AN ASSESSMENT OF CLIENTS OF MICROFINANCE PROGRAMS IN UGANDA

Carolyn Barnes
Gayle Morris
Gary Gaile
Management Systems International
In association with
Richard Kibombo
Samuel Kayabwe
Agrippinah Namara
Peter Waalwo-Kajula
Kathleen Graham

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Abstract

This paper looks at three microfinance programs in Uganda, representing best practices, to determine how they impacted households and entrepreneurs, particularly in reducing poverty and empowering borrowers. Evaluation results showed the programs positively and significantly improved the quality of life of participants, both economically and socially.

Introduction

Microenterprises are a vibrant part of the Ugandan economy, providing a wide range of goods and services. In 1995 an estimated 22% of all households were engaged in some kind of business activity (Impact Associates, 1995). These households were usually micro in scale and home-based. Twenty-nine percent of the working age population in 1995 were estimated to be employed in micro and small enterprises. These statistics underscore the prevalence of microenterprises, but mask the importance of microenterprises as a vital source of income for the urban and rural poor. Microenterprise business activities are often the major source of household revenue.

These poor microentrepreneurs, especially women, have had limited access to financial services offered by the commercial banks (Duval, 1991; Morris et al., 1995; Mugyenyi, 1992). Widespread recognition of this lower accessibility to formal credit has led to recent endeavors to target the poor, especially women entrepreneurs, through development programs that provide financial services. In addition to the provision of credit, these programs also facilitate the establishment of savings accounts. Thus, these semi-formal financial institutions provide low-income clients (particularly women) with financial services not previously provided by commercial banks.

Since the mid-1990s, as part of its strategy to alleviate bottlenecks to private sector development, USAID/Uganda has provided financial and technical support to a number of organizations providing microfinance services for poor microentrepreneurs. These organizations vary in terms of target clientele, maximum size of loans, program strategies, geographic coverage, size of the loan portfolio, and financial security.

The objective of the Uganda assessment is to provide data on the impact of USAID-supported microfinance programs on clients, their households and enterprises. The assessment will also provide information on the linkages between microentrepreneurs and the agricultural sector. It should be noted that no attempt is being made to distinguish between use of USAID funds and other funds, as these microfinance programs are normally financed through a mix of sources and funds tend to be fungible.

Do programs providing microfinance services make a positive difference in the lives of microentrepreneurs, their households, and enterprises? This problem statement can be framed as a series of questions. What is the nature, extent, and distribution of these impacts? Have microfinance programs helped to reduce proverty in the households of microentrepreneurs? Has support to microentrepreneurs in urban areas increased the flow of transfers and remittances to rural areas? Have programs helped microentrepreneurs, particularly women, to gain more control over the income they generate? The baseline assessment answers the above questions also and an ancillary, but important, question: What are the linkages between microfinance program clients and the agricultural sector?

Three microfinance organizations which follow what are considered to be “best practices” were selected for inclusion in this study: FOCCAS (Foundation for Credit and Community Assistance), FINCA (Foundation for International Community Assistance) and PRIDE (Promotion of Rural Initiatives and Development Enterprises) Uganda. The three districts covered by the assessment were purposively selected to provide a range of socioeconomic contexts, since geographic location can influence the impact of a program. The locations selected were: Kampala, a vibrant metropolitan capital center; Masaka, a small urban center in southern Uganda, and rural Mbale, a highly populated, good farming area in the east near the Keyan border.

Microenterprises provide an individual with access to microfinance programs, but these individuals are also members of households. Resources within a household are fungible and may flow between households (such as from urban to rural households). At the same time, particularly given the ramifications of gender, the household economic portfolio is likely to include individually controlled resources and activities. Thus, the assessment framework has a wide lens to detect impacts at the client, household, and enterprise levels as well as upon rural networks.

Study Site Profiles

The two-stage study covers three districts: Kampala, Masaka, and Mbale. Study sites in Kampala were located in urban and peri-urban areas. In Masaka respondents were interviewed in urban, peri-urban, and peripheral rural areas. Mbale respondents were all located in rural areas. Basic information about the districts where the baseline study was conducted is presented in Table 1 and Table 2.

Table 1
Demographic Information on Study Site Districts

District	Population Size (in 000s)	Urban Population as % of District Population	Average Household Size	% Female Headed Households
Kampala	**774.2**	**100%**	**4.0**	**31%**
Masaka	**838.7**	**9.2%**	**4.4**	**32%**
Mbale	**710.9**	**8.5%**	**4.5**	**24%**

Source: 1991 Population & Housing Census

Table 2
Socio-Economic Information on Study Site Districts

District	Main Income Sources by % Households				Tenure Status of Residences		% Households with Electricity
	Subsistence Farming	Trade	Employment	Family Support	Owner Occupied	Rented	
Kampala	**2%**	**23%**	**58%**	**10%**	**18%**	**72%**	**42%**
Masaka	**67%**	**11%**	**11%**	**10%**	**77%**	**16%**	**6%**
Mbale	**75%**	**7%**	**8%**	**8%**	**89%**	**9%**	**4%**

Source: 1991 Population & Housing Census

The Microfinance Programs

The three microfinance programs (MFIs) whose clients were selected for inclusion in this study are FOCCAS (Foundation for Credit and Community Assistance, allied with the international NGO Freedom from Hunger), FINCA (Foundation for International Community Assistance, and international NGO), and PRIDE (Promotion of Rural Initiatives and Development Enterprises) Uganda (associated with PRIDE Africa). The distribution of survey client respondents among three microfinance programs in three districts represents an intentional effort to capture data from a spectrum of microentrepreneurs representative of the diversity of businesses and living conditions in Uganda.

The missions of these organizations vary. FOCCAS promotes self-help programs to enhance the economic productivity and family health and nutrition of the predominantly rural poor. It provides groups of poor women with credit and savings services for income-generating activities, and provides non-formal education on the topics of health, nutrition, family planning, HIV/AIDS prevention and better business management. Working with solidarity groups, FOCCAS/Uganda integrates practical education into a village banking methodology. The FINCA program is committed to assisting hard working women entrepreneurs who are willing to organize themselves into groups for economic development. FINCA offers a credit and savings scheme called village banking that targets low-income women who are organized in groups. While the FINCA and FOCCAS programs center on women, PRIDE/Uganda has the objective of providing financial services to female and male microentrepreneurs who operate businesses in predominantly urban areas. As part of its programming focus, PRIDE seeks to integrate the individual borrower and saver into the formal financial system by requiring clients to have a savings account with a commercial bank.

These three MFIs were chosen because each has demonstrated use of “best practices,” a constellation of recognized practices which the most successful MFIs employ worldwide. The "best practices" common among these three MFIs include: the formation of a credit group consisting of individual members each of whom owns and operates a business that produces at least a weekly cash flow, the entire group’s guarantee of the loan made to each member of the group, the use of an interest rate that supports the administrative costs of the MFI (sustainability), a mandatory savings requirement, a weekly mandatory group meeting for loan repayment, a demonstrated high rate of repayment (close to 100%), and the ability of the program to serve (either currently or in the future) significant numbers of individuals. Additionally, each of these programs has operated a successful microfinance program in Uganda or elsewhere in Africa. The characteristics of the three programs are compared in Table 3.

Table 3
Comparison of the Program Characteristics of FINCA, FOCCAS and PRIDE

	FINCA	FOCCAS	PRIDE
Uganda Startup Date	1992	1996	1996
Uganda Clients as of 12/97	10,429 borrowers/savers	3,297 borrowers 3,507 savers	3,283 borrowers 5,662 savers
District(s) surveyed	Kampala Masaka	Mbale	Masaka
Size of initial loan (US$)	$44 rural $66 periurban $88 urban	Up to $44	Up to $132
Subsequent loans	Equal to first loan plus savings Max. of $528	50% increase over last loan, assuming savings is at least 5% of new loan	Progressive from 2nd through 6th, $176 to $704
Payment schedule	Weekly, beginning one week following receipt of funds	Weekly, beginning one week following receipt of funds	Weekly, beginning one week following receipt of funds
Savings program	Weekly; the group banks mandatory and voluntary savings	Weekly: the group banks mandatory and voluntary savings	Loan Insurance Funds collected by PRIDE---- Members save in own bank accounts
Gender	Women	Women	37% men 63% women
Group structure	Village bank, ranging from 22 to 45 individuals	Credit Association (average of 42 persons) consisting of several 4-7 member solidarity groups	50 member Market Enterprise Committee (MEC) consists of 10 5-person Economic Groups (EG)

Source: Interviews with PRIDE, FOCCAS, FINCA personnel, July and November 1997, February 1998; and PRESTO report to USAID/Uganda, March 1998.

FOCCAS is the most recently established of these three MFIs and has the most rural clientele. It commenced lending late in 1996 and by December of 1997 had 3,297 borrowers and savers. FOCCAS operates almost exclusively in the rural areas of two adjacent districts, Mbale and Tororo. For this baseline study only Mbale residents were selected as survey respondents.

At the time of the survey FINCA, which began working in Uganda in 1992, had operations in nine districts, serving more than 10,000 individual clients. This study surveyed FINCA clients in Kampala, in areas ranging from densely settled, poor urban neighborhoods to peri-urban settings, and also in Masaka District, where the clients were situated in either the urban center of Masaka town, in commercial areas along the main road from Kampala to the southwest, or in villages and rural areas extending up to ten kilometers outside the town. In addition to the geographic differences between the Kampala and Masaka FINCA clients, the Kampala clients were more likely to be experienced MFI participants. The Kampala respondents belonged to groups who had been borrowing and saving for at least three months, some more than a year. Since FINCA's presence in Masaka was quite new, virtually all the Masaka clients were working with their first loan.

While PRIDE operated in six districts at the time of the survey, its operation in Masaka was new and all but a handful of the PRIDE clients were also working with their first loan. PRIDE initiated its lending programs in Uganda early in 1996 and had 3,283 borrowers, about the same number as FOCCAS, by December of 1997. PRIDE had also registered more than 2,300 additional clients as savers who were poised to become borrowers within weeks of the conclusion of the survey.

The three programs have several characteristics in common but also differ in ways that may influence the profile of the client who joins and the group dynamic. The most obvious distinction is that PRIDE offers membership to both men and women, while FINCA and FOCCAS provide credit and savings for women only. FINCA operates in urban and peri-urban settings, although some of its clients may come from contiguous rural areas, particularly in Masaka. PRIDE offices are located in urban areas and potential clients are supposed to operate businesses within 5 kilometers of a PRIDE office. FOCCAS, by contrast, is a highly rural operation.

The client selection and group formation processes differ somewhat among the three programs. FINCA operates on a “village bank” model, seeking to register thirty or more women in each “bank.” Each member of the group guarantees the repayment of all funds borrowed by their village bank. Approximately eighty percent of FINCA’s village banks were formed from existing women’s groups, whose purpose may have been educational, economic, cultural or purely social. While this pre-existing relationship bodes well for the group’s dynamic, the fact that the women did not come together to secure credit may be reflected in the success of their respective businesses or their willingness to continue over a longer time period in a credit and savings program.

Following an evaluation of a local community’s credit needs and health awareness standards, FOCCAS meets with local leaders, then the community at large and finally with interested women. Women who wish to participate organize themselves into “solidarity groups,” which consist of four to seven women who know each other well enough to guarantee the others’ loan payments. Solidarity groups are then organized into “credit associations.” FOCCAS anticipated 36 women per association, but given the high demand the average membership size is 42 women, and the largest 52. While the solidarity group guarantees the loans of its individual members, the credit association provides a second guarantee if the solidarity group fails to honor the loans.

PRIDE clients are recruited and meet at a PRIDE office located near the urban center. Pre-site selection research by PRIDE personnel confirms that there are at least 2,500 microentrepreneurs, both men and women, within 5 kilometers of each PRIDE office. PRIDE clients self-select to form Economic Groups (EGs) which are composed of five microentrepreneurs who guarantee each other's loans. Ten EGs form a Market Enterprise Committee (MEC) which provides the second guarantee for each loan. All MECs include 10 EGs. If a member drops out of an EG a replacement is sought to keep the EG membership at five and the MEC membership at fifty.

In both FINCA and FOCCAS the credit officer or field agent assigned to each client group travels to meet with the group at a location chosen for the group's convenience, providing access to those for whom distance might otherwise be an insurmountable obstacle. FOCCAS staff may travel up to 30 kilometers (the majority of the distance on unpaved roads) to meet with their clients. PRIDE clients meet at the PRIDE office for meetings.

Once the group's members are identified, all three programs conduct training for each individual credit group for up to eight weeks (FINCA and FOCCAS train for five, PRIDE for eight) at mandatory weekly meetings. All three teach elementary banking, bookkeeping and credit principles, and impart the rules that govern the program. FOCCAS also provides participatory education in microenterprise development and a weekly learning session on health, nutrition, and family planning based on learning modules. At the weekly meeting of the credit association the women are expected to repeat the lesson learned the previous week through participation in a skit, song or discussion.

In each program self-management is expected. Group officers (e.g., chair, secretary, treasurer) are selected by group members. In FOCCAS and PRIDE the solidarity group and EG also choose officers. In all three programs the members are expected to identify and qualify the individual businesses that will generate the cash flow necessary to repay the loan. Each group establishes its own bylaws and disciplinary rules, usually imposing fines or restricting future borrowing privileges for those who do not comply.

During each week of training all three MFIs collect from each potential borrower a mandatory refundable payment, identified as “savings” by FINCA and FOCCAS, but as “Loan Insurance Funds” (LIF) by PRIDE. Each FINCA and FOCCAS group establishes an account at a local bank. These savings are deposited in the bank account of the FINCA or FOCCAS *group*. The LIF is forwarded to PRIDE’s central office and is returned when the client leaves the program.

Clients of all three programs are required to repay the loan in flat weekly payments, beginning one week after the loan is received. At the time of the weekly banking meeting, all three programs require their clients to add a specified amount to their mandatory savings or LIF. FINCA and FOCCAS clients are encouraged to add voluntary savings to this payment. PRIDE clients are encouraged to save in their individual commercial bank accounts.

The initial loan size varies from $44 for FOCCAS clients to $132 for PRIDE clients. Depending on client location FINCA initial loan sizes vary from $44 to $88. Stated interest rates vary from PRIDE’s 30% flat annual rate to the 12% per 16 week loan cycle rate charged by the FOCCAS and FINCA programs. All three programs calculate the interest on the amount of the original loan, not on the declining balance. This method of interest rate calculation results in effective annual interest rates ranging from 66% to 77% per annum.

The repayment period for FINCA and FOCCAS loans is 16 weeks. In comparison, the period is 26 weeks for the first loan, building to a year for larger loans from PRIDE. FINCA and FOCCAS do not permit further loans to a group until the specified loan payback period expires and until the loans to all group members have been repaid. The maximum amount of subsequent loans is significantly higher under the PRIDE program (see Table 3).

FINCA. FINCA village banks receive a lump sum loan from FINCA, which they distribute among themselves consistent with the rules governing loan size (Table 3). Because no member can move to the next borrowing cycle until all members have repaid their respective loans, each woman’s ability to borrow and the timing of her loans are a function of the entire group’s conduct and creditworthiness.

A feature unique to FINCA among the three MFIs whose clients were surveyed is that the size of second and subsequent loans is a function of each individual's ability to save. Each repeat borrower is eligible to borrow an amount equal to her first loan plus the amount of her savings (mandatory and voluntary combined).

Weekly, the group's chosen officials conduct the village bank's business, logging loan payments and mandatory and voluntary savings in the "bank's" ledgers and in each woman's individual passbook. The remainder of the meeting's agenda is set by the group, usually focusing on disciplinary problems encountered (e.g., tardiness, absence, nonpayment). Members can be excused from the weekly meetings for personal or family illness or funeral attendance, but they are expected to send their weekly payment with another member. In its training, FINCA stresses the importance of voluntary savings, the investment of loan proceeds in each client's business, and the group's responsibility for all repayments.

FOCCAS. While all three MFIs in this survey train their credit groups in the banking skills necessary for credit association management. As with FINCA, the banking business of the group is conducted by the selected officers. During the weekly meeting each FOCCAS member deposits ten cents in savings and then publicly announces her voluntary savings for the week, while the group applauds. These savings payments and the weekly loan payments are logged in the association's ledger and in each member's individual passbook. In both FOCCAS and FINCA many of the women are neither literate nor numerate, and thus their understanding of the content and meaning of the columns in their books is minimal.

Similar to FINCA, the group's cumulative loan and savings payments are deposited in the group's account at a local bank. At the end of a 16 week cycle, both the principal and interest are returned to FOCCAS. After the first loan cycle, each member may increase the size of her loan by 50% more than the preceding loan, assuming that her savings are equal to 5% of the loan request, that the group's aggregate request is supported by cumulative savings of 5%, and that the group as a whole approves the new loan. Field agents are available to assist during the business portion of the weekly meetings, and they are also responsible for delivery of the health and business training.

PRIDE. PRIDE differs from the other two MFIs in several respects. While PRIDE groups review and confirm the viability of the businesses of their members, guarantee each member's loan, and participate in mandatory weekly group meetings for banking purposes, PRIDE otherwise fosters individual rather than group reliance. During the training period each client is required to open a bank account with a local commercial bank if they do not already have one. Members' loans are distributed directly into these accounts. Neither the EG nor the MEC maintains a bank account.

Distribution of loans within the EG is staggered; following the training period two members of each EG receive their first loans, four weeks later two more, and finally the chairperson receives his/her loan. The repayment period for the first loan of $132 is 25 weeks. After the initial loan is repaid, PRIDE has a progressive schedule for second and subsequent loans (e.g., $176 over 30 weeks; $308 over 40 weeks etc.). Any client may prepay a loan at any time and then secure a larger loan, assuming the group and ultimately the credit officer approves. Prepayment, however, includes all interest as originally calculated and all LIF payments. Thus, the only motive for prepayment is the acquisition of a larger loan.

Each PRIDE client deposits $1.32 weekly into the Loan Insurance Fund, both before receiving a loan and during the repayment period. This assures that, by the time of the second loan and thereafter, PRIDE will have at least 25% of the loan amount in LIF. The LIF is returned to the client when she/he leaves PRIDE. A 10% "bonus" is paid when the LIF is returned if the client has been with PRIDE for more than one year. PRIDE strongly encourages its members to build up savings in their individual commercial bank savings accounts, but does not require the reporting of these savings to PRIDE.

Weekly PRIDE meetings focus on banking activities. One officer from each EG conducts the EGs weekly transactions with the MEC officers. This procedure forces the EG to keep all members current. Delinquencies are not allowed at the MEC level.

Methodology

The sampling plan called for surveying clients of three microfinance programs and three comparison groups of non-clients. Further, the plan called for sampling in three different geographic areas of Uganda (Mbale, Masaka, and Kampala) in order to provide information from rural, urban and metropolitan areas. In Masaka, clients from two programs were surveyed as well as a comparison group, allowing for some cross-program comparisons.

The sampling methodologies varied by area and client status, however, in all cases a form of random sampling was undertaken. For clients, random samples were taken from the client records of the microfinance institutions. Time of the most recent loan was used as a sampling factor to achieve consistency in Mbale. In Masaka, as both lending programs were new to the area, a random sample of new clients was surveyed. In Kampala, the sampling frame was guided by selecting only clients from Kampala District and for whom group maps were available. Time of the most recent loan was also used as a sampling factor to achieve consistency in Kampala. In all client samples, a large group of alternates was selected in case initially selected clients could not be interviewed.

Two methods were used to help identify the non-client sample. In both Kampala and Masaka, a “random walking method” which utilized spatial matching with randomized components was used to draw the non-client sample. In rural Mbale, a Clustered Stratified Systematic Unaligned Random Sample of rural households was utilized. Three key factors were used to help ensure similarity between the non-clients and clients. First, as all clients in Mbale and Kampala are women, the non-client sample was also female. In Masaka, the aim was to have the same proportion of males in the client and non-client samples. Second, the respondents needed to own a microenterprise which generates a weekly or bi-weekly flow of revenue. Third, the enterprise had to be actually operating over the past two months. In addition, microentrepreneurs were excluded from the sample if they had received a loan from a formal organization for an income generating activity other than crop production.

Table 4
Location and Gender of Respondents

Location	Clients		Non-clients		Total	
	Female	**Male**	**Female**	**Male**	**Female**	**Male**
Masaka	314	45	196	45	510	90
Kampala	180	0	180	0	360	0
Mbale	191	0	181	0	372	0
Total	685	45	557	45	1,242	90

Findings

Demographics. The client and non-client respondents differ significantly in average age and highest level of education, but not in terms of marital status (Table 5). The average age of clients is 36 compared to 33 for non-clients. The average level of education for clients is one year of secondary school and for non-clients seven years of primary school. While most of the respondents are married, 34% of the clients and 40% of the non-clients are single (i.e. divorced, separated, never married, or widowed). Differences between the districts are statistically significant: Masaka has the highest rate of single respondents, while rural Mbale has the lowest rate of single respondents and the highest rate of those in a polygamous marriage.

On average, client households are significantly larger (6.57 members) than those of non-clients (5.48 members). Client households are also more likely than non-client households to have one member who is not regularly present. The average number of household members regularly present is 5.63 for clients compared with 5.02 for non-clients. The reasons for not being present on a regular basis include living with another partner (polygamous relationships), work demands, and schooling.

On average, the households of both groups of respondents contain one child under six years old and two persons who are economically active. Households are often composed of both nuclear and extended family members: 47% of the client and 37% of the non-client households contain grandchildren or relatives of the respondents or respondents's partner.

Table 5
Key Characteristics of Respondents and Their Households

Key Characteristics	Clients	Non-Clients	Level of Statistical Significance
Average Age	36 years	33 years	chi^2 @ <.001
Highest Education Level	1 year secondary school	7 years primary school	chi^2 @ <.001
Monogamous Relationship Polygamous Relationship Single/Divorce/Separated/Widowed	50% 17% 34%	46% 15% 40%	Not statistically significant
Average Household Size	6.57 persons	5.48 persons	t- test @ .001
Reside on-farm	46%	36%	chi^2 @ .0006

Source: Field Survey Data, 1997

Household Resources. Information on location of residence facilitates a better understanding of the data on living conditions, crop and livestock production, and sources of food consumed that are covered in later sections of this report. Clients differ significantly from non-clients in terms of residence: 46% of the clients compared with 36% of the non-clients reside on agricultural land. Major differences appear between districts: about 85% of Mbale respondents compared with less than 5% of the Kampala respondents live on agricultural land. The Masaka sample is more diverse: 45% of clients and 27% of non-clients reside on agricultural land.

Information on ownership of the household residence as well as rental units and houses owned elsewhere indicates the property asset base of respondents. A greater proportion of client than non-client households own or are purchasing the place where they live: 61% and 53% respectively. Respondents households are more likely to own dwellings in Masaka (59% of client and 43% of non-client households) and Mbale (92% of client and 88% of non-client households) than in Kampala. Ownership is primarily but not exclusively related to residing on agricultural land; the tenure on this agricultural land is normally based on household rights under the communal land system. Fewer than 15% of respondents own rental units or houses elsewhere.

Housing structure, amenities and number of rooms used by the household indicate living conditions. Clients and non-clients live in dwellings with similar features, when district is taken into account. The majority of respondents in Masaka and Kampala live in residences with iron sheet roofing and brick walls. Mbale respondents typically have residences with iron sheet roofing, but walls of mud and poles. Fewer than half of the Masaka respondents (44%) have electricity in their residences compared to 59% of the Kampala respondents. (The electricity question was not asked of the rural Mbale respondents because so few households in the pretest and pilot test had access to electricity.) The main source of water among clients and non-clients in Masaka and Mbale is a well or springs. The most common source of water for Kampala respondents is a public tap.

The average number of rooms used by respondent households is three. When taking into account the size of the household (6.57 for clients and 5.48 for non-clients), three rooms indicates a slightly higher number of people per room among the client households.

Table 6
Percentage of Respondents Owning Specific Consumer Durables

Ownership of Consumer Durables	Clients	Non-Client	Level of Statistical Significance
Mattresses	98%	98%	Not significant
Radios	83%	76%	chi^2 @ .002
Televisions	30%	21%	chi^2 @ .004
Refrigerators	14%	14%	Not significant
Bicycles	39%	28%	chi^2 @ .001

Source: Field Survey Data, 1997.

Ownership of consumer durables indicates the standard of living of households and may serve as a proxy indicator of relative wealth (Table 6). More than 90% of respondent households in all districts reported owning mattresses, an indicator used to determine the level of extreme poverty. Taking into account that more than one child may sleep on a mattress, the ratio of number of mattresses owned to household members over the age of 9 was calculated. Mbale clients and non-clients were the only respondents who recorded a ratio of less than 1 mattress per household member over 9 years of age: .56 for clients and .59 for non-clients.

A significantly higher proportion of client compared to non-client households own radios and television sets, but the same proportion own refrigerators (Table 6). Bicycles are the most common type of transport found among respondents. They are more frequently found among respondent households in Masaka and Mbale than in Kampala. Less than 2% of the respondents own a motorcycle, car, or truck.

These data suggest that the clients are not among the extremely poor and neither are they among the wealthier segment of society. Rather, they appear to be among a broad class of working poor. This is suggested by the low proportion of client households with piped water and electricity in their houses, and the low proportion of client households that own vehicles, refrigerators, televisions, and houses or rental units not contiguous with their residence.

The question of wealth or poverty level is directly linked to the question of whether the three programs reach the poor. Ideally this would be addressed by comparing data on clients not only to the non-client respondents but also to household level data from the three districts or a national sample. The results of the Uganda National Household Survey 1996/97, when available from the Ministry of Planning and Economic Development, should permit comparisons on a set of indicators on ownership of assets such as land, livestock, transport and housing, and on living conditions.

The average household size of both respondent groups is much larger than that reported in the 1991 Population and Housing Census, which may be a result of different interpretations of the term "household" or differences in sampling techniques. Also, a higher proportion of the respondent households are female-headed than the proportion reported in the census for the same districts. This probably reflects the baseline sample population being restricted to women in Mbale and Kampala and the tendency of female-headed households to engage in microenterprise activities.

Income Generating Activities. On average slightly more clients (54%) than non-clients (48%) report household income from wages, rental income, and remittances. Overall, 69% of respondents have enterprises related to the marketing and production chain of natural resource or agriculture-based products (Table 7). Clients are more likely than non-clients to have received income from these activities. Given their rural characteristics, Mbale respondents are more likely to be involved in these types of activities than either Masaka or Kampala respondents. There are statistically significant differences clients and non-clients and between districts, for the variable "natural resource or agriculture-based business activity." The active participation by Kampala and Masaka respondents in these activities is explained by their involvement in the buying and selling of agriculture commodities and the peri-urban residence of some of these respondents.

Table 7
Number and Percentage of Clients and Non-Clients with Natural Resource or Agriculture-Based Business Activities by District

District	Clients	Non-Clients	Total
Masaka	238 (66%)	115 (48%)	353 (59%)
Kampala	130 (72%)	102 (57%)	232 (64%)
Mbale	167 (87%)	161 (89%)	328 (88%)
Total	535 (73%)	378 (63%)	913 (69%)

Source: Field Survey Data, 1997.

There are some variations among the districts concerning sources of income which reflect their urban or rural characteristics. Kampala respondent households (60%) are more likely to have income from wages, rental income, and remittances than Masaka (49%) or Mbale (47%) households. The reverse pattern is true for households with cash income from crops and livestock; Mbale respondent households (82%) are more likely to have income from crops and livestock than Masaka (44%) or Kampala (19%) households.

Multiple income-generating activities are frequently undertaken by those Ugandans who find it increasingly difficult to meet their subsistence requirements. Both client and non-client households tend to receive income from more than two sources. Nevertheless, the respondent's microenterprise is the top contributor to household cash income for over three-fourths of the respondents. Given that 93% of the respondents are women, this underscores the importance of women's economic activities to the household economy.

Enterprises. Approximately three-fourths of the client and non-client respondents rank their enterprise as the number one source of contributions to household cash income (Table 8). Enterprises based on the sales of agricultural products (including fruits, vegetables, and legumes) represent the most frequent type of enterprise reported by respondents (47% of clients and 30% of non-clients). A shop or kiosk is the second most frequent enterprise for both clients and non-clients (26%). In all three districts these types of enterprises are the two most frequently reported.

Table 8
Number and Percentage of Respondents Who Rank their Enterprise as Top Contributor to Household Cash Income

Location	Clients		Non-Clients		Total	
Masaka	285	(79%)	193	(80%)	478	(80%)
Kampala	135	(75%)	132	(73%)	267	(74%)
Mbale	136	(71%)	134	(74%)	270	(73%)
Total	556	(76%)	459	(76%)	1015	(76%)

Source: Field Survey Data, 1997.

The average age of respondents enterprises (5 years) is approximately the same for clients and non-clients. A smaller percentage of clients (17%) than non-clients (24%) have enterprises less than 1 year old.

Enterprise location can influence the effective demand and hence revenue of the enterprise. Enterprises are located in a variety of areas which include: same location as residence, formal market center, town or city center, and mobile (or no fixed site). The most common site is the same location as the respondent's residence; this includes living in rooms adjacent to a shop. Residential-based enterprises were more frequent among Mbale respondents (58%) than Masaka (35%) or Kampala (46%) respondents. Less than 40% of primary enterprises of respondents are located in other places: formal market center (16%), town or city center (13%), and mobile (7%). Statistically significant differences exist among districts for the location of enterprise variable.

Employment. Both client and non-client households average two household members who are employed. Given an average household size of six members, this means approximately one-third of total household members are employed. Client households (32%) are more likely than non-client households (22%) to have at least one household member in wage or salaried employment. Kampala (37%) and Masaka (32%) households are more likely to have members earning a wage or salary than Mbale (12%) households. There are statistically significance differences between the districts in the incidence of wage or salaried employment.

Employment within the enterprise was assessed to determine if these activities absorb unpaid household labor or generate paid jobs. The average number of workers employed by clients is .87 compared with .54 for non-clients (i.e., less than one worker on average). Slightly more than half of these workers are family members who tend to work less than full-time and are not paid for their services. Piece-rate workers were hired by about one-fifth of both clients and non-clients during the week prior to the survey. A 1995 study on micro- and small-scale enterprises reported that these enterprises employed about three people per enterprise (Impact Associates, 1995). The smaller number of workers hired by respondents in this microfinance baseline survey reflects the smaller scale of these enterprises and the predominance of trading activities among the respondents. While the findings show little absorption of additional labor, both client and non-client respondents are fully engaged in their enterprise. The average enterprise owner works 8 hours a day, 5-6 days a week, and 25-26 days a month.

Payment of agricultural labor is the largest agricultural input expenditure by respondent households. Agricultural labor is hired most often for planting and harvesting activities. Of the client and non-client respondents who purchase agricultural inputs, clients (77%) were more likely to hire agricultural labor than non-clients (70%). Differences between clients and non-clients are most accentuated in Kampala, where 85% of clients and 61% of non-clients hire agricultural labor. Whether or not a respondent's residence is located on agricultural land appeared to have little effect on their decision to hire or not hire agriculture labor.

Uses of Income. The income of a household is used to provide for its basic needs, to maintain or expand its income-generating activities, and to increase its asset base to improve living standards, and/or to maintain its social network. Information was gathered to determine the spending patterns of clients and non-clients. Data on uses of revenue generated by the respondents' enterprises the month prior to the survey serve as a proxy indicator of the main, recurrent uses of the monies, while extraordinary purchases are captured in data on the source of funds for purchase of enterprise fixed assets and consumer durables.

Information was also obtained on the amount and source of funds spent on education of household members, as education can be considered both as a basic need and as an investment in human capital. The source of food consumed within the household the three days prior to the survey was ascertained in order to determine expenditure patterns of food, another basic need. The ability of households to cope with unanticipated financial events was assessed to determine if existing income and savings permitted the households to meet these extraordinary expenditures. Finally, data on the monetary value of cash and in-kind remittances to rural areas in the three months prior to the survey indicate the pattern and levels of assistance to non-household members.

A significantly larger proportion of clients than non-clients purchased enterprise-related fixed assets in the 12 months prior to the survey. The average total cost of all enterprise fixed assets purchased by clients was $100 compared with $87 for non-clients.

Differences are evident between districts and programs as well as client and- non-client groups. Within Masaka, clients in the PRIDE program averaged $159 on enterprise fixed asset expenditures, while FINCA program clients averaged $72, and non-clients averaged $67. In Kampala and Mbale, non-clients spent more on enterprise fixed assets ($192 and $25 respectively) than either FINCA clients in Kampala ($128) or FOCCAS clients in Mbale ($20). Respondents in Mbale spent considerably less than respondents in the other two districts, although Mbale respondents were more likely than those from the other districts to buy fixed assets.

Respondents' purchases were usually made with funds generated by the microenterprise. A loan from PRIDE, FINCA, OR FOCCAS was used by fewer than 10% of the clients to make these purchases, and there was no discernable difference between first time and repeat borrowers. The business assets purchased by clients included furniture and fittings, refrigerators, tools, cooking and eating utensils, and sewing machines.

Respondents who grow crops expend monies on agricultural inputs, such as seeds, fertilizer, and agricultural labor. In the three months prior to the survey, among those with access to cultivable land, a larger percentage of clients (65%) than non-clients (57%) spent money on agricultural inputs. Among these respondents, the average amount spent by clients was higher than the average amount spent by non-clients: $45 compared with $32 respectively.

Respondents also reported on how the majority of their sales revenue was spent during the previous calendar month. Not surprisingly, nearly all respondents (over 90%) identified their enterprises as the number one area of expenditure. The second most frequent area of expenditure was food for household members (48% of clients and 66% of non-clients). Debt payment was the third expenditure area most often mentioned by clients (45%), while health and medical expenditures were the third area listed by non-clients (32%). Interestingly, both clients and non-clients listed education of household members as their fourth largest expenditure area (24% of clients and 20% of non-clients).

Information on the source of funds for school expenditures last term reinforces the above information on use of sales revenue last month. Fifty-nine percent of the clients and 65% of the non-clients cited enterprises as the main source of funds for expenditures on education last term. Crop and livestock sales was the second most important source of school funds in Mbale among both clients and non-clients households. In contrast, salary or wages was the second source of funds for Kampala and Masaka respondent households. The enterprise earnings used to pay school expenses were mainly from businesses owned by respondents (67% of the clients and 61% of non-clients), indicating that women have the primary financial responsibility for educating their children.

Client and non-client households are similar in terms of the percentage of girls and boys aged 6-16 in their households who are enrolled in school: 91% and 90% respectively. Similarity also exists when the age range of 5-24 is considered. For each child enrolled in school, respondents were asked to estimate the amount paid to send that child to school last term. The average total expenditure of the household on education last term was $137 for client households compared with $99 by non-client households. When analyzed by the average household educational expenditure per household member attending school, the difference between the two groups is less: $34 for client households and $27 for non-client households.

Respondents reported on how frequently in the three days prior to the interview certain categories of food were consumed by the household. The results reveal similar dietary consumption patterns in client and non-client households: on average respondent households ate maize/matoke/rice three times in the previous three days; greens and other vegetables twice in the previous three days; and legumes twice in the previous three days. Meat/chicken/fish were eaten on average once in the previous three days, and milk was consumed 1.5 times during this same period.

Most of the respondent households in Masaka and Kampala purchased the items they consumed, with the exception of greens which were usually obtained from household production. In comparison, among Mbale respondents only meat and milk were purchased by a majority of the households. Expenditure of cash income on certain categories of food is mainly, but not completely, explained by the location of the household residence; those residing on agricultural land are more likely than others to consume food produced by the household.

Respondents specified the consumer durables they solely or jointly purchased in the 12 months prior to the survey. Approximately two-thirds of the clients and 57% of the non-clients purchase household assets, and the majority of respondents reported using their savings or earnings to purchase household assets. Household utensils (e.g., pots and pans, dishes, cutlery) and furniture were the items purchased most frequently by respondents.

Overall, clients spent $95 compared with $72 for non-clients, but there are discernible differences both within and between districts and microfinance programs in terms of spending on household assets. The findings in Masaka and Mbale reveal that clients generally spent more on household assets than non-clients. In Masaka, clients of PRIDE averaged $145 on households asset expenditures, while FINCA clients averaged $88 and non-clients on average spent $74. In Mbale, FOCCAS clients spent more ($52) than non-clients ($41). In Kampala, FINCA clients and non-clients on average spent the same amount ($98).

Nearly two-thirds of all respondents (65%) had unanticipated events in their household during the last 24 months that had financial repercussions. On average respondents reported 1.6 such events. Nearly half of the respondents reported a serious illness or medical expenses for a household member (47% of clients and 49% of non-clients). The death or funeral of a household member was the second most reported unanticipated event (13% of clients and 16% of non-clients). The data suggest that the incidence of serious illness and death was similar between clients and non-clients. Although the survey did not specifically ask about the nature of these illnesses and deaths, AIDS is likely to be a reason for a number of these cases.

Most respondents were able to cope with unanticipated events without having to sell income-generating assets. The majority of respondents (70% of clients and 76% of non-clients) used current earnings or existing income to finance these additional expenses. Transfers, remittances, and gifts were used by 23% of the respondents. About 15% reported selling crops, livestock, or, as a last resort, land.

Slightly more than one-half of the respondents used cash and in-kind income to assist non-household members in rural areas during the three months prior to the survey. The percentage of client and non-client households providing this assistance is similar, but differences appear between districts. In Mbale, respondents were more likely to give in-kind (food, clothing etc.) rather than cash assistance, whereas in Masaka and Kampala the reverse was true. This difference in type of remittance may be due to the generally lower economic level (and thus there relatively lower access to cash) of respondent households in Mbale.

Overall there is little variation in the average amount of the cash and in-kind contributions between clients and non-clients: $43 and $40 respectively. Masaka, gender differences appear. Female clients and non-clients in Masaka provided on average higher levels of assistance ($52 and $45 respectively) than either male clients ($42) or male non-clients ($40). Remittance patterns illustrate the role of women as caregivers, a role which frequently extends to other households.

Total expenditures on education, business and household assets, remittances to rural households, and agricultural inputs serve as a *proxy indicator* of the relative poverty or wealth level of client and non-client households (Table 9). Different reference periods were used based on the ease of recall so as to strengthen the reliability of the information. The education data refer to last term and remittances data for the previous three months; both refer to household-level expenditures. The data on assets capture expenditures made solely or jointly by the respondent in the past 12 months, while the agricultural input data refer to respondents' expenditures over the last three months.

Table 9
Average Total Household Expenditures on Education, Enterprise and Household Assets, Remittances, and Agricultural Inputs*

District	Client	Non-Client	Total
Masaka	$375	$196	$314
Kampala	$392	$304	$348
Mbale	$164	$134	$150
Total	$323	$211	$275

Source: Field Survey Data, 1997.

*Data are not annualized. A three-month reference period is used for education, remittances and agricultural inputs, while a twelve-month reference period is used for enterprise and household assets.

Statistically significant differences appear between client and non-client households. Client households on average spent 35% more than the comparison group, when analyzed on a per capita basis this difference is 22%. Statistically significant differences were also found based upon geographic location. The lowest levels were found in Mbale and the highest in Kampala.

A larger proportion of clients compared with non-clients spent money on enterprise fixed assets and agricultural inputs, although the pattern of spending on enterprise assets was not consistent and only a small proportion of the respondents purchased agricultural inputs. When these average total expenditures are analyzed, the client sample had higher averages both on a household basis and a per capita basis. Thus, the data imply that client households on average have a higher level of income than do non-client households. Care should be taken with this interpretation, however, as the higher client averages are partly attributable to a small number of high end spenders, and the receipt of loan funds during the previous three-month period may have inflated expenditures levels.

Within Masaka differences related to program participation were found among clients. On average PRIDE clients spent more on household and business fixed assets than FINCA clients. These differences are a result of a small number of PRIDE clients spending large amounts, which in turn increased the average for their group. These large spenders are probably indicative of the differences in lending approaches between PRIDE and FINCA: since PRIDE provides larger initial and subsequent loan sizes, a graduated loan repayment period, and encourages individual initiatives, its lending approach is more likely to attract microentrepreneurs from households with higher levels of income.

The data reveal differences based on district location. Rural Mbale respondents tended to spend less than those living in Masaka and Kampala. The lower expenditure levels of education, agricultural inputs, and household and business assets all indicate lower income levels among Mbale respondents irrespective of client or non-client status. These lower income levels, in turn, are likely to be related to a lack of economic opportunities and lower effective demand for goods and services. This relates to the finding by the World Bank (1996) that rural households are poorer than urban households on average, even when rural expenditures are deflated by rural prices.

Financial Services. The lack of financial services for microenterprises and small businesses is frequently cited as one of the missing pieces in the development puzzle. The provision of financial services by these three microfinance programs addresses this critical issue.

Loans. In this sample, the average amount of client loans ranged from $83 for FOCCAS clients in Mbale to $131 for FINCA clients in Kampala. In Masaka, where both PRIDE and FINCA female clients were interviewed, the average FINCA loan was $88. The average PRIDE female client loan was $127 compared with $147 for male clients. The average amount of money borrowed by respondents from household members, extended family, friends, or others for their income-generating activities was minimal (an average of less than $1 for clients and $5 for non-clients).

Client respondents had all received at least one loan from either PRIDE, FINCA or FOCCAS. Among the client respondents, 60% were first-time borrowers. Among the repeat borrowers 63% were in their second loan cycle, 28% in their third loan cycle and 8% in their fourth. Masaka district PRIDE and FINCA clients were all in their first loan cycle with the exception of a few PRIDE clients who had repaid early to borrow a larger amount. Kampala FINCA clients and Mbale FOCCAS clients were in varied loan cycles.

Almost all clients in the three loan programs reported that their most recent loan was spent on an enterprise solely or jointly owned by them. Most clients reported that the expenditures made with their recent loans would not have occurred if they had not received the program loan. Respondents appear to be using loan funds in their enterprises primarily as a source of working capital. Increases in working capital permit entrepreneurs to diversify their stock or to purchase in larger quantities. It is important to note that most clients reported they would not have made the expenditures on their enterprises without the loan funds.

This finding also is important as it shows that women clients are not being used as conduits of funds for male household members. Only five clients reported they had spent their latest loan on an enterprise not owned by them. Related to the issue of control of loan funds, the vast majority of the clients made the decisions regarding the use of loan funds (88% in Masaka, 91% in Kampala, 69% in Mbale), and are responsible for obtaining the necessary funds to repay the loan (95% Masaka, 92% Kampala, 73% Mbale). The relationship of financial discipline to women's empowerment is discussed below, in the "Empowerment" section.

The second most frequent category of loan expenditure is savings, a common finding among microfinance clients in other countries as well. In order to be assured of funds for loan repayment and mandatory savings during the initial weeks, clients are apt to set aside part of the loan funds to meet these requirements.

The most frequent type of enterprise on which loan money is spent was a shop or kiosk by Masaka clients (29%) and Kampala clients (23%). For Mbale clients the most frequent type of enterprise (23%) was the buying and selling of agricultural products. The second most frequent type of enterprise on which loan money was expended was the buying and selling of agricultural products for Kampala and Masaka respondents, and the selling of drinks for Mbale respondents. The client's enterprise is the main source of funds used for loan repayment by the majority of clients (80%).

Savings. Due to the lending requirements of the microfinance programs, virtually all clients have mandatory savings. Voluntary savings are held by 49% of Masaka clients, 82% of Kampala clients, and 66% of Mbale clients.The average aggregrated amount saved in mandatory and voluntary savings programs across all three districts was less than $60.

A higher proportion of clients than non-clients have individual bank savings accounts. Since PRIDE program clients are required to have an established bank account prior to receiving their first loan, this contributed to the higher percentage of clients (67%) than non-clients (24%) in Masaka with individual bank accounts. Over 92% of PRIDE program clients in Masaka have individual bank savings accounts compared to 43% of FINCA program clients in Masaka. There is a substantial difference between clients and non-clients (32% versus 18%) in Kampala, which is not explained by program requirements. The lack of access to banks in rural areas explains the low number of Mbale respondents with bank savings accounts.

Only 13% of clients use a form of savings other than mandatory, voluntary, or individual bank savings accounts compared to 36% of non-clients. Savings patterns used by clients and non-clients included rotating savings and credit associations and money kept with others. Often the amount of "other" savings radically changed from week to week and even daily, indicating that this "savings" was probably cash-on-hand rather than long-term savings.

Other Finance Issues. The term "graduation" in microfinance programs is typically used to describe a client who no longer borrows from these programs but is eligible to borrow from a commercial bank. An interesting variation to the term "graduation" is occurring between the FINCA and PRIDE microfinance programs for some of the clients. Some FINCA clients had received and repaid their FINCA loans, and then decided to leave the FINCA program and become PRIDE clients. Although PRIDE participation requirements are more difficult (e.g., clients have to have an established bank account), the larger size of PRIDE loans is the major factor that attracts the FINCA clients. Thus, these FINCA clients can be considered as "graduating" to the PRIDE program.

Transaction costs for microfinance program participants are high, some of which are related to instilling financial discipline. These costs include effective loan interest rates over 50%, mandatory savings accounts, and compulsory attendance at weekly group meetings. The small loan amounts and the frequency of repayment limit most borrowers to buying and selling activities which require little initial investment and promise a rapid turnover of goods to meet the weekly repayment schedule. There is no incentive within the lending programs for a client to repay early; in fact the client pays a penalty since interest is assessed based on a pre-established loan period.

Empowerment. Attention has been given to the potential of participation in a microfinance program to empower clients. The elements of empowerment identified for this assessment are: control of decisions about the use of loan funds and monies generated by income-generating activities; client perspectives of positive consequences in the household; ownership of consumer durables purchased; financial discipline; leadership and acquisition of information; improved health and nutrition practices; and female children enrolled in school.

It is important to recall that overall, 6% of the client sample and 7% of the non-client sample are men. FINCA and FOCCAS serve women and hence both the client and non-client samples in Kampala and Mbale are composed solely of women. In Masaka where the PRIDE program serves both men and women, men comprise 13% of the client sample and 19% of the non-client sample. The vast majority of clients (83%) were the sole decision-makers concerning the use of recent loan funds. This pattern occurs among both the male and female clients in Masaka. When marital status is taken into account, about 75% of the respondents in a monogamous marriage were the sole decision-maker, compared with 84% of those in a polygamous marriage and 96% of the single clients. The remaining clients made the decision either after consulting with a household member or jointly with a household member.

Differences are discernible by district, with less individual decision-making in rural Mbale. Decisions on use of loan funds were made solely by 88% of the clients in Masaka, 91% in Kampala, and 69% in Mbale. Almost a third of the Mbale clients either consulted with a household member (15%) or were involved jointly with a household member in making the decision (15%).

The loci of decisions regarding the use of sales revenue from their businesses was similar among clients and non-clients, with 79% and 77% respectively being the sole decision-maker. Although marital status influenced whether or not the microentrepreneur was sole decision-maker, two-thirds of the respondents in a monogamous marriage reported being the sole decision-maker.

Respondents were asked about the positive consequences upon household relations from having their own business during the previous 24 months (Table 10). The responses center on behavior associated with economic empowerment and self-confidence. Approximately a third of both the clients and non-clients mentioned that having a business enabled them to meet basic family needs and to take care of themselves. More clients than non-clients mentioned the education of children and the acquisition of assets as positive consequences.

Table 10
Positive Consequences upon Household Relations the Last 24 Months From Having an Enterprise*

District	Client		Non-Client		Total	
Able to Meet Basic Family Needs	253	(35%)	207	(34%)	460	(35%)
Can Educate Children	185	(25%)	97	(16%)	282	(21%)
Has Acquired Assets	145	(20%)	93	(15%)	238	(18%)
Can Take Care of Myself	266	(37%)	220	(37%)	486	(37%)

Source: Field Survey Data, 1997.

*Multiple responses were possible; percent represents percentage mentioning that consequence.

The responses of female and male respondents in Masaka are similar; 21% and 24%, respectively, indicated that the ability to meet basic family needs is a positive consequence of their ownership of an enterprise; and 24% of the women and 20% of the men mentioned the ability to take care of themselves.

Respondents use the earnings from their income-generating activities to acquire consumer durables, such as kitchen utensils and furniture. The survey sought to determine if expenditure of own funds equated with ownership of items purchased. Ownership was defined as being able to take or retain assets if the household broke up. Most of the clients (84%) and non-clients (78%) reported owning the items they alone purchased. District differences were discernable, with the lowest levels occurring in Mbale. When assets were jointly purchased, these were normally reported as jointly owned.

Participation in the credit and savings programs of FINCA, PRIDE, and FOCCAS helps to instill financial discipline. Clients are required to abide by a weekly loan repayment schedule and make mandatory savings contributions on a weekly basis. This system requires that clients have financial discipline to manage their cashflow.

To better understand this discipline, clients were asked about the source of funds for meeting their weekly loan repayments. Overwhelmingly the funds came solely from the clients (89%). However, the proportion was lower in Mbale (73%) than in other districts, and mirrors the decision-making pattern on use of loan funds. When the client is not the sole source of funds for loan repayments, she is usually or occasionally assisted by household members.

The results of two focus group discussions among FINCA clients in Kampala underscore the importance clients attach to financial discipline. When asked the reasons for joining the FINCA program, learning how to plan and save money was identified as the *primary* reason by participants in one focus group, and the third most important reason by those in the second group.

All three of the lending programs disburse credit to women who are members of a group. Women mentioned during the interview process that the groups are an opportunity for them to come together to talk about various socio-economic issues such as new health or nutrition methods and business decision-making practices. Learning and sharing information about business practices was a major reason cited by focus group participants for being in a credit group. It was ranked as the second most important reason by one FINCA focus group, while the other group ranked it third.

Clients in the FOCCAS microfinance program in Mbale receive instruction in child feeding practices, disease prevention (including AIDS, diarrhea, and malaria), and family planning practices. The baseline survey clearly suggests the impact of FOCCAS on clients as a source of information on improved practices, clients' trying new practices, and clients informing others about such practices.

Of those who had learned about improved health and nutrition practices, 181 clients (95%) compared to 128 non-clients (72%) had tried a practice related to improved health or nutrition of their children. When clients were asked where they had learned about these new practices, all of them reported FOCCAS as a source, sometimes in addition to other sources. The majority of non-clients learned about new health practices from the health centers, a community health worker, or the radio.

The most frequently mentioned health and nutrition practices tried by clients and non-clients were diarrhea prevention, immunizations, and child feeding practices. However, a greater proportion of clients than non-clients mentioned trying each of these. Differences are also noticeable in terms of AIDS prevention. A similar proportion of clients and non-clients reported trying new health practices associated with immunization and malaria prevention.

The FOCCAS microfinance program provides informal leadership opportunities for women as they discuss new health or nutrition practices learned at FOCCAS group meetings. Women clients in the FOCCAS program are more likely than non-clients (88% of clients and 76% of non-clients) to have advised a friend or household member in the last 12 months about improved health or nutrition practices. This statistically significant finding suggests a positive impact of the FOCCAS program.

Other leadership opportunties are available in all the lending programs as each credit group selects officers who are responsible for ensuring the full participation of group members. Women within each credit group are elected to offices such as treasurer, secretary, or chair. Women members also have the opportunity to decide the agenda topics at group meetings depending on the interests and concerns of the membership that day.

For client and non-client respondents in all three districts at least 85% of girls aged 6-16 in the household were enrolled in school. School attendance among male and female children is a good indicator of the relative status of females within a household. In client households in all three districts, a slightly higher percentage of girls than boys aged 6-16 were not enrolled in school. In client households in Masaka, 9% of girls and 8% of boys were not enrolled. Similarly in Mbale client households, 10% of girls and 9% ofboys were not enrolled. In Kampala client households, 13% of girls and 8% of boys were not enrolled. The higher percentage of girls not enrolled in school in Kampala is probably attributable to pregnancies as well as income-earning opportunities (e.g., childcare and housekeeping chores) available for young girls.

Participation in a microfinance program appears to be motivated not solely by receipt of credit. The profile which emerges indicates that participation in a microfinance program is linked to greater empowerment through learning and practicing financial discipline, information sharing, and acquiring and practicing leadership skills. In addition, the findings indicate that the FOCCAS program positively affects learning and trying new health and nutrition practices, vital steps in the process to sustainable adoption of improved practices.

Conclusions

- **Microfinance programs reach low-income households in both rural and urban areas.**

The baseline data suggest that the microfinance program clients are not among the hard core poor. Rather, they are part of a broad class of working poor. On average the households of client respondents have 6.6 members, of whom two are economically active. The data on food consumed the three days prior to the survey indicate that meat/fish/chicken are normally consumed only twice a week, and milk less than once a week (even though most households contain one member under the age of six). One-third of the client respondents reported no purchase (sole or joint) of household assets during the twelve months prior to the survey. At the same time, a high proportion of clients own (or are purchasing) their current residence, own radios, and own or control cultivatable land. The percentage of girls and boys aged 6-16 in their households who are enrolled in school is high, as is the ratio of mattresses to persons nine years and older. Most client households were able to cope with unanticipated financial crises without selling income-generating assets.

It is clear from the data that the microfinance program clients are *not* among the wealthier segment of society. This is evident in the low proportion of client households owning vehicles, refrigerators, and houses and rental units not contiguous with the household dwelling, and the low percentage of client households with piped water and electricity.

The baseline data suggest that geographic location influences the level of poverty. Overall, rural Mbale respondents exhibit lower levels of living standards, expenditures, and different patterns of saving than the more urban respondents in Masaka and Kampala.

- **Savings, enterprise earnings, and loan funds are used to expand the wealth base of households and enterprises**.

Almost all clients report using the loan funds on their enterprise, usually as operating capital to expand or diversify their businesses. They indicate that they would not have made these expenditures without the loan from their respective microfinance program. Clients also purchased household assets (e.g., utensils, furniture) and fixed business assets with savings and enterprise earnings. For some clients it appears that access to loan funds allow savings to be used to accumulate household assets.

The most frequent type of enterprise activity for Kampala and Masaka clients is a shop or kiosk. Buying and selling of agricultural produce is the second most frequent type of business activity. In Mbale trade in agricultural produce is the most frequent activity, and shop or kiosk is second.

- **Microenterprises are the main source of household cash income.**

Approximately three-fourths of the respondents rank their enterprise as the number one source of household cash income. Enterprise earnings are the main source of funds for education expenses and for the purchase of business and household assets.

- **Microfinance programs enable female entrepreneurs to develop financial management, decision-making, and leadership skills.**

Female microfinance program clients make decisions on the allocation of their loan funds, loan repayments, an savings requirements. Their loan funds are spent on their own business activity. The formation of credit groups within each microfinance program provides clients with an opportunity to participate in formal leadership positions within the group (e.g. treasurer, chair). In addition, clients are expected to acquire financial discipline skills that enable them to repay loans on time and meet weekly mandatory savings requirements.

- **Provision of health or nutrition information by the FOCCAS microfinance program results in clients trying new practices and informing others about such practices.**

FOCCAS program personnel facilitate the presentation of information on new health or nutrition practices such as AIDS prevention and breastfeeding techniques to female clients participating in their microfinance program. This information enables these female entrepreneurs to become better informed on new practices, and in turn to try these and to disseminate this information to friends and other household members. Women FOCCAS clients are significantly more likely than non-clients to have tried a new health or nutrition practice and to have advised a friend or household member about the improved practices, a positive impact of the FOCCAS program.

- **Clients tend to be significantly different from non-clients in several ways.**

Data on key characteristics of clients, indicators of poverty, and other factors indicate that the clients tend to be significantly different from the non-client respondent group. This implies a self-selection bias: certain people are more likely than others to become clients of the three microfinance programs. The selectivity bias is likely to be the result of two interrelated factors. First, persons with certain individual and household characteristics are more likely than others to be motivated to participate in the microfinance programs. Second, since the programs operate by individuals having to agree on who is part of their credit group, the groups are likely to select individuals whom they feel are most likely to be diligent in meeting their loan repayments.

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Biographical Sketches

Carolyn Barnes is a senior social scientist with Management Systems International. She lived in Kenya for more than 15 years, and has worked extensively in East and Southern Africa. Her recent publications include two other AIMS papers.

Gary Gaile is Professor and Chair of the Department of Geography at the University of Colorado, Boulder. He has been working in Africa actively for 25 years, mostly in Kenya, Zimbawe, Ethiopia and South Africa. He has almost 100 publications to his credit, including five books. He loves field work, knows methodology and is a pragmatist.

Gayle Morris is an agricultural economist who has done extensive work in East and West Africa on project evaluation of microfinance delievery systems and non-traditional export programs. She is an adjunct professor in the Department of Business and economics at Edinboro University in Pennsylvania.