

SEMI-FORMAL FINANCE IN UGANDA: THE USE OF NON-BANK FINANCIAL INSTITUTIONS

G.A. MORRIS, L.M. LOBAO¹ and C. WAVAMUNNO²
PennState Erie, Erie, PA 16563, USA

¹Ohio State University, Columbus, OH 43210, USA

²Bank of Uganda, P. O. Box 7063, Kampala, Uganda

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ABSTRACT

This study focused on the use of financial markets by male and female entrepreneurs of small-scale enterprises. Business women and men who had received or applied for loans from non-bank financial institutions were interviewed. The non-bank financial institutions surveyed were the Uganda Cooperative Savings and Credit Union (UCSCU) and the Uganda Women's Finance and Credit Trust (UWFCT). Respondents provided information on the financial services they used in the formal, semi-formal, and informal financial markets. They were also asked their perceptions on the delivery, accessibility, and use of financial services. Both gender groups indicated increased accessibility to credit as the main advantage of the semi-formal financial market. Most respondents only obtained loans from either UCSCU or UWFCT. Both UCSCU and UWFCT had flexible collateral requirements typical of semi-formal financial institutions. In addition to having savings accounts with UCSCU and UWFCT, most respondents had similar accounts in other banks. Few respondents kept savings with friends, relatives, or were members of an informal savings group. Women were more likely than men to have used informal markets to deposit savings or to borrow money. Gender differences in attitudes towards financial markets were insignificant and sometimes contrary to what is expected in the literature. Most women reported sole decision-making in financial matters. On the otherhand, men were more likely to make joint decisions with spouses.

Key Words: Business entrepreneurs, savings and credit, structural adjustment

RÉSUMÉ

Cette étude a focalisé sur l'utilisation des marchés financiers par les entrepreneurs mâles et femelles de petites entreprises. Les hommes et femmes d'affaires qui avaient reçu ou sollicité un crédit auprès des institutions financières non bancaires ont fait l'objet d'interview. Les institutions financières non bancaires enquêtées étaient les suivantes: la coopérative d'épargne et d'union de crédit de l'Uganda (UCSCU) et l'association de crédit et de finance des femmes d'Uganda (UWFCT). Les enquêtés avaient fourni des informations sur les services financiers utilisés dans les marchés financiers formels, semi-formels et informels. Ils avaient aussi donné leur point de vue sur la disponibilité, l'accessibilité et l'utilisation des services financiers. Les deux groupes interviewés ont indiqué que l'avantage principal du marché financier semi-formel était la plus grande accessibilité au crédit. La plus part d'enquêtés avaient obtenu leurs crédits soit de l'UCSCU ou de l'UWFCT. Les deux institutions financières avaient des exigences colatérales flexibles et typiques aux institutions financières semi-formelles. Les enquêtés avaient des comptes d'épargnes à l'UCSCU et UWFCT ainsi que dans d'autres banques. Quelques personnes enquêtées avaient de l'épargne chez des amis, des membres de famille ou étaient membres d'un groupe d'épargne informel. Les femmes, plus que les hommes, avaient souvent utilisé les marchés informels pour

épargner ou emprunter de l'argent. La différence, entre hommes et femmes, était non significative en ce qui concerne l'attitude vis à vis des marchés financiers et était parfois contraire à ce qui est énoncé dans la littérature. La plus part des femmes ont indiqué avoir pris seule la décision dans les affaires financières tandis que pour les hommes la décision était souvent conjointement faite avec leurs épouses.

Mots Clés: Entrepreneurs en affaires, comptes d'épargne et de crédit, ajustement structurel

INTRODUCTION

Developing countries and international donor agencies are shifting their focus from foreign investment to domestic finance. Financial intermediation is playing an increasing role in financial sector adjustment programmes; a role which has expanded due to domestic government financial reforms and financial market entrepreneurship by individual operating institutions. These institutions blend characteristics of both indigenous savings groups and formal banks. Financial reform is one of the areas stressed in structural adjustment programmes designed by the World Bank for Uganda and other Sub-Saharan African countries (Loxley, 1989). The development of the semi-formal financial market, which combines characteristics of both formal and informal financial markets, is viewed as one aspect of financial reform which could broaden and deepen access to financial services (Seibel and Marx, 1987; Ghate, 1992; Hilhorst and Oppenorth, 1992).

Although there is on-going research on formal and informal financial markets in Uganda, little attention has been directed to the semi-formal financial markets (UCB, 1987; Anin, 1989; BOU, 1993). This study examines the use of semi-formal finance by small business entrepreneurs. The study focuses on the characteristics of the entrepreneurs and their use of semi-formal, formal and informal financial markets. Entrepreneur perceptions about borrowing, savings, and the general quality and accessibility of financial services in Uganda are also assessed. Gender differences in patterns of use of financial services, perceptions, and entrepreneurial characteristics are given specific attention. Data are based on interviews of clients of two non-bank financial institutions operating in the semi-formal financial market.

OVERVIEW OF FINANCIAL MARKETS IN UGANDA

Formal Financial Market. By March 1994, there were 10 indigenous and 5 foreign banks operating in Uganda (BOU, 1994). In addition to these commercial banks, non-bank financial institutions are currently operating in the formal financial market. These institutions include: 6 credit institutions, 10 building societies (only 1 remains active due to widespread corruption), 19 insurance companies, 1 postal savings bank, and 2 development banks. Uganda Commercial Bank (UCB), controlling 45% of the commercial banking assets in the country, is the largest bank in the country. Private banks have increased competition and, consequently, have improved services in recent years for individuals and businesses residing in Kampala. Greenland Bank has business hours on Saturdays and Sundays, and recently began to collect deposits from client businesses with a high daily volume of cash transactions (e.g., automobile fuel stations). Nile Bank is implementing a rural savings scheme whereby bank personnel will travel on a weekly basis from a branch bank to collect deposits from potential clients in surrounding rural villages (TechnoServ, 1993).

The majority of commercial banks do not operate branches outside of Kampala. Only UCB (81 branches), the Centenary Rural Development Trust (8 branches), and the Uganda Cooperative Bank (23 branches) have national branch networks in place. These branches are more likely to be located in the central and western regions because of the perceived higher level of economic activity. Uganda Commercial Bank has the largest branch network (81 branches and 55 agencies), even though it has recently closed 33 branches and downgraded 55 branches to agencies. The changes involved closure of unprofitable branches and

enhancement of operating efficiency in preparation for future privatisation.

Ugandan women have had limited access to financial services offered by the commercial banks (Duval, 1991; Mugenyi, 1992). Widespread recognition of women's lower accessibility to formal credit has led to recent attempts to target women entrepreneurs. The Rural Farmers Scheme, administered by the UCB, was supposed to target women borrowers for 60% of its credit, but instead allocated only 35% of such loans to women. In a recent survey involving 527 residents from primarily rural areas in northern (Arua) and southern (Mukono) Uganda, it was found that 15.4% of men and 10.5% of women had savings accounts at a bank, and that only 4.3% of men and no women had ever received loans from banks (Fendru, 1995).

In Uganda, rotating savings and credit associations (ROSCAs) exist among traders, urban businesses and farmers. Though ROSCAs appear to be less common in Uganda than in other developing countries, their existence has been documented in Kampala markets where they are known as *bibiina* (Meyer and Nagarajan, 1994). Urban and peri-urban respondents in the present study indicated the existence of *bibiina*, though their involvement in them was insignificant. Fendru (1995) found that 24% of respondent men and 17% of respondent women belonged to informal financial groups which included ROSCAs.

CURRENT RESEARCH

Focus of Study. The present study builds on a 1993 baseline study of gender and the use of financial markets by Fendru (1995). The research focused on the use of financial markets by small- and medium-sized male and female entrepreneurs. Three objectives were addressed in this study:

- to examine the role of semi-formal financial institutions in providing financial services in the semi-formal financial market,
- to document the socio-economic characteristics of business-women and men who access financial services provided by the semi-formal financial market,

- to assess the behavior, attitudes, and perceptions of business-women and men regarding the use of financial services.

METHODOLOGY

Loan beneficiaries were asked questions about their use of financial markets for savings and/or credit activities. Respondents were also asked about their attitudes towards borrowing and saving, the decision maker on borrowing and saving in their households, and the accessibility to financial services by women and men.

Description of Sample. Recipients of loans from World Bank funds on-lent through World Learning Inc., via the Programme for Alleviation of Poverty and Structural Adjustments (PAPSCA) were interviewed. Of the US\$ 1.1 million allocated to the PAPSCA programme in the early 1990s, US\$ 602,000 was channelled as a credit component through four organisations.

The Uganda Cooperative Savings and Credit Union (UCSCU) was one of the non-bank financial institutions used in the PAPSCA programme. The UCSCU had the highest repayment rate of the four intermediaries because of the decentralised organisation of the UCSCU into 165 societies which enhanced loan monitoring. Thirty one UCSCU members (23 men and 8 women) from 7 different UCSCU societies who had received loans from the PAPSCA programme were sampled. Similar to other UCSCU members, the PAPSCA loan recipients were required to establish savings accounts with UCSCU and participate in training seminars.

The Uganda Women's Finance and Credit Trust (UWFCT) was the second non-bank financial institution from which loan recipients were sampled for the study. A total of 23 female respondents (representing 12% of all borrowers) was sampled from UWFCT. The UWFCT is a non-government organisation (NGO) whose basic objective is "to economically empower low-income women entrepreneurs" (UWFCT, 1993). Begun in 1984 as an affiliate of Women's World Banking, UWFCT provides savings accounts, training seminars, and lending opportunities for its members.

Most respondents were married to one spouse

and were paying school fees for all children under 14 years of age. Besides caring for their nuclear families, many households were financially responsible for older adults and/or younger children. The median age in the sample was mid-30s. All respondents were business-women and men, the majority of whom (83%) owned small firms. Of the remaining 9 respondents, 7 owned medium-sized businesses and 2 owned large firms.

Most of the sample comprised of farmers involved in the production of fruits and vegetables (33%), poultry products (19%), and dairy products (13%). Other types of enterprises included piggeries, retail stores, brick production, garment production, and clinical services.

Respondents were aware of the various financial services offered by the informal and formal financial markets; 41% had savings accounts with a commercial bank. They had sought credit services from semi-formal financial institutions because such institutions were most likely to extend credit to business-persons of their type. Respondents were aware of market services and constraints. They kept good accounts and intended to expand their businesses in the future.

More than 20 respondents were interested in learning about export marketing and several had already signed individual contracts with European firms for pineapple and passion fruit products. All respondents were clients of either UCSCU or UWFCT, which was suggestive of a higher level of knowledge about financial services than Ugandans in general.

Though the respondents were largely similar to other Ugandans characteristically (e.g., age, household dependency ratio, lack of access to formal financial services, low income), they additionally had an entrepreneurial response to their economic situation which differentiated them from others living in similar circumstances. Thus, their behavior in accessing financial services and their perceptions towards financial services is important.

Characteristics of Savings. Savings is a form of personal investment and provides investment funds for other enterprises; it can also be used to build a financial history and increase financial literacy. By facilitating the establishment of

savings accounts, semi-formal financial institutions provide financial services to clients not previously provided by banks. This is particularly the case for low-income female entrepreneurs (Morris and Meyer, 1993). The increased ability of formal and semi-formal financial markets (which includes non-bank financial institutions), to access savings from informal finance, is one of the reasons for the increase in Indonesia's financial deepening measure from 9% in 1969 to 45% in 1990. The presence of savings services is described as an integral component in the success of four Asian rural finance institutions which have successfully attracted savings from the informal sector (Yaron, 1991).

When respondents in the present work were asked to characterise their savings, the majority (17 men and 21 women) expressed a commitment to this goal. Similar to general savings practices in African households, the majority of the respondents (19 women and 14 men) kept their savings separate from their spouses. The existence of separate businesses was the explanation for this behaviour. A few, mainly women, expressed concern about poor spouse trustworthiness.

Establishment of a savings account with UWFCT or UCSCU was a requirement for borrowing eligibility for all respondents. UCSCU administration mentioned requiring a savings account in order to deduct late loan payments from the account. In this way, semi-formal financial institutions have been able to consistently mobilise savings from their clients. As of March, 1994, the UCSCU and the UWFCT had mobilised US\$ 2.1 million in savings (Kato and Nsimbi, pers. comm. 1994). For UCSCU, women accounted for 36% of the savings accounts and deposited US\$ 632,000. Men owned 64% of the savings accounts and had deposited US\$ 1.2 million. In the case of UWFCT, all savings accounts were held by women who deposited US\$ 286,000. These savings were in turn deposited by the UWFCT and the UCSCU as fixed term deposits in commercial banks (UCB and Cooperative Bank, respectively).

In addition to UWFCT or UCSCU accounts respondents kept bank savings accounts. Due to its large number of branches, most respondents

used UCB; a few kept savings with friends, relatives or were members of informal savings group.

Over 80% of the respondents had savings accounts with UCSCU, UWFCT, or a commercial bank (Table 1). All savings accounts with UCSCU and UWFCT were still active; the majority of respondents made monthly deposits in them. The average deposit was less than US\$ 6.50. Over 50% of the bank savings accounts were inactive. Men were more likely than women to have inactive bank savings accounts. For men, opening of a second savings account with UCSCU was the reason given for the inactivity of formal bank accounts. Women tried to deposit in both accounts, but their frequency was much lower in the banks than in the UCSCU or UWFCT accounts.

Of those who saved with informal groups; relatives, friends, groups or ROSCAs were listed as examples (Table 2). More women (8 respondents) than men (2 respondents) saved with groups. Women's multiple roles and greater likelihood of working with informal associations accounted for their greater participation in group savings. Majority of these informal savings accounts were still active with most respondents contributing at least monthly. Overall, monthly contributions were less than US\$ 6.50. Those who did not save with informal sources indicated lack of reliable persons with whom to save (15 respondents) as the main reason for their nonparticipation.

Reported Use of Credit. Based on the sampling technique used in the study, all respondents either received a loan from UCSCU or UWFCT, or applied to one of these institutions for one (Table 3). None of the women and only 2 men interviewed had received loans from commercial banks. Loan size ranged from US\$ 10 to US\$ 6,000. Real estate was the most common form of collateral for male borrowers (16 of 23 male respondents). Female borrowers used a variety of collateral sources (e.g., 14 used character references; 9 used guarantors), but were less likely than men to use real estate (8 female respondents). In order to extend credit to more women the UWFCT relied on character references rather than real estate as collateral. Though most respondents repaid, or were in the process of repaying according to their

TABLE 1: Savings account characteristics with bank and non-bank financial institutions by gender of business owner¹

| Savings accounts | Total # accounts | # F ² accounts | # M ² accounts | Account status | # F accounts | | # M accounts | | Deposit frequency | # F accounts | | # M accounts | |
|-------------------|------------------|---------------------------|---------------------------|--------------------|--------------|----------|-------------------------------------|-------------------|-------------------|--------------|----------|--------------|----------|
| | | | | | active | inactive | active | inactive | | active | inactive | active | inactive |
| Bank ³ | 22 | 10 | 12 | Active Inactive | 9 1 | 1 11 | Daily Weekly Monthly Other | 1 0 2 7 | 0 1 5 6 | | | | |
| UCSCU | 25 | 9 | 16 | Active Inactive | 9 0 | 16 0 | Daily Weekly Monthly Other | 0 0 7 2 | 1 0 14 1 | | | | |
| UWFCT | 23 | 23 | 0 | Active Inactive | 23 0 | 0 0 | Daily Weekly Monthly Other | 4 1 8 10 | 0 0 0 0 | | | | |

¹ The two non-bank financial institutions used in the sample were: Uganda Women's Finance and Credit Trust (UWFCT), and Uganda Cooperative Savings and Credit Union Limited (UCSCU). M² and F² refer to gender of business owner, M is a male business owner and F = female business owner. # represents number

³ The majority of respondents used Uganda Commercial bank. Source: Field Surveys, 1994.

TABLE 2. Savings account characteristics with informal sources by gender of business owner

| Informal sources | Total # accounts | # F ¹ accounts | #M ¹ accounts | Account status | #F accounts | #M accounts | Deposit frequency | # F accounts | # M accounts |
|------------------|------------------|---------------------------|--------------------------|----------------|-------------|-------------|-------------------|--------------|--------------|
| Relative | 1 | 1 | 0 | Active | 1 | 0 | Daily | 1 | 0 |
| | | | | Inactive | 0 | 0 | Weekly | 0 | 0 |
| Friend | 3 | 3 | 0 | Active | 3 | 0 | Daily | 0 | 0 |
| | | | | Inactive | 0 | 0 | Weekly | 0 | 0 |
| Group | 7 | 6 | 1 | Active | 4 | 1 | Daily | 3 | 0 |
| | | | | Inactive | 2 | 0 | Weekly | 1 | 0 |
| ROSCA | 3 | 2 | 1 | Active | 1 | 1 | Daily | 0 | 0 |
| | | | | Inactive | 1 | 0 | Weekly | 0 | 0 |
| | | | | | | | Monthly | 2 | 1 |

M¹ and F¹ refer to gender of business owner, M = male and F = female business owner

contract agreement, at least 4 respondents indicated delinquent loans.

Fewer respondents borrowed from friends or relatives than from semi-formal financial sources (Table 4). Of the 14 informal loans recorded, 7 were from relatives and 7 from friends. Women were more likely to borrow informally (10 informal loans to women and 4 to men) than men. The most frequent form of collateral was real estate; an indication that household property was used. The majority of informal loans were repaid in full. Loan sizes ranged from US\$ 5 to 1000. The most frequently listed explanation for people not borrowing informally was that "nobody was willing to lend or had the money to lend" (12 respondents).

At the time of the study, a majority of respondents had applied for a loan to expand their business (36 respondents). Slightly more women (53%) than men (47%) indicated so. Other frequently listed reasons for borrowing included buying equipment (17 responses), buying inputs (19 responses), and paying workers (10 responses). More women (63%) than men (37%) used loan money to buy inputs, and similarly to pay their workers. In contrast, more men (59%) than women (41%) applied for business loans to buy equipment.

Neither the UCSCU nor UWFCT used savings deposits to finance lending activities. Donor-provided funds formed the lending base for UWFCT borrowers, while the UCSCU lending base was funds provided by the PAPSCA programme. Information about the PAPSCA loans administration (resistance) coordinators in each area, many of whom took advantage of the credit opportunity and applied for these loans through the UCSCU.

Long-term sustainability is a concern for both of these non-bank financial institutions. The UWFCT has developed a sustainability index model after the Promotion of Rural Initiatives and Development Enterprises (a Kenyan NGO) which measures the degree of sustainability of each of its work areas: administration, training and financial services. Despite its use of the sustainability index, the continued reliance on donor funds by UWFCT to support its lending activities removes one of the major incentives to

TABLE 3. Loan characteristics with informal and semi-formal financial institutions by gender of business owner

| Lender | Total # loans | # F ¹ loans | # M ¹ loans | Type of collateral | # F loans | # M loans | Loan status | # F loans | # M loans |
|--------------------|---------------|------------------------|------------------------|--------------------|-----------|-----------|-------------|-----------|-----------|
| Bank ² | 2 | 0 | 2 | Real Estate | 0 | 1 | Repaid | 0 | 1 |
| | | | | Character | 0 | 0 | > 50% | 0 | 1 |
| | | | | Other | 0 | 1 | < 50% | 0 | 0 |
| UCSCU ³ | 44 | 11 | 33 | Real Estate | 3 | 15 | Repaid | 3 | 11 |
| | | | | Character | 2 | 5 | > 50% | 4 | 11 |
| | | | | Guarantor | 1 | 6 | < 50% | 3 | 9 |
| | | | | Other | 5 | 7 | Overdue | 1 | 2 |
| UWFCT ³ | 27 | 27 | 0 | Real Estate | 5 | 0 | Repaid | 13 | 0 |
| | | | | Character | 12 | 0 | > 50% | 8 | 0 |
| | | | | Guarantor | 8 | 0 | < 50% | 5 | 0 |
| | | | | Other | 2 | 0 | Overdue | 1 | 0 |

M¹ and F¹ refer to gender of business owner, M = male and F = female business owner. # represents number. Some respondents had received more than one loan. ²Uganda Commercial Bank was the lending institution. ³ The two non-bank financial institutions used in the sample were: Uganda Women's Finance and Credit Trust (UWFCT), and Uganda Cooperative Savings and Credit Union Limited (UCSCU).

TABLE 4. Loan characteristics with informal sources by gender of business owner

| Informal lender | Total # loans | # F ¹ loans | # M ¹ loans | Type of collateral | # F loans | # M loans | Loan status | # F loans | # M loans |
|-----------------|---------------|------------------------|------------------------|--------------------|-----------|-----------|-------------|-----------|-----------|
| Relative | 7 | 6 | 1 | Real Estate | 3 | 0 | Repaid | 5 | 0 |
| | | | | Character | 1 | 0 | > 50% | 0 | 0 |
| | | | | Other | 2 | 1 | < 50% | 1 | 1 |
| UCSCU | 7 | 4 | 3 | Real Estate | 4 | 3 | Repaid | 4 | 3 |
| | | | | Character | 0 | 0 | > 50% | 0 | 0 |
| | | | | Other | 0 | 0 | < 50% | 0 | 0 |

M¹ and F¹ refer to gender of business owner, M = male and F = female business owner. # represents number.

ensuring that creditworthy clients are selected to receive loans.

Training. Majority of the respondents (52 of 54) indicated willingness to take additional training. The most mentioned training areas were: increase skills in production (83%), accounting (72%), and domestic marketing (63%). A majority (94%) indicated a willingness to pay at least some amount of money towards covering training expenses.

Decision-making and Attitudes About Financial Markets. Respondents were asked about their financial decision-making attitudes. These included credit use, savings behavior, and perceptions of costs and benefits of the programmes in which they participated. Financial decision-making was included to assess the extent to which respondents, particularly women, had independent control over finances. Women reported greater sole decision-making than men about borrowing and savings activities (Table 5). In the same vein, more men reported joint decision-making with spouses, especially when those decisions concerned savings and bank accounts. Most women, being more likely to participate in informal finance than men, decided on their own whether or not to associate with informal sources. Women were more likely to decide on how to use business income. Male respondents appeared to have been gender sensitised during their training sessions at the UCSCU; this probably contributed to their cooperation with spouses.

Men's and women's perceptions about the use of borrowed funds from a commercial bank or from informal sources to meet business or consumption expenses were similar. Majority of them preferred to use bank credit for production (70%) and marketing (61%) expenses. Eighty seven percent found it unwise to use bank loans on consumer goods or entertainment. The majority found it undesirable to borrow from informal sources such as friends or relatives.

Majority of women (63%) and men (86%) expressed little opportunity for borrowing from commercial banks (Table 6). All respondents vehemently agreed that bank lending requirements were difficult for everyone to meet.

Borrowers from the UCSCU disliked credit

from UCB and alleged many problems in this institution. These problems included slow decisions on loan requests and solicitation of bribes for various financial transactions (including the request for funds from one's own savings account).

In general, respondents perceived relatively similar gender opportunities for accessing financial services (Table 7). Similar responses were recorded for government business loans, joining a savings/credit group and/or opening a bank savings account.

As expected, majority of women found it easier for men to obtain business loans from banks (52%) or from male money lenders (54%). Women were almost evenly divided on whether it was easier for them or men to obtain loans from female money lenders. In similar proportions, women thought it easier for themselves to borrow from female money lenders (33%) or join informal finance groups (45%). Unexpectedly, majority of women (93%) indicated equal opportunity for women and men to open a bank savings accounts.

Since the focus of this study was on the use of financial services provided by semi-formal financial institutions, respondent perceptions of the advantages and disadvantages of the semi-formal financial market were of particular interest. Both gender groups indicated increased accessibility to credit as the main advantage of semi-formal finance (22 women and 14 men). For most respondents, the loan they received from UCSCU or UWFCT was the first formal or semi-formal loan. Other advantages listed by women were ease of savings and socialisation characteristics (e.g., caring people). Advantages listed by men included easier borrowing terms and the provision of general training.

Although Uganda has been regarded as a country in which basic social institutions have changed dramatically because of war and AIDS, there was no evidence of decline in the norms and values of community caring and responsibility. Many respondents were providing for orphans whose parents had died of AIDS or who had been killed in warfare. Respondents expressed a high degree of social ethics and respect for financial contracts. Despite respondents' hardships, most

of them recognised that they had a contractual obligation to repay loans, and felt that others had become more responsible over time as well.

Respondents from both the UWFCT (14 women) and the UCSCU (7 women and 19 men) overwhelmingly felt that people were more likely to repay their loans now than 5 years ago. The

reason for this response was that "people understood the necessity of repaying"; in addition there were more work opportunities so people had the income to repay.

When questioned whether borrowers from UWFCT or UCSCU were more likely to repay their loans now than 5 years ago, the response was

TABLE 5. Person(s) involved in decision-making related to financial issues by gender of business owner

| Decision statement | Responses | | | | | | | | Total responses |
|---|-----------|----|--------|---|-------------------|----|------------------|---|-----------------|
| | Myself | | Spouse | | Myself and Spouse | | Myself and Other | | |
| | F | M' | F | M | F | M | F | M | |
| Whether to get a loan for your business? | 9 | 6 | 1 | 0 | 11 | 12 | 1 | 2 | 42 |
| The amount of business loan you request? | 10 | 7 | 1 | 0 | 10 | 15 | 1 | 2 | 46 |
| Whether to get a business loan from a bank? | 12 | 8 | 2 | 0 | 7 | 11 | 0 | 2 | 42 |
| Whether to get a business loan from an informal source (merchant, group)? | 8 | 3 | 2 | 0 | 3 | 9 | 0 | 2 | 27 |
| Whether to save? | 14 | 6 | 0 | 0 | 7 | 16 | 0 | 2 | 45 |
| Where to save? | 17 | 6 | 0 | 0 | 5 | 16 | 0 | 2 | 46 |
| The amount to save? | 15 | 5 | 0 | 0 | 6 | 17 | 0 | 2 | 45 |
| If you have a bank account, who made the decision to open the account? | 14 | 9 | 2 | 0 | 1 | 12 | 1 | 2 | 41 |
| When to make deposits in this bank account? | 14 | 11 | 1 | 0 | 3 | 11 | 0 | 1 | 41 |
| When to withdraw from this bank account? | 14 | 7 | 1 | 0 | 3 | 14 | 0 | 2 | 41 |
| If you deposit your income with informal sources (merchant, group, other) who made this decision? | 7 | 2 | 0 | 0 | 0 | 1 | 0 | 0 | 10 |
| When to make deposits with informal source? | 7 | 2 | 0 | 0 | 0 | 1 | 0 | 0 | 10 |
| When to withdraw money from informal source? | 6 | 2 | 0 | 0 | 0 | 1 | 0 | 0 | 9 |
| What to do with your business income? | 13 | 3 | 0 | 0 | 7 | 15 | 1 | 1 | 40 |

M' and F' refer to gender of business owner, M = male and F = female business owner.

TABLE 6. Respondent perceptions on accessibility and risk of borrowing from banks by gender of business owner

| Statements | Responses | | | | | | Total responses |
|---|-----------|----------------|----------|----|---------|---|-----------------|
| | Agree | | Disagree | | Neutral | | |
| | F | M ¹ | F | M | F | M | |
| People like you have little chance of borrowing from a bank. | 19 | 18 | 7 | 3 | 4 | 0 | 51 |
| Men find it easier than women to get a loan from a bank. | 15 | 8 | 11 | 7 | 5 | 5 | 51 |
| It is easy for anyone to borrow from a bank. | 2 | 2 | 28 | 22 | 1 | 0 | 55 |
| There is a danger in borrowing money for agriculture activities. | 8 | 3 | 2 | 0 | 3 | 9 | 53 |
| The conditions of borrowing from a bank are easy for anyone to meet. | 2 | 3 | 27 | 19 | 2 | 0 | 53 |
| There is a danger in borrowing money for my business activities. | 5 | 5 | 21 | 15 | 4 | 2 | 52 |
| You fear to borrow from a bank because you may be unable to repay the loan. | 13 | 7 | 15 | 13 | 3 | 3 | 54 |

¹ M and F refer to gender of business owner, M = male and F = female business owner.

overwhelmingly "yes" for both institutions. Officials in both UWFCT and UCSCU indicated that loan monitoring had been intensified at both institutions in the past year. UCSCU officials pointed out that they were using savings accounts to meet loan repayments whenever individuals were in arrears.

CONCLUSIONS

This study focused on the use of financial markets by male and female entrepreneurs of small-sized firms. Respondents provided information on the financial services they used in the formal, semi-formal, and informal financial markets. They were also asked about delivery, accessibility, and use of financial services. The study specifically interviewed entrepreneurs who had received or applied for a loan from the Uganda Cooperative Savings and Credit Union (UCSCU) and the Uganda Women's Finance and Credit Trust (UWFCT), both of which are semi-formal

financial institutions. Three conclusions arose from this study:

- small entrepreneurs are using formal financial institutions for savings accounts,
- the importance of the role of semi-formal finance in delivering financial services to small-scale female and male entrepreneurs, and
- the necessity of safeguarding savings mobilised by semi-formal financial institutions such as UCSCU and UWFCT.

Emergence of Nascent Entrepreneurial Population. Years of civil war and economic instability have decimated the economy of Uganda. Domestic production is still not adequate to feed the population, transportation is difficult in many areas, and AIDS has severely reduced the healthy young adult population. In the midst of these

TABLE 7. Respondent perceptions on financial and business opportunities by gender of business owner

| Statements | Responses | | | | | | Total responses |
|--|------------------|----------------|----------------|----|------------------------------|----|-----------------|
| | Easier for Women | | Easier for Men | | About Same for Women and Men | | |
| | F | M ¹ | F | M | F | M | |
| To get a business loan from a bank. | 7 | 4 | 15 | 10 | 7 | 10 | 53 |
| To get a business loan from a moneykeeper who is a man. | 5 | 6 | 13 | 11 | 6 | 3 | 44 |
| To get a business loan from Ugandan government programmes. | 8 | 4 | 7 | 3 | 10 | 17 | 49 |
| To get training to improve skills in making your product. | 9 | 1 | 6 | 8 | 16 | 13 | 53 |
| To market the kinds of products you produce. | 6 | 3 | 6 | 7 | 17 | 13 | 52 |
| To gain respect from clients in your business. | 10 | 3 | 3 | 3 | 17 | 17 | 53 |
| To deal with your input suppliers. | 7 | 0 | 6 | 5 | 14 | 18 | 50 |
| To expand in your type of business. | 7 | 0 | 9 | 9 | 13 | 14 | 52 |
| To join a group savings/credit association. | 13 | 2 | 3 | 8 | 13 | 12 | 51 |
| To open a bank savings account. | 2 | 1 | 3 | 6 | 26 | 15 | 53 |
| To deal with bank officials. | 4 | 3 | 7 | 6 | 17 | 13 | 50 |
| To get a loan from UCSCU ² . | 1 | 1 | 0 | 3 | 7 | 18 | 30 |
| To get training from UCSCU ² . | 0 | 0 | 1 | 2 | 7 | 20 | 30 |
| To open a savings account from UCSCU ² . | 1 | 0 | 0 | 3 | 7 | 18 | 29 |

M¹ and F¹ refer to gender of business owner. M = male and F = female business owner.

² Only UCSCU respondents were asked these questions.

economic and social hardships, a growing entrepreneurial class of women and men is emerging. There has been little research in Uganda examining the financial behavior and attitudes towards the availability of financial services of this new entrepreneurial class. Examples of this type of entrepreneur were interviewed in this study.

The business-women and men interviewed in

the study were finance literate, kept good accounts, and were interested in additional training in the areas of production, accounting, and domestic marketing. All of them regularly contributed to savings accounts with a semi-formal financial institution, many had savings accounts with a bank, and over 90% had received loans from either UCSCU or UWFCT. Despite their business acumen and savings history, less than 4% of the

survey respondents had qualified for loans from commercial banks. If the formal finance market is not positioned to provide these emerging entrepreneurs with financial services, then the semi-formal finance market may be an effective alternative.

Role of Semi-Formal Finance. The semi-formal finance market provides a linkage between informal and formal finance markets. Semi-formal financial institutions frequently possess characteristics of both the informal and formal finance markets. Operating in the semi-formal finance market, non-bank financial institutions such as UCSCU and UWFCT provide training and technical services for businesses, facilitate and encourage savings, and extend credit. They also act as financial intermediaries by mobilising savings from low-income households which are then periodically deposited in institutional accounts in banks.

Both gender groups indicated increased accessibility to credit as the main advantage of the semi-formal finance market. Most respondents had received their first loans from UCSCU or UWFCT. Other advantages listed by respondents were facilitation of savings, easier borrowing terms, and the provision of general training provided for borrowers.

Semi-formal financial institutions such as UCSCU and UWFCT expand the ability of the financial system as a whole to capture savings hitherto inaccessible to banks due to high transaction costs. There are two major concerns about semi-formal financial institutions such as UCSCU and UWFCT: (i) proper safeguarding of savings mobilised by these institutions, and (ii) sustainability of these institutions.

FUTURE RESEARCH

Uganda has been identified by the World Bank and other international institutions as a country poised to become an important economic and political player in East Africa. After years of turmoil, Uganda appears to have political stability

to develop its rich agricultural resources, and the political will to adapt its institutions to implement sustainable economic development policies.

As developing countries and international donor agencies shift their focus from foreign investment to domestic finance, the role of semi-formal financial institutions operating in the semi-formal financial market becomes critical. Additional studies on semi-formal financial institutions in Uganda and their role as financial intermediators between informal and formal financial markets would provide crucial data for government and non-government organisations attempting to assist small- and medium-sized female entrepreneurs. While this report provides information on the critical role of two semi-formal financial institutions in Uganda, additional in-depth work using integrated gender research in the area of financial markets would strengthen the arguments presented here, and provide crucial information on the functioning of financial markets, particularly the role of the semi-formal finance market.

Uganda Central Bank (Bank of Uganda) is in the process of defining new regulatory guidelines for banks and non-bank financial institutions. Central Banks in Ghana, Benin and other African countries are also in the process of developing new regulatory guidelines which would encourage the formation of additional semi-formal financial institutions. Judicious regulation and licensing of semi-formal financial institutions in Uganda and other countries will provide safeguards for depositors, encourage financial intermediation between informal and formal finance markets, encourage the continued provision of financial products to low-income businesswomen, and result in a better integrated financial system. Indonesia and other Asian countries have already promulgated such semi-formal finance market regulations. Are the experiences of these Asian countries transferrable to sub-Saharan Africa?

Finally, the proliferation of non-government organisations in Uganda, some of which operate as non-bank financial institutions, needs to be critically assessed using equity and efficiency

criteria. To date there has been no systematic evaluation of non-government organisations operating in Uganda.

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