational Self-Sufficiency (OSS) and Financial Self-Sufficiency (FSS).

4.5.2.1 Profitability indicators of PMFL in the year 2015

Return on assets (ROA) reflects how well PMFL is managing its assets to improve and maximize its profitability. ROA ratio contains not only the return on the portfolio, but also any other income generated from investments and other operating activities of the institution. The ROA for PMFL for 2015 is;

ROA=$Net\ operating\ Income\ after\ Tax/Average\ Total\ Asset$

ROA= 13,118,643/(173,887,314 + 202,119,408/2)

ROA=13,118,643/188,003,361=0.0698

ROA= 0.0698x100= 6.98%

ROA= 6.98%

The profitability status of PMFL in year 2015 is profit because the result of the return on asset (ROA) ratio in this year is indicated positive. This is because positive rates of ROA and ROE reflect that the microfinance institutions have been able to perform as a profitable and sustainable microfinance (Olivares-Polanco, 2005). However, this result tells us that PMFL accomplished lesser as compared to the previous year 2014 at 7.91%.

The Return on equity (ROE) was another important profitability indicator used in the study especially the side of profit of PMFL. It measures a microfinance institution's ability to reward its investor's investment, make its equity base by means of retained earnings, and increase additional investment. For nonprofit MFI, return on equity reflects its ability to produce equity by retained earnings; and raised equity allows the MFI to leverage (influence) additional financing to raise its portfolio. The ROE for PMFL was arrived at as;

ROE= $Net\ operating\ Income\ after\ Tax/Average\ Total\ Equity$

ROE= 13,118,643/ (59,682,351+72,800,994)/2)

ROE= 13,118,643/66,241,673 =0.1980

ROE=0.1980 x 100=19.8%

ROE=19.8%

In year 2015, PMFL's total assets were equivalent to UGX. 202,119,408,000. PMFL's overall financial performance in year 2015 was measured by a return on assets (ROA) of 6.98% as compared to ROA of 7.91% in year 2014. Similarly, PMFL's return on equity (ROE) indicated a reduction to 19.8% in year 2015 from 23.8% in year 2014 but all the same showed positive rates, a sign of profitability.

4.5.2.2 Financial viability of PMFL in the year 2015

Financial viability is the degree to which an institution collects sufficient revenues from sale of its services to cover the full costs of its activities, evaluated on an opportunity-cost basis. Full financial viability is allowing continuing operating at a stable or growing rate without ongoing support from external supporters such as governments, donor agencies, or charitable organizations. In this part of analysis, the study tries to see two main ratios that are widely used to measure the continuity of a financial institution. As indicated above viability/sustainability is one and the fore most objective of any institution. The first goal of most MFIs is to change the lives of the poor in a continuing manner, so, to achieve these institutional goals should have to be sustainable. These institutions, to continue serving the poor societies, their profitability and sustainability should be measured, because they need to be operationally and financially sustainable. Among the available measures, operational self-sufficiency and financial self-sufficiency are the predominant profitability and sustainability measurement variables as used here.

4.5.2.2.1 Operational self – sufficiency (OSS)

OSS is the most basic measurement of financial viability, indicating whether revenues from operations are sufficient to cover all operating expenses. In the case, it reflects the PMFL's ability to continue its operations if it receives no further subsidies. As with the preceding measures of returns, OSS focuses on revenues and expenses from the MFI's core business, excluding non-operating revenues and subsidies. The breakeven point of OSS is 100 percent. The value of 1 (or 100%) and above for OSS variables shows that the microfinance institutions are operationally self-sufficient but the value below 1 (or 100%) shows they have not yet achieved financial breakeven and also not sustainable.

$$\textbf{OSS} = \frac{\boldsymbol{Financil\ Revenue}}{(\boldsymbol{Financial\ expense + impairment\ losses\ on\ loans + operatiing\ expense})}$$

$$\textbf{OSS} = \frac{\mathbf{61,431,165,000}}{(\mathbf{24,517,581,000 + 1,589,034,000 + 17,240,709,000})} = \mathbf{1.417}$$

$$\textbf{OSS} = \mathbf{1.42}$$

In this study as shown above, PMFL OSS for the year 2015 is 1.42 or 142%. This is an indication the PMFL is operationally self-sufficient but was less than 1.44 of the year 2014.

4.5.2.2.2 Financial Self-Sufficiency (FSS)

FSS is a ratio which measures the sustainability of the microfinance institution in terms of the financial capacity or it measures the extent to which the microfinance institution's business revenue excluding grants and extraordinary items—mostly interest received—covers the microfinance institution's adjusted expenses. Financial self-sufficiency (FSS) is a ratio of the adjusted financial revenue to the financial and operational expense as well as the loan loss provision and expense adjustments. The value of 1 (or 100%) and above for FSS variables shows that the microfinance institutions are financially self-sufficient, but the value below 1 (or 100%) shows the microfinance institutions have not yet achieved financial breakeven and they are not sustainable.

$$\textbf{FSS} = \frac{\textbf{\textit{Adjusted Financial Revenue}}}{\textbf{\textit{Adjusted}}\ (\textbf{\textit{Financial expense+impairment losses on loans+operating expense}})}$$

$$\textbf{FSS} = \frac{\mathbf{18{,}083{,}456{,}000}}{(\mathbf{9{,}775{,}936{,}000+1{,}472{,}393{,}000+15{,}274{,}643{,}000})} = \mathbf{0.682}$$

FSS = 0.68

From above, FSS performance of PMFL in the year 2015 is 0.68 (68%). This ratio indicates that PMFL was unable to attain financial self-sufficiency because in FSS ratio it achieved below the threshold level of 1(or 100%). Thus, PMFL is not financially sustainable in the year 2015 and this could be an indication that it has external financial support because the FSS ratio has not achieved the financial breakeven point of 1 (or 100%). To be financially sustainable, the institution must earn a return that covers their costs, net of inflation.

4.6 Trend analysis on operating and financial performance of PMFL from the year 2010-2015.

Trend analysis is the assessment of a company's financial statements and indicators over time to determine how action affects results of the microfinance institutions performance. Since financial statements for a single period do not show much about the institutions, trend analysis covering five years' period from 2010 to 2015 were used to show their performance.

4.6.1 Trend of outreach by PMFL from the year 2004-2008

The following table 4.8 shows the trend of outreach breadth & depth performance by PMFL from the year 2010-2015.

Table 4.8 Trend of outreach indicators by PMFL from the year 2004-2008

Indicators	Years under review					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Number of active borrowers	65,298	70,412	70,981	73,554	73,392	81,486
% of Female borrowers	19%	20%	23%	19%	37%	34%
Gross loan portfolio (000's)	58,615,919	71,080,598	80,689,100	95,477,681	109,586,506	131,060,524

Average loan balance per borrower /GNI per capita	57%	53%	67%	74%	87%	76%
Number of depositors	235,582	278,412	327,853	373,667	416,635	472,651
Outstanding savings (000's)	28,438,322	32,522,058	39,083,034	56,566,221	82,152,984	96,224,605
Average deposit account balance /GNI per capita	8%	7%	7%	9%	12%	10%

Source: Primary data from PMFL operational reports and audited financial statements2010-2015

From the data in the above table, shows that that the PMFL's outreach level reflects irregularity in the years under consideration in average loan & deposit balance per GNI per capita but also it shows slight steady increase in the total number of active borrowers served, gross loan portfolio, , number of depositors and outstanding savings. The numbers of female borrowers were shows abnormality from the year 2010-2015. In the year 2014 the number & percent of female borrowers were highest as compared with other years under consideration but decreased in 2015 to 24 percent hence female access to credit still limited.

4.6.2 Trend in Sustainability & Profitability of PMFL from year 2010-2015

Profitability and sustainability measures shows how operationally and financially viable a MFI is and the two indicators of this are operational self-sufficiency and financial self-sufficiency that need to be tracked for a considerable period of time. Tables 4.9 and 4.10 presented OSS and FSS measurements for 2010-2015.

Table 4.9 Trend in profitability of PMFL

INDICATORS	**YEARS UNDER REVIEW**					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
NET OPERATING INCOME AFTER TAX	2,844,840	6,630,346	11,086,742	11,664,163	12,714,177	13,118,643
EQUITY	17,947,883	24,578,229	35,304,011	46,968,174	59,682,351	72,800,994
TOTAL ASSETS	79,613,671	96,389,677	120,269,005	147,395,290	173,887,314	202,119,408
ROE	**15.9**	**31.18**	**37.02**	**28.35**	**23.80**	**19.80**
ROA	**3.57**	**7.53**	**10.23**	**8.71**	**7.91**	**6.97**

Source: Primary data from PMFL audited financial statements 2010-215

The trend in performance indicated that PMFL was successful from profitability point of view; regardless of the rate vary year after year. PMFL was posted a positive return both on equity and assets because the two ratio of the institution showed a positive ratio from year 2010 up to 2015 but reduce the return of the institution starting from year 2014 up to 2015.

Table 4.10: Trend in Operational & Financial self-sufficiency of PMFL 2010-2015

Operational Self Sufficiency of PMFL					
Year	**Financial Revenue**	**Financial expense**	**Impaired loss on loans**	**Operating expense**	**OSS**
2010	25,556,579,000	13,342,649,000	481,777,000	8,529,941,000	**1.14**
2011	33,560,833,000	15,637,870,000	291,156,000	10,258,546,000	**1.28**
2012	41,881,505,000	16,756,155,000	169,569,000	12,114,324,000	**1.44**
2013	46,250,735,000	19,087,689,000	1,045,455,000	13,102,943,000	**1.39**
2014	52,700,930,000	21,842,781,000	1,066,315,000	13,692,698,000	**1.44**
2015	61,431,165,000	24,517,966,000	1,589,034,000	17,240,709,000	**1.42**
Financial Self Sufficiency of PMFL					
Year	**Adjusted Financial Revenue**	**Adjusted Financial expense**	**Adjusted Impaired loss on loans**	**Adjusted Operating expense**	**FSS**
2010	3,202,212,000	8,806,216,000	447,435,000	7,391,266,000	**0.19**
2011	7,693,573,000	10,024,275,000	242,084,000	9,191,425,000	**0.40**
2012	12,841,457,000	9,170,473,000	747,286,000	10,376,801,000	**0.63**
2013	13,014,648,000	10,707,397,000	962,068,000	11,861,486,000	**0.55**
2014	16,098,136,000	9,737,168,000	847,126,000	11,978,372,000	**0.71**
2015	18,083,456,000	9,775,936,000	1,472,393,000	15,274,643,000	**0.68**

Summary of Trend in Operational & Financial self-sufficiency of PMFL for2010-2015

Indicators	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Breakeven	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**
OSS	1.14	1.28	1.44	1.39	1.44	1.42
FSS	0.19	0.40	0.63	0.55	0.71	0.68

Source: Primary data compiled from PMFL operational reports and audited financial statements2010-2015

In general, from the above table, it can be concluded that PMFL did well in terms of operational self-sufficiency because in all the six years under review it achieved more than the threshold level (breakeven) of 1or 100%. However, the financial self-sufficiency of PMFL over the same period showed poor financial performance because in all the six years it was below the breakeven point of 1 or 100%. Therefore, PMFL was able to achieve operational sustainability but unable to attain financial self-sufficiency in the period under review and a viable financial institution must post more than the threshold on both.

The results of the study showed that PMFL has achieved some level outreach, and from financial sustainability (viability) perspective, PMFL has indicated mixed performance. The trends tell us there has been a steady decline of the main financial performance indicators of financial viability in terms of FSS, OSS ROA and ROE.

5.3 The discussion of the findings

a) The findings indicated that the majority of the respondents or PMFL clients are between the age of 30-50 years and mostly are males, which is not a good sign of a microfinance performance measured in terms of outreach that includes share of female borrowers, which are proxies for the depth of outreach used widely in prior microfinance literature according to Cull et al.,(2007). Furthermore, the results indicated that PMFL clients cut across most economic activities as typical customers of MFIs, which confirms what Ledgerwood (1999) and Robinson (2001) stated that microfinance is often provided to clients who are traders, street vendors, small farmers, service providers, craftsmen, small producers and to other individuals or groups at the local levels. Also, they financial assistance for various reasons and mostly through the group-lending design, which is in agreement with what Littlefield & Rosenberg (2004) who said poor people use financial services to seize business opportunities, improve their incomes, deal with other large expenses, and cope with emergencies, and group lending which does not require collaterals but reduce risk through group guarantees has by far been the best credit technique and the “Village Banking model” by Ledgerwood (1999) that emphasize lending out credit to the group itself rather than to individuals.
b) The findings also showed that PMFL follows most of the MFI best management practices as depicted by the mean average of 3.77, which contributes significantly to accomplishing microfinance objectives according to Park and Ren (2001).
c) On the services offered by PMFL, the results suggest that when PMFL combine BDS with financial services performs better financially than when integrates social with financial services; it even perform more effectively than when it offers only financial services, and similarly the mean values for *FSS, OSS,* and *ROA* are higher when combining BDS with financial services than integrating with social services or financial alone. Moreover, providing more services seems to achieve better outreach.
d) On assessing PMFL’s outreach, the study used the parameters of the number of active borrowers, the percentage of female borrowers, gross loan portfolio, average loan balance as

a % of GNI per capita, number of depositors, outstanding savings, and average deposit balance as a % of GNI per capita. The findings showed that the trends demonstrated an increase over the periods of the study with different rates of increment for the breadth of outreach of PMFL in terms of number of active borrowers, number of female borrower and number of depositors the trend demonstrates increase over the periods of the study with different rates of increment. Similarly, in depth (client poverty level) of outreach in terms of percentage of female borrowers identified that while PMFL reaches the very poor, it covered the disadvantaged particularly the female at limited (24.47 %). Generally, the outreach performance of PMFL considered in the study is increasing over the study period.

e) For the profitability of PMFL analysed in this study using two common indicators of return on assets (ROA) and return on equity (ROE), showed ROA is decreased in the year 2015 as compared to its average value. The trends also indicated that ROA is positive in all of the years observed. Similarly, ROE of PMFL decreased in the year 2015 as compared to its average value and the trends of ROE revealed privileged performance more than ROA as ROE is positive in all of the years observed. Therefore, PMFL is more profitable and its performance is good taking into account profitability ratios based on ROA and ROE.

f) Finally and more importantly for this study, the findings concluded that PMFL did well in terms of operational self-sufficiency (OSS) because in all the six years under review it achieved more than the threshold level (breakeven) of 1or 100%. However, the financial self-sufficiency (FSS) of PMFL over the same period showed poor financial performance because in all the six years it was below the breakeven point of 1 or 100%. Consequently, PMFL was able to achieve operational sustainability but unable to attain financial self-sufficiency in the period under review and a viable financial institution must post more than the threshold on both.

5.4 Conclusion

The purpose of this study was to assess the effects of retail banking services on the viability of Pride Microfinance in Uganda, and specifically the analysis of financial and operating performance of PMFL from the point of financial viability in terms of achievement in indicators of outreach, financial sustainability, profitability, portfolio quality, and trend in performance assessment. The analysis of these performance indicators as well as ratio and trend analysis for a five years' period i.e. from 2010 to 2015, showed that PMFL has achieved some level outreach, and from financial sustainability (viability) perspective, PMFL has indicated mixed performance where operational self-sufficiency (OSS) for a period under review achieved more than the threshold level (breakeven) of 1or 100% but the financial self-sufficiency (FSS) of PMFL over the same period showed poor financial performance because in all the six years it was below the breakeven point of 1 or 100%. As a whole, the trends tell us, there has been a steady decline of the main financial performance indicators of financial viability in terms of FSS, OSS ROA and ROE.

5.5 Recommendations

In view of the findings of the study, the following recommendations are made by the researcher;

a) Despite PMFL doing satisfactory in terms of outreach performance to the poor, it should use its maximum and full effort to increase its outreach to the target people because the greater the numbers of borrowers, the better sustainable microfinance institutions are. Therefore, PMFL in Masaka should reach larger number of poor so that, for first thing its objective of reaching the poor are achieved and for second thing, the number of borrowers increased and the cost pay out to serve the borrowers will be minimized due to the economies of scale.

b) In the Ugandan population, female take the highest share and since it is the leading key strategy of PMFL to make sure that female get priority for financial services, PMFL should provide due focus to involve and empower female so as to achieve its goal.

c) Although return on assets and return on equity of PMFL are greater than zero, it should perform on it to move towards highest return and to get performance consistency or stability since these parameters are the means to survive and grow to provide sustained service to the poor without any subsidize and support of fund from external parties.

d) Even though PMFL was doing well in terms of profitability and sustainability, it should exert maximum effort to pass the minimum threshold level in connection with operational and financial self-sufficiency to cover their expenses, grow and sustain by its own, to do this , PMFL need to rise the number of borrowers, decrease the cost per borrower, be able to utilize its short term assets to the maximum possible level to produce better cash and financial revenues, raise the gross loan portfolio so as to increase the loan size that it lends to a borrower and to minimize cost per borrower in proportion to the amount it lends, and finally should improve the value of their total assets greater than what it is having.

e) Lastly, PMFL should think up and create a means to acquire finances from diversified sources so as to reduce the risks related with obtaining funds from limited sources. Particularly, PMFL should work in obtaining more additional funds in order to increase its operations to the target people e.g., able to collect (mobilize) savings from the public, which helps keep afloat its loan portfolios.

References

Al-Shami, S. S. A., Majid, I. B. A., Rashid, N. A., & Hamid, M. S. R. B. A. (2014). Conceptual Framework: The Role Of Microfinance On The Wellbeing Of Poor People Cases Studies From Malaysia And Yemen. *Asian Social Science, 10*(1), 230.

Armendáriz De Aghion, B., & Morduch, J. (2000). Microfinance Beyond Group Lending. *Economics Of Transition, 8*(2), 401-420.

Ashe, F., Treanor, L., & Mahmood, S. (2011). Microfinance And Women Entrepreneurs In Pakistan. *International Journal Of Gender And Entrepreneurship*.

D'espallier, B., Guérin, I., & Mersland, R. (2011). Women And Repayment In Microfinance: A Global Analysis. *World Development, 39*(5), 758-772.

González Vega, C. (1998). Microfinance: Broader Achievements And New Challenges.

Hamdan, H., & Hussin, W. S. W. (2012). The Importance Of Monitoring And Entrepreneurship Concept As Future Direction Of Microfinance In Malaysia: Case Study In The State Of Selangor. *Journal Of Global Entrepreneurship, 3*(1), 1-25.

Karlan, D., & Valdivia, M. (2006). Teaching Entrepreneurship: Impact Of Business Training On Microfinance Clients And Institutions.∗ Retrieved January, 15, 2010.

Kevane, M., & Wydick, B. (2001). Microenterprise Lending To Female Entrepreneurs: Sacrificing Economic Growth For Poverty Alleviation? *World Development, 29*(7), 1225-1236.

Mensah, S.-A., & Benedict, E. (2010). Entrepreneurship Training And Poverty Alleviation: Empowering The Poor In The Eastern Free State Of South Africa. *African Journal Of Economic And Management Studies, 1*(2), 138-163.

Morduch, J. (2000). The Microfinance Schism. *World Development, 28*(4), 617-629.

Parvin, L., Rahman, M. W., & Jia, J. (2012). Determinates Of Women Micro-Entrepreneurship Development: An Empirical Investigation In Rural Bangladesh. *International Journal Of Economics And Finance, 4*(5), 254-260.

Pitt, M. M., Khandker, S. R., & Cartwright, J. (2006). Empowering Women With Micro Finance: Evidence From Bangladesh. *Economic Development And Cultural Change, 54*(4), 791-831.