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Vulnerability, Risks, Assets and Empowerment – The Impact of Microfinance on Poverty Alleviation

Graham A.N. Wright, Deborah Kasente, Germina Ssemogerere and Leonard Mutesasira

Edited by Holger Grundel

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Contribution to
World Development Report 2001

Uganda Women's Finance Trust

List of Abbreviations Used

1.	ASCA	Accumulating Savings and Credit Associations
2.	BoU	Bank of Uganda
3.	CEEWA	Centre for the Economic Empowerment of Women in Africa
4.	DFID	Department for International Development
5.	FGD	Focus Group Discussions
6.	FIS	Financial Institutions Statute
7.	FSA	Financial Services Association
8.	GoU	Government of Uganda
9.	HIPC	Highly Indebted Poor Countries
10.	MFI	Micro Finance Institution
11.	NGO	Non Government Organisation
12.	PRA	Participatory Rapid Appraisal
13.	ROSCAs	Rotating Savings and Credit Associations
14.	SACCOs	Savings and Credit Co-operatives
15.	UPE	Universal Primary Education
16.	UWFT	Uganda Women Finance Trust
17.	VCR	Video Cassette Recorder
18.	WDR	World Development Report

List of Luganda Words Used

1. *Matooke*	Plantain – eaten as a staple by many households
2. *Munno Mukabi*	A "Friend in Need" Association – self/mutual help group

An Important Note on "Poverty"

Throughout this report the words "poor", "not-so-poor", "poorest" etc. are used. These terms are relative, they have different meanings for different people and have proved extremely difficult to measure. For this reason the report uses "poor" in a relatively broad sense to include all those who are vulnerable and struggling to meet minimum basic needs (defined for this purpose as nutrition, clothing, housing, water and sanitation, security, health and education).

The clients' own descriptions of themselves as "not-so-poor" should be seen as a relative concept (relative to the category of "poor") and should also be taken in the Ugandan socio-cultural context, in which describing yourself as "poor" is demeaning and damages pride/self-esteem. The people clients describe as "not-so-poor" are clearly vulnerable and struggling to meet a reasonable level of basic human needs – see "In Their Own Words" under VI.A. Which Groups Among The Poor Does UWFT Reach ?

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Executive Summary

Research Framework

The study was commissioned in preparation for the World Development Report 2001, and sought to examine the impact of microfinance on poverty within the framework of the "household economic portfolio" (Chen and Dunn, 1996) with reference to financial, physical, human and social assets. The research agenda had four objectives:

1. *To understand which groups among the poor Uganda Women's Finance Trust (UWFT) reaches*
2. *To understand the nature of risks confronting the poor clients of the UWFT*
3. *To understand if and how financial services improve client's capacity to manage and control assets and build up their asset base to protect against and cope with risks*
4. *To understand if and how microfinance services enable clients to use assets to maintain a minimum economic threshold*

Research Methods

The research was conducted throughout Kampala in a range of settings from those that comprise a densely-populated mixture of slums and small scale industry to rural/peri-urban settlements with vegetable gardens and banana plantations. The research programme was designed to be (with the exception of the financial numbers) qualitative in nature. The study used Focus Group Discussions, Participatory Rapid Appraisal and Individual In-Depth Interviews to look for common trends and patterns, and recurring themes and issues and seeking to triangulate evidence for these through a variety of approaches and methods examining them. 447 clients and non-clients were interviewed in 117 sessions lasting between one and three hours. The results provide a fascinating insight into clients' perception and use of the financial services offered by UWFT and the informal sector. However, the absence of control groups and the presence of potential self-selection bias should be noted.

Review of Context

Uganda is a country of remarkable contradictions. Having emerged only ten years ago from a savage civil war with the economy in ruins and its international reputation destroyed by 25 years of dictatorship, it is now held up as one of the few African success stories of the last decade. The annual growth rate has averaged 6.5% over the last ten years. During the same period, inflation was brought down from the dizzy heights of 240% pa in 1986/87 to a mere 6.7% in 1996/97. However, a closer look at the situation of poverty in present day Uganda reveals a much less encouraging picture. Recent surveys conclude that between 1992 and today, Uganda has made little headway in the fight against poverty. Although the different agencies and organisations employ a host of different methodologies to gauge the extent of poverty in Uganda, they all agree that at least 50% of the population still have to exist below the poverty line. Individual indicators illustrate the scale of the problem: with 99 per 1,000 and 550 per 100,000 live births respectively, the infant and maternity mortality remain very high. At the same time, the fertility rate (6.7 children per woman) is one of the highest in the world.

Uganda Women's Finance Trust (UWFT)

UWFT was founded in 1984 and operates with the mission to economically empower disadvantaged women in Uganda. UWFT aims to realize its mission through the delivery of an integrated package of services, which include awareness creation, savings mobilisation, and credit. UWFT will render these services in a manner that will safeguard its self-reliance and financial sustainability as an institution. As of

December 1998, UWFT had 9 branches serving 34,363 clients who had deposited $1 million in savings, and of whom 8,022 had outstanding loans of around $735,000, on which they are paying an effective rate of interest of 66.4% pa. Since emerging from a difficult period during which the UWFT made the transition from individual-based to primarily group-based lending, loans more than 90 days overdue now represent 8.58% of the portfolio.

UWFT Clients

The typical UWFT client is one of the economically active poor, female, married, aged between 30-39, educated to between Secondary level 1 and 6, living in a household of 7, with several children in school and is a member of several financial and social groups. She lives in a house with electricity and relatively easy access to running water and uses a communal pit latrine. The household is involved in two businesses and has some savings in a variety of institutions, but remains vulnerable to risks.

Risks Confronting the Poor (using the framework provided by Rahman and Hossain, 1992)

Structural risks are very often long-term or permanent changes in the national or international economy which impact on the ability of poor households to sustain their income. Structural adjustment-related policies have freed prices and markets creating new opportunities, but have also resulted in the reduction of government spending on bureaucracy, healthcare and education. Many of the businesses operated by UWFT clients suffer from instabilities caused by seasonal swings in demand and these are aggravated by the seasonal pattern of expenditure on education. The devaluation of the Ugandan Shilling has driven up prices and the tax burden has been increased by (a) a real increase in tax rates and (b) more effective tax collection methods.

Crisis risks are sudden, unexpected shocks to the household that disrupt its ability to generate income or force it to allocate a certain portion of that income to an area not included in its established economic portfolio, thus reducing the share available for regular production and consumption activities. Many UWFT clients seem to have been affected by the death or illness of a close relative, and fire/accidents, which often destroyed their entire belongings including productive assets and stocks. Thefts, robberies and cheating were also regular occurrences.

Life-cycle risks have a certain degree of predictability as they are generally correlated with the person's age and their socio-cultural environment. Once again, the importance of expenses related to education, prolonged illness and the death of a spouse figured most prominently as key risks.

How Clients Protect Against Risks

Clients use *precautionary or risk reduction strategies* which build up their asset base and diversify their sources of income to protect against these risks. UWFT services are used to build assets in all categories:

Financial Assets: Financial assets are accumulated primarily through the financial services offered by UWFT and other formal and informal financial institutions (ROSCAs, *Munno Mukabi* etc.) that are often established within the UWFT group. Loans are used to expand business capital and generate more profits and to diversify sources of income. These increased and diversified income sources then allow clients to save in the financial institutions.

Money/Asset Management: Sophisticated assets management strategies emerged such as matching specific income sources with specific expenditure items. Combining loans with capital from other sources or even throwing together individual loans received by group members on a rotating basis takes place to enable larger investments. Expanding the number of income sources to include various types of enterprises, rental income and salaried income is widespread to protect against risk.

Physical Assets: Clients also use profits from loans to buy assets, in particular land and houses.

Human Assets: UWFT's loans are usually (but not always) used for business thus freeing the household's own capital for other investments. The most important investment is in children's education, which is viewed as a route for upward mobility and a form of social security for parents in their frail years. Investments in health are also seen as important for protecting the productivity of the household's labour force and more effective use of the household resources. Membership of UWFT is also perceived to increase members' businesses/household budgets planning and financial management skills, and the weekly repayment schedule is said to have forced them to learn both the necessity of working hard and the value of time. Women report increased respect from their husbands and influence over the decision-making process as a result of their increased contributions to the household economic portfolio.

Social Assets: UWFT's groups are reported as having helped women to learn from each other, gain leadership and public speaking skills and a remarkable level of group solidarity and mutual help. The groups also link the members to vital web of business and personal relationships that represent an important social and business asset.

Response or loss management strategies are designed to improve the household's ability to cope with loss after it has occurred.

Financial Assets: Clients view membership of UWFT as a key financial asset since it provides loans for working capital and to purchase productive assets. In many cases the clients have been able to increase profits which they have used to broaden their asset base and therefore protect against risk both in the short and long term. Still others had been able to use UWFT loans to re-stock after loss or switch businesses in response to threats and opportunities. Credit has enabled clients to smooth consumption during periods of low income or crisis, thereby precluding the need for households to liquidate productive assets or cripple their businesses by draining working capital. Contrary to declared use, UWFT loans are also used to respond to crises. Savings are also viewed as being extremely important as a source of liquidity in times of emergencies to improve household economic security by smoothing consumption when income flows are interrupted. Many clients hold multiple savings accounts – often ear-marked for specific purposes - with formal and informal institutions.

Asset/Money Management: One of the key strategies for reducing expenditure, and thus conserving financial assets, is to reduce household consumption, through cutting down on non-food items, changing food consumption in response to price changes (switching staples, reducing protein in take etc.), reducing the number of meals they eat in a day or setting budgets/limits on daily expenditure. As the crisis becomes more severe, clients move house in order to seek cheaper accommodation, send dependants back to the village, and (if very desperate) withdraw children from school. Many households pursue a strategy of matching specific income to specific expenditures, while others make multiple use of housing (as both business place and residence). In response to short-term crisis (particularly sudden loss) clients often increase the number of hours they work.

Physical Assets: In times of crisis clients start selling assets although all efforts are made to hang on to productive assets. Another strategy to use physical assets to increase income in difficult periods is to use the house for family as well as business purposes.

Human Assets: Clients often mobilise household and family relations to "patch" together larger sums to generate income, or to respond to crisis. As a crisis strikes clients increase the number of working hours to maximise their income.

Social Assets: The two key social assets used in the face of crisis are friends and relatives (reciprocal borrowing arrangements) and *Munno Mukabi*. In many cases the UWFT groups are playing an important role in the development of these mechanisms.

Discussion

Reaching the Poorest

First of all, UWFT (in common with the majority of MFIs world-wide) is not reaching the "poorest of the poor". For the poorest households the opportunities for productive use of loans are often limited, the weekly meetings too time-consuming and the risk of taking loans that are repayable on a weekly basis are unacceptably high. Nonetheless critiques of microfinance based on "not reaching the poorest" tend to overlook the dynamic nature of poverty.

Lump Sums and Bite-size Repayments

While access to "chunks" of money plays an important role in the accumulation and management of assets, the ability to repay that "chunk" in small, manageable, "bite-size" instalments is also essential for the poor. If the clients were required to repay the loans in one "chunk" at the end of the loan period, they would have considerably more problems, and would probably have to draw on savings or liquidate physical assets in order to raise the lump sum.

Contributions to Health and Education

In view of the concerns that finance for microfinance might divert resources from overseas development assistance for health and education sectors, it is interesting and important to note that UWFT's services are allowing clients to make substantial investments in sending children to school and curative health care. Indeed, these (and particularly education) repeatedly emerge as the most valued results of access to credit.

Group Solidarity

"Solidarity" among UWFT groups seems to be remarkably high, but this should be interpreted with caution, since this may simply reflect the clients' strategy to maintain access to credit. The traditional systems of mutual help (*Munno Mukabi* and ROSCAs) are being strengthened by the discipline of weekly meetings under UWFT's system. Each of these traditional financial systems plays a different role in the management of resources, and where the new UWFT system imposes norms and limits that are sub-optimal, some groups are working together to get round them.

Women's Empowerment

The evidence suggests that participation in an MFI's programme also typically strengthens the position of the woman in her family. Not only does the access to credit give the woman the opportunity to make a larger contribution to the family business, but she can also deploy it to assist the husband's business and act as the family's banker – all of which increase her prestige and influence within the household.

A Valued Service

Although they had many recommendations on how they might be improved and sometimes threatened to desert UWFT for other MFIs, the clients valued microfinance services (particularly loans) so much that they would take almost any measure to maintain credit-worthiness and thus access to them. Though not popular with many of the critics of microfinance in search of "income and/or employment impact", this extraordinary commitment to maintaining access to the services can only suggest that (irrespective of income effects) they are highly valued as an important asset in households' attempts to reduce vulnerability and maintain and develop the household's economic portfolio. Given the value that the poor place on having access to financial services, it is clear that the better the quality of these services, the more clients will value access to them, and thus the more likely they are to continue to meet their obligations to the MFIs that provide them.

Conclusions

On the basis of the research, it is indeed fair to conclude that, "Financial services reduce the vulnerability of poor individuals and households by providing access to "chunks" of money to protect against risk and cope with shocks". Financial services (in the broadest sense of the term to recognise UWFT clients' use of additional formal and informal sector savings systems) help to protect against risk by:

- providing chunks of money to build assets (financial, physical, human and social assets);
- providing chunks of money to better manage cash flow and assets;
- increasing the diversification and development of household assets;
- offering a place to safely store savings; and
- increasing women clients' control over assets (particularly human, social and financial – in that order).

In addition, financial services help poor clients cope with shocks by:

- providing savings or emergency loans to draw upon (though in common with many MFIs, UWFT still does not recognise the importance of providing emergency loans or the "fungibility" of cash, and continues to try to insist on business loans); and
- building assets that can be sold (the research team found little evidence of pawning or mortgaging of assets, and note that the sale of assets is often the last resort).

It is also reasonable to conclude that, "Social intermediation combined with financial services contributes to reduced vulnerability and increased empowerment for women clients" This is achieved by:

- building women's human assets (self esteem, bargaining power, control over decisions, and to a limited extent, skills and knowledge, usually relating to planning and financial management, but sometimes also to business-related information); and
- increasing women's social assets (social networks, membership of [functionally-useful] groups, relationships of trust, and access to wider institutions of society).

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I. Scope of the Field Study (See Appendix 1 for details)

Background

Poverty Seen Through the Income Lens
From Wright, *forthcoming*

A focus on "income poverty" is usually associated with seeing poverty-reduction as a process of moving households from a stable "below poverty line" situation to a stable "above poverty line" situation. This leads to strategies aimed at "raising persistently low incomes" (Dreze and Sen, 1989). In the context of financial services, these strategies, emphasise (often exclusively) the provision of credit for income-generation through self-employment. A broader, less linear, view of poverty sees income levels as fluctuating below and above the poverty line. Strategies to address poverty seen in this way seek to reduce dramatic decreases in income as a means for poverty alleviation and introduce a quite different way of viewing the role of financial services. "Protectional strategies (Dreze and Sen, 1989: 60-61) become significant: in terms of financial services this fosters a focus on voluntary savings mechanisms, emergency consumption loans and relatively low-risk income generation activities that are unlikely to create indebtedness (Hulme and Mosley, 1997:100)".

The preoccupation with increasing income (and often even generating employment) as indicators of a microfinance programme's success is often driven by donors' expectations and fuelled by some of the excessive rhetoric and claims made by the more zealous publicists of microcredit. The focus on increasing income overlooks the importance of microfinance services' role in diversifying sources of income, smoothing income and expenditure fluctuations, protecting and developing important household assets (physical as well as human), and in the development of key social contacts and skills. In the words of Elizabeth Rhyne (1994), "Financial services do not create economic opportunities directly. Rather, they help people and enterprises position themselves to take advantage of opportunities."

Income-Based Impact: Theory and Practice
From Kobb, 1997

"Measuring project impact through income changes takes cost-benefit analysis to its clear and logical conclusion. In theory it is a desirable exercise. In aid-dependent economies it is highly relevant to know whether welfare transfers, the opportunity costs of projects, are more beneficial than in-kind project services. From the classroom, what first appears to be a clear impassioned case for crunching numbers is in fact an exercise plagued by valued judgements. From the field, the problems are obvious. They result naturally when measurement tools are crude and the impact, for example with human capital investments, is likely to be small but sustained over time. In this survey the act of measurement (asking the question) significantly influenced the results; it strongly mattered who asked the question and how the question was worded. This problem is far-reaching."

Recognising these short-comings of the income lens, under the guidance of the Assessing the Impact of Microenterprise Services (AIMS) project, this study sought to look at impact in the context of the "Household Economic Portfolio" (Chen and Dunn, 1996). This model looks at the creation and protection of financial, physical, human and social assets as a way of reducing the vulnerability of the poor. Adoption of this framework also allows researchers to overcome the old problem of "fungibility".

Facing Fungibility – An Old Problem
From Hulme, 1998

"This leaves the problem of *loan fungibility*. This can be seen as an intractable problem as '...no study has successfully controlled for the fungibility of resources between the household and the assisted enterprise' (Gaile and Foster 1996:24). Using case study materials to cross-check actual loan use against intended loan use and thus estimating 'leakage' is one possible approach to controlling for fungibility (Pulley 1989; Mosley 1997). However, for all studies except those that focus exclusively on 'the enterprise', a concern about fungibility may be irrelevant. For studies looking at the household, the community or the household economic portfolio fungibility is not a problem for the assessor, rather it is a vital strategy for the client. The best investment returns may be on 'consumption' (in terms of developing or maintaining human capital through school fees and doctors' bills, or buying food at a time of crisis when the credit terms on 'in-kind' borrowing from traders may be exceptionally high). From this perspective the task of the assessor is not to pretend that microenterprises are 'firms' whose inputs and outputs can be precisely identified and measured but to recognise that the impacts of microfinance must be assessed at a variety of levels. The assessor attempting to control for fungibility (to prove impact) has failed to recognise that fungibility is a process to be encouraged (to improve impact)!" [p.13]

The household economic portfolio is used to manage and respond to risk or vulnerability. The study used Rahman and Hossain's, (1992) framework which argues that the vulnerability of the poor can best be understood as function of "downward mobility pressures" arising from: 1. *Structural factors* in the economy (demand for the products and services of poor people (including labour) and seasonality of these); 2. *Crisis factors* (household "shocks" - illness, theft of assets, natural disaster etc.); and 3. *Life-cycle factors* (in particular the proportion of economically active to dependent household members, but also in the context of marriages etc.).

Poverty, Vulnerability and Assets
From Moser, 1998

In her analysis of how the poor respond to risks and vulnerability, Moser notes four conceptual issues of particular importance:
"*(a) Differentiating between poverty and vulnerability* … "Because poverty measures are generally fixed in time, poverty is essentially a static concept. By contrast, vulnerability is more dynamic and better captures change processes as "people move in and out of poverty" (Lipton and Maxwell, 192, p. 40)" … "Any definition requires the identification of two dimensions of vulnerability: its *sensitivity* (the magnitude of a system's response to an external event), and its *resilience* (the ease and rapidity of a system's recovery from stress (Blaikie and Brookfield, 1987; Bayliss-Smith, 1991)". [p.3]
"*(b) Distinguishing between vulnerability and capacities* … "In arguing that "development is a process through which people's physical/material, social/organisational and motivational/attitudinal vulnerabilities (or capacities) are reduced on increased", Anderson and Woodrow (1989, p.12) argued that relief workers should avoid seeing clients as "helpless victims" because they have many resources even in terms of emergency, and that these resources should form the basis of recovery (Longhurst, 1994)." [p.3]
"*(c) Relating vulnerability to asset ownership* … "The means of resistance are the assets and entitlements that households or communities can mobilize and manage in the face of hardship. Vulnerability is therefore closely linked to asset ownership."
"*(d) Categorizing coping and management strategies*" …. "Davies (1993) for instance, distinguishes between *coping* – a short term response to an immediate and inhabitual, decline in access to food – and *adapting* – defined as a permanent change in the mix of ways in which food is acquired irrespective of the year in question (Davies, 1993, p.60)" [p.5]

Household Economic Portfolio
(from Chen and Dunn, 1996)

"The model of the household economic portfolio proposed in this paper builds on three key developments in the analysis of households by economists, anthropologists, and feminist scholars. First, it recognizes that there may be negotiation, bargaining, and (even) conflict within the household. Second, it presents the household as a permeable unit, rather than a bounded unit, which is embedded in wider social units, networks, and processes. And, third, it recognizes that there is enormous variability in household composition, structure, and functions both between and within societies and over time." [p.1]

The *household economic portfolio* can be defined as a) the set of household resources, b) the set of household activities, and c) the circular flow of interaction between household resources and household activities.

"*Household resources* are the set of human, physical, and financial resources available for use by the household in a given period of time. The human resources include the time, labor power, and skills of household members, which depend on the household composition. Physical resources include any tangible items that are at the disposal of the household members such as land, buildings, tools, raw materials, input stocks, inventory, equipment, livestock, personal items, and so on. Financial resources include cash and other forms of liquid savings." [p.23]

- "*Household activities* are the set of consumption, production, and investment activities that the members of the household undertake in a given period of time."
- "*Consumption activities* are defined as the satisfaction of material wants and needs through the provision of items such as food, clothing, medical services, liquor, ceremonies, and amusements" [p.23]
- "*Production activities* can be broken down into three categories: 1) income generating activities; 2) household maintenance activities; and 3) wage and outside work. *Income generating activities* are any productive enterprises that generate a marketable good or service." [p.25]
- "*Investment activities* involve the use of household resources in order to create the potential for additional income in future periods. The products of investment activities are the resulting investments, or assets." [p.25]

"The process by which households rearrange over time their mix of resources, labor, and activities to cope with changing economic and social objectives or contingencies is, what we would term, their *portfolio system*. The term "system" is chosen deliberately to convey a systems perspective in which interactions between different individuals - and their individual constraints, preferences, activities, and objectives - within the household can be accounted for."[p.26]

"Our conceptualization of the household portfolio system is based on several important assumptions. First, that individual members of the household may have separate (if not competing) preferences, constraints, and resources and may, therefore, take individual as well as joint decisions and activities. Second, that individual members of the household are involved in negotiation, bargaining, and (even) conflict. Third, that individual members of the household may decide to cooperate in certain decisions or activities but to not cooperate in others. And that, as a result, both extensive conflicts and pervasive cooperation may coexist within the household (Sen 1987). Fourth, that the strategies of individual members reflect differences in their bargaining power which, in turn, reflect differences in their access to resources (both physical and social) and in their socially defined roles and relationships.

The set of activities pursued by the household are a mix of the individual activities of its members which may interact in a variety of ways: from multiple, separate activities to more coordinated, integrated activities (Guyer 1988). These alternative patterns of interaction are best illustrated by the activities of men and women within the household. In some situations, women might pursue only self-provisioning and nonmarket production while men are wholly engaged in market production: a pattern of *separate, parallel activities*. In other situations, women may join men in market production. For example, there may be joint agricultural production of a given crop for which men perform certain operations and women others: a case of *integrated activities*. Or, in other situations, men will withdraw from agriculture, leaving women to complete all operations, while the men migrate for alternative employment: a case of *substitutable activities*." [p.27].

Research Objectives

The project had four key objectives:

1. *To understand which groups among the poor that UWFT reaches* – analysed within the framework of:
    - The types of clients served by UWFT, and those that are not
    - The "badges of poverty" – what makes a person poor ?
    - The gender issues in amongst the above
2. *To understand the nature of risks confronting the poor clients of the UWFT* – analysed within the framework of (Rahman and Hossain, 1992):
    - **Structural risks** (demand for the products and services of poor people (including labour) and seasonality of these)
    - **Crisis/emergency risks** (household "shocks" - illness, theft of assets, natural disaster etc.)
    - **Life-cycle risks** (in particular the proportion of economically active to dependent household members, but also in the context of marriages etc.)
    - The relative importance of these
    - The gender issues in amongst the above
3. *To understand if and how financial services improve client's capacity to manage and control assets and build up their asset base to protect against and cope with risks* **-** analysed within the framework of (Barnes 1996; Chen and Dunn 1996; Carney drawing on Scoones 1998; Moser 1998; Sherradan 1991):
    - **Financial assets** (cash, savings, loans and gifts, regular remittances or pensions, other financial instruments)
    - **Physical assets** (housing, buildings and land and improvements to these, land and other physical items which maintain or increase in value such as gold jewelry, or physical items that decrease in value including consumer durables such as household appliances, shoes, clothing, and vehicles)
    - **Human assets** (skills and knowledge, ability to labor, good health, self esteem, bargaining power, autonomy, control over decisions)
    - **Social assets** (networks, membership of groups, relationships of trust, access to wider institutions of society, freedom from violence)
    - The relative importance of these and how they are used to cope with the variety of risks confronting the poor
    - The gender issues in amongst the above
4. *To understand if and how microfinance services enable clients to use assets to maintain a minimum economic threshold* – analysed within the framework of:
    - **Financial assets**
    - **Physical assets**
    - **Human assets**
    - **Social assets**
    - **Using the following core indicators of reduced vulnerability:**
        - improved money management
        - improved asset management
        - diversification of assets
        - accumulation of physical assets
        - increased savings
        - increased bargaining power for women in household decisions
        - increased expenditures on education or health
        - increase control over assets by women
        - wider social networks
        - increased group membership
        - mobilisation of labour
        - asset retention
    - The gender issues in amongst the above

Hypotheses

The project sought to examine and test the two key hypotheses:

- Hypothesis 1: *Financial services reduce the vulnerability of poor individuals and households by providing access to "chunks" of money to protect against risk and cope with shocks*
- Hypothesis 2: *Social intermediation combined with financial services contributes to reduced vulnerability and increased empowerment for women clients*

II. Field Methods

Research Team

The research was conducted by a team of four lead by Mr. Graham A. N. Wright (microfinance specialist), comprising Dr. Gemina Ssemogere (social development/microfinance specialist), Dr. Deborah Kasente (gender specialist) and Mr. Leonard Mutesasira (microfinance and business development specialist). Mr. Holger Grundel played an extremely important role in the analysis and report-writing phase. Dr. Monique Cohen and Dr. Jennefer Sebstad provided invaluable guidance and assistance in the field. In addition, Mr. Henry Sempangi conducted analysis of UWFT records and accounts, and important research assistance was provided by Mr. John Mutenga, Ms. Grace Kiberu, and Mr. Paul Makumbi. UWFT staff, particularly Ms. Gladys Mukasa and Mr. Nathan Okurut provided tremendous assistance despite their pressured workloads.

Research Location

The research was conducted throughout Kampala in a range of settings from those that comprise a densely-populated mixture of slums and small scale industry to rural/peri-urban settlements with vegetable gardens and banana plantations.

Research Biases

As noted above, the research was conducted in primarily urban settings (there are tentative plans to replicate the work in a relatively remote rural setting – thus allowing interesting comparisons). In addition, most, if not all respondents were women, reflecting UWFT's largely female membership. Participants were selected in a largely random manner, but with regard to the individual's ability to provide the types of information sought through each research instrument. However, it should be noted that in (primarily, but not exclusively) interviewing UWFT members, the research team were obtaining information from clients who had <u>chosen</u> to join the MFI and had <u>not dropped-out</u> (at the time of interview). Clearly such clients <u>may</u> be people who are more entrepreneurial, resourceful, committed to escaping poverty/educating their children etc. Future studies will seek to get a better understanding of the perceptions of clients who do not join MFIs and particularly those that drop-out. Finally, the research protocol had no "control group" to allow us to disentangle "counterfactual" effects, particularly those arising from socio-economic trends that were occurring irrespective of UWFT's programme.

Research Programme/Methods

The research programme was designed to be (with the exception of the financial numbers) qualitative in nature. The study used Focus Group Discussions, Participatory Rapid Appraisal (PRA) and Individual In-Depth Interviews to look for common trends and patterns, and recurring themes and issues and seeking to triangulate evidence for these through a variety of approaches and methods examining them. A total of 447 respondents were involved in the various data collection exercises, which were conducted in 117 sessions lasting between one and three hours over a period of four weeks. The methods/ instruments/ numbers of respondents were modified in the light of the results of the on-going research – in particular additional men were enrolled in the study to give an improved gender perspective.

Qualitative v. Quantitative Research Methods
From Hulme, 1998

"According to this line of argument the scientific" [quantitative] "method fails as: it ignores the complexity, diversity and contingency of winning a livelihood; it reduces causality to simple unidirectional chains, rather than complex webs; it measures the irrelevant or pretends to measure the immeasurable; and it empowers professionals, policymakers and elites, thus reinforcing the *status quo* and directly retarding the achievement of program goals. At heart, PLA" [Participatory Learning and Action] "theorists do not agree that ultimately there is one objective reality that must be understood. Rather, there are multiple realities and before any analysis or action is taken the individuals concerned must ask themselves, 'whose reality counts?'. The answer must be that the perceived reality of the poor must take pride of place" [p. 16]

The team started with Focus Group Discussions, and on the basis of these modified and conducted some of the PRA instruments. Once both the Focus Group Discussions and PRA had been completed, specific individuals were selected for in-depth interviews to enrich and develop the data sets that had been developed. The different methods were used to answer different questions as outlined below. Upon completion of the data collection and documentation, each researcher was given a file of the complied data, and a series of meetings were held to compare, triangulate and interpret the results.

Seeking the Answers …
Issues Being Examined, and the Methods Used to Address Them.

Which groups among the poor do micro finance programs reach?
1. Focus Groups Discussions
2. Wealth Ranking (Note: This was also used to find where UWFT clients fall within the community and to validate the rankings made by UWFT loan officers in preparation for the FGDs)
3. Individual in-depth interviews with female-headed households and households that have experienced crisis in last year

What is the nature of the risks confronting poor clients?
1. Focus Group Discussions
2. Individual in-depth interviews with female-headed households and households that have experienced crisis in last year

Structural Factors
1. PRA: Seasonality Calendar for casual labour, migration and goods/services provided by the poor
2. PRA: Seasonality of cash income and expenditure, savings and credit

Crisis Factors
1. PRA: Time series (this year, last year, 5 and 10 years before) of crises: sickness, death, loss of employment, theft, natural disaster etc.

Life-cycle Factors
1. PRA: Life-cycle profile to trace downward pressures over time

How do financial services improve client's capacity to manage and control assets and build up their asset base to protect against and cope with risks?
1. Focus Group Discussions

Financial Assets
1. Review of UWFT financial records [Branch history plus FGD participants' financial information]
2. Individual in-depth interviews with long-term members who have built up substantial financial assets with UWFT and with long-term members who have few financial assets with UWFT.

3. PRA: Time series (this year, last year, 5 and 10 years before) of asset ownership with follow-up discussion on what role UWFT's services have played in this

Physical Assets

1. PRA: Time series (this year, last year, 5 and 10 years before) of asset ownership with follow-up discussion on what role UWFT's services have played in this.

Human Assets

1. PRA: Time series (this year, last year, 5 and 10 years before) of empowerment/control of assets etc. indicators with follow-up discussion on what role UWFT's services have played in this.
2. Individual in-depth interviews with selected women on relations with husband/empowerment/control of assets etc

Social Assets

1. PRA: Venn diagram analysis of groups/organisations and their roles with follow-up discussion on what role UWFT's services have played in members' involvement in these.

How do microfinance services enable clients to use assets to maintain a minimum economic threshold?

1. Focus Group Discussions
2. Individual in-depth interviews with female-headed households (10) and households that have experienced crisis in last year
3. Loan/Savings Use Analysis
4. Review of savings/loan account history over the last 12-24 months and 10-15 individual in-depth interviews with individuals who have notable (high level of activity or balances) savings account history

Table 1: Summary of field methods

Method	**Instrument**	**# of Sessions**	**# of Participants**
Focus Group Discussion	Pre Test FGD Final FGD – men Final FGD – women	1 2 10	6 13 89
Participatory Rapid Appraisal	<u>Seasonality Calendars</u> * Casual Labour/Migration * Cash Income/Expenditure	 4 4	 66 35
	<u>Time Series</u> * Crises (sickness/death etc) * Asset Ownership * Empowerment/Asset Control	 3 4 4	 21 22 49
	Life-Cycle Pressure Profile	4	32
	Venn Diagrams	3	32
	Wealth Ranking	4	8
Individual In-Depth Interviews	With Female Headed HHs	8	8
	With Crisis Affected HH	11	11
	With Members with Assets at UWFT	7	7
	With Members without Assets at UWFT	5	5
	With Selected HHs on Empowerment Issues	13	13
	Loans/Savings Use Analysis	20	20
	Savings Account History Review	10	10
Totals		**117**	**447**

III. Brief Review Of Key Context Factors Affecting The Clients And Programme

General (drawn primarily from DFID, 1999)
Uganda is a country of remarkable contradictions. Having emerged only ten years ago from a savage civil war with the economy in ruins and its international reputation destroyed by 25 years of dictatorship, it is now held up as one of the few African success stories of the last decade. This extraordinary transition has not only made Uganda the first country to qualify for limited debt relief under the Highly Indebted Poor Countries (HIPC) initiative, but with donors and politicians desperate to promote peace and reconciliation around the Great Lakes, Uganda has also assumed a key stabilising role in a region still suffering from conflicts and bad governance. This is despite the current absence of multi-party democracy in the country.

On the economic front, Uganda can, in fact, boast a number of very impressive statistics. The annual growth rate has averaged 6.5% over the last ten years. During the same period, inflation was brought down from the dizzy heights of 240% pa in 1986/87 to a mere 6.7% in 1996/97; an achievement largely accredited to the government's commitment to macro-economic stability and the liberalisation of the financial system and a whole range of factor markets. However, depreciation of the Ugandan Shilling (by one third over the past 18 months) combined with Uganda's dependence on foreign imports raise some doubts as regards the accuracy of the inflation figures. The domestic economy was further strengthened by the strong growth of private investment.

However, a closer look at the situation of poverty in present day Uganda reveals a much less encouraging picture. Recent surveys conclude that between 1992 and today, Uganda has made little headway in the fight against poverty. Although the different agencies and organisations employ a host of different methodologies to gauge the extent of poverty in Uganda, they all agree that at least 50% of the population still have to exist below the poverty line. Individual indicators illustrate the scale of the problem: with 99 per 1,000 and 550 per 100,000 live births respectively, the infant and maternity mortality remain very high. At the same time, the fertility rate (6.7 children per woman) is one of the highest in the world. The poor suffer disproportionately under the country's weak healthcare system as economic liberalisation has created a two-tier system in which only the better off can afford the user charges demanded by private doctors and clinics while those who can't have to look for help in run-down government hospitals. Poor sanitary conditions - only 34% of the population has access to safe water - lead to frequent outbreaks of localised epidemics such as cholera in some urban centres.

Life expectancy has fallen from 48 years in 1980 to 43 years in 1995, largely due to the impact of the HIV/AIDS epidemic which takes a particularly heavy toll on the economy as it tends to rob society of its most productive members in their 30s and 40s. They leave behind a rising number of orphans putting an extra strain on relatives who take on the responsibility of looking after them. In more and more cases they end up as street children sleeping rough on the streets of Kampala and other regional centres. The government has declared the fight against HIV/AIDS as one of its top priorities and there are clear signs that the rate of new infections has been reduced significantly compared with many countries in Southern Africa. However, the poor continue to be heavily affected by the devastating impact of the virus striking close relatives and/or economically active members of their community.

Rural Sector
Poverty is particularly prevalent in rural areas. With a share of 48% of GDP, agriculture continues to dominate the Ugandan economy. Despite considerable productivity and output improvements for certain cash crops following the government's liberalisation efforts, the rural economy is still very much characterised by subsistence production. Average agricultural holdings do not exceed 1.6 hectares and it is the smallholder sector which has seen very little real growth over the last decade due to the lack of access to agricultural inputs, declining soil quality, poor information and communications and the inability to access output markets. Cash crop producers on the other hand have benefited substantially from the liberalisation of coffee marketing. With the proportion of people living in poverty having remained largely constant over the last five to seven years, it has to be assumed that the poorest 20% of the population, who have no or very

little involvement in the production of cash crops, may actually be worse off. In 1992, 6.8% of national income accrued to the poorest 20% of the population and with a recent survey estimating GNP per capita at US$290 Uganda still ranks amongst the twenty poorest countries in the world.

Urban Sector

Although the urban areas benefited most from economic growth they face their own specific problems. In Kampala, civil war and dictatorship followed by public sector retrenchments in the wake of severe cuts in government expenditure has all but wiped out formal sector employment and many residents find it difficult to meet their basic needs. The under- and unemployed are increasingly forced to engage in a variety of economic activities to generate sufficient income. With men as the traditional providers finding it ever more difficult to support their families more and more urban women are entering the labour market engaging in a variety of sectors ranging from petty trading and basic service provision to, in some cases, production activities on a significant scale. The vast majority of these activities take place in the informal sector, which is estimated to account for about 80% of Kampala's current industrial employment. The informal sector has traditionally been ignored by the city council authorities which means that its areas of operation lack sufficient infrastructure and utility services resulting in often unhygienic and unsafe conditions for both buyers and sellers.

Labour Market

Table 2 illustrates the structure of the labour market in Uganda. The predominance of self-employment for 56.60% of the labour force is conspicuous. When household enterprises (28.02%) are added, the relative importance of this micro sector jumps to 84.62%. It is also instructive to note the gender dis-aggregation: while 52.72% of men are self-employed, the majority (78.02%) of women are involved in household enterprises.

Table 2: Labour classification by source of employer

	Total Population	**Gender Dis-aggregated Totals**	
Employment Sources/Status		**% Male**	**% Female**
Self-employed	56.60	52.77	47.23
Household Enterprises	28.02	22.29	70.71
Employees in the Modern Private Sector	9.47	80.01	19.99
Government and Parastatals	5.05	73.56	26.44
Unemployed	0.92	63.64	36.35

Source: Ministry of Planning and Economic Development IHS 1993

The limited evidence available in the "Background to the Budget 1985 – 1994" indicates that over this period the modern private sector grew by paying higher real wages and reducing employment. Businesses over-hauled old plant and equipment in the late 1980s/early 1990s and modernised by adopting capital intensive technologies; for example, manufacturers of beer and soft drinks use automated bottling lines. The computerisation of several previously manual processes in banks and similar institutions, added to capital-intensive growth. The 1997 Revised Investment Incentives gave 50% rapid depreciation allowance to physical plant and equipment (including computers) in the first 4 years. The rural enterprises enjoy 75% depreciation allowance. It is most unlikely that the trend towards efficient but capital intensive growth will be reversed.

Retrenchment resulted in the lay-off of many workers from the government and parastatals. Some found jobs in the newly created semi-autonomous institutions like The Uganda Revenue Authority (1991), the Uganda Investment Authority (1991) and the National Agricultural Research Organisation (1990). Jobs also opened up in local government due to decentralisation, but most went to those from the district in preference to the national workforce. Government has no employment policy, and in common with most developing countries, has not generated up to-date labour market statistics. The Labour Market Pilot Survey carried out in 1996 defined "the unemployed" as those who work for less than an hour a day - on this basis, it is estimated that 30% of Kampala City dwellers are unemployed.

Informal Sector Financial Services

Lack of adequately equipped markets is only one of the constraints members of the informal sector face in Kampala. Another major problem is the lack of access to financial services - both credit and savings. As in many other parts of the developing world, commercial banks are very reluctant to open their doors to poor clients as these tend to lack the collateral required to obtain credit and the amounts they have to save are too small to open savings accounts (although Centenary Rural Development and Co-operative Banks are notable exceptions). As a consequence, a number of non-bank financial institutions such as UFWT, FINCA and PRIDE are playing an increasingly important role by providing financial services to poor micro-entrepreneurs. The fact that despite high interest rates (even compared with commercial banks who charge between 15% and 25%) on loans, and the lack of (or nominal) interest on savings they continue to attract an ever growing number of customers can be regarded as proof that poor people in Uganda do require financial services, and that they are prepared to incur above average costs to get access to services that suit their needs.

The provision of financial services to the poor is an essential element of the Poverty Eradication Action Plan recently published by the GoU. In this context the Bank of Uganda (BoU) is in the process of developing a regulatory framework for MicroFinance Institutions (MFIs) as these are currently not covered by the Financial Institutions Statute (FIS) of 1993. At the moment, MFIs in Uganda face very few restrictions on their credit activities; they are free to determine their credit methodologies and can set interest rates for the loans they provide at whatever level they see fit. However, they are currently not allowed to take deposits and hence most of them decide to keep the savings their clients accumulate with a commercial bank. This is unlikely to change under the new regulatory framework, however, the BoU is considering an option to introduce 'credit institutions' (which would be able to accept deposits) as an intermediary category between basic savings and loans associations and commercial banks. Savings and loans associations would be free to transform into credit institutions provided they conform to the provisions and requirements of the FIS, 1993, thus enabling them to take deposits from their clients.

IV. Description Of UWFT's Organisation And Programme

1.0 Uganda Women's Finance Trust.
Uganda Women's Finance Trust (UWFT) is an indigenous micro finance institution. It was established in 1984 by a group of professional women who wanted to open up an opportunity for Uganda women to gain access to financial services.

1.1 MISSION.
To economically empower economically disadvantaged women in Uganda. The Trust will realize its mission through the delivery of an awareness creation, savings mobilization, and credit. The Trust will render these services in a manner that will safeguard its self-reliance and financial sustainability as an institution.

2.0 ACTIVITIES.
2.1 Savings.
The facility is under a membership scheme.

Eligibility criteria.
Individuals.
- Females below 18 are eligible to apply for membership if they present reference letters from two account holders of UWFT.

Groups.
- The number of members must be a minimum of 10 and a maximum of 30.
- Groups must be registered at least at the local council level.

Requirements for opening a saving account.
(in Uganda shillings: Ush. 1380:$1)
- *Minimum balance of opening an account.*

Groups: Ush. 50,000, Individuals: Ush. 10,000 Joint: Ush. 20,000.
- *Membership fees*

Groups: Ush. 20,000 Individuals: Ush. 5,000 Joint: Ush. 10,000.
- *Stationery fees.*

Groups: Ush. 4,000 Individuals: Ush. 4,000 Joint Ush. 4,000.
- Passbook Ush. 2,000
- 3-passport size photographs for each signatory to the account.

2.2 CREDIT.

Eligibility Criteria.
Group Loans

- 80% of group members must be women
- The executive of the group must be women
- The group must have a minimum of 10 members and a maximum of 30.
- For lending, the applicant is required to save 30% of the loan required security
- Each group member must have business assets worth less than US$500
- The group, its members and their projects should be operating within a 25km radius from UWFT branch office.
- The group must have had an internal savings and credit system for at least 3 months
- The group must have a savings account in UWFT and saved for at least 3 months
- Loan applicants must have been operating an income generating activity for at least 6 months.

Individuals Loans
- Individuals should preferably be graduates from the group approach and must have successfully re paid previous loans.
- They must have saved with UWFT for at least 6 months.
- They must operate within a radius of 25km from UWFT branch office
- For lending, the applicant is required to save 30% of the loan as security
- The project must be economically viable
- No loans are disbursed to start-up businesses

Loan sizes:	Groups	Individuals
1st loan	150,000	500,000 Ush.
2nd loan	250,000	750,000 Ush.
3rd loan	400,000	1,000,000Ush.
4th loan	500,000	1,500,000Ush.

	Groups	*Individuals.*
Repayment frequency:	Weekly	Monthly.
Grace Period	0-1 week	None.
Repayment period	4 months	6 months

Interest rate 2.5% per month on principle (groups & individuals)
Stationery fees 5,000
Commitment fees 4 % of the loan.

3.0 Contact Information.
The General Manager, UWFT
P.O Box 6972, Kampala
Plot 59 Buganda Road, Tel: 255146/7, 341275
Fax: 256-41-255144
E-mail: uwft@swiftuganda.com

Branch	Address	Telephone.
Kampala	Box # 6972	341275/255146/7
Masaka	Box # 1352	(0481) 21266.
Mbarara	Box # 244	(0485) 21525
Jinja	Box # 509	(043) 21849.
Kamuli	Box # 380	(0496) 3015.
Iganga	Box # 690	(0495) 2342.
Mbale	Box # 1108	(045) 33108.
Kumi	Box # 135	(045) 71085.
Soroti	Box # 183	(045) 61408.
Hoima/Kibaale	Box # 45	(0465)40029/40150.

Information extracted from UWFT Financial statements.

As at December 1998.

Note that UWFT financial year ends 30th June. Hence the figures contained in this table of Jan – Dec, 1998 have been arrived at by taking the figures as at 30/6/98 and deducting from them the half yearly figures of 31/12/97 and adding on the half yearly figures as at 31/12/98.

Table 3: UWFT programme data

Details	
Number of clients*	34,363
Total number of savers	34,363
Number of branches	10
Value of savings at the end of year	1,357 million
Average number of clients per group	10
Number of borrowers**	8,022
Total value of outstanding loans	1,006.2 million.
Voluntary Savings***	851.6 million
Compulsory savings	498.4 million
Portfolio at risk 90 days - Actual figures	86.4 million
Portfolio-at-risk 90 days – Percentages	8.58%
Total Operating income	641.4 million
Net Financial margin	516.8 million.
Total operating expenses	707.7 million.
Profit (loss) on financial services.	(190.9) million.
Value of loans written off this year	82.2 million
Current interest rates on loans (nominal)	30 % pa
Current interest rates on loans (effective)****	66.4% pa
Interest rate paid (irrespective of balance) to savings accounts holders	2 % pa
Exchange Rate US$1:Ush.	1,370

* The number of clients based on gender is 2% Male and 98% Female.

** The high ratio of savers to borrowers reflects 1. Clients building their 30% obligatory savings balance, 2. Staggered releases of loans by UWFT, 3. Clients who only want to save, and 4. Dormant accounts.

*** The majority of these are held in relatively few large individual accounts.

**** Not including the 30% of loan value obligatory savings balance required – factoring this in would raise the effective interest rate to around 95% pa. Please note that as a result of the BoU's regulations, UWFT is unable to intermediate and on-lend these savings – they are invested in T-bills etc.

See Appendix 2 for a detailed description of UWFT.

Yesterday's Wealthy … Today's Poor

(It Could Happen To You … Yes Even You)

Unlike most microfinance clients, Mrs. Muwanga had limited experience working in the informal sector when she received her first UWFT loan. Her husband was a lawyer and provided well for her and their children, who were enrolled in boarding schools and Makerere University. They lived comfortably in a 5-room house. However, her husband suffered a stroke in April 1997 and since then has been unable to work. The children have been withdrawn from school and university and Mrs. Muwanga finds herself the major contributor to the household. Her first business venture was the baking and sale of cakes. She made a small profit on her first loan of Ush. 80,000, but during the second loan cycle, she was less lucky. She purchased some bad flour and had to withdraw her savings and sell off her cooker to repay the loan. After this experience, she leased school canteen space and has begun a new business providing food and snacks to the children and their teachers. Mrs. Muwanga also participates in a ROSCA, which operates within her UWFT group. She used her ROSCA funds to finance a poultry business but this also failed because of an epidemic.

V. Analysis of the Findings from the Field Work

Note: All names in the case studies in this section have been altered in the interests of confidentiality

V.A. Which Groups Among The Poor Does UWFT Reach?

In the national labour market context (see Section III.), microfinance emerges as a potentially important creator of jobs. If the public and modern private sectors are unlikely to employ more than 5-10% of the active labour force, and the 30% functionally unemployed are taken as the "core poor", the UWFT clients typically span the spectrum between these, (i.e. the "poor" to "not so poor"). These people typically have some form of regular self-employment and small-scale businesses - the most important source of employment, for 60-65% of the national labour force.

Based on the wealth ranking exercise most clients fell in the upper socio-economic category in their relatively poor communities although some were ranked in the lower 50%. Some were ranked as high as 2nd in 20 household ranking.

Finding UWFT's Clients' Place on the Wealth Rank

During the wealth ranking exercise, *Mr. Baker*, (the respondent), whose wife is a client of the UWFT, ranked their household as number two out of twenty households selected at random. They live in Katwe, a section of Kampala, known for its small-scale industry. They have 8 rental units each of which yield over Ush. 40,000 each month, and the wife runs her own catering business in town. They own 2 acres of land in the village, and good quality household items including a TV and radio. The household inherited most of the assets from the husband's father.

Another client, *Henry Mukasa*, was ranked 5th in the sample drawn from the Katwe community. The respondent said that, "Henry has a well established welding business that seems to generate a modest income, he is building his own house in a reasonably decent section of Kampala, so he can stop renting, and he also has another home in the village". Turning to why Henry is at that level of wealth, the respondent said, "He knows how to take advantage of various social and financial services groups, including UWFT, to build his business."

Rose is also a client of UWFT who was ranked 12th out of the twelve households ranked in the Mivule Zone, Namuwongo. The household was described as being functionally headed by a hardworking female. They have very few basic household items and are still renting accommodation. Their poverty was attributed to the lazy husband who squanders the little money he gets from casual labour on alcohol. In addition, "they both lack education and come from poor family backgrounds" said the informant.

The UWFT clients are either self-employed in small enterprises or sometimes employ others in small-semi formal establishments like restaurants, hair salons etc. The major enterprises are: trading in *matooke*, charcoal, retailing food and drinks, kiosks and shops of varied qualities and size, light manufacturing among the not-so-poor; small-scale agriculture like raising chicken for eggs and meat, or growing cut flowers.

As indicated in the section describing the programme, the UWFT targets low-income women, both in the rural and urban areas. Clients have moved closer to this definition since group lending was introduced in 1995.

During the research the majority of clients interviewed ranged from poor to the lower level wealthy households. This analysis is based on wealth ranking exercises, Focus Group Discussions, and individual in depth interviews (most of which were conducted in the clients homes) as well as the quantitative data collected on the clients participating in the Focus Group Discussions.

In Their Own Words

As part of the Focus Group Discussions, the clients were asked to describe the "poor" and the "rich" in their community. The clients asked to add a category (to which they claimed to belong) the "not-so-poor". There was a remarkable consistency in their descriptions, which are summarised below.

The Poor

In these households, typically neither the husband nor the wife has steady employment, they lack the capital (and the ability to plan) to start a business, and cannot qualify for a UWFT group loan because they cannot raise required savings levels and commitment fees. They therefore resort to finding odd jobs for food. The family often has only one meal a day (in the afternoon), and they sometimes have to beg from friends. The poor are often evicted by landlords for non-payment of rent, even though they live in one-room, dirty houses with many pests e.g. rats, lice, fleas etc. These houses lack a toilet, do not have a separate kitchen, and there are holes through the walls of mud and wattle and the grass thatched roof. As a consequence household members are frequently sick and in the absence of money, these illnesses go untreated.

Poor women are often pregnant, and they do not get the necessary pre-natal care, and they usually deliver at home. The very poor like having a lot of children since they view them as wealth. As a result, the children are undernourished, often stunted, and frequently sick from curable and preventable diseases, particularly skin diseases. Poor people's children do not go to school, and when they go their neighbours' houses to watch TV they are chased away because they are dressed poorly and inadequately. As a result of these factors, the children are unhappy and some get out of control and become "street children", sometimes even stealing from neighbours. The poorest are often female-headed households with 10 to 20 children, who do not attend school even under the Universal Primary Education (UPE) scheme.

Poor women lack confidence and have poor social skills, fearing to join women's development groups. Often the men get drunk to forget their frustration and take several wives. As a result, the households have frequent domestic quarrels over lack of money and household essentials. They settle these disputes in public because of the limited space and privacy in their (often) one-room houses.

The Not-So-Poor

In these households either the husband or the wife has low paying but steady work, giving good household income - although it may not be enough for the month. Nonetheless, the household makes some savings in readiness for contingencies. In addition, a typical not-so-poor household has a few consumer-durables (e.g. TV, radio, bicycle). The household can afford more than one meal a day but cannot afford a well-balanced diet. The not-so-poor sometimes own their own houses, but usually live in rented accommodation. Many of the not-so-poor suffer from threat of eviction for non-payment of rent on these houses. However, one member of the household may have a bit of working capital for micro-enterprises – one way or another they can afford the group membership fees needed to access loans from MFIs. Not-so-poor women can find the time to attend mobilisation seminars to learn how to earn more and save too. They will have access to more information by participating in women associations, and receive advice from peers on many subjects including their businesses.

All the children of the not-so-poor attend day schools and live in their homes because parents cannot afford boarding school. They can however, afford all the UPE requirements and send all their children to secondary schools, although they sometimes have to pay school fees in instalments. This is a recurrent problem for the not-so-poor and sometimes their children are unable to pass examinations because they miss classes due to non-payment of school fees. However, the not-so-poor have clean children, who wear clean clothes and share fairly good quality bedding at night. The not-so-poor sometimes attempt to assist children of relatives (e.g. orphans) by paying for their school fees. They also have many family members who come from the village with the impression that their town relatives are rich – these relatives are quick to consume but reluctant to work.

Not all of the members of not-so-poor households can be taken to hospital in the event of illness because they cannot afford all the bills. However, a not-so-poor household generally has friends to help in times of need, and the households are able to participate in the political life of their communities. Among these households, there is less domestic violence, and the husband and wife start planning together. The community and neighbours usually trust and respect these people.

The Rich

Rich households own a large business with a lot of capital or have multiple sources of income (e.g. salary, a farm, a shop etc). Both husband and wife have steady employment or have connections to enable them have access to big loans, so they can develop businesses and construct factories that employ others. Household members are motivated to work to maintain their standard of living. They have private transport to and from work and are able to save time since they do not use public transportation. Rich people's houses are permanent structures, which are fenced off for privacy and thus able to keep out neighbours' children (these households chase away the poor because they are dirty and bring dust to the house). These houses have many bedrooms, private toilets and electricity, and are set in extensive compounds. Inside, rich households have expensive high quality radios, TVs, and refrigerators, and many domestic servants. Visitors and friends keep streaming in because there is plenty of entertainment and food – but poor relatives fear to come. The household members eat regularly and well, enjoying a balanced diet (including meat), with individuals able to choose what they want each meal.

The children of the rich look happy – they get what they want. All rich children are well dressed, have shoes, and sleep in their own private rooms on mattresses and beds with good bedding which is regularly changed. They attend high standard boarding schools and do not need UPE. When the rich go to boarding school to visit their children, they have time talk to teachers and children because they have private transport and do not have to worry about travel time. Eventually some of the children of the rich go to local universities and even to study abroad.

In rich households, the sick get treated quickly in private hospitals. The housewife belongs to several community groups where she is able to get strategic information and other benefits which the poor cannot understand. Both husband and wife work and co-operate about how to run the home: rich households have less domestic conflicts, and whenever there is a conflict it is over what business failed to meet its expectations. Sometimes the rich household is able to help others help themselves by bringing a project to the community – they are fully involved in political decision making up to the national level.

Table 4 describes the profile of the "typical" UWFT based on the results of the Focus Group Discussions.

Table 4: UWFT client profile

Characteristic	***Description***
Gender	The typical client is female. This is because of the UWFT policy of having no more than 20% of male clients; the majority of clients with the UWFT are women. The men are even fewer because of a failure in communication has meant that some existing and potential clients think that men are not eligible for membership.
Marital Status	The typical client is married. Out of the 75 people that participated in the Focus Group Discussions, 50 were married, 16 were single and never married, 8 were widows and 1 was divorced.
Age Distribution	The typical UWFT client is between the age of 30 – 39 years. Of the 75 persons that participated in the Focus Group Discussions (FGDs), 13 were between the ages of 20-19, 32 were between the ages of 30 – 39, 13 were between the ages of 40 – 49 while another 13 were above fifty. One client was above 80 years old.
Highest Level of Education	The typical education level of UWFT clients interviewed was between Secondary 1 and 6 which means that they are well educated and capable of reading, writing and communicating

Characteristic	***Description***
	in the official language. 2 of the clients were illiterate, 16 were between Primary 1 to 7, 43 were between Secondary 1 and 6, and 9 were post secondary/tertiary institutions.
Average Size of a Client Household	The average size of an interviewed client household is 7.3 (549 persons - 75 households interviewed in FGD) with the forty households having between 5 – 9 people.
Dependency Levels	The typical household has many dependants. In the 75 households interviewed, there were 370 children (average 5 per household) below the age of 17. There are also many people over 17 that are still dependent since they lack jobs.
School Attendance	The typical client household has most of its children attending school. Out of the 75 household interviewed during FGD, there are 266 between the ages of 5-17 attending school out of 268 in that age bracket.
Household Economic Head-ship	The typical client among those interviewed comes from a household economically headed by a husband. 45 households are male-headed, 23 are female-headed (normally a divorcee, widow or a single never married woman) while the rest were jointly headed.
Type of Dwelling	The typical client interviewed lives either in a personal home or a rented house. Most of the clients live in 3 room houses. 30 of the clients lived in own houses while 32 clients lived in rented houses.
Water and Sanitation	The typical client interviewed had access to drinking water and uses a communal pit latrine. They were almost equally distributed between having water piped into their dwelling, using the neighbours tap and accessing a public tap. 43 used communal pit latrines, and 22 used a private pit latrine
Energy sources	The typical client interviewed had access to electricity in their dwellings. 49 of them said they had electricity while 22 said they did not.
Business Diversification	They typical client household had two business enterprises. 26 of the households interviewed had one business, 35 had two businesses while 11 had more than 3 businesses.
Level of Indebtedness	The majority of households members are only aware of their individual debt, which is normally that owed to the UWFT. Most do not know how much money their spouses or other members of the household owe (if at all).
Savings Behaviour	A typical UWFT client household saves with the UWFT in order to access a larger loan. Secondary reasons for saving include emergencies and periodic expenditures. A smaller number of them are target savers hoping to make a major investment. A significant number of clients were found to save not as much with UWFT as with ROSCA and informal insurance arrangements (*Munno Mukabi).*
Group Membership	A typical UWFT client household belongs to more than one organisation each meeting a particular need including financial, social and personal development. These include ROSCAs, *Munno Mukabi*, Mothers Union and religious organisations.

In summary, the characteristics of the UWFT clients' households included:

- the ability to meet basic household needs (albeit with varied range of difficulty),
- a large number of dependants,
- more than one source of income,
- sending some if not all their children to low status schools, and
- capability to meet some of their medical bills.

VI.B. What Are The Nature of Risks Confronting Clients of UWFT ?

Compared with the better off, poorer households have to deal with a number of additional challenges when trying to cope with risk. They generally face a larger number of risks in their environment and tend to be affected by more than one risk factor at a time. The magnitude of these factors is also greater for poorer households which means that even where the type of risk is the same the effects on the household economic portfolio are likely to be much more serious. And finally, related to the last point, poorer households tend to find it more difficult to cope with risk as they lack the necessary assets to effectively manage risk and reduce their vulnerability.

Risks are factors beyond the control of the affected individual or household which temporarily or permanently disrupt the functioning of the household economic portfolio to such an extent that the income stream required to fulfil the household's basic needs and/or uphold its regular level of consumption can no longer be maintained. They are often categorised according to their source (e.g. market risks, natural risks, personal risks, etc. – see box "An Alternative View of Risk – Types and Sources" below) which, although providing a neat framework to organise a poor household's risk environment, says little about the qualitative differences between the categories. Nor does this categorisation shed much light on how households develop strategies to minimise the potential damage they cause. However, it is obvious that different risk factors require different strategies for managing them and it is important for microfinance institutions to analyse and understand these differences in order to be able to provide services which can help their poor customers with this process.

Rahman and Hossain (1992) offer another framework for analysing risk which looks at to what extent a specific disruption can be anticipated and hence planned for, as well as the degree of permanence of these disruptions which will affect the choice of response. For example, short term coping mechanisms to get through limited crises such as the loss of stock or a curable illness, versus long term adaptations involving a permanent change in the mix of strategies used to fulfil the household's basic needs in response to more profound events. In this framework, risks are organised as follows: structural risks, crisis risks, and life-cycle risks. These are now discussed in the context of the observations the research team was able to make among UWFT clients.

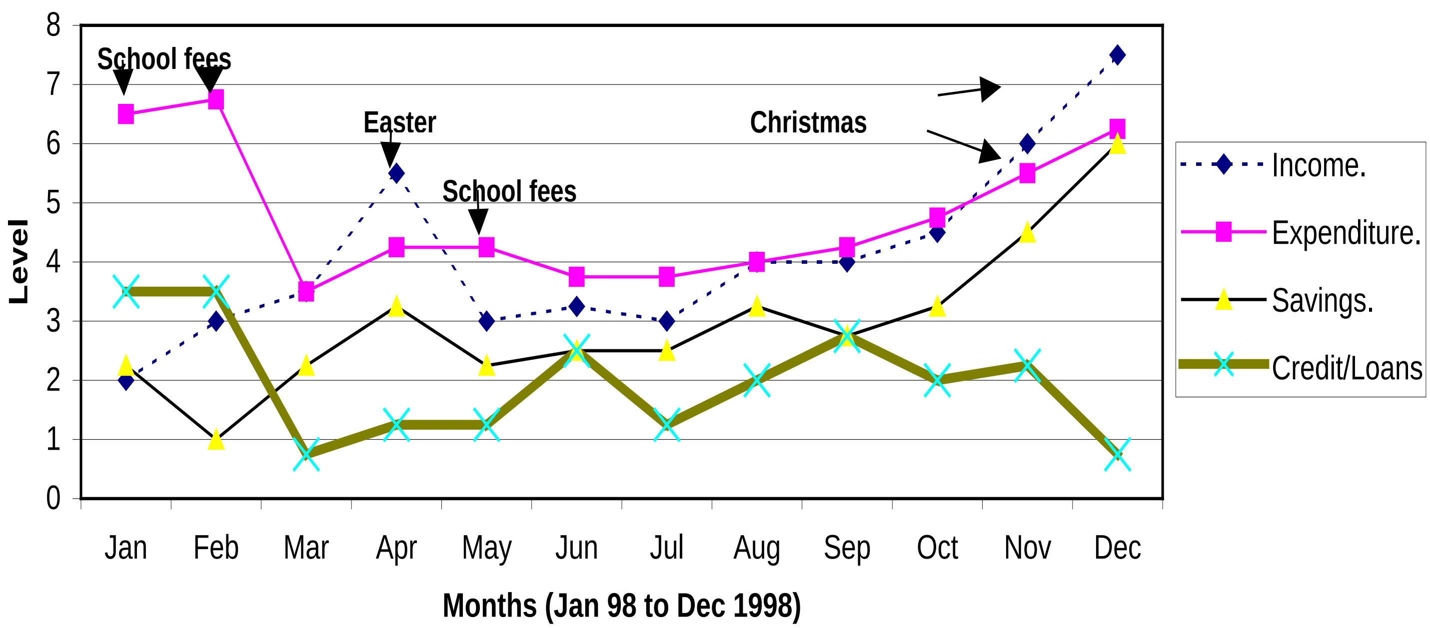
Structural risks are very often long-term or permanent changes in the national or international economy which impact on the ability of poor households to sustain their income. In Uganda, as in many other developing countries, these structural factors are strongly linked to the implementation of structural adjustment programmes, i.e. macroeconomic stabilisation followed by the liberalisation of prices and markets.

The impact of structural adjustment-related policies on UWFT client households has been significant and by no means unidirectional. On the positive side, the freeing up of prices and markets has created new opportunities for private sector economic activities in areas previously dominated by state-owned enterprises and other actors aligned with the government of the day. This was noted by a number of study participants especially those at the top end of the enterprise spectrum who have been able to win lucrative government contracts such as the provision of catering services to schools.

However, the reduction of government spending on bureaucracy and support for basic services such as healthcare and education coupled with widespread price and market liberalisation have had a profound and permanent impact on UWFT clients and their households. In the process of government retrenchments a number of them have lost an important stable income source when they, or their husband or other close relative lost their job. This forced many women to start a business or expand their existing income earning activities to make up for the lost income. Lack of experience and their limited skills base heavily restricted the options for the majority of the women and as a result many of them focus on the same products and services, such as charcoal and *matooke* trading thus increasing competition and driving down margins. At the same time many of their potential customers face similar economic pressures. Widespread poverty and a low per capita GNP continues to affect the majority of Ugandans resulting in weak and unstable demand for the products and services provided by UWFT clients.

Seasonality calendars (see chart 1 below) revealed that many of the businesses operated by UWFT clients suffer from instabilities caused by seasonal swings in demand. Many of the trading and retailing activities generate the highest returns around Christmas (November, December) and Easter (April) with the periods between January and February and May to October often leaving business and household severely strapped for cash. This situation is aggravated by the seasonal pattern of major out-goings especially education-related expenditures, which peak at the beginning of the terms in January/February, May and September/November. These additional demands very often trigger crisis situations for the less well-off and/or those with large numbers of children.

Chart 1: Seasonality of income, expenditure, savings and credit



Pressure on household incomes is further exacerbated by the depreciation of the Ugandan Shilling driving up prices for imported goods and an increased tax burden caused by (a) a real increase in tax rates and (b) the introduction of more effective tax collection methods. Rising prices were generally quoted as one of the main causes for increased vulnerability although the official inflation figures do not confirm this as a major factor. However, a closer look at the spending pattern of UWFT households reveals that the products and services that make up a relatively large share of their expenditures have in fact experienced above inflation price increases. This is particularly true for school fees. Although the newly introduced UPE programme is expected to ease the financial pressure on parents with children in primary school, structural changes in the provision of secondary and tertiary education have meant that more and more parents find it difficult to afford quality education for all their children beyond primary level. A more market-oriented system on secondary level has opened up a two-tier system in which competition for better quality schools drives up tuition fees putting them beyond the means of poorer households. Less expensive institutions very often only provide second rate services thus reducing the chances of getting a job or gaining access to a university place. With the majority of secondary schools operating as boarding schools, the expenses associated with sending their children are often beyond the means of most UWFT clients especially when the number of children in secondary school age is large and often exacerbated by inadequate spacing and/or orphans from deceased relatives.

Crisis risks are sudden, unexpected shocks to the household that disrupt its ability to generate income or force it to allocate a certain portion of that income to an area not included in its established economic portfolio, thus reducing the share available for regular production and consumption activities. They generally require the adoption of short-term coping strategies to get the household through the immediate stress situation before it can resume functioning on its pre-crisis level. However, in certain cases such as long-term illness (e.g. AIDS) or death affecting a primary income earner, this short-term coping mechanism is unlikely to be sufficient and the household will need to effect a more permanent change in its economic portfolio.

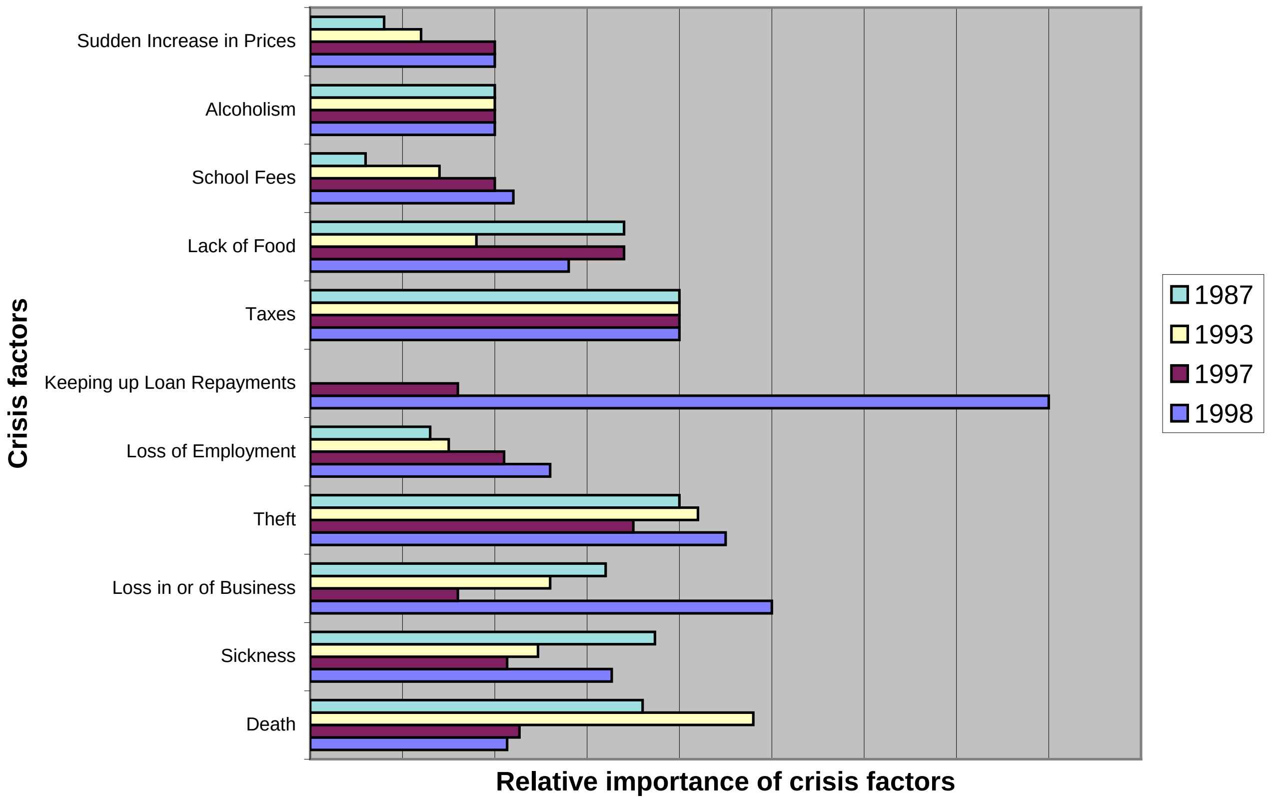
Focus Group Discussions and in-depth interviews with UWFT households affected by crises revealed a long list of such shocks. Death or illness of a close relative was frequently mentioned. One group even commented that death is such a frequent event that they do not really perceive it as a crisis anymore possibly reflecting the devastation caused by HIV/AIDS in Uganda. The economic and social costs associated with such a shock can be enormous. Not only do they generate considerable bills, but when a major income earner or business partner is affected they can also lead to a permanent loss of revenue for the household. Women losing or abandoned by their husbands are left particularly vulnerable due to the associated loss of status and 'protection'. The research revealed that female household heads are less likely to be accepted as a UWFT group member as the lack of other potential income earners substantially increases the perceived risk of default.

Other frequently cited crisis factors were perhaps less expected. Many UWFT clients seem to have been affected by fire and accidents, which often destroyed their entire belongings including productive assets and stocks. Clients were asked to list the key crises families in their communities have experienced over the past two to three years and it may be that one reason for fire and accidents coming up so often lies in their high visibility. Thefts, robberies and cheating were also regular occurrences, so much so that the category of illegal appropriation of other people's property represents a permanent and pervasive risk in the environment in which poorer households earn and spend their resources.

Time series exercises were used to establish the relative importance of different crisis factors over time in three groups. The results are illustrated in chart 2. 'Sickness' and 'death' were listed by all three groups while 'loss in or of business', 'theft' and 'loss of employment' were mentioned by two of the groups. The figures expressing their relative importance are averages. All other factors only came up in one group.

The research also revealed some interesting gender differences. While male respondents were more concerned with political risks such as violent attacks, terrorist activities and harassment by government and city council officials, women emphasised domestic factors such as domestic violence (often related to alcoholism), lack of cooperation between spouses and abandonment by their husbands. It became clear that this additional set of risks makes women significantly more vulnerable and hence financial services aiming to increase women's ability to manage and cope with risk should to take this into account. A word of caution seems to be appropriate here, though. If greater female participation in income earning activities leads to women simply substituting for economic responsibilities traditionally assumed by men, they are in real danger of actually increasing their vulnerability as managing the different sources of risk will become ever more difficult. Financial services are potentially adding a further risk dimension as the failure to repay loans can lead to loss of assets including social capital leaving the household less able to meet its basic needs. However, this study found little evidence to support these concerns.

Chart 2: Changes in relative importance of crisis factors between 1987 and 1998



An Alternative View of Risk – Types and Sources
(from Chen and Dunn, 1996)

"Risk is an important determinant of whether households should diversify their sources of income, what economic activities they undertake, what social relations they negotiate, how they manage their assets; whether they get into or can recover from debt." **The key** types of risks **faced by the poor: predictable recurrent risks and unpredictable periodic risks.**

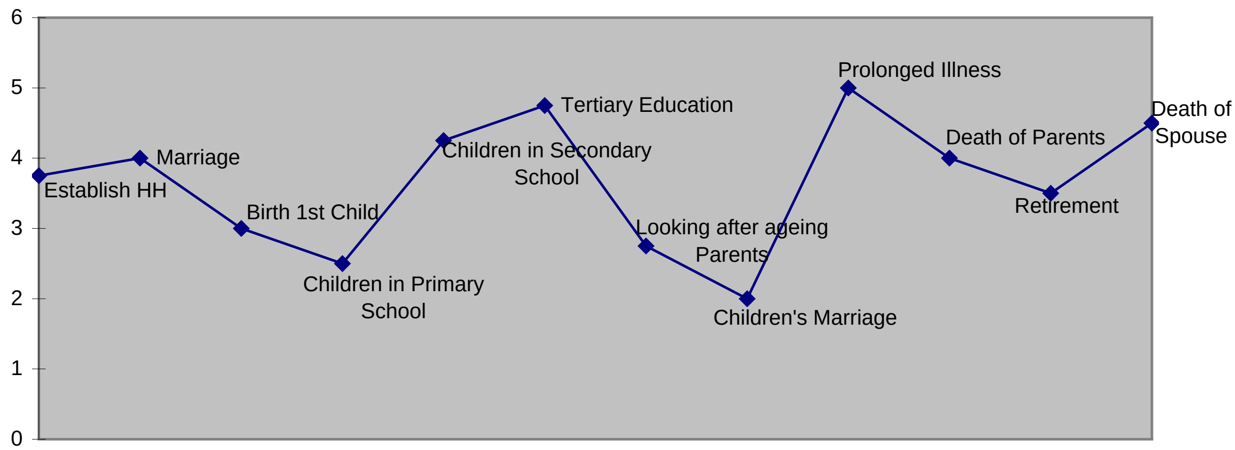
The key **sources of risks** faced by the poor may be categorised as follows:
Personal Sources: refers to crisis within households including sickness among family members, which normally leads to sudden increases in medical expenses and reduced opportunity to produce income, funerals, bride price, expensive ceremonies and rituals, spousal separation etc.
Market Risk: refers to price changes, disrupted market channels, retrenchment, etc.
Natural Sources: refers to epidemic outbreaks, draught, storms etc., which have severe effects especially on businesses that depend on farm inputs.
Strategic Sources: relates to information asymmetries especially the tendency of individuals to behave opportunistically. This includes suppliers, business associates, members of a self-help-group, suppliers, customers, creditors and debtors etc.
Technological Sources: for example malfunctioning pieces of equipment in which a household has invested.
Political Sources: refers to losses from exercise of power. This includes war, looting, and unfavourable acts by state or local government official[1].

[1] Examples of the latter are the occasional confiscation of business assets by municipal official and employees of the Uganda Revenue Authority in an attempt to extort money from vulnerable micro-entrepreneurs. Most people interviewed had faced considerable political risk related to the civil strife that enveloped Uganda for over 15 years.

Life-cycle risks have a certain degree of predictability as they are generally correlated with the person's age and their socio-cultural environment. This does not mean to say that their effects on the household are not considerable - quite the contrary. However, the pattern that lies behind their occurrence should make planning and managing them more feasible especially as (informal) support mechanisms tend to be more readily available.

Life-cycle pressure profiles were used to gain a better idea of what risks UWFT clients face at different stages in their lives. Chart 3 illustrates the results for four women's associations who were asked to weigh a number of pre-determined life-cycle events. Chart 4 shows the age profile of 83 UWFT respondents and it is an attempt to match the life-cycle events in chart 3 with corresponding age groups. This is, of course, somewhat arbitrary as the high number of clients who have lost their spouse in their 30s and 40s illustrates. However, it does confirm the overwhelming importance of education-related expenses for UWFT clients, a message that came out very clearly from some of the other methods of inquiry.

Chart 3: Life-cycle pressure profile (average scores for 4 women's associations)



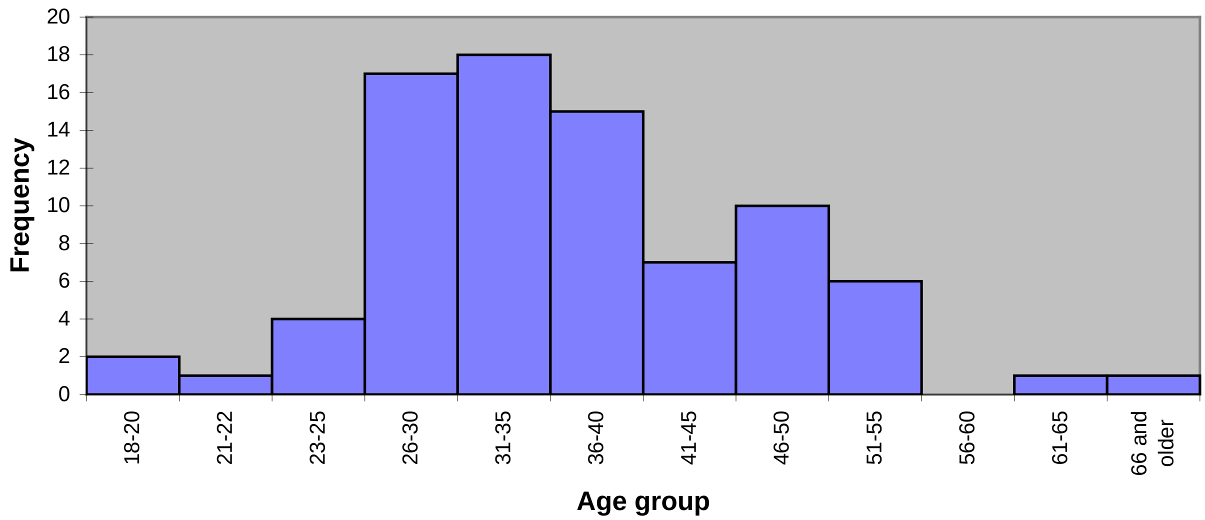


Chart 4: Age distribution of UWFT members' sample

Another important life-cycle factor is the proportion of economically active to dependent household members measured by the dependency ratio. UWFT clients were asked how many household members were engaged in work that earns income over the past year and this was compared with the total numbers of persons in the household. Table 5 lists the average dependency ratio for the age groups used in Chart 4. The lowest and highest categories only contain a few households, however, there are indications that UWFT clients between their mid-20s and mid-40s are particularly vulnerable as their households have to sustain a high number of persons with on average less than two sources of income. It is also striking that nearly half of the sample households for UWFT clients in their 30s have to rely on only one source of income thus seriously affecting their ability to cope with the various risk factors discussed above.

Table 5: Average dependency ratios for UWFT sample households

Age Group	**Average Dependency Ratio** Working : Dependent Family Members	**Number of HHs with one Income Source**	**Number of HHs in Sample**
18-20 years	1.0 : 2.0	0	1
21-22 years	2.0 : 3.5	0	2
23-25 years	2.0 : 6.7	0	5
26-30 years	1.8 : 7.6	3	17
31-35 years	1.7 : 7.0	9	20
36-40 years	1.4 : 6.7	8	15
41-45 years	1.7 : 10.0	3	7
46-50 years	2.3 : 7.5	2	10
51-55 years	2.2 : 7.4	1	5
56-60 years	1.0 : 6.0	1	1
61-65 years	5.0 : 18.0	0	1
66 years and older	3.0 : 20.0	0	1
TOTAL		**27**	**85**

VI.C. What Strategies Do UWFT Clients Use to Protect Against Risks?

The sources of risk described in the previous section interact to form a complex risk environment, and give rise to a complex range of strategies used to cope. These strategies can be broadly grouped into precautionary strategies and response/loss management strategies.

Precautionary or Risk Reduction Strategies

Precautionary/Risk reduction strategies are intended to reduce the household's risk exposure and smooth the flow of income before the loss occurs. The research revealed a variety of measures employed by UWFT clients to strengthen their ability to cope with economic stress and other shocks by broadening their asset base and diversifying their sources of income.

Clients use various strategies to accumulate different types of assets. The research showed that asset accumulation was previously limited by political unrest that led to looting or destruction of property, which meant that holding assets was perceived as being risky.

The Times They Are Changing

"Ten years ago we had an unruly army that terrorised us. Now we have a bit of law and order apart from the occasional robberies and burglaries in our communities."

"In the past soldiers would find radios very appealing to steal, but now everybody can have a radio."

Serious asset accumulation started in the 1990s with focus on physical assets like houses and household equipment. The economic reforms implemented by government, particularly privatisation, have facilitated the creation of more opportunities in the private sector, leading to increased self-employment. The late 1990s have seen more emphasis on the acquisition of social and human assets, particularly in education, skills development and networking. The current patterns of asset accumulation emerged reasonably clearly during the study.

Financial Assets

Financial assets have been accumulated primarily through the financial services offered by UWFT and other formal and informal financial institutions. Although some were used in response to emergencies, many loans were used to **expand business capital and generate more profits.** Groups taking loans from UWFT claimed their businesses were larger and more vibrant than those of their colleagues, for example one group said, "Our capital has expanded and we are doing better than our neighbours in the shop who are not borrowing to expand their capital."

The majority of UWFT clients borrowed money for **working capital** partly because that is the only thing they can do with a small loan that carries a four-month term. Access to credit has enabled clients to increase their working capital which in turn, resulted in greater sales and bigger profits which are used to increase the households asset base and therefore reduce their vulnerability to risk.

There are also many examples of borrowers who have used the loans to **purchase productive assets** like sewing machines, welding tools, popcorn machines, fridges, beauty saloon equipment, furniture for small beer bars, housing, day old chicks etc. In many cases the clients have been able to increase profits which they have used to broaden their asset base and therefore protect against risk both in the short and long term. Still others had been able to use UWFT loans to switch businesses in response to threats from failing or declining business and to opportunities to make larger profits.

A Household Devastated by HIV/AIDS

"With all the deaths I have dealt with in my family I had to rely on good Samaritans," relates Sarah. "They gave me food while I cared for my patients. But how long can you depend on people ? Their goodwill began to wear out and that was perfectly understandable. Then I heard about the Matatu Women's Association. I heard that one could get a business loan and pay over time. I applied and was able to join. Life has been different since then. I was able to obtain a business loan, which I invested. I made a profit and was able to pay back the loan and take care of my dying family and myself … you see I am a widow. My husband had been killed some ten years earlier by thugs. The group and the UWFT became my father, mother, sister, brother and everything in this dark part of life."

Most clients interviewed, especially during Focus Group Discussions, were clear about the need for **savings**. They indicated that savings allow households and individuals to store current income for future protection against risks, which was perceived as one of the distinctive characteristics of the wealthy. Savings provide a source of liquidity in times of emergencies and therefore improve a household's economic security by smoothing consumption when income flows are interrupted.

Establishing **insurance mechanisms** that can be drawn upon in the event of loss is another strategy often employed by clients to build up their defences against future crises. During the research (especially Focus Group Discussions), clients indicated that people normally acquire assets that can be sold off (e.g. cows, goats, animals and land), establish savings accounts, invest in the villages of origin and/or become members of self help groups that come to their rescue in time of need.

***Munno Mukabi* – Indigenous Insurance**

The most popular type of self-help groups is known as *Munno Mukabi* (which translates to Friend In Need Associations). Many clients of the UWFT belong to one of these. How does a typical *Munno Mukabi* operate? At the inception a budget is agreed and split equally among the members. The proceeds are used to purchase such assets as are required for most household social functions that draw large numbers of people. These items include large saucepans, dishes, lanterns, canvas etc. The functions include burials, weddings, children's graduations, baptismal parties etc. After the initial capital investment is made, members attend weekly or monthly meetings at which a collection is made. One group for example, collects Ush. 200 per head per sitting, others collect up to Ush. 5,000. This money is kept and lent out whenever a crisis strikes. Members also pledge to make their labour available whenever a member faces a crisis or holds a celebration.

Money/Asset Management

A number of respondents revealed fairly sophisticated money and asset management strategies to enable their households to maximise returns from the financial resources at their disposal. One example is the targeting or **matching of specific income sources to or with specific expenditure items**. This seems to be a common strategy among female-headed households, who every time faced with a new expense respond by looking for a new source of income to meet it. As one of the clients said, "Money from the retail shop is to repay the loan and buy food, money from the rental houses is to pay school fees and I had to start roasting cassava to pay for electricity". Targeted saving is a common strategy among clients from different types of households. A common pattern was to leave savings with UWFT for long term investment, save with the *Munno Mukabi* association to protect the household against life cycle risks like wedding, baptism, graduation ceremony and burial and save with an ASCA for emergencies and unforeseen expenditures.

Differentiated Savings Accounts

"I do not touch the savings with UWFT because that will ensure that next time I get a bigger loan. I also save with *Munno Mukabi* who will do all the work and provide all the food if I have a wedding, death or baptism in the family. I also contribute 1,000 shillings weekly to an association within the UWFT group just in case I have any emergency and need quick cash."

It is quite common to find women who have combined or leveraged their own financing with UWFT loans for larger investments. This "patching" pattern is mainly due to the relatively low loan size in relation to their businesses and the availability of other sources of capital.

Financial Patching – Financial Leveraging

"The loan was very little but proved extremely useful" said Grace, a member of Kamukamu Women's Association in Kibuli, "I used the loan to top up money I had to buy a refrigerator." The fridge is a very important investment in Grace's beer selling business. She had saved up some money but was not enough to buy a used fridge and fix it. It then became possible when she accessed a loan from UWFT. This was a life turning point in her business. The growth in sales and profits was phenomenal. On top of paying back the loan, she was able to plough back the profits to expand her working capital. Within a year her stock had increased from 2 crates of beer to 32 crates of beer and 12 crates of soda. "I am now able to contribute to paying my children's school fees and other essentials. My husband does not have many means but he tries to help. I doubt that I would have been where I am without him and the UWFT loan," she says with contentment. During the day Grace runs a hair dressing business in the same premises – and it was in this that she invested her second loan.

In addition to using UWFT's loans, some of clients interviewed were also members of Rotating Savings and Credit Associations (ROSCAs)[2] in order to gain access to large "chunks" of money for investment to increase their income and broaden their asset base in a bid to reduce risk and vulnerability.

In some cases the clients have become even more creative and ingenious in order to transform small UWFT loans into large loans through a combination of access to credit and membership to a ROSCA. Members also work round UWFT's system to create larger loans. Some members plan to form smaller groups of say three individuals each, obtain small loans from the UWFT, lump them together and give the lump to one person. They intend to maintain individual responsibility for making weekly repayments. Others have enrolled twice in a group under different names, or enrolled a close relative in the group. These clients believe that larger loans will give them greater leverage in income generation and asset accumulation.

[2] Membership in ROSCAs ranges between 3 to 10 individuals. Among most ROSCAs the collection range from daily to weekly and the amount range from Ush.1,000 to Ush. 10,000. Some clients belong to several and have found them to be extremely useful and effective way to acquire productive assets or restock their businesses.

Making Small UWFT Loans Big – Creative Financial Packaging

"We are too far behind in terms of development," said a member of Ishasa Women's Group. "Our incomes are too low. The loans are too small. However, when we get more money we will buy bigger assets. Let me tell you why we have hope. We will form smaller groups (ROSCAs) within our UWFT group. When we get our loan of Ush. 500,000 four of us will give all our loans to one member. With Ush. 2 million shillings one will be able to do bigger things. We would then continue to repay the bank loan individually from other sources until it is our turn to get the Ush. 2 million. We shall do this for all subsequent loans until we all have had a chance to get a big chunk of money. This is the only way I can see us helping each other using UWFT credit to develop faster."

Another common strategy used by many households to protect against risk is **diversification of sources of income**. During the PRA sessions using seasonality calendars and other tools it was clear that a lot of households diversify to smooth seasonal troughs in income availability. Most businesses enjoy their highest sales during the Easter as well as Christmas season yet school fees and other expenses are tied to the school calendar. That is why it is not uncommon to find a household running several lines of business that have varying levels of cash-flow at different times of the year and in different trades.

101 Things to Do With Chickens

"I started out with broilers to make quick money. You can sell them off every two months. Now I am adding layers which take six months. But once you start selling eggs, the money comes in continuously. I hope to use this money to invest in my plantation - including the chicken droppings as fertiliser !"

Many of households interviewed have diversified economic portfolios that include various types of enterprises, rental income and salaried income. In some cases the client is managing a range of very different activities, each contributing to the goals of the household in different ways. They tend to be differentiated in terms of their demand on the household members' time and management capability. Loans from UWFT are sometimes distributed between the various economic activities. As one UWFT member said, "Apart from the business I do in the shop, my husband also lends money to *matooke* traders who pay him back with interest. I also have another source of income, I sell food in the evening market when I go back home."

A lot of combinations of activities reflect a mix based on regularity of income flows. Some businesses such as sale of charcoal, beer, popcorn and water are important sources of regular, and often daily, income. One example is a woman who on top of charcoal (for daily cash flow and weekly loan repayment) rears poultry – which involves selling a large batch of chickens for Christmas and Easter time, thus generating useful lump sums at these times.

Diversification Into Financial Services – Loan Use Strategy Over Time

In addition to her other businesses, Mary has diversified into earning interest by on-lending her UWFT loan. Mary is a widow. She lost her husband in 1991 and now supports four children ranging from 13 to 19 years. She has had four loans and is an example of the creativity and ingenuity of micro-entrepreneurs in diversification.

She used her first two loans for working capital to expand her existing firewood selling business. She divided the fourth loan (Ush. 500,000) between the purchase of a refrigerator (Ush. 200,000), which she rents out at Ush. 4,000 per day, and a loan (Ush. 200,000) to her brother on which she charges interest of Ush. 30,000 per week for 16 weeks. The final Ush.100,000 she kept for "contingencies."

At the end of the fourth month the brother will pay the principle in one lump some. At this time she anticipates to have a refrigerator which will continue to earn rental income to pay her children's school fees, plus Ush. 200,000 from her brother, which she will add to her savings which she intends to use for a building project. By using the loan to invest in a refrigerator (physical asset) and loan to her brother (financial asset), she is generating income to invest in her children's education (human assets) and a house (additional physical asset).

Physical Assets

Most clients are striving to invest in physical assets as protection against risk. The physical assets include own houses, rental units, land, radios, cassettes, TVs, VCRs, weighing scales, production tools, foam mattresses, bicycles, motorbikes, beds, cars, sewing machines, sofa sets and livestock. During the Focus Group Discussions, there was a clear relationship between the ownership of physical assets and the ability to protect against risk.

Clients are often using their profits from loans to buy assets to add to what they already own. The most sought after asset is a **house**, and owning a personal house is the goal towards which many clients are saving. Clients often make incremental investments to acquire or develop large assets, especially housing. **Land** is another popular asset, in part because of its tangibility and productive value. Thus many clients are buying land, near to/adjoining their family land back in the villages from which they came. While women's ownership of land is not common, many women interviewed are buying their own land, particularly near their maternal homes.

Assets can be categorised into three main types: household, passive investment and key productive assets. **Household assets** include savings-in-kind assets that households hold primarily as value-accumulating stores of wealth, such as livestock (cows, goats and chickens), dry agricultural produce (rice, maize etc.), and basic household items (utensils, furniture, radios etc.) used in the home that lose value over time (but can still be liquidated in response to crisis). These assets therefore provide protection against risk during the early stages of a crisis, but "savings-in-kind assets" are often held since they are perceived to yield higher returns than UWFT's (or indeed other financial institutions') savings accounts. In the words of one client, "Since the bank pays such little interest on savings, it is better to keep the money in chickens. They lay eggs which you can sell and make more money."

Another category of assets that is very popular with clients is **passive investment assets**. These are investments requiring less daily effort by the owner – particularly popular with elderly widows etc. The most popular are housing units, motorbikes, bicycles and refrigerators, which can be rented out. Investing in a house is particularly favoured since it saves expenditure (on rent), can be used for income generation (production, retail sales point or rent of rooms) and in dire emergency can be mortgaged or sold in response to crisis. In Katwe and Luzira, small rental units are a very popular investment and many of the UWFT clients residing there have a clear objective of building or acquiring these since they provide a steady source of income with little time expenditure. The returns are not large but are generally steady giving the household a smoother, more predictable flow of income, thus reducing risks and allowing the owner to plan for the future.

Tangible Security - Soil, Bricks and Mortar

"Some of us already had property before we took loans but we have now been able to purchase more property. We are now aiming for big assets. We want to have houses of our own, and some of our members already own plots of land."

"My husband owns a piece of his father's land, where our family house is built. I have also bought my own land near my maternal home. I will build rental rooms on this land when I get money".

"When I got some money, I made bricks, when I got some more money I built up to the window level. I have now roofed the house and God willing I will get more money and finish the house."

The third type of assets are the **key productive assets** which are necessary for the productive activities of the household. These assets can only be disposed of during advanced stages of crisis or in the face of very severe loss when all other avenues, including social assets, have been exhausted. Among most clients, protecting future income generating capacity appears to be much more important than the complete smoothing of current consumption levels. It is for this reasons that households will modify consumption, for example have one meal a day, move to a cheaper residence, remove children from school etc., before they sell key productive assets.

Human Assets

Among the majority of the clients interviewed it became evident that human capital is considered to be one of the most important assets of all. It includes education, health, training, creativity, innovation, work experience, time management skills as well as other qualities that make people resourceful in a variety of situations that enable them to protect themselves against being vulnerable to risks and shocks.

A Clear Commitment

"All my life and thoughts are about educating my children. Even if I have to sell everything in the house, I will have to educate my children." – Widow and mother of four.

The most important investment is in **children's education**. This is often viewed as a route for upward mobility and form of social security for parents in their frail years. Some clients explain education as the principle determinant of a person's social economic status and capacity for improving it. It is for this reason that many clients say that they are not working for themselves, they are working for their children's education.

Education is the Greatest Investment – Client Perspective

During the wealth ranking exercise, Joyce (a client of UWFT) of Namuwongo put it this way, "The difference between the different people's levels of wealth in our community is education, creativity and hard work, but most importantly education. Education, at least up to secondary schools, enables one to see issues in a different way and be able to take advantage of opportunities. If one has education, one can go to any city council office and talk to officials. One makes more friends. It gives one self-confidence. It is for this reason that a lot of us are striving to educate our children. It is the best investment one can ever give them. "

Investments in health are also important for protecting the productivity of the households labour force and more effective use of the household resources - it was clear that most clients took household health as a critical issue for continued household wellbeing. The research found some clear indications of how seriously healthcare is taken. Several clients who were targeting savings for specific projects (typically land or house purchase) and had resisted making withdrawals in the face of a variety of other crises had finally relented and used these savings when confronted with sickness within the household.

While voicing some complaints about the disciplined, inflexible, weekly repayment loan schedule, clients noted that it had forced them to increase their **businesses/household budgets planning and financial management** skills. It was notable that some clients actually requested smaller loans in later cycles in response to their changing business opportunities/needs. Many clients felt these skills they had learned through being members of UWFT, but wanted more. Throughout the interviews and PRA exercises, one recurrent theme among clients was the desire to have training sessions organised especially in the area of "business training". Some groups occasionally invite people to come and give them training on a variety of topics. This yearning for business skills training is an indicator of the importance they attach to developing their human potential/assets.

New Business Skills

"The capacity we have gained to plan and implement the plans is one of the differences between us and the poor."

"We have learnt to plan and be innovative. When you get the loan you plan several activities to do so that you can generate a little income from different sources. This helps us to run our homes and repay the loan."

" I have learnt to save and to budget for the income I get."

"I now budget carefully and balance my books to know whether I am making profit or loss."

Another recurring theme was that the loans' weekly repayment schedule taught clients the importance of **working hard and the value of time** – this was generally viewed as a positive development although some clients complained that their lives had become "more stressful" as a result.

Time is Money …

One of the chief problems faced by the research team was the premium placed on time by clients, a factor that made them sometimes unwilling to participate in the research. They were acutely aware that time was money and that time not spent on their business was earnings lost … and that UWFT's repayment schedule meant that they <u>had</u> to have the weekly instalment ready at the next meeting. In the words of one member, "Since I took the loan, I have learnt to work hard all the time."

"When you know you have to pay back on the day of the group meeting, which is once a week, you cannot just buy anything or waste time".

Social Assets

Joining UWFT's groups has led to many benefits for the members above and beyond allowing them access to financial services. The group solidarity that has often developed through the members working together has helped **women learn from each other**. Some had learnt the importance of savings, others said they learnt how to manage their daily household expenditure and some said that they had learnt how to plan and be innovative. Other women said they now know other women and they are also known – an important asset in the often anonymous urban environment.

Learning Together

"Until we joined this group, we did not know how to save money. If we had any extra money, we kept it under the mattress, but now our friends have convinced us that it is wiser to keep it in the bank."

"Before joining UWFT, all these women you see here did not know each other. Now they know each other. None can pass by the other without talking to them and asking how they are faring and exchanging experiences."

Many women also testified that they had learnt **leadership and public speaking skills** from their UWFT groups. Over time, some of them have become leaders of the groups as secretary, treasurer and chair, while others have moved on to stand for elected posts in the community.

Many women have started their own business and are contributing to their household income, activities that have allowed them to gain additional **respect from their husbands** and **influence over the decision-making process** in the home. This in turn lead to clients feeling "more valued", a sentiment expressed by many.

Empowered and Proud of It

"Now we have learnt that a woman has a right to make some decisions in the household and that she can make financial contributions and take some responsibility."

"We feel we have more value in our homes and we can take some independent decisions."

The UWFT programme has lead to the building of **group solidarity** whereby members of the group mutually encourage and support each other. Examples are when members make contributions to a family experiencing a life event such as a wedding or a funeral, or when they patronise each other's businesses, or exchange business information or favours. (In one case a group withdrew Ush. 320,00 to give to a member in distress). In some cases the UWFT group members work together in business, pooling the UWFT loans that are seen as too small, or purchasing together in order to secure bulk-buy discounts. Membership of UWFT groups has linked individuals, households and enterprises into a **vital web of business and personal relationships** that have enabled members to better cope with the challenges of life. However, in some cases membership in the group can be described as a social liability, especially where there is a consistent pattern on non payment and some members have faced extreme peer pressure. Several individuals in different groups expressed a desire to eliminate some chronic problem borrowers who are a cause for delay in accessing further loans.

Caring and Sharing

One widow noted with a shy smile, "I now have more friends I can trust who comfort me and advise me when I get problems."

One client who had found her house destroyed by a careering truck said, "The neighbours contributed a few utensils and left. It was the UWFT group I belong to that gave me substantial contributions to build my home again and not my relatives and neighbours. They kept checking on me until I got to terms with my loss."

UWFT members also had adopted a strategy of belonging to different groups in order to meet other specific needs. In view of the clients' premium on time there was also a clear trend to <u>decreasing</u> membership of groups in order focus on those that fulfil clear needs – clients seemed to have conducted an informal cost-benefit analysis of each group.

In some cases the UWFT groups had roles beyond simple traditional solidarity groups and had additional functions – although it was striking that most of these were financial in nature. However, it was not clear whether these **financial groups** had taken on these functions after being formed to access UWFT's services, or whether the women had got together to perform these functions and then presented themselves to UWFT as a solidarity group. Within many of the UWFT groups, members were running a ROSCA to finance the acquisition of small assets and as a supplementary savings system. In other groups they run Accumulating Savings and Credit Associations (ASCAs) which act as insurance for members - in times of trouble a member can take credit from group savings and repay later. In a few cases, the UWFT groups were also drama and music troupes that perform for a fee at celebrations and parties.

Response or Loss Management Strategies

In addition to these precautionary strategies, poor households use loss management strategies to respond to crises after they have occurred. It should be stressed that these response/loss management systems operate on a continuum. The household's loss management depends in part on the risk environment in which the household operates and the kind of assets at its disposal. Households will respond differently to a crisis depending on its severity and stage of advancement. In the early stages, the household will use reversible mechanisms e.g. modified consumption, reduced consumption and taking on additional hours of work or employment. As the crisis intensifies the household may dispose of key productive assets possibly at less than market value or borrow money at extremely high interest rates. All these strategies jeopardise the future economic welfare of the household. As time goes on the household may enter into desperation and may migrate to the village or break up.

Loss management strategies are designed to improve the household's ability to cope with loss after it has occurred. Once loss occurs, households use different loss management strategies to protect themselves against taking less reversible actions (Chen and Dunn, 1996). These include drawing upon physical stock; drawing upon social relations; seeking alternative sources of employment (seasonal migration); borrowing from relatives and friends; using UWFT loans; reducing or modifying consumption; reducing investment in human capital; postponing social obligations; dis-saving; mortgaging and selling assets; moving back to the village or to parents and becoming dependant on charitable contributions from the community. This section examines how the various assets at poor households' disposal are deployed in response to risk, vulnerability and loss.

Financial Assets

Access to financial services, which includes credit and savings facilities, is considered an asset. Credit services have enabled households to expand and diversify into other businesses. They have not only enabled many clients to increase productivity of their resources, but they often also provide a vital lifeline in times of crisis.

Clients frequently used loans to **re-stock businesses** after crises which had been de-stocked either directly (fire, theft, accident or cheating) or indirectly (through enforced run-down or liquidation) thus beginning to rebuild the household's asset base.

Using UWFT loans is another strategy used to respond to crisis. It was difficult to establish the extent to which loans are used to respond to crisis, but the Focus Group Discussions and several PRA exercises suggested that this was common. In individual interviews, respondents were more reticent, partly because the UWFT strictly prohibits using loans for anything else other than what is in the business plan. It is likely that clients were unwilling to reveal the true use of their loans since they were not so sure whether this information would not endanger their access to credit. However, there is clear evidence that a number of clients have used the loans to manage risk, and circumstances where this was clearly economically rational behaviour that best secured the clients' ability to repay their loans (existing and future) to UWFT.

Straight Talk - On Loan Use

"In my case, these loans have helped me in a somewhat different way. Last year my wife and I lost our jobs at the same time. It was around this time that the UWFT loan I had applied for came through. This was our salvation. Although it was originally meant for business, we used it to take care of rent and our basic needs while we embarked on job hunting. We eventually found employment, made repayments on time and UWFT has no complaint with us. This is not an uncommon example of how these loans help people in times of need."

Other loss management strategies, mentioned include dis-saving, mortgaging and selling assets, relocating back to the village and becoming dependant on relatives and other people. Among UWFT's poorer solidarity group clients, **dis-saving** does not feature significantly because the majority have only locked-in, forced savings with the UWFT which must be maintained and increased to ensure access to a larger loan and are therefore not quickly accessible in time of need. This is compounded by the need for three signatories since they are held in a group account. Others are saving above the minimum forced savings levels, or in some cases hold individual voluntary UWFT savings accounts, as targeted savings earmarked for a specific purpose like building a house. Several lower-middle-income borrowers interviewed indicated they held individual savings accounts with the UWFT or other banks because they are more accessible. It is these accounts that are used to respond to risks.

The Tale of A Sick Child

"I was finally forced to withdraw my savings because I had a crisis on my hands," said Beatrice of Kamukamu Women's Association. Last March, their child was extremely ill to the point of death. Her husband's business was at a low point and so was hers. She went to the UWFT and withdrew more than half of the savings she had accumulated over the previous year. "It was extremely important that I meet the health care needs of my child, " said Beatrice. "All my business plans had to take second place. I do not know what I could have done had I had no savings. Most of my friends were in poor financial shape at that time. It is crucially important that I work hard to re-build my savings account just in case trouble strikes again."

During the various interviews and PRA exercises, **savings** were highlighted as a basic indicator of household security, because they provide the cushion against which income shocks to the household may be absorbed. During a review of interesting savings account histories, there were several examples of people who cushioned themselves with their savings when faced with shocks or crises. This was in spite of the relatively small volume of savings they keep with the UWFT in comparison to other institutions. The most common shocks that triggered savings withdrawals were school fees and illness of a household member or a significant member of the extended family. In some cases savings were withdrawn to meet loan repayments.

How Savings Saved A Year

"Like most parents we have faced a lot of trouble with school fees," recounts Alice, "and only that savings account could come to my rescue." Her husband's business had once again hit a snag and so the children returned to school while the fees remained unpaid. It was not long before her son was sent back home from school. This was a severe crisis since he was about to sit for his final exam. The school informed the family that it was not in the habit of offering exams on credit. Panic-stricken, they both looked around for a source of money but were stuck. "I had to think fast and the only place I could find money was on my UWFT savings account." Alice once again went to UWFT and withdrew the required amount - and was able to save a year. "You see if a child misses the final exams they have to wait for another year before they can sit again. Now <u>that</u> can be a real household crisis."

Money/Asset Management

At the household level, access to credit has enabled clients to **smooth consumption** during periods of low income or crisis, thereby precluding the need for households to liquidate productive assets or cripple their businesses by draining working capital. This is also a significant protection against future shocks because assets would otherwise be lost and probably liquidated at considerably below market value. Since liquidation of productive assets is indicative of a potential decline in future household welfare, access to credit can be a critical protection mechanism against such risks.

Reducing household consumption is one of the key strategies for minimising expenditure, and thus conserving financial assets. There are a variety of ways in which this is achieved. Firstly, families will often cut down on non-food items to reduce expenditure when cash flow is slow, particularly targeting social events like holding parties, taking the family out for drinks or dinner etc. Others change food items in response to price changes, dropping some of the more expensive foods from their diets or in some cases, switching between the wide variety of staples available in Uganda in response to price changes. Families under financial pressure also budget carefully and often seek to set limits on daily expenditure. As financial pressure mounts, families are forced to reduce the number of meals they eat in a day, and many families are only eating once a day. Others move house in order to seek cheaper accommodation. A common pattern is to place absolute priority on accumulating school fees first and then planning for whatever money is left over. In this context, many families seek to negotiate with head teachers to pay school fees in instalments. When profound disaster strikes many families are forced to remove their children from school (reducing investment in human capital). From each of the research methods used, it was clear that education for children is one of the highest priority investments for most clients. Withdrawing children from school is usually indicative of a deeper level of crisis.

Frugal Diets

Once "luxury" expenditures on entertainment have been dropped, families commonly move to adjusting their diets as a way of reducing expenditure and thus conserving financial resources.

"When there is a shortage of money, some food items like meat and milk are dropped altogether".

"If prices for *matooke* go up to 5,000 shillings, we change to maize meal and rice until the prices come down again to what we can afford."

"Unless there is an unexpected problem, I do not spend more than 5,000 shillings a day. I leave 2,000 shillings with my wife at home for food requirements and make sure I do not spend more than 3,000 shillings at my place of work."

"We first get children's school fees and then I buy a tin of beans and a bag of maize meal. Whatever is left, if any, is what we plan for."

Another expenditure management strategy commonly used by female headed households, especially widows, is to reduce the number of extended family members in the household by sending some dependants to the village.

Physical Assets

While **sale of assets** was mentioned as a response to crisis in several Focus Group Discussions, individual interviews indicated that retention of physical and financial assets was a major goal of households. Several clients interviewed indicated reluctance to sell assets or cash in savings in response to a crisis. Many said they would rather sell stock from their businesses (even at a loss), work harder and longer, or seek assistance from family members in response to a crisis. This apparent contradiction may arise from differences in theoretical ways of responding as compared to actual response; or from the perceived loss of dignity or "face" that occurs when one is forced to sell personal assets in times of need.

The purchase of assets that can be sold in emergency is a strategy that seems to be commonly practised by men, although some women said they also do it (though usually with different assets from those preferred by men). Men buy land and cattle and build rental houses, while women typically buy household utensils for this purpose. These patterns reflect the gender-differentiated ownership of assets, particularly in the "breakdown position" of separation. However, more recently women have also started investing in rental rooms, and in some cases in land in their own home villages to increase the chances of being able to retain it on dissolution of the marriage or death of the husband.

Moveable Assets In Case of Breakdown

As we discussed empowerment with one group, they became quite animated – in common with many women they had experienced (or seen at close quarters) the breakdown of marriages. Many women were expelled from their homes with only their children and the clothes they were wearing, leaving them destitute and desperately vulnerable. As a consequence, the women had a clear understanding of the importance of owning assets themselves.

"If you have your own assets, at least you have somewhere to start from. These days women know their rights and resist being thrown out without their property, but you have to own the property to claim it."

Another strategy is to make **multiple use of housing**, and this is especially prevalent among households experiencing crisis. There were many cases of clients who had sub-divided their houses into rental units to generate additional income, and others where houses were put to different uses at different times of the day. A striking example of the latter was a house, which was used as a hair salon during the day, as a bar in the evening and as a place to sleep at night. In other cases business premises were used as residence at night to get out of crisis. One of the clients had the following experience, "Enforcement authorities locked my room, when I was away at work, saying it was an illegal structure. While I am looking around for a new room I can afford with a family of fifteen people, at night some of them stay in the bar which my wife runs and the others stay in the kiosk which I run."

Human Assets

A variety of strategies are used to **mobilise assets and increase income** in response to needs and plans. One of the most common is to mobilise household and family relations. Within this, perhaps the most common one is pooling income by "patching" from various sources and planning together to meet household requirements. Another approach used is to have flexible division of labour so that the person who has comparative advantage to minimise costs to the household performs an activity. The third strategy used by many families is to divide responsibility for meeting different expenditures between husband and wife while at the same time defining areas of autonomy and shared responsibility. There are different versions of this kind of arrangement, which seems to be common among male-headed households.

Working Together

There is a remarkable level of collaboration between husbands and wives in the management of financial resources within the household. This collaboration is structured and governed by a variety of agreements and household norms, which are often significant departures from traditional cultural practices.

"My husband contributes what he makes from his business as an electrician and I contribute what I get from my business as a petty trader. We plan together for this money and work out ways of filling gaps when the cash is not enough". This co-operation was attributed to membership of an MFI because the wife could not contribute money to household expenditure before she joined UWFT and got access to credit. Prior to this, her business was too small and her husband sometimes consulted her but took the financial decisions alone.

In one of the households, all the daily household purchases are made by the husband since he works in town is therefore able to return home with all the required items, thus cutting on transport costs.

"The money from our rental houses is family income and we plan for it together. I spend the money we get from selling milk and my husband spends the money from the bar he runs."

Increasing the number of working hours is a common strategy for clients to raise money for repayment of loans and also among those whose stock or cash are stolen. As one client said "All my cash was stolen on the way to the market. I am now working more hours to be able to repay the loan and get another one so that I can start again." Among members facing these types of crises there are numerous examples where individuals take informal credit from group members to solve short-term problems and pay back in order to protect and maintain access to loans for both the individual and the group as a whole.

Social Assets

Social assets allow people to rely on mutual trust, mutual obligations, honesty, reciprocity, mutual respect and mutual help. The transaction cost of doing businesses with people one trusts is lower than the people one distrusts. In addition social assets allow people to develop mutual support and reciprocity-based systems that pool resources and allow them to better manage risk.

During the various PRA exercises, especially using the Venn Diagram technique, it became clear that clients belonged to a variety of groups from which they draw their social capital. These include religious groups, ROSCAs, *Munno Mukabi*, burial groups, informal insurance groups, local government councils, government programs, Savings and Credit Co-operatives and NGO programmes among others. When asked why they joined groups, they had varied answers which included accessing credit, mutual encouragement, emotional support when one is struck by crisis or during celebrations, feeling of importance, access to vital information and learning household management skills.

Borrowing from **relatives and friends** is a central strategy used when a household is exposed to a risk. These are part of a reciprocity and exchange mechanism. It was observed that relatives are increasingly become less useful (or possibly available) and friends are taking on a greater significance, especially in urban areas. Some of the friendships most valued were made among group members, indeed the UWFT groups are often the basis for other self-help initiatives.

There is an abundance of ***Munno Mukabi*** with most, if not all, UWFT clients belonging to this type of association. These associations are particularly useful in responding to periodic but unpredictable risks related to death, sickness, and celebrations that can impose significant financial pressure on a household. In some cases it is the UWFT client group which operates as a *Munno Mukabi*. In the face of trouble they come to the rescue of members especially when a business risk strikes and impedes one's ability to repay the loan.

Group Solidarity in the Face of a Loan Risk

One member of Jajja Asinansi Women's Group in Nansana, had raised chickens for some time but this time she was not as lucky as she usual - disease struck and wiped out all the 250 birds. All she was left with was a loan to repay. Being aware that she had no savings to draw upon to settle the debt and how distressed she was, the group met, considered her problem and the circumstances prevailing. They all agreed to make contributions, which were used to repay the loan. "I will forever be grateful to this group" she says with a smile, "They saved my life. This disaster had finished me."

However, urban people are particularly selective and will only join those groups that make a difference in their lives. This is further compounded by the limited time urban UWFT clients have.

Strategic Self Interest in Capitalising Social Assets

"We go to UWFT to solve our financial problems. To the Mothers Union, we go to learn many things for example, about HIV/AIDS and how to avoid it, counselling our children, preparing balanced diet meals for our families – things which build our homes and keep them together. We also find *Munno Mukabi* useful not only when we loose a family member but also in times of joy. For example when you have a child marrying or graduating and you want to hold a ceremony, the group helps a lot. They come with group utensils, contribute food items and prepare them ... and you don't have to do the cleaning that usually follows big ceremonies !"

It should be stressed that all these response/loss management systems operate on a continuum. The household's loss management depends in part on the risk environment in which the household operates and the kind of assets at its disposal. Households will respond differently to a crisis depending on its severity and stage of advancement. In the early stages, the household will use reversible mechanisms e.g. modified consumption, reduced consumption and taking on additional hours of work or employment. As the crisis intensifies the household may dispose of key productive assets possibly at less than market value or borrow money at extremely high interest rates. All these strategies jeopardise the future economic welfare of the household. As time goes on the household may enter into desperation and may migrate to the village or break up.

How Do UWFT Financial Services Support these Strategies?

Reflecting on the ingenious ways that clients accumulate assets, and then manage and deploy them in response to shocks, there is a clear perception amongst the clients that UWFT's role in these processes is quite substantial. Through UWFT the clients have access to the types of financial services that more affluent people use extensively, and take for granted.

UWFT's **loans** allow the clients to diversify their sources of income, increase levels of working capital in existing businesses, reallocate precious resources into important human capital development and maintenance – primarily education and health - and in emergencies can be used to finance response/loss management strategies. There is also a reasonably consistent response that these loans have allowed the clients to make additional profits, albeit at the expense of increased hard work and some set backs. These profits are usually described as being limited in size, but nonetheless have played an important part in developing and maintaining the households' economic portfolio. Access to UWFT's services may well also increase the credit-worthiness of the clients among more traditional sources of credit: relatives and friends, who often form the first line of defence when crisis strikes. Finally, the weekly repayment schedule is seen as a "double-edged sword". On the one hand it means that the clients are often under extreme pressure to pay, often before the investments for which the loan was used have yielded any income. On the other hand the rigorous disciplined system is seen as having promoted hard work, effective use of time and new levels of financial management among the clients.

UWFT's **savings services** seem to have played a much more limited role, primarily as a function of the way their design. Apart from a few (usually more affluent) clients, most do not hold individual accounts with UWFT. Most of the savings in the group accounts remain there solely in order to maintain the compulsory savings balance (30% of the loan) – a fact clearly illustrated by the large number of clients who have savings accounts with other formal (particularly the Co-operative, Greenland[3] and Centenary Banks) and informal financial institutions (ROSCAs, ASCAs and *Munno Mukabi).* The restricted access to group accounts (both on the basis of the compulsory savings balance and because three signatures are required to withdraw funds) has meant that few see it as a liquid savings account. Indeed, some clients are using this as a way to protect savings ear-marked for special longer-term projects from minor short-term needs or opportunistic relatives. Nonetheless, the requirement of regular and disciplined savings does play an important role in developing financial assets amongst UWFT members – and in extreme emergencies these are used.

Tables 6 and 7 summarise the strategies and measures UWFT clients use to protect against risk as well as how UWFT financial services support these efforts.

Table 6: Summary of risk reduction strategies

	Precautionary or Risk Reduction Strategies	**Role of UWFT Financial Services**
Financial Assets	• Expand business/increase profits • Purchase productive assets • Switch business activities • Build up savings • Establish insurance mechanisms	• Use loan for working capital • Use loan for major investment • Save over and above forced savings • Use loans to acquire assets of varying liquidity • Use loans to invest in home community
Money/Asset Management	• Match income sources with specific expenditure items • Patch loans • 'Restructure' group mechanism • Join ROSCAs • Diversify income sources	• Use loan to start new business activity • Target loan on most important and/or profitable activity • Break up loan to invest in a variety of activities • Keep savings for specific investment/ consumption purposes • Combine loans with financial capital from other sources for larger investments • Target loan on most important and/or profitable activity • Break up loan to invest in a variety of activities
Physical Assets	• Accumulate household assets (e.g. livestock, basic household items) • Accumulate passive investment assets (e.g. rental units, refrigerators) • Accumulate key productive assets (e.g. houses, sewing machines)	• Use loans to acquire assets • Use increased profits to acquire assets • Use savings to acquire assets
Human Assets	• Invest in children's education • Invest in family healthcare • Improve business/planning skills	• Use loans to invest in education and healthcare • Use increased profits to invest in education

[3] Greenland Bank is particularly favoured by traders because of its extended opening hours.

	Precautionary or Risk Reduction Strategies	**Role of UWFT Financial Services**
	• Improve household budgeting skills • Improve work discipline	and healthcare • Use savings to invest in education and healthcare • Mutual learning among group members • Strict repayment conditions require more planning and greater discipline
Social Assets	• Learn new skills • Increased respect from husband • Increase influence over decision-making within houshold • Expand web of business and personal relationships	• Mutual learning among group members • Different roles within groups induce individuals to pick up new skills (e.g. public speaking) • Increase contribution to household income • Group experience facilitates new contacts and relationships • Groups take on new roles in addition to traditional solidarity functions

Table 7: Summary of loss management strategies

	Response or Loss Management Strategies	**Role of UWFT Financial Services**
Financial Assets	• Re-stock business after crises such as theft and fire or longer periods of no investment • Mortgage or sell productive assets • Take informal credits	• Use loans or savings to buy new stocks • Divert loan to address crisis • Use savings to address crisis
Money/Asset Management	• Adjust consumption/expenditure • Send dependants to village	• Use loans/savings to smooth consumption
Physical Assets	• Sell physical assets • Use house for multiple purposes (living, business)	
Human Assets	• Mobilise family labour • Reorganise division of labour within houseold • Increase number of working hours	
Social Assets	• Draw on social capital from various group memberships • Borrow from relatives and friends	• UWFT group members assist each other in times of crisis • Group members act as source for emergency loans

How Does UWFT Social Intermediation Support these Strategies?
Access to UWFT's **financial services** appears to have strengthened the position of women in the household. Since they are now bringing in an increasing proportion of the household income, they are now more involved in decision-making. Furthermore access to these services has allowed women to develop assets clearly demarcated as their own, thus providing them a higher level of security in the face of the breakdown of the marriage.

Traditionally, control over household assets has been largely in the hands of men, but the research uncovered evidence that women are gradually acquiring, defining and controlling their own assets. The PRA time series exercises and individual interviews repeatedly revealed profound differences between the situation of ten years back and today. However, it is important to note that some of the clients interviewed were at school and/or still unmarried ten years ago, and therefore the responses had to be carefully screened and reviewed. Nonetheless, a clear picture emerged.

Ten years ago, women had little or no power over money management, only limited control over children's schooling and almost no say in large household investments. There was a strong customary practice not to answer back to a husband and this was compounded by the fact that most women were not employed and could not contribute money towards household requirements. Men were said to be authoritarian, especially over money management, and women were silent or acquiescent in decision making since this was viewed as appropriate behaviour, and particularly because they were not making financial contribution to the household. In short, "If you did not contribute, you had nothing to say – you had no voice."

Five years back there were some minor changes in that women had begun to get cash from their increased participation in petty trade, ROSCAs etc. At this time there was also a general improvement in the national economy, facilitating income generation opportunities for more enterprising women. Nonetheless, men still generally dominated household decision making over expenditure while there was joint decision making in some households over children's schooling, reflecting a changing society.

Getting To Work …

Ten years ago … "men were very authoritarian and would not allow their wives to work. Women also did not feel confident. But now, things have really changed: there is more co-operation between husband and wife."

"Five years back, I could make a little money because we own a sewing machine. Last year I joined the women's bank [UWFT] and that's when I went wild !"

Clients spoke of some important changes becoming apparent in **1997**. Many women were involved in women's groups and a number of them were also self-employed. As a result of the credit they had accessed from UWFT, more women were able to contribute to household income. Within the household, most women had control over household daily expenditure and over their own loans and savings with UWFT. Some women were being consulted about larger household investments. Many women said they had dropped out of several groups and only retained membership of those which met their needs because they no longer have time to spare. Some of them had become confident enough to stand for public elections in the local council.

Today, the decision-making process has evolved and there are more women able to take independent decisions, particularly over loans and savings with UWFT. There is also more joint decision making over household expenditure, children's schooling and acquiring or liquidating physical assets. Currently women say they have full control over whether to participate in women's groups or not. One potentially negative finding was that some husbands were contributing less towards daily household needs as a result of women's increased contribution – though it remains unclear whether this change is relative or absolute. Nonetheless, it appears that many households are adopting co-operation as a risk minimising strategy.

Some of the norms emphasised by UWFT for example, the requirement for weekly meetings and the insistence that members must collect loan repayments and remit them to the UWFT office themselves, have led to some benefits for group members beyond those UWFT had planned. These benefits accrue through the social intermediation among clients who thus build and develop their human and social assets. However, it should be noted that the complex assets being developed should be viewed as "work-in-progress" and have not stood the test of time. For example, most of the clients who have experienced crisis still turn more to UWFT's financial services than use their social assets. Nonetheless, evidence of the increased empowerment of women who are UWFT clients became more apparent after talking to non-members and finding noticeable differences between them.

Involvement in UWFT's programme develops important human and social assets, which are greatly valued by its clients. UWFT groups work directly as a **channel for information** to its members. As one group said "We learn about many things that are going on from our trainer when she visits our group." Another group appreciated UWFT's information on how financial institutions work. Indirectly also, belonging to the group fosters information sharing among members, mainly about business prospects and places to get cheaper goods. Many group members have skills and knowledge directly attributed to UWFT group membership. Many talked of having built capacity to plan, others of how they had learned to manage their time and control expenditure. A number of individuals talked of improved financial management.

In some, but not all, groups membership of UWFT had facilitated **solidarity among group members** and fostered trust among them. Many UWFT clients noted that groups provided friendship and often even financial assistance for group members who suffer crisis, thus playing an important role in breaking the feelings of isolation and powerlessness often prevalent in the urban environment. In addition, the weekly meeting provides the forum for other self-help and mutual insurance activities, for example UWFT group-based *Munno Mukabi*.

Belonging to a UWFT group also provides members with **status in the community**. However, women who are considered risky, like widows, poor women, and women whose lives are in crisis, are not usually invited by the other women to join UWFT groups – probably in view of the group guarantee mechanism. Those divorced, separated, deserted (and some widowed) women who <u>have</u> become members of UWFT talked more of the financial benefits than married women do, while married women talked more of enhanced human assets - probably reflecting the relative importance of increased income amongst these two groups. However in the case of the female household heads there was evidence of vulnerability to injustice, victimisation and intimidation through theft and cheating because of lack of male protection. Women who were never married did not tell similar stories of being targeted for theft or being cheated by male business partners, probably because, since they have not known male protection, they have developed strategies for coping and fighting back. Membership of a UWFT group also provides wider networks, many women claimed that they now know how to work together. As one said, "The biggest benefit I have got from UWFT group membership is learning how to work with other women. I have been the leader of the group since 1997. I now know very many women and many women know me." UWFT membership has also encouraged them to join wider institutions, a number of women said they had stood to be elected in the local councils having acquired leadership skills and confidence to speak in public from the groups.

VI. Conclusions

Introduction

This programme of research was undertaken in order to examine to key hypotheses:

- *Hypothesis 1:* Financial services reduce the vulnerability of poor individuals and households by providing access to "chunks" of money to protect against risk and cope with shocks.
- *Hypothesis 2*: Social intermediation combined with financial services contributes to reduced vulnerability and increased empowerment for women clients.

To put the UWFT findings in context and make an attempt to test their validity on a national level the researchers also looked at three recent impact assessment studies two of which cover four individual institutions/methodologies in some depth with the third looking at key indicators for a larger sample of organisations. Their findings are summarised in Appendix 4.

A Few Observations and Caveats

The Risk of Biased Responses

From the research, it is reasonably clear that access to UWFT loans has allowed clients to increase income, but in accordance with the research design, no attempt was made to estimate by how much. Even the almost consistently positive responses received by the research team should be viewed with a certain degree of cautious scepticism. Although the interviewers were not UWFT personnel (and no UWFT staff were present during the interviews), it is likely that they were in fact perceived to be "agents" of the project, requiring positive answers. Furthermore, as discussed above self-selection bias and the lack of control group necessitate seeing the studies' results for what they are: UWFT clients' perceptions and realities.

Reaching the Poorest

First of all, UWFT (and it is increasingly clear and accepted, the majority of MFIs world-wide) is not reaching the "poorest of the poor". For the poorest households the opportunities for productive use of loans are often limited, the weekly meetings too time-consuming and the risk of taking loans that are repayable on a weekly basis are unacceptably high. Rutherford (1997) and Wright et al (1997) would argue, the exclusion of the poorest is probably driven by the emphasis on credit delivery by UWFT and most other MFIs, which pay scant attention to the needs of the poorest for somewhere safe and accessible to put their savings. Nonetheless critiques of microfinance based on "not reaching the poorest" tend to overlook the dynamic nature of poverty discussed in the introduction to this report. Not-so-poor households hit by a severe crisis (fire in houses and business, theft of business assets and chronic illness including HIV/AIDS were common amongst respondents) may be transformed into "poorest" households with alarming rapidity. This is why microfinance's role in assisting with the development and maintenance of robust household economic portfolios is so important … for anyone and everyone who does not have access to financial services from formal sector.

Lump Sums and Bite-size Repayments

It is also important to make one clarification with regard to the hypothesis. It is likely that it is not simply access to "chunks" of money that plays an important role, but also ability to repay that "chunk" in small and manageable "bite-size" instalments. It is reasonable to suggest that if the clients were required to repay the loans in one "chunk" at the end of the loan period, they would have considerably more problems, and would probably have to draw on savings or liquidate physical assets in order to raise the lump sum. It is perhaps this aspect of most microfinance programmes that sets them apart from traditional agricultural credit programmes – both in terms of systems and repayment rates. Indeed, Stuart Rutherford (1997) argues that such microfinance loans are often effectively "advances against future savings".

Loans As Advances Against Savings

When Grace bought the calf with her first loan, she knew it would be a struggle. Not only would she have to find the Ush. 2,500 for the weekly repayments, but also she would have to buy food for the calf so that it grew and fattened quickly. But by taking a little more care with the meagre household budget, and selling the eggs from their few chickens, she felt that she could manage.

Rose was confident that, if by the grace of God, her husband was well enough to continue his work as a security guard throughout the year, she could pay off the loan she had used to buy jewellery for her daughter's wedding, and a few sheets of corrugated iron to replace the leaking thatch on their home. (Of course, she had told the UWFT loan officer that she was using the loan for "matooke trading" to keep her happy.)

Grace and Rose share one thing in common with millions of other MFI members throughout the world, they are making their weekly loan repayments not from income arising from the loan, but from the normal family household income. This pattern is extremely common not least of all because of the typical MFI repayment schedules. These schedules normally require weekly instalments (no grace period), and thus require investments that generate an immediate and rapid rate of return if repayments are to be made from the enterprise's income. Therefore, savings from household income are usually the primary source of the money used to make loan repayments.

Thus loans can, and indeed should, be seen as "advances against savings". And when they are seen as such, the ability of the poor to save, and the latent demand for savings becomes even clearer.

Contributions to Health and Education

In view of the concerns that finance for microfinance might divert resources from overseas development assistance for health and education sectors, it is interesting and important to note that UWFT's services are allowing clients to make substantial investments in sending children to school and curative health care. Indeed, these (and particularly education) repeatedly emerge as some of the most valued results of access to credit. While acknowledging (as has been done above) that the poorer members of the community are not benefiting from access to most MFIs' services, and therefore that support for the health and education of these people is necessary, it is also important to recognise that microfinance has an significant role to play. This is particularly so as developing countries move toward the "privatisation" of health and education and to encouraging communities to purchase these services … money makes the market go round.

Money, Health and Education

from "Microfinance: The Solution or A Problem ?", Wright, forthcoming

"Purist microfinance advocates would argue that poor people's primary obstacle to accessing good health and education is money, and that if the poor had the cash, they could and would buy the services. They would argue that good nutrition is about having the money to buy adequate food, that reducing diarrhoeal disease is about having the money to install tube-wells [hand pumps] and latrines, that increasing family planning is dependent on having the money not to have to depend on many children as a "pension plan" to look after their elderly parents and so on. These arguments are attractive and not without some substance. Nonetheless, this position, of course, overstates the issue. Many health-related problems arise from, or are aggravated by, inadequate knowledge of (say) how diseases are transmitted, or the nutritional needs of children and which foods are appropriate. Similarly, it may well be the case that if a family has taken loans and diversified its sources of income, it feels the need to keep children out of school and attending to the family's businesses."

Group Solidarity

In the context of the development of social assets, it is important to note that as a result of the evolution of the programme most of the UWFT groups are relatively new. "Group solidarity" seems, on the basis of the research, to be remarkably high, but this should be interpreted with caution, since it may be as a result of (i) the desire to please the "agents" of UWFT – see above, and (ii) the relatively newly formed groups. Work in Bangladesh, home to many of the oldest MFI solidarity groups, indicates that the older groups were, the more they felt "empowered to default" (Yaqub, 1995), and the less effective "group guarantee" becomes (Matin, 1997) – two factors that endorse UWFT's strategy of graduating group members to larger individual-based loans. In contrast to results here in Kampala, in Bangladesh, Todd (1996) found little evidence for "empowerment through collective action". Todd notes that "Members *did* help one another out with repayment, since default of one member threatened the new loans of the other members in her group and the good name of the whole center. But this help had distinct limits. More general help for members in trouble was rare. … In these villages, the groups and centers pulled together in unity when their access to loans was a stake" (Todd, 1996). This may account for many of the remarkable stories of mutual assistance among UWFT clients. However, in Uganda, there are more traditional systems of mutual help (*Munno Mukabi* and ROSCAs) that are being reinforced and strengthened by the discipline of weekly meetings under UWFT's system. Indeed it is the creative and ingenious ability of poor people to use what ever financial resources and systems are made available to them that is particularly striking. Each of the traditional financial systems plays a different role in the management of resources, and where the new UWFT system imposes norms and limits that are sub-optimal, some groups are finding ways to work around them – by diverting and pooling loans, taking out multiple membership etc.

Women's Empowerment

Similarly, the study provided some important insights into the increasingly empowered role of women within the household and the contribution of microfinance services to this. Western feminist commentators (for example Goetz and Sen Gupta, 1994; Mayoux, 1997) have accused microfinance programmes of making women even more vulnerable to gender-based conflict since they sometimes pass on their loans to their husbands. This practice of giving loans to the husband to use is less common here in Uganda, and when done, is usually economically rational. Furthermore, as in Bangladesh, careful examination of the evidence suggests that participation in an MFI's programme also typically strengthens the position of the woman in her family (Todd, 1996; and Kabir, 1998). Not only does the access to credit give the woman the opportunity to make a larger contribution to the family business, but she can also deploy it to assist the husband's business and act as the family's banker – all of which increase her prestige and influence within the household. As Mizan (1994) notes "In developing countries survival of low income families may compel all members to engage in productive activities. In spite of little improvement in total household earnings a woman's status is likely to be affected by the increase in bargaining power as a result of her crucial contributions to family subsistence."

A Valued Service

Another key finding that was consistent throughout the research was that, although they had many recommendations on how they might be improved and sometimes threatened to desert UWFT for other MFIs, the clients valued microfinance services (particularly loans) so much that they would take almost any measure to maintain credit-worthiness and thus access to them. Though not popular with many of the critics of microfinance in search of "income and/or employment impact", this extraordinary commitment to maintaining access to the services can only suggest that (irrespective of income effects) they are highly valued as an important asset in poor peoples' attempts to reduce vulnerability and maintain and develop the household's economic portfolio. Continued access to follow-on loans has long been viewed as one of the most important incentives for clients to repay (see for example Otero and Rhyne, 1994; Yaqub, 1995; Todd, 1996; Matin, 1997). Given the value that the poor place on having access to financial services (<u>both</u> credit and savings facilities), it is clear that the better the quality of these financial services, the more the clients will value access to them, and thus the more likely they are to continue to meet their obligations (including repayment of loans) to the MFIs that provide them. See Appendix 3 for how UWFT might want to further improve the quality and client-responsiveness of their financial services and products.

Conclusions

With the above observations and caveats in mind, we can return to the hypotheses. On the basis of the research, it is indeed fair to conclude that, "Financial services reduce the vulnerability of poor individuals and households by providing access to "chunks" of money to protect against risk and cope with shocks". Financial services (in the broadest sense of the term to recognise UWFT clients' use of additional formal and informal sector savings systems) help to protect against risk by:

- providing chunks of money to build assets (financial, physical, human and social assets);
- providing chunks of money to better manage cash flow and assets;
- increasing the diversification and development of household assets;
- offering a place to safely store savings; and
- increasing women clients' control over assets.

In addition, financial services help poor clients cope with shocks by:

- providing savings or emergency loans to draw upon (though in common with many MFIs, UWFT still does not recognise the importance of providing emergency loans or the "fungibility" of cash, and continues to try to insist on business loans); and
- building assets that can be sold (the research team found little evidence of pawning or mortgaging of assets and note that the sale of assets is often the last resort).

It is also reasonable to conclude that "Social intermediation combined with financial services contributes to reduced vulnerability and increased empowerment for women clients". This is achieved by:

- building women's human assets (self esteem, bargaining power, control over decisions, and to a limited extent, skills and knowledge, usually relating to planing and financial management, but sometimes also to business-related information); and
- increasing women's social assets (social networks, membership of [functionally-useful] groups, relationships of trust, and access to wider institutions of society).

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APPENDIX 1

Contribution to the WDR 2000/01: Impact of Microfinance on Poverty Alleviation
Research Framework

I. Introduction

The overall purpose of this contribution to the World Development Report (WDR) 2000/01 on poverty is to examine the experience with microfinance in reaching the poor and reducing vulnerability. Towards this end, this project will:

- develop a framework to use as a starting point for exploring the impacts of financial services for the poor on selected non-income dimensions of poverty, specifically, those related to assets, vulnerability and risk;
- support exploratory field work in Uganda, the Philippines, Bolivia, and Bangladesh involving dialogues with clients and practitioners to improve understanding of the role of financial services in reducing vulnerability and risk for poor clients and their households. A core set of questions related to asset building, asset management, and control of assets will be addressed in all of the field studies. In addition, field experts will also pursue other issues related to the impact of microfinance on reducing risk and vulnerability as relevant to the particular program or country context or to their particular research interests.
- review findings from the existing micro finance impact literature on the role of financial services in reducing vulnerability and risk through the lens of assets.

II. Framework

A. Risk, vulnerability, and assets

An important objective of this research is to clarify and build consensus on how poor people use financial resources to reduce risk and vulnerability. For the purpose of this study, risk may be defined as the chance of a loss, or the loss itself (Dunn, et.al. 1996). Drawing on Hulme and Mosley, reduced vulnerability may be defined as the maintenance of a minimum economic threshold (defined by characteristics such as reliable income, freedom from pressing debt, good health, and sufficient resources, including human, financial, and physical assets) that enables individuals and households to cope with problems as they arise (Hulme and Mosley, 1996).

Building on the arguments of Rutherford, the impact of financial services on reduced vulnerability may be described in terms of making available to clients 'chunks' of money that enable them to *protect against risks* by fulfilling needs and taking advantage of opportunities when they present themselves, and to *cope with an economic loss* resulting from unexpected crisis, shocks, and downward pressures (Rutherford, 1998). A core element of the study will be to improve understanding of the nexus between assets and vulnerability. To this end, the core research will focus on the role of assets in protecting against risk and coping with losses. This will include consideration of the management of assets within client households, client's control over them, and how this enables them to build up their asset base and use assets to maintain a minimum economic threshold. Overall, this suggests a focus on assessing the poverty impacts of financial services in terms of a client's capacity to manage assets, continually restructuring their household resource base of land, labor and capital to achieve their short and long run goals.

Sources of risk. For the poor, the fight to maintain a minimum economic threshold is essentially a struggle against downward economic pressures resulting from a variety of factors. These may include, for example, structural factors related to seasonality or to low demand for labor and for the goods and services provided by the poor. Factors may also include sudden and unanticipated personal emergencies related to sickness, death of a family member, loss of employment, theft or harassment; impersonal crises such as war, floods, fires, cyclones, bulldozing homes by authorities. Downward pressures may also result from life cycle factors such as marriage dowry, funerals, childbirth, festivals and rituals, children's education, home building, widowhood, and old age (Rahman and Hossain 1992; Noponen and Kantor 1995; Hulme and Mosley 1996; Dunn et. al., 1996; Rutherford 1998).

Strategies to protect against risk. People can do different things ahead of time to protect against risk. This may include diversification of livelihood activities, accumulation of savings and other assets, diversification of assets to include those that can be liquidated easily, and investment in insurance. A strategy described by Rutherford (1998) is for people to manage their money well, by hanging on to what they have, avoiding unnecessary expenditure, and finding a safe place to store whatever is left over. This puts them in a better position to meet immediate needs and to take advantage of investment opportunities when they present themselves. Related strategies to protect against risk may include consolidating savings, building stocks of food, money, or other valuables, adopting risk reducing technologies, making social investments in reciprocal or redistributive systems among households, making human investments in education and health, or making physical investments in housing, equipment, and land (Hulme and Mosley 1996; Chen and Dunn 1996; Swift as quoted in Moser 1998). Osmani highlights the importance of improving women's bargaining power, autonomy, control over decision making, and access to resources (Osmani 1998).

Strategies to cope with a loss. Once a loss has been incurred, especially one that forces or keeps an individual or household below a minimum economic threshold, people may respond in various ways. In discussing strategies for coping with an economic loss, Chen and Dunn distinguish between recurrent risks (temporary shortfalls in income) and severe risks (a sharp and less reversible drop in income). Responses to recurrent risks may include increasing labor (sometimes requiring migration or a search for alternative employment), reducing expenditures, modifying consumption, drawing down physical stocks, using savings or insurance, borrowing, selling or pawning assets, or seeking help from friends or relatives. Responses to severe risks may include intensifying activities, postponing marriage or other social obligations, entering asymmetric interpersonal dependencies, migrating, and, finally, turning to drastic measures such as illegal activities, abandoning children, begging or even suicide (Chen and Dunn 1996).

Other dimensions of coping strategies emerge from field research. Moser's research on poverty and vulnerability in poor urban communities across regions documents asset-based strategies used by the poor to cope with economic stress, including drawing on women's and children's labor, renting out housing, and drawing on household relations and social capital (Moser 1998). Noponen and Kantor's research in India documents borrowing and non-borrowing strategies and ranks them according to their importance (Noponen and Kantor 1995). Montgomery classifies a hierarchy of coping strategies, ranked by their degree of reversibility and value of resource commitment (Montgomery 1995).

Assets and vulnerability. Assets play an important role for poor households in protecting against risks, coping with an economic loss, and maintaining a minimum economic threshold. Assets may be defined as the stock of wealth in a household, representing its gross wealth. While assets typically are thought of as things or possessions, they are rights or claims related to property, concrete or abstract. The concept can be extended beyond the normal 'accounting' approach to include intangibles such as household relations, social entitlements, and human capital.

There are many ways of classifying assets. Distinctions may made between enterprise assets and individual and household assets; productive and non-productive assets; tangible and intangible assets; the ease with which assets can be liquidated; and financial, physical, human, and social assets (Barnes 1996; Chen and Dunn 1996; Carney drawing on Scoones 1998; Moser 1998; Sherradan 1991). For a more detailed discussion of assets, please refer to the 1996 AIMS paper by Carolyn Barnes. "Assets and the Impact of Microenterprise Finance Programs." Here, we use the following classification:

> *financial assets*: cash, savings, loans and gifts, regular remittances or pensions, other financial instruments

physical assets: housing, buildings and land and improvements to these, land and other physical items which maintain or increase in value such as gold jewelry, or physical items that decrease in value including consumer durables such as household appliances, shoes, clothing, and vehicles.

human assets: skills and knowledge, ability to labor, good health, self esteem, bargaining power, autonomy, control over decisions

social assets: networks, membership of groups, relationships of trust, access to wider institutions of society, freedom from violence

At any one time, assets can be built up, depleted, or exhausted. Patterns of asset accumulation, divestiture or liquidation and of assuming liabilities indicate strategies employed by households and individuals to take risks, protect against risks, and cope with losses (Barnes 1996).[4]

B. Financial services and assets

Financial services may have an impact on assets in several ways. First, loans may be used directly or indirectly to accumulate an asset. The asset acquired may lead to increases in income and further accumulation of assets or consumer durables. Alternatively, a loan may be used to accumulate a risk reducing technology or to diversify the individual or household asset base (Barnes 1996).

Second, loan funds may assist a household to better manage its existing asset base or reduce its liabilities. Access to emergency or consumption loans can enable households or individuals to meet unexpected demands for cash without having to sell or pawn key income generating assets. Access to loans provides a security or fall-back position if difficulties are encountered (Barnes 1996).

Third, emergency or consumption loans and voluntary savings can make 'chunks' of money available when they are needed for unexpected contingencies. Moreover, they are a way for poor people to turn many small savings into large lump sums that enable them to take advantage of investment opportunities when they present themselves. Access to voluntary savings accounts may lead to shifts from non-interest bearing cash savings to interest bearing savings. Voluntary savings may also lower the risk of savings, increase the absolute amounts saved, and enable lump sum expenditures that would not otherwise be possible (Barnes 1996). They also may increase women's capacity to control savings and other assets.

Fourth, both the financial services and the social intermediation role of microfinance programs may build human assets by improving self esteem, bargaining power, autonomy, and control over decision making for participants, especially women.[5] Social intermediation also may contribute to an increase in social assets, such as networks, membership of groups, relationships of trust, and access to wider institutions of society. These dimensions of women's empowerment may strengthen women's ability to access and manage resources necessary to protect against and cope with risks.

C. Core research questions, hypotheses, and indicators

1. Core research questions

Which groups among the poor do micro finance programs reach?
What is the nature of the risks confronting poor clients?

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[4] In this study, we recognize that assets may be acquired and used for both the enterprise and the household, or by the household and an individual or individuals within the household, and that this may change over time. (see Barnes, 1996)

[5] Edgecomb and Barton (1998) define social intermediation as the process through which investments are made in the development of both human resources and institutional capital, with the aim of increasing the self reliance of marginalized groups and preparing them to engage in formal financial intermediation. Village banking, solidarity groups, and self help groups are forms of social intermediation that lead to the formation of a new type of organization through which the poor can relate to others in society, and through which members can develop a substitute for the collateral they lack. By fostering collaboration and trust between members of society, they are able to reduce the transaction costs of doing business in that society.

How do financial services improve client's capacity to manage and control assets and build up their asset base to protect against and cope with risks?
How do microfinance services enable clients to use assets to maintain a minumum economic threshold?

2. Core hypotheses

Hypothesis 1: Financial services reduce the vulnerability of poor individuals and households by providing access to 'chunks' of money to protect against risk and cope with shocks.

- Financial services help to protect against risk by:
    - providing chunks of money to build assets (selected financial, physical, and human assets, risk reducing technologies)
    - providing chunks of money to better manage cash flow and assets
    - increasing the diversification of household assets
    - offering a place to safely store savings
    - increasing women clients' control over assets

- Financial services help poor clients cope with shocks:
    - providing savings or emergency loans to draw upon
    - building assets that can be pawned, mortgaged, or sold

Hypothesis 2: Social intermediation combined with financial services contributes to reduced vulnerability and increased empowerment for women clients by:
- building women's human assets (skills and knowledge, self esteem, bargaining power, control over decisions)
- increasing women's social assets (social networks, membership of groups, relationships of trust, access to wider institutions of society)

3. Core indicators of reduced vulnerability

- improved money management (e.g., reducing expenditures, putting aside small amounts of money on a regular basis, hanging on to what they already have)
- improved asset management (e.g., investment in assets that retain value or increase in value, investment in productive assets, investment in assets that can be liquidated easily)
- diversification of assets
- accumulation of selected physical assets (relevant physical assets should be identified in each field site and, if possible, classified by whether they are productive or non-productive assets, the ease with which they can be liquidated, and whether they are individually or jointly owned or controlled)
- asset retention (reduced asset divestment)
- increased savings (classified by the ease with which they can be liquidated)
- mobilization of labor
- increased expenditures on education or health
- increased control over assets by women
- wider social networks
- increased group membership
- increased bargaining power for women in household decisions

APPENDIX 2

Description Of UWFT's Organisation And Programme

(with thanks to the staff of PRESTO's Centre for Microenterprise Finance who did much of the research for this section)

Background and History

Uganda Women's Finance Trust (UWFT) Ltd. is a company limited by guarantee. UWFT was founded in 1984 by a group of professional women that wanted to create opportunities for Ugandan businesswomen to access financial services. It is a Non-bank Financial Institution under the Financial Institutions Statute of 1993, and is monitored (but not supervised) by the Bank of Uganda.

Mission Statement

The Mission of the Trust is to economically empower disadvantaged women in Uganda. The Trust will realize its mission through the delivery of an integrated package of services, which include awareness creation, savings mobilization, and credit. The Trust will render these services in a manner that will safeguard its self-reliance and financial sustainability as an institution.

UWFT has been in the financial services business since 1987. Operations have been restructured since 1995 with the introduction of group-based lending; and reduction and re-engineering of the individual loans program.

Current Performance

Market

UWFT's target group is low income women, both rural and urban. Clients have moved closer to this low income definition since group lending was introduced in 1995 and are now mainly women whose location is within 25 kms of UWFT's 9 branches, located in Kampala (referred to as 'Central'), Jinja, Iganga, Kamuli, Mbale, Soroti, Kumi, Masaka, and Mbarara.

Current Outreach

Calculating the total number of active savers and borrowers in the UWFT is difficult, as UWFT monitors number of savings accounts and number of loans disbursed per month rather than number of clients that have active savings and/or loan accounts at any point in time. Each group is counted as one client, which vastly underestimates the number of people that the organisation is serving. In addition, the monitoring of 'new' and 'repeat' loans disbursed leads to erroneous calculation of the number of clients. UWFT is reorganising its management information system and introducing the "Trust Information System" to improve the quality of data it is able to provide.

The total number of savings accounts as of June 1997 was 10,053. This increased to 11,697 savings accounts by June 1998, an increase of 16%. As 16% of these accounts were group accounts, the actual number of savers was considerably higher. Assuming that each group had an average of ten members, the total number of savers at June 1998[6] was 28,644 (1,883 groups accounts with 10 members each plus 9,814 individual accounts).Total deposits as of June 1997 were Ushs. 718.5 million. By June 1998, deposits had increased to Ushs. 1,049.0 million, a 46% increase over the preceding year. Given that Ushs. 660.3 million was held by 9,814 individual savers, the average value of individual accounts was Ushs. 6,7281. Ushs. 357.1 million was held in 1,883 group accounts, giving an average balance per group of Ushs. 189,644 and

[6] June 1997 Ush. 1060: $1; December 1997: Ush.1140: $1; $1; June 1998: Ush. 1300: $1; December 1998: Ush.1350: $1

an average value per individual within the group of Ushs. 18,964 (Source: 1997/98 Annual Branch Operations Report).

In June 1998, UWFT had 514 individual borrowers and 418 groups with loans outstanding. As the average group is estimated by UWFT to have ten members, the estimated number of clients with loans outstanding was 4,694. The total value of loans outstanding in June 1998 was Ushs. 599.3 million; Ushs. 373.4 million was distributed to groups and Ushs. 225.9 million to individuals. Therefore, the average outstanding balance per group client was Ushs. 89,330 and Ushs. 439,494 per individual client. As of December 1998, the total value loans outstanding in June 1998 was Ushs. 1,006.2 million, and the estimated number of clients with loans outstanding was 8,022, giving an average loan outstanding of Ushs. 125,435.

Current percentage of female clients

More than 95% of clients are female. Men are not served individually but may join a group, provided that they do not constitute more than 20% of the group's membership and are not in charge of group management.

Operations

Three years ago, UWFT introduced the group methodology, which has proved to be more effective at reaching UWFT's target group of low income women than the individual approach. Repayment rates have also been higher. Over the same period, it has phased out training in business management skills, which proved to be too costly to implement. The Corporate Plan for 1996-99, which was formulated based upon the program review in 1995, included strategies for increased self-sufficiency and for re-focusing on low-income women through group-based savings and loans (rather than the middle class women who had benefited from the prior individual lending scheme). Over the period 1996 through mid-1998, policies and procedures have been reviewed and revised, staff have received training in the group methodology, operations have been decentralised (so that most planning is done at branch level as is loan approval and disbursement), excess head office staff have been moved to branches, interest rates have increased from 2.0% to 2.5% per month, improved loan recovery has been emphasised throughout the organisation, savings and loan transactions have been computerised with the accounting function to be computerised soon, a job evaluation and salary review has been undertaken and a reward system put in place to recognise branches with outstanding achievement.

- Savings

UWFT has two savings products. Accounts may be opened by both groups and individuals. A client opens a savings account upon joining UWFT and pays a Ushs. 5,000 membership fee for individual accounts, Ushs. 10,000 for joint accounts and Ushs. 20,000 for group accounts. These accounts hold both voluntary and compulsory savings. Interest is paid at the rate of 2% per annum.

UWFT invests the portion of savings not needed to cover withdrawal requests in fixed deposit instruments, as the current legal structure does not allow it to lend out savings. When Treasuries were yielding 10 – 11%, savings appeared to be a profitable activity, but now that rates have declined to the 7 – 8% range, UWFT is no longer so sure. Although it's difficult to separate the costs of savings from the costs of loans, this type of analysis would show whether or not UWFT should actively seek to increase its base of savers. If microfinance legislation is introduced that enables UWFT to lend out deposits, then the case for savings mobilisation will of course be much stronger.

- Loans

UWFT has two methodologies: individual and group lending. According to policy, group loans start at UShs. 150,000 for the first, and rise to UShs. 500,000 for the fourth loans. In practice, loans to individuals within groups may be much smaller, based upon the groups' determination of an individual's capacity to use and repay a loan of a certain size. Loan terms average 4 months with weekly repayment. Group loans are secured with a group guarantee and 30% savings. Individual loans range from UShs. 500,000 for the first, and rise to UShs. 1,500,000 for the fourth. Loan terms average 4 months with monthly repayments. Individual loans are 100% secured with collateral and/or 30% compulsory savings.

UWFT charges an interest rate of 2.5% per month, calculated flat (on the entire loan, rather than the amount outstanding). In addition, a 4% commission is charged, as well as a stationery fee of UShs. 4,000. This works out to be an effective interest rate of 85% per annum.

UWFT in the past had poor performance with the individual lending methodology. High loan losses and operational costs forced a re-thinking of the strategy in 1995/96. During this period, credit operations were suspended for a period while operations were restructured. Prior to the restructuring, individual loans were often as large as UShs. 3 to 5 million. Following the restructuring, individual loans were cut back in both size and volume and the program was refocused on low income women organised into groups. According to current policy, the individual portfolio should not represent more than 30% of the total value of the portfolio and is aimed at women whose economic circumstances enable them to service a larger loan than is possible with the group methodology.

The individual loans still represent the greatest risks to the organisation. A review of the portfolio at risk (PAR) for June 1998 shows that UWFT had an overall PAR (90 days or more past due and prior to write-offs) of 16.2%. The individual portfolio had a PAR of 23.2% whereas the group portfolio had a PAR of 12%. By December 1998, UWFT had further improved its portfolio and had an overall PAR of 8.6%. Loans are now fully secured with collateral; personal guarantees; and post-dated cheques. (See section below on "Financial Performance", for a full analysis of portfolio performance.)

Financial Performance

- Operational self-sufficiency (OSS)

UWFT does not take loan losses into consideration when calculating OSS. Hence, the OSS reported here excludes loan losses. OSS moved from 20% in 1994/95 to 29% in 95/96, 36% in 96/97 and 66.8% in 97/98. The dramatic improvement in 1997/98 resulted from a combination of diligent cost control, an increase in the interest rate and aggressive collection of interest from customers. Head office costs in particular have been very high and UWFT has been working to reduce these to a smaller percentage of total costs. They moved from 57% in 94/95 to 45% in 95/96, 47% in 96/97 and 37% in 97/98.

- Financial self-sufficiency (FSS)

FSS moved from 17.2% in 94/95, to 25.2% in 95/96, 30.8% in 96/97 and 46.0% in 97/98. These improvements mirror the improvements in the OSS over the same periods.

- Portfolio quality

In 1996/97 UWFT completed a massive restructuring of its portfolio and write-off of bad debts, much of which should have been apportioned to earlier years. The final write-off of debts that should have occurred in prior years was made in the 97/98 accounts. This process of restructuring the portfolio, properly accounting for risk by setting up adequate provisioning and getting delinquency under control by improved programming has been part of the restructuring of the entire organisation that has been underway since 95/96. UWFT's performance prior to that period was poor, and may be compared to similar experiences among Uganda's banks, including Centenary Bank and Co-operative Bank.

As a result, comparison of trends over the past years has proved impossible. The 97/98 portfolio at risk can be compared to the 96/97, but it was not possible for UWFT to reconstruct the status of the portfolio before then. Given that operations were temporarily suspended in 95/96 while the program was restructured, an evaluation of prior periods would not in fact add much value to the analysis. Portfolio at risk (over 90 days) in June 1997 was a towering 60.2% of the total portfolio. The individual portfolio was 71.7% at high risk, whereas the group portfolio showed a better, but still unacceptably high, level of 24.7%. A closer reading of these numbers shows that within the individual portfolio, 59.7% of the arrears had been in arrears for more than 12 months. That is, these were loans that were made prior to the restructuring of the program. Within the group portfolio, 11.6% had similarly been in arrears for more than 12 months.

Performance improved significantly from 96/97 to 97/98. Portfolio at risk (PAR) over 90 days excluding write-offs that should have been made in 96/97 was 14.5%. Once the necessary write-offs were effected for 97/98 (5.9%), the portfolio at risk (over 90 days) was reduced to 9%. For the group portfolio, PAR in 97/98 before write-offs was 12%, and after write-offs of 2.8%, was 7.8%. Given the enormous improvement that has been demonstrated over the past two years and improved delinquency management controls, it is expected that this improvement will continue.

Institutional Development

- Ownership and governance structure

UWFT is a membership organization, with 46 founding members, 8 of whom signed the original Memorandum and Articles of Association. There are 3 other categories of membership (corporate, associate, honorary); but none of these categories have any members. The Board is, however, open to the possibility of recruiting additional professionals with relevant backgrounds who could make a contribution to the development of UWFT through these three membership categories. UWFT also has a recently formed 3-member Board of Trustees, which has an advisory role to the Board. The Trustees are professionals with the Bank of Uganda (2) and the National Women's Organization NAWOU (1). The Board has 11 members selected from the founder members, elected at the AGM and serving for a period of three years. Directors may be re-elected for a second term.

- Skills and experience of Board of Directors

UWFT's Board of Directors includes some highly qualified individuals, and several with experience in banking and finance. Discussions with half of the current Board showed that they are fully conversant with the principle issues confronting UWFT at this point in time and fully supportive of the restructuring that has taken place over the last several years.

UWFT is also an affiliate of Women's World Banking (WWB). This partnership started in 1984 (and is specifically referred to in the Memorandum of Association), was discontinued later and then reactivated in 1995. This relationship has proved beneficial to UWFT, as staff have had opportunities for training and technical assistance from WWB, and WWB's network of affiliates, including Kenya Women's Finance Trust, provide opportunities for UWFT to network and learn from the experiences of others.

- Donor and/or investor base

NOVIB has been the main donor over the last several years and has pledged support for 98/99 with a grant to cover the Head Office deficit. SNV has also been an active supporter, and has in the past provided UWFT with long-term technical assistance. This TA was invaluable in assisting UWFT to develop systems that enable it to more effectively plan and monitor its activities. The systems include a planning spreadsheet that is used at branch level for the annual planning, a monitoring sheet that produces key information on a monthly basis and a computerised loan tracker.

Business Plan

Strategy and Market

The current Business Plan covers the period July 1997 – June 2000. The strategy includes increased outreach, impact, financial self-sufficiency (of both MFI and clients) and empowerment (again, of both clients and MFI staff).

- Outreach

UWFT plans to build its clientele by using the existing branches as central points for expansion into outlying areas through sub-offices. Savings deposits are projected to grow 31% in 98/99 and 38% in 99/00, whereas number of savers are projected to grow at the rate of 6.9% in 1998/99 and 6.5% in 1999/2000.

This is a savings increase of 3 groups and 3 individuals per branch per month, a target which appears to be quite reasonable. Growth targets for loans are 69% in 98/99 and 25% in 99/00.

No new branches are contemplated during the Plan period; instead, each existing branch will open at least two sub-offices. This will entail an increase in credit officers and the increased business will help to spread the fixed cost of the branch manager and accounts assistant/savings officer. The establishment of sub-offices should dramatically increase the organisation's 'deep' outreach into the rural areas and improve efficiency indicators.

- Impact

Continued focus on the low-income target group using the group lending methodology, repeat loans that provide for growth of the client's business, and strengthening of SACA are the key elements of UWFT's approach to impact at the client level. The first objective will be achieved through the expansion plan, which will increase UWFT's reach into the rural areas. Rather than focus on developing new branches, the Trust strategy for sub-branches or sub-offices will extend outreach into rural areas whose residents currently have very little access to financial services. These residents also tend to be poorer than the average urban dweller. Growth of the client's business will be served not only by repeat loans, but also by the possibility of graduating the best of the group clients to the individual lending program.

SACA, the Savings and Credit Association, is a grouping of all clients who have savings accounts irrespective of whether they have loans. SACA is at present a fairly loose association. Members meet quarterly on a regional basis; each region elects one member to represent the group at UWFT's Annual General Meeting. These representatives have no voting power, but the association does serve to bring issues of concern to the attention of management and the Board. The Trust has found that it must be careful to balance the input of the SACA; this is because members' interests, such as low interest rates, may be in conflict with UWFT's interests, which must focus on developing the sustainability of the organisation.

- Sustainability

Increased cost control, improvement and maintenance of high repayment rates, charging full-cost-covering interest rates and fees, increasing internally-generated revenues and lobbying the relevant authorities for more effective use of mobilised savings are the key tactics. The Trust has done a great deal in each of these areas in the past several years, as shown in the previous analysis of the current situation

Strategies for organisational effectiveness include staff development programs, greater decentralisation, and strengthening ownership and governance structures.

Savings Products and Methodologies

UWFT is planning to attract new savers, as it has realised that investment income earned from these savings can be significant. However, management does not plan to market savings aggressively if legislation allowing it to on-lend savings is not forthcoming; this is in recognition of the fact that the costs associated with the collection, safe storage and withdrawal of savings are high, and can only be significantly offset if the savings can be invested in loans. This position has become clearer as Treasury Bill rates have declined in recent months to an average of 8%. Loans, on the other hand, generate interest at an 85% APR.

Nevertheless, UWFT does have a savings strategy: it is planning incentives such as higher interest rates for account holders with large balances over long periods; attracting accounts of CBOs, NGOs and other businesses; creating more savings outlets (at sub-offices); and computerisation of the savings operations for better customer service. This savings strategy has been researched and documented.

Financial Projections

- Projected Profitability

The Business Plan calls for increasing levels of operational self-sufficiency over the period of the Plan: it is projected to increase to 84% in 1998/99 and 89% in 1999/2000 (Business Plan, page 47). As previously stated, the Trust achieved a level of 66.8% in 97/98, exceeding its target of 53% for the year. Financial self-sufficiency is projected to increase to 71.7% in 1998/99 and to 76.2% in 1999/2000. The Trust's ability to achieve these targets will depend upon continuing improvement in loan recovery, cost control and efficiency. It will also depend upon the Trust's ability to generate the resources that will enable it to grow at a reasonable and sustained pace.

- Projected Repayment Rate and Portfolio Quality:

On-time repayment rate is projected to be 95%. Achieving this target will require continued commitment from the Trust to active and firm management of loans. The methodology for the individual loans should be critically reviewed, as performance in this area is well below the projected levels.

- Projected Efficiency:

UWFT's operational efficiency (total operating costs ÷ average net loans outstanding) for 97/98 was 1.63. This is projected to drop to 0.75 in 98/99. This improvement in efficiency reflects stable costs incurred in administering a much larger portfolio (average of Ush. 411 million in 97/98 compared to Ush. 859 million in 98/99). The projected increase in portfolio without an increase in costs is considered to be realistic because the Trust currently has many more clients who are waiting for loans than it has funds available. The caseload per loan officer is also increasing as UWFT continues to shift its priority from individual lending to group lending.

The Trust has significantly reduced head office costs as a percentage of total costs (37% in 1997/98; down from 57% in 1994/95), and plans to reduce this percentage further by moving the operations management and monitoring function to the field. This is not simply a transfer of the cost to the field, as the regional managers with these responsibilities will still have their duties as branch managers to perform. Any new personnel required to assist these managers will be hired at a much lower salary level than the existing Operations Department staff at head office. Efficiency at the branches will also be increased by computerisation.

APPENDIX 3

RECOMMENDATIONS TO UWFT BASED ON THE RESEARCH FINDINGS

The nature of the research conducted means that the researchers pay careful attention to the views and realities of the clients. As a result this type of research provides useful insights into programme and service design issues – indeed many of the techniques used by the team have been used by the Team Leader to design microfinance systems. Below are some of the important issues that came up during the research that UWFT may wish to consider to as it seeks to meet the needs and expectations of its clients.

CREDIT SERVICES DELIVERY

- Consider putting emphasis on the *ability to pay and not so much loan use* provided group members are ready to guarantee. This will reduce the transaction cost of loan application and monitoring, increase staff productivity and create a happy and more loyal clientele. There was evidence suggesting that many clients do not use the loan funds directly for the business plan indicated in the loan application. They use the loan for what they consider the most rational use within the complex range of production, consumption and investment activities.
- Consider introducing other financial products especially small scale *emergency consumer loans*. This need was clearly expressed as need and, in fact, an on going use of "production" loans. The beauty of this is that clients were paying regardless of the use to which they put the loan. Many times they are used as part of an *income smoothing* strategy or asset protection strategy as a way of protecting productive assets from being liquidated in times of temporary crisis. Such loans may even serve to protect UWFT's initial (larger) investment.
- Consider *increasing the loan sizes*, (especially in the light of the recent inflation rates) particularly after the first 2-3 loans have been repaid and credit history has been established. This will reduce the need for "patching" and some of the ingenious ways that clients are currently pooling loans or accessing multiple loans.
- Consider more *convenient ways of collecting weekly repayments* (savings & credit) as an option so that these "busy" women do not have to come to the bank if they can avoid it. In some of the interviews, clients indicated it was expensive financially as well as in terms of time.

SAVINGS SERVICES DELIVERY

- Consider more *effective advertising* (communication) of the individual savings account product. A lot of group clients have never heard of this option and so maintain individual savings accounts with other banks including Greenland, Centenary and Co-operative Bank.
- In addition to the above the Trust should seriously consider introducing *additional voluntary savings* products that respond to potential customer needs. Expressed needs include saving for school fees, housing savings, health insurance, and emergencies etc. If well designed, these savings could be a relatively stable source of funds for investment in the financial markets, or (in the event of the Bank of Uganda providing a framework that enables MFIs to intermediate deposits) to lend. Furthermore, they will attract clients who initially just want to save, and later will want to borrow.
- Consider *flexibility of hours* of operation. This might mean operating later into the day as well as Saturday. This is one of the features that has attracted UWFT clients to open accounts with one of the local banks.
- Related to the above, examine the *competitive advantages* that conventional banks, ROSCAs, ASCAs, *Munno Mukabi* and other MFIs may have over the Trust especially in the areas of savings mobilisation. Research evidence indicates that most clients keep most of their savings not with the UWFT but with ROSCAs, ASCAs, *Munno Mukabi* and conventional banks. The use of these vehicles reflects the different needs, expectations and constraints faced by the clients.

THE NEED FOR FLEXIBLE FINANCIAL SERVICES

- Consider *flexible financial services* depending on timing and size of financial need provided the group can credibly guarantee or the individual has an exemplary credit history. Only the customer-responsive MFI's will survive the impeding competitive storm amongst MFIs in Uganda. A lot of clients interviewed moved from some other lending program because of advantages observed in the UWFT's system. This only means that they are still shopping around and may move to any of the growing number of MFIs. Continuous quality improvement is a strategic imperative for UWFT, who might want to consider establishing "clients' consultative groups" who meet with senior staff regularly to provide (non-binding) advice on the clients' needs and perceptions of the financial services being offered by UWFT.

APPENDIX 4

COMPARISONS WITH FINDINGS FROM PREVIOUS IMPACT STUDIES IN UGANDA

There have been very few systematic attempts to assess the impact microfinance service providers are having on the livelihoods of the poor in Uganda. This is somewhat surprising given that microenterprises operating predominantly in the informal sector present a vital source of income for the urban and rural poor. In some areas such as Kampala they have all but replaced the crumbling formal sector in the provision of goods and services, income and employment. The donor community in Uganda is supporting a host of different institutions using different financial products and delivery mechanisms to ensure access to financial services for that often so elusive target group: the poor. However, despite widespread agreement on who the beneficiaries of these efforts should be there is little clarity on whether this mission is being accomplished and even less on what impact the various programmes are having on the lives of the community. This study should help to shed some light on this vital question.

For comparative purposes we drew upon three very recent reports which look at different aspects of the microfinance industry in Uganda:

1. The study by Barnes, Morris and Gaile (1997) is the first stage of a baseline survey commissioned by USAID's AIMS (Assessing the Impact of Microenterprise Services) project. It looks at a number of key indicators such as sources and use of income, inter-sectoral linkages and empowerment issues for the participants of three institutions using "best practice" methodologies (FINCA, FOCCAS and PRIDE) and compares these with a control sample of non-borrowers.
2. The report by Kasente, Okurut, Kabatalya and Kakuba (1999) is also a baseline study which tries to establish to what extent microfinance institutions in Uganda are able to meet the needs of their self-declared target groups while at the same time trying to respond to donor demands for greater financial sustainability. Commissioned by the Ugandan chapter of the Council for the Economic Empowerment for Women in Africa (CEEWA) the study uses a very broad sample of 27 microfinance institutions currently operating in Uganda.
3. The final document is a preliminary evaluation of five Financial Services Associations (FSAs), a methodological approach which has only very recently been introduced in Uganda with the aim of providing rural financial services. FSAs enable clients not only to access savings and loans, but also to buy shares in the institutions thus promoting more widespread ownership of both the concept and the bank itself. The evaluation was prepared by Research International (1999) for DFID.

While none of the above provide substantial insights into the impact of their respective programmes they do reveal some very interesting findings on the kind of social groups the programmes reach, the expectations clients have as regards the benefits of their participation, the type of assets savings and loans are invested in etc. These allow some tentative comparisons with the results of this research.

All three studies confirm this study's findings that **microfinance programmes in Uganda do not reach the poorest of the poor**. Instead they draw their participants from a class of people somewhere in between the rich and the poorest - 'low-income households which are part of a class of the working poor' (AIMS), 'not the poor and uneducated' (CEEWA) and 'members of the fairly rich category' (DFID). The latter statement is the result of wealth ranking exercises by both the general community and FSA members themselves. Exclusion of the poorest is largely due to their lack of viable businesses and their inability to access the social networks required to join institutions based on group solidarity mechanisms. This may not come as a surprise to the majority of microfinance practitioners around the world and indeed a substantial number of programmes explicitly define their target group around these parameters. However, it is still a far cry from the rhetoric used by certain camps in the industry and as such a valuable finding in its own right.

Investment in business activities either in the form of operating capital for existing enterprises or as start-up capital for diversification was by far the most common answer to the question of **loan use** in all three studies. School fees were once again the most important non-business 'diversion' thus confirming the enormous importance Ugandan parents attach to the education of their children as well as the considerable resource outflow education-related expenses represent affecting poorer households disproportionally. Building materials came number three on the loan use list for FSA members which was higher than for the community in general thus indicating a conscious decision by members to invest in physical and potentially productive assets. It is unclear whether this is a direct result of their access to loans or more a reflection of their comparable wealth and economic 'sophistication'. However, it does coincide with a similar trend among the predominantly female UWFT members who regard investment in housing as both a future income source as well as protection against the potential threat of being thrown out on the street by the husband's relatives after his death.

A more direct reference to the benefits of access to loans in the context of **managing and coping with risk** can be found in the CEEWA report. Female clients identified 'solving problems' as one of the main benefits of the profits they generate with the help of their loans pointing towards a very direct link between loans and crisis management. On **financial management strategies** more generally, the CEEWA report confirms this study's findings that many clients regard the loans available as too small for meaningful investments in productive assets such as refrigerators and cookers. It is probably fair to assume that the loan patching practised by UWFT clients this is common practice among clients of other programmes revealing comparatively well-developed financial management skills as well as a potential problem area for the microfinance programmes as it may increase the risk of over-indebtedness and default. In terms of **asset management strategies**, the AIMS report agrees with this study's observations that client households tend to cope with crises without having to sell off their productive assets. It is less clear, though, whether this is a conscious strategy - as expressed by some of the UWFT clients - or simply a reflection of clients' relative wealth and their ability to obtain cash from other sources such as friends and relatives or through the sale of stock.

A closer look at the **benefits of savings** also largely confirms the UWFT results. Savers appreciate the flexibility, proximity and security these services provide. Once again, the latter is as much security in relation to the clients' own spending decisions as to theft or misuse by other members of the household. According to the CEEWA report savers also see a valuable lesson in learning about and adopting more prudent financial management and investment strategies. "Security for getting the loan" and "condition for getting the loan" top the list of reasons for savings. However, "security for crisis situations" also features prominently on that list, an important point in the context of this research. This was corroborated by respondents in the DFID study, whose main reasons for saving was to plan "for emergencies" followed by "medical bills" and "school fees" which, as expressed by UWFT members, very often represent crises in themselves. "Accumulation for future investments", highlighted by nearly 20% of respondents, follows next on the list.

On **gender issues** the studies show some interesting differences quite probably revealing their respective urban and rural biases. As with UWFT clients, the majority of participants in the mainly urban-based institutions covered by the AIMS report are the sole decision makers with regard to the use of the loan funds while nearly 50% of female FSA members always consult with their husbands prior to the actual investment. In some cases, women even decide not to tell their husband about their membership as they fear his disapproval. On the other hand, some women report that their membership were actively encouraged by their husbands, sometimes even with financial assistance, although there are no indications as to the husbands' motives. All programmes admit that they at least partially target women because of their superior repayment record.

There is more coherence on the **benefits of participation** in microfinance programmes for women. Less dependence on their spouses for money, independent asset ownership and improved self-confidence came up in all of the reports. A related point is the ability to make a bigger contribution to household expenses especially through paying for food and school fees. In how far these substitute for male contributions and, if they do, how the husbands use their freed-up resources is not clear and needs to be investigated to get a clearer idea of whether any net benefits accrue to the woman and children as often claimed by microfinance supporters. Among UWFT clients we found some evidence of husbands using their 'surplus' for 'conspicuous consumption', however, these incidents were too isolated to represent a general trend. Participation in group and community activities came also through very strongly as a major benefit for female participants in all studies. Bearing in mind the overriding importance of social capital in times of crisis revealed by this study, this transformation for women who were much more likely to be isolated before they joined the programmes should not be underestimated.