



## AN ASSESSMENT OF THE IMPACT OF MICROFINANCE SERVICES IN UGANDA: BASELINE FINDINGS

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### Introduction

Microfinance programs focus on providing services to the poor. But, do the programs reach this target group, and do program clients differ from microentrepreneurs who do not receive microfinance services? These questions are answered by the baseline findings of a two-stage impact assessment of three microfinance programs in Uganda.

The assessment focuses on the impact of microfinance programs on clients, their households, and enterprises, and includes attention to microentrepreneurs' linkages with the agricultural sector.<sup>1</sup> After the second stage of the assessment, the impact of the three microfinance programs will be identified by comparing the second-round findings with the baseline data, and taking into account differences in these findings between clients and non-clients.

### Design of Two-Stage Assessment<sup>2</sup>

The assessment design is based on two rounds of survey data collected from client and non-client microentrepreneurs, with the rounds separated by two to three years. The baseline data, on which this report is based, were collected in November and December 1997.

Clients were randomly selected from three microfinance programs located in three geographic areas. The geographic areas covered by the assessment are rural Mbale district, Masaka town and its adjacent hinterland, and the capital city of

Kampala. The three programs were FINCA, FOCCAS, and PRIDE. FINCA started in Uganda in 1992, and the other two programs started in 1996. By the end of 1997, the programs had 10,429, 3,297, and 3,283 borrowers, respectively.

All three programs practice group lending, require weekly repayments, have a mandatory savings requirement, and offer loans for periods of four to six months at commercial rates of interest. To be eligible, a microentrepreneur must own a business that generates revenue on a weekly basis.

The non-client sample was randomly selected from the same three geographic areas and reflected the gender distribution of the client sample in each area. Only microentrepreneurs who own businesses that generate revenue on a weekly basis and had not received loans for their microenterprises from a formal organization were included as non-client respondents. In all, the sample included 730 clients and 602 non-clients: 94 percent and 93 percent of the respondents, respectively, were women.

### Baseline Findings

The findings and analysis cover basic characteristics of respondents and their households, sources of income, uses of income, financial services, empowerment, and agricultural

<sup>1</sup> AIMS Brief No. 22 specifically reports on the linkages with the agricultural sector.

<sup>2</sup> The baseline survey, funded by USAID/Uganda, was conducted by the AIMS Project, a USAID WID Fellow, and the Makerere Institute of Social Research.

To obtain a copy of this paper consult the AIMS home page (<http://www.mip.org>) or fax USAID's Development Information Services Clearinghouse at 703-351-4039.

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sector linkages. Where appropriate, differences in these characteristics across geographic areas are noted.

In general, clients are 36 years old, married, and live in households of 6 to 7 individuals. The non-clients tend to be younger, averaging 33 years old, and have one fewer household member. The majority of clients were the sole decision-makers about the use of recent loan funds.

Clients are similar to non-clients in several ways. These similarities include the following:

- When geographic area is taken into account, respondents live in dwellings with similar features: three rooms, no electricity, and no indoor piped water.
- On average, both client and non-client households have two members who are economically active.
- Enterprises are most often home-based, located in or adjacent to the respondents' homes.
- The enterprises are five years old, on average.
- Most respondents' enterprises include business activities related to the marketing or production of agricultural and natural resource based products, including trade in crops, livestock products, or wood products.
- The majority of respondents rank their enterprise as the most important source of household cash income. Besides providing operating capital, enterprise revenue is normally used to purchase food for domestic consumption and is the main source of funds for educational expenditures.

In other respects, clients differ significantly from non-clients. These differences include the following:

- A larger proportion of client than non-client households own radios, televisions, and bicycles. Nevertheless, less than one-third of the client households have televisions or bicycles. Almost none of the respondent households own motorized vehicles.

- A significantly higher proportion of client (32%) than non-client (22%) households have a member in wage or salaried employment, with urban households being more likely to report this type of employment.

- Expenditures by client households for education, business and household assets, remittances, and agricultural inputs, measured over relevant time periods ranging from 3 to 12 months, averaged U.S. \$323, compared with U.S. \$211 among non-client households.

- FOCCAS, a Freedom from Hunger affiliate, provides clients with information on improved health and nutrition practices. A significantly higher proportion of clients than non-client respondents in rural Mbale had tried new practices and informed others about such practices.

## Conclusions

The results of the baseline study lead to important conclusions. First, the microfinance programs reach low-income households in both rural and urban areas. The data suggest that these households are part of a broad class of working poor, identified as households that have low levels of consumer durables and other assets and spend a large proportion of their income on basic needs.

Second, the households of respondents normally depend on the microenterprises to provide cash for food, expenditures related to education of children, and other basic needs.

Third, the provision of health and nutrition information by FOCCAS results in clients trying new practices and informing others about such practices.

Finally, clients tend to be significantly different from non-clients in several ways, suggesting a self-selection process whereby certain persons are more inclined than others to participate in the microfinance programs. Also, since the programs are based on lending approaches in which individuals have to agree on who is part of their credit group, the groups should tend to accept individuals who they feel are most likely to be diligent in meeting their loan repayments.