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Minor Field Study

A path to a life of dreams?

A Study on Financial Markets, Microcredit and Gender in Uganda

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Abstract

This thesis analyses microcredit as a means to overcome the problem of inefficiently working financial markets in Uganda. Empowerment of women and the benefits of targeting women with microcredit are similarly discussed. The conclusion of the study is that microcredit provides a way of giving poor people access to credit through accepting untraditional collateral and reaching out to remote rural areas. However, obstacles such as lack of funds, underdeveloped complementary institutions, and corruption on management level in financial institutions prevent the microfinance sector from functioning efficiently. Women are found to face more market failures than men. It is argued that including women in economic activities is essential for growth and development. Women’s and men’s spending patterns have not been found to differ as much as presumed in theory. There are indications of positive effects on children’s schooling when targeting women with microcredit, but it has not been proved that it will increase the wellbeing of the family. It is believed that access to credit has a positive impact on women’s empowerment.

Keywords: Microcredit, Uganda, Market failure, Empowerment

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List of abbreviations

EUREPGAP	European Retailers Good Agricultural Practices
GDP	Gross Domestic Product
LDCs	Least developed countries
LOC	Local Village Council
MDI	Microfinance Deposit-taking Institutions
MFI	Microfinance institution
MFS	Minor Field Study
NGO	Non-governmental organisation
SACCO	Savings and Credit Co-operative
UNHS	Uganda National Household Survey

Contents

1 Background

In the beginning of the 21st century, some parts of the world achieved growth, economic stability and a living standard we would never have thought possible a century ago. Through technology and innovation, possibilities for further progress seem endless. However, this is not the case in every part of the world. It is estimated that an appalling 2.1 billion people live on less than $2 a day, a large share of these dwelling in Africa and Asia (World Development Report 2008, 2007).

As the Asian continent is picking up, Africa and in particular sub-Saharan Africa is still lagging behind for various reasons. Poor government policies, rapid population growth, an unfavourable climate, malnutrition and epidemics such as AIDS are some of the reasons behind the African dilemma.

Amongst all the strategies for fighting poverty, microfinancing has received a lot of attention and is believed to be an efficient tool for poverty reduction. The Grameen Bank in Bangladesh is regarded as the pioneer of microfinance, with a loan recovery rate of more than 95%, (Khandker, 1998, p.3). While the Asian credit institutions have received a lot of attention, the African movement has not had the same exposure. With millions of people living in absolute poverty, Africa is today the poorest continent and the part of the world that most urgently needs financial support. It is therefore of interest to observe the development of the microfinance sector in Africa and discuss whether it is going to follow the same pattern as the Asian predecessor. Accordingly the case of Uganda is the subject for the field study and will thus be analysed.

Women in developing countries constitute a vulnerable group who often lack the means to escape from poverty, due to social and legal constraints. Lately microcredit providers have started directing microcredit to women recognizing them as a non-negligible target group whose potential demand for credit should not be ignored. The consequences of targeting women with credit are disputed but it is possible that it would contribute to empowerment, yield higher impact on household consumption and improve the lives of the children as well.

1.1 Objectives

The main objective of the essay is to discuss the financial market failure in Uganda and whether microcredit can be a means to solve this problem. The analysis will be made on the basis of a field study and from a gender perspective. Women's need for access to credit, their potential to contribute to sustainable growth and women's empowerment will be discussed.

The study primarily seeks to analyse the following questions:

1) Can microcredit be a means of solving the problem of inefficiently working financial markets in Uganda?
2) Is failure of the financial market in Uganda more problematic for women?

In addition to the above questions the study also seeks to discuss these questions:

3) What are the benefits of targeting women with microcredit?

   a) Private benefits such as income-earning opportunities
   b) Social benefits such as empowerment and improved wellbeing of children

It is difficult to draw any long-term conclusions regarding questions 3a) and 3b) by using empirical data, therefore these questions will be approached by discussion rather than by attempts to give definite answers.

1.2 Methodology

A theoretical framework of financial markets and gender equity will be constructed and on this basis the case of Uganda will be analysed. There is plenty of literature on microcredit as a means of providing financial services for poor people. Nevertheless what has been written specifically on microcredit in Africa and its impact on women is limited. This thesis aims at contributing to the ongoing research in this field.

The paper is based on both primary and secondary data collected during a field study in Uganda. Observations have been made in a village in Uganda that has had the possibility to access microcredit. The population in the chosen village represents a rather typical, rural based microcredit clientele, many of whom are living on subsistence level during dry seasons. Since the study is a Minor Field Study (MFS) it has experienced limited resources and time constraints. It is therefore not comprehensive and does not claim to present general results for Uganda as a whole. Yet there are expectations that some useful indications can be found that will help to answer the outlined questions.

1.3 Outlining the Thesis

The next section defines the concept of microcredit. Section three deals with theories of financial markets and constitutes the framework for question 1. The fourth section covers gender literature in the context of access to credit and is thus used to analyse questions 2 and 3. Section five presents the empirical results of the field study, describing actors on the Ugandan financial market as well as presenting primary data. Finally conclusions and policy implications are discussed in section six.

2 Microcredit

2.1 Definitions

Grameen Bank defines *microcredit* as: *“programmes extending small loans to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families. “*

Microcredit loans are often suited to the local community where a MFI is present and thus the terms and conditions are flexible. The definition and criteria such as the size and use of the loan can vary from country to country. Apart from microcredit, microfinance also includes savings and other financial services. Poor people are not only in need of a loan but also financial services like savings, pensions and insurances (Grameen Bank, 2007). This paper will concentrate mostly on microcredit and less on the other aspects of microfinance.

2.2 Microcredit and Poverty Reduction

Where traditional financial institutions have failed to provide the poor with financial services, microcredit can fill the gap. By accepting untraditional collateral and reaching the poor at affordable cost, these institutions can meet the needs of rural households. Microcredit providers are: NGOs, government subsidised organisations or private, commercial institutions; all with differing characteristics.

The major economic determinants of poverty that need to be addressed are low productivity and unemployment. Both of these issues can potentially be solved by access to credit. Microfinance can increase savings and capital and promote productive income-increasing activities (Khandker, 1998, p. 1 ff). Critics argue that the long-term positive effects are minor and that the programs make the poor economically dependent on the program itself. Moreover, the fact that microcredit programs often are subsidized and depend on donors makes them cost-ineffective (ibid. p. 2). However, recent literature on the topic seems to agree on the fact that commercial microfinance services are not suitable for the very poor. What should be kept in mind is that microfinance is not efficient for physically disabled, elderly or street children. The most vulnerable need social safety-nets before they can take on income-earning activities and support themselves. The impression that microcredit is a cure for poverty is misleading for that reason (Harper, 2003, pp. 155).

3 Theory of Financial Markets

"*The success of other market reforms depends on the health of the financial system.*" (World Development Report, 1996) Even though many other aspects are important for economic development, the financial system plays a crucial role. The financial sector has some major functions such as: providing payment services, pooling savings, distributing information, allocating credit efficiently and spreading risk (Todaro and Smith, 2006, p. 742).

This section will present the theory of financial markets in the context of credit markets in developing countries. The theory will be used to analyse questions 1 and 2.

3.1 Rural Financial Markets

Characteristics

All credit markets suffer to some extent from the following problems: *lack of collateral security*, *underdeveloped complementary institutions* and *covariant risks*. The rural credit market differs from other credit markets in the sense that these problems are experienced to a much higher extent (Besley, 1994).

Collateral security

Physical assets are often scarce in rural areas so collateralizing assets cannot be a solution to guarantee repayment. This is partly due to the fact that borrowers are too poor to own sufficient assets and partly because property rights are poorly defined in developing countries (ibid.). Most poor people do own assets like houses, farms and small-scale businesses but they lack legal titles of these properties. De Soto calls this "dead capital", assets that cannot readily be turned into capital. Consequently the scope for exchanging their capital is very limited for this share of the population and they can only trade within a narrow local circle where people know and trust each other well enough (Robinson, 2001, p. 231f.).

Underdeveloped institutions

Rural areas in developing countries often lack necessary complementary features such as a literate and numerate population, functioning roads and transport means and insurance markets. The education and communications systems are obviously so critical they motivate policy intervention on their own but the insurance market is also of great interest. If the borrowers had a means of insuring their income, default might be less common. A need for assembling the credit history of borrowers and a way to sanction those who do not repay their loans are equally important to prevent default. It requires a reliable communication system between lenders which does not always exist in rural areas (Besley, 1994). It must be possible for lenders to enforce financial contracts and there has to be system for claims against property. If the procedure is too costly and uncertain, credit providers will cease to lend (Yaron et al, 1998, p. 152).

Covariant risk

Segmented markets, which are defined by moneylenders, rotating savings and friends and relatives, who only lend to people in their own village or within the same business, increase the covariant risk. It is common that a local moneylender's portfolio consists only of a group of individuals that face the same risk to their income. When weather fluctuations or a change in commodity prices occur, depositors may want to withdraw their savings at once. A well-diversified loan-portfolio is consequently necessary to meet a differing demand for credit and will enable flows of capital between regions (Besley, 1994).

3.2 Formal and Informal Lenders

Most developing countries operate under a dual monetary system: an *organised* money market which is bound by legal restrictions and has a nominal interest rate ceiling, and a large *unorganised* money market which is uncontrolled and is sometimes believed to charge exorbitant interest rates. The positive aspect of the informal credit sector is that it gives poor people a chance to gain access to credit, something that would otherwise not be possible (Todaro and Smith, 2006, p. 746).

The *formal sector* is composed of government banks, commercial banks and credit bureaus (Ray, 1998, p. 532). The institutional financial sector in many LDCs faces the problem that it is only capable of providing financial services to a very small number of enterprises. As these institutions to a large extent are in government ownership, they lack the competition and management constraints and are therefore often inefficient (Harper, 2003, p. 54). Rigid interest rate policies have made interest rates unprofitable for banks as the annual inflation usually has been greater. The financial institutions must also lend according to government edicts which seldom results in efficient allocation of resources. As the majority of the population in LDCs cannot receive financial services through the formal sector, it is more difficult to mobilize domestic resources in society (ibid.). Moreover the formal sector often lacks the possibility of monitoring the activities of the borrowers which makes it unwilling to provide the loan. Yet another issue is that rural clients do not possess the kind of collateral accepted by the bank. Instead, a farmer might suggest that he will work off his loan or offer to mortgage a small quantity of land (Ray, 1998, pp 532).

The *informal credit providers* are such as landlords, traders and shopkeepers who can easier reach out to the rural clients and better monitor their activities. They are also willing to accept the kind of collateral that farmers can offer, such as labour or a tiny plot of land (Ray, 1998, p. 536). Credit and savings are generally seen as widely available in the informal sector, either through agents or group based practices. These are generally easily accessible to the customers and flexible in terms of documentary requirements. On the other hand, the lack of access to formal financial services can induce the operators in the informal sector to charge high rates on interests (Harper, 2003, p.55). However the interest rates will not necessarily be extortionate since that would attract only high-risk borrowers and drive away the safer clients (Ray, 1998, pp. 543). The availability of financial services is very important for the local economy but it is difficult to mobilise the resources and see the advantages of an informal sector in the society as a whole (Harper, 2003, p.55).

There also exist *vertical links* between the formal and informal sector. Since large landowners and traders are in a much better position to put up collateral, they can borrow funds from banks that are then given as loans to their own clients in the informal market. This expansion of the formal sector supposedly increases competition but it is not sure that it will result in lower interest rates for small borrowers (Ray, 1998, p. 573).

3.3 Market Failure

A market failure occurs when a competitive market is unable to allocate credit efficiently. Credit has a supply and demand similar to all other goods and the interest rate should hence be determined through supply and demand. An idealized credit market would be Pareto efficient in the sense that the best investment opportunities should be selected. But in reality, credit markets do not function like perfect competitive markets with the absence of externalities. The market may not permit easy entering and exiting so that supply does not match demand. Rural financial markets generally suffer from these deficiencies, resulting in lower level of output. The critical factor that explains failing markets is *asymmetric information* (Yaron et al, 1998, p. 153, Besley 1994, p.31).

3.3.1 Asymmetric Information

Asymmetric information refers to the fact that actors on the financial markets have different levels of information. Since financial transactions requires a future stream of payments, it is essential for participants to be well informed about their counterpart's intention and willingness to fulfil the contract. When information is too costly and variable it will constrain the lender's ability to estimate the creditworthiness of borrowers and also to enforce contracts. Lack of information about the borrower's reliability and how he will use the money may therefore explain why some individuals do not gain access to credit markets (Yaron et al, 1998, p. 153, Nicholson, 2005, p. 564f). The incidence of asymmetric information can generate *adverse selection* and *moral hazard*.

3.3.2 Adverse Selection

When a lender knows too little of borrowers' tendencies to undertake risky projects, adverse selection can occur. Suppose that some projects are risky and that borrowers sometimes do not pay back. Lenders must then charge a risk premium to insure themselves against the potential loss and break even. Individuals who are most likely to repay their loan will be the first who cease borrowing due to the raised interest rate. The risk premium thus has the opposite effect and does not sort out the high-risk borrowers; the outcome is an inefficient credit market. Adverse selection results in a reduction of the amount lenders are willing to lend; ultimately this will result in credit rationing (Besley, 2004, p. 37).

3.3.3 Moral Hazard

The term moral hazard refers to the effect an obtained loan has on an individual's tendency to undertake risky actions. When lenders are unable to monitor borrowers' actions, the problem of moral hazard can arise. Utility maximizing individuals will take risk-preventing precautions up to the point where marginal gains equal marginal cost (Nicholson, 2005, p. 565). There is consequently a risk that borrowers will slacken their efforts to make their project successful or change the project without informing the lender. Since borrowing money shares the risk of a project between lender and borrower and the lender has to bear the cost of default, it increases the incentive for risk-taking (Besley, 2004, p. 38f).

4 Gender and Market Failure

Gender inequality imposes high costs on the health and wellbeing of those affected. In societies experiencing a high ratio of gender inequality, people cannot improve their lives and productivity is low, thus the prospect for poverty reduction is limited. Moreover, development policies are harder to enforce. In many developing countries, women are more affected by inequalities than men are, being unequal in legal, social and economic rights. The largest costs are imposed on women and girls but ultimately affect the whole society (World Bank, 2001, pp. 1). Women's status also affects the long-run prospects for economic development in the sense that it affects the health, nutrition and schooling of their children (ibid., p. 83). This part discusses the private and social benefits of giving women access to credit.

4.1 Arguments for Improving Women's Access to Credit

A majority of the world's poor are women. They have less access to education, formal sector employment, social security and to government employment programs. These factors contribute to the fact that women's financial resources are very unstable relative to men's. Since the poorest households in LDCs are headed by women, it is extremely important that women obtain equal access to financial services in order to improve living conditions for the poorest individuals (Todaro and Smith, 2006, pp. 227). Other benefits of targeting women with microcredit is that they seem to make the most of an opportunity to borrow, most likely since because they have so little access to credit (Harper, 2003, p. 31).

Gender discrimination in developing countries often starts at birth. Khan brings up the example of Bangladesh where women's access to productive resources and economic opportunities are constrained through social and religious norms which make them economically as well as socially dependent on men. Education is often considered irrelevant for girls, which further reinforces their subordinate position (Khan, 1999, p. 425). Even in developed countries, women receive substantially smaller total incomes than men during their lifetime due to an inferior status in the labour market (Cain, 1985, p. 375).

Being a pioneer within microfinancing, the movement in Bangladesh has inspired many and spread to other parts of the world. The microcredit programs in Bangladesh have shown substantial outreach to poor people and positive effects on production, improved nutrition and schooling

(Khandker 2001, p. 61). During the years 1991 and 1992 a survey was carried out in Bangladesh in order to analyse the three major credit programs (the Grameen Bank, BRAC and BGO). One important effect of access to credit was the impact on the per capita expenditure. The possibility to borrow led to increased consumption with an impact twice as great for women as for men. Significant differences in the use of microcredit by women and men were observed (Khandker, 1998, pp. 38f).

Education

Access to credit had a great impact on children's schooling, though more significant for boys. Of the three credit programs, only Grameen Bank succeeded in improving the number of girls attending school. When credit from Grameen Bank was provided to women, it increased the probability of schooling for boys by 2.4% and for girls by 1.9%, whereas providing credit to men increased the probability of school enrolment by 2.8% for boys, but had no impact on girls. This could be explained by the fact that a girl's time is a good substitute for a woman's time in the household activity, financed by microcredit, while a boy's time is a poor substitute for household production (ibid. pp. 49ff).

A higher level of education improves the possibility for people to adapt quickly and profit from new technologies. Resources are more likely to be better allocated which will be helpful in response to economic shocks. Thus increased schooling means possible earnings and opportunities for a better educated and more productive future generation (World Bank, 2001, p. 85).

Labour

Women's supply of labour, i.e. the time spent on income-earning activities in Bangladesh was found to be increased by women's borrowing. On the other hand, both women's and men's borrowing had a negative impact on men's supply of labour. This can be seen as an income effect as it is unlikely that men substitute leisure time for labour time. Given an increase in income, men's labour supply should fall if men's leisure time is a normal good. Men's borrowing had no effect on the female labour supply (Khandker, 1998, pp. 47).

Cross-country evidence finds that in nearly all countries women work more than men. The gender gap is negatively related to per capita GDP thus in less developed countries gender differences of labour supply are greater. In nonmarket activities, the gender gap is bigger (World Bank, 2001, p. 184).

4.2 Impact of Credit on Women's Empowerment

Women and men in poverty can live under the same economical circumstances but inequalities remain if the man has a higher position. *Empowerment* refers to an individual's ability and possibility to influence her own life. Women are in general more discriminated against in many aspects, values and cultural norms about female behaviour results in women being struck harder by poverty. Therefore microfinance programs for women are promoted as the key strategy for poverty alleviation and empowerment of women. The following section will present four studies on what possible impact microcredit can have on empowerment.

Based on data from a field study in Nigeria, Izugbara (2004, pp. 72) argues that the evidence of access to microcredit leading to sustainable empowerment of women is little. Even though the microcredit program leads to increased access to income, the strategy often fails to focus on the gender inequality and the subordination of women. The critical goal of empowerment is to give women access to resources, power and opportunity in society and help them break free from culturally defined boundaries.

Hossain et al. (2004, p. 3) show that women in low-income households work more hours than men, mostly in agricultural activities and as unpaid family members. Although women do most of the work, men make most decisions in the household. Men are most often targeted in institutional development projects and even when women are targeted, such as in microcredit programs, men still control and manage resources. Economic activities within households are found to have a weak impact on empowerment and thus one of the main reasons behind low empowerment is the gender division of labour that keeps women in the household.

A more positive impact of microcredit on women's status is demonstrated by Hashemi *et al*. (1996) surprisingly even when women do not control loans. However Khan (1999) suggests that the effects of credit programmes are positive but limited. After women had gained access to credit, the allocation of tasks began to change in a few households. Some men were forced to take on household work in exchange for the woman's wage employment. Women also gained control over their own earnings. In some cases the women handed over their money to their husband but most women kept at least partial control over expenditures. Khan suggests that wage employment gives women greater control over earnings compared to the impact of accessing credit. Credit is often used by others in the household, the larger the loan the more likely it is controlled by other members. Men usually control activities which involve higher investment since these activities demand bookkeeping skills, managerial competence and basic education that poor females lack (Khan 1995). Thus there are indications that wage employment rather than credit should help promote economic and social empowerment (Khan, 1999, pp. 431).

Pitt et al. (2006, pp. 791), determine that it is difficult to measure the actual empowerment of women. They find two separate effects underlying the different effects of credit program participation by gender: (i) empowerment effects and (ii) standard income and substitution effects. The fact that women's participation in credit programs results in improved child health and nutrition does not necessarily imply that women have gained decision power in the household. The results can instead be the outcome of income and substitution effects. However, women's empowerment may be a powerful mechanism underlying the different outcomes.

Summing up, the findings from earlier studies do not confirm a strong correlation between access to credit and empowerment of women. Although microcredit programs seem to benefit women and somehow improve their social and economical status, other factors such as wage-rates, institutional regulations and norms for female behaviour are similarly influencing empowerment.

5 Empirical Section - Uganda

5.1 The Ugandan Economy

Having experienced a period of relative stability and increased economic growth after peace was restored in 1986, real GDP growth in Uganda has averaged 6.5% annually since 1990. Despite this successful performance, Uganda still remains one of the poorest countries in the world with a GNI per capita of 300 US$ (World Bank:1, 2007). The fast population growth of an annual 3.5% puts pressure on an economy heavily dependent on agriculture exports. Agriculture now employs 69% of the workforce; coffee represents 50 % of the export revenue, thus making the farmers vulnerable to fluctuating world market prices of primary goods (IMF, 2005, pp. 31).

Even though agriculture makes up such an important bulk of the economy, the services and industry sectors has lately outpaced agricultural growth. In 2006 services and industry accounted for 43.7% and 24.6% respectively, whilst agriculture’s share of GDP was 31.7% (World Bank:1, 2007). Yet, Uganda’s endowment of fertile land and a favourable climate makes it unlikely that it will move away from agricultural production altogether. Recent strategies consist of value-addition through the processing of agricultural products and the reduction of dependency on a single commodity e.g. coffee prices have fluctuated heavily during the last decades. Growth and increased efficiency in the agricultural sector are also most necessary in order to sustain the other sectors and thus reduce poverty (IMF, 2005, pp 33). The poverty headcount ratio at the national poverty line was 33.8% in 2000, a large share of those living in rural areas (World Bank:1, 2007).

Since 1990, substantial progress has been made in reducing tariffs and removing quantitative restrictions on imports. The main challenge is now instead to reduce tariffs and non-trade barriers such as European Retailers Good Agricultural Practices (EUREPGAP), placed on Ugandan exports by its trading partners. By privatising the financial market and letting exchange and banks’ lending rates be market-determined, Uganda is moving towards an open liberalized economy, even though corruption on all administrative levels still remains a big challenge. The economy is characterised by a large informal sector and a large share of self-employed workers giving rise to the difficulty of collecting taxes. A reform of the tax system is necessary in order to fund infrastructure, education and health care, thereby providing basic needs for all citizens (IMF, 2005, pp. 43).

5.2 Field Data

The empirical material for the case study has been collected from a wide range of organizations in order to explore the different financial sectors. Banks and MFIs visited: Centenary Bank, FINCA, U-Trust, BRAC Uganda, the SACCOs of Busiu, Bungokho and Bungokho Mutoto. Institutions visited: The Ministry of Finance, Makerere University, Uganda Martyrs University, The Microfinance Support Centre in Mbale and the District Office of Mbale. These organisations, which include formal and semiformal credit providers, public institutions and universities, have been interviewed and have given their insight into the Ugandan credit market with focus on the microcredit sector. The material consists of reports, studies and practical experience from interviews and discussions. It is presented without assigning organisations to specific statements, unless the information is from a published source.

Primary material has been collected by distributing 100 questionnaires to clients of Bungokho Mutoto Village Bank. The sample consists of 54 women and 46 men who were randomly selected but with the aim of achieving an even distribution of ages and sex. The Bank is also the base for most of the work conducted in the field study, so it is obviously biased towards this specific region and does not claim to present generalising results for the entire country. A common problem was the language barrier, even though most Ugandans speak English well, they are more at ease with their local language, therefore an interpreter was sometimes needed when distributing the questionnaires. Interviewing microcredit clients and distributing questionnaires were done both in the village bank and in the homes of clients with the aim of reaching a more diversified group of respondents, i.e. individuals like women or elder people who tend not to leave their house. By being present, with an interpreter, when the questionnaires were filled in, misunderstandings concerning the questions were avoided. It also enabled following up with additional questions. Furthermore, being present ensured that respondents answered the questions themselves without the influence of others.

5.3 Strategies for the Microfinance Sector

The project named "*Prosperity for All*" or *"Bonna Bagaggawale"*, referred to in the Budget 07/08, aims at developing the financial infrastructure in order to increase access to savings and financial services. Savings and an expansive financial sector have been recognized as a means of reducing poverty and of boosting the economy. Currently, Ugandan domestic savings share of GDP is 7.9%

(World Bank:2, 2007). Out of domestic resources, 10 billion shillings (4050000 current €) is reserved for the microfinance sector during the financial year 2007/2008 (Ministry of Finance, 2007). Efforts are aiming at strengthening the existing 381 Savings and Credit Co-operatives (SACCOs) and also to found SACCOs in all the sub-counties lacking one. By legislation the government of Uganda seeks to improve the control and regulation of SACCOs. The idea is that every village bank should transform into a small-scale formal bank serving the needs of rural people but with the authority and reliability of formal institutions. Smaller institutions are still considered as serving rural areas more efficiently given the geographical distribution of today's Ugandans, most of whom are rural based (Budget speech, 2007/08, pp. 13). Uganda has a decentralised planning system with districts and, on a lower level, counties and sub-counties throughout the country. Previously all decisions were taken from Kampala but now each unit is more independent and has a lot more authority. From a district, technical and political leadership is exercised, which amongst other things involves support to semiformal credit institutions. The reserved budget support will be distributed via these administrative channels.

What might look like a good strategy on paper is unfortunately not always as efficient in practice. Uganda still battles a political climate heavily marked by corruption and it is generally estimated that a disappointing 30% of the budgeted support is expected to reach the microfinance sector. Similarly anticipated is corruptive behaviour by microcredit providers; expected government funding gives people incentives to start MFIs under false motives and thereby use the funds for their own purposes.

5.4 The Ugandan Financial Sector

5.4.1 Formal Credit Providers

There are a number of commercial banks in Uganda such as Barclays Bank, Centenary Bank, Bank of Baroda, Nile Bank Ltd, Stanbic Bank and Standard Chartered Bank. These provide loans to people of varying income class, but since most banks are situated in larger cities they are mainly serving the wealthier, business practising share of the population. Although formal banks accept untraditional collateral to some extent, the risk evaluation procedure is stricter. For example, in order to prove ownership of land, a land title has to be presented. This is problematic in rural areas where land has been passed on for generations without formal proof of ownership, or for women who most often lack ownership rights.

Banks monitor their clients but cannot monitor to the same extent as MFIs and SACCOs, the latter having the advantage of additional local knowledge and liaisons with village communities. Realising the huge potential of serving microfinance clients, most commercial banks have recently started targeting low-income groups and farmers. The main obstacle according to the banks themselves is outreach; rural clients are ignorant about the possibility of borrowing from banks and there is a traditional belief that the application process is too complicated and that there are high collateral requirements. Many borrowers also feel intimidated when approaching banks, believing banks only serve wealthier people. In order to alter these tendencies, banks run advertising campaigns in villages to promote their services. Despite common belief, the actual annual interest rate does not in general differ that much from the rate offered by MFIs (compare monthly interest rates of July 2007: Centenary Bank 2.8%, FINCA 2.5%, U-TRUST 2.25%). Obviously the risk evaluation differs between banks and can result in a higher interest rate.

5.4.2 Semiformal Credit Providers

There are two types of semiformal credit providers in Uganda: SACCOs and MFIs. SACCOs, also referred to as Village Banks, are cooperative organisations at the grassroot level. These groups are formed in rural communities, whose long-term farming activities may not be suitable for formal loans. The members pool their resources together and then elect a committee as well as hire a professional staff accountant manager. From a nearby district office, the SACCOs obtain support in dealing with the legal framework and other administrative issues. The district employees participate in village meetings by trying to guide the members in their activities and informing them about legal formalities. The regulation of SACCOs falls under a separate Cooperatives Law administered by the Ministry of Trade, Tourism and Industry. Thus SACCOs are not recognised financial institutions regulated by the Bank of Uganda and are not allowed to act as deposit takers. The members' savings need to be deposited into a formal bank. Most SACCOs prefer being referred to as SACCOs and not as Village Banks since the latter suggest a somewhat informal, less developed institution.

SACCOs deal with the problem of scarce collateral in the following way: a borrower can provide a plot of land, a cow, or personal belongings as security. Hence there are ways around the traditional forms of collateral; the idea is that everyone, no matter how poor, should be able to borrow. One of the constraints is that the borrower usually has to own assets of a higher value than the loan itself.

This requirement limits the loan sum and is especially problematic for poorer people wanting to start a business or any other larger project. Using a guarantor as security is common; a loan is usually regarded as well protected if secured by a guarantor. The personal relationship can exercise pressure on the borrower and allow close monitoring. In case of default, SACCOs try to avoid seizing assets that are essential for guaranteeing the survival or wellbeing of a family. All SACCOs monitor their members, normally on a monthly basis, in order to predict default. There are also local village councils (LOCs), local mediums, acting as the voice of the people who can warn and inform members when they risk default.

MFIs such as FINCA, Ugandan Women Finance Trust, U-Trust and Pride are larger organisations. They are branched and are usually located in the city centre. MFIs provide loans, savings accounts and money transfers to businesses, groups and individuals as well as loans to SACCOs. These loans are examples of vertical links between the formal and the semiformal sector. MFIs are in a much better position to obtain larger loans from formal banks that can then be lent further to other semiformal institutions. Qualified MFIs are licensed and regulated by the Bank of Uganda, operating as deposit-taking institutions as stated in the Microfinance Deposit-taking Institutions (MDI) Act of May 2003. MFIs reach more poor and rural people compared to the outreach of banks but SACCOs still maintain a closer relationship with clients on village level. Where a village bank is located, you will most often find almost every villager being a member of the bank. MFIs are in general more business oriented than SACCOs. Lately they have been moving away from targeting the poorest as they realise there are bigger profits to be made targeting businesses and people with a decent income. MFIs are more flexible than formal banks, accepting more forms of collateral. Loans are in general processed quicker than bank loans and rural clients are more comfortable with lending from MFIs.

Despite a high recovery rate in general for SACCOs and MFIs, the problem of moral hazard exists within this sector and diverting of loans is a common problem. When time comes for paying school fees or when experiencing bad harvests, many families face no other choice than to divert their funds into things other than the stated purpose of the loan. Monitoring is not efficient in these situations and other solutions have to be found. Recognising this problem, some MFIs, like U-Trust, have chosen to add a compulsory insurance when applying for a loan, thus protecting their clients against involuntary default. In case of death or illness, the family should not be burdened even more by being forced to take over the loan. It must also be emphasised that there is a tendency for microcredit clients to not fully take into account the obligations arising from borrowing. Borrowing and saving through institutions are fairly new in these communities. To address this issue, there is a need for education and providing information in order to develop a sustainable lending culture with each party informed of his obligations and rights.

Furthermore, the laws written in order to regulate the credit sector are not always suitable for smaller microcredit institutions. They are formed at a higher level and fail to trickle down to the grassroot level. There are such things as lack of land titles in rural areas and the problem for women to prove ownership of things they own together with their spouse or after a divorce.

Some MFIs in Uganda are NGOs, working on a non-profit basis but otherwise with similar objectives to commercial MFIs. Since NGOs often have motives other than strictly commercial ones, it enables them to include even the poorest that lack collateral in their group of clients. However it is disputed whether this non-business-oriented strategy is sustainable in the long run. As suggested by Harper, microcredit is not suitable for the poorest; it should not be charity activity. These individuals need other types of support before they can take on financial responsibilities. NGOs that operate within microfinance have been found to fail at making the members aware of the financial process of lending and emphasising sufficiently the importance of repayment schedules.

5.4.3 Informal Credit Providers

Informal credit is probably the most available source of credit for most Ugandans, mainly through family and friends but also through moneylenders. Traditionally, living in rural communities, people look out for each other and try to cater for each other's needs whenever possible. However, the supply does not entirely match the demand as most people's income is quite negligible. Unfortunately, there is also a trend towards suspiciousness and less solidarity as the country develops and incomes rise. It was often expressed that nowadays, one is more reluctant to lend money to people that are not in the immediate circuit of family and friends. Improved mobility thanks to developed infrastructure and increased access to information (i.e. internet and mobile phone networks) has also changed the structure of communities and where people choose to settle.

Money lending is regulated by the Money Lending Act of 1952, requiring moneylenders to have a certificate and licence to operate. All loans have to involve a written contract between the borrower and lender. Furthermore the interest rate is not to exceed 24% annually. However, these regulations are hardly respected as many moneylenders tend to almost completely ignore the regulations. It makes it very difficult to estimate the actual market share of moneylenders in the financial market. It is disputable whether there will be a market for moneylenders in the future as SACCOs and MFIs are becoming widely available. The loan period is often shorter than for MFIs and the interest rate is higher. Even though the loan conditions are rather unfavourable for borrowers and the sector has a reputation of some lenders using poor ethics in their business, one cannot escape the fact that the administrative process is simple and that a loan can be obtained even faster than through many MFIs. To a large extent the reason for borrowing through a moneylender is a client's urgent need of money and inability to negotiate the unfavourable lending conditions (Kaffu and Rippey, 2007).

Group lending and saving is a branch within informal lending that allows people to save money regularly, in a more organised way and to spend it on agreed expenditures. Groups are formed, mostly by women, savings are collected monthly and then given as loans to members urgently in need of credit or according to a distributing schedule. Group lending has proved to be very successful in order to provide for basic needs, to pay school fees and also to give women increased control over their savings.

Primary data on financial sectors

Literature suggests that financial sectors in developing countries act in different ways, such as the discrimination against poor borrowers by the formal sector and the charging of extortionate rates by the informal sector. In order to explore whether these assumptions find empirical support, the microcredit clients were asked to freely state advantages or disadvantages of different financial sectors; thus respondents were able to state more than one answer. The purpose was to avoid any preconceived answers and therefore there were no suggested alternatives. Respondents' answers have been interpreted, grouped and categorised.

Table 1 Advantages of financial sectors

	Formal	Semiformal	Informal
Fast application process	7	20	2
Near and easy access		10	
Low interest rate	2	8	6
Flexible	7	17	7
Established institution	11		
Grants large loans	10		

Number of answers: 117

Data is presented by numbers of answers

MFI clients perceive the formal sector to be an established, reliable institution and recognise its ability to grant larger loans. The commercial bank sector is so far the unique provider of business capital of significance. Most MFIs lack funds and are not able to mobilise large amounts of savings; furthermore, many SACCOs have only been operating for a limited period of time and have not had the opportunity to gain credibility with their clients. The microfinance sector in Uganda is still relatively young.

Semiformal institutions are seen as flexible (by 17), able to grant loans within a short period (20), they are accessible (10) and charge low interest rate (8). These statements are consistent with the strategy microcredit providers are trying to adopt, being flexible and serving those whom the banks fail to target or who lack sufficient collateral. The most appreciated aspect of the semiformal sector is the fast application process of MFIs, which can be crucial for farmers in times of drought or in any other crisis for those who lack savings in general.

Few comments were given regarding the informal sector, thus suggesting that the informal sector is less important or less appreciated and not widely used. It is perceived to charge a low interest rate, if any interest at all and to be flexible. Since moneylenders in the informal sector are not known to offer favourable lending conditions, this suggests that the respondents based their answer on informal borrowing through family and friends and not through moneylenders.

Table 2 Disadvantages of financial sectors

	Formal	Semiformal	Informal
High interest rate	12	2	1
Repayments too frequent	12	1	
Repossesses collateral hastily	11	2	
High collateral required	14	1	1
Poor outreach	2		
Application process difficult	9	1	
Poor administration of loans		5	3
Poor recovery rate			7
Grants too small loans		3	4
Creates hostility			9

Number of answers: 100

Data presented by number of answers

The formal sector was the most disadvantageous sector according to MFI clients. It was perceived to charge high interest rates (12), to demand repayments too frequently (i.e. repayments of both interest and instalment) (12). Moreover it seizes collateral frequently (11), requires high collateral

(14) and it is perceived to have a difficult application process (9). These observations indicate the presence of asymmetric information which causes banks to discriminate against poor borrowers. The comment “repossesses collateral hastily” could either mean that these respondents have experienced default when borrowing from formal institutions, but could also indicate the inflexibility of banks regarding acceptance of a delay of payment. Some borrowers may find it difficult to stick to repayment schedules due to unforeseen circumstances. MFIs claim that in case of default, they try not to seize property that makes it difficult for poor people to get by, e.g. land or valuable cattle; they can also be more flexible in times of bad harvest and postpone repossession. Poor outreach (2) refers to geographical distance as well as feeling intimidated when approaching such institutions. It was expected that more respondents would state poor outreach as a disadvantage of the formal sector, as this is frequently mentioned in interviews with banks, MFI providers and clients. However, borrowers seem to be more concerned about the conditions of the loan, such as collateral and interest rate. There is no data specifically on exactly how many people in the sample had ever been granted a loan from a formal bank (it is possible that someone who mostly uses semiformal credit has occasionally had a formal bank loan), so the comments given could also be due to respondents’ assumptions of how formal institutions act.

MFI clients’ attitudes towards the semiformal sector were in general not especially negative, implying that the semiformal sector manages to serve people rather well. The disadvantages perceived were: high interest rates, tendency to seize collateral frequently, poor administration of loans and inability to grant sufficiently large loans. Poor administration of loans means that granted loans were not always paid out when they were supposed to be and that there was no organised repayment schedule. This suggests that MFIs still have informal characteristics and that they sometimes lack organisational skills. The problem with lack of funds discussed above is problematic for borrowers with business ideas that need funding beyond the usual. It should be observed that sometimes it is the borrowers’ inability to put up sufficient collateral that gives rise to the comment “grants too small loans”, while at other times it is the MFIs lack of funds.

The most prominent disadvantages of the informal sector are a low recovery rate (i.e. borrowers take advantage of the lender being a friend or a relative and thus take their time paying back the loan) and that an informal loan is likely to create hostility within personal relations. Most people seem to disapprove of borrowing from friends and relatives. There is also a perception that informal loans are not sufficient, and that the supply of capital in this sector is not enough.

Primary data on preferred source

The following data presents the most frequently used source by microcredit clients during the last three years. However, simultaneous borrowing from different sectors is quite common; a person who has a semiformal loan might well have a formal loan at the same time, but if this borrowing is infrequent this will not be observable in the data.

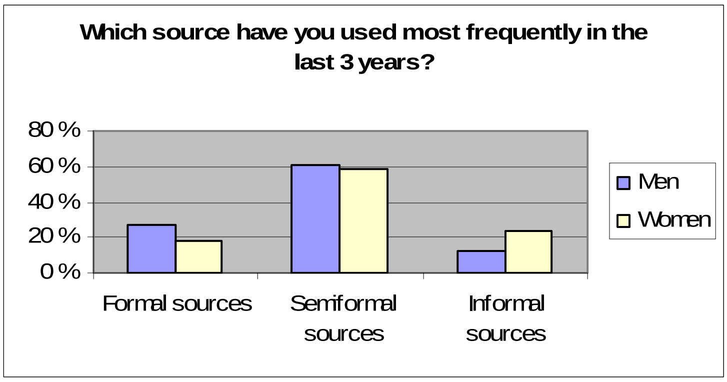
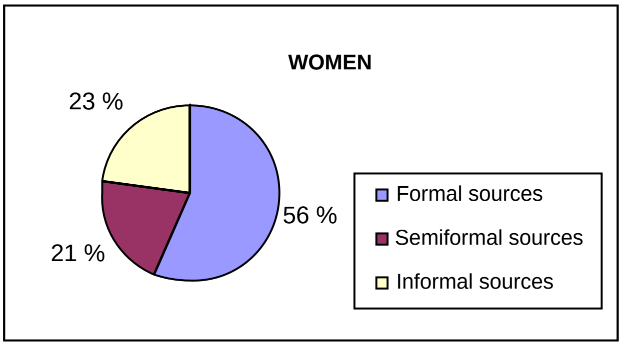


Chart 1 Most frequently used source of credit

A majority of the respondents use semiformal sources for borrowing, which is expected since all the respondents are members of a village bank. However, a surprisingly large share (27% of men and 18% of women) have used mainly formal banking during the last three years. This suggests that the formal sector has to some extent succeeded in extending their target group to include low income borrowers. Informal sources are to some extent accessed more by women than by men, supporting the assumption that women lack collateral and have no other choice of provider.

Traditionally there is no widespread savings culture in Uganda, at least not within formal institutions; often people simply do not see the full benefits of saving, most likely due to the fact that many people have lived or are still living on subsistence level and need to spend their income as soon as they receive it. There is also a widespread belief that political and commercial institutions are not to be trusted. People do not voluntarily hand over their money to an unknown person. There is also the fear of bankruptcy; the institution could simply be closed down the next day, a not so uncommon event in the recent past.

From what source do you perceive it more difficult to be granted a loan?



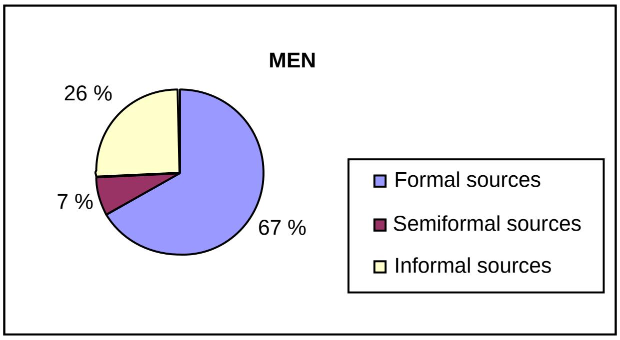


Chart 2 Least accessible credit source

Even though the share of respondents using formal banking was relatively high, this sector was still considered the strictest sector for granting loan applications. This result confirms the reluctance of rural-based people to approach formal banks since they perceive the application process to be difficult and demanding. The semiformal sector should hypothetically be the most available sector for our group of respondents, yet a surprising 21% of women perceive this sector to be the most restrictive sector when granting loans, while only 7% of men agree. Given that many MFIs focus on women this is even harder to understand. One explanation could be that some of the respondents gave their answer on the basis of the financial sectors they had experienced borrowing from and would only evaluate these sectors. Most rural women have never borrowed from a formal bank and have little knowledge of their services. However, some of the respondents using mainly formal banking thought the semiformal sector was poorly administrated, which would also complicate the application process.

The informal sector was perceived to be the least accessible source by 23% of the women and 26% of the men. It is the least frequently used source and should be considered by most borrowers as impractical given the wide range of available semiformal sources. Informal lending is losing its importance as more alternatives emerge. As mentioned before, informal loans are perceived to be difficult to access since most people do not actually have the means of lending to friends and neighbours.

National sample source of credit

Table 7.6: Households that applied for a Loan by Source, Residence (%)

Residence	Source of loan		
	Formal	Semiformal	Informal
Rural/Urban			
Rural	1.8	4.5	24.4
Urban	4.9	7.2	21.7
Region			
Kampala	3.9	5.7	23.4
Central	1.5	5.3	25.0
Eastern	2.1	4.7	19.6
Northern	1.2	3.0	7.6
Western	3.4	5.9	38.2
Uganda	**2.3**	**4.9**	**23.9**

Comparing the primary data with a national sample from Uganda National Household Survey 2005/06 (UNHS), the informal sector is of a lot more importance than was concluded from the primary sample. 23.9% of the loan applicants sought credit from informal sources in comparison to 4.9% from semiformal and 2.3% from formal. The differing results between the samples could be due to a varied availability of credit within the country and also to different quality of the institutions. The SACCO that was subject to the field study was well managed and served most of the villagers, thereby supposedly minimizing the demand for informal sources. It is possible that the number of applicants in the semiformal sector has increased during the last years, given the expanding microcredit market. Yet more importantly the UNHS suggests that credit is not widely available for the poor or that a large share of the population is still too poor to provide any kind of collateral.

Primary data on borrowing

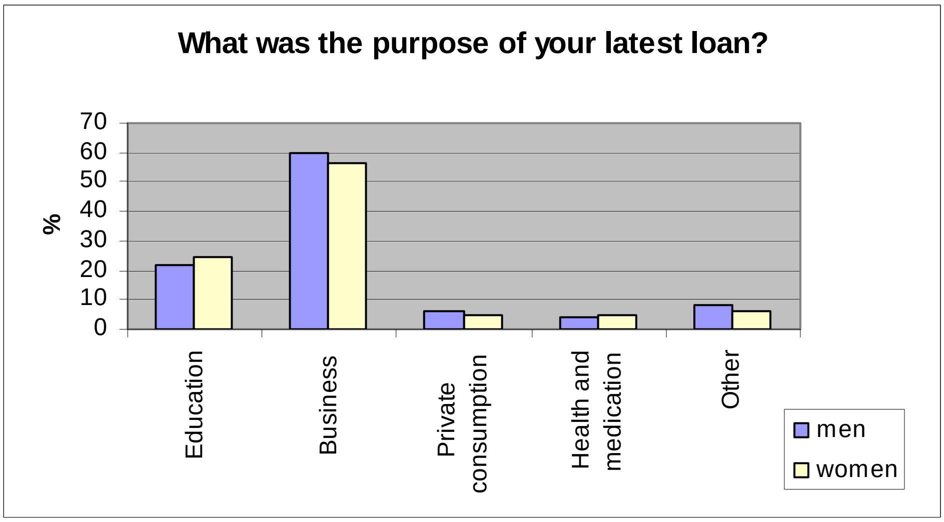


Chart 3 Purpose of loan

Business is clearly the most common purpose for borrowing; 60% of the men and 56.5% of the women borrow for boosting their business. Business loans include agriculture and business activities. The second most important purpose is education, 24.2% of the women and 22% of the men have borrowed to finance education. Education refers to the borrowers' own education as well as children's school fees. A small share is borrowed for private consumption (men 6%, women 4.8%) and health and medication (men 4%, women 4.8%). Other reasons mainly refer to settling of previous debts and house construction.

What can be concluded from the sample is that people borrow mostly for productive purposes that will hopefully pay back in the future. The men borrow slightly more in order to finance business, the women slightly more for education; usually the women are more concerned that children should complete secondary education. It should also be mentioned that in some cases the interviewed respondents admitted that the loan had been diverted and used for something other than agreed upon in the lending plan, such as personal consumption, school fees for children or hospital bills. This phenomenon is widely observed by microcredit providers and represents a challenge to the aim to become a more serious, business oriented, sustainable sector. However until the government fulfils its commitment to provide citizens with basic needs such as roads, functioning health service and affordable secondary education even for the poorest, the semiformal sector cannot count on completely solving the problem of market failure on the Ugandan financial market.

Summing up: Market failures in Uganda

The main reason for market failure in Uganda is poor people's lack of collateral. Even when sufficient means exist to secure a loan, the average borrower is often unable to provide evidence of ownership such as land titles or documentation of their business. The formal sector excludes borrowers who do not fulfil certain criteria. The outcome is not optimal; the borrowers that turn to the semiformal sector will probably be granted a loan but will also face credit rationing due to limited funds in that sector. Poor outreach is common in rural areas as are the reluctance of people in these areas to approach credit institutions and ignorance of where to apply for credit. A weak savings culture also contributes to undermine the solvency of smaller credit institutions that would otherwise have the potential of serving smaller communities entirely. Looking at the borrowers perspective; poorly developed complementary institutions such as health care, schools and infrastructure result in loan diverting. Moreover, since corruption and leadership problems are rather common, credit institutions fail to function efficiently.

5.6 Gender in Uganda

This section discusses gender issues observed in Uganda and puts them in the context of microfinance. We will look at the indications and the potential for empowerment of Ugandan women by gaining access to financial services.

Women's Role in Society

Uganda is traditionally a male dominated society. Women's ownership rights are poorly defined; legal rights exist but are difficult to enforce. Since most of the population is rural based, cultural beliefs and practices still have a lot of influence. In the event of divorce or the death of a spouse, the woman on many occasions is left with nothing since the relatives of the husband will take control of assets, house and land. This makes if difficult for women to maintain long-term investments like poultry and small-scale business when marriages are shaky and the woman is one spouse of many in a polygamous home. The fear of losing everything makes many women obedient towards their husbands; they will remain in a bad relationship rather than divorcing (Bungokho Sub-county Technical Planning Committee, 2006).

At home, women do almost all of the household work (see appendix A, table 5). Women wake up earlier than men and work more hours but have no leisure time or breaks. Yet they lack access and control over resources used in the household (see appendix A, table 6). Men have full access and control over every resource. This is due to the gender stereotypes and cultural beliefs that some work is meant for a particular sex. High school drop outs are especially common among female students, this being due to the socialization factor that gives priority to men. Furthermore, female students do more household work which gives them less time for revising and homework, adversely affecting their academic performance. Girls are often married at the very young age of 15-18 years as families sometimes regard girls as a source of wealth (dowry) and take little interest in their education. Consequently, women are less educated and lag behind career wise (ibid.).

During the last years the gains from gender equality have been recognised in Uganda, and local sub-counties are addressing the issue by encouraging women to take part in leadership activities and entrepreneurship, but there is still a long way to go. Ugandan women do not lack aspiration when it comes to tackling leadership positions but they need encouragement due to cultural norms. Both sexes still find it difficult to accept a female superior. One of the SACCOs visited was founded by women, but as the number of members increased, men started to be more active. This observation suggests that given the opportunity, women have good potential for starting businesses, but that men easily take over and influence. Ugandan women are still reluctant to step forward and take leadership positions. In Uganda, 48 % of the labour force consists of women (World Bank:1, 2007). Thus there is a large capacity not fully exploited. The ability of women to contribute to growth and add skills to the total workforce is a potential that should not be wasted.

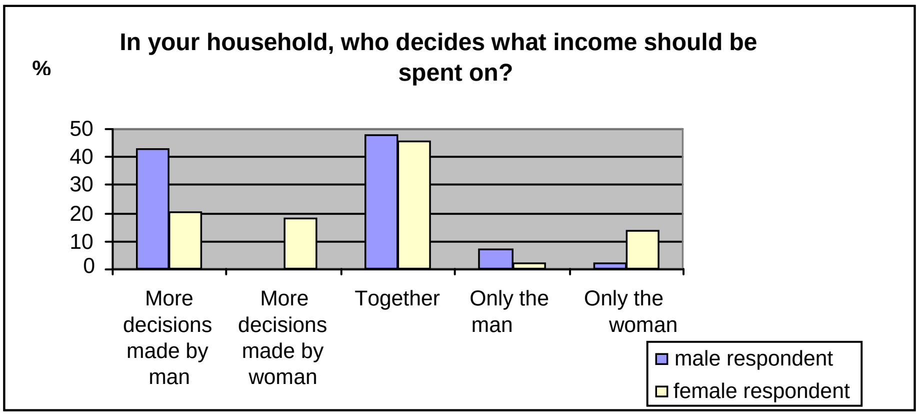
Many MFIs did aim at serving women exclusively from the start, the idea being to reach a more disadvantaged group and reinforce empowerment of women. The general opinion is that women are better at paying back their loans and investing their money in the stated purpose. However, since then it has been observed that husbands borrow through their wives and in consequence the loans are not always used for the stated purpose. One solution, that has been applied is to still target women to some extent but to offer financial services to both sexes, making each party responsible for their own loan. This has proved to benefit women and to reduce poverty all over, although a remaining problem is women's failure to provide sufficient collateral. This has often been solved by asking both spouses to sign the loan application, a temporary solution which avoids addressing the real issue of gender inequality.

To sum up, Ugandan women do face more market failures than Ugandan men do. Given the inferior status of Ugandan women and their lack of access and control over resources, market failures constitute a more serious issue for women than for men. Access to credit is significantly more restricted for women due to cultural boundaries and poorly defined legal rights. As a result these women lack the means of extracting themselves out of poverty in a way that is very unreasonable and entirely due to gender identity. The following sections will present the conclusions drawn from primary data on gender related topics.

Primary data on decision making

This part of the questionnaire aims at exploring the decision making power in households. In theory, after gaining access to microcredit loans, decision power could change within the household. Even though it can be hard to separate the particular effects of the loan itself on empowerment from the effects of other contributing factors, the sample can still give some indications of how microfinance might have influenced the empowerment of women and their role in decision making within the household.

Chart 4 Decision making



Number of respondents: 42 men and 44 women[1] (Single households have been omitted.)

In the sample, 47.6% of the men and 45.5% of the women state that household decisions are made in consultation with their spouse. This could be an indication of a change in the traditionally male dominated culture. However, the primary data also shows a clear bias towards more decisions made by the man. Whereas more than 40% of men think they make more decisions, only 20% of the women agree with this statement. The most striking result in the data is men's attitudes towards women making more or all decisions. It is well worth noting that none of the men experience more

[1] This sample would preferably have been compared with a control group of households that has not gained access to microcredit. However, in Bungokho-Mutoto Sub-county, microcredit is widely available, thus it is extremely difficult to find households which have never accessed credit.

decisions made by the woman whereas 18.2% of the women see themselves making more decisions. Similarly 13.6% of the women regard themselves as the single decision maker in the household while hardly any of the men agree (2.4%). These results indicate that women are gaining decision power but also that men are still reluctant to admit the influence of women and consider themselves as final decision makers. Women are probably participating more in the decision process but it is possible they believe themselves to be more involved than they actually are. The sample was expected to be more biased towards male dominance given the social structure of the Ugandan community. Judging from these observations, it cannot be confirmed that women's increased participation in the decision process is a gain from access to credit, but it is likely that, with increased possibilities of financing their own needs, women will gain status and thus be empowered.

The women in our sample express a unanimous attitude of increased self-confidence and freedom of action. They point out that by accessing microcredit funds they can easier control their own spending of income. Especially in smaller remote communities group-lending can be an efficient means, where support from other women can be necessary to break social boundaries. Women also report more influence in restricting negative behaviour of their husbands. Unfortunately, in rural communities with high unemployment and low productivity, alcohol consumption is a wide-spread problem. These rural women often find themselves lacking sufficient means for paying school fees or feeding their family due to thoughtless spending of their spouse.

Group lending in Uganda has been showed to have positive effects on empowerment. When women save in groups, it is more difficult for their husbands to use money for their own purposes; it forces husbands to deal with the whole group. Women are encouraged to take up activities inside and outside the household that were before seen as "men's business" and to be less dependent on their husbands. Other positive effects are, for example, men's changed attitudes when observing their wives successes, hence rendering gender stereotypes less rigid.

Primary data on spending

According to gender literature men's and women's expenditure patterns differ; women tend to spend more of their income on family and children. By asking microcredit clients what they would spend any additional income on, and thereby seeking to observe whether men's and women's spending preferences would yield any significant difference, it was attempted to find support for these topics discussed in the literature.

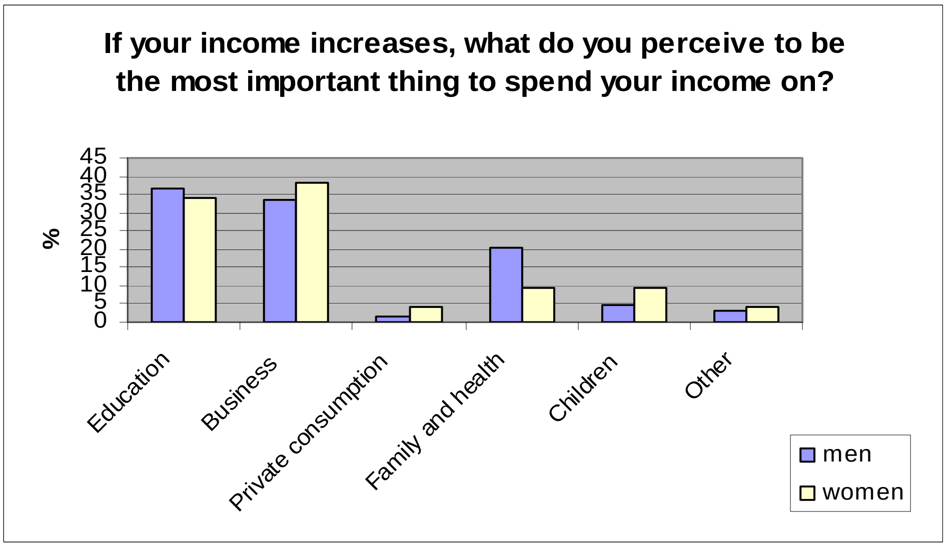


Chart 5 Spending of additional income

In the sample there is no significant difference found between men's and women's preferences regarding expenditure of additional income. They coincide more or less with the data on purpose of borrowing. Business and education are perceived to be the two most important things to spend additional income on. Surprisingly, the columns family and health indicate higher values for the men than for the women whilst the columns for children indicate a slight bias of women for expenditure on children. As presumed in theory women should perceive it more important to spend money on children but apparently this has not much support in the sample. This result could be due to several factors. Ugandan men regard themselves as the head of the family, which could explain why they have to cater for their family members' needs, although it should be observed that in most families it is the woman who looks after the children. It is highly possible that the stated preference for business and education spending is part of women's empowerment process. Ugandan women have recently been very active in running small-scale businesses and seem to be aware of the importance of education. Again the column education refers to the borrower's own education as well as financing school fees for children. It is likely that those who stated this preference had their children's education in mind as well as their own.

Although the chart shows private consumption as a small share of preferred spending, it is likely that this share is larger in practice. Diverting of loans is, as mentioned before, a common problem, even though microcredit providers have a close liaison with borrowers there is still asymmetric information. For women it is very important, for example, to be able to afford certain dresses in order to keep their cultural status. Men tend to spend more money on social activities. Unfortunately, monitoring is not always enough to solve the problem of loan diverting. In order to be profitable, MFIs need to address this problem and not practise gratuitous lending.

Primary data on the impact of microcredit

Table 3 Improved welfare

Has your income and/or your life quality improved in a sustainable way after obtaining a loan from an MFI?

Yes	Women 79%	Men 67%
Improved business/farming	9	5
Children's school fees	6	5
Education	2	3
Improved nutrition and health	4	4
Increased savings and capital	4	1
Building or buying house/land	2	3
General improvement	17	5
Out of poverty	3	

No	Women 21%	Men 33%
Loan is too small	6	4
Interest rate too high	2	2
No change in situation	1	4
Loan settled debt, not sustainable	1	
Problems paying back		2

Total number of answers: Women 57, Men 38

Data is presented by numbers of answers

Aiming at finding out whether microcredit borrowing is actually a successful method for escaping the poverty trap and improving the life quality of poor rural people, the respondents were asked whether their loans had actually contributed to a sustainable improvement in their situation or not. In this data, respondents were able to freely state several alternatives; they were not limited to one single answer, in order to obtain as spontaneous replies as possible. Some clients did not reply to this question due to having been a member for a too short time period. They were not yet able to estimate whether the loan had had any long-term impact on their income and life quality.

A majority of both the men and women think that the loan has benefited them in some way. Most people have used the loan to pay for children's school fees or invested in business or farming equipment. The women are slightly more positive toward microcredit loans. 79% of the women compared to 67% of the men experience a positive change in their life situation. General improvement is the most common statement and refers to improvement in many areas or simply a unanimous positive outlook on the future. In addition three women even state that they are out of poverty and now have a decent income.

Although increased savings and capital has only been stated by a few as a result of borrowing, some MFIs report that their clients, former low-income and rural based, have become wealthier and are now part of their business clientele. 14 clients state that the loan has helped them in improving their business. This result is consistent with the result from chart 3, implying that the loan has been invested in the stated purpose. Not only has the loan been used constructively, the outcome has also showed to be positive.

Interestingly more of the men than the women experience improved life quality thanks to the possibility of paying children's school fees and improvements in nutrition and health. This does not support the assumption found in the literature (see for example Khandker, 1998 and Hossain et al., 2004) that women are more concerned about the health of the family and the wellbeing of the children than men are. The possibility to pay children's school fees has greatly facilitated the lives of many clients. Not being able to attend secondary school or further education is an obstacle preventing many Ugandans from reaching a higher income level. The relatively expensive school fees burden families with the inability of assuring their children a brighter future. Few have experienced improvements in terms of their own education, possibly due to the fact that the repayment schedule for loans is on a short-time basis and higher education is extremely expensive for the average Ugandan.

Amongst the respondents whose attitudes towards microcredit borrowing were negative, the main opinion was that the loan was too small to actually fund the planned project or entertain the business. Many experienced the disappointment of being unable to realise business plans due to insufficient funds. 2 men also experienced problems of paying back the loan, suggesting that the microcredit institutions had too little information about the borrower before granting the loan.

Obstacles for borrowers due to gender

Do you think the opposite sex has better chances of obtaining a loan?

	YES	NO
Men	62.50%	37.50%
Women	67.30%	32.30%

Table 4 Gender bias in lending

The microcredit clients were also asked whether they thought there was any evidence of gender bias towards favouring the opposite sex when applying for a loan. The data shows no consistent result as 62.5% of the men seem to think women are favoured in the application process and 67.3% of the women say the same thing about men. It is most likely that the respondents had different focuses on the question. The most common reason for claiming that women are more likely to obtain a loan would be that many semiformal lenders target women and that women are more reliable borrowers, with a higher recovery rate. When arguing that men would be more successful in applying for loans, one presumably refers to the fact that men often possess more collateral than women.

Information provided by microcredit lenders indicates that women are appreciated clients. Their moderation due to cultural norms can even be shown to benefit them. By being risk reluctant and making sure not to miss payments they will gain credit worthiness. Lenders point out that women often fear the consequences of default in a different way to men, possibly since they are more concerned about the wellbeing of the family and not familiar with gambling with money. This aspect could obviously be negative as well from the view of entrepreneurship and innovative investment.

6 Conclusions

6.1 Main Findings

The microfinance sector in Uganda provides a means of distributing loans and other financial services to borrowers discriminated against by the formal sector. This is achieved through acceptance of untraditional forms of collateral and by reaching out to remote areas. Other advantages of the semiformal sector are its quick processing of loan applications and the personal relationships maintained with the clients, which facilitate monitoring.

Whereas a microcredit loan generally improves the life of the borrower to some extent, it is unrealistic to assume that microcredit loans will lead to any significant rise in living standards. Due to the small size of loans it is difficult for people to use their loans for productive purposes that will yield sustainable returns such as higher education or larger business projects. The loan sum is obviously related to the limited collateral of the borrower but also to the fact that microcredit providers are rather strict in their risk evaluation of borrowers. Furthermore, as long as communities lack basic needs such as a functioning health service, infrastructure and affordable secondary education, the poor will sometimes have no other choice than to direct funds to basic needs and loan diverting will occur. The conclusion is that a large share of the Ugandan population is still too poor to benefit properly from microcredit and that these institutions fail to function efficiently. Hence microcredit cannot altogether solve the problem with market failures on the financial market.

Market failure is more problematic for Ugandan women than for men since poor women are not only being discriminated against because of lack of collateral, but also due to gender identity. They are socially and culturally inferior in terms of ownership rights and decision power. Women are often seen as more reliable borrowers but even though some MFIs attempt to target them specifically, the lack of collateral is a restriction that makes market failure more problematic for women.

Microcredit has been found to affect women’s income-earning opportunities positively. Women use their credit mostly for business and education. Hence there are private benefits from targeting women with microcredit. Microcredit can be a means of encouraging women’s participation in economic activities and making the most of the wasted potential represented by women being left out of the labour market.

There is not enough evidence in the sample to conclude that women spend more money on children and family than men do. Although the general perception from the field study is that women are highly concerned about the wellbeing of children, affording school fees was frequently mentioned in discussions with the women. The same topics did not come up as often when discussing with the men, thus suggesting that there are social benefits in the form of children's schooling to be made by targeting women with microcredit.

The study indicates positive effects of access to credit on the empowerment of women. It has not been confirmed that microcredit will give women increased influence in the decision process of the household but it is believed to affect women positively. Accessing microcredit gives women an incentive to take initiatives, to start small-scale business and gain increased control over their earnings. Being able to take responsibility and to influence decision making to a higher extent is a step in the right direction towards empowerment. Gender stereotypes due to cultural and social norms are unfortunately still an important constraint preventing gender equality and empowerment of women.

6.2 Policy Suggestions

The following remedies have originated from the study. Policy suggestions include links between the financial sectors, availability of support for the applicants, promoting savings, reducing corruption and strengthening women's legal rights.

In order to deal with the problem of an inefficiently working financial market, stronger links need to be established between the formal and the semiformal sector. The capital in the formal sector should be made available to the agriculture sector. The semiformal sector on the other hand has the advantage of better outreach and specialized know-how of how to operate in rural communities. By combining these advantages the problem of market failure would be diminished and financial institutions would be able to serve more people.

In the semiformal sector, more support to clients should be available during the whole process of borrowing. For those who wish to borrow for a business purpose, support should be available for developing business strategies in order to increase applicants' credibility and help in getting their applications approved. This will also facilitate monitoring. Furthermore, ongoing support once the business or farming activity is set up is essential. This would increase productivity of the activity and prevent unnecessary default.

More emphasis should be put on a market-oriented approach for microfinance. Borrowers need to understand fully the concept of the financial commitment that the loan represents and the importance of repayment. The application process as well as the administrative procedure also need to be extremely simplified. This will reduce the problems with loan diverting. Microfinance can also be an efficient means of promoting a savings culture. Savings is a very important source of capital for financial institutions. Low-income people's capacity and potential for saving should be recognised and encouraged.

In order to include women more in financial activities, their legal rights have to be strengthened so that they can provide collateral to the same extent as men. For example in situations where the spouse passes away, the widow should be guaranteed continuous control over assets without having to battle the relatives of her husband. Furthermore, female control of land needs to be overseen so that women can use the land they work so hard on as security.

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2. Country at a Glance tables (07-11-13)

Appendix A

Daily active profile men

Time	Activity
6.30- 7.00	Wakes up
7.00-7.30	Breakfast
7.30-10.00	Gardening
10.00-11.00	Break
11.00-1.00	Thorough home inspection/rests
1.00-2.30	Lunch
2.30-5.00	Cattle grazing
5.00-8.00	Leisure time
8.00-9.00	Supper

Daily active profile women

Time	Activity
5.30-6.00	Wakes up
6.00-6.15	Prepares breakfast, cleans the house
6.15-6.30	Prepares children for school
6.30-10.00	Gardening
10.00-10.30	Fetches firewood and vegetables
11.00-11.30	Cooking
11.30-12.15	Cattle grazing
12.15-1.00	Washes clothes
1.00-2.30	Lunch
2.30-4.30	Gardening
4.30-5.15	Prepares supper
5.15-6.30	Fetches water
6.30-7.00	Brings back domestic animals
7.00-7.30	Bathing children
7.30-8.00	Bathing herself
8.00-9.00	Supper
9.00-10.00	Goes to bed

Source: Bungokho Sub-county Technical Planning Committee 2006

Table 5 Daily active profile

	WOMEN			MEN		
RESOURCES	Ownership	Access	Control	Ownership	Access	Control
Property	x	V	x	V	V	V
Land	x	V	x	V	V	V
Cattle	x	V	x	V	V	V
Goats	x	V	x	V	V	V
Coffee	V	V	V	V	V	V
Beans	V	V	V	V	V	V
Chickens	V	V	V	V	V	V
Employment						
Self employment	V	V	V	V	V	V
Business	V	V	V	V	V	V
Salary	V	V	x	V	V	V
Farm produce	V	V	x	V	V	V
Family business	V	V	x	V	V	V
Credit	V	V	V	V	V	V

Source: Bungokho Sub-county Technical Planning Committee 2006

x = denied **V = permitted**

Table 6 Gender and production Bungokho Mutoto Sub-county

Appendix B

Questionnaire on microcredit

Age:
Sex:
Marital status:

1. How many times have you applied for a loan in the last 3 years?

   How many applications were granted?

2. Do you think the opposite sex would have better chances of obtaining a loan? <u>If so explain why.</u>

3. Which source have you used most frequently in the last 3 years?

   □ Formal sources like banks
   □ Semiformal sources like MFIs
   □ Informal sources like family and friends

4. From what source do you perceive it more difficult to be granted loans?

   □ Formal sources like banks
   □ Semiformal sources like MFIs
   □ Informal sources like family and friends

   Explain why:

5. What source do you prefer lending from? <u>Why?</u>

6. What are the advantages and disadvantages of lending from the different sources? Explain briefly.

   □ Formal sources:

   □ Semiformal sources:

   □ Informal sources:

7. Does having obtained a loan from an MFI help when applying for a bank loan, i.e. is microcredit recognised as positive credit history?

8. What was the purpose of your latest loan?

□ Business
□ Private consumption
□ Education
□ Health and medication
□ Other Explain:

9. If your income increases, what do you perceive to be the most important thing to spend money on?

□ Business
□ Education
□ Family and health
□ Children
□ Personal consumption
□ Other Explain:

10. In your household, who decides what income is spent on?

□ Only the man
□ Only the woman
□ Mostly together, but more decisions taken by the man
□ Mostly together, but more decisions taken by the woman
□ Together

11. Does it matter which member of the household is granted the loan? Is it still the same person as before obtaining the loan who decides what the loan should be spent on? If this has changed, explain in what way?

12. Have your income and/or your life quality increased in a sustainable way after obtaining a loan from an MFI? Why? /Why not?

Appendix C

Country Facts Uganda

Surface Area:	241 000 km
Capital:	Kampala
Population:	29, 9 million, 90% rural based
Population growth: (annual %)	3.6
Population below national poverty line: (%)	38
GDP growth: (annual %)	2000: 5.6 2005: 6.6 2006: 5.3
GNI per capita: (current US$)	2000: 260 2005: 280 2006: 300
Life expectancy at birth, total: (years)	50
Official language:	English, Swahili
Literacy rate: (%)	67
Religion:	2/3 Christian, 1/3 Muslims and nature religions
Female % of labour force:	48
Cashcrops:	Coffee, cotton, tea and tobacco

Source: World Bank:1 2007