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WOMEN AND MICROCREDIT IN RURAL AGRARIAN HOUSEHOLDS OF UGANDA: MATCH OR MISMATCH BETWEEN LENDER AND BORROWER?

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Abstract: *The alignment of microfinance programs with the context and expectations of the recipients is critical for ensuring clients' satisfaction and desired program outcomes. This study sought to investigate the extent to which the objectives and design of the BRAC microfinance program match the expectations, context and characteristics of female borrowers in a rural agrarian setting in Uganda. Quantitative and qualitative methods were used to obtain socio-demographic, personality and microenterprise (ME) characteristics of existing borrowers, incoming borrowers and non-borrowers and to obtain information about the microcredit program. We found that BRAC uses a modified Grameen group-lending model to provide small, high-interest rate production loans and follows a rigorous loan processing and recovery procedure. BRAC clients are mainly poor subsistence farmers who derive income from diverse farming and non-farm activities. The major objective to borrow is to meet lump-sum monetary needs usually for school fees and for investment in informal small non-farm businesses. Many borrowers use diverse sources of funds to meet repayment obligations. Defaulting on loans is quite low. The stress caused by weekly loan repayment and resolution of lump-sum cash needs were identified as reasons for women to stop borrowing. The limited loan amounts, the diversions of loans to non-production activities, the stages of the businesses and the weekly recovery program without a grace period may limit the contribution of these loans to ME expansion and increase in income.*

Keywords: *Uganda, BRAC, rural microcredit, women.*

Introduction

Microfinance has been promoted by many national and international developmental agencies as a tool for poverty alleviation and development of poor communities (Matin *et al.*, 2002; Armendariz and Morduch, 2010; Armendáriz and Labie, 2011). The core objective of microfinance institution (MFIs) programs is to bring financial services to such resource-constrained communities. Formal institutions usually shy away from the poor because they lack collateral and because of information asymmetry and high transaction costs (Hulme and Mosley, 1996; Morduch, 2000; Matin *et al.*, 2002; Armendariz and Morduch, 2010; Armendáriz and Labie, 2011).

Women constitute a large percentage of the poor in many communities (UNDP, 1996; Fletschner, 2009). This is because financial, social and economic inequalities limit their participation in formal markets (Meyer, 2013). Yet women

make significant contributions to the welfare of their families and households. They play significant roles in economic production, social reproduction, care and community activities (Oestergaard, 1992; Buvinić, 1997; Momsen, 2004; Niehof, 2004a; Niehof, 2015). They enhance their agency to seek for opportunities for personal and family welfare improvement. To diversify their livelihoods, they set up small enterprises with limited financial outlay and often low returns (Jiggins, 1989; Schreiner and Woller, 2003). Women in Uganda are no exception. They reportedly suffer from the burden of poverty and financial and social deprivation (Lakwo, 2006; Wakoko, 2004). Poverty, hunger and food deprivation are common in rural areas which rely on agricultural production as a source of livelihood (MoFPED, 2014).

Support for the poor to get out of their impoverished states is a core objective of many MFIs. Under their microcredit component, MFIs target poor micro-entrepreneurs for financial support. The support is in the form of microloans for

productive purposes, to be repaid with interest. The premise is that the loans are invested in poorly-financed microenterprises and enable borrowers to make strategic decisions for business growth and survival (Sen, 1999; Matin *et al.*, 2002; Guiso *et al.*, 2004). These loans are expected to increase the income from self-employment and in the long-run should lead to poverty reduction (Matin *et al.*, 2002).

The performance of MFIs and benefits to the recipient depend on the characteristics of the lending program, the recipients and the general context (Cohen and Snodgrass, 1997). Program characteristics like collateral requirements and lending model (Morduch, 1999; Armendariz and Morduch, 2010; Attanasio *et al.*, 2015), borrower characteristics like gender and education (Barrett *et al.*, 2001; Nanayakkara and Stewart, 2015), and purpose of borrowing may influence the outcomes from borrowing.

MFIs have different ways of selecting program recipients, but many target poor women, for different reasons. Firstly, women have generally been underserved by MFIs because of different socio-cultural barriers (Meyer, 2013). Second, women play a key role in maintenance of household welfare and allocate a large proportion of their resources to this (Barnes *et al.*, 1999; Cheston and Kuhn, 2002; Kabeer, 2005). Support to women is expected to benefit entire households. Studies have reported significant effects of borrowing on household consumption and child nutrition for female but not male clients (Pitt and Khandker, 1998; Pitt *et al.*, 2003).

MFI activity in Uganda commenced and greatly expanded in the 1990s. By the end of 2009, the country had over 350,000 active MFI clients (UBOS and MoFPED, 2014). The Association of Microfinance Institutions of Uganda (AMFIU) reported 84 MFI members in 2011 (AMFIU, 2011). BRAC Uganda Microfinance Limited, commonly referred to as BRAC, is one of the largest micro-lenders in rural areas in Uganda (UBOS, 2010a). Its operations in Uganda started in 2006. In 2011, it was reported to have a loan portfolio of UGX. 31 billion (about ₦ 11million) and 107,000 active borrowers, predominantly (98.4%) women. BRAC thus works with women in rural Uganda, who play a key role in agriculture, a major sector of employment in Uganda (UBOS and UNFPA, 2014). Like other MFIs that work with underserved rural agrarian recipients, BRAC has enormous potential to contribute to agricultural production, reduction of food insecurity and rural poverty, and improvement of the lives of poor women (Meyer, 2013)

A lot has been written about the operations and contributions to poverty reduction of BRAC and other MFIs in Bangladesh (Montgomery *et al.*, 1996; Pitt and Khandker, 1998; Develtere and Huybrechts, 2002; Chemin, 2008; Chemin, 2012). However, not much work has been done on MFIs in Uganda. We conducted a study to assess the contribution of microfinance support to household food security. We aim to add to the body of literature the potential of microcredit to contribute to food security improvements in resource-constrained agrarian communities. In this paper we present findings on the context and characteristics of the BRAC microfinance program in Uganda. We evaluate the

characteristics of the borrowers, their reasons for borrowing, the process of loan application, loan allocation, use and repayment. The question we address is whether the BRAC program is well aligned with the characteristics and needs of the borrowers.

The remainder of the paper is organised as follows: Section two provides background information, including a description of the BRAC microfinance program. Section three provides the study design and data collection methods. Section four presents our findings including the characteristics of the BRAC microfinance program as well as comparisons of the socio-demographic and personality and microenterprise characteristics of current and in-coming borrowers, as well as for respondents who did not borrow from BRAC. We also present FGD results on the reasons for borrowing, loan allocation and use as well as the dynamics of loan repayments. In section five we present the discussion and conclusion.

2. Background

2.1 Uganda Country Profile

Uganda is a tropical country in East Africa with an estimated population of about 35 million people according to the recently concluded Uganda population and housing census (UBOS and UNFPA, 2014). The country is divided administratively into 121 districts. In 1962 Uganda obtained its independence from Great Britain. The post-independence economic growth was short-lived when between 1970 and the early 1980s, the country plunged into years of political and financial stagnation under despotic leadership (UBOS and ICF, 2012). In 1986, the National Resistance Movement took over leadership of the country and embarked on what was envisaged to be a period of growth for the country. In the late 1980s, the new government implemented the structural adjustments programmes (SAPs) of the IMF and World Bank. This included restructuring of the public sector; reduction of public spending, and privatisation of poorly performing government parastatals. Many government workers were retrenched and the role of the private sector in the development of the country gained prominence. Unfortunately one of the undesirable outcomes of the SAP was the government giving up provision of services that previously supported poor women. At the same time there was a widening gap between men and women for the control of productive resources (Kakokka, 2001). The need for women to join the informal sector by setting up small microenterprises also increased.

The government committed itself to macroeconomic stability with a resultant period of economic growth. The 1990s saw Uganda ranked among the fastest growing economies of Sub-Saharan Africa, in terms of GDP. The high inflation rate of the 1980s was brought down to less than 10% in the 1990s. By the year 2000 the country lost a substantial part of its reproductive labour force to HIV and AIDs (Karuhanga, 2008), but progress has been made in the fight against HIV to attain the current prevalence level of 7.4% (Republic of Uganda, 2014).

Between 1995 and today, the country has continued to

make economic progress, albeit at a slow rate. There has been some progress in the reduction of poverty to the current level of 19.7%. Poverty levels remain higher in rural areas, where agriculture is the mainstay of rural livelihoods (MoFPED, 2014). The country still ranks as one of the poorest in the world, with a GDP per capita of 423 in 2014 and GDP growth rate of 4.9% in 2014. Agriculture remains the major form of employment with 57% of women and 55% of men engaged in agriculture, forestry and fisheries (UBOS and UNFPA, 2014). The country has poor human development indices. The maternal mortality rate is 438, the infant mortality rate 54, the under-five mortality rate 90, and at 6.5 the total fertility rate is comparatively high as well (UBOS & ICF, 2012)

2.2 Evolution of microfinance in Uganda

After the SAPs of the late 1980s, the government of Uganda shifted focus to the private sector, particularly the financial sector, as an engine of development of the country. The financial sector was poorly performing due to poor regulation and lack of control. The government launched the financial sector reform strategy to improve efficiency in the sector. This included among others licensing of private financial institutions and liberalisation of borrowing rates and the foreign exchange market (Bategeka and Okummu, 2010).

During 1997-1999 poorly performing banks were closed. Some of these had a wide national coverage, including rural areas. The result was a sector vacuum in many parts of the country. The remaining banks struggled with defaults and remained reluctant to lend to the rural poor (Carlton *et al.*, 2001; Bategeka and Okummu, 2010). The government then implemented the Financial Institutions Act to strengthen supervision of the financial sector, including MFIs. With the sector being more stable and streamlined, the first MFIs in Uganda began operations in 1990 and thrived. Rapid expansion of the sector took place in the mid-1990s. From 1997 onwards, the collaborative effort of donors, NGOs and capacity building partners, and the Bank of Uganda resulted in strengthening the MFI sector. The Association of Microenterprise Finance Institutions of Uganda (AMFIU), launched in 1997, aims at providing a platform for sharing experiences, technologies and also to work as a lobby group for MFIs. In 2000, the different stakeholders came together to synchronise operations and develop a framework of regulation and control for the sector. Coupled with the closure of the two major banks, this created opportunities for MFIs to expand (Carlton *et al.*, 2001; Bategeka and Okummu, 2010). In 2003, the government passed the microfinance deposit-taking act which allowed the initial MFIs in Uganda to take deposits under regulation of the Bank of Uganda. This act enhanced collaboration among MFIs and between traditional MFIs (e.g. FAULU, PRIDE and the Uganda Microfinance Union) and formal banks that also offered microfinance services. Providers who originally offered group loans shifted to individual loans as clients complained about the rigours of weekly loan repayment meetings. Those who maintained group borrowing reduced the required minimum group size to as low as three

borrowers. Individual loan requirements were also changed to more realistic forms of collateral, such as salaries, vehicle log-books, guarantors, un-registered land ownership documents, post-dated cheques, and other valuable assets (Mutesasira and Kaffu, 2003; Wright and Rippey, 2003). New products were designed to target the poorer segments of the population.

Wright *et al.* (1998) reported high drop-out rates among MFI borrowers in Uganda. They observed that because of the concentration of MFIs in urban areas many did not reach *poor clients*, but instead reached *rich* and *not-so-poor* clients. The *not-so-poor* dropped out after the 3rd and 4th cycles when larger loan sizes translated into unmanageable repayment instalments. The *poor clients* in rural areas dropped out or rested because of seasonal variations in incomes and expenditures or family emergencies that depleted the borrowed funds and led to repayment failure. The *rich* dropped out because of frustration with the obligatory weekly meetings or because they found the loans too small for their needs (Wright *et al.*, 1998). Reasons given for multiple-borrowing included the need for patch-up loans for the small amounts offered by some MFIs and the need for emergency loans to fund health and education expenditures (Wright and Rippey, 2003).

2.3 Characteristics of MFI programs and their recipients

To enable them reach their target groups efficiently and achieve good loan repayment levels, MFIs need to specify the target group characteristics (usually age and sex) and have to decide on matters like group lending versus individual lending, loan amounts, interest rates and fixed periods of loan repayments. Some MFI lend to individuals, others only to members of borrowing groups. The group lending model is widely associated with the Grameen Bank in Bangladesh. Groups of 5-20 women decide to form a borrowing group but are given individual loans. The group is responsible for repayment of the loans. When a member fails to repay, all members may then be denied subsequent loans (Morduch, 1999; Armendariz and Morduch, 2010). Group loan programs have been found to reach more women than individual loan programs. Advantages to the MFI include peer screening and monitoring, which diminishes problems of moral hazard and information asymmetry (Morduch, 1999; Niels and Lensink, 2007). This supports high repayment levels even in the absence of collateral (Ghatak, 1999; Ghatak and Guinnane, 1999). Group meetings may also function as venues for social marketing on health, nutrition, agriculture or family planning. In addition social networks are built and utilised in group sessions (Pitt *et al.*, 1999; McKernan, 2002). However, the obligatory weekly meetings and the social pressure may be a burden to the borrowers (Wright *et al.*, 1998). Hence, some MFIs have now moved away from group lending to individual lending (Meyer, 2013).

Most MFIs provide production credit, some consumption credit. Mahajan and Ramola (1996) observed that the poor usually have relatively high demand for consumption credit. However, since this is rarely offered, production loans are

used for consumption purposes. MFIs target borrowers of different characteristics regarding age, sex, and education, which may influence the outcomes of the programs. Whereas Pitt and Khandker (1998) reported positive outcomes for female borrowers, Kaboski and Townsend (2012) did not. The level of education influences outcomes positively (Attanasio *et al.*, 2015). MFIs also have different policies regarding maximum and minimum loan size (AMFIU, 2011). Loan size may influence the willingness of clients to join a program and also the outcomes of the programs. Some loans may be too small to make contributions to poverty reduction. The success of microfinance also depends on the context in which a program is implemented (Coleman, 1999; Kabeer, 2005; Chliova *et al.*, 2015). Some programs target the urban poor, others the rural poor, and some have no specific categories as long as borrower can pay (AMFIU, 2011).

2.4. Study area

Our study was conducted in the districts of Mukono and Buikwe, both located in the central region of Uganda, within the Lake Victoria basin. The districts were selected based on two criteria. The first one was the presence of BRAC microfinance activities among rural agrarian clients. The second was the MFI having expansion plans which was necessary for the identification of new borrowers for the study (see Table 1). Mukono district shares borders with Buikwe in the East. The relief, climate and fertile soils makes the area suitable for agricultural production (Mukono District Local Government, 2010).

With a population of about 599,817 people Mukono ranks seventh out of the 121 districts of Uganda, whereas Buikwe has a population of about 436,406. Most people in Mukono (73%) and Buikwe (67%) live in rural areas (UBOS and UNFPA, 2014). Over 80% of the population in both districts rely on agricultural production. Subsistence agriculture is characterised by low acreage due to increasing family sizes and land fragmentation, and by low productivity per unit area because of deteriorating soil fertility. Because of the proximity to the lake and the presence of rivers and many fish landing sites, fishing is an important economic activity in the two districts. Most fish is taken by big fish processing companies for the export market (Mukono District Local Government, 2010). Buikwe district is located 62 kilometres by road east of Kampala. It is a separate district since 2009 (UBOS and UNFPA, 2014).

3. Method

3.1 Study design and instruments

Employing a methodology sometimes referred to as the USAID/AIMS comparative cross-sectional analysis design (see Nelson *et al.*, 2004; Gaile and Foster, 1996), we compared the characteristics of existing borrowers or Old Borrowers (OB) and incoming clients or New Borrowers (NB). The latter were in their mandatory orientation period of one month and had not yet received their first loan. We expected these women to

have comparable characteristics as women in the OB category (cf. Armendariz and Morduch, 2010). The selection criteria are summarised in Table 1.

Table 1: Study group criteria of selection

Groups	Accessed microcredit	Criteria
Old Borrowers (OB)	Yes	Had a microenterprise (ME). Had a running loan with BRAC. Had not borrowed from other MFI before BRAC.
New Borrowers (NB)	No	Had ME. Had joined a village organisation (VO), but were in the mandatory period of one month of orientation before getting a loan.

Tables 2a and 2b provide details of the data collected by the different data collection methods.

Table 2a: Summary of data collected in the quantitative survey

Data category	Variables of interest
Respondent socio-demographic characteristics	Respondent age, marital status, education and religion and savings.
Household information	Numbers, age, and sex composition of household members
Microcredit-related information	Loan amount, loan cycles, loan allocation and expenditure and loan-repayment.
Non-farm ME data	Type and monetary value of Mes
Crop ME data	Types of crops.
Animal ME data	Types of animals
Time preference items ¹ (Adapted from: Petrocelli, 2003)	(1) I only focus on the short term; (2) I live more for the present than for the future; (3) The future will take care of itself.
Achievement motivation items ¹ (Adapted from: Keinan and Kivetz, 2011, and Ray, 1980)	(1) I get restless and annoyed when I feel I am wasting time; (2) I have always worked hard to be among the best; (3) I am an ambitious person; (4) Improving my life is important to me
Risk Preference items ¹ (Adopted from: Blais and Weber, 2006)	(1) I enjoy taking part in decisions with un-known outcomes; (2) I avoid activities whose outcomes are uncertain (reverse scored); (3) to gain high profits in business one should take decisions even when uncertain of the outcomes; (4) I would invest all my monthly profit in a new business venture.

1 Personality characteristics scale (1=agree strongly; 2=agree to some extent; 3=disagree to some extent; 4=disagree strongly)

Table 2b: Summary of data collected by qualitative methods

Data category	Discussion themes
Focus group discussion data	Reasons for borrowing. Loan repayment. Group dynamics in loan repayment. Benefits of borrowing. Types of loan-funded MEs.
Key informant interview	Characteristics of the BRAC microcredit program

3.2 Organisation of the study

The original questionnaire was designed in English. To reduce inter-interviewer variation in administering the questions and for easy communication with the respondents, it was translated into Luganda (local language) by the Institute of Languages of Makerere University. Seven *Luganda*-speaking enumerators were selected, interviewed and trained. Most were B.Sc. graduates with experience in conducting surveys. During the training, enumerators also translated and back-translated the questionnaire and the result complemented the translation by the professional translators.

Initial enumerator training lasted one week. During this time, the interviewers were oriented about the study questions, objectives and data collection methods. Role-plays were used to practice how to approach and address respondents and how to introduce the study and ensure compliance. Points of emphasis during the training included respondent categorisation, themes and objectives of different sections of the questionnaire, self-introduction and introduction of the study to respondents, proceeding through the questionnaire, and the importance of getting complete data. After the training a pilot study was conducted by collecting data from 25 respondents. The data collected was then analysed to ensure its usefulness for meaningful results and analysis, especially for the open parts of the questionnaire. A few modifications were made to the questionnaire after this activity. Given that it was not easy to obtain alternative respondents especially in the NB category, these respondents were re-interviewed to obtain data that was originally missed.

3.3 Sampling and data collection procedures

All BRAC branches in Mukono and Buikwe were eligible for inclusion into the study. We purposively included BRAC branches that had expansion plans, a pre-requisite for recruitment of new borrowers (NB). In order to balance out the effect of loan period and loan cycles, we also sampled and included Village Organisations (Vos) that had existed for more than two years. BRAC branch managers and loan officers used loan sheets to aid in the selection of VOs, with typically agrarian borrowers. VOs for NBs were newly-formed VOs or had new borrowers. All women in a selected VO were eligible as respondents, except those who previously borrowed from other MFIs. NBs were enrolled in the study during the mandatory one-month orientation period. OBs were women with a running loan with BRAC and were selected from VOs

in the same or neighbouring village as selected NBs. Drop-outs from OB groups were traced and interviewed to reduce drop-out bias. Karlan (2001) proposed inclusion of drop-outs in borrowing groups analyses if possible, in case they would possess unique characteristics that could lead to biased outcomes. Information about the BRAC microcredit program was obtained from FGDs with the borrowers and from key-informant interviews with BRAC loan officers, branch managers and the area manager. We got some information from BRAC loan-borrower documents, that were able to access and also attended some VO meetings to understand more about the program operations.

With the consent of the participants and after assurance of confidentiality baseline data collection was undertaken between September 2013 and March 2014. Six FGD sessions were held for OB groups and two for NBs. Each focus group comprised 8–15 participants who had not been respondents in the survey and from groups not included in the survey. Detailed notes and audio recordings were used to record the interviews. A FGD guide was used to elicit information from participants about their opinions and experiences with borrowing.

The following problems were encountered:

- Interviews were sometimes interrupted when conducted at the women's work place because they had to attend to their business clients.
- Sometimes we had to deal with husbands who had to be convinced to give room for the interview to take place and sometimes curious people who tried to listen in on the interviews.
- Respondents became uncomfortable when asked questions about their wealth and expenditures.
- Interviews lasted about two hours, which tried the patience of the respondents.

However, these problems did not affect the realisation of the study objectives. Each time we carefully explained to the respondents the objectives of some of the intrusive questions to ensure compliance and ease in response and requested non-respondents to excuse us as we conducted the study. Working together with the chairperson of the village council also helped to get support for the study.

3.4 Data operationalisation, processing and analysis

Data processing was an intensive activity of cleaning, coding, data entry and analysis. Data from the open-ended parts of the questionnaire was processed into variables that could be used in further analysis. All data were entered into IBM SPSS Statistics 22. Analysis was done using Stata.10. In order to assess the characteristics of women BRAC reaches, we analysed base-line data of 533 respondents. Of these 312 were current borrowers (OB) and 221 were in-coming borrowers (NBs). They were from 138 VOs, from seven BRAC branches in Buikwe and Mukono.

We compared OB and NB groups on socio-demographic and personality variables, including religion, marital status, age, and years of education, time preference, risk preference,

and achievement motivation. Focus group discussion data was analysed using ATLAS.ti software, to obtain the most commonly occurring issues during discussions. Principal components analysis was used to check the dimensionality of the personality characteristics. We also constructed an asset index and a housing facilities index, as a proxy for wealth using principal component analysis of data on household wealth and asset ownership. We obtained two components from our analysis. The household assets index included seven variables: numbers of tables, chairs, beds, mattresses, cell phones, hoes and radios. The housing facilities index comprised the variables of house ownership, TV ownership, presence of electricity, type of walls and the material for the floor of the houses.

4. Results

4.1 Borrowing information and characteristics of the BRAC microfinance program

In this section we present our findings on the objectives and design of the BRAC microfinance program, as obtained from our own observations and interactions with borrowers, from focus group discussions and in-depth interviews with different BRAC personnel.

The BRAC microfinance program targets poor women (20-50 years) with stable businesses to enhance the performance of their self-employment activities (agricultural or non-farm microenterprises). BRAC uses the group lending model, to provide individual loans to women who must belong to a village organisations (VO). The VOs in the study had on average 20 women. We were informed that groups above this are split. Indeed, we found groups with similar names in the same village and sometimes holding meetings at the same place, which were previously part of a bigger group.

BRAC's policy is to employ especially women in its programs. Although we observed males at higher staffing levels, all area managers, branch managers and credit officers were found to be female. When starting in a new area, a survey is done to determine the potential for new borrowers. The BRAC branch and area managers as well as credit officers (COs) are in charge of expansion of BRAC activities in new areas by fostering VO formation and registration and admission of women into the program. When a new area is deemed viable, a new branch is established. Then COs move door-to-door to inform women about the microfinance program and encourage them to form groups. New groups select their leaders (a chairperson, secretary and cashier), chose a name for the group and decide where they will hold the weekly group meetings. At the weekly meetings the group's CO explains BRAC policies and processes. After a VO is established, old members bring in new ones. For all new members there is a mandatory one-month period of orientation before receiving the first loan. A new member is introduced by a seconder into the VO and has to present herself and her motivation to join the group. Members will accept the new member based on how they judge the risk of default. On acceptance into the VO, the new member will receive three

independent inspections of her home and business by the VO credit officer, the branch manager and the area manager. The inspections are meant to confirm the physical existence and location of the woman's residence and business and to assess stability and viability of the business and the woman's ability to pay the weekly instalments. When the team is satisfied the group members may sign a group resolution of admission into the group and the CO will sign the BRAC admission form. Upon admission, the new member has to produce an introduction letter from the chairperson of her village, provide three passport photographs and physically present to the group a guarantor (usually the husband) who will repay the loan in case loan recovery fails. The final step of admission occurs at the branch office, where the woman and her guarantor present themselves at a session chaired by the area manager and the woman will pay the annual registration fee.

Loan applications are guaranteed by every member of the group. Loan amounts must also be agreed upon unanimously. Authorized microloans are disbursed in cash to individual women, at the branch. At the time of the study the borrowers in the OB group had received credit on average three times. The mean amount of the first loan was UGX 358,414 (\$138), while the average amount of running loans was UGX 725,000 (\$278). The average number of weeks since receiving the last loan for the respondents was 20 and since receiving the first loan 97 weeks.

Loans were repayable in either 20 or 40 equal weekly instalments, at flat interest rates of 12% and 25% respectively. The instalments are paid at weekly meetings with repayments commencing one week following the receipt of the loan. Repayments are received from individual members by the VO chairperson who passes the money over to the CO for checking and bagging. At the end of the day's rounds the CO hands over all payments received to the branch cashier for banking. Women who are unable to make the week's repayment, before the meeting day may request support from VO members. In case of a member's payment failure the group chairperson and credit officer urge members to cover the payment together by pooling funds. A VO meeting may not disperse until all funds have been collected, counted and verified in front of all women. When members fail or refuse to raise the funds for a defaulting member, the loan guarantor will be contacted. If this fails as well, usually after a period of haggling and arguing, the CO may reluctantly allow the meeting to disperse and visit the defaulting member's home or continue to seek the guarantor. If all fails, the branch cashier can deduct the deficit from the CO's salary. When all points to a woman's inability to continue making her weekly repayments, her loan guarantor is heavily leaned on to repay the loan in one instalment or weekly payments until the full amount is paid. In extreme cases, property of the woman (usually some business asset) or of the guarantor may be confiscated.

We observed that credit officers were very vigilant in attending the VO meetings and hardly ever failed to turn up, even in adverse weather conditions. Borrowers also regularly attended VO meetings but resented the duration of the meetings. Especially on special market days they would

get impatient. COs and branch managers reported favourable loan repayments for initial loans and repayment difficulties with larger loans for successive loans cycles when weekly repayment amounts commensurately increase. They identified two categories of BRAC participants: the *borrower category*, consisting of women with a running loan with BRAC, and the *member category*. The latter includes the borrower category plus women who are new and did not yet borrow, and those who are 'resting'. A woman was said to be to be resting if she once belonged to a VO and had a BRAC loan, but decided not to apply for another loan (yet). Resting borrowers were eligible to borrow again. Drop-outs are women who stopped borrowing and even withdrew the security deposit (10% of the loan) that was retained for all loans as insurance against defaults. Outstanding loans of defaulters could be recovered from this deposit. BRAC has the lowest portfolio at risk (PAR) of MFIs in Uganda (Chowdhury, 2016, personal communication). At the time of the study the drop-out rate was estimated at 15-20%. The BRAC records we saw indicated presence of resting and drop-out members in different groups, especially the more mature VOs. We could not establish actual drop-out rates for it was hard for us to access borrowing sheets for most of the VOs we visited.

BRAC has no mandatory members' savings program. However the women indicated belonging to self-help Rotating Saving and Credit Associations (ROSCAs) in which they mobilised savings for loan repayment and other lump-sum payments.

4.2 Socio-demographic and personality characteristics of current (OB) and in-coming (NB) BRAC borrowers

This section presents survey data on the socio-demographic and personality characteristics of the two groups of borrowers, OB and NB.

Table 3: Socio-demographic and personality characteristics of current and in-coming borrowers

Respondent Characteristic	Sample Means		T-test
	OB	NB	
Dependency ratio	1.58	1.46	0.92
Age at first loan	35.23	33.03	2.31**
Education (Years)	7.35	7.22	0.39
Time preference score	3.48	3.36	1.46
Achievement motivation score	1.23	1.20	1.01
Risk preference	2.25	2.16	1.34
Anglican (%)	0.32	0.27	1.11
Pentecostal (%)	0.14	0.16	-0.81
Muslim (%)	0.21	0.19	0.64
Marital status (%)	0.70	0.71	-0.35
Household asset index	2.23	2.11	1.55
Housing facilities index	0.47	0.45	0.73

** Significant $p < 0.05$

The only characteristic the current and in-coming borrowers differed on was age. We found that respondents aged 35 years and above were more likely to be in the OB group. Overall the majority of respondents had completed seven years of primary education. The average time preference, achievement motivation and risk preference scores indicate that both groups had a high future bias, a high need for achievement and are mostly risk neutral. The majority was married and came from households with low household asset and housing facilities indexes.

4.3 Microenterprise information

Table 4 gives the types of microenterprises for current borrowers (OB), in-coming borrowers (NB)

Table 4: Types of microenterprise for current (OB) and in-coming (NB) BRAC borrowers

Type of microenterprise (ME)	Respondent Category	N	% (Yes.)	Chi-square Value
Non-farm ME only	OB	318	41.67	0.91
	NB	221	37.56	
Agricultural ME only	OB	312	13.14	6.48**
	NB	221	6.33	
Agricultural and non-farm ME	OB	312	43.27	6.30**
	NB	221	54.30	
Animal production ME	OB	312	14.10	0.89
	NB	221	11.31	

** Significant $p < 0.05$

Almost a quarter of current borrowers (OB) indicated that they exclusively practiced agriculture as a business. Of current borrowers (OB) and in-coming borrowers (NB), a considerable proportion (43% and 54%, respectively) indicated running both an agricultural and non-farm ME. The NB group had a significantly higher number of respondents who indicated owning both agricultural and non-farm MEs.

For both OB and NB we found that the majority of respondents (85% and 92%, respectively) owned some kind of non-farm ME. The self-reported monetary values of the non-farm MEs, for OB and NB groups were on average about USD300 and USD200, respectively. Four respondents reported ME values of less than USD5. The majority of respondents in the OB group (65%) were small-shop and market retailers of farm produce from their own gardens and from other farmers. Some also sold common household consumer goods. Few women (about 11%) offered semi-professional services of hair dressing and small-restaurant catering. Fifteen percent of the combined sub-sample of NB and OB were involved in production-related activities, such as crafts and liquid soap and bread making. Ten percent was involved in natural resource extraction, like brick-making, stone-quarrying and charcoal-burning. The majority of the respondents was self-employed

and did not employ others.

For both OB and NB about two thirds of respondents with agricultural microenterprises were food crop farmers. Maize and beans were the most commonly produced crops for commercial purposes. The numbers of women involved in cash crop production were negligible. Few respondents (14% and 11%, respectively) reported practicing animal husbandry as a microenterprise. Respondents who kept animals on the homestead considered these as a stock of wealth. Goats, chicken and pigs were the most commonly kept animals.

4.4 Reasons to borrow and loan repayment of borrowers

In the focus group discussions (FGD) women expressed their appreciation for BRAC enabling them to access credit, because they lacked alternative sources of credit and could not meet their lump-sum needs from their meagre incomes. However contrary to the expectation that loans would be invested in productive activities, qualitative results revealed that many borrowers invested only a fraction of the loan in their ME and used the rest for non-business purposes such as school fees and building expenses. In the FGDs the following reasons, in order of frequency of occurrence, were mentioned: (1) pay the children's school fees; (2) recapitalise microenterprises; (3) personal development; (4) household welfare and improvement; (6) crop farming; (7) animal husbandry; (8) start a new business. This shows that non-business expenses were among the motives for acquiring credit. We asked the women whether improving food security improvement was a reason for borrowing, but they indicated it was not. They said to have adequate food from their gardens most of the time, except during the planting season. But they denied spending loan money on food purchases even then, which is reflected in the following comments:

"We cannot spend BRAC money on food purchase. But on the day I get the funds, we may buy a kilogram of meat for my children, to encourage them to support my efforts at loan repayment".

"Whenever I get a loan, I purchase a personal item for myself; could be a bag or a dress. Sometimes after a while it is all you have to show for the money you borrowed".

Education came out as an important reason for borrowing, which shows in the following comment: "Our children can now go to school without being sent back home for fees".

The borrowers indicated that they worked to repay their loans, harder than before borrowing and harder than women who did not borrow. They found the BRAC policy of loan repayment starting in the week after borrowing too tight. To comply, some borrowers kept a part of the received loans to make repayments in the weeks just after borrowing. The majority indicated to have more than one source of income, to ensure funds for loan repayment. From the FGDs it transpired that indeed most women practiced some kind of trade. We got comments like:

"Everyone has something to sell. Some of us sell agricultural produce from our gardens, others prepare and

sell ready-to-eat snacks or have small retail shops or market stalls."

"You cannot have only one source of income and manage loan repayment. If you have borrowed, your brain does not rest like the women who did not borrow. If all else fails, you put aside funds from what the husband has given you to take care of the home and use it for loan repayment."

For stopping to borrow the following reasons were given: (1) achieved the objective of borrowing, usually business stabilisation; (2) the business collapsed; (3) ordered to abandon borrowing by the husband; (4) sickness or death in the family leading to failure to repay loans; (5) to get relief from the pressure of loan repayments; (6) high interest rates. Women indicated that they found the interest rates rather high and also consider the security deposit an extra cost. Some said they would have preferred larger amounts, but usually this is not possible especially with the first loan. Women could accept the loan application requirements and procedures the first time, but expressed discomfort with the same procedures for subsequent loans.

5. Conclusions and discussion

The objective of this paper was to describe the characteristics of the BRAC microfinance program and to assess the degree of matching between lender and borrower conditions and aspirations. We looked at the borrower characteristics, type of their business, and the reasons for borrowing and dropping out. These we compared to BRAC procedures, goals and objectives.

The BRAC modified Grameen lending model seems to fit the Uganda women quite well. Women in Uganda are generally not faced with restrictions on their mobility and can venture out of their homes, unlike in rural areas in South Asia where there is a tradition of *purdah* (Papanek, 1973). This makes it possible for the women to attend the weekly VO meetings. Additionally, the fact that most credit officers are female reduces distrust among husbands.

In our case we found evidence of the advantages of group lending with joint liability for loan recovery, as has been reported in the literature (Armendariz and Morduch, 2010; Postelnicu *et al.*, 2014), to loan recovery. Because women only admit women they know well into their group, they are able to use their social ties to screen new members, monitor the process, and ensure loan repayment by group members. Social capital is utilised to coordinate repayment decisions, cooperate for mutual benefit and reduce loan defaults. The additional requirement of presenting a loan guarantor also helps to ensure loan recovery.

The age and educational profile of the borrowers (both current and new) matched BRAC program requirements. For women with only seven years of education it is difficult to participate in the formal sector. With just basic literacy and numeracy skills such women face personal and institutional barriers to formal credit access, leaving them poor and deprived. The BRAC microfinance program with its reach into rural area offers these women financial services they otherwise would have no access to, different from some MFIs

that shy away from rural areas and from funding agricultural activities (Word Bank, 2007; UBOS, 2010a). Many BRAC borrowers were engaged in subsistence food crop production with some relying exclusively agriculture. Women's limited involvement in animal and cash crop production is probably due to societal perceptions of women as household food providers (Gladwin *et al.*, 2001) and cash crop production as a male activity (Gladwin *et al.*, 2001). Unfortunately, this limits women borrowers' earning capacity since in food production there is a time lag between investment and returns. Agricultural incomes are also unreliable because of erratic climatic conditions and depleted soils (Morvant-Roux, 2011).

Possibly to cope with the risks associated with agriculture, we found many respondents owning both agricultural and non-farm microenterprises. Income diversification is a common strategy in resource-constrained communities (Ellis, 1998; Barrett *et al.*, 2001; Niehof, 2004b; Banerjee and Duflo, 2007) and a prerequisite for the development of rural communities (Word Bank, 2007). Livelihood diversification has been observed to increase with borrowing (Khandker and Koolwal, 2016) and is practiced as an insurance against income shocks (Buckley, 1997). Women engage in agricultural production using resources that are available to them (notably own labour) and complement this with non-farm self-employment activities (Banerjee and Duflo, 2007). As observed by Smith *et al.* (2001) and (Buckley, 1997) about non-farm activities in Uganda, women get the start-up capital for such activities from the sale of farm produce and sometimes husbands and children. Unfortunately, women usually start low-return activities that have little potential to lift them out of poverty (Gladwin *et al.*, 2001). In our case, the non-farm microenterprises the women engaged in were small with low monetary value. They had few business assets and were not employing others. The businesses seemed geared towards survival rather than expansion and self-reliance, and reflect little innovativeness and ambition. This may have to do with the context in which these women operate. Rural and agrarian Uganda has no history of family business or artisanship to build on.

BRAC borrowers indicated that they work harder than before they received their loans. However, rather than their hard resulting in innovativeness and business expansion it amounts to scurrying around between different activities in an effort to diversify income sources to raise money for loan repayment. BRAC and other MFIs have a vision of supporting the *entrepreneurial poor* to improve their socio-economic status. It is questionable whether this description applies to the borrowers in our study. Some of them seem to fit better in the category of the *ultra-poor* of the BRAC Bangladesh Targeting the Ultra Poor (TUP) program described by Hulme *et al.* (2011). And perhaps they would benefit more from such a program. As Viswanathan (2002) observed on the informal sector in West Africa, apart from lack of credit women's informal businesses are constrained by lack of entrepreneurial skills and poor product differentiation. Women deal in almost the same type of products and services, leading to undue competition. Similarly, Adams and Von Pischke (1992) noted that credit may not be the biggest problem for agricultural

small holders, who face price and other production risks as well as transportation and other infrastructural challenges.

Some of the characteristics of the BRAC borrowers and their business do not seem to match with BRAC program specifications. First, the requirement of repayment commencing in the week following loan access is notable for loans invested in farming. Hence, the drastic measures women employ to ensure loan repayment, like selling off any kind of salable agricultural produce, using part of the received loans to make loan repayments, or shifting the burden to relatives, children and husbands. Second, BRAC loans are rather small and some women indicated they would have preferred larger loan amounts for more meaningful investments. Our data do not show whether the loan amounts advanced to the women translate into businesses expansion and profitability increase. However, in-depth interviews with BRAC credit officers revealed increasing repayment problems when women graduate to larger loans that come with larger weekly instalments. Interest rates are rather high and the loan processing procedure is rigorous. Montgomery *et al.* (1996) observed that women in Bangladesh had problems with the BRAC security deposit requirement because of the strict rules surrounding the deposit without borrowers having a say on its size and when they may access it.

We pitted the reasons for borrowing against the objectives of the lender and found a potential mismatch. Whereas potential BRAC borrowers must stipulate a productive use for loans, our findings indicate that women borrow to obtain lump-sum amounts for use for school fees and other expenditures. Montgomery *et al.* (1996) reported respondents to be reticent about such loan diversions, but in our study respondents openly shared about their use of loans for non-productive purposes, revealing payment of school fees as a major motive for borrowing. The strong aspirations for the education of their children Dowla (2011) reported about women in Bangladesh, were also found among the women in our sample. Indeed, because education removes barriers to engagement in better-paying non-farm employment (Barrett *et al.*, 2001; Word Bank, 2007). Although Uganda has a policy of universal primary and secondary education, many state-sponsored schools face challenges of absentee teachers and poor quality instruction (Deininger, 2003). This results in parents trying to find money to send their children to private schools. But even though this might be a desirable investment, use of production loans to finance education brings no immediate returns for loan repayment. As Dowla (2011) argued, unlike land and other movable assets, expected future income from education cannot be used as collateral against loans. Such an investment may lead to repayment burden. In line with our results, UBOS (2010b) reported that in Uganda the three most frequent motives for borrowing are: to get working capital for small businesses (25.9%), to buy consumption goods (15.9%) and, third, to pay school fees (14.8%). Matin *et al.* (2002) conclude that loans enable the poor to make lump-sum expenditures against small future savings and income which they use to make repayment instalments. BRAC and/or the Uganda government could consider to make loans available

to support children's education. BRAC currently does have a scholarship scheme, which could be modified to cater for the current need of women for their children's education.

BRAC runs a strict procedure of assessment and review of loan applications, aimed at assessing the borrower's ability to make weekly loan repayments. But after loan disbursement there is no supportive follow-up on the performance of the loan-funded enterprises. BRAC already has programs that could support the women, but these probably have limited coverage since the borrowers in the study were unaware of these programs. We found a few cases of women borrowers who gave the loan to husbands and children to invest and provide funds to enable the women to pay the instalments. Follow up-support might discourage the use of loans for consumption which leaves women with the burden of repayment without a meaningful investment. Follow-up with supportive services could contribute to realising both borrower and lender objectives. Alternatively, as proposed by Mosley and Hulme (1998), BRAC could come up with an alternative lending model with focus on consumption, with flexible repayment periods and with a saving facility.

We can conclude that the BRAC microfinance program indeed reaches poor women who otherwise would be unable to access funds to meet lump-sum needs. However, when these women decide to get a loan, they do so against their future meagre earnings and pay back at a frequency and cost which they eventually realise is high. They stop borrowing, as soon as the immediate need for borrowing is met. To a certain extent, there is a match between the lender and the borrower; women are able to meet their needs for borrowing and the lender is able to attain good repayment levels. For long-term benefit of the borrowing program, however, there is a need for the lender to reassess loan-term related issues, such as the interest rate, commencement of loan repayment, and the loan processing requirements and procedures.

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