LINKAGES BETWEEN ACCESS TO MICROFINANCE SERVICES AND THE AGRICULTURAL SECTOR

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Linkages and Their Significance

Microfinance programs have proven effective in enabling the poor to gain access to financial services. Clients of these programs may have significant links to the agricultural sector, especially in Africa. A greater understanding of these connections can begin to answer certain key questions, among them:

- To what extent do current microfinance programs reach agricultural households?
- How do the agricultural sector ties of clients differ from non-client microentrepreneurs?
- What impact does participation in a microfinance program have upon the agricultural sector linkages of clients?

This information can assist USAID in two fundamental ways: to formulate strategies to achieve program objectives in the areas of household food security, and agricultural production and marketing, and to document the results of its microfinance programs.

Uganda Assessment [1]

An assessment of the impact of microfinance programs being undertaken in Uganda includes attention on linkages with the agricultural sector. Clients are compared across three microfinance programs located in three different areas: FINCA in Kampala and Masaka, PRIDE in Masaka, and FOCCAS in rural Mbale. All use group lending and require weekly repayments. Loans are for 4-6 months with interest rates of 30% - 36% annually.[2] All require mandatory savings and encourage voluntary savings. In addition, FOCCAS includes a health education component. Eligibility for a loan depends on a microenterprise that generates a regular weekly or daily cash flow. FINCA and FOCCAS' clients are women, while PRIDE reaches both men and women.

The study design is based on two rounds of data collected from both clients and non-clients. The client sample received loans between August and October 1997. The non-client sample was selected based on ownership of a microenterprise with a regular cash flow, gender, and geographic location. The sample included 730 clients and 602 non-clients: 94% and 93% respectively are women.

Preliminary Findings from Uganda [3]

The preliminary findings below are drawn from the assessment's baseline survey. The data reveal important linkages to the agricultural sector for both the urban-based clients of FINCA and PRIDE as well as the FOCCAS clients in rural Mbale.

Approximately 45% of the Masaka and 5% of the Kampala clients reside on agricultural land, compared with 86% of the Mbale clients. Those not living on agricultural land, however, often have cultivatible land. A higher proportion of client than non-client households have cultivatable land: among the client households, the percentage ranges from 100% in Mbale to approximately 60% in Kampala. Additional information on those households with cultivatable land reveals the following.

- Estimates of the size of total cultivatable land controlled and used by their households averaged 6.2 acres for clients and 3.7 acres for non-clients.
- Almost all of the respondents grow food crops.
- In the three months prior to the survey in November - early December 1997, more than

[1] The assessment, funded by USAID/Uganda, was carried out by the AIMS Project, a USAID WID Fellow, and the Makerere Institute of Social Research.

[2] These are not the effective annual rates.

[3] The forthcoming report on the baseline findings will be available on the AIMS website (http://www.mip.org) and through the USAID Development Information Services Clearinghouse (DISC). Email aims@msi-inc.com or fax (202-488-0754) to learn when it is available and how it may be ordered from the DISC.

half of the clients and non-clients had spent money on agricultural inputs, primarily labor and seeds. Expenditures averaged \$51 for clients compared with \$36 for the non-clients.

There was little difference by district and between clients and non-clients in how frequently certain groups of food were consumed in the household in the three days prior to the interview. Among Mbale respondents the food was primarily derived from domestic production, with the exception of meat and milk. In comparison, over 50% of the Masaka respondents had purchased all of the items consumed, with the exception of greens and vegetables, and over 85% of the Kampala respondents has purchased all of the food consumed in the household.

Another type of expenditure centers on cash and in-kind contributions to persons living in rural areas: 58% of the client and 52 % of the non-client households had made such transfers during the previous three months. Estimated average values of cash and in-kind contributions varied little between the two sample populations: \$43 for clients and \$40 for non-clients.

The use of loan funds suggests an important link between access to microfinance services and the marketing chain of agricultural and natural resource based products. Almost all clients report having used loan funds for their business activities. Approximately half of these responses reveal investments directly tied to the agricultural and natural resource sectors. These activities benefiting from the investments include trade in fruits, vegetables and other crops, and sale of livestock, milk, eggs, and cooked food (e.g. fried or baked products, and restaurants), as well as natural resource based activities such as sale of firewood, charcoal, and fish, and carpentry and brick-making services.[4] In the absence of these loan funds, 75 percent of the clients report that they would not have made the investments. Very few clients as well as non-clients reported borrowing funds from informal sources for their microenterprises and other income-generating activities.

Conclusions

The data reveal that the microfinance programs reach households with close ties to the agricultural sector. The connections tend to be more central to FOCCAS' rural clientele. Loan funds are often invested in business activities related to the agricultural and natural resource sectors. The impact of microfinance programs upon clients' linkages with the agricultural sector will be assessed by comparing the baseline data with the findings from a follow-up survey.

Future Directions

The Uganda study illustrates an approach to assessing agricultural sector linkages within a baseline study of the impacts of microfinance programs. It is one of a series of options. They include:

- lower cost research methods, such as participatory focus group meetings, rapid appraisals and mini-surveys to assess if current microfinance programs reach households engaged in agriculture or enterprises embedded in the agricultural sector, and
- a retrospective, one-time mini-survey or the establishment of a monitoring system to assess results related to specific strategic objectives.

The intended use of the data - to improve a program or to measure results - should guide the scope of the study, the main questions to be answered, and information-gathering methods.

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[4] Making charcoal and bricks and sale of firewood can have negative environmental effects; only 5% of the investments centered on these activities.