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Thesis

By

William Muhumuza

Department: Political Studies
University of the Witwatersrand, Johannesburg.

Credit and Poverty Alleviation in the Context of Structural Adjustment Reforms in U ganda

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By

William Muhumuza

Supervisor: Professor Tom Lodge

Department: Political Studies

A thesis submitted to the faculty of Humanities, Social Sciences and Education, University of the Witwatersrand, Johannesburg, in fulfilment of the requirements for the degree of Doctor of Philosophy.

Johannesburg, February 2004

Abstract

The thesis focuses on credit as one of the policy strategies that have been pursued by the National Resistance Movement (NRM) government to combat poverty. It examines the magnitude of the economic crisis inherited by the NRM government when it came to power in 1986. It also explores the nature and effects of economic reforms that were pursued to reverse the negative economic trend. The thesis argues that while the implementation of stabilisation and adjustment reforms initially had adverse effects on the vulnerable groups, it has in the long run reduced poverty although some policy challenges remain.

The thesis then critically assesses the extent to which credit can alleviate poverty. In a bid to test the theoretical argument that grassroots approaches are superior to those imposed from higher institutions, the study assesses in a comparative perspective, the extent to which credit interventions by government, Non-governmental Organisations (NGOs) and Community-based Organisations (CBOs) have been effective in alleviating rural poverty.

The assessment of credit interventions by the three agencies as a strategy towards poverty alleviation was conducted in the two districts of Uganda namely, Mbarara and Mpigi. The study used an ethnographic research

design to capture the fundamental aspects of credit agencies as well as their impact on the welfare of the beneficiaries. The data gathering methods involved the cross-fertilisation of quantitative and qualitative techniques (triangulation). Secondary data sources like government documents, the press, seminars, and the library supplemented this information. The accruing data was subsequently organised, edited and carefully interpreted using simple statistical techniques (descriptive statistics) and content analysis.

The findings of the study established that credit generally gives a temporary relief to the poor in the short-run but is not a panacea to poverty alleviation unless supplemented with other remedies. It was further found out that though grassroots credit initiatives had a positive and general impact, they were insufficient to combat poverty. Similarly, credit given by NGOs was found to be patronising, inadequate and characterised by rigid terms and conditions to enable the poor to break-even. Conversely, the state-directed credit, which had better terms and involved big amounts, had registered poor performance because of political interference and mismanagement.

The theoretical implications of these empirical findings therefore disagree with the otherwise heralded view that grassroots approaches to poverty alleviation are superior to those imposed from higher institutions. The findings of this study instead demonstrate that the two approaches need to supplement each other if they are to have a positive and ever lasting impact on the lives of the poor. The study shows that in a backward economy where the factors of production are underdeveloped and the private sector is embryonic, state intervention (although it does not necessarily have to be direct) is necessary. This thesis however proposes that such top-down interventions be channelled through grassroots institutions if they are to be effective.

The study concludes that for credit to be an affective intervention against poverty, it must be supplemented by other policy initiatives such as prudent macroeconomic management, infrastructure development, efficient markets, good governance and effective services. The thesis insists that for these essential ingredients to be effectively availed require a partnership between the different agencies such as the private sector, NGOs, government and grassroots self-help organisations. Such a situation therefore justifies the need for adopting a state-society synergy approach to poverty alleviation, which has been adopted for this study.

Declaration

I declare that this thesis is a result of my original work. It has not been submitted before for any other degree or examination in any university.

22nd day of February, 2004.

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Many people and organizations have contributed to the accomplishment of this thesis in one way or the other. I'm however, entirely responsible for any shortcomings and errors contained therein. I convey my sincere appreciation to all those who made it possible for this study to be completed. It is however not possible for those who assisted to be named in this section for all the services rendered.

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I would also like to express my sincere appreciation to the Makerere University Council, which fully sponsored my Ph.D training at the University of the Witwatersrand. I'm also grateful to the French Institute for Research in Africa (IFRA) and the Council for the Development of Social Science Research in Africa (CODESRIA) for their financial contributions to my field research. Without their timely facilitation, it would have been difficult to complete this study.

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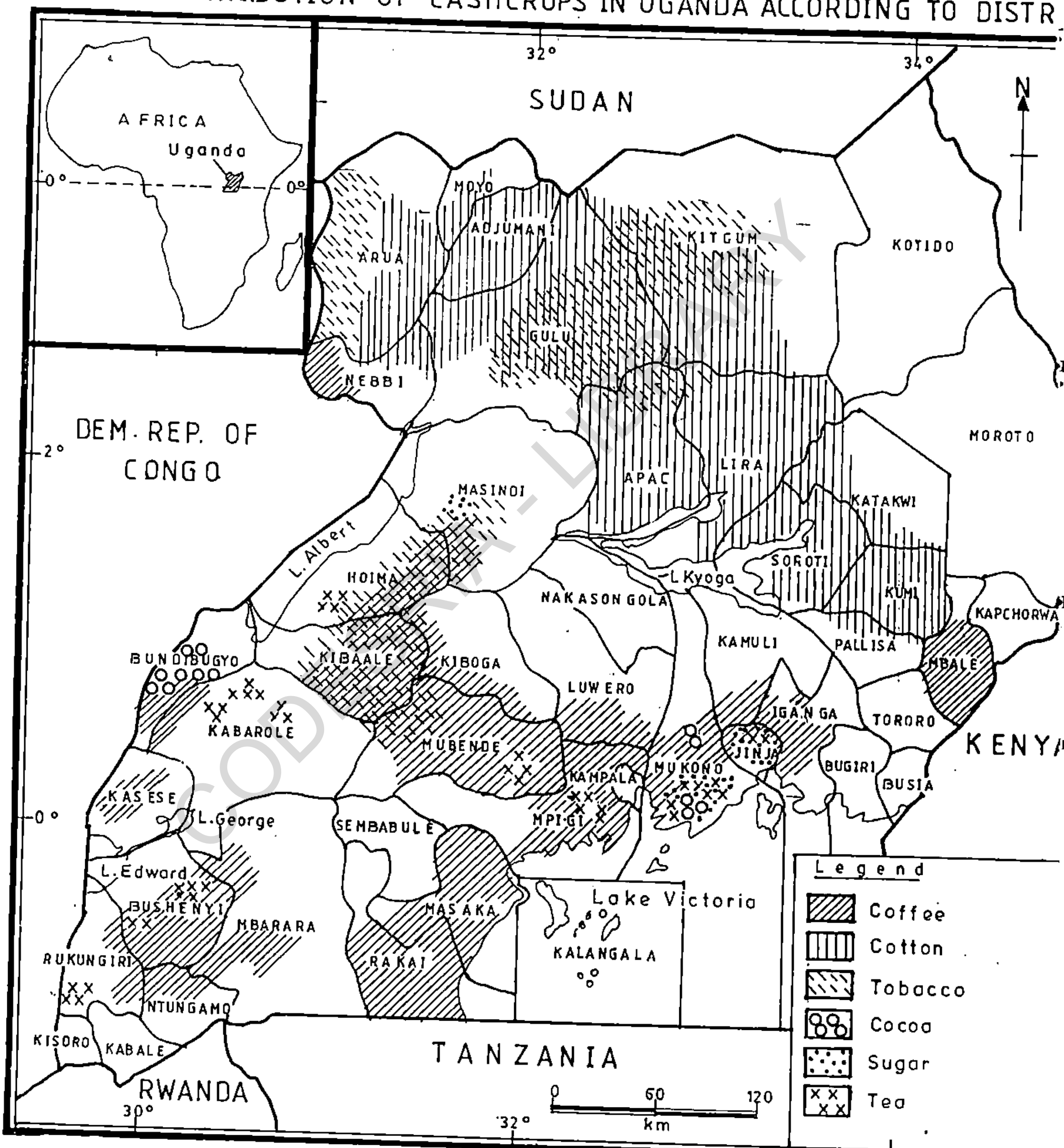

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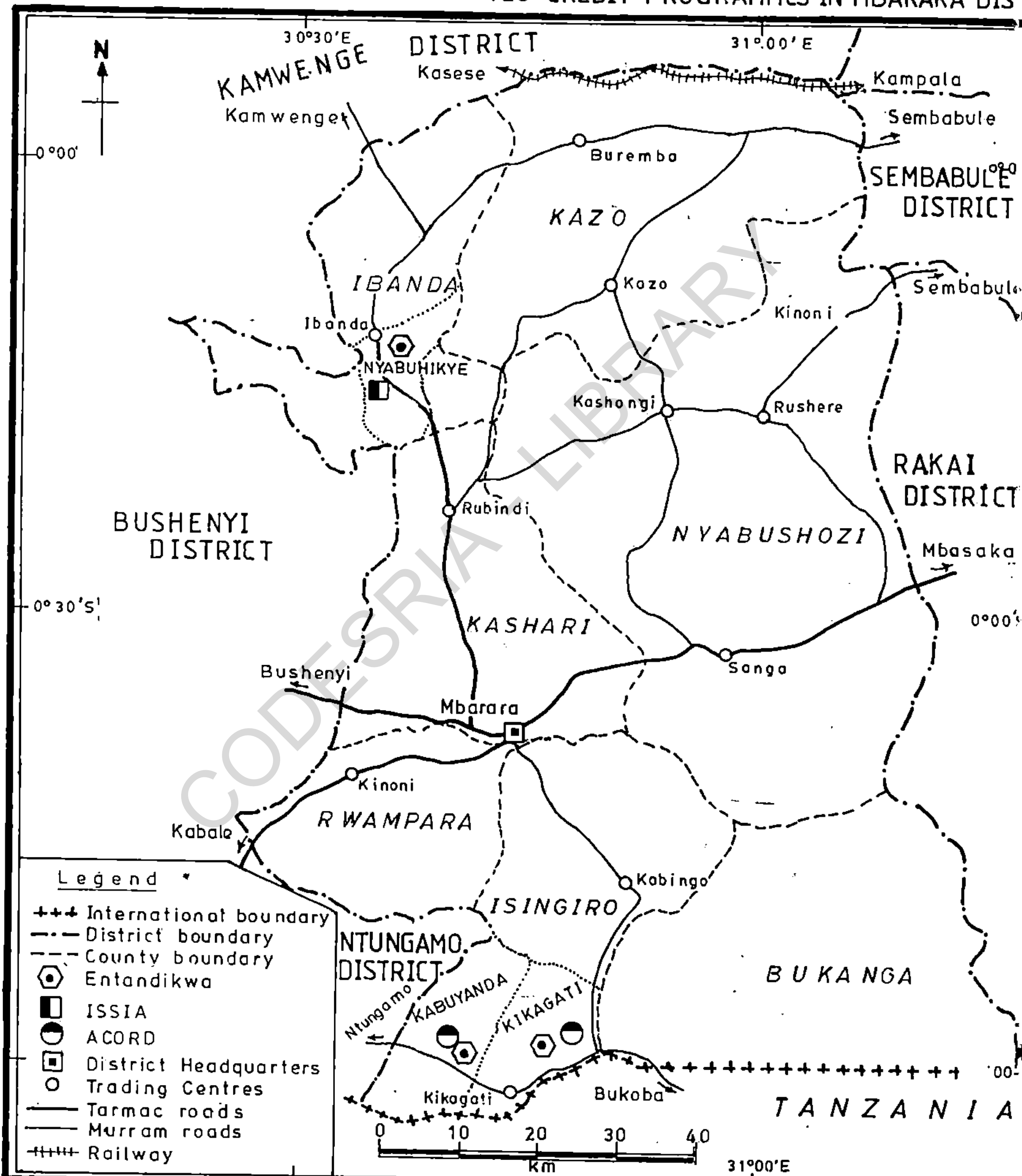

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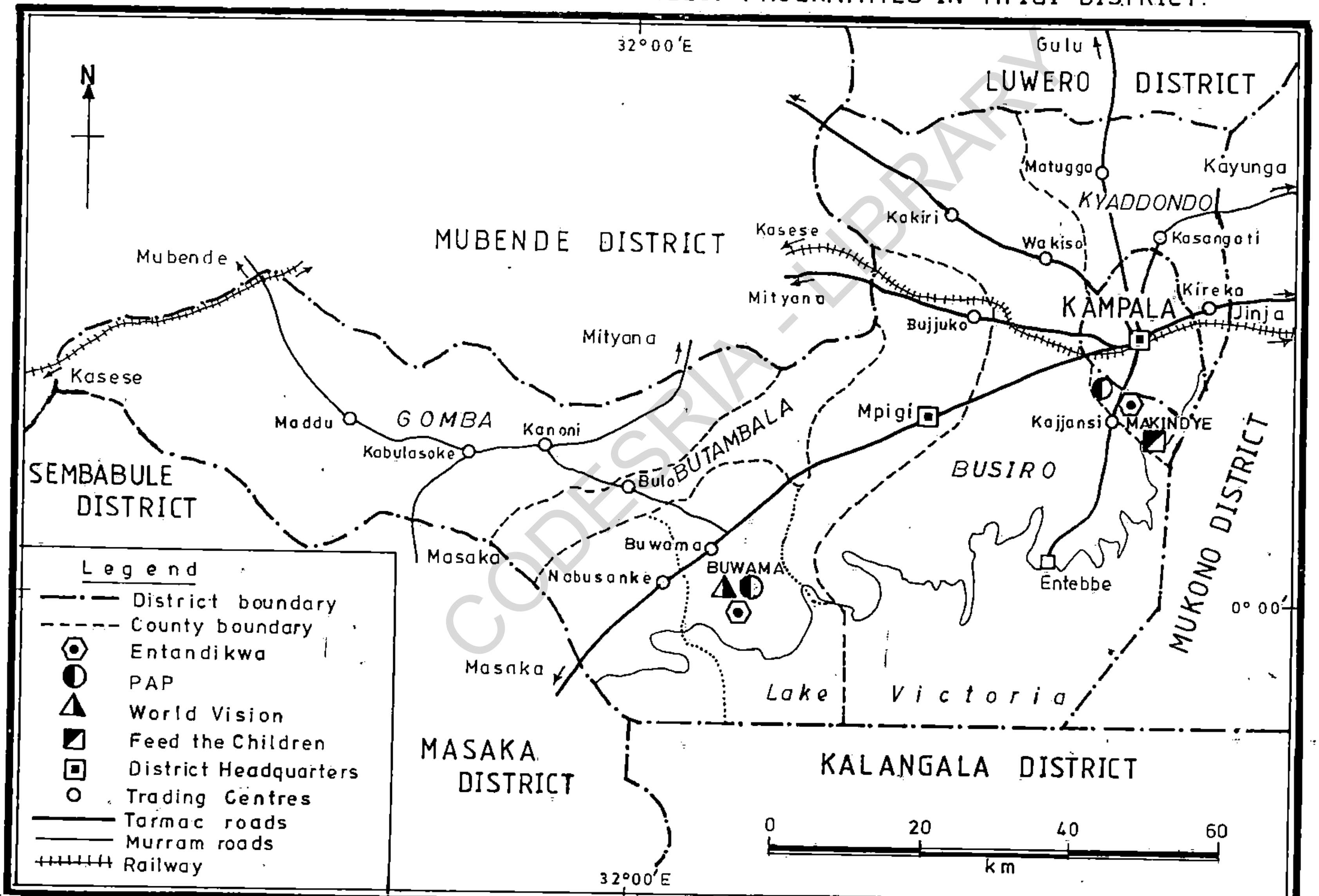

List of Abbreviations/Acronyms

ACORD.... Agency for Co-operation in Research and Development
ADB..........African Development Bank
AGOA.......African Growth Opportunity Act
APCs.........Area Project Co-ordinators
APO..........Area Programme Officer
ASCRAs......Accumulating Savings and Credit Associations
BKK............Badan Kredit Kecamatan
BRAC..........Bangladesh Rural Advancement Committee
BRI..............Bank Rakyat Indonesia
BUD............Bank Rakyat Indonesia Unit Desa
BT...............*Bataka Tweyambe*
CAO............Chief Administrative Officer
CBOs............Community-based Organisations
CDRN......... Community Development Resource Network
CSC.............County Steering Committee
CSDP........... Cotton Sub-Sector Development Project
DCS.............District Loan Committee
EBA.............Everything-But-Arms
ECS..............*Entandikwa* Credit Scheme
EPRC............Economic Policy Research Centre
FINCA..........Foundation for International Community Assistance
FTCU............Feed the Children Uganda
GB...............Grameen Bank
GDP..............Gross Domestic Product

GOU............Government of Uganda
GROs...........Grassroots Organisations
GTZ.............German Technical Co-operation
HIPC...........Highly Indebted Poor Countries
HIV/AIDS.....Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
IAs..............Intermediary Agencies
ICA..............International Coffee Agreement
ICAs............Informal Credit Associations
IDA..............Ibanda Development Agency
IEs...............Intermediary Entities
IFAD........... International Fund for Agricultural Development
IGSU............Income Generation Support Unit
IHS..............Integrated Household Survey
IMF..............International Monetary Fund
ISSIA............Initiative of Small Scale Industrialists Agency
KDA............Karamoja Development Agency
KDA............Kashari Development Agency
KDT.............Kazo Development Trust
KTG............Kyezimbira Tweyombekye Group
KWUG..........Kabuyanda Women United Group
LC...............Local Council
LEGCO..........Legislative Council
LISSA...........Low-Income Sub-Saharan Africa
MDGs...........Millenium Development Goals
MFEP............Ministry of Finance and Economic Planning
MFPED..........Ministry of Finance, Planning and Economic Development
MGSLD..........Ministry of Gender, Labour and Social Development
MMF..............Malawi Mudzi Fund
NARO............National Agricultural Research Organisation
NAWOU.........National Association of Women of Uganda
NICs..............Newly Industrialised Countries
NGOs.............Non-Governmental Organisations
NRC...............National Resistance Council
NRM..............National Resistance Movement
NSC...............National Steering Committee
NSDS..............National Service Delivery Survey
NURP..............Northern Uganda Reconstruction Programme
NWCA............Nyabuhikye Women Catering Association
NWG..............Nyampikye Women's Group
NYDA..............Nyabushozi Development Agency
OECD..............Organisation for Economic Co-operation and Development
OMPA..............Orukyinga Micro-finance Promotion Agency
OPM................Office of the Prime Minister
PAF.................Poverty Action Fund

PAMSCAD.........Programme of Action to Mitigate the Social Costs of Adjustment
PAP..................Poverty Alleviation Project
PAPSCA............Project to Alleviate Poverty and Social Costs of Adjustment
PAR....................Participatory Action Research
PEAP..................Poverty Eradication Action Fund
PMA...................Plan for the Modernisation of Agriculture
PRIDE................Promotion of Rural Initiatives and Development Enterprises
PTAs....................Parents-Teachers Associations
RDCs..................Resident District Commissioners
RFS....................Rural Farmers Scheme
RDWs................Rural Development Workers
ROSCAs............Rotating Savings and Credit Associations
SACA...............Small Agricultural Credit Administration
SAPs.................Structural Adjustment Programmes
SCAs..................Savings and Credit Associations
SSA....................Sub-Saharan Africa
SWURP.............South-Western Uganda Rural programme
TBA..................Tukore Bukozi Association
TMA...................Twegattee Mubyenfuna Association
TWG...................Twekambe Women's Group
UBOS................Uganda Bureau of Statistics
UCB..................Uganda Commercial Bank
UNDP...............United Nations Development Programme
UNESCO............United Nations Educational, Scientific and Cultural Organisation
UNFA................Uganda National Farmers Association
UNHS................Uganda National Household Survey
UPE....................Universal Primary Education
UPPAP.............Uganda Participatory Poverty Assessment Project
UWESO............Uganda Women Efforts to Save Orphans
WV...................World Vision
YFMC...............Yellow Farm Management Certificate

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Introduction

The thesis focuses on credit as one of the policy strategies that have been pursued by the National Resistance Movement (NRM) government to combat poverty. It examines the magnitude of the economic crisis inherited by the NRM government when it came to power in 1986. It also explores the nature and effects of economic reforms that were pursued to reverse the negative economic trend. It further argues that while the implementation of stabilisation and adjustment reforms initially had adverse effects on the vulnerable groups, it has in the long run reduced poverty although some challenges remain. The thesis then critically assesses the extent to which credit can alleviate poverty. It compares and contrasts credit programmes that have been implemented by government, non-governmental organisations (NGOs) and community-based organisations (CBOs).

By the 1980s, Uganda's economy witnessed a deepening crisis due to a combination of domestic distortions and external bottlenecks. It is argued that the choice of wrong development models and the poor management style pursued by many African countries after independence of which Uganda was no exception were partly responsible for the crisis.[1]

[1] John Makum Mbaku (1999), 'The Relevance of the State in African Development: Preparing for the New Century,' *Journal of Asian and African Studies*, 34 (3), pp. 307-9. Also see Christopher Clapham (1996), 'Introduction: Liberalisation, Regionalism and Statehood

Notwithstanding the domestic causes of the crisis, the external dimensions of the crisis have also been held responsible. The adverse effects arising from an unfavourable international economic system exacerbated the internal causes. Some of these effects include the declining terms of trade of African exports, protectionism of the markets of developed countries, the increasing oil prices since the 1970s and the high interest rates.[2] While these economic effects had started in the 1960s, they climaxed in the 1980s.

Uganda like many other Sub-Saharan African countries experienced the adverse effects of this crisis.[3] Its response to the crisis was increased borrowing from external sources, which increased indebtedness levels. The subsequent governments from 1971 to 1985 responded to the crisis by instituting inappropriate measures such as the printing of money, price controls, taxing exports and rationing foreign exchange. There were also reports of heavy intervention in both the credit market and the industrial sector as well as a series of large-scale nationalisations of the economy.[4]

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in the New Development Agenda,' *Third World Quarterly*, 17 (4), p. 594. Also see Mark J. Ellyne (1995), 'The Economic History of Uganda and Progress Under its Structural Adjustment Programme,' *The Uganda Journal*, 42, p. 18.

[2] Ian Goldin (2002), 'All-inclusive Trading,' *World Link*, 15 (2): 32-4. Also see Oxfam (2002), *Rigged Rules and Double Standards: Trade, Globalisation, and the Fight Against Poverty*, Oxfam International, pp. 3-9.

[3] C. Obidegwu (1996), 'Recent Economic Trends, Adjustment, and Poverty in Sub-Saharan Africa,' in Michael Bamberger, Abdullahi M. Yahie and George Matovu (eds.), *The Design and Management of Poverty Reduction Programmes and Projects in Anglophone Africa*, Washington, D. C.: The World Bank, p. 3. Also see IMF (1995),'Uganda: Back from the Brink and on the Path to Sustained Growth,' *IMF Survey*, 24 (22) (December 11), p. 377.

[4] Louis Kasekende (1998), 'Savings in the Context of Microeconomic Policy Issues:

These policies led to the deterioration of the infrastructure, smuggling, hoarding, collapse of social programmes, hyperinflation and a debt crisis. The overall consequence of the economic crisis was the decline in the living conditions of the population. National poverty levels escalated.

By 1986 when the NRM came to power the economic decline had reached crisis levels. More particularly, the population was experiencing increasing poverty levels as result of the cumulative economic decline. The fiscal deficit of GDP rose from 2.5 percent of GDP in 1960 to 9.5 percent in 1974. Inflation rose from 3.5 percent in 1963-70 to 35 percent in 1971-8 and to 108.7 percent in 1981.[5]

In an attempt to reverse the chronic economic decline and generate growth, the NRM government with assistance from the World Bank and International Monetary Fund (IMF), instituted stabilisation and structural adjustment reforms. Adjustment reforms refer to austerity measures that are instituted on heavily indebted countries to improve their economies. According to Stanley Fischer,[6] there are two types of adjustment policies: the

The East African Experience,' *Savings in the Context of Micro-finance*, CGAP Working Group's Africa Conference, Draft Proceedings, Kampala, Uganda, 10-13 February, p. 22.

[5] *Ibid*, p. 22. Also see Paul Collier and Ritva Reinnika (2001). 'Reconstruction and Liberalisation: An Overview,' in Ritva Reinnika and Paul Collier (eds.), *Uganda's Recovery: The Role of Farms, Firms and Government*, Kampala: Fountain Publishers, pp. 19-21.

[6] Definition of adjustment by Stanley Fischer, former Vice-President and Chief Economist of the World Bank, in a Speech to the G-24 Deputies, April 3, 1989.

short-run or macro-economic adjustment, which means basically adjusting to living within one's means; and structural adjustment, which means changing the structure of the economy to enable the means to grow more rapidly. In regard to macro-economic measures pursued, the IMF Survey[7] reports that the NRM government implemented five policy objectives of adjustment effort. These included stabilisation of the economy through monetary and fiscal discipline. It also involved liberalisation of the domestic business environment, particularly production, marketing, prices and interest rates. The third objective involved the adoption of a flexible, market-determined exchange rate. The fourth objective included the strengthening of the balance of payments and the normalisation of relations with external creditors. The last objective involved structural reforms in the areas of state enterprises, civil service, army demobilisation, and the financial sector..

It is now almost two decades since the adjustment policy reforms were implemented in May 1987. Ellyne[8] confirms that ever since Uganda started borrowing from the two multilateral institutions it has been increasingly obliged to adopt adjustment-induced policy reforms. The policy reforms instituted by the NRM regime have generally reversed the economic decline and generated remarkable growth. The reforms have led to an impressive

[7] IMF (1995),'Uganda: Back from the Brink and on the Path to Sustained Growth,' *IMF Survey*, 24 (22) (December 11), p. 378.

[8] Mark J. Ellyne (1995), *Opcit*, 42, p. 22.

economic growth averaging six percent of Gross Domestic Product (GDP) annually. While the reforms generated growth, they did not initially succeed in translating growth into improved welfare conditions for the majority people.[9] The initial period was characterised by austerity measures, which adversely affected the living conditions of the vulnerable groups.[10] While the overall impact of these policies improved the performance of the economy, they initially led to social costs of adjustment. It should however be noted that the World Bank has since 1990 initiated poverty reduction strategies.[11]

The view that adjustment-induced reforms harm the lower social strata is widely held. This is due to the fact that some of these policies affect those very fields of government activity that directly benefited the poor. For example the removal of subsidies from agricultural inputs, essential commodities, fuel and the retreat of the state from fully funding social

[9] IMF (1995), *Opcit,pp.* 377-80. Also see Robert L. Sharer, Hema R. De Zoysa and Calvin A. McDonald (1996), 'Uganda: Adjustment with Growth, 1987-94,' IMF Occasional Paper Series No. 121. Also see IMF (1997), Further Progress in Monetary Management in Uganda, Report Prepared by the Monetary and Exchange Affairs Department, Washington, D. C.: IMF.

[10] See K. Sarwar Lateef (1991), 'Structural Adjustment in Uganda: The Initial Experience,' in Holger Bernt Hansen and Michael Twaddle (eds.), *Changing Uganda*, Kampala: Fountain Publishers, pp. 20-42, p. 30. Also see Nicholas Stern, Ian Goldin and Halsey Rogers (2002), *The Role and Effectiveness of Development Assistance: Lessons from World Bank Experience*, Washington, D. C.: The World Bank, p. 5. Also see UNDP (1997), Uganda Human Development Report, Kampala, p. 2. Also see Rosemary McGee (2000), 'Meeting the International Poverty Targets in Uganda: Halving Poverty and Achieving Universal Primary Education,' *Development Policy Review*, 18 (1), p. 86.

[11] See Nicholas Stern, Ian Goldin and Halsey Rogers (2002), *Opcit*, pp. 1, 3 and 43. See World Bank (1990), World Development Report, Washington, D. C.: World Bank. Also see John Toye and Carl Jackson (1996), 'Public Expenditure Policy and Poverty Reduction: Has the World Bank Got it Right,' *IDS Bulletin*, 27 (1), p. 56.

programmes negatively impinged on the poor groups. Even other policy effects such as retrenchment, demobilisation and the privatisation of state corporations also indirectly affected some of the poor especially those that lost transfer income from relatives who were affected by the changes.

Although the study acknowledges the fact that poverty is not a recent socio-economic phenomenon in Uganda, it argues that the first years of implementing policy reforms impacted negatively on the welfare of the existing poor as well as created new poor groups. The then Minister of Planning and Economic Development also conceded that mass poverty was a policy challenge in Uganda despite the ten years of implementing adjustment reforms in his address to the nation on the international day for the eradication of poverty on 17th October, 1997:

> Although Uganda has registered robust growth averaging 6 percent over the last 10 years, the majority of our people still live in abject poverty.[12]

Further evidence that the implementation of policy reforms initially undermined the welfare of the poor and those with fixed incomes can be traced in Uganda's 1996/97 budgetary estimates presented by the Government of Uganda (GOU)/Ministry of Finance, Planning and Economic Development (MFPED). It was conceded that the government was required

[12] *The New Vision*, Friday, October 17, 1997, 'An Address to the Nation on the International Day for Poverty Eradication,' p. 29.

to expend less on subsidising social services and that the change in policy mainly affected the poorest sectors of the society.[13]

Although poverty has generally reduced from 56 percent in 1992 to 35 percent in 2001 in the long-run,[14] there is evidence that the initial policy effects either exacerbated or created transitional poverty especially within the poor groups. The World Bank,[15] for instance, reported a decline in the living conditions of the poor groups as a result of the policy effects in the initial period. The share of the population below the poverty line during the period 1989-90 was 57 percent in rural areas and 8 percent in urban areas. Also, statistics from Ministry of Finance and Economic Planning Household Consumer Expenditure Survey indicated growing poverty. Poverty was reported to be growing at the following rates: 1989/90 the rural poor were 37.9 percent while the urban poor were 14.3 percent; 1992/93 the rural poor were 43 percent while the urban poor were 8.6 percent; 1993/94 the rural poor were 46.6 percent while the urban poor were 6.6 percent.[16] These statistics confirm that poverty was more concentrated and grew faster in rural than urban areas. While the initial social dimensions of adjustment

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[13] Republic of Uganda (1996), *Background to the Budget 1996/97*, Ministry of Planning and Economic Development, Kampala.

[14] Simon Appleton (2001), *Poverty in Uganda, 1999/2000: Preliminary Estimates from UNHS*, University of Nottingham, UK, January, p. 3.

[15] World Bank (1997), *Taking Actions to Reduce Poverty in Sub-Saharan Africa*, Washington, D. C.: The World Bank, p. 29.

[16] Republic of Uganda (1995), *Household Consumer Expenditure Survey*, Ministry of

reforms affected both the urban and rural strata of the population, the scope of this thesis specifically focuses on the plight of the rural poor because available statistics show that they have been much more affected.

The social dimensions of adjustment that initially affected the welfare of the majority of the Uganda population prompted multifaceted forms of intervention to mitigate the social costs of adjustment. The intervention that is however of particular interest to this study is credit. Credit as an intervention strategy against rural poverty has been heralded for enabling the rural poor to engage in income-generating projects as a means to improve household incomes as well as create employment.[17] More particularly, it is the NRM government policy to increase household income through the provision of credit.[18] The central government, NGOs and CBOs have been extending credit to the rural poor in Uganda.

Planning and Economic Development, Kampala, p. 7.

[17] David Hulme and Paul Mosley (eds.) (1996), Finance Against Poverty (Vol. 1 and 2), London and New York: Routledge. Also see Mark M. Pitt and Shahidur R. Khandker (1998), 'The Impact of Credit Programmes on Poor Households in Bangladesh: Does the Gender of Participants Matter?,' *Journal of Political Economy*, 106 (5): 958-96. Also see Shiley Ardener and Sandra Burman (eds.) (1986), *Money-Go-Rounds: The Importance of Rotating Savings and Credit Associations for Women*, Oxford: Berg. Also see Ernest Harsch (1997), 'Africa Advances its Micro-Credit Agenda,' *Africa Recovery*, 10 (4) (January-April): 1-2. Also see S. Holocombe (1995), *Managing to Empower: The Grameen Bank's Experience of Poverty Alleviation*, London: Zed Press. Also see M. Hossain (1988), *Credit for Alleviation of Rural Poverty: The Grammen Bank in Bangladesh*, Washington D.C.: IFRI. Also see S. R. Khandker (1997), *Fighting Poverty with Micro-Credit: Experience in Bangladesh*, Washington D.C.: Oxford University Press of the World Bank.

[18] Republic of Uganda (2001), *Uganda National Household Survey 1999/2000*, Uganda Bureau of Statistics, p. 62.

Even though credit is widely believed to alleviate poverty, little is known about the effectiveness of the agencies that have been engaged in credit disbursement in Uganda. This study does not only look at the effectiveness of credit as an anti-poverty strategy but also comparatively searches for the underlying explanations to the variations in the performance of the three credit programmes as implemented by government, NGOs and CBOs vis á vis the poor. In other words, it attempts to evaluate the effectiveness of the different approaches (top-down vis a' vis grassroots) that are pursued by the respective programmes.

Salient Issues of the Thesis

The initial policy effects of adjustment reforms pursued by government since May 1987 were associated with social costs of adjustment. The policy effects on the poor groups in the transitional period prompted direct intervention by three categories of credit programmes. The interventions comprised of state-directed credit as well as credit initiatives from NGOs and CBOs. These different agencies have initiated, funded and implemented various credit programmes to facilitate poorer groups to undertake productive economic ventures, acquire and accumulate assets and subsequently improve their wellbeing. Their intervention is based on the claim that the poorer groups cannot obtain credit from the traditional lending institutions because they discriminate against them.[19]

While the three different credit programmes have been operative for quite some time, they have generated a lot of debate in terms of their overall benefits to the poor. It is unclear whether these credit schemes have benefited the real poor groups. Moreover, there is growing concern as to whether the beneficiary groups have been empowered to productively engage in micro-enterprises and subsequently enhanced their sustainability. The study also sought to assess the extent to which credit can effectively alleviate poverty.

These debates and concerns are premised on the observation that measures undertaken to eradicate poverty should involve more than finances. Buckley[20] argues that the real economic problems are more profound and cannot be solely tackled by capital injections but require fundamental structural changes of the social economic conditions. Aspects like physical infrastructure, price, availability of markets, and government macro-

[19] Santanu Basu (1997), 'Why Institutional Credit Agencies are Reluctant to Lend to the Rural Poor: A Theoretical Analysis of the Indian Rural Credit Market,' *World Development*, 25 (2): 267-80. Also see Karla Hoff and Joseph E. Stiglitz (1990), 'Introduction: Imperfect Information and Rural Credit Markets: Puzzles and Policy Perspectives,' *The World Bank Economic Review*, 4 (3): 235-50.

[20] Graeme Buckley (1997), 'Micro-finance in Africa: Is It Either the Problem or the Solution,' *World Development*, 25 (7): 1081-93, p. 1090.

economic policies also have a big effect. There are concerns about anti-poverty approaches that tend to downplay such vital aspects. Therefore, the influence of these other factors on credit needs to be put into consideration.

Moreover, the role of state intervention in rural development needs to be critically assessed especially in the context of weak and imperfect financial markets and a small private sector. The question of a weak institutional government in many African countries has been re-affirmed by McCormick.[21] She notes that the institutional environment for business activity in African countries is fragmented and weak. Markets, legal systems, financial systems and social structures are weak.

There is a general assumption that development programmes initiated and implemented through grassroots initiatives are more effective than those imposed from above in empowering the rural poor. However, no attempt has specifically been undertaken in Uganda to compare and contrast the effectiveness of government-initiated credit programmes vis 'a vis those of NGOs and CBOs. Some of the available studies on credit in Uganda are focused on evaluating specific credit programmes in isolation or generally focus on the categories, role and accessibility of micro-finance programmes.[22]

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[21] Dorothy McCormick (2001), 'Enterprise Clusters in Kenya,' *Africa Insight*, 31 (1): 3-11, p. 5. Also see Louis Kasekende (1998), *Opcit*, pp. 16-7.

[22] Kikonyogo, N. (1997), *Reaching the Poor through Micro-Credit Institutions and*

Even the study by the World Bank[23] generally explores the role of NGOs and CBOs in poverty alleviation. It neither specifically addresses salient issues that affect credit beneficiaries and nor does it critically look at their mode of operation and how effective these initiatives have been in alleviating poverty. Moreover, none of these available studies have had a wide perspective that links the effect of government policies on the welfare of the poor groups as well as the appropriateness of interventions. This study therefore attempts to link the various factors at play.

Besides, this study acknowledges the fact that the performance of credit programmes is assessed on the basis of either their sustainability or their ability to economically empower the beneficiaries. This study particularly focuses on the latter indicator. It empirically investigates the effectiveness of government, NGOs and CBOs' credit interventions in the alleviation of poverty among the poorer sections of the population.

Programmes: A Central Bank Perspective. Unpublished Paper Presented at Brandeis University, Massachusets, May 2-3. J. M. Matovu and L. J. Okumu (1996), Determinants of Credit Accessibility to the Rural Poor in Uganda, Economic Research Bulletin, Kampala, Uganda. Also see Bank of Uganda (1994), *Cotton Sub-Sector Development Project, A Rapid Appraisal of Rural Finance and Credit Schemes,* Vol. 1, Main Report, Uganda Agricultural Policy Committee, Bank of Uganda, December. Also see Luggya-Ssempebwa (1996), 'Making the Poor Less Impoverished Through Credit Finance: A Case of Uganda Commercial Bank's Rural Farmers Scheme,' *Ibid,* pp. 33- 8. Also see O. W. Odwongo (1996), 'The Interest Policy for Rural Finance,' in *Economic Policy Research Bulletin: Credit Accessibility to the Rural Poor in Uganda,* Kampala, Economic Policy Research Centre, pp. 23-32.

[23] World Bank (1994), *The Role of Non-Governmental Organisations and Community-Based Organisations in Poverty Alleviation,* Report No. 12262-UG, June 22, World Bank,

The thesis, therefore, attempts to answer four salient questions. It tries to establish the extent to which the sweeping economic policy reforms instituted since 1987 specifically impacted on the welfare of the rural poor. It also explores the extent to which the three credit programmes funded and executed by the government, NGOs and CBOs have empowered and subsequently improved the living standards of the rural poor. Furthermore, an attempt is made to compare and contrast the nature and impact of three credit programmes on the welfare of the rural poor as well as look for explanations as to the attributes that make some credit programmes more effective than the others. Finally, the issue of whether the three credit initiatives create economic sustainability for the beneficiaries is also critically investigated and discussed.

The importance of this study cannot be underrated in both theoretical and practical terms. It is envisaged to make two scholarly contributions. First, it will contribute to the role and challenges of neo-liberal economic reform policies in low-income countries. The second contribution is on the role of credit in poverty alleviation in poor countries. The findings go a long way to test the existing theories that emphasise the positive role of credit in poverty alleviation. They also point out the policy implications of using credit as an intervention strategy against poverty.

Kampala, Uganda.

Besides, the study findings provide useful information to policy makers, programme managers and implementers, beneficiaries of credit schemes, academic institutions, and other agencies involved and/or interested in credit as an anti-poverty programme. The empirical findings of the study also supply useful insights to the stakeholders on how credit as a poverty alleviation mechanism can be improved and strengthened. The study equally opens up new research areas.

Methodology

Rationale for Methodology

The study used an ethnographic research design in order to capture the fundamental aspects that would not otherwise be got if quantitative study methods were exclusively applied. Much as quantitative research methods have positive attributes like objectivity and representativeness, they tend to conceal a lot of useful information in the name of scientific precision. Besides, the positivist era when quantitative research techniques were glorified and considered more superior to qualitative methods is long gone. It is now widely accepted that a researcher cannot completely detach himself or herself from the study he or she is undertaking. It is sometimes necessary and important that the researcher uses his or her personal judgement after weighing the different or alternative responses. The investigator having been part and parcel of the society he was studying could not completely detach himself from the study because of his own experience and understanding of the phenomenon. It is on the basis of the foregoing justification that the study relied more on qualitative data gathering techniques. This was necessarily so because the study intended to capture those qualitative elements as seen and experienced by both the investigator and the respondents while at the same time interpreting meaningful human actions and interpretations that respondents give to themselves and others.

Study Location

The study was conducted in the two districts of Mpigi and Mbarara: Mpigi district is located in the central part while Mbarara is situated in the south-western part of Uganda. The two places were selected on the basis of being peaceful and therefore conducive to conducting field research compared to the north, east and west of the country where cases of insurgency were raging. Besides, the selected areas exhibited characteristics of poverty like remoteness, inadequacy of physical infrastructure, and poor social amenities. Moreover, there existed a substantial number of poor persons while at the same time credit schemes were operational in the two districts for quite sometime. Much more important is that war, HIV-AIDS or any other natural catastrophes that would indirectly distort the findings of this study did not seriously ravage the two districts. In terms of guarding against undesirable intervening variables, the two districts were found more suitable in comparison to others. All the above justifications notwithstanding, the researcher was well versed and familiar with the cultures and languages of the people involved, which provided an invaluable advantage.

Credit Programmes Studied

The credit-giving institutions studied included those sponsored by government, NGOs and Informal Credit Associations (ICAs). Government credit programmes covered by the study include *Entandikwa*[24] Credit Scheme (ECS) and Poverty Alleviation Project (PAP). Credit schemes operated by NGOs in Mbarara district which were covered by this study include Initiative of Small-Scale Industrialists Agency (ISSIA) and Agency for Co-operation in Research and Development (ACORD) while those covered in Mpigi district include World Vision and Feed the Children-Uganda. On the other hand, many ICAs were studied. Some of these groups visited in Mbarara district include *Bataka Tweyambe, Kabuyanda Women United Group, Nyampikye Women's Group, Kyezimbira Tweyombekye Group* and *Nyabuhikye*

[24] *Entandikwa* is a state-directed national credit scheme initiated in 1994/95 financial year with an initial capital of 6 billion Uganda Shillings (US$ 6 million) to loan seed money to the poor who were unable to get credit from commercial banks due to lack of collateral. It has since disbursed 9.9 billion shillings (approximately US$ 9.92 million) of government's own revenue to 39,200 clients (*The New Vision*, Monday, February 22, 1999, 'USh 9.9b Disbursed Under *Entandikwa* Programme, p. 15). The exchange rate at the time was 1000 Uganda Shillings to one US dollar.

Women Catering Association. In the case of Mpigi district, they include *Twekambe Women's Group, Tukore Bukozi,* and *Twegatte Mubyenfuna Association.*

Sampling Method

Convenience sampling was used because of the unique nature of this study. Given the fact that the places typical of the samples wanted were very few, it proved difficult to apply probability-sampling techniques. It is on this basis that a non-probability technique (convenience sampling) had to be opted for. Having identified these locations that exhibited characteristics of poverty, the investigator proceeded to sample four villages from each district. In the first case, two counties were purposively selected out of which two sub-counties were picked and then identified two parishes from which two appropriate lower local councils (villages) were selected. However, in many cases two or more villages had to be studied in one parish because there was no single village that had all the three credit schemes represented. It was mostly the ICAs that were well represented in all the villages visited. However credit schemes run by government or NGOs were not easily available in each and every village as was the case with the ICAs because these were few and scattered. Therefore, more villages than those anticipated were visited in each parish to make sure that beneficiaries of all the three credit schemes were covered. All this selection was systematically and carefully undertaken with the assistance of the district officials and leaders of the local councils in the respective areas involved in this study. A sampling frame of the poor heads of households[25] that were at the time or had previously benefited from any of the three credit schemes was drawn with the assistance of the chairperson of local council one (local leaders). This included ten poor households that benefited from any of the three types of credit schemes and five that never benefited at all (control group). The list of beneficiaries and non-beneficiaries was supplemented with people in management positions of credit programmes pursued by ICAs, NGOs and government in each of the two districts. A sample size of sixty households was therefore selected from each district. The total sample size for heads of households (beneficiaries and non-beneficiaries) as well as the management of the credit schemes sampled in Mpigi and Mbarara districts was 120. In the case of Mbarara and Mpigi districts, the counties of Isingiro and Ibanda together with Buwama and Busiro were purposively and respectively selected. The selection of these locations ensured that households chosen were typical of the poor and rural communities and at the same time benefited from credit.

[25] This study adopted a 'cooking pot' definition of household as used by the IHS (1992). It defines the head as 'the members of the households under whose authority the activities of the household including expenditures are carried out and who is accepted as such by all the members of the household......' (Republic of Uganda, 'Integrated Household

Data Collection Techniques

The data collection techniques used include semi-structured and in-depth interviews, focus group discussions, observations and the utilisation of secondary data in form of minutes of meetings, annual reports, official manuals, reports and correspondences, conference proceedings and press reports. A combination of the different data gathering methods (triangulation) was adopted to guard against the shortcomings of relying on a single research instrument while at the same time benefiting from the strengths of each of them. Besides, triangulation captures both the quantitative and qualitative aspects of data that would otherwise not be captured if only one method of data collection was used. The interviews captured quantitative aspects of data, which include basic personal information like age, sex, religion, marital status, education status, occupation and the size of the household. Information was solicited from these personal characteristics because they provide clues on which people are mostly vulnerable to poverty and why. Moreover, these characteristics give an insight on the performance of the different categories of credit beneficiaries. In addition, quantitative data was also generated by multi-choice questions where a range of answers was provided for the respondents to choose from. Much as quantitative data was gathered, respondents were equally subjected to in-depth interviews about their own experiences and

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Survey of Uganda (IHS), 1992: Manual of Instructions to Field Workers' (Kampala: Statistics perceptions of the role of credit in poverty alleviation. Respondents in this case included the beneficiaries of the three credit schemes (Government, NGOs and CBOs), management of credit institutions, central and local government policy makers as well as the non-beneficiaries of credit. Government policy makers who were interviewed include the Senior Government Economist in charge of the *Entandikwa* Secretariat, Ministry of Gender, Labour and Social Development (MGLSD); the Senior Social Development Officer, MGLSA; the Programme Officer in charge of Poverty Alleviation Programme (PAP).[26] Discussions were equally held with the Project Officer for Uganda Participatory Poverty Assessment Process (UPPAP),[27] a research project that was set up in 1998/99 by government to assess the nature and extent of poverty using participatory methods. In addition, policy makers at the local government level were also consulted. Wide-ranging and valuable discussions were held with district officials, local government councillors, credit officers, community workers and extension officers.

Department, 1992).

[26] PAP is a micro-finance programme initiated by government to support the economically active poor people engaged in small-scale enterprises. It was jointly funded by a loan of US$ 13.5 million from the African Development Bank and US$ 1.5 million by the Uganda government. It is currently run under the Prime Ministers Office. It operates alongside the *Entandikwa* credit scheme.

[27] UPPAP is a process of assessing the nature of poverty in consultation with the poor. It is a qualitative analysis that uses the perceptions and perspectives of the poor to understand the nature of poverty and subsequently formulate an appropriate policy. It is a partnership between the government of Uganda, district authorities, Ugandan NGOs, academic institutions, donors and Oxfam as the implementing partner (Republic of Uganda

Data gathered in this process however had to be crosschecked by interviewing a few non-beneficiaries of credit on how they perceived the benefits that accrued to the beneficiaries of credit schemes in comparison to their lot. In other words, the non-beneficiaries of credit who were at the same time poor functioned as a control group which helped to give a balanced view of the role of credit schemes in alleviating poverty amongst the poor. The control group was however selected randomly so as to guard against subjectivity. It was used as a sort of weighing scale or judge, whose perceptions about the impact of credit on the beneficiaries was used together with those of the other respondents to get more informed and balanced views.

Four focus group discussions of between five to fifteen respondents were organised in each of the four sampled villages in every district. In the county of Isingiro in Mbarara district, one focus group discussion was organised in Kabuyanda while another one was organised in Kikagate. Similarly, in Ibanda County of Mbarara district, focus group discussions were organised in Nyabuhikye and Igoroora areas respectively. In the case of Mpigi, three focus group discussions were conducted in Kisubi, Bunamwaya and Buwama respectively. It was not possible to have four focus group

(1999), *Uganda Participatory Poverty Assessment Project (UPPAP)*, Ministry of Finance, discussions because participants failed to attend the fourth focus group discussion after many attempts. Focus group discussions brought together beneficiaries of credit from three credit schemes, management of the credit schemes, credit officers and community leaders. Participation was on a voluntary basis. Discussions ranged on issues like credit suitability in alleviating poverty, coverage, accessibility criteria, utilisation, sustainability, benefits and problems encountered by both the beneficiaries and those responsible for managing the three credit schemes.

Observation was also used to gather data. An observation checklist was used as a guide. Special consideration was given to welfare and asset accumulation issues. These included the condition of children and adults, that is, whether they looked hygienic, clothed, well nourished, confident, and happy or vice-versa. Also household belongings, the condition of the house, assets if available, income-generating projects among many others were observed. This provided a valuable insight and was used to ascertain the information that was being given by the respondents.

Data Analysis

Data collected was first cross-checked to remove errors and eliminate the incomplete or irrelevant data sets. It was then sorted and classified

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Planning and Economic Development, Kampala).

according to variables implied in questions given to respondents. This study largely relied on qualitative data analysing techniques to establish the relationships between the different variables involved. More specifically, content analysis was conducted after classifying the database under themes that were specifically drawn in line with the research questions. It was on the basis of these themes that content analysis was used to interpret the data and subsequently inform the content of the thesis.

Problems Encountered in the Research Process

Focus group discussions were very difficult to arrange in Ibanda because the period during which research was conducted coincided with the rainy season after a long draught and people were preoccupied with cultivation. Similarly, people in Isingiro were busy preparing their gardens for the coming rainy season. This area had been hit by draught and famine, which made people unavailable since they were busy trying to obtain water and food from distant places. In the case of Mpigi, people were also not easily available because most of them travel to Kampala City where they transact different businesses. Those available wanted payment because of the opportunity cost foregone as a result of attending such meetings. Others asked for transport refund for attending such meetings. This was not possible in the case of this research because it was being carried out under a tight budget. It however required a lot of patience and explanation that this type of research was not funded like those conducted by rich organisations and foreign researchers and yet was of benefit to them in an indirect way. The subsequent explanation of the nature and role of research to the local leaders helped since they willingly convinced and mobilised the local people to attend the focus group discussions.

It was very difficult to obtain documentary evidence from most of the credit schemes. The commonly given excuse was that they had to ensure secrecy of transactions with their clients. It is only in a few circumstances that such documentation was supplied readily. Even in such cases the documents readily availed were of general nature and hence not very useful.

It became increasingly difficult to interview and later on extract useful information from credit institutions locally instituted as NGOs and owned by Ugandans. The owners were suspicious of the whole intention of research even after they were given a thorough explanation. They were also evasive in giving information. It was later found out that some of these locally owned NGOs that were involved in giving credit were actually exploiting clients. Some had been established with the objective of attracting foreign funding from international NGOs, donors, and government. The prime motivation for setting up these organisations by some people was therefore personal gain and not to assist vulnerable people fight poverty as such.

It became evident in the process of carrying out research that most elite respondents disliked recording of the interviews. This was because they did not want to be quoted. In some cases it affected the quality and amount of information given by the respondent. It took a lot of convincing that the information given would remain confidential and entirely for the purpose of the study and not for any other use. In many cases, government officers out-rightly refused the interview to be recorded. This is because Uganda's public service regulations only allow the permanent secretary to give the official position of government policy and not the other officers. However for the ordinary peasants, the tape recording was very attractive to them for reasons that were not known. Given such varying behaviours, the use of a tape recorder was carefully regulated.

It was also found out that many organised groups were being formed politically so as to easily access credit from NGOs and government. Central and local government leaders as well as NGOs encouraged local people to organise within groups so as to attract credit. Not all such groups that were formed necessarily constituted the actual poor. Some of those interviewed confessed that they were not badly off and could do without credit. Attracting credit to ones constituency was considered a developmental initiative and therefore a vote catcher for local and national political leaders in the immediate period or as a future political investment. Members of such groups tended to give information that glorified credit. This was because they expected more assistance. It was however made clear to them that this was just a study that had no direct benefits. Also the information received had to be thoroughly counterchecked and it was sometimes discarded out-rightly.

Areas that Require Further Research

There is need for more research on the effects of credit on gender relations within the household. Further research needs to be conducted on the likely effects of credit on Uganda's economy. This is because there is a tendency for credit institutions to discourage credit for agricultural practices and favour trade. There is also need to undertake research on how the international economic constraints impact on the utilisation of credit by the poor.

A Synoptic Review of Chapters

The first chapter charts out a theoretical framework for the thesis. It explores the contentious debate about the effectiveness of top-down and bottom-up initiatives to development. It argues that the top-down approach to development has been criticised for being preoccupied with productive efficiency at the expense of people-oriented perspectives. It further argues that while grassroots initiatives characterised by intense social networks have been heralded for enhancing participation, co-operation, mutual benefit and sustainability, they are constrained by limited resources and the wider policy environment. The thesis therefore proposes an eclectic approach, which underscores the need for a synergy in which the state, markets, NGOs and CBOs work as partners and compliment each other's efforts in a co-ordinated manner. The justification for a synergy is premised on the fact that poverty is multidimensional and therefore strategies to combat it require a multifaceted approach.

The second chapter explores the economic conditions that precipitated the National Resistance Movement (NRM) government under Yoweri Museveni to accept and rigorously pursue stabilisation and structural adjustment reforms in Uganda since 1987. It also critically analyses the nature and effects of economic reforms that were pursued to reverse the negative economic trend. The thesis argues that while the implementation of stabilisation and adjustment reforms initially had adverse effects on the vulnerable groups, it has in the long run reduced poverty. Finally, the chapter argues that while poverty reduction strategies being pursued by the NRM government have contributed substantially in reducing poverty levels, policy challenges still remain.

Chapter three gives a general overview of credit and its role in poverty alleviation. It also critically examines the different perspectives that attempt to explain the performance of credit institutions. The chapter further makes a comparative analysis of top-down (interventionism) and bottom-up (self-help) initiatives to extend credit and explains why governments in developing countries sometimes intervene in rural financial markets. The chapter also points out the importance of the need for the different institutions that are engaged in credit delivery to supplement each other's efforts. In short, it underscores the need for a synergy as a constructive engagement to address the challenges of poverty.

The fourth chapter explores the NRM's justification for direct state intervention in Uganda's rural credit markets. The chapter then assesses the impact of state-directed credit on the recipients' socio-economic welfare using the two examples of ECS and PAP. It argues that intervention with credit against poverty is necessary given the discriminative tendencies of formal financial agencies against the poor in particular and rural areas generally. It however asserts that the state needs to desist from direct intervention and create a supportive policy environment towards the smooth operation of credit programmes.

Chapter five assesses the role and performance of credit programmes initiated and managed by NGOs. It argues that while such programmes have filled the credit vacuum in rural areas and are characterised by simple procedures for accessing credit, their top-down approach and stringent loan terms undermine their performance. The chapter argues that the social engineering tendencies pertaining to NGO credit programmes were unlikely to build local capacities that are necessary to sustain such initiatives in the wake of the withdrawal of NGOs.

Chapter six first explores the historical factors that led to the increased role of voluntary associations. It largely attributes the proliferation of ICAs and the increased role of social networks in poverty alleviation to a dysfunctional Ugandan state. It further critically analyses the nature and role of social networks that are manifested in informal credit associations (ICAs). In other words, it examines how such networks assist the poor to generate resources and their long-term impact on poverty. It argues that even though social networks have been positively harnessed to generate resources and improve the welfare of the rural poor people, they have fundamental limitations. This is attributed to their insufficient resources as well as the inability to influence the wider policy environment. They can only function as coping mechanisms because they lack sufficient resources and capacity to combat poverty on a sustainable basis. It is hitherto argued that poverty being a complex phenomenon requires the bridging of grassroots networks with those of higher organisations that are endowed with bigger capabilities in terms of resources, technologies, information, and connections.

The last chapter concludes the study with lessons drawn from the comparative experiences of the three credit agencies (Government, NGOs and CBOs). It argues that the top-down credit delivery mechanisms to the rural poor as used by government and to some extent by NGOs are counterproductive and unsustainable despite the rich resource base. It therefore suggests an institutional partnership where higher institutions like government and NGOs can continue to generate resources for credit but desist from getting directly involved in disbursement. Instead, the subsequent disbursement of such resources ought to be channelled through the existing grassroots self-help organisations. The conclusion however cautions that although as credit can play a significant role in poverty alleviation in rural areas, it cannot by itself substitute for broader enabling policies and infrastructure to foster economic opportunities for the poor. It therefore calls for wider social interventions.

Chapter One: Theoretical Framework

1.0 Introduction

This chapter explores the contentious debate about the effectiveness of top-down and bottom-up initiatives to development. It argues that the top-down approach to development has been criticised for being preoccupied with productive efficiency at the expense of people-oriented perspectives. It further argues that while grassroots initiatives characterised by intense social networks have been heralded for enhancing participation, co-operation, mutual benefit and sustainability, they are constrained by resources and the wider policy environment. The thesis therefore proposes an eclectic approach, which underscores the need for a synergy in which the state, markets, NGOs and CBOs work as partners and compliment each other's efforts in a co-ordinated manner. The justification for a synergy is premised on the fact that poverty is multidimensional and therefore strategies to combat it require a multifaceted approach.

1.1 Growth-oriented versus Grassroots Perspectives

The theoretical framework for this study draws on the attributes of growth-oriented and the grassroots-oriented perspectives. The growth-oriented perspectives (classical neo-liberalism and statism) use a top-down approach to development while grassroots-oriented approaches advocate for a bottom-up approach. The alternative theory adopted for this thesis proposes an eclectic approach, which underscores the need for a synergy in which the state, markets, NGOs and CBOs work as partners and compliment each other's efforts in a co-ordinated manner. The justification for a synergy is premised on the fact that poverty is multidimensional and therefore strategies to combat it require a multifaceted approach.

It has been widely argued that the magnitude of contemporary poverty in Sub-Saharan Africa (SSA) is overwhelmingly a rural phenomenon. Stewart[1] confirms that the great majority of the poor are rural and are estimated to account for 80 percent or more of the total number of the poor people. The IMF and World Bank[2] confirms this view by indicating that three-quarters of the world poor still live in rural areas and are mostly dependent on agriculture. Poverty is to a large extent attributed to inappropriate domestic development strategies.[3] This argument has however been contested on the ground that the economic crisis in SSA

[1] Frances Stewart (1991), 'The Many Faces of Adjustment,' *World Development*, 19 (12), p. 1850.

[2] International Monetary Fund and the World Bank (2002), *Market Access for Developing Country Exports: Selected Issues*, Prepared by the Staff of IMF and the World Bank, Approved by Timothy Geithner and Gobind Nankani, September 26, p. 21.

[3] Finn Tarp (1993), *Stabilisation and Structural Adjustment: Macroeconomic Frameworks for Analysing the Crisis in Sub-Saharan Africa*, London and New York: Routledge, p. 15.

cannot be exclusively attributed to domestic distortions since external factors have as well played an instrumental role.[4]

Traditional development perspectives perceived poverty as a consequence of underdevelopment and sought to eradicate it through growth-oriented strategies. In the 1960s development was preoccupied with acceleration of economic growth through industrialisation and import substitution.[5] The World Bank and IMF anti-poverty strategies are also premised in the context of growth. Their adjustment reforms largely subscribe to the principles of neo-liberalism, which place emphasis on capital transfers, formal planning, specialisation, and the market. The underlying argument is that the increase of financial transfers will ultimately address the poverty crisis. Growth-oriented strategies irrespective of whether they subscribe to classical neo-liberalism or statism believe in top-down (interventionist) approaches to combat poverty. These include emphasis on central planning, external injections of capital, transfer of technology, and technical assistance.

Conventional development theories (statism and neo-liberalism) prescribe and impose generic development models that originated in the West. The practice of universalising models of development has come

[4] Finn Tarp (1993), *Ibid*, pp. 19-24.

[5] United Nations (1999), *Participatory Approaches to Poverty Alleviation in Rural Community Development*, New York: United Nations, pp. 3-4.

under scathing attack due to inherent shortcomings. Gills and Philip[6] doubt the validity of the assumption that such economically driven homogenisation is establishing a generalised model. They caution about the inappropriateness of prescribing a general formula of development. In a similar tone, Manor[7] expresses concerns about how the World Bank and IMF presume too much historical, cultural and socio-economic political homogeneity among poor countries and how they tend to assume that their prescriptions will produce similar results in all developing world settings. Kumar[8] also contends that there is no universal developmental model since the development process differs from society to society. He further notes that development should no longer be envisaged as an externalisation movement but a process of mobilising local resources.

Equally common to the two perspectives is the idea of central planning, which is characterised by the top-down view of development. The traditional thinking then tended to look at development policy for less developed countries from a technical or 'expert' point of view.[9]

[6] Barry Gills and George Philip (1996), 'Editorial: Towards Convergence in Development Policy?: Challenging the 'Washington Consensus' and Restoring the Historicity of the Divergent Development Trajectories,' *Third World Quarterly*, 17 (4), p. 586.

[7] Manor, J. (1991), 'Politics and the Neo-Liberals,' in C. Colclough and J. Manor (eds.),. *States or Markets?: Neo-Liberalism and the Development Policy Debate*, Oxford: Clarendon Press, p. 307.

[8] Keval J. Kumar (1994), 'Communication Approaches to Participation and Development: Challenging the Assumptions and Perspectives,' in Shirley A. White, K. Sadanandan Nair and Joseph Ascroft (eds.) (1994), *Participatory Communication: Working for Change and Development*, London: Sage Publications, pp. 76-91.

[9] See Darryn Snell and Satendra Prasad (2001), '"Benchmarking" and

Development was considered a technical undertaking that was to be delivered by people with technical knowledge in science, economics, planning and administration.[10] Strategies devised to deliver development to the rural areas were largely informed by a top-down approach. Chambers[11] argues that it was not a coincidence that while the World Bank[12] criticised the size of governments in SSA, it made recommendations for the strengthening of planning. More recently Stiglitz[13] revealed that the design of development policy by World Bank has often been done by consultants dispatched on development missions who frequently lack extensive experience in the country. The underlying value system for growth-centred approaches has been predominantly preoccupied with a bias on production and the worth of human beings are only defined in instrumental terms, that is, their ability to contribute to production and consumption. Worse still, the preoccupation with productive efficiency encouraged bureaucratic style of organisation at the expense of people-oriented perspectives.

Participatory Development: The Case of Fiji's Sugar Industry Reforms,' *Development and Change*, 32 (2), p. 255.

[10] See Carolyn M. Long (2001), *Participation of the Poor in Development Initiatives: Taking their Rightful Place*, London and Sterling: Earthscan Publications Ltd., p. 5.

[11] Chambers, R. (1991), 'The States and Rural Development: Ideologies and An Agenda for the 1990s,' in C. Colclough and J. Manor (eds.), *Opcit*, p. 264.

[12] The World Bank (1981) in this respect states that 'the appropriate response now is to reinforce the central planning agencies, and to endow them as quickly as possible with the investment evaluation capacities they need' (World Bank (1981), *Accelerated Development in Sub-Saharan Africa (SSA): An Agenda for Action*, Washington, D.C.: The World Bank, p. 33).

[13] Joseph Stiglitz (2000), '"The Insider," *The New Republic*, April: 58. Also see Michael Edwards (1989), 'The Irrelevancy of Development Studies,' *Third World Quarterly*, 11 (1), p. 118.

The distinct features of the classical (orthodox) neo-liberal theory are emphasis upon liberty as both a requisite and measure of progress. It stresses free enterprise, an enhanced role of the private sector, competition, free trade and the 'invisible hand' of the market as an efficient regulator of the economy. Like statism, it equates development with growth in the per capita output of goods and services.[14] Neo-liberalism like statism also stresses capital formation as a pre-requisite for economic growth.

According to the orthodox neo-liberal paradigm, development can best be facilitated by the free enterprise (*laissez faire*) mechanism. This view originates from the model of competitive capitalism. Free choices are expected to overcome scarcity and to result in progress through the automatic adjustments of free exchange in markets. Competition in the economy is expected to lead to the production of those goods and services that are in demand, hence maximum output would be achieved more efficiently.[15] The neoclassical perspective initially viewed the state as an obstacle to growth, more especially, where it interfered in the economy by setting prices, minimum wage, providing employment, and artificially stimulating demand through deficit spending, which leads to inflation. It should however be noted that while the World Bank

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[14] Charles K. Wilber and Kenneth P. Jameson (1988), 'Paradigms of Economic Development and Beyond,' in Charles K. Wilber (ed.), *The Political economy of Development and Underdevelopment*, New York: Random House Business Division, p. 7.

[15] Charles K. Wilber and Kenneth P. Jameson (1988), 'Paradigms of Economic

emphasis was put on minimising the state's economic role in the 1980s, this position has since been rescinded. Markets and governments are now seen as complementary.[16] The growth-oriented theory of economic development had also originally argued that inequality was a necessary incentive for investment.[17] The argument was that if motivated individuals are allowed to seek differential rewards for their efforts and risk-taking, total income will be maximised in the end and will have a 'trickle-down' effect. These views have of recent been modified to such an extent that the new position is now 'growth with redistribution.'

This position was for long contested by the advocates of statism. They were opposed to growth now and distribution later due to the fact that structures of inequality tend to reproduce themselves. The beneficiaries of growth tend to subsequently become more influential and have a stake in politics. They consequently oppose any future moves to redistribute income. Statist advocates therefore insist that the state should play an instrumental role in the economy. Indeed, the dismal performance of the African State is widely documented.[18] While the state was seen as an

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Development and Beyond,' in Charles K. Wilber (ed.), *Ibid*, p. 8.

[16] John Martinussen (1998), 'The Limitations of the World Bank's Conception of the State and the Implications for Institutional Development Strategies,' *IDS Bulletin*, 29 (2), p. 68.

[17] Charles K. Wilber and Kenneth P. Jameson (1988), 'Paradigms of Economic Development and Beyond,' in Charles K. Wilber (ed.), *Opcit*, p. 11.

[18] Goran Hyden (1992), 'Governance and the Study of Politics,' in Goran Hyden and Michael Bratton (eds.), *Governance and Politics in Africa*, Boulder and London: Lynne Rienner Publishers, pp. 1-26. See Jean-Francois Bayart (1999), The Criminalisation of the State in Africa, Oxford: James Currey. Also see William I. Zartman (1995), *Collapsed States: The Disintegration and Restoration of Legitimate Authority*, Boulder, Colorado: Lynne Rienner.

instrument to achieve accelerated rates of economic growth, it became over-involved in investment, production and marketing. It usurped the role of the private sector and the market. The consequences of over-extending the state were that the public sector got over expanded, individual initiative was stifled and the private sector got crippled, all of which culminated into economic crisis.[19]

Nonetheless, the dismal performance of the African state should not be used as a basis or excuse for dismissing the role of the state in the economy. It should instead be noted that development outcomes depend on both the general character of state structures and the roles that states pursue. The variations in the developmental outcomes of states can be explained by underlying differences in internal organisation and state-society relations. In short, there is need to make a distinction between 'predatory' and 'developmental' states. While 'predatory' states extract and use the social surplus for the selfish ends of the incumbent leaders at the expense of society and subsequently impede economic transformation, 'developmental' states foster growth and transformation.[20]

[19] See John Mukum Mbaku (1999), 'The Relevance of the State in African Development: Preparing for the New Century,' *Journal of Asian and African Studies*, 34 (3), pp. 308-9. Also see Christopher Clapham (1996), 'Introduction: Liberalisation, Regionalism and Statehood in the New Development Agenda,' *Third World Quarterly*, 17 (4), p. 594.

[20] Vivek Chibber (199), 'Building a Developmental State: The Korean Case Reconsidered,' *Politics and Society*, 27 (3), p. 336.

While state involvement in African economies produced disastrous consequences, the extraordinary developmental success of the East Asian Newly Industrialised Countries (NICs) shows that the role of the state in the economy need not be dismissed out-rightly.[21] Effective state-craft was instrumental in transforming the economies of the East Asian NICs to a developed and industrialised status. The state was able to foster growth through selective interventions. It not only elicited entrepreneurship but also facilitated the creation of new productive capacities. Put differently, the state assisted in the prodding and supporting of new entrepreneurial groups and/or induced existing groups to venture into more challenging kinds of production.[22] This was achieved through a variety of techniques and policies namely, imposition of tariffs to protect infant industries from external competition, providing subsidies and incentives, helping entrepreneurs bargain with trans-national capital, and setting up state organisations to take over risky complementary tasks such as research and development. These services are designed to support the private sector when it lacks resources and knowledge.

Therefore, the significant role of the 'developmental' state is still defended. Those who defend the instrumental role of the state in the

[21] Sandra Maclean (1997), '"Managing" Development in Sub-Saharan Africa in the 1990s: States, Markets, and Civil Societies in Alternative Paradigms,' in Rukhsana A. Siddiqui (ed.), *Sub-Saharan Africa in the 1990s: Challenges to Democracy and Development*, Westport, Connecticut: Praeger Publishers, pp. 135-6.

[22] Richard Grabowski (1994), 'The Successful Developmental State: Where Does it Come from?,' *World Development*, 22 (3), p. 418. Also see Eun Mee Kim (1993), 'Contradictions and Limits of A Developmental State: With Illustrations from the South

economy, assert that the state must assume the responsibility of managing the economy. According to White,[23] the state not only plays a key role of planning but also intervenes in the economy in order to overcome market failures, take account of externalities, provide public goods, surmount the lack of, or inadequacy of entrepreneurship by the private sector among other functions. Besides, the 'developmental' state effectively allocates the necessary human, material and institutional resources to those sectors of the economy that are essential for promoting growth and transformation.

The major argument for state intervention is premised on the failure or imperfections of the market mechanism in ensuring equitable distribution of income in developing countries.[24] Tarp[25] notes that this implies that governments, in addition to striking a proper balance between markets and administrative allocations, confront a series of routine and strategic planning issues. Manor[26] in his support for state intervention argues that developing countries also require the formation of public goods like law and order, justice and infrastructure, which are relatively scarce and yet are highly desirable. The market-based policies pursued by World Bank and IMF do not, therefore, explain how individual rational choices can

Korean Case,' *Social Problems*, 40 (2), pp. 233-4.

[23] White, G. (1995), 'Towards A Democratic Developmental State,' *IDS Bulletin*, 26 (2), p. 31.

[24] C. Coclough (1991), 'Structuralism Versus Neo-Liberalism: An Introduction,' in C. Colclough and J. Manor (eds.), *Opcit*, p. 6.

[25] Finn Tarp (1993), *Opcit*, p. 15.

[26] Manor, J. (1991), 'Politics and the Neo-Liberals,' in C. Colclough and J. Manor

generate collective outcomes. In a similar tone, Chambers[27] succinctly points out three universal functions of the state that are fundamental for the rural poor. These include, maintenance of peace and democratic rule of the law; provision of basic infrastructure and services, fiscal management of revenues and budgets, standards and inspectorates; and managing the economy which entails ensuring growth, good prices and marketing. It is, therefore, argued that state intervention in the economy is a necessary evil if action against poverty is to be undertaken.

Even if growth-oriented theories led to economic growth, they failed to have a 'trickle-down' effect on the poor.[28] Although statistics show that the growth-oriented policies lead to growth in per capita income, there is no evidence that this growth led to the elimination of poverty. The consequences of the top-down approach to rural development were costly. Even where economic growth and industrialisation was realised, it did not translate into the improved welfare for the majority rural poor. Instead, growth tended to worsen inequalities in such societies.[29] Moreover, cases of poverty tended to increase. The advocates of the growth strategy however used the experience of economic growth in industrialised countries as their defence. They observed that it was

(eds.), *Opcit*, p. 315.

[27] Chambers, R. (1991), 'The States and Rural Development: Ideologies and An Agenda for the 1990s,' in C. Colclough and J. Manor (eds.), *Opcit*, pp. 267-8.

[28] H. W. Ardt (1987), *Economic Development: The History of An Idea*, Chicago and London: The University of Chicago Press, pp. 169-72.

[29] Akilagpa Sawyerr (1990), 'The Politics of Adjustment Policy,' in Adebayo Adedeji, Sadig Rasheed and Melody Morrison (eds.), *The Human Dimension of Africa's*

initially associated with unequal distribution but later improved. It is therefore believed that growth would eventually lead to redistribution.

Development planning, a system marked by the 'blue-print' approach and characterised by bureaucratisation and paternalistic attitudes, disregarded popular participation.[30] It has since been argued that the concepts and methods of the 'blue-print' approach may be more of an obstacle than an aid to rural development and consequently poverty eradication. Instead, there is growing recognition and emphasis for an adaptive, bottom-up process to development in which the beneficiaries become more instrumental in the designing, implementation and evaluation of development programmes.[31]

Although the importance of financial resources in development cannot be underrated, the gist of the matter is that emphasis should instead be put on empowering the would-be-beneficiaries. In other words, the failure of growth-oriented strategies that stress economic factors to mitigate poverty created the need to focus more on social dimensions of

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Persistent Economic Crisis, London: Hans Zell Publishers, p. 228.

[30] In this context, participation is defined as a 'process through which stakeholders influence and share control over development initiatives, decisions, and resources which affect them.' (World Bank (1994), *The World Bank and Participation*, Washington, D.C.: World Bank, p. 1.

[31] Robert Chambers (1995), 'Paradigm Shift and the Practice of Participatory Research and Development,' in Nici Nelson and Susan Wright (eds.), *Power and Participatory Development: Theory and Practice*, London: Intermediate Technology Publications, pp. 30-33. Also see Serigne M. Ndiaye (1999), 'Promoting Rural Community Development in Africa: States Versus Grassroots Organisations,' *The Journal of Social, Political and Economic Studies*, 24 (1), pp. 75-85.

development. It is believed that developing the human capabilities and institutional capacities would not only put the available resources to better use but would also lead to equitable distribution of income and sustainable development. Hence, there is growing recognition[32] that the design of anti-poverty strategies in developing countries needs to focus on creating opportunities for the poor people. They require mobilising, conscientising and involving them in the decision-making process so that they can locally raise and manage the resources through self-help organisations.

There is ample evidence in the available literature that prior to the 1970s traditional approaches to rural development had disregarded the notion of people's participation[33] in the development process. It has been revealed[34] that state-centred conceptions of social policy often view citizens as recipients of state-delivered programmes. Similarly, Cornwell

[32] On the World Bank's 'reformed' vision of development and the embracing of participation in its strategies that are targeted at combating poverty, see Glyn Williams and Cathy McILwaine (2003), 'Entanglements of Participation: The Theory and Practice of Attacking Poverty,' *Progress in Development Studies*, 3 (2), p. 94.

[33] This thesis acknowledges the fact that the concept 'political participation' is broad. This broad concept is characteristic of representative governments where citizens' influence is exerted through institutional structures and processes such as political parties, voting and lobbying among others. For purposes of specificity, this thesis looks at participation within the context of local organisations of the poor rural people. Hence, the focus is on community participation, which entails autonomous local level participation within membership-owned organisations that are controlled and directed by members and not characterised by hierarchical power relationships.

[34] Andrea Cornwall and John Gaventa (2000), 'From Users and Choosers to Makers and Shapers: Repositioning Participation in Social Policy,' *IDS Bulletin*, 31 (4), p. 50. Also see R. Franco (1996), 'Social Policy Paradigms in Latin America,' *CEPAL Review*, 58, p. 16.

and Gaventa[35] note that the neo-liberal perspective gives community participation a limited stake in development. They contend that it confines the role of community participation to ensuring the efficiency of service delivery rather than allowing them power and influence over the key decisions that shape their livelihoods.

This type of approach to development did not adequately involve the people in their development process. The would-be beneficiaries of development were perceived as objects, not as creative and knowledgeable people who could make valuable contributions. In so doing, these traditional models of development ignored the local context, culture and historical realities, which was a big omission. In other words, these orthodox models used an approach that Chambers[36] has referred to as 'rural development tourism.' Even in cases where attempts were made to incorporate the communities in the development process, their role was relegated to provide moral or/and material support to the development programmes or projects. They were not involved in the key aspects of setting the objectives and designing development programmes or projects. Their role was just passive.

[35] Andrea Cornwall and John Gaventa (2000), *Opcit*, p. 56.
[36] Robert Chambers (1983), *Rural Development: Putting the Last First*, London: Longman, p. 307.

1.2 Participation in Rural Development Programmes

As a result of the poor performance[37] of the top-down approaches, there arose increasing concerns and pressure to re-examine the orthodox strategies and subsequently adopt an alternative approach to development. In other words, the disenchantment with *dirigiste* and market-oriented development strategies led to participatory development as a new paradigm.[38] The new paradigm marked a shift from top-down to adaptive bottom-up perspectives to rural development, a process that puts emphasis on people's empowerment and participation through autonomous self-help grassroots organisations (GROs). Kleemeier[39] argues that the driving force behind the effort to increase participation was the assumption that it could solve the problems of sustainability.

Growing attention is now being paid to people's participation and local organisations[40] because they are positively correlated with appropriate

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[37] Poor performance, in this respect, is viewed as the failure to translate the benefits of growth to the majority of the population.

[38] Darryn Snell and Satendra Prasad (2001), *Opcit*, p. 256. Also see Peter Oakley and David Marsden (1984), *Approaches to Participation in Rural Development*, Geneva: International Labour Office, p. 7.

[39] Elizabeth Kleemeier (2000), 'The Impact of Participation on Sustainability: An Analysis of the Malawi Rural Piped Scheme Programme,' *World Development*, 28 (5), p. 931.

[40] In the case of local organisations, a distinction needs to be made between them and local institutions. In this respect, use is made of Uphoff's definition. He defines local organisations as those whose members direct and control them. These are different from local institutions which are not controlled by members such as locally elected government or local administration representing central government ministries (Norman Uphoff (1986), *Local Institutional Development: An Analysis Sourcebook with Cases*, West Hartford, Connecticut: Kumarian Press, pp. 4-6.

and sustainable development practices.[41] This acclaimed virtue of people's participation is reiterated by Pettit.[42] He argues that the current trend for supporting local organisations is based on evidence that support and sustainability of the development process is only possible if people are given the opportunity to set their own priorities and design locally appropriate solutions, with a high sense of ownership and personal investment. Cornwall and Gaventa[43] also laud participation for enhancing accountability and service performance. The high regard for participation is also embedded in the conventional assumption that civil society organisations have a comparative advantage in service delivery over government.

Besides, the growing influence of global policies on local realities has also contributed to the prominence of participation in the development process. McNamara's 'new directions' strategy'[44] as well as the World Bank's[45] conclusion that stakeholder participation would enhance the quality, effectiveness and sustainability of its projects, marked a shift in

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[41] Sue Fleming (1991), 'Between the Household: Researching Community Organisation and Networks,' *IDS Bulletin*, 22 (1), p. 37.

[42] Jethro Pettit (2000), 'Strengthening Local Organisation: Where the Rubber Hits the Road,' *IDS Bulletin*, 31 (3), p. 57. See also Jean-Philippe Platteau and Anita Abraham (2002), 'Participatory Development in the Presence of Endogenous Community Imperfections,' *The Journal of Development Studies*, 39 (2), p. 104-9.

[43] Andrea Cornwall and John Gaventa (2000), *Opcit*, p. 54. In regard to participation and improvement of performance also see J. Isham, D. Narayan and L. Pritchett (1995), 'Does Participation Improve Performance? Establishing Causability with Subjective Data,' *World Bank Economic Review*, 9 (2): 175-200.

[44] McNamara's directive on people's development is cited in Joseph Ascroft and Sipho Masilela (1994), 'Participatory Decision-Making in the Third World Development,' in Shirley A. White, K. Sadanandan Nair and Joseph Ascroft (eds.), *Opcit*, p. 266.

[45] World Bank (1994), *Opcit*, p. 30.

the development perspective, which effectively endorsed people's participation in development. It has since been recognised that participation is not only a pre-requisite but also an essential ingredient to sustainable development.[46] The growing importance of participation in development is well expressed by Ascroft and Masilela[47] who observe that 'people's participation has become the leitmotif of development workers and policy makers.'

While there is widespread consensus about the importance of participation in the development process, there is less unanimity on the nature and content of the participation process. Neither is there an agreement on the definition of participation. Arnstein[48] refers to the term participation as a 'controversial slogan' while White[49] describes it as a complex and dynamic phenomenon, seen from the 'eye of the beholder,' and shaped by the 'hand of the power-holder.' The complexity argument is shared by Pretty[50] who refers to participation as a paradox. Her

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[46] Sue Fleming (1991), *Opcit*, p. 37; Elizabeth Kleemeier (2000), *Opcit*, p. 931; James Midgley (1995), *Social Development: The Development Perspective in Social Welfare*, London: Sage Publications, p. 114. Also see Robert Chambers (1997), *Whose Reality Counts? Putting the First Last*, London: Intermediate Technology Publications.

[47] Joseph Ascroft and Sipho Masilela (1994), 'Participatory Decision-Making in the Third World Development,' in Shirley A. White, K. Sadanandan Nair and Joseph Ascroft (eds.), *Opcit*, p. 260.

[48] Sherry Arnstein (1996), 'A Ladder of Citizen Participation,' in Richard T. Le Gates and Frederic Stout (eds.), *The City Reader*, London and New York: Routledge, p. 241.

[49] Shirley A. White (1994), 'The Concept of Participation: Transforming Rhetoric to Reality,' in Shirley A. White, K. Sadanandan Nair and Joseph Ascroft (eds.), *Opcit*, p. 16.

[50] Jules N. Pretty (1994), 'Alternative Systems of Inquiry for A Sustainable Agriculture,' *IDS Bulletin*, 25 (2), p. 40. Also see Eric Dudley (1993), *The Critical Villager: Beyond Community Participation*, London and New York: Routledge, p. 7.

typology clearly reveals how double-faced participation can be. In one way it is used to justify the extension of the state while in another, it is about building local capacity and self-reliance. As a result of lack of a universally agreed definition, there are different perspectives about the concept.

One perspective views participation as involving the people at the level of executing development programmes or projects or what Williams et al[51] have termed 'legitimising strategy' in the case of India's Employment Assurance Scheme where the poorer villagers were not empowered and therefore never benefited despite participating. In similar light, Leeuwis[52] argues that participation is sometimes used to create an organisational image for purposes of attracting funds and/or ensuring institutional survival. They are seen as part of the inputs required to achieving predetermined objectives.[53] According to Arnstein's[54] eight-rung ladder, 'participation' which involves manipulation, therapy, informing and consultation is non-participation. The would-be beneficiaries are therefore seen as instruments either to offer the required social support or to make material contributions (usually funds, materials or physical

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[51] Glyn Williams, Ren'e V'eron, Stuart Corbridge and Manoj Srivastava (2003), 'Participation and Power: Poor People's Engagement with India's Employment Assurance Scheme,' *Development and Change*, 34 (1), p. 164.

[52] Cees Leeuwis (2000), 'Reconceptualising Participation for Rural Development: Towards A Negotiated Approach,' *Development and Change*, 31 (5), p. 932.

[53] David Mosse (2001), '" People's Knowledge," Participation and Patronage: Operations and Representations in Rural Development,' in Bill Cooke and Uma Kothari (eds.) (2001), *Participation: The New Tyranny?*, London and New York: Zed Books, pp. 16-35.

labour) to enable the development programme or project be successfully implemented. The people are, therefore, not involved in the key process of deliberating the kind of development they want and how to achieve it. This type of participation has been given different labels. Some scholars have labelled it 'pseudo' 'tokenism' or 'manipulative' participation.

The orthodox approaches to development tended to perceive participation in this form. Hence, many of the structures that were set up to involve people in the development process were characterised by hierarchical power relations. Some of the examples include Co-operative societies,[55] farmers associations and local administrations (de-concentrated forms of local government). Such structures meant to promote people's participation in development were grossly inadequate. Though some tangible gains were achieved by these structures, they sidelined the interests of the poor people and were sometimes used to exploit them while they benefited local elites.[56] Arnstein[57] contends that participation should be seen as a redistribution of power to the powerless people excluded from the political and economic processes so that they can affect the outcome of the development process.

[54] Sherry Arnstein (1996), *Opcit*, p. 240.

[55] Brett partly attributes the failure of Co-operatives in Uganda to democratic weaknesses (E. A. Brett (1993), *Providing for the Rural Poor: Institutional Decay and Transformation in Uganda*, Kampala: Fountain Publishers Ltd., p. 95).

[56] For details about state interventions against poverty and the capture of the accruing benefits by local elites, refer to Sanjay Kumar and Stuart Corbridge (2002), 'Programmed to Fail? Development Projects and the Politics of Participation,' *The Journal of Development Studies*, 39 (2): 73-103. Also see Jean-Philippe Platteau and Anita Abraham (2002), *Opcit*, pp. 110-24.

While there is a lot of rhetoric about participation in the contemporary period, some international agencies[58] and governments still use pseudo-participation. They come with preconceived development ideas and the intended beneficiaries are only involved at the last stage. People's participation comes in form of being mobilised to form associations or attend mass meetings and seminars where they are informed about the development agenda and what the people are expected to do. Similarly, government bureaucrats such as extension workers and community development officers are characterised by government-sponsored local development, an approach that involves giving instructions to the rural people on what to do. This type of participation is limited and ritualistic.[59]

Although pseudo-participation is still rampant in some development agencies, a lot of criticism has been directed at it. It is considered to be aimed at perpetuating the vested interests of elites whose power and positions are protected when the majority people are marginalised in the decision making process. This perspective of participation is ineffective for purposes of development because it neither taps the potential nor enlists the support of the targeted people. Consequently, the

[57] Sherry Arnstein (1996), *Opcit*, p. 242.

[58] Michael Edwards (1989), 'The Irrelevance of Development Studies,' *Third World Quarterly*, 11 (1), p. 129.

[59] See James Midgley (1995), *Opcit*, pp. 115-9.

development programmes or projects are not embraced by the people and become unsustainable. A good example is the Malawi rural piped water scheme[60] launched to supply clean water to the Malawian population. Though the scheme was relevant to people's needs and well targeted, the local people did not participate in its conception except co-opting their labour during implementation. The local people did not own the project but they instead viewed it as a government programme providing free services to the citizens.

The absence of genuine participation in the, otherwise, good programme seriously undermined its sustainability. This is because people did not conceive the development programme as their own. Like in many places, people are not empowered to critically look at their conditions and come up with independent ideas on how to improve their lives. No wonder, manipulative participation has been criticised and blamed for the development woes in poor countries.[61]

The other perspective views people's participation in terms of empowerment. More particularly, it emphasises grassroots or community participation. Midgley[62] argues that while the idea of community

[60] For details about this water programme, see Elizabeth Kleemeier (2000), *Opcit, pp.* 929-44.

[61] James Midgley (1995), *Opcit*, pp. 5 and 77; Elizabeth Kleemeier (2000), *Opcit*, pp. 929-44; Sanjay Kumar and Stuart Corbridge (2002), *Opcit,.pp.* 73-103; Glyn Williams, Ren'e V'eron, Stuart Corbridge and Manoj Srivastava (2003), *Opcit, pp.* 163-92.

[62] James Midgley (1986), 'Community Participation: History Concepts and Controversies,' in James Midgley, Anthony Hall, Margaret Hardiman and Dhanpaul

participation emerged as part of the broader popular participation debate, it is more specific in its focus on deprived and disadvantaged groups in small communities. It connotes an active process of decision-making where the beneficiaries influence the direction and implementation of development programmes rather than merely receive a share of development programmes. It perceives power and citizen control to constitute genuine participation. In this case, the direct involvement of the community in the decision making process and the control of action is considered important for development initiatives to succeed. Therefore, genuine or authentic participation involves empowering the community to democratically define and seek innovative solutions for their problems, and determine the course of action to be taken on a self-reliant basis.[63] In short, it enables people to move out of dependence relationships. In this way, participation enables communities to own the development process and ensure sustainability.

It is evident from the different perspectives of the notion of 'participation' that there is an impasse on what it exactly means. In order to overcome this conceptual impasse, it is important to decide whether participation should be seen as a strategy – a means to an end or an end in itself. The perception of community participation as an end in itself is utopian and therefore not relevant to the focus of this thesis. Rather, the view adopted

(eds.), *Community Participation, Social Development and the State*, London: Methuen, p. 14.

[63] M. D. Anisur Rahman (1993), *People's Self-Development: Perspectives On*

for this specific study is where participation is conceptualised as a strategy or means to achieve development. In this context, community participation is supposed to serve a specific purpose, that of unleashing the potential of the local people to define their own needs and priorities, influence the decisions and determine the direction of their development. In short, participation should be seen as an instrument to dismantle dependence of the local people and empower them to fight poverty through self-reliance.[64] It should be viewed in the context of local organisations that are owned, controlled and directed by the communities.

1.3 Participation in the Ugandan Context

The question of participation in Uganda's history has been elusive. Even where attempts have been undertaken to implement participation, it has tended towards pseudo or manipulative forms, as the foregoing analysis has indicated. Prior to 1949, there was no attempt to by the colonial government to encourage participation at both the local and national levels of government. Although a legislative council was created in 1920, it remained largely unrepresentative of the people of Uganda. For example, members of the executive council (composed of departmental heads), and a number of unofficial members constituted the first legislative council. These included two Asians and two Europeans and

Participatory Action Research, Dhaka: University Press Ltd., pp. 118-206.

[64] See Glyn Williams and Cathy McILwaine (2003), *Opcit*, p. 95. See Robert

were nominated by the Governor. The first African became a member of the Legislative Council (LEGCO) in 1945. Even, this African legislator was appointed and not elected. It was not until 1961 that a direct election of the legislative council was conducted.[65]

A similar situation prevailed at the local level. The Native Authority Ordinance of 1919 was a macrocosm of non-participation. It granted almost unlimited powers to chiefs. The introduction of political reforms after the Second World War was linked to the famous Creech-Jones dispatch, which directed Governors of African territories to develop 'efficient and democratic' systems of local government. It was as a result of this dispatch that participatory reforms were gradually introduced at the local level.

It is vividly clear from the foregoing that there existed no participation prior to 1949. Nonetheless, the introduction of political reforms both at the local and national levels as indicated above can also be categorised as pseudo or token participation. This is because many representatives were still appointed rather than being directly elected.

While the colonial government can be rightly blamed for delaying popular participation of Ugandans, neither can the post-independence

Chambers (1997), *Opcit.*

[65] Fred Burke (1964), *Local Government and Politics in Uganda*, Syracuse and New

governments be blameless. Non-participation and pseudo-participation have dogged much of the post-independence period. In regard to participation at the national level, Kasfir[66] distinguishes symbolic and material participation. He observes that the symbolic form is merely ceremonial while the material one is intended to affect the decision-making process directly. He gives examples of symbolic participation to include determining election outcome in advance or powerless but prestigious commissions on which members of the minority groups are included. He equates symbolic participation, which is a reduced form of participation to de-participation. He defines de-participation as a reduction or elimination of political involvement as a consequence of choice, apathy, or coercion. He argues that de-participation may result from reductions on any of the dimensions of participation, that is, personae, scope bases, weight, or calculations of costs and probability of success. He notes that this was the case with President Obote's abrogation of the 1962 democratic constitution and its replacement with the 1967 constitution, which increased Obote's powers and dis-empowered the people of Uganda.

Since President Obote's abrogation of the independence constitution various forms of non-participation, de-participation and pseudo

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York: Syracuse University Press, pp. 28-9, 35 and 38-41.

[66] Nelson Kasfir (1976), *The Shrinking Political Arena: Participation and Ethnicity in African Politics, With a Case Study of Uganda*, Berkeley, Los Angeles and London: University of California Press, pp. 10, 14-18 and 228.

participation ensued at different times. It is not until 1986 that participation was returned at both levels of government. The re-introduction of participation in Uganda by President Yoweri Museveni has however attracted mixed and sometimes controversial perceptions. Some scholars argue that Museveni's NRM regime should be applauded for institutionalising popular participation. Some of the cases of institutionalising participation include the introduction of popular councils (Resistance Councils and Committees) in 1987 and the subsequent devolution of power to the local level.[67] In addition, the frequent organisation of elections to elect the president and people's representatives at the national level has been recognised as a progressive attempt at institutionalising and consolidating participation.[68]

However, critical analysis indicates that participation under Uganda's decentralisation has tended towards the pseudo as opposed to the genuine type. In other words, this type involves a situation where local governments are made to execute centrally designed policies and programmes rather than being seen as vehicles of people's will. This analysis appears to be confirmed by Golooba-Mutebi's[69] empirical

[67] S. Villadsen and F. Lubanga (eds.) (1996), *Democratic Decentralisation in Uganda: A New Approach to Local Government*, Kampala: Fountain Publishers. Also see A. Nsibambi (ed.), *Decentralisation and Civil Society in Uganda*, Kampala: Fountain Publishers.

[68] Tarsis B. Kabwegyere (2000), *People's Choice, People's Power: Challenges and Prospects of Democracy in Uganda*, Kampala: Fountain Publishers. Also see Phares Mutibwa (1992), *Uganda Since Independence: A Story of Unfulfilled Hopes*, London: Hurst and Company, pp. 179-202.

[69] Frederick Golooba-Mutebi (1999), *Decentralisation, Democracy and Development*

research. It also affirms that Uganda's decentralisation did not necessarily encourage participation at the local level. For instance, he reveals that consultative village meetings were not being convened on a regular basis contrary to the requirements of legislation. He attributes this phenomenon to public apathy, populism and the voluntary nature of local leaders. He also reports that decentralisation did no improve service delivery. The failure is attributed to the ineffectual role of local committees (public watchdogs) who had the responsibility to oversee the delivery of health and education services. It is also indicated that the local committees rarely met due to lack of incentives. Hence, he argues that Uganda has sought to promote effective administration of public services through decentralisation without giving local people the opportunity to participate in their government. Brett[70] had reached a similar position earlier when decentralisation in Uganda was in its formative stages. Recent findings[71] about the functioning of local government in Uganda also agree to the 'pseudo' participatory nature of Uganda's decentralisation system.

Administration in Uganda 1986-1996: Limits to Popular Participation, Unpublished PhD Thesis, London School of Economics and Political Science, p. 28, 121, 130, 132, 155, 159, 191, 195 and 237.

[70] E. A. Brett (1993), *Opcit*, pp. 39-58.

[71] A detailed discussion of how the central government's anti-poverty transfers has led to a new form of patrimonial relationship with local governments is contained in David Craig and Doug Porter (2003), 'Poverty Reduction Strategy Papers: A New Convergence,' *World Development*, 31 (1), pp. 64-5.

Other analysts who contend that participation under the NRM regime has been a gimmick include Kasfir.[72] His analysis of the first elections to be organised by the NRM government in 1989, argues that despite its popular inclinations the organisation and participation in the elections was highly manipulated. In short, he argues that the 1989 elections did not contribute to genuine participation. Some of the areas that are considered manipulative include the decision to call a 'snap election.' He also indicates that the design of the structure by the NRM officials was intended to protect the NRM's political dominance and denied parties the right to participate. He further notes that nearly a quarter of the newly constituted National Resistance Council (NRC) was appointed and not elected. He also argues that the fact that the president's position was guaranteed constituted pseudo and not genuine participation.

In a similar tone, Tamale[73] does not believe that the NRM's policy of affirmative action for women constitutes genuine empowerment. She perceives affirmative action for women to represent the 'token reward' that the NRM granted women for their role in the bush war. She further argues that the NRM considered women as a cog in the wheel of power to extend state patronage. Therefore, Tamale considers the NRM's position as a minimalist one that addresses only the most blatant aspect

[72] Nelson Kasfir (1991), 'The Uganda Elections of 1989: Power Populism and Democratisation,' in Holger Bernt Hansen and Michael Twaddle (eds.), *Changing Uganda*, Kampala: Fountain Publishers, pp. 249-50 and 260-1.

[73] Sylvia Tamale (1999), *When Hens Begin to Crow: Gender and Parliamentary*

of sexual discrimination in the political arena and not genuine empowerment.

The foregoing arguments about Uganda's mode of participation therefore confirm that while the colonial government delayed participation, the little participation that has been ushered by the NRM government has been for legitimisation purpose rather than genuine participation. It has therefore largely conformed to the pseudo or manipulative type rather than constituting a genuine form of participation.

Given the disillusionment with the development outcomes of states and markets, there has emerged growing interest in social networks that facilitate community participation. It is widely recognised that communities participate more effectively through their local and voluntary associations. These associations are characterised by relationships that are driven by co-operation and mutual benefit. According to Putnam[74], the existence of dense networks of active local organisations (vibrant civic associations) indicates high levels of social capital. Social capital is believed to enhance the functioning of the state and market where they are weak or may even act as a substitute where they are none extant. It is also heralded for being important to the poor

Politics in Uganda, Boulder, Colorado: West View Press, pp. 19-20, 103-5 and 197.

74 Robert D. Putnam (1993), *Making Democracy Work: Civic Traditions in Modern Italy*, Princeton, N.J.: Princeton University Press, p. 90. Also see David L. Brown and Darcy Ashman (1996), 'Participation, Social Capital, and Inter-sectoral Problem Solving:

societies where individuals are less self-sufficient and more interdependent.[75] Hence, societies that are endowed with social capital also tend to be positively correlated with development outcomes.

1.4 Social Capital as a Coping Mechanism for the Poor

The notion of social capital has gained prominence in development circles since the 1990s as noted by Harriss and de Renzio:[76] 'Since 1993 "social capital" has become one of the key terms of the development lexicon, adopted enthusiastically by international organisations, national governments and Non-governmental organisations alike.' The growing enthusiasm in social capital by development theorists and practitioners is premised on the assumption that it has the potential to enhance development through poverty reduction and sustainable development. Putnam[77] argues that social capital is coming to be seen as a vital ingredient in economic development around the world. Social capital increases the communities productive potential in several ways namely, business networking, joint ventures and information flows among many others.[78] It has also been claimed that some of the main explanations for the failure of rural people to counter the forces that create poverty is the limited ability to build up and draw upon social capital.

African and Asian Cases,' *World Development*, 24 (9), p. 1471.

[75] James Coleman (1988), 'Social Capital and the Creation of Human Capital,' *American Journal of Sociology*, 94: S95-S120), p. S103.

[76] J. Harriss and P. de Renzio (1999), 'Social Capital: An Introductory Bibliographical Essay,' *Journal of International Development*, 9 (7), p. 920.

[77] Robert D. Putnam (1993), *Opcit*, p. 38.

[78] Patricia A. Wilson (1997), 'Building Social Capital: A Learning Agenda for the

Social capital is associated with bottom-up perspectives that emphasise participation of the communities in their development process. The increasing interest in bottom-up perspectives has come at a time when there is disenchantment with the performance of the state and market in improving the livelihoods of people in less developed countries. Therefore, social capital has emerged as a promising development paradigm. The concept of social capital has been used to describe a propensity for individuals to join together to address mutual needs and to pursue common interests.[79]

While the notion of social capital has gained unprecedented enthusiasm in development circles, its definition remains controversial while its use (in recent literature) varies. In other words, it means so many different things to different people. It is in this regard that Harriss and de Renzio[80] observe that '"social capital" while not all things to all people, is many things to many people.' Woolcock[81] also shares a similar view and submits that social capital now assumes a wide variety of meanings and has been indiscriminately applied in social, political and economic

Twenty-First Century,' *Urban Studies*, 34 (5-6), p. 745.

[79] Patricia A. Wilson (1997), *Ibid*, p. 746.

[80] J. Harriss and P. de Renzio (1999), *Opcit*, p. 921.

[81] Michael Woolcock (1998), 'Social Capital and Economic Development: Toward a Theoretical Synthesis and Policy Framework,' *Theory and Society*, 27, p. 155.

studies. He observes that the concept is riddled with problems of ambiguity and inconsistency.[82]

Fine[83] identifies three features that make social capital, as a concept, problematic. First, that its definition is all encompassing. Second, that it is chaotic due to the fact that it draws its meanings from abstract studies or case studies on which it depends. Third, that it tends to neglect power and conflict. He contends, therefore, that 'these features of social capital – as a catch all, ambiguous if not incoherent, and yet analytically selective – have, paradoxically, been the source of a vibrant research programme around it rather than a cause of its demise.'

The notion of social capital being all-encompassing and therefore problematic has not stopped attempts at defining it. Various scholars have defined the concept. Putnam defines social capital in political-cultural terms. He defines social capital as those 'features of social organisation, such as trust, norms and networks that can improve the efficiency of society by facilitating co-ordinated actions.'[84] Putnam's focus is on horizontal relationships that are based on trust and shared values. He argues that in areas where social structures are more vertical and based on authority relations, then citizen capacity for collective action is

[82] Michael Woolcock (1998), *Opcit*, p. 188.

[83] Ben Fine (1999), 'The Developmental State is Dead – Long Live Social Capital?,' *Development and Change*, 30: 1-19), p. 7.

[84] Robert Putnam (1993), *Opcit*, p. 167.

limited, and access to and influence over state and markets are far and weaker.

On the other hand, Coleman[85] defines social capital by its function. He points out that social capital is not a single entity, but a variety of different entities having two characteristics in common: They all consist of some aspect of social structure, and they facilitate certain actions of individuals who are within the structure. He further notes that, like other forms of capital, social capital is productive, making possible the achievement of certain ends that would not be attained in its absence. Coleman's definition of social capital broadens the concept to include vertical relationships characterised by hierarchical relationships and unequal power distribution as well as horizontal relationships characterising Putnam's definition. These two definitions are selected from many others simply because they represent the major threads that cut across these definitions. The distinguishing factor among the various definitions is where social capital is viewed either as a 'moral resource' or in functional terms.

It is evident from these definitions that the notion of social capital is broad and lacks conceptual clarity. This conceptual imprecision is also

[85] James Coleman (1990), *Foundations of Social Theory*, Cambridge, Mass: Havard University Press, p. 598.

reflected in the available literature. According to Foley and Edwards,[86] the literature is divided between those who treat social capital as an independent variable and those who consider it a dependent variable. It is also split between those who operationalise the concept principally in terms of norms, values and attitudes and those who choose a more social-structural operationalisation, invoking social networks, organisations and linkages. In other words, the available literature is torn between work conceived in social-psychological terms and that informed by social-structural conceptions of social capital. The intriguing nature of social capital as demonstrated by its different dimensions has created a lot of concerns as Woolcock[87] attests through a mind-searching question: 'If social capital can be rational, pre-rational, or even non-rational, what is it not?' He proceeds to observe that this ambiguity 'leaves unresolved whether social capital is the infrastructure or the content of social relations, the 'medium,' as it were, or the 'message.'

Notwithstanding the conceptual problems that surround the notion of social capital, it encompasses the norms, networks and trusts that facilitate collective action for mutual benefit. According to Coleman,[88] social capital exists 'in the relations between persons' and only those activities are valid for comparing social capital that inhabitants of this

[86] M. W. Foley and B. Edwards (1999), 'Is It Time to Disinvest in Social Capital?,' *Journal of Public Policy*, 19 (2), p. 141.
[87] Michael Woolcock (1998), *Opcit*, p. 155-6.
[88] James S. Coleman (1988), *Opcit*, pp. S100-S101.

area regard appropriate to carry out collectively rather than individually. This perception of social capital is also shared by Brown and Ashman[89] who report that the social capital of a society or a region has been defined in terms of relationships that are grounded in structures of voluntary association, norms of reciprocity and attitudes of social trust and respect. From these perceptions, social capital appears to be the infrastructure used to facilitate social relationships within a community (intra-relationships) or across communities (inter-relationships). Social Capital can hitherto be identified at different scales. Lyon[90] states that it can be identified from the micro-institutional level to more macro scales of analysis that examine its role in the formation of state-civil society relations and economic development in certain regions.

It is also argued that social capital is rooted in history. Putnam[91] argues that social capital is path-dependent. That old values of co-operation that enjoined people to participate in voluntary work are deeply ingrained in centuries of history and culture. Lyon also agrees that the production of generalised trust is based on historically-rooted cultural endowments. Nonetheless, the argument that social capital is rooted in history has been challenged. Levi[92] contends that though past trends may circumscribe contemporary choices, they neither determine nor predict the decisions at

[89] David L. Brown and Darcy Ashman (1996), *Opcit*, p. 1470.

[90] Fergus Lyon (2000), 'Trust Networks and Norms: The Creation of Social Capital in Agricultural Economies in Ghana,' *World Development*, 28 (4), p. 664.

[91] Robert Putnam (1993), *Opcit*, p. 140.

all crossroads since the initial starting point. Moreover, Uphoff and Wijayaratna[93] argue that 'all cultures have the basic elements of social capital within them, we believe, that social structures and shared values can be disinvested in by neglect or misuse.' They argue that social capital can be persistent though it is not always evident, but with appropriate catalysation, it can be evident.

It has also been argued that social capital can be created where it has been missing. For instance, Reinke[94] observes that social capital can be created through the formation of solidarity credit schemes, which create access to a valued resource flow. On a similar note, Levi[95] argues that governments also may be a source of social capital. There is also an assumption that World Bank loans inherently influence the 'enabling environment' for social capital formation through strengthening or weakening different agencies within the state and therefore influence the balance of power between state actors who are more or less hostile/sympathetic to autonomous, horizontal social organisations. Fox's[96] assessment of the World Bank's Mexico portfolio found out that the World Bank's funding was contrary to the claims contributing to the dismantling of social

[92] Margaret Levi (1996), 'Social and Unsocial Capital: A Review Essay of Robert Putnam's Making Democracy Work,' *Politics and Society*, 24 (1), p. 46.

[93] Norman Uphoff and C. M. Wijayaratna (2000), 'Demonstrated Benefits from Social Capital: The Productivity of Farmer Organisations in Gala Oya, Sri Lanka,' *World Development*, 28 (11), p. 1885.

[94] Jens Reinke (1998), 'Does Solidarity Pay? The Case of Small Enterprise Foundation, South Africa,' *Development and Change*, 29 (3), pp. 554-6.

[95] Margaret Levi (1996), *Opcit*, pp. 50-1.

[96] Jonathan Fox (1997), 'The World Bank and Social Capital: Contesting the

capital. A similar finding was reached by Gugerty and Kremer's[97] study on the impact of development assistance on social capital in western Kenya.

However, the argument that outsiders (such as government, international agencies and Non-governmental Organisations) create social capital is disputed. Uphoff, Esman and Krishna[98] argue that outsiders may not create social capital because it comes from people's patterns of thinking and interacting but they can play useful catalytic roles. It is also acknowledged that social capital can increase with use. Likewise, Coleman[99] notes that social capital also depreciates if it is not renewed through regular communication. It is, therefore, evident from the available literature that there is no agreement on how social capital is created.

Another area of contention about the notion of social capital is how to measure it. Putnam[100] argues that the society's richness in social capital can be determined on the basis of existence of a dense network of civic

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Concept in Practice,' *Journal of International Development*, 9 (7), pp. 966-70.

[97] Mary Kay Gugerty and Michael Kremer (2000), 'Does Development Assistance Help Build Social Capital?,' *Social Capital Initiative Working Paper No. 20*, Washington, D.C.: The World Bank. Accessed on: http://www.iris:umd.edu/socat/papers/papers.htm

[98] Norman Uphoff, M. J. Esman and A. Krishna (1998), *Reasons for Success: Learning from Instructive Experiences in Rural Development*, W. Hartford, CT: Kumarian Press, pp. 53-7.

[99] James Coleman (1990), *Opcit*, p. 321.

[100] Robert D. Putnam (1993), *Opcit*, p. 91. Also see World Bank Website on *How is Social Capital Measured*: http://www.worldbank.org/poverty/scapital/Schowmeas1.htm, p. 2.

engagements as measured by voter turn-out, newspaper readership, membership in choral societies and football clubs, and confidence in public institutions. The generalised application of this measure has been questioned given the fact that social capital may not necessarily manifest in a similar fashion in other cultures. Krishna[101] argues that membership in formal organisations can only serve as a proxy measure of social capital since it is not directly concerned with norms or with trust but it looks, instead at certain manifestations that accompany social capital in this setting. Krishna further argues that measures of social capital that are relevant for one set of cultures can be irrelevant for others because varying forms of human activity develop to deal with different needs and compulsions of life in different ecological and cultural settings.

A similar argument is raised by Lyon[102] on the use of formal associations as a measure of social capital. He warns of a risk that some definitions of social capital may ignore the 'softer,' less formalised networks that cannot be easily quantified, and thereby leave them hidden from future policy recommendations on supporting civil society. More concern is expressed by Foley and Edwards[103] who caution that the more bluntly one measures social capital on the basis of high density formal organisations, the more

[101] Anirudh Krishna (2001), 'Moving from the Stock of Social Capital to the Flow of Benefits: The Role of Agency,' *World Development*, 29 (6), p. 930.
[102] Fergus Lyon (2000), *Opcit*, p. 677.
[103] M. W. Foley and B. Edwards (1999), *Opcit*, p. 146.

the model must posit that all social capital is of equal value and that all relationships provide equal access.

Apart from the measure used by Putnam, other proxy measures have tended to follow suit and use indicators such as measure of trust in government, voting trends, membership in civic organisations, hours spent volunteering. The major units of analysis therefore include trust, civic engagement as well as community involvement. Grootaert[104] identifies indicators of social capital along two practical lines namely, according to the breadth of relationships and institutions involved; and according to the types of impact social capital has on the development process. In the case of Sub-Saharan Africa, additional indicators of social capital include ethnic diversity, social mobility, and the prevalence of telephone services.[105]

While the measure of social capital is very important, there is no evidence that an agreed measure is in existence. The World Bank Website[106] accepts that while 'a number of innovative ways' have been used to measure social capital, it has not been possible to obtain 'a single "true" measure.' Failure to have an agreed measure is attributed to the multidimensional nature of the concept, its ambiguity, and due to the fact

[104] Christiaan Grootaert (1998), 'Social Capital: The Missing Link?,' *Social Capital Initiative Working Paper No. 3*, Washington, D.C.: The World Bank, p. 10.

[105] Also see World Bank Website on *How is Social Capital Measured*: http://www.worldbank.org/poverty/scapital/Schowmeas1.htm, p. 2.

that few long-standing surveys were designed to measure it. What is available at the moment is proxy measurements which are disputed. The lack of an agreed measurement of social capital can be attributed to the fact that more research about the new 'paradigm' is still unfolding and, therefore, measurement problems are yet to be resolved. The tentative nature of measurement of the concept of social capital is confirmed by Fox's[107] observation that 'the measurement of social capital and the assessment of its contribution certainly are in their infancy and much more research will be needed to offset economists' scepticism.'

There are claims[108] that societies endowed with high levels of social capital tend to be better off than those without. This view has prompted much work on social capital to be preoccupied with trying to demonstrate how social capital enhances economic performance.[109] It is argued that social capital plays an instrumental role in increasing a community's productive potential. It is also claimed that it creates a conducive atmosphere that reduces transaction costs, allows for business networking and information flows. It is also believed to enhance the

[106] Also see World Bank Website on *How is Social Capital Measured*: http://www.worldbank.org/poverty/scapital/Schowmeas1.htm, p. 1.

[107] Jonathan Fox (1997), *Opcit*, p. 964.

[108] Robert D. Putnam (1993), *Opcit*. Also see D. Narayan and L. Pritchett (1996), 'Cents and Sociability: Household Income and Social Capital in Rural Tanzania,' *Policy Research Working Paper 1796*, Washington, D.C.: The World Bank.

[109] Robert D. Putnam (1993), *Opcit*. Also see Norman Uphoff and C. M. Wijayaratna (2000), *Opcit, pp.* 1875-90; Jens Reinke (1998), *Opcit, pp.* 553-76; Fergus Lyon (2000), *Opcit, pp.* 663-81; Anthony Bebbington (1999), 'Capital and Capabilities: A Framework for Analysing Peasant Viability, Rural Livelihoods and Poverty,' *World Development*, 27 (12): 2021-44.

value of public goods.[110]

While social capital has a potential for increasing a community's economic performance, local resources are rarely enough to bring about noticeable change. This means that for social capital to be more effectively harnessed for economic gains, linkages need to be expanded beyond the community level to broader extra-community institutions, which possess more resources and information.[111] This is important because findings from Krishna's study carried out in India indicate that having a high level of social capital does not always achieve high development performance. Krishna,[112] therefore, argues that social capital represents a potential, which needs to be activated by mediating links.

Putnam himself uses the concept of social capital in a rather narrower sense than the term's earlier usage by James Coleman or Pierre Bourdieu.[113] Putnam's virtuous networks are those sorts of association which are horizontally structured, in which participants relate to each other in a fairly egalitarian and even democratic manner. Putnam's argument is that social capital values, that is trust, civic responsibility, and political engagement are the product of a particular sort of sociability

[110] Patricia A. Wilson (1997), *Opcit*, p. 747. Also see Norman Uphoff and C. M. Wijayaratna (2000), *Opcit, pp.* 1875-90.

[111] Michael Woolcock (1998), *Opcit*, p. 185.

[112] Anirudh Krishna (2001), *Opcit*, pp. 932-8.

[113] For a useful discussion of the term's intellectual lineage (see Alejandro Portes (1998), 'Social Capital: Its Origins and Applications in Modern Sociology,' *Annual Review of Sociology*, 24, pp. 1-24).

– itself the product of overlapping membership of different kinds of groups. Putnam's analysis privileges apolitical kinds of association, especially those that do not raise vital interests as far as their members are concerned. In his account of modern Italy, bird watching clubs are more likely to incubate the values associated with social capital than political parties (which are in the Italian case patronage machines) or trade unions. In other words, Putnam's argument favours 'weak ties' that create solidarity between citizens rather than the 'strong ties' that divide them.

Putnam's main interest in social capital in the sense in which he uses it, is in its significance as a variable accounting for the presence or absence of democratic performance in state institutions. He is not principally concerned to explain why or where successful development occurs, and, indeed, his original analysis of Italian regions suggests that developmental achievements do not correlate as neatly with levels of social capital. Of course there is a connection between social capital and development: the presence of social capital in Putnam's view makes for effective public policy and good policy implementation (if the policies are appropriate) promotes developmental achievement. But Putnam does not argue that effective states require citizens with civic values; authoritarian states can be effective.

However, despite such qualifications, the view that social capital is a *pre-requisite* for effective public policy has influenced developmental agencies to emphasise non-economic factors in explaining economic failure or success while simultaneously neglecting difficult questions about the deployment and arrangement of state power.[114] Francis Fukuyama's work,[115] loosely inspired by Putnam, has helped to popularise the notion that civic community and interpersonal trust supply the keys to understanding economic progress. More recent studies of social capital's agency in developmental settings suggest that the concept in this context involves a rather broader set of relationships than in Putnam's original usage – that vertically organised networks can sometimes facilitate collective action and civic consciousness.[116] If that is the case, then much of the argument about social capital's efficacy as a developmental resource simply rephrases what has been much longer acknowledged as a property of social networks as has been suggested by Foley and Edwards.[117]

And just as has long been recognised with respect to social networks, social capital is ambiguous in its effects, that it can have both benefits and

114 Ben Fine (1999), *Opcit*, pp.11-12.

115 Francis Fukuyama (1995), *Trust: The Social Virtues and the Creation of Prosperity*, Penguin, Harmondsworth: Penguin.

116 Christiaan Grootaert and Thierry van Bastelaer (eds) (2002), *The Role of Social Capital in Development*, Cambridge: Cambridge University Press, Cambridge, p. 348.

117 Bob Edwards and Michael W. Foley (1998), 'Civil Society and Social Capital Beyond Putnam,' *American Behavioral Scientist*, 42 (1) (September), p. 135.

costs, as Putnam himself has conceded in his latest work.[118] This very view had earlier been pointed out by Coleman[119] when he noted that social capital 'not only facilitates certain actions but also constrains others.' Recent debates[120] argue that the preoccupation with the positive aspects of social capital ignore its potential 'downside.' It is, for instance, argued that social capital can be unproductive if it extends only to immediate family members and blood relatives (amoral familism). Woolcock[121] argues that such social capital built on such fierce ethnic loyalties and familial attachments discourages members from advancing economically, moving geographically, and engaging in amicable dispute resolution with outsiders. Members of such communities may, therefore, be restricted from participating in wider social networks because of community obligations.

An example can be drawn from the work of Jorgensen[122] in regard to co-operative labour (*Wang tic*) in Lango. He observes that the *Wang tic*

[118] Robert Putnam (ed.) (2002), *Democracies in Flux: The Evolution of Social Capital in Contemporary Society*, New York: Oxford University Press, pp 8-9.

[119] James Coleman (1990), *Opcit*, p. 311.

[120] M. W. Foley and B. Edwards (1999), *Opcit, pp.* 141-73; J. Harriss and P. de Renzio (1999), *Opcit, pp.* 919-37; Linda Mayoux (2001), 'Tackling the Downside: Social Capital, Women's Empowerment and Micro-Finance in Cameroon,' *Development and Change*, 32 (3): 435-64; A. Portes and P. Landolt (1996), 'The Downside of Social Capital,' *The American Prospect*, 26. Accessed on http://www.prospect.org/archives/26/26-cnt2.html; Paul Collier (1998), 'Social Capital and Poverty,' *Social Capital Initiative Working Paper No. 4*, Washington, D.C.: The World Bank, Accessed on: http://www.iris:umd.edu/socat/papers/papers.htm., P. Evans (1996), 'Government Action, Social Capital and Development: Reviewing the Evidence on Symmetry,' *World Development*, 24 (6): 1119-32.

[121] Michael Woolcock (1998), *Opcit*, p. 171. Also see Jules Pretty and Hugh Ward (2001), 'Social Capital and the Environment,' *World Development*, 29 (2), p. 213.

[122] Jan Jelmert Jorgensen (1981), *Uganda: A Modern History*, London: Croom

provided co-operative labour for clearing fallow ground, ploughing and weeding on a reciprocal basis. He however noted with concern that 'on the whole, the egalitarian values embodied in *Wang tic* proved sufficiently strong to prevent the emergence of capitalist farmers in Lango. This was because the desire to maintain equality sometimes held back the members from advancing economically. While social capital has its underlying advantages, there is no doubt that it can also have negative implications ('downside') as evidence from Lango shows.

To be sure, certain case studies of 'negative' social capital that the debate has generated recently bear little resemblance to the relaxed associations of birdwatchers and chess players characterised in Robert Putnam's original study. The extended family networks that underpin Colombian drug cartels do not resemble in any structural sense let alone in their cognitive aspects what Putnam represents in his usage of the context.[123] But as we will see in later chapters, even such benevolent associations as drinking clubs, whilst they may cement social solidarity in strictly economic terms the investments they absorb can be viewed as a dissipation of resources.

The romanticised view of social capital has also been criticised for ignoring the issues of power and conflict. It is within this context that

Helm Ltd., pp. 99 and 101.

[123] Mauricio Rubio (1997), 'Perverse Social Capital – Some Evidence from

Amin[124] warns of the danger of ignoring the fact that civil society is an arena of social contestation in which power struggles exist and affect which groups control which resources and what they do. It is also true that networks that give rise to social capital can be used for negative purposes like cheating in such cases as confidence rackets where information on the other party is a key resource. For example, Lyon's empirical study[125] in Ghana reports circumstances in which 'trust' was abused by the other party and led to cheating. He cites some cases where respondents commonly reported that traders tried to reduce the money they owed farmers after selling, claiming that the price was lower in the market when it was not. Social capital can also be used for the development of cartels. The other shortcoming or 'downside' of social capital has been pointed out by Mayoux in regard to gender. She argues that current discussions of social capital from a gender perspective are underpinned by assumptions of an ideal household unit. She contends that there is complacency in intra-household relations and kinship structures characterised by gender inequalities in access to power and resources.

The preceding submissions demonstrate the need to avoid generalising all forms of social capital as being productive. It is evident that there are

Colombia,' *Journal of Economic Issues*, 31 (3) (September), pp. 805-17.

[124] A. Amin (1996), 'Beyond Associative Democracy,' *New political Economy*, 1 (3): 309-33), p. 327.

[125] Fergus Lyon (2000), *Opcit*, p. 670.

also other forms of social capital that are unproductive. The 'downside' of social capital, therefore, indicates how paradoxical the concept is. Grootaert[126] recognises the conceptual problems that bedevil the concept of social capital. He observes that there is neither consensus on the aspects of interaction and organisation that merit the label of social capital, nor about the validity of the term capital to describe social capital. The absence of consensus on what social capital exactly is, what it is not, and what it does, creates a dilemma on how to apply it to explain social phenomenon.

When consideration is given to Uganda's social context where this research was undertaken, it becomes cumbersome to qualify the use of the concept of social capital. This is partly because the meaning of the term is still speculative. Besides, many of the networks used by voluntary associations studied are intertwined in 'amoral familism' and 'social capital.' Moreover, Uganda constitutes a multiethnic and religious society and yet there are some reservations[127] whether such societies can possess social capital. On the other hand, findings from studies[128] that have been conducted on the availability of social capital in Uganda are sceptical.

In order to avoid such controversies underlying the debates on social

[126] Christiaan Grootaert (1998), *Opcit*, p. 1.

[127] Sue Fleming (1991), 'Between the Household: Researching Community Organisations and Networks,' *IDS Bulletin*, 22 (1), p. 35.

[128] See Colin M. Turnbull (1972), *The mountain People*, London: Jonathan Cape

capital, this thesis borrows the justification used by William et al[129] to look at 'participation' through social networks of the poor, rather than attempting to evaluate their social capital. This is attributed to the fact that the concept of social capital is a highly contested one. Besides, the focus on networks is said to have advantages of highlighting aspects of poor people's participation that are in danger of being hidden from a social capital approach.

1.5 Social Networks of the Poor

Voluntary associations or mutual aid societies therefore have a basic objective of self-help. They constitute some form of insurance against risks that are associated with a rapidly changing society and a weak state. It is through these social networks that local people participate and access both human and financial resources necessary for asset formation. This can be in form of borrowing tools from each other for farm work (productive capital), pooling labour to work on individual plots at alternating times (human capital), and pooling their meagre financial resources (financial capital) in form of rotating credit clubs. Social networks are recognised for having an important role to play in economic activity.

ltd. Also see Jennifer Widner and Alexander Mundt (1998), 'Researching Social Capital in Africa,' *Africa*, 68 (1): 1-24.

[129] Glyn Williams, Rene Veron, Stuart Corbridge and Manoj Srivastava (2003), *Opcit*, p. 172.

Mutual aid organisations also provide a basis for collective action that sometimes go beyond the acquisition of individual household assets and welfare to community-wide benefits. Therefore, there is significant and growing evidence that social networks manifested in local associations may have a positive impact on local development and well-being of households.[130] In circumstances where 'outside agencies such as international agencies, governments, and NGOs are engaged in programmes to combat poverty, the existence of social networks provide a potential instrument. For example, the Grameen Bank has been able to use organised groups as a basis for giving unsecured loans. Hence, group guarantees act as collateral substitutes. Besides, by using the networks of the poor, the Grameen Bank has been able to effectively improve the welfare of the poor people.

1.6 An Alternative Approach: The State-Society Synergy

All the cited development paradigms agree on the ends, that is, improving people's welfare. However, they differ on the means (paths) to alleviate poverty. The classical neo-liberal theory and *dirigisme* believe that poverty can be alleviated through enhancing growth (increasing productivity) using a top-down perspective. On the other hand, the different variants of the grassroots approaches stress people's participation in the decision making process, collective action and self-

[130] Sue Fleming (1991), *Opcit*, p. 37. Also see Christiaan Grootaert (1998), *Opcit*, p. 11.

help strategies. They advocate a bottom up approach, which calls for the empowerment of the deprived as the appropriate method to combat poverty. The approach therefore encompasses community-based problem-solving techniques, which enable collective decision making and action as a way of addressing the poverty challenge. Nonetheless, grassroots approaches are limited by the lack of adequate resources and influence on public policy that are equally necessary for poverty alleviation.

Both the growth-oriented approaches that use a top-down approach (classical neo-liberalism and *dirigisme*) as well as the grassroots approaches that use a bottom-up approach have inherent strengths and shortcomings. It is therefore important to have cross-fertilisation, whereby the strength of each individual theory is used to offset the weaknesses of the other. It is important to complement the strength of the public agencies with positive attributes of the market sector and civil society organisations as a means to address the multifaceted challenge of poverty. The significance of combining bottom-up and top-down linkages in development finds no better expression than that of Uphoff:[131]

> Paradoxical though it may seem, 'top-down' efforts are usually needed to introduce, sustain, and institutionalise 'bottom-up' development. We are commonly constrained to think in 'either – or' terms – the more of one the less of the other – when both are needed in a positive – sum was to achieve our purposes.

[131] Norman Uphoff (1992), *Learning from Gala Oya: Possibilities for Participatory Development and Post-Newtonian Social Sciences*, Ithaca, New York: Cornell University

The state-society synergy adopted for this thesis encompasses local grassroots organisations, international agencies and intermediaries such as NGOs to complement the state and market. It strives to harness the positive attributes from each of these perspectives, which can be utilised in a complimentary manner to mitigate the ravages of poverty.

The choice of state-society synergy is based on the fact that there is an increasing recognition among theorists and practitioners about the need for co-operation between diverse organisations to solve complex problems, which are beyond the capacity of a single actor.[132] Joint action among diverse organisations is necessary especially when handling complex development programmes that are too large and expensive for one actor to handle. Besides, joint action between grassroots groups, NGOs, private corporations and government agencies is advantageous in terms of knowledge and resources needed. Grootaert[133] agrees that inter-sectoral co-operation between civil society and government positively affects programme outcomes. In other words, he argues that partnership leads to high programme performance. While self-reliance and voluntary action should be promoted, local organisations do not have the necessary resources and techniques to design and implement long-term

Press, p. 273.

[132] P. Evans (1996), *Opcit, pp.* 1119-32. Also see David L. Brown and Darcy Ashman (1996), *Opcit*, pp. 1467-73.

[133] Christiaan Grootaert (1998), *Opcit*, p. 12. Also see Serigne M. Ndiaye (1999), 'Promoting Rural Community Development in Africa: States Versus Grassroots Organisations,' The *Journal of Social, Political and Economic Studies*, 24 (1), pp. 79-80.

development plans. Therefore, such limitations should be overcome through joint action undertaken by a cross-section of development actors.

Concerns have however been expressed about the dangers of interaction between diverse actors from different institutional backgrounds.[134] The fact that they are unequal in power, have diverse interests and different ideological orientations leads to collaboration difficulties. Notwithstanding the challenges of interaction between diverse development actors, joint action is superior to individual actions of development actors because it tends to pursue development in a more co-ordinated and balanced manner.

The foregoing discussion constitutes an overview of the role and perceived strength of social networks in facilitating development outcomes. It has also indicated how social networks facilitate community participation and co-operation. Social networks, in this particular case, have been defined as the propensity for individuals to join together to address mutual needs and pursue common interests. Ample evidence has also been given on how social networks provide a potential instrument for people to access human, productive, and financial capital (resources) and subsequently reduces poverty. This is because social networks enable

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[134] G. B. Gray (1989), *Collaborating: Finding Common Ground for Multiparty Problems*, San Francisco: Jossey-Bass. Also see R. Wuthnow (1991), *Between States and Markets: The Voluntary Sector in Comparative Perspective*, Princeton, NJ: Princeton University Press.

networking, information sharing, and the pooling and access to resources.

The proceeding chapters use empirical evidence to critically analyse the role of social networks in enhancing the productivity of beneficiaries of credit schemes sponsored by the government, NGOs and self-help groups.

Chapter Two: Adjustment Reforms and Poverty Reduction in Uganda

2.0 Introduction

This chapter explores the economic conditions that precipitated the National Resistance Movement (NRM) government under Yoweri Museveni to accept and rigorously pursue stabilisation and structural adjustment reforms in Uganda since 1987. It also critically analyses the effects of economic reforms on the living standards of the majority of the population. In other words, it attempts to establish whether the undertaking of stabilisation and adjustment reforms has reduced poverty or exacerbated it. Finally, the chapter critically discusses the poverty reduction strategies being pursued by government and attempts to map out the challenges that are likely to be faced in the process.

2.1 Conditions Pertaining to the Economy Prior to 1986

The coming to power of the NRM government found a shattered economy. The magnitude of economic collapse was faster and devastative than the decline experienced more generally in Sub-Saharan Africa (SSA). In this regard, Lateef[1] notes that while Uganda's economic and social performance and level of development in the 1965-73 period compared

[1] Sarwar K. Lateef (1991), 'Structural Adjustment in Uganda: The Initial Experience,' in Holger Bernt Hansen and Michael Twaddle (eds.), *Changing Uganda: The Dilemmas of Structural Adjustment and Revolutionary Change*, Kampala: Fountain Publishers, p. 21.

favourably with that of Low-Income Sub-Saharan Africa (LISSA), it deteriorated markedly in relative terms in the 1973-87 period. Collier and Reinikka[2] also indicate that Uganda's per capita GDP declined by over 40 percent between 1971 and 1986. Whereas per capita GDP was 100 in 1971, it declined to 58 in 1986. Holmgren et al[3] also observe that by 1986 the economy had shrunk by more than 20 percent from its peak value in 1970, and inflation had an annual rate in excess of 240 percent. These economic conditions exacerbated the poverty levels of the population.

Uganda's economic degeneration that climaxed in the 1980s needs to be considered within the broader context of the widespread socio-economic crisis in SSA. The major reversals in SSA's socio-economic progress in the 1980s have been attributed to the cumulative effects of poor economic management and exogenous shocks. Saleh[4] points out the rising oil prices, interest rates, unfavourable terms of trade, and a failure to undertake timely stabilisation and adjustment measures, which exacted a heavy toll.

Similarly, the state of Uganda's economy in 1986 has been attributed to the pursuing of wrong domestic economic policy strategies coupled with

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[2] Paul Collier and Ratva Reinikka (2001), 'Reconstruction and Liberalisation: An Overview,' in Ritva Reinikka and Paul Collier (eds.), *Uganda's Recovery: The Role of Farms, Firms and Government*, Kampala: Fountain Publishers, pp. 19-20.

[3] Torgny Holmgren, Louis Kasekende, Michael Atingi-Ego and Daniel Ddamulira (2001), 'Uganda,' in Shantayanan Devarajan, David R. Dollar and Torgny Holmgren (eds.), *Aid and Reform in Africa*, Washington, D.C.: The World Bank, p. 105.

poor management style by the subsequent governments since independence.[5] Apart from the domestic weaknesses, changes in the international economic system have equally been responsible. More specifically, the declining terms of trade of agricultural exports and the soaring prices in the world market have had a significant contribution to the increase in poverty levels. Evidence of this decline is documented in the 1987 UNDP report.[6] It is reported that Uganda government experienced a widening current account deficit of US$ 194 million as a result of the decline in the value of exports. Exports declined from US$ 333.7 million in 1987 to 272.9 million in 1988. Most of the reduction in the value of exports is attributed to a fall in the price of Robusta coffee on the world market because of the failure to reach a new agreement at the international coffee organisation. The overall effects of the declining terms of trade resulted in an increase in arrears on Uganda's external debt of US$ 142.1 million.

2.2 The Economic Approach Pursued Prior to Adjustment Reforms

The NRM government was therefore faced with a daunting task of rehabilitating an economy that had been declining since the 1970s. Whereas the NRM government was in desperate need for resources to

[4] Turhan Saleh (1995), *Designing and Managing Poverty Alleviation Programmes: The Ghana Experience and Its Lessons*, UNICEF Ghana: Occasional Papers Series No.1, p. 5.

[5] This argument is also advanced by E. A. Brett (1998), 'Responding to Poverty in Uganda: Structures, Policies and Prospects,' *Journal of International Affairs*, 52 (1): 1-15. Accessed at: file://A:\EBSCOhost.htm.

[6] United Nations Development Programme (UNDP) (1989), *Report on Development Co-operation in Uganda 1988*, Kampala, Uganda, p. 15.

rehabilitate the economy and the World Bank and IMF would have provided the resources so desperately needed, it was initially hesitant to embrace stabilisation and structural adjustment programmes (SAPs). A number of writers[7] have provided evidence about the initial suspicious attitude towards the market-based reform programmes by the NRM leadership.

The explanation given by Mugyenyi[8] for the initial hesitance include the perceived failure of IMF-supported adjustment programmes in Uganda between 1981 and 1985 and considerable evidence of repeated failures of similar programmes elsewhere in Africa. The phenomenon of stabilisation and structural adjustment reforms has a history that precedes the coming to power of the NRM government on January 26, 1986. The second Obote government undertook the implementation of the first stabilisation and adjustment reforms in June 1981. Kiyaga-Nsubuga[9] asserts that the programme was fairly successful in the initial

[7] In regard to the NRM leadership's suspicious attitude to the market friendly policies, evidence is provided by E. O. Ochieng (1991), 'Economic Adjustment Programmes in Uganda 1985-9,' in Holger Bernt Hansen and Michael Twaddle (eds.), *Opcit*, p. 49. Additional Evidence is given by Joshua B. Mugyenyi (1991), 'IMF Conditionality and Structural Adjustment Under the National Resistance Movement,'in Hoger Bernt Hansen and Michael Twaddle (eds.), *Ibid*, pp. 61-3. For more evidence, also see Torgny Holmgren, Louis Kasekende, Michael Atingi-Ego and Daniel Ddamulira (2001), 'Uganda,' in Shantayanan Devarajan, David R. Dollar and Torgny Holmgren (eds.), *Opcit*, p. 105.

[8] Joshua B. Mugyenyi (1991), 'IMF Conditionality and Structural Adjustment Under the National Resistance Movement;' in Holger Bernt Hansen and Michael Twaddle (eds.), *Opcit*, p. 63.

[9] The initial success of adjustment reforms pursued from 1981 to 1984 is adduced by Kiyaga-Nsubuga in his paper (Unpublished), *From Communists to Neo-Liberals: The Transformation of the NRM Regime's Economic Policy*, Presented on 27th

period with a GDP growth of 8.2 percent in 1982 and 7.3 percent in 1983. He further reveals that the economy registered a balance of payment surplus of US$ 32 million as compared to a deficit of US$ 92 million in 1982/83. Uganda's gains from the first economic adjustment reforms were short-lived because they were abandoned prematurely in 1984. One of the reasons cited by government for abandoning the programme is the failure of reforms to remove economic hardships despite the fulfilling of the conditionalities. Other reasons advanced by Harvey and Robinson[10] include the escalation of the civil war, and the delayed disbursement of funds by the World Bank/IMF.

The other explanation for NRM's suspicious attitude to the market-oriented reforms was ideological. Brett[11] observes that the NRM leadership was ideologically oriented to the 'left' and distrusted the market in favour of strong state intervention. It can also be argued that given the lack of practical experience in leadership, the NRM leadership may have underestimated the challenges of managing a dependent economy.

The ideological orientation of the NRM leadership is evidenced by the economic policies pursued prior to May 1987. The government adopted

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November, 1997 to the Fifth Departmental Seminar, Department of Political Science and Public Administration, Makerere University, p. 6.

[10] Charles Harvey and Mark Robinson (1995), 'Economic Reform and Political Liberalisation in Uganda,' *IDS Research Report 29*, Brighton Sussex: IDS, p. 13.

the *dirigiste* model as opposed to an open economy. The *dirigiste* model was characterised by the reintroduction of price controls, defacto revaluation of the shilling, foreign exchange controls, re-capitalisation and central control of state corporations, and the retention of marketing board monopolies. Holmagren et al[12] mention that this policy approach led to disastrous consequences. It fuelled macroeconomic instability and worsened external viability. Statistical evidence provided by UNDP[13] confirms the decline. The overall GDP figures for 1986 indicate 0.2 percent decline over the GDP for 1985. Agriculture production also declined both in the monetary sector (9.6 percent) and in the non-monetary sector (3.8 percent). There was a sharp decline in the manufacturing sector of about 15 percent. Coffee which contributed more than 95 percent of Uganda's total export earnings was also affected by the decline in volume terms although it grew in price terms from US$ 355 million in 1985 to US$ 395 million in 1986 due to a surge in world coffee prices.

The effect of declining production on the economy led to a government budget deficit estimated at 40 percent of current and development

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11 E. A. Brett (1993), *Providing for the Rural Poor: Institutional Decay and Transformation in Uganda*, Kampala: Fountain Publishers, p. 32.

12 Torgny Holmgren, Louis Kasekende, Michael Atingi-Ego and Daniel Ddamulira (2001), 'Uganda,' in Shantayanan Devarajan, David R. Dollar and Torgny Holmgren (Eds.), *Opcit*, p. 5.

13 United Nations Development Programme (UNDP) (1987), *Report on Development Co-operation in Uganda 1987*, Kampala, p. 6.

expenditure. Tumusiime-Mutebire[14] also states that the adoption of the 'control model' accelerated inflation from 120 percent in May 1986 to 240 percent in May 1987. Meanwhile, the real exchange rate appreciated by 380 percent between April 1986 to May 1987.

Brett[15] attributes the failure of this strategy to the weak state apparatus and to opposition from foreign donors. Although the NRM leadership had a leftist ideological outlook, it became increasingly difficult to pursue interventionist strategies due to lack of resources of its own to reconstruct the dilapidated economy. This fact is confirmed by Lamont's[16] statement that the failure of interventionist policies and the desperate need for foreign aid to revamp the ailing economy, became a recipe for changing the policy approach. It, therefore, paved the way for the market-based reform programmes. After many consultations with the World Bank and IMF, the NRM government adopted stabilisation and structural adjustment reforms in May 1987. The reforms undertaken include creating macroeconomic stability, devaluation of the exchange rate, trade and foreign exchange liberalisation, improving tax collections, privatisation and reduction in government spending. These economic reforms have since been implemented with unprecedented speed and commitment.

[14] Emmanuel Tumusiime-Mutebire (1995), 'Management of the Economic Reform Programme,' in P. Langseth, J. Katorobo, E. Brett and J. Munene (eds.), *Uganda: Landmarks in Rebuilding A Nation*, Kampala: Fountain Publishers, p. 5.

[15] E. A. Brett (1993), *Opcit*, p. 33.

Though market-based economic programmes have assumed a centre stage in the economic policies of developing countries since 1980, the policy outcomes have raised mixed feelings among the academia and development workers. There is a fierce debate as to whether the poor benefit from adjustment, or suffer even greater deprivations as a result of such measures. Ravallion and Chen,[17] and Dollar and Kraay[18] among a host of scholars supportive of the World Bank and IMF policies, argue that adjustment reforms are not only desirable but are instrumental in revamping the failed economies of poor countries such as Uganda. Their argument is that stabilisation and adjustment reforms stimulate growth and consequently improve the living standards of the people. Stern, Goldin and Rogers[19] share this view. They assert that countries that have reduced income poverty the most are those (Uganda, India, Vietnam, and China) that have grown the fastest. However, in stark contrast, some scholars[20] question the existence of a systematic link between structural

[16] Tim Lamont (1995), 'Economic Planning and Policy Formulation in Uganda,' in P. Langseth, J. Katorobo, E. Brett and J. Munene (eds.), *Opcit*, p. 16.

[17] Martin Ravallion and Shaohua Chen (1997), 'What Can New Survey Data Tell Us About Recent Changes in Distribution and Poverty?,' *World Bank Economic Review*, 11 (2): 357-82.

[18] David Dollar and Aart Kraay (2001), 'Growth is Good for the Poor,' *Policy Research Working Paper 2587*, Washington, D.C.: The World Bank, pp. 1-23.

[19] Nicholas Stern, Ian Goldin and Halsey Rogers (2002), *The Role and Effectiveness of Development Assistance: Lessons from World Bank Experience*, Washington D.C.: The World Bank, p. 16.

[20] Some of the scholars that question the existence of a relationship between growth and poverty reduction include Bonnie Campbell and Trevor Parfitt (1995), 'Virtual Adjustment: Whose Reality?,' *Review of African Political Economy*, No. 63, pp. 3-8. See also Frances Stewart (1995), *Adjustment and Poverty: Options and Choices*, London: Routledge.

adjustment and growth, and between growth and poverty reduction. These debates have been raging over the years.

There is a generally shared experience among the Sub-Saharan African (SSA) countries that adopted adjustment reforms. Whereas they attained high GDP growth rates in the first years of implementing reforms, these gains were not reciprocated by an improved welfare for the majority people. In most cases, the implementation of SAPs exacerbated poverty levels instead of combating them. This argument can be illustrated with experiences from Ghana, which was considered a 'strong adjuster.' In Ghana's case, Perfitt[21] explains that the initial implementation of adjustment reforms led to high GDP growth rates of 6 percent per annum for the period between 1983 and 1988. The rate of inflation declined from 142 percent in 1983 to 18 percent in 1991. Ghana's economic reforms made impressive gains at the macroeconomic level. However, Saleh[22] indicates that the economic gains made during this period did not translate into economic benefits for the majority of people. The proportion of the population below absolute poverty line also rose from 60 to 75 percent and from 30 to 50 percent in rural and urban areas of Ghana respectively.

[21] Trevor W. Parfitt (1995), "Adjustment for Stabilisation and Growth? Ghana and the Gambia,' *Review of African Political Economy*, No. 63, p. 56.

The Ghanaian example provides clear evidence of the extent to which the population was sliding into absolute poverty. Saleh, and Ahiakpor[23] points out that the Programme of Actions to Mitigate the Social Costs of Adjustment (PAMSCAD) which was supported with credit from the World Bank and IMF was part of Rawling's government response to declining social welfare. The cardinal role of PAMSCAD was to alleviate the social costs of adjustment.

Similarly, Zimbabwe's adoption of World Bank/IMF-supported structural adjustment programme in 1990 led to negative social consequences. According to the Poverty Assessment Study Survey (PASS) conducted in 1995, results indicated that 62 percent of Zimbabwe households had incomes below the total consumption poverty line. Besides, 46 percent of households had incomes below the food poverty line. Poverty was also found to be more prevalent in rural areas, with 72 percent of the rural households being poor, as compared with 46 percent of the urban households.[24]

[22] Turhan Saleh (1995), *Designing and Managing Poverty Alleviation Programmes: The Ghana Experience and Its Lessons*, UNICEF Ghana: Occasional Papers Series, No. 1, p. 7.

[23] *Ibid*, pp. 9-12. Also refer to James C. W. Ahiakpor (1991), 'Rawlings, Economic Policy Reform, and the Poor: Consistency or Betrayal?,' *The Journal of Modern African Studies*, 29 (4), pp. 597-8.

[24] The PASS survey results are cited in Peter Robinson (1997), *National Poverty Reduction Strategies: Zimbabwe*, Unpublished Paper Prepared for UNDP, Social Development and Poverty Elimination Division, Under Project GLO/96/510: Technical Support for Monitoring and Improving Poverty Reduction, Zimconsult, Harare, July, pp. 8 and 19.

Other examples of Sub-Saharan African countries that experienced adverse effects in the initial period of implementing adjustment reforms include Zambia[25] where adjustment reforms had to be abandoned because of their social dimensions. Further evidence about the social consequences of adjustment is given by Mahieu[26] on Cote d'Ivoire where the earlier implementation of adjustment reforms was linked to increasing poverty levels. He observes that general deflationary measures severely squeezed public and private demand. Internal demand decreased by 19 percent from 1981 and 1988, household incomes and consumption decreased progressively by about 1 percent a year, and reached a record of –1.9 percent in 1990. He further noted decline in Human Development Index (HDI) (0.370), life expectancy (51.6 years), literacy levels (55.8 percent). Besides, public health spending accounted for 1.7 percent of GDP against 2.5 percent for Sub-Saharan Africa.

Wangwe[27] and Lugalla[28] narrate a similar experience in regard to Tanzania. Wangwe states that while annual GDP grew from an average of 2 percent during 1980-85 to an average of 4 percent during 1986-94 and

[25] In regard to adjustment reforms in Zambia, refer to Fons Meijer (1990), 'Structural Adjustment and Diversification in Zambia,' *Development and Change*, 21, pp. 665-82. See also Gisela Geisler (1992), 'Who is Losing Out? Structural Adjustment, Gender, and the Agricultural Sector in Zambia,' *The Journal of Modern African Studies*, 30 (1): 113-139.

[26] Francois R'egis Mahieu (1995), 'Variable Dimension Adjustment in the Cote d'Ivoire: Reasons for Failure,' *Review of African Political Economy*, 63, pp. 12 and 23.

[27] S. M. Wangwe (1997), *National Poverty Reduction Strategies: The Case of Tanzania*, Paper Prepared for UNDP's Second Workshop on Macroeconomic Policies and Poverty Reduction Held in New York, 11-12 September, pp. 8-9.

inflation declined from 27.4 percent in 1995 to 15 percent in 1997, there was little evidence on the impact of economic reforms on the poor. About half of the population still lived in poverty, the majority of them in rural areas. Lugalla's report on how SAPs severely affected the health sector corroborates Wangwe's argument. He states that cutbacks in government expenditure had negative implications not only for the health sector in general, but for women and children in particular. The survey of the available literature on the social effects of market-oriented programmes in SSA show a general decline in social welfare despite the high growth rates in the initial period.

In the case of Uganda, there has been a consensus on the desirability of economic reforms. Nonetheless, the available literature indicates that there are rifts on the interpretation of the impact of adjustment programmes on the people. Some writers[29] argue that reforms have led to a high economic growth rate averaging 6 percent of GDP for over 10 years in Uganda's economy and have subsequently reduced poverty. While the critics[30] agree that there has been growth, they question the

[28] Joel L. P. Lugalla (1995), 'The Impact of Structural Adjustment Policies on Women's and Children's Health in Tanzania,' *Review of African Political Economy*, No. 63, pp. 44-52.

[29] Some of these include Emmanuel Tumusiime-Mutebire (1995), *Opcit*, p. 3. See also Simon Appleton (2001), 'Changes in Poverty and Inequality,' in Ritva Reinikka and Paul Collier (eds.), *Opcit*, p. 99.

[30] Critics include Community Development Resource Network (CDRN) (1996), *A Study of Poverty in Selected Districts of Uganda*, Kampala, Uganda, p. 3. United Nations Development Programme (UNDP), *Uganda Human Development Report 1997*, Kampala, Uganda, p. 2. Fred Opio (1997), 'Structural Adjustment, Growth and Poverty in Uganda,' *Economic Policy Research Bulletin*, 3 (1), p. 12. See also Republic of Uganda (2000), *Uganda Participatory Poverty Assessment Report* (UPPAP), MFPED, Kampala, p. 13.

social impact of adjustment programmes. The cited examples include the reduction of expenditure on social services, retrenchment and the removal of government subsidies. They argue that the removal of such benefits have increased impoverishment levels among the vulnerable groups.

The contentious positions noted above illustrate the lack of consensus on the social dimensions of market-oriented reforms. However, a critical analysis of the period covered by adjustment reforms (1987-2003) can provide some important clues. It is, for instance, true that initial focus of the economic reforms pursued from 1987 to 1996 neglected the social dimensions of adjustment. The direct effects of adjustment programmes on the majority population were harsh. The reduction in government spending led to the introduction of user fees in government hospitals and health centres. This policy reduced the accessibility of health services by the poor. Similarly, the retrenchment of public workers as a result of public sector reform adversely affected the welfare of the affected people. The removal of government subsidies also directly affected the poor, especially, in regard to the cost of agricultural implements, pesticides, animal drugs and improved seeds. Moreover, the transitional shocks characterising the period during which stabilisation and structural adjustment reforms were implemented also affected the poor groups.[31]

[31] Evidence of the SAP effects are given by P. K. Kayiso (1995), *Structural Adjustment Programme and Poverty in Uganda*. Unpublished Paper Presented at the

Some of these include high costs of living due to the devaluation of the Uganda Shilling. Mamdani[32] argues that in the initial period the rich took advantage of the opportunities created by the retreating state given the fact that the private sector was given an enhanced role. He argues that many of them took advantage of the opportunities created by a liberalised environment and engaged in speculative trade while those with fixed earnings suffered.

This period should be put in the context of the changing paradigms of International Financial Institutions (IFIs). Stern, Goldin and Rogers[33] explain that the goals and forms of development assistance have changed over time through learning and as a result of these changes and improvements in the policies, aid has become more effective at reducing poverty. Harrison[34] corroborates this view with the argument that the World Bank's involvement in African development has not been static but has instead been characterised by changing paradigms. He notes that the conditionalities pursued by the World Bank and IMF in the early 1980s were initially very hostile to the state and lacked a 'human face' but that this approach later changed.

Workshop on Poverty Status in Uganda, Organised by Economic Policy Research Centre (EPRC) and Oxford Centre for the Study of African Economies (CSAE), Makerere University, Kampala, January, pp. 36-44.

[32] Mahmood Mamdani (1990), 'Uganda: Contradictions of the IMF Programme and Perspective,' *Development and Change*, 21, p. 441.

[33] Nicholas Stern, Ian Goldin and Halsey Rogers (2001), *Opcit*, pp. 1-8.

[34] Graham Harrison's argument is contained in *The World Bank, Second Generation Reform, and Development in Africa*, Paper Presented on 25th July, 2001, at Makerere Institute for Social Research, Kampala, Uganda, pp. 13-16.

The initial implementation of stabilisation and structural adjustment reforms by the NRM government (1987-1992) made some modest gains but at the same time led to costs of adjustment. Gains were mostly realised by farmers who were engaged in cash crops. Similarly, those engaged in trade and employed in the public sector experienced improved welfare during the same period. However, those who made gains did not constitute a majority. For example, the 1998 Poverty Trends in Uganda indicate that the poor constituted more than half of Uganda's total population (55.6 percent). The overall poverty levels have however been declining as illustrated in Table 2.1 below:

Table 2.1: *Percentage of the Poor and Hard-core Poor by Rural-Urban Distribution, 1992-1996*

Area	Poor				Hard-core Poor			
	1992/93	1993/4	1994/95	1995/96	1992/93	1993/94	1994/95	1995/96
Rural	59.4	54.8	53.3	49.7	38.6	32.9	30.4	29.2
Urban	29.4	19.6	21.0	20.0	12.5	7.0	9.3	7.9
National	55.6	50.3	49.2	45.6	35.3	29.6	27.8	26.2

Source: *The Republic of Uganda, Poverty Trends in Uganda 1992-1996, MFPED, Kampala, August 1998, p. 11.*

Table 2.1 vividly illustrates the fact that poverty levels declined both among the hard-core poor and poor during the period 1992-1996. Whereas the hard-core constituted 35.3 percent in the financial year 1992/93, this figure had reduced to 26.2 percent by 1995/96. Similarly, the percentage of the poor reduced from 55.6 to 45.6 percent between the same period. In addition, there was a recorded decline of rural poverty within the hardcore poor (from 38.6 to 29.2 percent) and the poor (from

59.4 to 49.7 percent) respectively during the period 1992/93 to 1995/96. Likewise, urban poverty declined among both the hardcore (from 125 to 7.9 percent) and the poor (from 29.4 to 20 percent) respectively during the same period.

Likewise, the Integrated Household Survey (IHS) conducted in 1992/93 revealed that 56 percent of the population were living in absolute poverty (below the poverty line of one US dollars a day). Therefore, there is ample evidence to confirm that the first years of adjustment in Uganda were characterised by austerity measures, which exacerbated poverty levels among the poor groups. The government, drawing on the support of the World Bank and IMF recognised this reality and first intervened with the Project to Alleviate Poverty and Social Costs of Adjustment (PAPSCA) in 1989 to alleviate the deteriorating conditions of the poor. It later streamlined and consolidated the various interventions into a policy paper – the Poverty Eradication Action Plan (PEAP). It is on the basis of this comprehensive policy that funds realised from the Highly Indebted Poor Countries (HIPC) initiative have been channelled to priority areas envisaged to reduce poverty levels.

2.3 The Concept of Poverty

Poverty like many other concepts has no precise and generally agreed definition or measurement. In regard to the lack of consensus on the definition of poverty, Baulch[35] notes that poverty is 'a portmanteau term which has different meanings to different people.' A similar view is expressed by Alcock[36] who asserts that 'there is no one correct scientific, agreed definition because poverty is inevitably a political concept – and thus inherently a contested one.' Given the absence of an agreed definition, poverty has been subject to many different definitions and interpretations.

The conventional view of understanding and measuring poverty, which is also shared by the World Bank, is based on material consumption. It defines a person as poor if his/her income or expenditure is below a defined poverty line. In many poor countries where data on people's incomes is not readily available, the poverty line is determined in terms of minimum expenditure necessary to ensure access to food calorie intake as a proxy for income. The poverty line depends on expenditure necessary to fulfil a nutritional requirement of a certain minimum food calorie intake. It is based on an assumption of 2200 calories plus a few non-food expenditure items per person. According to Appleton,[37] currently Uganda does not have an officially approved poverty line. Therefore, it has been using the World Bank yardstick to determine the

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[35] Bob Baulch (1996), 'Editorial: The New Poverty Agenda: A Disputed Consensus,' *IDS Bulletin*, 27 (1), p. 2.

[36] Pete Alcock (1997), *Understanding Poverty*, London: Macmillan Press Ltd., pp. 3-4.

[37] Simon Appleton (2001), 'Changes in Poverty and Inequality,' in Ritva Reinikka and Paul Collier (eds.), *Opcit*, p. 89.

absolute poverty line basing on those persons who spend less than one US dollar a day.

Again, in the specific case of Uganda, poverty has been measured using the conventional 'money-metric approach.' This is a quantitative approach, which is used to determine living standards and sets an income/expenditure poverty line to distinguish the poor from the non-poor.[38] People are considered poor if their standard of living falls below the poverty line, that is, the amount of income or consumption associated with a minimum acceptable level of nutrition and other necessities of everyday life. The Uganda government obtains data about the poor from the annual household surveys conducted throughout the country.

In regard to advantages of using income/expenditure measurement, Ghosh[39] indicates that it allows the identification of time trends and enables comparisons across regions and social groups. She further states that it also allows easy analysis of how particular macro-economic policies and specific poverty alleviation interventions have affected the incidence of income poverty over time and thus provides vital information on the effects of such policies and processes.

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[38] The Republic of Uganda (1998), *Poverty Trends in Uganda 1992-1996*, Discussion Paper No. 2, Ministry of Finance, Planning and Economic Development, Kampala, p. 8. Also see Hanmer, L., Pyatt, G. and White, H. (1999), 'What Do the World Bank's Poverty Assessments Teach Us About Poverty in Sub-Saharan Africa?', *Development and Change*, 30 (4): 795-824), p. 797.

[39] J. Ghosh (1998), *Assessing Poverty Alleviation Strategies for their Impact on the Poor Women: A Study with Special Reference to India*, Geneva: UNRISD, p. 4.

While definitions of poverty in terms of income and consumption may have advantages, they have been challenged. In this respect, Arjan de Haan and Maxwell[40] contend that there is close to an intellectual consensus that narrow income and consumption measures are inadequate, and that a wider vision is needed. Baulch[41] notes that the income/consumption approach has been criticised for ignoring vulnerability, dynamics of poverty, state provided commodities, and common property resources. Similarly, Kabeer[42] argues that the approach has not been able to capture the gender dimensions of poverty. Other criticisms dwell on the use of the poverty line. It becomes questionable when applied to subsistence economies where monetisation is limited. Furthermore, criticism is mounted on the criteria used for setting of the food energy requirements, which may vary according to the geographic region and climate. It is therefore not easy to standardize. Ravallion[43] also rises the question of disputes about measuring the cost of a 'minimum food calorie intake' and about how to add on the allowance for non-food expenditure. In the same vein, Ghosh[44] argues that income levels are not useful because the minimum income required to escape deprivation

[40] Arjan de Haan and Simon Maxwell (1998), 'Poverty and Social Exclusion in North and South,' *IDS Bulletin*, 29(1), p. 4.

[41] Bob Baulch (1996),*Opcit*, p. 2.

[42] Naila Kabeer (1996), 'Agency, Well-being, Inequality: Reflections on Gender Dimensions of Poverty,' *IDS Bulletin*, 27(1), p. 12.

[43] Martin Ravallion (1992), *Poverty Comparisons: A Guide to Concepts and Methods: Living Standards Measurement Study*. Working Paper 88, Washington D.C: The World Bank, pp. 26-8.

[44] J. Ghosh (1998), *Opcit*, p. 4.

differs from community to community. Therefore, using a minimum cut-off income applicable to poor countries would fail the test if applied to rich countries. Moreover, many of the poor countries lack adequate data banks to allow for accurate measurement of poverty. The exercise for compiling such data is expensive and requires periodic updating. This can prove a burden to countries that are already facing economic difficulties and have to make painful choices on where to spend the meagre resources. In addition, the approach has been criticised for leaving out important aspects of poverty such as access to decent shelter, safe drinking water and sanitation, good nutrition, clothing, basic education and healthcare.

It is as a result of such inadequacies that the Basic Needs Approach emerged. The coverage of Basic Needs goes beyond material requirements to incorporate other basic requirements like health, education, housing, safe drinking water and sanitation. Townsend[45] criticises the Basic Needs approach to understanding poverty for being an enlargement of the subsistence concept. He asserts that the needs of the population cannot be defined adequately just by reference to physical needs of individuals and essential services required by the community. He further argues that once the concepts are simplified to an insufficiency of income, the easier it is to argue that the national growth of material

[45] Peter Townsend (1993), *The international Analysis of Poverty*, New York: Harvester Wheatsheaf, pp. 31-3.

wealth is all that is required to overcome the phenomenon of poverty. It is therefore widely agreed that the definition of poverty should be widened to go beyond an insufficiency of income to include social needs.

The World Bank has not only recognised the importance of basic needs but attempted to address the social costs of adjustment that directly or indirectly originate from adjustment policies using safety nets. According to Hanmer et al,[46] the World Bank conceptualises safety nets as those policies to assist the transitory poor or vulnerable. Put differently, safety nets are short-term measures to supplement programmes and policies designed to create growth and human development in the medium to long-term. Social safety net policies therefore encompass a range of social welfare interventions such as basic health, education, and safe drinking water. While interventions with safety nets are welcomed, it should be recognised that considerable spending on social safety nets does not always translate into social benefits to the vulnerable groups. This is because such spending is sometimes embezzled, diverted to other commitments, or spent on administrative activities and may therefore benefit those groups that are not necessarily poor. Hanmer et al[47] contends that even in those circumstances where the poor benefit from the provision of safety nets, it does not mean that they cease to be poor

[46] Lucia Hanmer, Graham Pyatt, Howard White and Nicky Pouw (1996), *Poverty in Sub-Saharan Africa: What Can We Learn from the World Bank's Poverty Assessments?*, Hague: Institute of Social Studies, pp. 5.8-5.9.

[47] Ibid, p. 5.2.

but only that they are protected by insurance from destitution. Other scholars[48] have criticised the material and Basic Needs perception of poverty for ignoring the other aspects of impoverishment. They conceptualised poverty to be more than just the lack of income but also a feeling of powerlessness to break out of the cycle of poverty and insecurity of persons and property. The UPPAP report[49] shows that vulnerability to poverty assumes four major dimensions namely, poor physical wellbeing, a constrained social network, powerlessness[50] and gender inequality.

Other scholars[51] have criticised the material and Basic Needs perception of poverty for ignoring the other aspects of impoverishment. They conceptualised poverty to be more than just the lack of income but also a feeling of powerlessness to break out of the cycle of poverty and insecurity of persons and property. The UPPAP report[52] shows that vulnerability to poverty assumes four major dimensions namely, poor

[48] Some of the scholars who criticise the definition of poverty in material terms include Peter Townsend (1993), *Opcit.* The other is Robert Chambers (1983), *Rural Development: Putting the Last First*, Essex: Longman.

[49] Republic of Uganda (2000), *Uganda Participatory Poverty Assessment Process (UPPAP)*, p. 16-20.

[50] A case of powerlessness in the Ugandan context has for instance characterised women who are sometimes prevented from selling their agricultural produce or voting candidates of their choice in local and national elections by their husbands.

[51] Some of the scholars who criticise the definition of poverty in material terms include Peter Townsend (1993), *Opcit.* The other is Robert Chambers (1983), *Rural Development: Putting the Last First*, Essex: Longman.

[52] Republic of Uganda (2000), *Uganda Participatory Poverty Assessment Process (UPPAP)*, p. 16-20.

physical wellbeing, a constrained social network, powerlessness[53] and gender inequality.

The participatory approach to studying poverty conducted in Uganda revealed that there is more to poverty than lack of income to meet the basic needs of life. According to this survey, the local people define poverty beyond the lack of income and material assets to include the absence of social aspects that support life. Among the social aspects responsible for poverty is the absence of social support creating a feeling of isolation and exclusion, powerlessness, deprivation of basic human rights and a feeling of helplessness to influence the conditions around oneself. The UPPAP findings therefore acknowledge that the indicators of poverty include not only material possessions and incomes but also non-material aspects like lack of social networks.

These indicators do not only demonstrate but also agree with earlier findings on poverty in Uganda by Ssewaya and Bevan[54] that poverty is a multi-dimensional phenomenon. Poverty in Uganda encompasses more than just material wants but also other factors like lack of social services, social and political exclusion, powerlessness and marginalisation. However, the danger with this definition is that it uses a broad concept of

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[53] A case of powerlessness in the Ugandan context has for instance characterised women who are sometimes prevented from selling their agricultural produce or voting candidates of their choice in local and national elections by their husbands.

poverty. It therefore makes it particularly difficult to identify who the poor are because the indicators are many and can be misleading. Besides, given the various indicators, it is difficult to isolate the poor from those relatively better off since they may also share some of the characteristics.

Given the complex nature of poverty as well as inherent weaknesses in the various perceptions already discussed, the definition of poverty adopted for this thesis is derived from Townsend.[55] He defines the poor as those people whose resources are so low that they bear the observable and 'objective' marks of multiple deprivation including ill-health or disability and the risk of early death. Therefore, poverty is conceptualised in this thesis as the lack of economic resources. In this regard, lack of economic resources refers to a situation where people lack land, capital, skills and/or labour power. This is important because people who lack such essential economic resources will neither be able to raise income nor be able to acquire assets that are necessary for enhancement of social welfare. Economic resources are important because lack of them causes poverty.

The justification for defining poverty in terms of lack of economic resources is due to the fact that many of the poor people in SSA continue

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[54] Achilles Ssewaya and Philippa Bevan (1995), *Studying Poverty in Uganda: A Multi-disciplinary Research Agenda*, Department of Sociology and Centre for the Study of African Economics, Makerere and Oxford, March, pp. 10-2.

[55] Peter Townsend (1993), *Opcit*, p. 121.

to live in rural areas and land, labour power, and assets constitute a major determinant of whether one will be poor or not. Poverty is in most cases associated with lack or inadequate possession of productive assets such as land, domestic animals, and labour power. Therefore, elimination of poverty requires policies and programmes that might act as catalysts for a process of accumulation. Hanmer et al[56] argue that the reason why assets are arguably of prime importance is because they are determinants of individual and household income and therefore of poverty when poverty is defined in the income dimension. Therefore, the attainment of productive assets constitutes an indication of permanent income.

Hence, the fact that poverty is defined as lack of productive assets means that policies and programmes designed to combat it must take into consideration the factors that can enhance the accumulation process. They can vary from land redistribution, access to new technologies, skills training, and access to credit. This perception of poverty had been echoed in the 1997 UNDP report.[57] It stated that 'a people-centred strategy for eradicating poverty should start by building assets of the poor. These include policy reforms and actions to enable poor people gain access to assets that make them less vulnerable such as security of land tenure and access to credit and other financial activities.' In the particular case of this thesis, the scope of discussion will be restricted only to credit as a

[56] Lucia Hanmer, Graham Pyatt, Howard White and Nicky Pouw (1996), *Opcit*, p. 5.2.

complimentary factor service to the accumulation process. Access to cheap credit is important for small holders because it can be used to finance the purchase of agriculture inputs for the poor to raise their productivity or engage in informal non-farm activities and consequently reduce poverty.

2.4 The Nature and Causes of Poverty in the Uganda Context

The question of poverty is not new in Uganda, what is probably new is the context in which it is being addressed today. Prior to independence poverty existed as a local issue and did not assume a prominent position in Uganda's development debate. While poverty in the past was considered a community problem effectively managed under the traditional extended family and the clan, its magnitude has outgrown the traditional welfare mechanisms to require national and international attention. The turbulence in the traditional systems is attributed to modernisation forces that have weakened the traditional welfare institutions. Besides, money together with the commercialisation of virtually everything has undermined the traditional virtues of reciprocity and trust. Other influences like foreign religions have equally weakened traditional culture and the authority embedded within it, which previously catered for social security. It is therefore the crisis in the traditional norms and value systems that changed the context of managing poverty in the contemporary period.

[57] United Nations Development Programme (UNDP) (1997), *Opcit*, p. 6.

Although similarities exist, the experience of poverty varies in its nature, extent and trends between regions, rural and urban areas. Uganda National Household Survey (UNHS)[58] data of 1997, for instance, indicate that in eastern Uganda, which has the greatest proportion of the population, 54 percent of the people live in absolute poverty, compared to 28 percent in the central region. According to Okurut, Odwee and Adebua[59] (1999) and the UNHS (2000), the northern region of Uganda was ranked as the poorest in terms of welfare indicators. The western region was also rated as the worst in terms of welfare indicators even though this region has the second highest income levels in the country.

Poverty also differs in definition between urban and rural areas. The CDRN[60] report indicates that in Uganda's urban areas, money is for instance the underlying factor that constitutes poverty because virtually everything is monetised. Poverty has therefore been defined as lack of money to cater for family needs. In rural areas however, poverty is perceived in terms of resource deficiency. In this respect, resources refer to physical assets and social networks. Notwithstanding the variation in definition, the magnitude and intensity of poverty differs between rural and urban areas. The rural areas are much more affected than urban

[58] Republic of Uganda (2000), *Uganda National Household Survey (UNHS) 1997*, MFPED, p. 17.

[59] Francis Nathan Okurut, Jonathan A. Odwee, and Asaf Adebua, (1999), 'Determinants of Regional Poverty in Uganda,' *Research Series No. 8, Economic Policy Research Centre*, Kampala, Uganda, p. 11-20.

[60] Community Development Resource Network (CDRN) (1996), *Opcit*, p. 26.

areas. Appleton[61] basing on data derived from government administered surveys indicates that poverty head-count[62] in urban areas fell from 17 percent to 10 percent compared with a fall from 49 percent to 39 percent in rural areas in 1997 and 2000 respectively. He further states that poverty has declined by 43 percent in urban areas in comparison to 18 percent in rural areas of Uganda since 1992. It is clear from the above illustrations that there has been a general reduction in poverty levels although the reduction is slower in rural areas. The slower reduction of poverty in rural areas compared to urban areas can be explained by poorer access to markets, poorer infrastructure and more widespread lack of productive assets. These barriers exclude rural communities from the development process.

Apart from rural dimension, poverty has equally taken gender perspective. MCGee[63] argues that women are disproportionately affected by poverty than their fellow men in Uganda. This is regardless of the fact that women provide 70 percent of the total agricultural labour and are responsible for producing 80 percent of Uganda's food. This poverty is attributed to inequalities that are perpetuated by socio-cultural and economic factors. Women lack access to economic opportunities because

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[61] Simon Appleton (2001), *Poverty in Uganda, 1999/2000: Preliminary Estimates from the UNHS*, University of Nottingham, UK, p. 2.

[62] The poverty head-count index highlights the number of people or households living below the poverty line.

[63] Rosemary MCGee (2000), 'Meeting the International Poverty Targets in Uganda: Halving Poverty and Achieving Universal Primary Education,' *Development and Policy Review*, 18 (1): 85-106), p. 89. (File://A:\poverty1.htm).

of limited education, cultural impediments, big workload and low participation in decision-making. In general, women do not own productive assets like land.[64] Besides, women lack legal protection over property rights in the event of their husbands' death. It is therefore true that increases in household income may not necessarily translate into increased benefits to women.

Poverty is further conceived to have a social dimension. The social dimension of poverty is much more about deficiency of social networks. In rural areas social networks are valued much more than the virtual possession of physical assets. Social networks in this respect include, having friends, relatives, a family, and being at peace with neighbours and the community at large. Ugandan society perceives people who lack friends and relatives or those socially disadvantaged to be poor. According to the UPPAP[65] report, a poor person is viewed as having no relatives, no children, no wife or husband; being disabled persons, elderly, orphaned; having diseases; and being unable to access basic necessities. In African traditions, the more a person is socially connected weighs more than owning physical assets. This can be traced in local adages. For example, the Banyankole of Western Uganda have an adage that *Ekyokwezirikagye Oshangwa Ozeirwegye*. This literally implies that one

[64] The UNDP (1998) Annual National Human Development Report for Uganda stated that although women carry out 70-80 percent of agricultural work, only 7 percent of women own the land they till.

who is born in rich family with wide social networks is better positioned than one without such background. It is traditionally believed that even if one loses his or her material possessions, they can be regained if that person has strong social networks.

The UPPAP[66] report established a relationship between lack of social networks and poverty among the people. The absence and/or deterioration of social relationships and networks, particularly the role of extended family that supports the traditional welfare system causes poverty. Relatives enhance a sense of belonging to the community in the form of a clan and provide social and physical security in times of hardships. During times of crisis, friends, relatives, neighbours and even the wider community can act as a shield by giving immediate assistance. The UPPAP[67] report underscored the high rating of social networks in comparison to economic power by the poor themselves. People who have money but have no family, relatives or friends are classified as being poor because economic power is considered temporary while social networks are permanent. Social support networks, where they still exist, play an instrumental role in protecting the poor from the vagaries of poverty. Such support is in form of helping out like by contributing food,

[65] Republic of Uganda (2000), *Uganda Participatory Poverty Assessment Process 1999*, pp. 13-20.
[66] *Ibid*, p. 49.
[67] *Ibid*, p. 49.

providing labour, farm implements, seeds, assets, settling of disputes and other forms of charity.

In the case of Uganda, the significant role of social networks in improving the welfare of the poor can be cited using various examples. Social networks in Kabale district have helped patients from remote areas to access health facilities. The formation of *Engozi* group epitomises the role of community networks in shielding the weak during crisis situations. The *Engozi* group is 'a stretcher group.' It refers to a self-help group in Kabale district that was formed to transport the sick persons from the remote parts of the district to the health centres on locally made stretchers. Other social networks that have helped the poor to access productive resources include grassroots self-help groups like *Munno mu kabi* in the central region of Uganda. *Munno mu kabi* is translated as 'a friend in trouble.' Such groups are formed to assist colleagues and friends in crisis by pooling together their meagre resources and then pass them over to those with problems. From the above illustrations, it is clear that lack of social networks causes poverty.

The UPPAP[68] research findings reported that social networks were deteriorating very fast in urban areas:

> The traditional welfare system was seen as promoting community co-operation and household well being, although it was seen to be declining, especially in urban areas.

[68] *Ibid*, p. 15.

This phenomenon was attributed to individualism. Lack of social cohesion was particularly cited as a dominant factor constraining development at the individual, household and community level. This is attributed to the breakdown of positive traditional structures and values that are custodians of culture, norms and social ties. These include elders, clans, and the extended family. The breakdown of such structures is attributed to modernisation, which promotes individualism, the need to be secretive, and the drive to succeed economically while out-competing everyone else.

Another dimension of poverty advanced by Lipton[69] is related to season or time of life. It is common within rural areas for people to be temporarily poor as a result of a bad season. Households move up and down the poverty ladder. Therefore, poverty varies at different points in time. For example, rural people do experience poverty during the pre-harvest period whereas they tend to earn more during the post-harvest season. They therefore experience intermittent poverty during certain seasons. This can sometimes be temporary or permanent depending on the coping mechanisms of those particular people.

Poverty being a complex and multidimensional phenomenon, can be understood from a multitude of views. Conventional debates about the

[69] Michael Lipton (1986), 'Seasonality and Ultrapoverty,' *IDS Bulletin*, 17 (3), pp. 4-6.

causes of poverty continue to be dominated by the orthodox liberal and structural perspectives. The orthodox paradigm perceives the cause of poverty to lie in the defects of mind or body, or misfortune proper to the individual. The idea that the poor are themselves responsible for their plight is a widely accepted explanation of poverty not only in the Western world but also in poor countries.

Some of the critics[70] of this pathological model argue that poverty is not a product of individual weaknesses or failure, but rather it is the result of complex social forces that include actions of classes, groups, agencies and institutions that interact within a particular social and economic order. This structural approach draws on dependency theories of development, theories of stratification, neo-colonialism, and state policies. It conceives poverty to lie in social circumstances, which interfere with the relationship between the individual and the economic organisation of society. There is a growing recognition that the cause of poverty is much more explained by how people relate to each other in the process of production, exchange and distribution of resources. Poverty is a symptom of the existence of systems of injustice that are entrenched in socio-economic systems. Such systems not only perpetuate poverty but also allow it to persist.

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[70] On the criticisms of the pathological view of poverty, see Tony Navak (1988), *Poverty and the State: An Historical Sociology*, Milton Keynes and Philadelphia: Open University Press, pp. 3-28. See also Peter Townsend (1993), *Opcit*, p. 5-12.

In Uganda's context, poverty is attributed to various causes. These vary from individual, historical, resource-related, and institutional causes. These causal factors may be embedded in the domestic or external environment or both. While the chapter will discuss the causes of poverty in brief, its emphasis will be concentrated on the anti-poverty strategies pursued in the context of structural adjustment reforms.

Poverty in Uganda has partly been attributed to individual behavioural practices like laziness, alcoholism, extravagance, lack of co-operation, and cultural practices like polygamy, oppression of women and high bride price.[71] For example, UPPAP[72] reported that excessive drinking of alcohol, particularly by men, was the second most frequently cited cause of poverty, mentioned almost equally in rural and urban communities. Excessive drinking was seen as leading to poor health, failure to provide for the household, debts and sale of household assets, family disunity, idleness, declining morals, hopelessness and drinking away their 'children's future.'

Other domestic causes include the growing imbalance between people and natural resources. The increase in the Ugandan population to 24.7 million people as revealed by the Uganda Bureau of Statistics (UBOS) 2002 provisional census results, has tremendously affected people's

[71] Republic of Uganda (2000), *Uganda Participatory Poverty Assessment Process (UPPAP)*, pp. 33 and 56.

accessibility to resources in some areas. UPPAP particularly identifies the districts of Kabale, Kapchorwa, Rukungiri and Mbale, which are facing acute land shortages. The land shortage and overuse has negatively affected food production and subsequently led to poverty. Poverty in rural areas is to some extent being caused by land shortages, pests, decreasing land fertility and food insecurity. Deininger and Okidi[73] reported that since about 80 percent of Uganda's population is engaged in agriculture to earn a living, then it means that inability to access land and/or declining productivity may lead to poverty.

Resource poor farmers are by far the largest socio-economic category estimated to comprise 54 percent of the rural population. In 1993, it was estimated that 15.7 percent of all households had no access to farm land, while 52.4 percent had access to less than two hectares, 19.3 percent had between one and two hectares, while 8.8 percent had between two and four hectares. Most Ugandans earn a living by producing and selling food crops and/or cash crops. In the event of land shortages, many people become poor since their major resource base will have been affected. This is what has been the case with the above mentioned districts where population growth has outstripped the land resources.

[72] *Ibid*, p. 6.

[73] Klaus Deininger and John Okidi (2001), 'Rural Households: Incomes, Productivity and Non-farm Enterprises,' in Ritva Reinikka and Paul Collier (eds.) (2001), *Opcit*, p. 123.

In the Ugandan context, much as poverty is attributed to individual and resource-related causes, some scholars[74] have also argued that it has a historical perspective. Colonial policies that involved forceful migration, land alienation, and the compulsory growing of cash crops transformed the pre-colonial economy and subsequently caused structural poverty among the natives. Whereas in the pre-colonial period land was freely accessible to each and everybody with the exception of acquisition and use, which was regulated by the *Bataka* (clan leaders), the colonial state substituted this arrangement. Through the 1900 Buganda Agreement signed between the Buganda regents[75] and the British colonial government represented by Commissioner Sir Harry Johnston, Buganda's land was divided into 'Crown' and *Mailo* (Freehold) land. It is reported[76] that a total of 9000 square miles of land was put under the jurisdiction of the 'crown' or British colonial state while 8,385 square miles (2.17 million hectares) of *Mailo* was given to the *Kabaka* (king) of Buganda. This did not include 573 square miles (0.15 million hectares) of land given to 1000 *Bakungu* (chiefs) and royals. Churches were also given 92 square miles while government stations were allocated 50 square miles. The 'freehold' land popularly known as *Mailo* land was given to Buganda's chiefs as a

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[74] These scholars include Martin R. Doornbos (1978), *Not All King's Men: Inequality as a Political Instrument in Ankole, Uganda*, The Hague: Mouton Publishers, pp. 24-86. Mahmood Mamdani (1976), *Politics and Class Formation in Uganda*, New York and London: Monthly Review Press, pp. 44-146. See also Wadada D. Nabudere (1980), *Imperialism and Revolution in Uganda*, London: Onyx Press, pp. 37-97.

[75] The three regents, Apolo Kagwa, Stansilas Mugwanya and Zakaria Kisingiri signed on behalf of the infant *Kabaka* (king) because they were the official caretakers of the kingdom affairs until the king reached majority age.

reward for their collaboration with British colonialism to the extent of even helping[77] it to extend its influence to other areas outside Buganda. The colonial transformation of the traditional land tenure system also extended to other areas outside Buganda like Ankole, Toro and Bunyoro. Through the 1900 Toro Agreement, the *Omukama* (king) of Toro was assigned 376 square miles together with chiefs and nobility for their private use. Doornbos[78] reveals that the Ankole Agreement of 1901 gave the *Omugabe* (king) of Ankole and his chiefs 270 square mile of land. In the case of Bunyoro, 6000 of the 22000 taxpayers lived on private *kibanja* (chief's land) and were forced to pay *busulu* (land rent) at the rate of USh 7 per annum in addition to administrative taxes.

Although the colonial land tenure policy aimed at transforming the Baganda chiefs into capitalists so that they could produce more cash crops for British industries, it culminated into two ugly situations. First, it made the *Bakopi* (free peasants) and the *Bataka* (clan leaders) into landless classes. Nabudere[79] argues that although land given to chiefs was supposed to be the unoccupied rangelands, the chiefs abused the provisions of the agreement and went ahead to lay claim on fertile lands in the densely populated areas. This action led to forced migration of

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[76] Jan Jelmert Jorgensen (1981), *Uganda: A Modern History*, London: Croom Helm Ltd., p. 49.

[77] Buganda Kingdom collaborated with the British colonialists to extend their influence outside Buganda by contributing soldiers and also by providing personnel in form of chiefs to administer the conquered areas like Bunyoro, Lango and the eastern region.

[78] Martin, R. Doornbos (1975), *Opcit*, p. 62-7.

peasants for over two years to the outlying areas. Secondly, the status of those who were not evicted changed from free landowners to serfs.

Therefore, the colonial land tenure system dispossessed the peasants of their land and subsequently turned them into serfs while at the same time it created a new parasitic class of landlords[80] who lived off the sweat of others. Mamdani[81] states that peasant tenants were subjected to pay *Busulu* (land rent) and *Envujjo*[82] (commodity rent or rent in-kind) in order not to be evicted. These peasants were also subjected to *Kasanvu*[83] (forced labour or corvee) for public works of the colonial state; poll tax[84] paid to the colonial state; *luwalo* (public works for the kingdom of Buganda); and the church tithe.[85] Moreover, Jorgensen[86] reported that the burden of taxation on the tenants in Buganda led to a decline in the population from

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[79] Wadada D. Nabudere (1980), *Opcit*, pp. 46-7.

[80] It is, for example, noted by Ehrich (1965: 454) that by 1924 the biggest county chief in Buganda was receiving annual income to the tune of more than 3,500 British Pounds from various exploitative sources like *Kasanvu, Envujjo* and *Busulu*.

[81] Mahmood Mamdani (1976), *Opcit*, pp. 121-2.

[82] According to Jorgensen (1981: 60), the payment of *Envujjo* ranged from 10 to 25 percent of the crop while *busulu* involved working one month in a year on the chief's estate. *Busulu* was later (between 1902 and 1927) computed from a labour obligation to cash equivalent. In the case of Buganda, *busulu* was raised to 3.5 Rupees per holding in 1910. However, the increase of cotton production led to the increase of poll tax to 7.5 Rupees per holding.

[83] *Kasanvu* and *Luwalo* compelled all adult males to contribute labour for each amounting to one month in a year. *Kasanvu* that had been introduced in 1909 was later abolished in 1922.

[84] Prior to establishing poll tax, ordinary people were required to pay a hut tax of 2 Rupees to the colonial state via the chiefs. This tax was intended to meet administrative costs of the colonial state. It was paid according to huts. This tax was changed in 1909 to a poll tax of 5 Rupees, payable by every adult male. According to Jorgensen (1981: 60) the change from hut tax was meant to eliminate the tax-evading practice of crowding several families in a single hut.

[85] Until recently, Christian missionaries in Uganda also used compulsion to obtain labour for building churches and schools. Converts were required to provide free labour by the clergy for a month or more before they would be baptized or confirmed in Christianity. In Ankole this was popularly known as *obulonde*.

more than a million in the pre-1888 estimates to 650,000 in 1930. The increasing forms of exploitation therefore aggravated the poverty of the ordinary people because their surplus was increasingly being siphoned away.

Similarly, the colonial policy of gazetting traditional land holdings into ranches, forest reserves and national game parks marginalised the local people whose livelihood was tied to the land. The most notable examples include the pastoral areas of western and north-eastern Uganda, which were gazetted into the Ankole-Masaka ranching scheme and the Kidepo national park respectively. The displacement of people from these areas by such national projects deprived them of a source of livelihood and eventually condemned them to poverty in perpetuity.

In the case of Western Uganda, Doornbos[87] recounts that the Ankole-Masaka ranching scheme was imposed on the Bahima inhabitants without their consent. A stretch of land totalling to 625 square miles was divided into 125 ranches each with a surface area of five square miles (3,000 acres) that were later distributed to district notables and government ministers to engage in modern ranching methods. The establishment of ranches denied the original inhabitants (Bahima) grazing lands, which led to the death of their cattle as a result of reduced

[86] Jan Jelmert Jorgensen (1981), *Opcit*, p. 61.
[87] Martin, R. Doo rnbos (1975),*Opcit*, p. 62-7.

land acreage. The fact that no compensation was given to them exacerbated their condition of dispossession. Comparably, the gazetting of a big part of Karamojong land (north-eastern Uganda) into Kidepo national park increased the resource-related poverty. It is therefore a fact that colonial policies that incorporated the pre-capitalist economy into the international capitalist economic system exacerbated the existing inequalities and subsequently created structural poverty among natives.

Institutional constraints are also held responsible for the increasing poverty levels in Uganda. There is a link between the collapse of socio-economic institutional structures and poverty. The economic and political decline experienced in the 1970s and early 1980s negatively affected the economic and social infrastructure. The deterioration in the quality and number of social structures[88]in Uganda exacerbated poverty among the people. More particularly, Brett[89] argues that bad governance led to the breakdown of public institutions and affected private and public investments. The economy was ruined due to the pursuing of irrational policies and economic mismanagement and as a consequence people's welfare was undermined.

[88] Social structures are the opportunities that enhance livelihood, the lack of which exacerbates poverty levels among the people. These include roads, schools, health centres, markets and other public utilities and law enforcement facilities.

[89] E. A. Brett (1993), *Opcit*, p. 1-3.

Although poverty has been attributed to individual or domestic weaknesses, it has also international attributes. Moreover, the continued imbalances in world trade as well as protectionism by OECD countries have equally undermined the economies of poor countries. The above causes of poverty notwithstanding, the effect of macroeconomic policies pursued under the auspices of the World Bank/IMF since 1987 also deserve a detailed discussion.

2.5 Structural Adjustment Reforms and the Phenomenon of Poverty

There is a generally shared experience among the African countries that adopted adjustment reforms. The first years of implementing these reforms were characterised by increasing levels of poverty. There are various explanations for this. One of the explanations is that the austerity measures sponsored by the World Bank and IMF initially disregarded the social costs of adjustment. They tended to emphasise growth with the view that it will subsequently have a 'trickle-down' effect on those groups that tended to lag behind. This 'traditional' view of the World Bank and IMF has since changed. The World Bank and IMF have undergone a lot of reforms, many of which were a result of learning. The adjustment reforms have since the 1990s incorporated the 'human face.' This partly explains why there has been a reversal from the previous trend. The adjustment reforms of the 1990s have been characterised by improved human welfare. There is evidence[90] in the case of Uganda that the number of the people living under the conditions of extreme poverty has been declining since the 1990s.

Other explanations for the initial increase in poverty levels point to the long period of economic decline that characterised many of the Sub-Saharan African countries. Uganda was not exceptional. Whereas its earlier economic performance was remarkable, this progress was later reversed in the 1970s. Uganda's economic performance in the period covering 1961 to 1971 was promising and had led to modest levels of social development. Kasekende[91] reports that between 1963 and 1970, GDP grew at about 6 percent on average per annum, fiscal deficit rarely exceeded 2.5 percent of GDP while inflation did not exceed 10 percent.

This information is corroborated by Lateef[92]who also states that Uganda's economic and social performance and level of development in the 1965-73 period compared favourably with that of Low-Income Sub-Saharan Africa (LISSA) but that it deteriorated markedly in relative terms in the 1973-87 period. Inflation levels were 5.6 percent while the share of

[90] The Republic of Uganda (1999), *Uganda Poverty Status Report, 1999*, MFPED, Kampala, pp. 3-9. See Also The Republic of Uganda (2002), *Background to the Budget 2001/2002: Enhancing Economic Growth and Structural Transformation*, MFPED, Kampala, pp. 35-9.

[91] Louis Kasekende (1998), *Savings in the Context of Macroeconomic Policy Issues: The East African Experience*, CGAP Working Group's Africa Conference, Kampala, Uganda, 10-13 February 1998, pp. 21-2.

[92] K. Sarwar Lateef (1991), *Opcit*, p. 21.

industry was 13 percent of GDP. Similarly, Jamal[93] also confirms that Uganda had high savings and investment rates of 13 percent of GDP and a trend growth rate of 4.1 percent of GDP per annum. In addition, the industry's growth rate was 6.5 percent per annum and accounted for 14 percent of monetary GDP by 1971.

This progressive trend was, however, short-lived due to economic mismanagement and political turmoil that ensued with the coming to power of President Idi Amin and other successive dictators during the period beginning from 1971 to 1986. This period was characterised by acute socio-economic decline and a reversal of earlier achievements. The cumulative decline in the economy in the 1970s and half of the 1980s adversely undermined the welfare of the majority of the population and intensified the levels of poverty.

While it is true that adjustment reforms implemented since 1987 created transitory poverty especially those groups whose conditions were directly affected by the reforms, these programmes also found a population that was overwhelmingly poor. The fact of the matter is that adjustment programmes may have exacerbated the already existing poverty levels but cannot be exclusively held responsible for creating it.

[93] Vali Jamal (1991), *Opcit*, p. 79.

Apart from the domestic causes of poverty, there is also evidence[94] that the international economic system contributed to the increasing poverty levels in the 1970s and early 1980s. This particular period experienced volatile conditions in the economic system especially with the oil crises of 1973 and 1980. These crises adversely affected the balance of payments of poor countries, Uganda inclusive. Moreover, rampant fluctuations, which frequently affect prices of agriculture tradeables in the world market have also adversely affected economies of countries that predominantly depend on agricultural exports. According to the 1988 UNDP Development Co-operation Report,[95] Uganda, until recently, has been over-relying on coffee exports for much of its foreign currency receipts. Coffee had become a dominant foreigner exchange earner and by 1988 it made up 97 percent of Uganda's exports. However, with the collapse of the International Coffee Agreement (ICA) in 1989, Uganda's economy began experiencing severe economic setbacks. This phenomenon was also responsible for increasing poverty levels and coincided with the initial period of implementing adjustment reforms. Therefore, it can be argued that, to some extent, and more especially in the initial period, adjustment programmes exacerbated poverty because the austerity measures pursued at the beginning of reforms tended to disregard the social costs of adjustment.

[94] World Bank (2000), *World Development Report 2000/2001: Attacking Poverty*, Washington D.C.: The World Bank, p. 220.

[95] United Nations Development Programme (UNDP) (1989), *Report on Development Co-operation in Uganda 1988*, p. 6.

Nonetheless, the period beginning from the 1990s has witnessed the softening of the World Bank and IMF policy approach. While the adjustment programmes have continued to emphasise macroeconomic stability, they have also embraced poverty reduction strategies. More particularly, the World Bank announced its poverty reduction strategy in 1990 and subsequently drew assistance strategies to reduce poverty.[96] This kind of policy shift from the earlier approach has not only led to improved economic performance but is also reported to have tremendously reduced the levels of poverty within the population. Information given by MCGee,[97] among others, indicates that there has been an impressive and consistent economic growth rate averaging 6 percent of GDP per annum.

Further evidence also shows that there has been a general national decline in the number of poor people. According to the national statistics derived from the Integrated Household Survey (IHS), Monitoring Surveys (MS-1, MS-2 and MS-3), and the Uganda National Household Survey (UNHS) findings, absolute poverty levels have declined from 56 percent in 1992 to 44 percent in 1997 and 35 percent in 2000.

Although the general trends in poverty show that the proportion of the absolute poor has declined, the rate of decline in rural areas was lower

[96] World Bank (1992), *Assistance Strategies to Reduce Poverty*, Washington, D.C.; The World Bank.

than in urban areas. According to the statistics quoted by the UNDP Report 2002,[98] the proportion of the rural poor declined from 60 percent in 1992/93 to 39 percent in 1999/2000. In contrast, poverty in urban areas declined from 28 to 10 percent between 1992/93 and 1999/2000. Reports of improvement in social indicators especially the access to primary education, primary healthcare, and water and sanitation are also quoted in the UNDP and Uganda's Budget Reports of 2002.[99] An example of success that can be cited is the Universal Primary Education (UPE) that was introduced in 1997. It has so far seen enrolment rates increase from 2.4 million children in 1996 to 6.5 million in 2001. In this regard, Uganda has by and large met the millennium development goals (MDGs) for education.

These domestic improvements need not be analysed in isolation. They should be put in context of the overall changing nature of the strategies of IFIs as well as the changing international political and economic environment. Not only have the IFIs integrated poverty reduction strategies in their approach but have equally softened their earlier hostile stance against the state. The World Development Report 2000/2001[100] states that the IFIs have through learning realised that for adjustment to

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97 Rosemary MCGee (2000), *Opcit*, p. 86. (File://A:\poverty1.htm).

98 United Nations Development Programme (UNDP) (2002), *Uganda Human Development Report 2002*, Kampala, Uganda, p. 22.

99 *Ibid*, p. 29. See also Republic of Uganda (2002), *Background to the Budget 2002/2003: Enhancing Production and Exports for Poverty Eradication*, MFPED, Kampala, pp. 71-8.

succeed they require well-functioning and efficient institutions to guarantee a good investment climate and competently deliver basic services. They have also learnt through experience that for adjustment reforms to succeed and be sustainable, they must be owned by the concerned governments. Besides, the IFIs have also increasingly incorporated social dimensions to make it possible for the populations of affected countries to accept and support the adjustment reforms. It is because of this kind of changing approach by the IFIs that popular programmes for poverty reduction such as primary education and healthcare have been generously supported by credit lines from the World Bank and donors.

The changing policy approach of the World Bank and IMF notwithstanding, there has also been positive signs from the international community. Significant among these is the Highly Indebted and Poor Countries Initiative (HIPC) and the ongoing opening up of the markets of rich and industrialised countries to the products of poor countries. Some of these positive initiatives include USA's African Growth and Opportunity Act (AGOA) and Britain's Everything-But-Arms (EBA), which were adopted in the year 2000 and March 2001 respectively.[101]

[100] World Bank (2000), *World Development Report 2000/2001: Attacking Poverty*, p. 8.

[101] A detailed discussion of the two trade initiatives is contained in a document titled: *International Monetary Fund and the World Bank: Market Access for Developing Country Exports – Selected Issues*, Prepared by the Staffs of the IMF and World Bank, Approved by Timothy Geithner and Gobind Nankani, September 26, 2002. Accessed at: http://econ.worldbank.org/files/18875_market_access.pdf, page 11.

It should, however, be argued that the overall decrease of poverty levels in Uganda since 1992 needs to be analysed in a wider perspective. Appleton[102] argues that growth rather than redistribution exclusively explains Uganda's poverty reduction. In short, Uganda's poverty reduction is largely attributed to good macroeconomic policies pursued over the years. While the issue of good macroeconomic policies cannot be disputed, it is also important to note that these policies have succeeded partly due to generous donor support. Donor support has been manifested in technical and financial forms. Substantial amounts of resources have been committed to help Uganda's macroeconomic policies succeed since 1987. The main issue, however, is that Uganda has had an impressive growth rate for over ten years, which has subsequently improved the living standards of the population by reducing poverty levels.

The government has been able to reduce endemic poverty because of a successful policy strategy – the Poverty Eradication Action Plan (PEAP)[103] – designed in 1997. PEAP is a detailed policy framework to guide government efforts to eradicate poverty within the next two decades (1997-2017). The PEAP's central elements have been well summarised by

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[102] Simon Appleton (2001), *Opcit*, p. 104.

[103] Note that PEAP has since been revised. For details see Republic of Uganda (2000), *Poverty Reduction Paper: Uganda's Poverty Eradication Action Plan: Summary and Main Objectives*, MFPED, Kampala.

Goetz and Jenkins.[104] One of the elements includes the maintenance of the existing macroeconomic policy to support economic growth and also to provide macroeconomic incentives to enable the poor to participate in the growth process. The other element is to focus public expenditure on increasing economic opportunities for the poor, particularly in agriculture. Another objective of PEAP is to provide basic social services (primary education, healthcare, water and sanitation, rural roads, and modernise agriculture) to the masses. In addition, PEAP's other aim is to develop the capacity to respond rapidly to economic crises. Lastly, it seeks to promote transparency and accountability. In short, PEAP lays out the government's key strategies for overcoming poverty in Uganda.

There is no doubt that the areas identified and targeted by PEAP are the ones that directly benefit the poor. The government has channelled substantial resources to these priority sectors. Indeed the overwhelming support given to these key sectors has led to substantial gains in poverty reduction as demonstrated by the reduction from 56 percent in 1992 to 35 percent in 2000. Nonetheless, the fact that achievements have been made in terms of high growth rates as well as significant reductions in poverty does not necessary mean the problem is resolved. There are still unresolved challenges that need to be addressed if these macroeconomic policies are to have a sustainable impact on Uganda's economic future.

[104] Anne Marie Goetz and Rob Jenkins, *Creating a Framework for Reducing Poverty: Institutional and Process Issues in National Poverty Policy, Uganda Country Report*, Draft, 30th

2.6 The NRM Government's Anti-Poverty Strategies

The NRM government's anti-poverty policy action took cognisance of the fact that high economic growth was not translating into high living standards for the poor as anticipated. The recognition of increasing poverty levels therefore precipitated government to take the necessary steps to reverse it. More particularly, government attention has been focused on understanding the nature, magnitude, causes and location of the poor with the view of designing appropriate policies and/or re-focusing the existing ones to cater for the plight of the vulnerable. Some of these policies include pursuing prudent macroeconomic policies and the formulation of a national policy framework, the PEAP.

In addition to these, the NRM government has redirected budgetary resources towards programmes with the highest potential for poverty reduction as well as creating a Poverty Action Fund (PAF) in 1998. PAF is a special bank account that has been created to handle funds that have accrued from the HIPC debt initiative with a goal of channelling them to priority action areas that have been identified to directly benefit the poor. Available evidence[105] shows that PAF expenditures have risen from 17 percent in 1997/98 to 24 percent in 1999/2000 and finally to 31 percent in 2000/2001 of the government budget, representing a huge shift in

November, 1998, p. 3.

[105] Republic of Uganda (2001), *Uganda Poverty Status Report, 2001*, MFPED, Kampala, p. 8. Also see also Tim Williamson (2001), *Overview of the Poverty Action Fund and the Rural Water and Sanitation Development Grant*, MFPED, Kampala, p. 1.

priorities within the budget. Craig and Porter[106] corroborate this evidence. They specify that since 1998 PAF capital financing increased from almost zero to around US$ 51 million in 2000/01. The total resources coursing through PAF budgets reached around US$ 290 million in 2000/01, almost 33 percent of the total public spending, of which 75 percent is transferred to local governments. The government has also resolved to transform the agricultural sector as a means of reducing poverty. This decision is in advanced stages and is guided by the Plan for the Modernisation of Agriculture (PMA).[107] The overall objective of the government's anti-poverty strategy has been driven by the desire to raise family incomes.

It should however be noted that prior to the formulation of PEAP, government had previously been engaged in countrywide activities aimed at alleviating poverty. These include the giving of credit as exemplified by the Rural Farmers Scheme (RFS),[108] *Entandi kwa* Credit Scheme (ECS) and the Poverty Alleviation Project (PAP) to the poor. In addition, other programmes geared towards relieving the poor of their poverty include the Programme for the Alleviation of Poverty and the

[106] David Craig and Doug Porter (2003), 'Poverty Reduction Strategy Papers: A New Convergence,' *World Development*, 31 (1): 53-69), p. 62.

[107] PMA is a holistic, strategic framework for eradicating poverty through multi-sectoral interventions that are aimed at combating constraints that directly impinge on the agricultural sector, which affects the livelihood of many Ugandans.

[108] RFS was a rural credit scheme launched by government in 1987 through the Uganda Commercial Bank (UCB) to assist rural farmers. It involved a revolving fund of 6 billion shillings (US$ 6 million) meant to transform farmers from subsistence to commercial producers.

Social Costs of Adjustment (PAPSCA), Northern Uganda Reconstruction Programme (NURP), and the Cotton Sub-Sector Development Project (CSDP). All these poverty alleviation schemes have been targeted. A discussion of these targeted programmes is detailed below.

Government attempted to directly alleviate poverty through the PAPSCA project, which was launched in 1989 to mitigate the social costs of adjustment by targeting social amenities and other forms of assistance at vulnerable sections of the population whose welfare had deteriorated as a result of the implementation of adjustment reforms. According to the PAPSCA report[109] assistance was given to communities to construct schools, health centres, rural roads as well as the provision of clean drinking water. It also helped orphans by paying their school fees while widows were given credit to engage in productive economic ventures.

The PAPSCA anti-poverty strategy however failed to improve the plight of the poor because it was crowded with many projects that were spread far too thinly to have a broad impact on poverty. Besides, it was plagued by implementation and funding problems, while acting in isolation from other government structures. The weaknesses of PAPSCA are similar to those that faced PAMSCAD in Ghana. PAMSCAD was also characterised by delayed disbursement of funds, inadequate targeting, high administrative overheads, unclear institutional leadership, insufficient monitoring of performance and unsustainable community participation.[110] It can therefore be deduced that these weaknesses were inherent in the design and implementation of these two programmes. In addition to these shortcomings, PAPSCA was not implemented on the basis of informed policy. There was no single study of poverty that had been conducted to establish the plight and needs as well as the location of the poor prior to launching of PAPSCA. It was therefore an impromptu reaction to poverty whose impact on the poor was minimal and short-lived since it could not be sustainable.

PAPSCA was succeeded by *Entandikwa*,[111] a state-managed national credit scheme, initiated in 1994/95 financial year with an initial capital of UShs 6 billion (US$ 6 million at the then exchange rate of UShs 1000 per one US dollar). According to the ECS Operational Guidelines,[112] *Entandikwa* was aimed at benefiting the poor who could not access bank credit from formal financial institutions due to lack of collateral. It was initiated to assist the poor to engage in productive economic ventures so

[109] Republic of Uganda (1993), *Programme to Alleviate Poverty and Social Costs of Adjustment (PAPSCA) Progress Report April 1992 – June 1993*, PAPSCA Co-ordination and Monitoring Unit, Kampala, pp. 10-107.

[110] Details about the underlying weaknesses of PAMSCAD are discussed in Turhan Saleh (1995), *Opcit*, pp. 11-12.

[111] *Entandikwa* is a vernacular word, which literally means 'start-up' capital or 'seed' money.

[112] Republic of Uganda (1995), *Entandikwa Credit Scheme (ECS) Operational Guidelines*, Ministry of Finance and Economic Planning (MFEP), Kampala, 22nd May, p. 1.

as to raise their household incomes. It has been reported[113] that government has since disbursed a total of UShs 9.9 billion (US$ 9.92 million) to 39,200 clients. The performance of ECS has been futile due to political interference, high delinquency rates and poor supervision. In addition, the available funds have not been able to match the immense needs. Moreover, the disbursement of funds has been characterised by delays due to budgetary constraints. Details of the performance of ECS are discussed in chapter three.

Other government targeted programmes like NURP, CSDP and cattle restocking scheme in the northern and eastern parts of Uganda have equally performed poorly. NURP that was established to reconstruct the northern and eastern regions ravaged by insurgency, has been crippled by inadequate funding as well as delays in the disbursement of funds by both the donor community and the Ugandan government. The CSDP was targeted at boosting cotton growing. This project was put directly under Uganda's Central Bank and provided improved cotton-seeds, subsidised loans, extension services, farm implements and accessories to farmers. This project has been limping due to unfavourable world commodity prices for cotton, which have de-motivated farmers. Similarly, the cattle restocking exercises in the northern and eastern regions of Uganda are

[113] These reports are contained in: Republic of Uganda (1999), *The Ministerial Policy Statement on Entandikwa Credit Scheme and Youth Entrepreneurs' Scheme*, Ministry of Labour, Gender and Social Development, Kampala, pp. 2-3. See also *The Monitor*, Tuesday, 8th April, 2003, p. 13.

still ongoing though not faring well. These have been aimed at restocking cattle in these areas that were ravaged by insurgency. Nonetheless, the restocking exercise has been reported in the PAF quarterly report[114] to be slow because of insufficient funds, delays in disbursement and continued insecurity in some of these areas.

The NRM government undertook a comprehensive poverty eradication strategy as its major focus of its overall sustained growth and development strategy. It anticipates reducing the proportion of the population living in absolute poverty from 44percent (1997) to below 10 percent by the year 2017. PEAP, which is a detailed programme for achieving this goal, adopts a multi-sectoral approach. It identifies five priority action areas already cited, with the view that increasing their funding would directly meet the needs of the poor. Other government initiatives to eradicate poverty include: the enactment of the land law[115] to ensure that peasants and women are given land rights; the implementation of Universal Primary Education (UPE),[116] and the formulation of Vision 2025[117] (a strategic plan for the next 25 years, which

[114] Republic of Uganda (2001), *Poverty Action Fund 2000-2001 Quarterly Report October-December 2000*, MFPED, Kampala, p. 53.

[115] The Land Act was enacted in July 1998. It includes significant provisions that give security of tenure to the poor in order to lead to increased agricultural production. The new law however denies land ownership rights to women.

[116] UPE is a government education policy launched in 1997 to enable four children in every family to have free primary education. President Museveni (April 2002) however directed all Resident District Commissioners (RDCs) to ensure that all children of school-going age be admitted in primary schools (UPE).

[117] Vision 2025 is a UNDP-funded planning process that involved a lot of consultations with all the stakeholders in Uganda to elicit views on national priorities

earmarks strategic areas of development that should be prioritised). There is no doubt that the NRM government's anti-poverty policies are positive and timely. There is also a possibility that these anti-poverty strategies may reduce poverty in the short-run.

2.7 The Challenges to Uganda's Poverty Reduction Strategies

It is a matter of fact that Uganda's poverty eradication strategies have, to some extent, been successful as already elaborated. This is because they have continued to pursue a combination of growth enhancing policies and anti-poverty strategies. Part of the success is also attributed to the studies (surveys) that have been used to identify the poor, their location, cause and remedy of their poverty.

Until recently (1990s), the poverty assessments have largely relied on household surveys that use a 'money-metric approach' or income/consumption measure. In this framework, the poor are identified using a pre-established poverty line. The poverty line is set with respect to minimum consumption needs for survival purposes. The 'money-metric' approach has its own inherent strengths, some of which have been pointed out by Ghosh.[118] She testifies that the use of income/expenditure measurement is reputed for allowing the identification of time trends and enabling comparisons across regions and

for poverty reduction, human development, governance, environment, gender equity, and economic development more generally.

social groups. It also allows easy analysis of how particular macro-economic policies and specific poverty alleviation interventions have affected the incidence of income poverty over time and thus provides vital information on the effects of such policies and processes.

While these studies have largely provided the clues on the characteristics of poverty and how to address it, they have also had underlying measurement weaknesses. The income/consumption measure of poverty may not be a useful measure for analysing the dynamics of poverty or for designing poverty reduction strategies. This is because poverty is multi-dimensional and therefore income/consumption measure is just one of the several dimensions of poverty. Therefore, no single indicator can be considered adequate in measuring poverty.

The 'money-metric approach' widely used by the World Bank poverty assessments has attracted a lot of criticisms. Kabeer[119] has criticised the approach for its inability to capture the gender dimensions of poverty. Ghosh[120] has also questioned the mode of determining the poverty line since the minimum required to escape deprivation differs from community to community.

[118] J. Ghosh (1998), *Opcit*, p. 4.
[119] Naila Kabeer (1996), *Opcit*, p. 12.
[120] J. Ghosh (1998), *Opcit*, p. 4.

Besides, Hanmer, Pyatt and White[121] have also argued that the 'money-metric approach' faces problems such as adjusting for spatial price variation and for household size and composition. They also contend that the reliance on the household as the unit of analysis also prevents the examination of intra-household inequalities. They further argue that by using the household individuals are assumed to have the same requirements regardless of age, sex and occupation. It is also argued that the 'money-metric approach' lacks a historical perspective since poverty cannot be plausibly explained by reference to recent poor macroeconomic performance. Hence, the long-term structural barriers to poverty reduction such as the unfair terms of trade in the international economic system are disregarded.

There is increasing need to use the various dimensions of poverty not only for the purposes of understanding its causes, but also to design appropriate policies for its reduction. This is however not to deny the fact that initiatives are being undertaken by the World Bank as a result of a 'learning' process. Some of the initiatives include the World Bank's attempt to incorporate the 'Voices of the Poor' in its quest to refine anti-poverty reduction strategies. The challenge of the Uganda's anti-poverty reduction policies is therefore to incorporate other measurements of poverty. As of now, the 'money-metric approach' is still a dominant one.

[121] Lucia C. Hanmer, Graham Pyatt and Howard White (1999), 'What Do the World Bank's Poverty Assessments Teach us about Poverty in Sub-Saharan Africa?,'

Another challenge is in terms of capacity to marshal the necessary resources to undertake such widespread studies. Such studies require considerable resources and expertise to undertake, which are still in short supply.

Another challenge for government is how to sustain these poverty reduction strategies that largely rely on resources from donors and the HIPC debt initiative. The main concern, however, is the future sustainability of Uganda's poverty reduction strategies. The anti-poverty policy framework as guided by PEAP is not only ambitious but unrealistic given the resource base constraints of the country. It is reminiscent of the five-year development plans of the 1960s, which looked like wish lists drawn to attract donor funds. PEAP's multi-sectoral approach to fund the social service sector, agriculture and extension of credit to the poor though important for poverty reduction, may not be sustainable for a poor and donor-dependent country like Uganda.

It is common sense that there is no way donors can continue to support these initiatives given the likelihood of donor fatigue. The economy of Uganda has not yet acquired capacity to shoulder these expensive anti-poverty programmes. For example, Uganda's budget[122] shows that the

Development and Change, 30 (4): 795-824.

[122] Republic of Uganda, *Background to the Budget 2001/2002*, MFPED, Kampala, p. 26. This information is also cited in *The New Vision*, 'Revenue Collection on Steady Rise,' September 15, 2001.

contribution of domestic tax revenue to total government expenditure in the financial year 2000/2001 was 53 percent. This contribution has continued to fall[123] to such an extent that donor funding is currently at 52 percent of total government expenditure. Uganda's domestic revenue to GDP ratio has remained between 11-12 percent, which means that its budget is dependent on donor funds. It is therefore risky for a poor country that largely survives on borrowing and charity to operate a 'welfare system' that have been restructured and even abandoned by the wealthier countries of the West.[124]

The gist of the matter is that while such popular poverty eradication strategies are necessary and should continue to be supported, there is also need to build internal capacity in order to support these initiatives on a sustainable basis. It would be more realistic for such a country to efficiently use the available scarce resources to build enduring capacity after which consumption can come later. This requires government to invest resources in the productive sectors that directly generate resources to the economy. Such investments include infrastructure like roads, power generation, improved agriculture, support to export-oriented industries as well as strong and efficient institutions.

[123] The fall in domestic revenue is illustrated in Uganda's 2002/2003 budget, p. 33.

Investing scarce resources in the key sectors of the economy, enables sustainability of economic growth in the long-run. This is important for the sustainability of poverty reduction strategies. Again, government policies should focus on empowering the people by creating economic opportunities. This is important if they are to acquire capacity to generate their own resources independent of the state so that they can be able to meet their basic needs. The long lasting solution to poverty reduction requires prioritising those sectors that generate resources and consequently empower the population to meet their immediate needs. The challenge for the government is, therefore, to balance the investment of the available resources between social services and the revenue generating sectors of the economy.

The likelihood of implementing PEAP is also doubted because of its multi-sectoral nature and the belief that the mere increase of public spending to sectors that are accessible to the poor directly leads to poverty eradication. Even though poverty is to some extent attributed to a reduction in the provision of social services by governments, the mere increase of funding certain social services may not translate into improved welfare of the poor. This is because such public funds may be diverted and/or embezzled by public servants and politicians. This has been common with the Uganda government, which has been ranked the

[124] In regard to social welfare under stress in the West, refer to C. Pierson (1998), 'Contemporary Challenges to Welfare State Development,' *Political Studies*, XLV1: 777-

third corrupt country in the world by one of the reports[125] on world-wide corruption levels. Some of the existing literature[126] is equally sceptical about the appropriateness of using budgetary allocations as a policy weapon to address the plight of the poor.

The ambitious social projects undertaken by government in its attempt to reduce poverty have raised a lot of concerns. The future sustainability of such programmes is shrouded in uncertainty especially in the event of donor pull out. A good example is the UPE initiative. It is a fact that UPE has relieved the Ugandan poor from paying school fees and increased the numbers of school-going children from 2.4 million in 1996 to 6.5 million in 2000.[127] There is however growing concern about the future of this programme as well as its products. The sustainability of UPE in the event of donor pull out is one of the major concerns since it is donor dependent. According to Uganda's 2001 budget,[128] UPE has greatly benefited from savings arising from HIPC debt initiative and other bilateral support channelled through PAF. It was, for example, reported[129] that about 90 percent of Uganda's educational sector is funded by donors and 65

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[125] The report on world-wide corruption levels by Transparency International ranked Uganda as the second most corrupt country in the world (*The Monitor*, October 02, 2001, 'Uganda Second Most Corrupt-Report').

[126] E. Ablo and R. Reinikka, *The World Bank, Do Budgets Really Matter? Evidence from Public Spending on Education and Health in Uganda*, Kampala, Uganda, October 26-28, 1999.

[127] These figures are contained in G. N. Bitamazire (1999), *Universal Primary Education*, A Paper Presented by the Minister of State for Primary Education at the National Forum on the Implementation of Decentralisation, 15th-19th November, at the Uganda International Conference Centre, Kampala, Uganda.

[128] Republic of Uganda, *Background to the Budget 2000/2001*, p. 14.

percent of these funds go to the primary sub-sector. The NRM government has therefore failed to build capacity for the last eighteen years since donors still contribute 52 percent of national government expenditure.

Besides, much as communities appreciated the UPE policy since it benefits children from poor households, concern has been raised about the declining quality of UPE. It has for instance been indicated that 30 percent of primary schools do not offer full curriculum of seven years. Furthermore, the fact that the UPE classes are congested, have inadequate instructional materials, and there is automatic promotion to the next class has raised worries about standards. Government statistics indicate that the national pupil to teacher ratio is 59 pupils per teacher while the classroom to teacher ratio is 99 pupils per class. Similarly, a report by the United Nations Educational, Scientific and Cultural Organisation's (UNESCO) Institute for Statistics, 2001, quoted by the Ugandan press[130] reports that each Ugandan teacher teaches an average of 60 pupils in a class. This compares badly with the SSA average of 40 pupils per teacher. The report also states that teachers are poorly trained.

In addition, more concerns have been raised about the declining morale and poor training of teachers, delayed arrival of salaries, corruption

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[129] *The New Vision*, 'Shs 1.5 Trillion Set for Schools,' October 24, 2001.

manifested in 'ghost' teachers, and inflated enrolment figures, and poor supervision of teachers. These quality flaws partly explain the increase in private schools especially in urban areas to cater for the children of the middle class. It is unclear whether the next generation of UPE will reach the university level. Though UPE has helped parents, their real burden lies in post-primary education where fees have been escalating. Therefore, the introduction of cost-sharing at post-primary and tertiary levels has increased the burden of parents since the paying of fees at the highest levels of education undermines the whole efficacy of cost free UPE.

While the NRM's anti-poverty strategies in areas like UPE and health are welcomed, there is cause for concern on how policy choices are being made. In order for these policies to have a long-term impact and be sustainable especially in case donors pull out, much emphasis could be put on laying a firm foundation for health and education. This could, for example, be done by building more technical institutions and health research and training centres that concentrate on preventative rather than curative health as well as improving the quality of teachers and medical workers through intensive training. Community awareness campaigns and the enhancement of extension services could also be promoted through the training of many community and extension workers.

[130] *The Monitor*, 'Uganda's Pupil-Teacher Ratio is the Region's Highest,' April 12, 2002.

Furthermore, the initiating of educational media programmes on issues like ensuring hygienic conditions, the creation of wealth, and the importance of giving education to children builds more capacity for poverty eradication and are more sustainable than the current populist practices of free primary education and health.

Similarly, PEAP puts emphasis on the strategic role of agricultural development in poverty eradication. The modernisation of agriculture sector is intended to reduce poverty in rural areas because this sector engages 84 percent of the Uganda labour force, the majority of who are poor. It is also anticipated to improve the welfare of the poor because more than 85 percent of Uganda's population live in rural areas where agriculture is the major source of livelihood. The modernisation of agriculture is enshrined in PMA whose major vision is to eradicate poverty by transforming subsistence to commercial agriculture. This transformation is expected to improve the welfare of the poor subsistence farmers by orienting their production towards the market. PMA anticipated that the growth of the agriculture sector will stimulate structural change in the entire economy because of its strategic importance. Among the issues earmarked is the increase of acreage for cash crops like coffee. According to the president's address to the seventh parliament, Museveni revealed[131] government policy of ensuring that

[131] Museveni's revelations about government policy are quoted in *The New Vision*, July 3, 2001.

every Ugandan adult has at least an acre of any one cash crop as a means to fight poverty.

Although the formulation of PMA is a positive step of government's anti-poverty crusade, the plan makes a false assumption that the rural people are poor because of primitive production techniques and inability to produce for the market, which is not the case. The major cause of poverty among the rural people is the high cost of inputs, poor storage, inadequate or lack of infrastructure, and the lack of markets for their agricultural products. Recent studies[132] in Uganda have, for instance, revealed that farmers (74 percent) are dissatisfied with the existing market outlets for produce. The poor marketing facilities coupled with heavy post harvest losses were pointed out to be responsible for keeping the rural communities in the bondage of poverty. Similarly, in another speech by president Museveni, he acknowledged that peasants were producing a surplus and their problem was lack of markets.

Given the deteriorating terms of trade,[133] what ought to be the viable anti-poverty strategy in the agricultural sector is to put emphasis on food security as well as diversification to promote the production of non-

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[132] Republic of Uganda (2000), *National Service Delivery Survey*, MFPED, Kampala, p. 9.

[133] The impact of the deteriorating terms of trade on Uganda's exchange rate between June 1999 and April 2000 led to depreciation of 5.4 percent. Likewise, the terms of trade for agricultural commodity exports reduced export receipts from US$ 726.4 million in 1998/99 to US$ 638 million in 1999/2000 (Uganda's Budget 2000/2001, pp. 27 and 33).

traditional and high value agricultural exports like honey, chilli, flowers, and vanilla. The major problem of the rural poor is not that they are not willing to adopt new technologies and farming methods so as to increase their incomes but the lack of access to and information about markets. The government policy would be more appropriate if it is oriented towards the provision of storage and processing facilities in rural areas, in the form of export processing zones. In addition, the government needs to create new markets, disseminate market information, regulate the local markets, and either invest in or give incentives to the private sector. This is likely to encourage more investments in the local production of agricultural inputs and agro-industries so as to add value and subsequently make its products competitive in global markets. Besides, PMA is a grandiose scheme whose co-ordination and subsequent implementation is likely to be difficult if not impossible given the low technical capacity of the Uganda public service, which is undergoing restructuring. While this plan may be aimed at attracting donor funds, it is a difficult undertaking in terms of practical implementation.

More significant however is the fact that the 'top-down' approach used to design and implement anti-poverty strategies appear to have shortcomings. The NRM's anti-poverty strategies need to put into consideration the variation in the causes of poverty in different areas. For example, causes of poverty, which are specific to the northern and eastern regions were identified by UPPAP as insurgency-related. In this particular case, poverty alleviation could be addressed through good governance. Other areas like Kisoro were reported to be poor because of isolation. Such places would benefit more through creating physical infrastructure and accessibility to markets.

Therefore, for anti-poverty strategies to be effective, they do not only need to be area-specific but also have to be designed and implemented in collaboration with grassroots institutions. While there has been decentralisation[134] of powers and responsibilities to local governments in Uganda, the on-going anti-poverty approach is largely centre-driven (top-down) where the priorities of the centre are forced on local governments. The priority areas identified by the central government in its anti-poverty crusade are the ones funded through conditional grants to local governments.[135] For instance, the overall share of conditional grants in total transfers to districts has barely declined from 90 percent in 1994/95 to about 80 percent in 1999/2000.[136] The priorities for expenditure on poverty eradication at the centre do not always match

[134] Decentralisation in Uganda, which is of a devolution form, involved the transfer of powers, responsibilities and functions to lower levels of government. It was launched in 1989 and its objective was to make government responsive to the priorities of the local communities, which involves poverty eradication. Local authorities however appear not to be responsive to the needs of the poor. Local patronage networks as well as the tendency for local leaders to be self-serving is undermining the interests of the poor.

[135] A detailed discussion of how the central government's anti-poverty transfers has led to a new form of patrimonial relationship with local governments is contained in David Craig and Doug Porter (2003), *Opcit*, pp. 64-5.

[136] Refer to *Uganda's Background to the Budget 2000/2001*, p. 49.

those at the district level. There is therefore urgent need for flexibility over the use of conditional grants so that local governments can effectively respond to local priority needs for poverty eradication.

Nonetheless, the central government may retain the right to oversee such funds so that they are used for the right activities as well as to ensure accountability for such funds. This is because the systems of accountability at the lower levels of government are still weak. The decentralisation experience in Uganda has shown that it may also accelerate corruption[137] if no effective control systems are in place. It is therefore important that decentralisation of anti-poverty funds be accompanied by the strengthening of 'bottom-up' accountability measures and transparency institutions as a means to allow the development of efficient government institutions at the lower levels of government. These include transparency of decision-making, accountability, the rule of law and enhanced participation of people in local politics. In other words, there is need for a bottom-up approach that enhances a development partnership between local governments and the centre instead of the existing patronising relationship.

[137] On reports of corruption and lack of accountability in Uganda's decentralisation, refer to Paul Francis and Robert James (2003), 'Balancing Rural Poverty Reduction and Citizen Participation: The Contradiction of Uganda's Decentralisation Programme,' *World Development*, 31 (2): 325-37), p. 330-3.

Another challenge of Uganda's poverty eradication strategy is the extension of credit to the poor households. Credit is targeted at the poor so that they can engage in income-generating activities and subsequently raise their incomes. Indeed substantial resources have been channelled through credit. The *Entandikwa* and PAP credit schemes have so far disbursed credit worth about US$ 25 million since 1996. This figure excludes other non-governmental credit programmes, which are actively engaged with the poor. However, the problem with state-managed credit is that it tends not to benefit the poor but the rich. Moreover, there is a tendency to attribute poverty to lack of money when poverty is more than the mere lack of money. Much as government creates an impression that credit has substantially uplifted the poor from poverty, this claim is highly contested. There is no concrete evidence to suggest that credit has been instrumental in eradicating poverty as the proceeding chapters will elaborate. The practice of borrowing credit for consumption by the poor gives wrong indicators that poverty is reducing. A good example is the eastern region where poverty levels fell from 35 percent in 1997 to 25 percent in 2000 according to the UNHS (2000). Nonetheless, the UNHS (2000) noted that the practice of borrowing credit for consumption purposes was on the increase in the east. It is succinctly clear that such gains in household welfare cannot translate to sustainable poverty eradication.

Though poverty is multifaceted and hence requiring a multi-sectoral approach, there is need for a cautious strategy given the limited resources available. The limited resources in form of donor funds and domestic resources need to be carefully allocated. This raises policy questions of how to spend these limited resources. Should they be used to fund free medical care and education or be used to create the infrastructure for health and education? The question of prudent planning, prioritisation and sustainability becomes very important.

2.8 Conclusion

While the phenomenon of poverty continues to pose a challenge for the contemporary and future government policies, there is evidence that adjustment reforms that have been pursued since 1987 have generally reduced absolute poverty levels. There has been a consistent GDP growth averaging 6 percent per annum as well as reduction of poverty from 56 percent in 1992 to 35 percent in 2000. Uganda's experience with anti-poverty strategies has also revealed that poverty has many dimensions that vary according to gender, geographic location, season, and region, and between urban and rural areas. Moreover, statistical evidence generated by national household surveys indicate that the extent and depth of poverty varies in regional terms, rural/urban context, gender dimensions, among the vulnerable groups, and in remote areas. These indicators will provide clear policy guidelines for the government's concerted fight against poverty. It is on the basis of such information that anti-poverty strategies will be focused.

While the NRM's macroeconomic policy framework and anti-poverty strategies should be applauded, the challenge is the long-term implications of such policies. The major challenge is the sustainability of the on-going poverty eradication programmes that require substantial resources, which are not easily available. The continued pegging of such programmes on donor funding is risky in the long run. EPRC and Action Aid Uganda have, through their paper[138] on rural poverty and structural adjustment in Uganda, also pointed out this risk. They observe that the low current rate of savings (13 percent of GDP) and high dependence on international donor funding is unhealthy. They also warn that the current rate of growth may not be sustained in the long-run and that the reduction of poverty will be erratic resulting into even loss of some of the social and economic gains achieved in subsequent years. It is therefore important that the policy-makers be cautious on how they choose between the various policy choices. It is pertinent that the various policy choices be weighed against the local resource capacity since failure to sustain them may have ugly political implications for the current or future governments.

Finally, the poverty reduction programmes currently being pursued by the government need to take into consideration the role of external factors in enhancing impoverishment within poor nations. It is important to note that the success of domestic economic policies is correlated with the general policy environment in the international economic system. For instance, the nature of the trade policies in the world market largely affects policy reforms being pursued by poor countries like Uganda. There is therefore need to transform trade imbalances between the rich and poor nations if the anti-poverty programmes are to succeed.

[138] Economic Policy Research Centre (EPRC) and Action Aid Uganda, *Rural Poverty and Structural Adjustment in Uganda*, Discussion Paper, First Draft, November 1997, pp. 33-5.

Chapter Three: Credit and Poverty Alleviation: A General Perspective

3.0 Introduction

This chapter gives a general overview of credit and its role in poverty alleviation. It also critically examines the different perspectives that attempt to explain the performance of credit institutions. The chapter further makes a comparative analysis of top-down (interventionism) and bottom-up (self-help) initiatives to credit and explains why governments in developing countries sometimes intervene in rural financial markets. The chapter concludes by pointing out the importance of the need for the different institutions that are engaged in credit delivery to supplement each other's efforts. In short, it calls for a synergy as a constructive approach to tackle the challenges of poverty.

3.1 The Role of Credit

The notion of credit is etymologically derived from the Latin word 'credere,' which refers 'to believe.'[1] Credit or micro-credit (small-scale financing) has become popular in the conventional development literature on developing countries. The strategy to reduce poverty through the provision of credit to the poor has in recent years generated a lot of scholarly interest and

[1] J. Hicks (1969), *A Theory of Economic Growth*, New York: Oxford University Press, p. 6.

enthusiasm.[2] Credit programmes for the poor have not only multiplied but have also gained significance in development circles. It is frequently argued that the establishment and promotion of micro-finance institutions can create a financial structure that fosters the participation of the poor in the process of economic growth and development by creating employment opportunities and promotion of income generating activities.[3]

While the extension of credit has existed for quite sometime in economic history, the recent attention given to credit in local and international political circles marks a new phase in development. Credit programmes now constitute some of the policy initiatives to support growth-enhancing policies. The major objectives of these policy initiatives are to incorporate and empower the poor to participate effectively in the growth process and subsequently improve their standards of living.

Extending credit to the poor is premised on the general assumption that the basic problem confronting the poor is lack of productive assets. Credit programmes are therefore believed to be instrumental not only in speeding up wealth creation amongst the poor but also betterment of their welfare conditions. This belief is premised on the fact the majority of the poor lack

[2] David Hulme and Paul Mosley (eds.) (Vol. 1), *Finance Against Poverty*, London and New York, pp. 105-18.

[3] S. M. Hashemi, S. R. Schuler and A. P. Riley (1996), 'Rural Credit Programmes and

productive assets. Credit is also believed to reduce patterns of indebtedness that are chronic to the poor. It is believed that credit would consequently end the existing exploitative relationships between the poor and elites. In short, availing credit to the poor is anticipated to create socio-economic empowerment opportunities and subsequently boost the bargaining power of the poor against exploitative elements in society.

Critics of the conventional theories about the role of credit in poverty alleviation however contend that poverty is not caused by lack of capital alone. They argue that credit initiatives and their anticipated outcomes tend to overlook the structural factors that perpetuate and maintain the economic marginalisation of the poor. They further contend that credit programmes perceive the problem of poverty as a temporary and easily remedied cash-flow problem, instead of one, which bears on relations of inequality and their institutionalisation in broader economic structures and policies.[4] Similarly, Buckley[5] argues that it is not credit that liberates the poor out of poverty but their ability to save from income generated from credit. It is further argued that credit programmes that are not accompanied by minimal

Women's Empowerment in Bangladesh,' *World Development*, 24 (4), p. 635.

[4] Anne Marie Goetz and R. S. Gupta (1996), 'Who Takes the Credit? Gender, Power, and Control over Loan Use in Rural Credit Programmes in Bangladesh,' *World Development*, 24 (1), p. 61.

[5] G. Buckley (1997), 'Micro-Finance in Africa: Is it Either the Problem or the Solution?,' *World Development*, 25 (7), pp. 1085 and 1089. Also see Lionel Demery and Tony Addison (1987), *The Alleviation of Poverty under Structural Adjustment*, Washington, D. C.: The World Bank, p. 5.

training programmes in finance and management skills or other supplementary support services may not bring about the desired positive impact but may instead worsen their situations.[6] Moreover, credit programmes designed from above to alleviate poverty have also been criticised for not reaching the poorest of the poor but rather those just above and a little bit below the poverty line.[7]

The world-wide concern about poverty has been regularly demonstrated through the development of policies and allocation of considerable resources through credit to alleviate poverty by both multilateral organisations and individual countries. It is however observed that while the alleviation of poverty has become a major development policy objective world-wide, the debate continues as to the best effective way to deliver it.[8] In other words, there is controversy as to whether credit should be allocated on the basis of the forces of demand and supply (the market mechanism) or through state intervention.

Credit programmes that are designed to assist the poor can be accordingly categorised into two types. The first type comprises of credit initiatives that

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[6] S. M. Hashemi, S. R. Schuler and A. P. Riley (1996), *Opcit*, p. 635.

[7] S. Navajas, M. Schreiner, Meyer, R. L., C. Gonzalez-Vega and J. Rodriguez-Meza (2000), 'Micro-Credit and the Poorest of the Poor: Theory and Evidence from Bolivia,' *World Development*, 28 (2), pp. 339-43.

[8] J. Morduch (2000), 'The Micro-Finance Schism,' *World Development*, 28 (4), p. 617.

have evolved from the grassroots (bottom-up initiatives) and more particularly the informal credit associations (ICAs). The bottom-up or informal mutual aid societies are a much older coping mechanism than the top-down formal credit programmes. Credit associations with origins in grassroots self-help initiatives have multiplied in Africa especially since the 1980s. The explanation for this upsurge is the socio-economic crisis, which has since engulfed Africa. These grassroots credit associations have therefore sprung up as coping mechanisms especially where the state has become dysfunctional. They involve the mobilisation of small resources, which are used to facilitate domestic consumption as well as enhancing investment in small businesses.

Emerging experiences in many African countries show that lending as well as mobilising savings from individuals has been successful.[9] Studies, which have been conducted in Africa generally, show that ICAs play a fundamental and dynamic role. They provide timely and desired amounts of credit that are needed for procurement of production inputs, investment and smooth or regular consumption.[10] Seibel and Marx have reported that 80-90

[9] C. N. Kikonyogo (1997), *Reaching the Poor through Micro-Credit Institutions and Programmes: A Central Bank Perspective.* Unpublished Paper Presented at Brandeis University, Massachusets, May 2-3. Also see J. Matovu and L. Okumu (1996), 'Credit Accessibility to the Rural Poor in Uganda,' in *Economic Policy Research Bulletin: Credit Accessibility to the Rural Poor in Uganda*, Kampala, Economic Policy Research Centre, pp. 1-22.

[10] F. J. A. Bouman (1995), 'Rotating Accumulating Savings and Credit Associations: A Development Perspective,' *World Development*, 23 (3), pp. 372-3. Also see Loshini Moodley

percent of the population in developing countries has no access to formal financial markets. Therefore informal markets provide the sole source of credit and the means for most savings and deposits.[11] In the case of Uganda, the most recent government statistics indicate that the majority of Ugandans (44 percent), irrespective of sex or location, obtain loans from informal sources.[12] Their success is built on the innovations and mechanisms used in financial intermediation. Factors that particularly explain why ICAs are more attractive include; favourable terms of accessing credit, on-time processing and disbursement of loans, flexibility, and absence of bureaucracy.[13]

On the other hand, there are credit programmes that are a result of government or/and NGOs' interventions to channel credit towards the poor. The top-down credit programmes are those initiatives created from above. They are associated with NGOs and modern governments' attempt to

(1995), 'Three Stokvel Clubs in the Urban Black Township of KwaNdangezi, Natal,' *Development Southern Africa*, 12 (3), p. 362.

[11] H. D. Seibel and T. M. Marx (1987), *Dual Financial Markets in Africa*, Saarbrucken: Breitenbach Publishers, p. 7.

[12] Republic of Uganda, *Uganda National Household Survey (UNHS) 2001, Ministry of Finance, Planning and Economic Development* (MFPED), Kampala, p. 65. Also see Republic of Uganda, *Poverty Status Report, 2001*, Ministry of Finance, Planning and Economic Development (MFPED), Kampala, p. 66. Also see Republic of Uganda (1996), *Uganda's Macro-Enterprise Finance: Urgent Need for Reform (Issues and Recommendations on the Reform Agenda)*, Report of the Micro-enterprise Finance Task Force, Financial Development Working Group, National forum on Strategic Management for Investment and Export Growth, Bank of Uganda, Kampala, p. 4.

[13] G. Buijis and G. Atherfold (1995), *Savings and Money-Lending Schemes: How Rotating Credit Associations Help Poor Families*, Pretoria: Human Science Research Council (HSRC), pp. 38-9.

bring about development. More particularly, top-down credit programmes can be explained as the effort by national governments in concert with NGOs and the international community to alleviate poverty in low-income developing countries. This category of credit programmes involves forming or causing the formation of groups or organisations for the poor who are subsequently supplied with subsidised credit. Examples of these include all those co-operatives and credit unions whose evolution has been artificially induced by external promise of credit.

Besides, traditional financial institutions discriminate against the poor. It is widely believed that if the poor can have access to credit then their welfare would be fundamentally enhanced. Credit is normally given in terms of cash and sometimes in kind, for instance, in the form of material things like farm in-puts or/and training.

3.2 Theory and Performance of Credit Institutions: A Critique

A great deal of literature on modern economic theory and credit markets is concentrated on the efficiency of credit institutions and seldom addresses the developmental role of credit. In other words, the existing literature is preoccupied by the financial efficacy of the lending institutions rather than their effectiveness in combating poverty.[14] The fundamental weakness of the theoretical perspectives about credit is viewing credit institutions as ends in themselves rather than as instruments to deliver credit for the betterment of the poor.

The preoccupation of conventional economic theory on credit with financial efficiency therefore measures effective performance of credit programmes on the basis of outreach and financial sustainability.[15] Outreach is measured by the value of outstanding loan portfolio and the average value of loans extended; the amount of savings and the average value of savings accounts; the number of branches and village post/units; the percentage of rural population served; and women participation.[16] Other proxies for outreach include the sex or poverty of the borrowers, the size or the terms of loan contracts, the price of transaction costs borne by users, the number of users, the financial and organisational strength of the lender, and the number of products offered, including deposits.[17]

Sustainability, on the other hand, is about the financial capability of the institution to stand on its own feet without being financially supported or

[14] Graeme Buckley (1997), *Opcit*, p. 1091.

[15] Ibid, p. 1091.

[16] J. Yaron (1992), *Successful Rural Finance Institutions*, Washington, D. C.: World Bank, p. 7.

[17] S. Navajas, M. Schreiner, Meyer, R. L., C. Gonzalez-Vega and J. Rodriguez-Meza

subsidised by external donors like government and NGOs. Sustainability is therefore determined by credit repayment rates, real interest rates, and the capacity of credit institutions to mobilise savings more effectively and the meeting of administrative costs through efficient techniques and procedures.[18] Morduch,[19] for instance, notes that little more than five percent of all micro-credit programmes today will be financially sustainable ever. It is estimated that most of the micro-finance programmes that target the poorest borrowers cannot generate sufficient revenues to cover 70 percent of their full costs.[20]

Nonetheless, Buckley[21] and some other observers have questioned the whole essence of being preoccupied with financial viability of credit institutions. They argue that in many situations to operate a financially viable organisation is impossible because of poverty or geography. This argument has relevance for the African situation where credit programmes are implemented with the major objective of alleviating poverty rather than generating profit. It would be unrealistic to expect credit organisations operating among or serving the poor to make immediate profits and subsequently achieve sustainability before the condition of the beneficiaries

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(2000), *Opcit*, p. 335.

[18] J. Yaron (1992), *Opcit*, pp. 5-6.

[19] J. Morduch (2000), *Opcit*, p. 618.

[20] Micro-Banking Bulletin (1998), No. 2, http://www.colorado.edu/Economics Institute/bfmft/mbbdown.htm.

has been improved. It is therefore unrealistic to expect rural financial markets (RFMs) to perform well when the sector they serve is not economically robust.[22] Adams and Vogel[23] implicitly corroborate this argument when they observe that the wellbeing of financial markets partly depends on the economic importance of the clients they serve. They note that it is easier to develop self-sustaining RFMs when returns to agricultural investment are high and relatively stable, and rural incomes are increasing.

It is therefore evident that most works that have evaluated credit programmes have focused much more on the financial costs of the programme and less on the monetary benefits to the borrower.[24] In other words, much of the work on credit has been preoccupied with cost recovery, financial efficiency and sustainability (economic well being of the institution). There is an emerging recognition that the economic wellbeing of the beneficiaries should also be used as the primary index of measuring the success of credit programmes. The focus on credit programmes needs to address the pertinent issue of the impact of such programmes on the productivity of the poor and the extent to which they transform their power status in society. In short, theoretical interest should be extended to embrace

[21] Graeme Buckley (1997), *Opcit*, p. 1091.

[22] D. W. Adams and R. C. Vogel (1986), 'Rural Financial Markets in Low Income Countries: Recent Controversies and Lessons,' *World Development*, 14 (4), p. 480.

[23] Ibid, p. 480.

[24] Anne Marie Goetz and R. S. Gupta (1996), Opcit, p. 47.

the degree to which credit programmes for the poor enhance their capability to organise and challenge the institutional basis that perpetuates their social and economic marginalisation.

Therefore, while most studies have been biased towards measuring the success of credit programmes on the basis of efficiency and sustainability, this study's focus assesses Uganda's credit programmes in terms of their effectiveness in empowering the poor economically. In short, the study is interested in assessing the effectiveness of credit in poverty alleviation.

3.3 Dualism in the Credit Market

The availability of credit, however, depends on the existence of financial institutions or individuals that happen to perform the function of financial intermediation. Financial intermediation denotes those individuals and institutions that transact or operate in financial markets. It is basically the mobilisation of capital from savers and its simultaneous transformation and allocation to meet the needs of borrowers.

The financial intermediaries that transact credit in African countries have historically been divided into two categories, the formal and informal financial institutions. Formal financial institutions refer to government banks, commercial banks, co-operatives and other banking institutions that are registered, licensed, regulated and controlled by government. On the other hand, informal financial institutions comprise of credit initiatives that have evolved from the grassroots (bottom-up initiatives) and more particularly the informal credit associations (ICAs). They are independent and operate freely outside the domain of government. In other words, they are outside government registration and control. The bottom-up or informal credit associations are much more of a coping mechanism in Africa. They predate formal financial institutions (top-down financial initiatives), which are associated with the modern state. Informal financial institutions can be categorised into moneylenders, Rotating Savings and Credit Associations (ROSCAs), Accumulating Savings and Credit Associations (ASCRAs), and other voluntary credit unions. In addition to these, landlords occasionally extend credit to their tenants, businessmen to their clients, and credit arrangements are common between family members, friends and neighbours.

The major distinction between the bottom-up and the top-down credit programmes is that the former evolves organically while the latter is a product of external policy initiatives. Bottom-up groups tend to have more permanency while the top-down often phase out with the ceasing of external funding or subsidies. More importantly, bottom-up groups that have emerged in response to the needs of their members and through their own initiative have greater prospects of success than when the formation of the group is imposed from above. The phenomenon of dual financial markets is therefore a product of the dichotomous nature of socio-economic activities in most low-income developing countries.

Dualism can be attributed to unequal development. The existence of good infrastructure in urban areas that is conducive for the extension of such facilities like formal banking institutions explains why rural areas have been discriminated against. In short, the existence of a favourable infrastructure in urban areas and lack of it in rural areas has had profound influence on the location of formal financial institutions that extend credit. A favourable infrastructure refers to the availability of services like electricity, communications, security and a pool of potential clients given to the business and skilled nature of urban people. These facilities and opportunities are conventionally known to reduce the costs of financial transactions. Comparatively, formal financial institutions shun rural areas because they are associated with financial risks. Rural areas are inhabited by low-income groups who may not utilise banking facilities effectively because of the nature of their economic activities, lack of collateral, poor communication, sparse settlements, unpredictable economic activities, and security which is not guaranteed. These rural economic realities therefore form a barrier to the spread of formal financial institutions to the rural areas.

Notwithstanding factors that have constrained the extension of formal banking beyond the city and town, the fact is that rural areas possess a lot of potential financial activities that are not tapped. The assumption that rural areas are not conducive to profitable financial transactions has long been challenged by the thriving financial activities of moneylenders. Moreover, the well-documented success of village banks like the Grameen Bank (GB) and the Bangladesh Rural advancement Committee (BRAC) in Bangladesh as well as Badan Kredit Kecamatan (BKK) and Bank Rakyat Indonesia Unit Desa (BUD) are sufficient proof that rural areas are bankable.[25] Additionally, ROSCAs that proliferate in rural areas in low-income developing countries of Africa, Latin America and south east Asia provide enough evidence that rural areas are not necessarily financially unrewarding. The informal financial sector therefore continues to enjoy comparative advantage in financial intermediary in rural areas of low-income countries.

In the case of Uganda, various studies have confirmed that the informal financial sector enjoys a comparative advantage over formal ones.[26] More

[25] Yunus Muhammad (1997), 'The Grameen Bank Story: Rural Credit in Bangladesh,' in A. Krishna, N. Uphoff and M. J. Esman (eds.), Resources for Hope: Instructive Experiences in Rural Development, pp. 9-24. Also see Panka, J. S. Jain (1996), 'Managing Credit for the Rural Poor: Lessons from the Grameen Bank," *World Development*, 24 (1): 79-89.

[26] L. Kasekende (1998), *Savings in the Context of Micro-Finance*, CGAP Working Group's Africa Conference, Kampala, Uganda, February 10-13, p. 23. Also see C. N. Kikonyogo (1997), *Opcit*, p. 4. Also see J. Matovu and L. Okumu (1996), *Opcit*, pp. 1-22. Also see P. Smith (1997), *Poverty Alleviation Strategies for Uganda: A Report for the Bank of Uganda*, University of Southampton, UK, p. 32.

specifically, a study conducted by Matovu and Okumu[27] found out that 77 percent of the rural poor access credit from individual moneylenders and ICAs while only 23 percent access credit from traditional financial institutions and government-managed credit agencies. Government surveys have also reached similar findings that the majority of Ugandans obtain credit from informal sources.[28]

Government's intervention in rural financial markets is based on assumptions that the economic survival of moneylenders in rural areas has been made possible by the monopolistic position they enjoy.[29] They further argue that in the absence of competition in rural areas, lenders have strengthened their position by charging high interest rates. Moneylenders are therefore considered to be an exploitative group. This perception has however been challenged. In the first instance, this view assumes that there is no competition among moneylenders themselves. Furthermore, moneylenders have been found not to be usurious in their lending. They

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[27] J. Matovu and L. Okumu (1996), *Opcit*, pp. 1-22.

[28] Republic of Uganda, *Uganda's Micro-Enterprise Finance: Urgent Need for Reform.* Report of the Micro-Enterprise Finance Taskforce, Kampala, October 1996, p. 4. Also see Republic of Uganda, *Uganda National Household Survey (UNHS) 2001, Ministry of Finance, Planning and Economic Development* (MFPED), Kampala, p. 66. Also see Republic of Uganda, *Poverty Status Report, 2001,* Ministry of Finance, Planning and Economic Development (MFPED), Kampala, p. 71.

[29] Karla Hoff and Joseph E. Stiglitz (1990), Introduction: Imperfect Information and Rural Credit Markets: Puzzles and Policy Perspectives,' *The World Bank Economic Review,* 4 (3): 235-50. Also see Santonu Basu (1997), "Why Institutional Credit Agencies are Reluctant to Lend to the Poor: A Theoretical Analysis of the Indian Rural Credit Market,' *World Development,* 25 (2), p. 267.

instead charge appropriate interest rates as justified by the kind of risks they undertake given the unpredictable nature of economic activities and the difficulty of gathering information about the borrowers in the rural areas.[30]

Moneylenders' success is therefore explained more by their mastery of terrain in terms of information. Hence, they can informally gather information about the creditworthy of borrowers more cheaply using the existing social networks in the rural areas. The fact that the moneylender can tap into this social capital enables him/her to reduce both the transaction costs and risks by charging varying interest rates. The risky clients are charged high interest rates while the creditworthy ones are charged lower rates.

In addition to taking advantage of the known terrain and existing stocks of social networks, moneylenders are known to use simple and understandable procedures together with a quick disbursement of credit to the clients. The transactions normally take a few days for those clients well known to the moneylender and not more than a few weeks for the less known ones. In addition, the transactions are conducted in a friendly and familiar atmosphere, understandable and simple procedures, which are not

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[30] Joseph E. Stiglitz (1990), 'Peer Monitoring and Credit Markets,' *The World Bank Economic Review*, 4 (3), p. 352.

intimidating and bureaucratic as it is usually the case with formal financial institutions.

Apart from being restricted to affluent urban areas, formal financial institutions are criticised for being elitist, rigid and characterised by corrupt tendencies and political interference. The procedures for accessing a loan from a formal banking institution are said to be intimidating to the poor.[31] The completion of forms written in foreign languages that require a lot of personal details intimidates. Moreover, the costs incurred by a peasant in terms of transport and subsistence in travelling from the remote countryside to the urban area when pursuing a bank loan are also high. Besides, formal banks require physical collateral or/and a prominent surety before credit can be extended.

These requirements are however unrealistic when it comes to the poor people. Not only do they lack connections with prominent personalities (potential referees), but they also lack collateral either because they own tribal landholdings, which do not have titles or because they are landless. In most cases the poor lack the assets to be mortgaged for bank loans and this alienates them from formal banking institutions. Flexibility would be

[31] Bank of Uganda (1994), *Cotton Sub-Sector Development Project, A Rapid Appraisal of Rural Finance and Credit Schemes*, Vol. 1, Main Report, Uganda Agricultural Policy Committee, Bank of Uganda, December. Also see C. N. Kikonyogo (1997), *Opcit.*

necessary given the nature of economic activities undertaken by poor people and risks they encounter, for instance, the ravages of weather and a limited market in agricultural activities. All these constraints are in most cases not given due consideration by formal financial institutions.

Formal financial institutions tend to be impersonal and unconcerned with the welfare of the client. Formal banking institutions in low-income countries also exhibit corrupt tendencies among their employees. Credit is sometimes extended on condition that a percentage is awarded to the bank official handling the processing of the loan. The kickback requirement, though illegal, makes the whole credit venture very uneconomical and risky. It is on the basis of such obstacles associated with formal financial institutions that the poor have been discriminated against and marginalised by the formal banks. Yet, in the case of African countries in general and Uganda in particular, the rural poor predominantly engage in the agricultural sector and contribute substantially to the gross domestic product (GDP).

3.4 Government Intervention in Credit Markets

The proliferation of credit programmes that target the poor has been attributed to the failure of the traditional commercial institutions to meet the credit demands of the poor.[32] Hence, government intervention has been justified by the need to reach out to the majority poor hitherto discriminated against and enable them access credit. The intervention of government in credit markets has however been interpreted differently. Advocates for government intervention in credit markets argue that imperfections of the financial markets in developing countries will have negative effects on the people and the economy if left unregulated.[33] Critics of government intervention however point to the inefficiencies and inequities that arise from concessionary lending, and argue for reduced government intervention in financial markets.[34]

Government intervention takes different forms ranging from fixing interest rates to setting a ceiling above which interest rates should not exceed. It also involves the extension of subsidised credit that is specifically targeted to a particular sector or section of the population through existing formal commercial banks. In other circumstances, government intervenes in credit markets by establishing its own financial institutions that are aimed at

[32] A. Hollis and A. Sweetman (1998), 'Micro-Credit: What Can We Learn from the Past,' *World Development*, 26 (10), 1875.

[33] B. L. Barham, S. Boucher and M. C. Carter (1996), 'Credit Constraints, Credit Unions, and Small-Scale Producers in Guatemala,' *World Development*, 24 (5), p. 796.

[34] Karla Hoff and Joseph E. Stiglitz (1993), 'Imperfect Information and Rural Credit Markets: Puzzles and Policy Perspectives,' in Karla Hoff, Avishay Braverman and Joseph E. Stiglitz (eds.), *The Economics of Rural Organisation: Theory Practice and Policy*, Washington, D.C.: The World Bank, p. 33. Also see D. W. Adams and R. C. Vogel (1986), *Opcit*, p. 484. Also see D. W. Adams, Graham, D. H. and J. D. Von Pischke (eds.) (1984), *Undermining Rural Development with Cheap Credit*, Boulder, Co.: West View Press, p. 7.

boosting certain sectors. Examples include agricultural banks, co-operatives, and development banks that assist sectors like agriculture and industry with financial and technical assistance. Another related example is where government makes it a condition for financial institutions to extend their operations to rural areas. This is normally done through registration and legal requirements as well as through fiscal inducements.

Government intervention in credit markets can be explained by a myriad of factors. In most cases governments in developing countries intervene to minimise interest rates that may be prohibitive to potential borrowers. Given the higher risks that are associated with lending in low-income countries, there is a tendency for interest rates to be exceptionally high. High interest rates in formal financial institutions of low-income developing countries are attributed to high transaction costs, risk, opportunity costs of funds, and incomplete information about the creditworthiness of borrowers.[35] High interest rates have negative implications for the economy in the long run because they constrain business transactions. The government therefore intervenes through non-price rationing to avoid an economic slump.

[35] B. L. Barham, S. Boucher and M. C. Carter (1996), *Opcit*, p. 795. Also see Laurence E. D. Smith and Michael Stockbridge (1999), 'Facilitating the Provision of Farm Credit: The Role of Interlocking Transactions Between Traders and Zamindars in Crop Marketing Systems in Sindi,' *World Development*, 27(2), p. 406. Also see Gabriel A. Fuentes (1996), 'The Use of Village Agents in Rural Credit Delivery,' *The Journal of Development Studies*, 33 (2), p.

Government intervention is also intended to correct anomalies in formal banking institutions because they tend to be biased towards the public sector, upper-income households, large-scale enterprises and non-agricultural activities as opposed to meeting the demands of low-income, small-scale and rural people.[36] Low interest rates are believed to be conducive to economic growth because they encourage borrowing for investment, which is eventually expected to boost the economy. Government officials also often assume that low interest rates can ease the access of the poor to borrowing facilities and would consequently improve and increase their productivity.

Apart from the government's motives favouring low interest rates, intervention is also driven by the desire to redistribute income. Given the fact that formal financial institutions prefer to locate their activities in urban areas, it is urban-dwellers who mainly benefit from their activities, especially credit. The government's objective is therefore to extend such tangible financial benefits to the rural poor so that they can also take advantage of these opportunities to increase their productivity and subsequently improve their living standards. This is because of the assumption that lack of capital and/or its high cost if available is the major impediment to improvements in

191.

[36] Santonu Basu (1997), *Opcit*, pp. 267 and 269. Also see Gabriel A. Fuentes (1996), *Ibid*, p. 188.

rural productivity.[37] Subsidised credit is seen as one of the answers to low productivity and poverty alleviation in the agricultural sectors of low-income developing countries.

Governments have multifaceted sets of policy objectives in their intervention. These include the desire to bring about rural development by increasing agricultural output and productivity, induce the optimal adoption of modern technology, improve income distribution, reduce rural poverty, and increase rural employment. The assumption is that once the formal banking activities are extended to rural areas then the poor can obtain credit and use savings facilities that improve their productivity and incomes. The spin-offs from such anticipated rural changes have ramifications for the whole economy.

Formal financial institutions have been discriminatory against the poor in particular and the rural areas in general. It has been estimated that only five percent of farmers in Africa and about 15 percent in Asia and Latin America have had access to formal credit. Even within these small numbers, formal credit discriminates against the very poor to the extent that five percent of the borrowers (the relatively rich) receive 80 percent of the credit in low-

[37] A. Braverman and J. L. Guasch (1986), 'Rural Credit Markets and Institutions in Developing Countries: Lessons for Policy Analysis from Practice and Modern Theory,' *World Development*, 14 (10/11), p. 1254.

income developing countries.[38] It is this kind of imbalance that has often justified government policy to intervene in the credit markets.

On a similar note, it was initially believed that the absence of formal financial institutions in rural areas gave a leeway to moneylenders to enjoy monopoly of the rural borrowers. This monopoly was associated with exploitative high interest rates that were being charged by private moneylenders. It was therefore anticipated that the extension of institutional credit facilities would destroy the private lenders' monopoly, which would in turn reduce interest rates.[39]

While government intervention in credit markets has been motivated by such goals as redistribution of resources, boosting productivity and minimising exploitation, it has also had political connotations. Many African regimes need to create or/and nurture political support bases if they are to be assured of survival. One way of consolidating the political regime and cultivating political support in the countryside is through regular extension of cheap credit directly or through formal financial institutions to the rural poor.[40] This practice has been very common in most African countries and it

[38] A. Braverman and J. Luis Guasch (1986), *Opcit*, p. 1255. Also see A. Braverman and J. Luis Guasch (1993), 'Administrative Failures in Government Credit Programmes,' in Karla Hoff, A. Braverman, and J. E. Stiglitz (eds.), *Opcit*, p. 54.

[39] S. Basu (1997), *Opcit*, p. 267.

[40] Avishay Braverman and J. Luis Guasch (1986), *Opcit*, p. 1256.

normally tends to coincide with the time of elections. Subsidised credit is therefore a formidable political weapon that cannot be underestimated especially in low-income developing countries.

Notwithstanding the arguments in favour of government intervention in credit markets, there is now emerging consensus among scholars and the development community that intervention with subsidised credit is unproductive.[41] Government interventions in credit markets using subsidised credit have encountered many critics who argue that it encourages corruption, capital flight, and unproductive investment while discouraging savings.[42] Although the standard justification of government intervention in rural credit markets has been to improve the distribution of rural incomes, it has seldom succeeded in having a significant impact on income distribution.

Government involvement purportedly to assist the poor has instead ended up subsidising the large landholders and those elites with political influence.[43] Ultimately, most of the financial institutions created by government to channel credit to the rural sectors have been characterised by high administrative costs, arbitrary practices such as allocating credit more

[41] Ibid, p. 1253-6.

[42] Avishay Braverman and J. Luis Guasch (1993), *Opcit*, pp. 53-66, p. 54. Also see D. W. Adams, Graham, D. H. and J. D. Von Pischke (eds.) (1984), *Opcit*, p. 1255.

on political than economic grounds, and lack of accountability. Though it has been argued in some cases that government as a lender would have more advantages than the private sector because of the legal monopoly it has over the use of force, this assumption on enforcement has seldom been effective.

Subsidised credit programmes have been frustrated by low repayment rates that consequently make them unable to withstand the withdrawal of external funding. Moreover, government intervention has not succeeded in triggering increased rates of saving in rural areas. The poor performance of financial institutions that handle subsidised credit is usually attributed to external interference. Given the fact that these institutions rely on government funds, this phenomenon affects their enforcement procedures and makes them reluctant to pursue delinquent (default) cases. Bad loans are usually transferred to the central bank or the originating government institution. In some cases where the banking institutions use an aggressive approach to ensure repayment of loans, government has intervened by rescheduling or writing off the debts because of fear of losing political support. Such practices have served to reinforce bad business practices and made borrowers more reluctant to repay or comply with the terms of their loans. The failure to manage subsidised credit on the basis of sound

[43] S. Basu (1997), *Opcit*, p. 269.

economic principles has therefore been criticised for discouraging savings, creating financial inefficiency and lack of transparency among the staff. These bad practices therefore have implications for the survival of subsidised credit programmes. It is for instance estimated that little more than five percent of all programmes today will be financially sustainable ever.[44]

It has also been repeatedly argued that despite the high levels of subsidy to rural credit, moneylenders in particular and the informal financial sector in general have not been dislodged but have instead thrived despite their high interest rates.[45] This is more particularly true in the case of Asian countries where many small farmers depend on moneylenders whose interest rates remain extremely high. The fact that government intervention through the creation of a positive institutional alternative in the form of rural banks, co-operatives and subsidised credit has failed to drive out moneylenders from the credit market, has been cited as evidence of ineffectiveness of government in conducting business.

The failure of government subsidised credit to eliminate the moneylender can however be interpreted differently. The alternative interpretation is that the rural poor still go to the moneylenders either because government credit

[44] J. Morduch (2000), *Opcit*, p. 618.

offered is not satisfactory compared to the needs of the borrowers or because it is not enough to reach all those in need. In short, the demand for credit in the rural areas often exceeds the token supply availed by government. The other obvious and related reason for their survival is that moneylenders have an advantage over government in possessing more detailed knowledge about the borrowers. Hence, they are able to separate the high risk from the low risk ones.[46]

The performance of governments in the credit market has therefore substantially fallen short of expectations. The maintenance and continued operation of many of these credit programmes has drained the budgets that support these efforts. Administrative interventions in the credit market are criticised for depriving other sectors of the economy (like health and education) of funds.[47] Such interventions have also not succeeded in effective mobilisation of savings.

Using Uganda as an example where government has intervened in the credit market, official estimates of the savings rate is at 7.8 percent of GDP.[48] This is one of the lowest national savings ratios in the world if compared to countries like South Korea whose national savings ratio is 65 percent.

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[45] J. E. Stiglitz (1990), 'Peer Monitoring and Credit Markets, *Opcit*, p. 352.
[46] J. E. Stiglitz (1990), *Ibid*, p. 352.
[47] S. Navajas, *Opcit*, p. 334.

Uganda's savings ratio is far below the SSA average of 14-16 percent. Sharma and Zeller[49] argue that governments thought that the replication of the existing urban-based banking structure in rural areas, and fortification with subsidised capital, would be sufficient to kick-start a viable financial sector in rural areas. However, little did they realise the necessity and importance of redesigning the organisational structure so that it could operate effectively in the rural settings. The net result was inept performance that came to be epitomised by pervasive bureaucratic and political control, non-economic considerations, lack of innovation, and erosion of financial discipline.

The critics of government intervention in the credit market argue that the transfer of resources alone is not enough. Apart from lack of capital, there are other causes poverty in rural areas. There is therefore need to diversify the solutions so as to make poor people competitive. Apart from enhancing their productivity, it is equally necessary to increase their access to markets, provide them with information and improve the terms of trade of their products.[50] The solution that is suggested to redress the poor performance of government intervention with subsidised credit is to carry out institutional

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[48] L. Kasekende (1998), *Opcit*, p. 16.

[49] M. Sharma and M. Zeller (1997), 'Repayment Performance in Group-Based Credit Programmes in Bangladesh: An Empirical Analysis,' *World Development*, 25 (10), pp.1732.

[50] O. T. Coomes (1996), 'State Credit Programmes and the Peasantry Under Populist Regimes: Lessons from the APRA Experience in the Peruvian Amazon,' *World Development*,

innovations that combine prudent banking principles with effective screening and monitoring strategies that are not based on physical collateral.[51]

3.5 Mutual Aid Associations and the Rural Poor

The evolution of mutual aid groups is to some extent explained by the failure of traditional commercial banks to meet the increasing demand of credit by the poor who lack physical collateral but may nevertheless be creditworthy.[52] Formal financial institutions are known to be rigid when it comes to the poor. They are known to be out of touch with the realities of the poor and that is why they always insist on collateral and feasibility or project plans. Mutual aid societies are therefore formed on the basis of collective action and self-reliance to generate credit for their mutual benefit in circumstances of economic insecurity. The core of collective action is therefore solidarity and reciprocity.

The weaknesses inherent in formal financial institutions, as well as the ineptitude of governments, which have failed to correct these impediments, have dictated the evolution and significance of mutual aid societies or ICAs that draw on the existing social networks. These associations or societies

24 (8), pp. 1341-44.

[51] M. Sharma and M. Zeller (1997), *Opcit*, pp. 1733-4.

[52] A. Hollis and A. Sweetman (1998), *Opcit*, p. 1875.

now provide a widespread, comprehensive welfare and assistance network.[53] The grassroots (bottom-up) credit programmes are a result of poor people's initiative and effort to harness pre-established social ties (social networks) through collective action for the purposes of social and economic betterment. Bottom-up credit programmes are premised on self-reliance mechanisms that have been initiated to make up for the inability of the state to deliver social programmes to the people especially the poor.

These grassroots or bottom-up credit initiatives include labour groups, burial societies, ROSCAs, ASCRAs, and other voluntary credit unions or associations. Africa is particularly notable for the prevalence of mutual aid groups with a finance component.[54] Local examples of these voluntary credit associations include *Ebigombe* in Uganda, *Tontines* in Cameroon and Senegal, *Stokvels* in South Africa, *Susu* in Ghana, *Esusu* in Nigeria, *Ekubs* in Ethiopia and *Kafo* in Gambia, and many others.

It can also be said that mutual aid societies or associations are an expression of innovation by the poor attempting to harness and reconfigure the existing social networks for economic purposes. Mutual aid societies are therefore an act of ingenuity that has reasserted the tradition of creating hope out of

[53] P. Shipton (1992), 'The Rope and the Box: Group Savings in the Gambia,' in D. W. Adams, D. W. and D. H. Fitchett (eds.), *Informal Finance in Low-Income Countries*, Boulder, Co.: West View Press, p. 65.

despair. In other words, these self-help initiatives represent an adaptive response to the condition of poverty and relative deprivation among the poor that are associated with state crisis in the low-income countries. They serve as coping mechanisms, which provide an alternative to the mainstream, which mostly excludes the poor.

There exist various types and functions which mutual aid societies are designed to fulfil. Their functions range from giving emergency aid, to credit, supplying savings opportunities and even generating profit. Some of the types of the mutual aid societies include the ROSCAs and ASCRAs. Ardener[55] defines ROSCA as an association formed upon a core of participants who make regular contributions to a fund, which is given in whole or in part to each member in rotation. Ardener places special emphasis on the principles of rotation and regularity when distinguishing ROSCAs from other mutual benefit societies.

It should however be noted that the extraordinary performance of mutual aid societies in alleviating poverty in low-income developing countries, has attracted complementary funding from other multilateral, bilateral, government agencies and NGOs that desire to use these organisations to

[54] H. D. Seibel and T. M. Marx (1987), *Opcit*, p. 7.

[55] S. Ardener (1996), 'Women Making Money Go Round: ROSCAs Revisited,' in S. Ardener and S. Burman (eds.) (1996), *Money-Go-Rounds: The Importance of Rotating Savings*

fight poverty. Hollis and Sweetman[56] note that micro-credit or the provision of small-scale financing to the poor has therefore become a popular method of facilitating development not only in poor countries but also in poorer areas of the richest countries. Therefore, governments, NGOs and other donor agencies give funds that are extended to such groups. Even personal initiatives such as that of the Grameen bank[57] have eventually attracted donor funds to supplement the funding of their activities. While self-sustenance is an important principle, subsidies continue to be supportive of most rural credit programmes in anti-poverty strategies.[58]

Mutual aid societies are distinct from other credit organisations because of their flexibility and simplicity when transacting business.[59] Besides, they neither use lengthy bureaucratic procedures nor do they require physical collateral. Moreover, no legal contracts between members of the solidarity groups are entered into. They rely mostly on mutual trust and interpersonal friendship to avoid default because members are usually well known to one other. This makes enforcement costs very low because of fear of powerful

and Credit Associations for Women, Oxford: Berg, p. 1.

[56] A. Hollis and A. Sweetman (1998), *Opcit*, p. 1875.

[57] The Grameen Bank of Bangladesh was started as a personal project by Yunus Muhammad, an eonomics professor, in 1976. It was later transformed into a specialised bank in 1983. By 1994 it had mobilised more than 2 million clients, 94 percent of them women, and achieved a loan recovery rate of more than 95 percent.

[58] A. Hollis and A. Sweetman (1998), *Opcit*, p. 1876.

[59] G. Buijis and G. Atherfold (1995), *Opcit*, pp. 38-9.

social sanctions.[60] An individual's economic and social reputation would be at stake within the community if he/she defaulted on his/her payments. Mutual aid societies are also very popular with the poor because of their voluntary nature and flexibility. Members, for instance, are not accountable to their groups on how they use the money. They therefore have the freedom to spend the money according to their priorities or pressing problems.

The effective performance of solidarity groups has been attributed to a number of factors. It is widely recognised that the strength of mutual aid societies lies in their small size and socio-economic homogeneity.[61] These characteristics are believed to be the essential ingredients for their superior performance. The size of mutual aid groups normally range between five and fifty members who are well known to each other or/and are personal friends or vouched for by a respected member. The smallness and homogeneity of the groups lowers the costs of information gathering, monitoring and enforcement that usually makes these tasks expensive for the formal banking institutions. Therefore, in comparison to formal financial sectors, mutual aid associations experience much lower administrative and transaction costs. The low overhead costs can be explained by the fact that group officials are not paid salaries and allowances, do not rent facilities, and because members of the group easily assess the creditworthiness of the

[60] G. Buckley (1997), *Opcit*, pp. 1085-6.

applicants. It is because of these innovations that many of the solidarity groups have recorded extraordinary performance in credit repayment rates that exceeds 95 percent.[62]

Another important factor contributing to the success of mutual aid societies is the reliance on pre-established social networks. Mutual aid societies therefore draw on these pre-existing ties to assist each other by pooling their meagre resources. These resources are eventually given to one another in a rotating order. The reliance on mutual trust also eases enforcement because the group members are aware of the social sanctions if they default. Apart from the social sanctions, members also use peer monitoring whereby each member has the responsibility to monitor the borrower. Vigilance in peer monitoring is explained by the fact that all the members of the group are responsible if one member defaults. In other words, the default of one member denies the other group members access to credit.[63]

In circumstances where groups are formed on the basis of accessing credit from rural financial institutions, the default of one member is enough to deny others the chance to access such credit (joint liability).[64] Besides,

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[61] F. J. A. Bouman (1995), *Opcit*, p. 374.

[62] MicroBanking Bulletin (1998), No. 2, http://www.colorado.edu/Economics Institute/bfmft/mbbdown.htm.

[63] Joseph E. Stiglitz (1990), *Opcit*, p. 361.

[64] *Ibid*, p. 361.

obligatory savings are sometimes used to enhance financial discipline among inexperienced, first-time, small-scale borrowers, which reduces financial risk.[65] More often than not the incentive of being eligible for another loan upon timely repayment reduces default rates. In addition to these measures, a number of practices have been initiated to guard against default. These include putting new members at the end of the rotation, organising regular parties in order for members to meet each other and reinforce their solidarity. In very few circumstances do other members use coercion as a method of ensuring repayment.

The effectiveness of credit programmes administered by mutual aid societies to alleviate poverty may vary according to their gender composition. The fact that women dominate quite a number of mutual aid associations is argued to contribute to successful performance. It is further argued that women possess a credible reputation of not only honouring agreements but also being trustworthy in comparison to men. Besides, women are not likely to run away like men in times of default because of their strong attachment to the family. The experiences of famous micro-finance institutions such as the Grameen Bank of Bangladesh have confirmed that women have the highest repayment rates.[66]

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[65] J. Yaron (1992), *Opcit*, p. 9.

In addition to trustworthiness, women are recognised for their productive investment of loans and better utilisation of the returns when compared to those of men borrowers. Men frequently misuse the returns from loans on alcohol, extra-marital or/and girl friends, and other unproductive ventures whereas women's returns are used to benefit the family and more especially the welfare of the children. There is substantial evidence to support these perceptions.[67] It is therefore argued that credit extended to women has multiplier effects compared to that given to men.[68] The multiplier effects range from empowerment to the general welfare benefits of the entire family. The credibility of women in the circles of credit has wide implications for anti-poverty strategies in poor countries. It means that if more credit is extended to women, then it implies better welfare for the family in terms of improved child nutrition, health, and education.

Although no one has disputed the benefits that accrue to women's loan returns and their positive impact on the family, the reputation of women for their excellent credit performance has however been contested. It is believed that male partners or relatives directly invest a substantial proportion or the

[66] Yunus Muhammad (1997), *Opcit*, pp. 9-24.

[67] S. M. Hashemi, S. R. Schuler and A. P. Riley (1996), *Opcit*, p. 646. Also see D. L. Blumberg (1993), 'Poverty Versus "Purse Power": The Political Economy of the Mother-Child Family 111,' in J. P. Mencher and A. Okongwu (eds.), *Where Did All the Men Go? Female-Headed/Female-Supported Households in Cross-Cultural Perspective*, Boulder, Co.: West View Press, pp. 13-52.

[68] Mark M. Pitt and Shahidur R. Khandker (1998), 'The Impact of Group-Based Credit Programmes on Poor Households in Bangladesh: Does the Gender of Participants

entire loans given to women, while women borrowers bear the liability for repayment.[69] It is therefore argued that women's economic empowerment can only be achieved by increasing women's consciousness through education and organisation given the fact that they tend to surrender financial and managerial control of their loans to men.

3.6 The Need for a Constructive Engagement

It can therefore be concluded that the effective performance of collective action as exemplified by informal credit associations can be explained by the advantages it commands over screening, monitoring and enforcement of repayment. These advantages are however made possible by the very existence of substantial stocks of social networks. More importantly, the professed effectiveness of bottom-up (mutual aid societies) that largely draw on pre-established social ties and networks when compared with top-down initiatives confirms Putnam's thesis that high institutional and economic performance has a correlation with the existence of social capital.[70] Therefore, it is apparently evident that poverty alleviation strategies, which neglect such local and autonomous grassroots initiatives are likely not to be effective.

Matter?,' *Journal of Political Economy*, 106 (5), p. 960.

[69] Anne Marie Goetz and R. S. Gupta (1996), *Opcit*, pp. 56-60.

[70] Robert D. Putnam (1993), *Making Democracy Work: Civic Traditions in Modern Italy*,

This is however not to argue that these local initiatives and organisations are in themselves sufficient to tackle the bigger challenge of poverty single-handedly. The point is that these bottom-up or grassroots self-reliant groups though significant, they lack the capacity to raise substantial capital to reverse the poverty phenomenon. On the other hand, the state may possess the capability of being able to raise substantial capital but lacks effective organisations and mechanisms to make it effective in poverty alleviation.

The argument therefore is that there is need for a constructive engagement. The state can still be essential and relevant since it has the advantages of generating capital, whether domestically or through external borrowing (to be given out for credit) and guaranteeing a favourable economic and political environment. The state can however utilise the superior organisation and mechanisms characteristic of grassroots organisations such as mutual aid societies like ICAs to disburse and manage credit. This combination has the potential of being an effective and sustainable strategy of using credit to alleviate poverty. The analysis now turns to the next chapter, which discusses the performance of state-directed credit.

Princeton, N.J.: Princeton University Press, p. 38.

Chapter Four: State-Directed Credit and Poverty Alleviation

4.0 Introduction

The NRM government initiated two state-directed programmes namely, the Poverty Alleviation Fund (PAP) and *Entandikwa* Credit Scheme (ECS) in 1994 and 1995 respectively. The expressed policy objective of setting up the two public-funded credit programmes was to create employment, increase the socio-economic well-being of the poor people and thereby alleviate poverty. The government's decision to avail subsidised credit was informed by the fact that formal banking institutions discriminated against the poor.

This chapter first discusses the household characteristics of loan recipients, their decision to participate in ECS as well as the use to which they put the loans. It also examines organisational structures of the two credit programmes and their effects on performance. The chapter further assesses the impact of state-directed credit on the recipients' socio-economic welfare. Finally, the policy implications of state-directed credit programmes are critically analysed.

4.1 Household Characteristics of Beneficiaries of State-Directed Credit

The study was carried out in Mbarara and Mpigi districts. Two villages were identified in each district using methods that have already been described in the introduction. The villages selected in each district were remote and typical of peasant life. In collaboration with local leaders, ten households benefiting from state-directed credit and five non-beneficiaries were carefully selected from Mbarara district. Only ten beneficiaries were selected from Mbarara district because it had not yet benefited from PAP.

In the case of Mpigi district, ten beneficiaries of ECS and ten beneficiaries of PAP as well as five non-beneficiaries were selected. The non-beneficiaries functioned as a control group. A control group was used to crosscheck information provided by the beneficiaries. It was also used to get independent information about the impact of the programme as well as sensitive information that could not be elicited from the beneficiaries. For example, some beneficiaries who accessed credit on the basis of kinship relations with the local leaders, or because they connived with the IAs[1] or because of patronage could not reveal such sensitive

[1] Intermediary Agencies (IAs) were grassroots non-governmental organisations (NGOs) contracted to screen, recommend and disburse loans to applicants and enforce repayment.

information. Their information was therefore counterchecked with the respondents in the control group who happened to live in the same villages and had information about the programme beneficiaries. Besides, the control group was also very useful in terms of verifying credit use by beneficiaries.

The households studied constituted peasant households that owned land and were predominantly engaged in agricultural activities. While the households studied engaged in agriculture as a core activity, some supplemented it with other activities such as petty trade, craft making, brewing and some form of employment among many others. It was established that one of the reasons why their economic activities were diversified was because the areas studied were not cash crop growing areas. They were largely engaged in growing food crops. While many of these households informed us that they sometimes realised surpluses, they overwhelmingly reported that food crop growing was not paying because of the remoteness of their areas. They explained that it was because agriculture was not profitable that they had to supplement it with off-farm income-generating activities.

An attempt was made to establish socio-economic characteristics of households, which we anticipated, could influence credit utilisation.

These included the loan recipient's age, gender, educational level, family size and nature of economic activities they were engaged in. The household characteristics of the beneficiaries of state-directed credit in the two districts of Mbarara and Mpigi are presented in Table 4.1 below:

Table 4.1: *Socio-economic Characteristics of Beneficiaries of State Credit*

District	Gender	Total No.	Age	Total No.	Educa-tional Status	Total No.	Family Size	Total No.	Economic Status	Total No.
Mbarara	Male	8	16-30	3	None	2	1-3	1	Agriculture	10
	Female	2	31-50	6	P.1-P.4	1	4-6	6	Trade	6
			51-65	1	P.5-P.7	3	7 and above	3	Employed	3
					S.1-S.6	3	--		Remittances	1
					Tertiary	1				
Mpigi	Male	9	16-30	5	None	1	1-3	3	Agriculture	20
	Female	11	31-50	11	P.1-P.4	2	4-6	13	Trade	14
			51-65	4	P.5-P.7	7	7 and above	4	Employed	5
					S.1-S.6	8			Remittances	0
					Tertiary	2				
Grand Total		30		30		30		30		30

Source: *Compiled from Fieldwork Data.*

It is evident from Table 4.1 above that access to state-directed credit in the two districts largely (57 percent) went to the age bracket of 31-50 years. This age bracket constitutes the active group of people engaged in most of the economic activities in rural areas. According to Uganda's state-credit guidelines, eligible recipients of credit were supposed to be

16 years and above.[2] However, credit recipients in the age range of 16-30 years were not many (27 percent) partly because these were found to be mostly the youth and young married women who were still regarded as dependants[3] and could not, therefore, be considered household heads. The same thing applied to women unless they were widows. It is also a fact that many of the local customs in Uganda discriminate against women from owning property especially land.

These contextual factors partly explained why a few people in the age bracket of 16-30 years accessed state-directed credit. Also, in the case of the age bracket of 51-65 years,[4] a few people (17 percent) accessed credit. The information we got indicated that this age group was a bit cautious and more hesitant when it came to acquiring loans. One male respondent among the control group in Mpigi district revealed this information. When asked why he did not apply for Poverty Alleviation Programme

[2] Republic of Uganda, *Entandikwa Credit Scheme Operational Guidelines*, Ministry of Finance and Economic Planning, Kampala, 22nd May 1995, p. 1.

[3] In the two customs (*Kinyankore* and *Kiganda*), young men including those married but who still have their parents and have not yet been given a 'cooking pot' or independence to set up a home and allocated a piece of land or cows by the parents, are still considered as dependants. Mayoux observed a similar situation in Cameroon where women in all ethnic groups were treated as dependents because of the patrilineal nature of many African societies (Linda Mayoux (2001), 'Tackling the Downside: Social Capital, Women's Empowerment and Micro-finance in Cameroon,' *Development and Change*, 32, p. 451.

[4] The age limit of 65 years can be explained by the fact that government manuals on access to state-directed credit indicated the access ages of 16 to 65 (Republic of Uganda, *Entandikwa Credit Scheme Operational Guidelines*, Ministry of Finance and Economic Planning, Kampala, 22nd May 1995, p. 1.

(PAP) loans, which were quite abundant and transparent in terms of access, he gave the following response in Luganda:

> *Mutabani, kakati kumyaka enkagga gyentuseka olowooza nkyalina amanyi gga kusobora kukozesa ensimbi zalooni? Ezo looni ezikabya abantu eziyinza kundetera ebizibu mba njagara Zaaki?*[5]

The response literally meant that 'my son, at my advanced age of sixty years, do you think I still have the energy to use the loan productively? Why should I bother going for such loans whose terms are already making recipients cry.' It is evident from this response that this household head perceived himself to be of advanced age to productively use the loan. This was because demands of loan repayment were hectic and required energetic people who could engage in the daily hustles of loan use and repayment.

Besides, advancement in age tends to be accompanied by conservatism and more caution. Adventure and risk tend to be minimised partly because at such an age it is most likely that making an economic mistake can lead to vulnerability. Moreover, many people in this age group had accumulated some reasonable property and others had grown up children who gave them assistance when needed. It was, therefore, not necessary to engage in such risky economic ventures when many of them

[5] Interview with a male respondent (non-beneficiary) in Buwama, Mpigi district in November 2000.

considered themselves retired. It is because of such explanations that a few household heads in the age bracket of 51-65 years accessed credit.

The household characteristics also indicate that many (53 percent) of the credit recipients in the two districts did not have a high educational status (senior one to tertiary). Many of them were graduates of the primary level of education. Although many of them were literate,[6] they were deficient in many of the socio-economic-related skills that tend to be associated with higher educational levels. Some of these include basic accountancy, record keeping and management skills, basic hygiene and nutrition as well as modern farming techniques.

On the other hand, those who had an educational status of senior one and above were 47 percent. A negligible number (three) of the respondents were found not to have any education at all and these were all women. On why they did not attend school, these were their responses:

> I could not go to school even though I wanted to because my parents had no money to pay for my tuition and building fund. My parents were poor and therefore could not afford.[7]

> I was unable to attend school simply because during those days (1970s) schools were far away and many of the children in our

[6] In this respect, the term 'literate' refers to those beneficiaries who could read and write especially in vernacular languages.

[7] Interview with a female respondent in Kabuyanda, Mbarara district in September 2000.

> neighbourhood were not attending school. The importance of education was not taken seriously that time as it is now. Many of the successful people in our community at that time, were those engaged in trade and smuggling.[8]

> Myself, I was unfortunate because my father was polygamous and his view about girls was that they were not worth investing in since they would eventually be married off. Being the eldest girl I was never educated, though my two sisters were allowed to attend school because of my mother's pressure. However, they did not proceed beyond primary seven. My father did not regard the education of girls as important since he believed that it was likely to spoil them and prevent them from being married.[9]

It is clear from these testimonies that failure to attain education could be attributed to extreme levels of poverty, backward environment and cultural biases, factors that tended to be characteristic of remote rural areas. These factors have had a bigger effect on women's education in Uganda. According to a UNDP report[10] for the year 2001, the total adult literacy rate was 35 percent. The adult literacy rate for men was 26 percent while that for women was 43 percent. Therefore, these statistics confirm that women are more affected by illiteracy. This can be explained by traditional cultures, which confer a higher social status upon men than women. This is why universal primary education implemented since 1997 is regarded as a key component of Uganda's poverty eradication strategy.

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[8] Interview with a female respondent in Kabuyanda, Mbarara district in September 2000.

[9] Interview with a female respondent in Buwama, Mpigi district in November 2000.

[10] Republic of Uganda (2002), *Development Co-operation Uganda 2001 Report,*

The above statistics on educational status show that many less educated people participated in state-directed credit. Therefore, the statistics create an impression that state credit was well targeted since the very poor tend to be characterised by lack of or low educational levels. In the case of the two state credit programmes, it was the 'active' poor[11] who were targeted. This research however established that the 'active' were not the real poor but people who were slightly above the poverty line of spending less than one US dollar a day. While the objective of the two credit programmes was to help eradicate poverty among the poor, they contradicted themselves by emphasising and focusing on the 'active' poor. For example, one of the criteria for accessing ECS was that the applicant must have attained considerable experience in the micro-enterprise for which he/she was seeking the loan.[12] Therefore, the targeting of the two state-credit schemes left out the real poor.

In terms of the family size, the majority (87 percent) had four and above dependants. This can be explained by the fact that many rural households are characterised by extended families. Therefore, many

UNDP and Uganda Government, Kampala, Uganda, August, p. 13.

[11] The active poor are those people that are slightly above the poverty line. They have the potential to use credit more productively so that they are able to repay the loan and at the same time improve their household incomes.

[12] Republic of Uganda (1995), *Entandikwa Credit Scheme (ECS) Operational*

rural households have a cultural responsibility to look after their relatives who are elderly, widowed, disabled or orphaned. This has become more rampant with the advent of HIV/AIDS in Uganda, which has left behind many widows and orphans. Another explanation for big households is technological backwardness. Many children are produced as a form of insurance in case some passed away during their childhood. Besides, in the rural context children are also considered a factor of production (labour) because many of the peasant agricultural activities are labour intensive. Nonetheless, most households did not perceive the large size of the household as a problem partly because of their subsistence lifestyle where many things are not bought like it is the case with urban areas. The provision of free primary education since 1997 was also reported to have reduced the economic pressure of large families.

4.2 The Nature and Mechanisms of Credit Disbursement of ECS and PAP

The inception of the two credit programmes (ECS and PAP), as already indicated at the beginning of the chapter, were aimed at creating employment, increase household incomes and subsequently alleviate poverty. ECS was funded with USh 6 billion (US$ 6 million) solely from the coffers of the Government of Uganda (GOU)[13] while PAP's source of

Guidelines, Ministry of Finance and Economic Planning, Kampala, p. 3.

[13] Republic of Uganda (1999), *The Ministerial Policy Statement on Entandikwa*

funding included US$ 13.5 million from the ADB and a contribution of US$ 1.5 million from the GOU.[14]

The notion of *Entandikwa* implies 'seed money' or funds given to kick-start capital accumulation amongst the poor who would otherwise be unable to obtain funding from conventional financial institutions. Its origins were in several incidents during President Museveni's visit to the 'Luwero Triangle'[15] when people complained to him about the biting poverty and requested government credit support. It was in response to these requests that he promised government credit support to them so that they could engage in income-generating ventures and consequently raise their household incomes. The credit programme was eventually launched shortly before the 1996 presidential elections.

Credit Scheme and Youth Entrepreneurs' Scheme, Ministry of Gender, Labour and Social Development, Kampala, pp. 1 and 2. Also see Republic of Uganda (1996), *Uganda's Micro-enterprise Finance: Urgent Need for Reform (Issues and Recommendations on the Reform Agenda)*, Report of the Micro-enterprise Finance Task Force, Financial Sector Development Working Group, National Forum on Strategic Management for Investment and Export Growth, Ministry of Planning and Economic Development, Kampala, October, p. 6.

[14] Republic of Uganda (1998), *Draft Report on Co-ordination of Micro-financing Initiatives*, National technical Committee Co-ordination of Micro-financing Initiatives, Ministry of Planning and Economic Development, Kampala, April, p. 14.

[15] The term 'Luwero Triangle' was acquired during the early 1980s (1981-1985) when the National Resistance Army (NRA) under Yoweri Museveni was waging a guerrilla war in this area. This geographical area which is shaped like a triangle consisted of the three districts of Mubende, Luwero and Mukono. It has since then acquired the name 'Luwero Triangle.'

4.21 Terms and Conditions of ECS and PAP

According to government policy guidelines,[16] ECS targeted the section of the population aged between 16 and 65 years who could not obtain credit through traditional commercial banks. All loan applicants were supposed to have been residing in that area for at least six months, be guaranteed by two sureties of high reputation but not politicians and loan applications had to be channelled through the chairperson of the village (LC1), parish (LC11) and sub-county councils (LC111). The ECS interest rate was at first 12 percent and later increased to 16 percent per annum. It was charged on a declining balance of the principal. The grace period had a minimum of one month and a maximum of four months for agriculture projects. Each of the 214 counties was to receive USh 30 million out of which 30 percent of the funds were to be extended to women and the youth. The Intermediary Agency (IA) was assigned the duty to screen the applicants and recommend the successful ones to the County Steering Committee (CSC).[17] Meanwhile, the CSC was given the responsibility to approve, monitor and enforce the repayment of loans.

[16] Republic of Uganda, *Entandikwa Credit Scheme Operational Guidelines*, Ministry of Planning and Economic Development, Kampala, 22nd May 1995, p. 1.

[17] The County Steering Committee (CSC) was composed of local politicians and civil servants. Politicians included Chairperson of LCIV, Chairpersons of all LCIII in the County, Chairperson County Youth Council and Chairperson County Women Council. Civil Servants on the committee included the Assistant Chief Administration Officer (ACAO) in charge of the County (was the Chairman of CSC), a Unified Extension Officer, County Co-operative Officer and the County Community Development Officer. Another member of the committee who was at the same time its Secretary was a representative of the Intermediary Agency (IA) responsible for implementing the

After the loan approvals, the IA was supposed to disburse the loans to beneficiaries, monitor their activities and enforce repayment.

In contrast, the procedure of acquiring PAP credit was simpler and fast. According to the APO of Mpigi district: 'It takes between two weeks and two months to disburse credit.' He however indicated that disbursement of credit was sometimes affected by delays in remittances of funds from ADB and GOU: 'counter funding by the Government of Uganda delays because of the slow budgetary process. This sometimes affects our field operations.'[18] The procedure required individuals within groups to apply for loans from the Intermediary Entity (IE) within that locality or directly from the APO in case of the absence of the IE. The benchmark model for PAP credit programme was the Grameen Bank. The programme harnessed the principles renowned world-wide for the success of similar credit programmes. According to Muhammad,[19] the principles that have contributed to the success of the Grameen Bank credit programmes include social collateral, peer pressure, weekly repayment, compulsory savings and the targeting of women (94 percent of all borrowers). In the case of PAP, emphasis was put on individuals within solidarity groups

programme.

[18] Interview with the Area Programme Officer (APO) for PAP, Mpigi district in October 2000.

[19] Yunus Muhammad (1998), 'Poverty Alleviation: Is Economics of Any Help? Lessons From the Grameen Bank Experience,' *Journal of International Affairs*, 52 (1), p. 47.

(15-30 members) from the same locality. It was reported by the APO Mpigi that:

> Whereas 7-15 members previously constituted groups, it was eventually discovered that members of one family were organising themselves into groups. This practice could not be tolerated because it blocked the opportunities of other deserving people. In order to guard against having a family organise itself into a group and also to lower group contribution costs, we enlarged the groups to comprise 15-30 members.[20]

The procedure also insisted on the feasibility of the project as well as for loan applicants to acquire credit for on-going activities for which they had proven experience. The credit programme also insisted on monthly repayments and mandatory savings. Members of solidarity groups were required to save 12 percent of the loan they applied for. PAP also charged an open market interest rate of 22 percent, which catered for transaction costs as well as risks involved in credit intermediation.

4.22 Organisational Frameworks of ECS and PAP

ECS was set up in the Ministry of Finance and Economic Planning (MFEP) but has since been shifted to the Ministry of Gender, Labour and Social Development (MGLSD). The institutional framework[21] established to implement ECS was the *Entandikwa* Secretariat[22] located at the

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[20] Interview with the APO, Mpigi district in October 2000.

[21] Details of the institutional framework of ECS are contained in Republic of Uganda (1995), *Entandikwa Credit Scheme (ECS) Operational Guidelines*, Ministry of Finance and Economic Planning, Kampala, p. 4-10.

[22] *Entandikwa* Secretariat is the national co-ordinating and monitoring office for

Ministry (MGLSD) headquarters. At the district level there was a District Steering Committee (DSC).[23] The DSC was composed of civil servants and politicians. The committee was responsible for the supervision and monitoring of the overall implementation of the ECS in the district. It also had the responsibility of advising the Secretariat on all matters pertaining to the ECS in the district. Under the DSC there were County Steering Committees (CSC)[24] which were dominated by politicians (local councillors). The CSC was responsible for screening and approving loan applications to be funded by ECS. Applicants for *Entandikwa* credit were required to be endorsed by three chairpersons of the village, parish and sub-county local councils before they were submitted to the CSC. The CSC was also responsible for identifying suitable IAs and recommending them to the DSC. The CSC also had a responsibility for monitoring the disbursement, utilisation and recovery of the funds under the scheme. The IAs were responsible for initial verification of the credit applicants and the appraisal of the viability of the proposed projects before

the activities of ECS.

[23] The DSC was a technical subcommittee of the District Development Committee (DDC) and was chaired by the Chief Administrative Officer (CAO). The DSC was composed of elected district councillors and district heads of departments (civil servants). However, our research found out that the DSC existed in theory but was not functional. Also the report by the Chief Internal Auditor of Mbarara district confirmed that 'the composition of DSC was not known and is not functionally on the ground up to now.' (Mbarara District Administration, *Interim Report on Entandikwa Credit Scheme*, Office of the Chief Internal Auditor, Reference No. AUD/210/3, Dated 9th November 2001, Mbarara, p. 3.

[24] The CSC is constituted by three civil servants namely, the Assistant Chief Administrative Officer, the Co-operative Officer and the unified extension worker as

forwarding them to the CSC for approval. The other responsibilities of IAs were to disburse credit to the successful applicants. They would thereafter monitor and supervise their economic activities and then enforce repayment.

In regard to the organisational framework of PAP, the executing agency of the credit programme was the Office of the Prime Minister (OPM). The specific departments, which dealt with PAP at the ministry headquarters were originally the National Steering Committee (NSC) and the Income Generation Support Unit (IGSU). Four zonal offices of Arua, Gulu, Luwero and Kabale co-ordinated the programme. These zonal offices were presided over by the Area Project Co-ordinators (APCs). At the district level, PAP's activities previously provided for a District Loans Committee (DLC) to scrutinise and approve credit disbursements and their offices were manned by Area Project Officers (APOs). Then, at the lower bottom were the Intermediary Entities (IEs).[25] To qualify, IEs were required to have been working with the community in the areas concerned for not less than three years and had to be acceptable to the local leadership. The APOs dealt directly with the IEs and also supervised their activities. Even though this organisational framework

well as local council leaders and the representative of the Intermediary Agencies (IAs).

[25] Intermediary Entities (IEs) were grassroots non-governmental organisations (NGOs) contracted to disburse PAP credit to beneficiaries at the local level. They were

differed from that of the ECS, it had to be scaled down in order to make it more efficient and lower administrative costs. Therefore, the District Loans Committee (DLC) and the IGSU at the ministry headquarters were scrapped to leave only the NSC, APCs, APOs and IEs. The objective of restructuring PAP to have only three levels was to make it efficient and effective in credit delivery.

4.3 A Comparison of ECS and PAP's Structures and Modes of Operation

It is frequently argued that one of the determinants of the successful performance of a credit programme is its design.[26] The design of the credit programme is significant because it involves clear definition of the structures through which credit will be channelled, outreach, method of identifying beneficiaries, the appropriate loans to be given, the terms and conditions of such loans, monitoring and supervision, and the mode of enforcing recovery. Unless these issues are clearly studied and well spelled out, the credit programme risks being inefficient and embroiled in loan recovery problems. In most cases, programme designs are first tested on a pilot basis after which the necessary modifications are made before the programme is allowed to expand. The World Bank has also

given a commission of 15 percent of the loans disbursed as payment for their services.

[26] See Douglas R. Snow and Terry F. Buss (2001), 'Development and the Role of Micro-credit,' *Policy Studies Journal,* 29 (2), pp. 301-2. Accessed on file://A:\development3.htm on13th March 2003.

been pre-occupied with getting the design right in its research programme aimed at building case studies of best practices for micro-credit programmes.[27]

Apart from streamlining the activities and operation of the credit programme, the targeted beneficiaries are supposed to be mobilised and trained on the objectives, terms and conditions, mode of operation, and consequences of deviating from such rules. The training of credit beneficiaries is also recognised as an important component that determines the success of the programme. Berenbach and Guzman[28] argue that training allows credit beneficiaries to improve their management and administrative techniques necessary for the success of their micro-enterprises. They refer to training as one of the integral elements that have contributed to the effectiveness of the solidarity group methodology in credit delivery world-wide.

Our scrutiny of the structure and mode of operation of ECS found it to be bureaucratic and inefficient. Funds budgeted for ECS were released by the government ministry (MFPED) to the *Entandikwa* Secretariat and subsequently forwarded to the Chief Administrative Officers (CAOs) at

[27] http://www.wordbank.org/

[28] Shari Berenbach and Diego Guzman (1994), 'The Solidarity Group Experience World-wide,' in Maria Otero and Elisabeth Rhyne (eds.), *The New World of Micro-*

the districts. The CAOs then dispatched the funds to IAs for onward transmission to successful applicants. The procedure was bureaucratic and was characterised by delays. One district official that asked to remain anonymous revealed that:

> The whole system of *Entandikwa* disbursement is extremely inefficient right from the top to the bottom. Most frequently, you are informed that the government was unable to release funds budgeted for *Entandikwa* because of shortfalls in government funding. Even when the little is released, it takes about three months to reach the district and another three months to reach the applicant. The system is clogged and it is disappointing for us the implementers. Had the political leaders involved us at the design stage may be these problems would have been avoided.[29]

This procedure was found to lead to unnecessary delay, which could be avoided by the MFPED sending the funds directly to the banks at the district for onward transmission to the IAs.

Furthermore, the ECS procedure required the IAs to monitor, supervise and enforce repayment[30] while at the same time it gave the same responsibility to CSC.[31] The CSC was supposed to monitor the operation of the scheme as well as that of IAs and then report to the DSC.[32] The DSC was also responsible for monitoring and overseeing ECS activities and then report to the *Entandikwa* Secretariat. The roles dispersed to each

Finance, London: IT Publications, p. 124.

[29] Interview with the Mpigi district official in November 2000.

[30] This responsibility for IAs was contained in: Republic of Uganda, *Entandikwa Credit Scheme Operational Guidelines*, Ministry of Finance and Economic Planning, Kampala, 22nd May 1995, pp. 4, 9 and 10.

[31] *Ibid*, p. 8.

of these implementing committees were duplicated and lacked clarity on which office was fully responsible and accountable. This confusion was reported to be responsible for poor monitoring, supervision, and recovery of the loans. When interviewed, the IAs blamed the CSC:

> The CSC has not been vigilant in mobilising the beneficiaries to repay *Entandikwa* credit and yet that is their responsibility. People in this area are very stubborn and sometimes political when it comes to repayment of *Entandikwa* loans. It therefore requires the involvement of their elected leaders to put pressure on them and remind them of their duty to repay the loans so that others can also access them. The local leaders are however lenient on defaulters because they want votes in the coming elections. They are only vigilant when it comes to meetings because they are paid an allowance.[33]

A member of the CSC in turn blamed the poor repayment on the laxity exhibited by IAs:

> It is the responsibility of IAs to ensure that *Entandikwa* loans are repaid and that is why they are paid a commission.[34]

Similarly, a member of the DSC also criticised both the CSC and IAs for not being serious in ensuring that the beneficiaries repaid the loans as quoted below:

> The roles of different organs in regard to the implementation of ECS are clearly stipulated in the ECS operation guidelines. The role of the DSC is basically to disburse funds to the IAs and also receive and forward accountability to the national headquarters. This we have been doing effectively. It is common sense that enforcing repayment is the work of IAs assisted by the CSC. They are paid a commission for this responsibility. You cannot expect a member of

[32] *Ibid*, p. 6.

[33] Interview with the representative of Ibanda Development Agency (IDA), the IA for Nyabuhikye and Igoroora, Mbarara district in October 2000.

[34] Interview with the Chairperson of County Women Council (LCIV), Ibanda South County, Mbarara district in October 2000.

the DSC to go to the villages to do somebody else's work. The problem with the village-implementing agents is that many of them are local politicians who are reluctant to pressurise defaulters to pay because they want political survival.[35]

These responses from the different organs empowered to co-ordinate the activities of ECS demonstrated the highest level of ambivalence due to the lack of clear demarcation of roles, which adversely affected the functioning of the ECS.

While the operational guidelines of ECS indicated that the Secretariat was responsible for monitoring and co-ordinating the activities of ECS, this was found to be in theory rather than practice. The Secretariat gave excuses of inadequate staff and facilitation to undertake such an enormous national task. When asked about the extent, to which the Secretariat was effective in co-ordinating and monitoring the performance of ECS activities, the following response was given:

> I can say that our effectiveness has been limited due to logistical problems. The *Entandikwa* Secretariat is staffed with only three officers, has one computer, one telephone line, a dilapidated vehicle and the department is not provided with adequate funds to co-ordinate the activities of ECS. It is because of these difficulties that we cannot do much. For your information, the task is too big and challenging. ECS covers the whole country with 214 counties. Without adequate facilitation, you can't expect miracles. But still we try, and we have been able to make some achievements.[36]

[35] Interview with a member of DSC who sought anonymity at Mbarara district headquarters in April 2003. He said his fears were because of the political nature of *Entandikwa* and the threats by the President against civil servants whom he accused of frustrating government programmes.

[36] Interview with the Commissioner in charge of *Entandikwa* Secretariat, MGLSD, Kampala in November 2000.

To a certain extent, the Commissioner was frank in regard to the area covered by the ECS. Besides, it was established that government had since 1995 only disbursed *Entandikwa* loan funds in three phases.[37] However, not all the counties, including those studied in Mbarara had received funds for the third phase. This was irrespective of the fact that political messages were continuously quoted in the media about more funds being in the 'pipeline' and about to be available. It was true that government funds were characterised by frequent delays and it was in most cases less than the amount promised if at all it came. These problems were directly affecting the implementation of the programme.

Nonetheless, the perception of the Secretariat about monitoring and co-ordination was a bit awkward. It appeared that monitoring and co-ordination had to involve physical travel to those areas, which would, of course be very costly. However, this would not have been a problem since there were already lower co-ordinating and monitoring organs. Therefore, it was not necessary to travel the whole country except where problems were acute. Nonetheless, it is a common practice among Ugandan civil servants to utilise such an opportunity to earn an extra

[37] Republic of Uganda (1999), *The Ministerial Policy Statement on Entandikwa Credit Scheme and Youth Entrepreneurs' Scheme*, Ministry of Gender, Labour and Social Development, Kampala, p. 1.

allowance since their salaries are not even enough. Moreover, it was later learnt that the previous Government Minister responsible for ECS had intentionally created a thin Secretariat for purposes of efficiency and also to avoid wasting funds meant for credit on administrative costs, which was a rational decision.

Therefore, the duplicated and bureaucratic mode of operation of ECS was found not only to lead to information breakdown and poor co-ordination, but also led to unjustifiable spending of funds that could have been given out as credit to many poor people. According to the design of the ECS, each implementation level was allocated a percentage of the total loans disbursed, to meet operational costs. The IAs used to get four percent, which was later increased to six percent of the total amount of credit allocated to each constituency (County) as a commission (to meet their transaction costs).[38] The CSC was given one percent while the DSC got half percent of the total credit disbursed in that area. Though administrative costs incurred by ECS were not substantial when compared to other credit programmes as illustrated by Table 4.2 below. These costs were unjustified because of the poor performance of the ECS.

Table 4.2: *Administrative Costs Incurred by the ECS as of July 1997 (USh Million)*

Beneficiary	Number	Phase 1	Phase 2	Total	Percent
IAs	170	256.80	210.00	466.8	4.7
CSC	214	64.20	35.00	99.2	1.0
DSC	45	32.10	17.50	49.6	0.5
Total	**429**	**353.10**	**262.50**	**615.6**	**6.2**

Source: *Entandikwa Secretariat*

The above Table 4.2 shows that a total amount of USh 615,600,000 (US$ 342,000) was spent on administrative costs in only two years (May 1995 to July 1997). This was 6.2 percent of the total loans disbursed. This transaction cost could not be justified given the fact that most of the beneficiaries defaulted. The repayment rate was standing at 40 percent. Whereas PAP reduced operational costs by rationalising and phasing out the two establishments of IGSU and DLC, the changes implemented for ECS had instead hiked administrative costs. The Commissioner of the *Entandikwa* Secretariat, informed us that the facilitation fees (commission) for IAs were increased from 4 percent to 6 percent of the total credit disbursement. He explained that: 'the increase was meant to motivate the IAs so that they do a good job.' This was irrespective of the fact that IAs involved in the disbursement of ECS lacked effectiveness and were prone to manipulation. Their incompetence was confirmed by the officer in charge of Mpigi ECS who explained that: 'The IAs lack the capacity to

[38] Each County (Constituency) was allocated USh 30 million (US$ 18,600) for *Entandikwa* loans.

handle credit disbursement because they are undercapitalised in terms of capital, staffing and training.'

Our findings in Mbarara confirmed that this was because most of these IAs were hurriedly set up by local elites and politicians to manage *Entandikwa*. Five out of the ten Counties that constituted Mbarara district had IAs that had been created by Members of Parliament. These included Kashari Development Agency (KDA) for Kashari County, Nyabushozi Development Agency (NYDA) for Nyabushozi County, Kazo Development Trust (KDT) for Kazo County, Ibanda Development Agency (IDA) for Ibanda South and North respectively. The two IAs for Isingiro South and Mbarara Municipality were also of questionable credibility as also observed by the Mbarara district Chief Internal Auditor's report.[39] They possessed no experience or expertise in handling credit.

Apart from Buwama and Bunamwaya (Mpigi district) where established and experienced NGOs such as the World Vision and Co-operative Societies were used to handle *Entandikwa*, many of the IAs in Mbarara

[39] In the case of Mbarara Municipality and Isingiro South, the Chief Internal Auditor's report described their existence as 'doubted' because their offices were abandoned. These IAs were *Ankole Union Employees Co-operative Society Ltd* and *Kaiho Farm* (known as *Kaiho School Leavers Project* officially) respectively (See Mbarara District Administration, *Interim Report on Entandikwa Credit Scheme*, Office of the Chief Internal

district were politically instituted. Besides, many of their representatives admitted that they had connections with area politicians. Some of these also accepted that they had never handled credit programmes before. The IAs visited in the three areas of Mbarara district neither had qualified staff in the credit management nor possessed adequate office facilities to handle credit. The two offices in Mbarara district did not have basic equipment such as a typewriter and were manned by unqualified personnel.[40]

The question of ECS being mismanaged by IAs was even raised by the Auditor General. The audit report noted that the inspection of *Entandikwa* credit funds in five districts by the Auditor General's Office found serious financial irregularities. The report observed:

> The absence of records at the districts showing amounts received, ledger accounting showing status of each loan, repayments, etc. Auditors were informed that the management of the scheme was left in the hands of IAs. They were therefore unable to satisfy whether all amounts disbursed reached the rightful beneficiaries and whether the loans were being repaid.[41]

Auditor, Reference No. AUD/210/3, Dated 9th November 2001, Mbarara, p. 2).

[40] In an interview with the Intermediary Agents of Nyabuhikye and Igoroora, it was established that they had completed ordinary level (standard four) but did not perform well to advance for further education. Apart from these qualifications, they had no any other specialised training in economics or business studies. In the case of the deceased Agent of Kabuyanda, we learnt that he was unqualified and was a mere farm manager of a certain Kaiho farm.

[41] Office of the Auditor General, *Audit Report Number G/9/1/95* of 16th April 1996, Kampala, Uganda.

This report by the Auditor General therefore testifies to the fact that those very offices that were being supported with high administrative expenditure were mismanaging the ECS.

In contrast, PAP, which was a sister state credit programme, operated with a thin establishment, which minimised costs. Whereas PAP had a simple and flexible loan procedure where loan applicants dealt directly with APOs or the IEs, applicants for ECS went through a long bureaucratic and rigid procedure that involved local politicians before accessing a loan. The procedure of disbursing credit was very important because it determined how fast loans would be accessed as well as the operational costs incurred during the process. This explains why PAP performed better than ECS. Therefore, the excuse given by the commissioner for being unable to effectively co-ordinate the activities of ECS was found unconvincing.

The design and mode of operation of PAP was free from bureaucratic procedures. This was attributed to the adoption of mechanisms that were recognised for successful micro-finance programmes such as the Grameen Bank, Bangladesh Rural Advancement Committee (BRAC), Bank Rakyat Indonesia (BRI) and Banco Solidario (BancoSol) of Bolivia. These banks' success is attributed to the adoption of innovative credit delivery mechanisms. These include solidarity groups, joint liability, peer pressure, mandatory savings, market interest rates, weekly or monthly repayments, targeting women, training, among many others.[42] PAP was able to replicate some of these mechanisms, an innovation that largely contributed to its efficiency and effectiveness.

Nonetheless, the variation between ECS and PAP can be explained by the role played by ADB, which controlled the PAP programme because it contributed 90 percent of the total funding. The most significant of all these factors was that PAP had been allowed more operational autonomy. No political interference was reported about PAP's activities, as was the case with ECS. The Co-ordinator of the programme testified on PAP's operational autonomy:

> PAP is a government programme to economically empower the poor people. It is a government initiative and part of the funding is from external sources. However, its design gives it a lot of autonomy from government interference. It operates more or less like a private entity. This has given it a leverage to deliver credit services effectively and efficiently and achieve set objectives without much hindrance.[43]

[42] Richard Montgomery, Debapriya and David Hulme (1996), 'Credit for the Poor in Bangladesh: The BRAC Rural Development Programme and the Government Thana Resource Development and Employment Programme,' in David Hulme and Paul Mosley (eds.), *Finance Against Poverty*, London and New York: Routledge, p. 99-112. See Paul Mosley (1996), 'Metamorphosis from NGO to Commercial Bank: The Case of BancoSol in Bolivia,' in David Hulme and Paul Mosley (eds.), *Ibid*, p. 16. See Paul Mosley (1996), 'Indonesia: BKK, KURK and the BRI Unit Desa Institutions,' in David Hulme and Paul Mosley (eds.), *Ibid*, pp. 41-68. Also see Manohar Sharma and Manfred Zeller (1999), 'Placement and Outreach of Group-based Credit Organisations: The Cases of ASA, BRAC and PROSHIKA in Bangladesh,' *World Development*, 27 (12), pp. 2123-4.

[43] Interview with the Co-ordinator of PAP programme at Kamwokya, Kampala in November 2000.

It was however established that the underlying explanation for such an elaborate programme design and efficient mode of operation derived from stringent conditions as well as strict monitoring and supervision that were conditional to ADB funding. ADB was the biggest funding agency of this programme (US$ 13.5million). It subjected the programme to efficient management systems and strict financial controls. We got information from one of the staff members of PAP at the headquarters who did not want his identity revealed that:

> The 'magic' that underlies the exceptional performance of PAP when compared with other government credit programmes is located in the terms and conditions of ADB's funding as stipulated in the memorandum of understanding between the government of Uganda and the ADB. It is this understanding that insulated PAP from political interference. Every activity whether it is the opening of new branches or recruiting new staff or disbursing credit, and even purchasing any equipment has to be endorsed by ADB.[44]

The lack of political interference was more attributed to Uganda government's fear to lose the funding than discipline *per se*. Governments in developing countries are fond of using such programmes for patronage purposes, as was the case with ECS. Through in-depth interviews with PAP officers at both the district and headquarters, it was established that:

> The PAP project is run along conventional management practices. Its activities are periodically reviewed using external and independent firms, which then recommend changes. They are subsequently effected. These are some of the 'best practices' that have made it succeed where others have failed.[45]

[44] Interview with a PAP officer at Kamwokya, Kampala in November 2000.
[45] Three in-depth interviews were held with the following officers: the PAP

It is such a mode of operation that enabled PAP credit programme to outperform ECS, which was a parallel state credit programme. The mismanagement of ECS can be explained by the fact that it was hastily set up without good planning. No feasibility studies were undertaken and neither did it allow stakeholders to participate in mapping out the strategy. Yet, if the programme was well conceived and designed with a cost effective structure, these funds would have been better utilised by being given out as loans to tens of thousands of the rural poor. Assuming that small credits of USh 50,000 (US$ 28) that are usually given out to the rural poor by NGOs and CBOs' micro credit schemes, then the funds spent on administrative costs would have effectively benefited 12,312 rural poor. However, the unfortunate thing was that these enormous operational costs could not enhance the performance of ECS since its repayment record was a miserable 40 percent.

During the course of this research, it was established that IAs/IEs were sometimes not easily available in some of the remote areas. For instance, it was reported that PAP was unable to extend credit to Butambala and Gomba counties while some parts of Mawokota in Mpigi district were not covered due to lack of IEs. In the case of ECS, the counties of Kyadondo and Gomba faced a similar problem of having no IAs to

Programme Officer in November 2000; the PAP National Project Officer in November handle credit disbursement. The information we got from the Assistant CAO and the APO in Mpigi, indicated that they were unable to get IAs and IEs to handle *Entandikwa* and PAP loans respectively because they were not available in the counties of Butambala, Gomba and Mawokota. This was attributed to remoteness and backwardness of these areas. However, a different explanation, which came more vividly in the focus group discussion was that the elites as well as educated young men tended to migrate and work in Kampala City. They reported that many of their successful people were not interested in bringing back development to these areas. Hence, many of the prominent people in these areas were absentee landlords and were not permanent residents. In the case of Kabuyanda (Mbarara district), it was learnt that the cheque for the second disbursement of *Entandikwa* credit expired because there was no IA to cash it since the manager of Kaiho Farm had died and the farm had subsequently collapsed by the time the cheque was dispatched.

Although the identification of IAs/IEs was a problem and their capacity inadequate, PAP had to some extent overcome the problem by incorporating a component of training for both the beneficiaries and the IEs. Given the fact that local IEs were weak in their capacity, PAP

2000; and the APO, Mpigi in October 2000.

organised training of their staff in PAP credit methodology. This was explained during an interview with the APO Mpigi:

> Our success is attributed to many factors namely, client participation, transparency and training. We allowed the local people to identify credible NGOs that were operating in the area for a long time. Local people participated in their identification. After this, we trained these local NGOs in our credit methodology. Later on, the beneficiaries were also trained. These organisational attributes have been the secret behind PAP's success.[46]

PAP enhanced the capacities of IEs through training their staff in credit management as well as giving basic training to the beneficiaries. Credit beneficiaries were given pre-loan training for eight weeks in which they were equipped with basic knowledge about group dynamics and management, bookkeeping, records and enterprise management. In addition to this, PAP's non-financial services included the provision of extension services and market information to beneficiaries. PAP facilitated government extension officers at the district by paying them daily allowances to advise credit beneficiaries of PAP. It also provided market information to farmers from the government and the Uganda Chamber of Commerce. Lastly, PAP credit allowed some degree of participation by the beneficiaries through monthly group meetings as well as meetings organised with PAP credit officers. These innovations not only enhanced the capacity of PAP beneficiaries to utilise the loans but also provided them with market information.

[46] Interview with the APO for Mpigi district in November 2000.

We were also informed through another interview with the National Co-ordinator for PAP, that the second phase (2000-2005) had an aspect of capacity building for IEs. This phase was going to include more training of the staff of IEs. It would also include provision of equipment such as office cabinets for keeping their records, typewriters and transport (motorcycles and bicycles) for the liaison staff. In contrast, ECS did not have a training component for both the IAs and the beneficiaries. It was apparently clear, therefore, that no effective innovations had been undertaken to improve the performance of ECS as was the case with PAP. The reforms, which helped to improve the performance of PAP were attributed to periodic evaluations by independent consultants. This helped to detect and rectify the loopholes. It was evident that the training component had considerable impact on the performance of the credit programme.

4.4 A Critical Assessment of State Credit Programmes on Poverty Alleviation

One of the reasons given by the NRM government for state intervention in rural credit markets was that formal financial institutions were discriminating against the rural areas and the poor in particular. The concern of the NRM government is frequently cited by other developing countries to justify state intervention in credit markets. The standard justification for state intervention in credit markets is to avail the rural poor with financial resources so that they can revolutionise their farming techniques. It is believed that by providing subsidised credit to small-scale farmers would lead to the necessary investments in technology and inputs that lead to increased agricultural production and income.[47] Similar programmes that have been implemented by the state elsewhere for the same purpose include the Malawi Mudzi Fund (MMF), Bank Rakyat Indonesia (BRI) and Badan Kredit Kecamatan (BKK) of Indonesia. However, their experience with subsidised credit was disappointing.[48] Subsidised rural credit programmes resulted in high arrears and generated losses both for the financial institutions administering the programmes and for the government and donor agencies. It is in this very context that ECS and PAP were initiated to make funding available to rural people.

The first achievement of both ECS and PAP was making credit available to the rural poor who, otherwise, could not access it from conventional financial sources. The ECS covered the entire country and to some extent

[47] Gabriel A. Fuentes (1996), 'The Use of Village Agents in Rural Credit Delivery,' *The Journal of Development Studies*, 33 (2), p. 188.

[48] Graeme Buckley (1996), 'Rural and Agricultural Credit in Malawi: A Study of the Malawi Mudzi Fund and the Smallholder Agricultural Credit Administration,' in David Hulme and Paul Mosley (eds.), *Opcit*, pp. 371-81. Also see Paul Mosley (1996), 'Indonesia: BKK, KURK and the BRI Unit Desa Institutions,' in David Hulme and Paul Mosley (eds.), *Opcit*, pp. 33-5.

succeeded in making funding available to the rural areas traditionally neglected by commercial banks. The ECS extended loans equivalent to USh 9,308,400,000 (US$ 9.92 million), which were accessed by 39,200 people whose categories are indicated in Table 4.3 below.

Table 4.3: *Categories of Beneficiaries of ECS (September 1997)*

Beneficiaries	Total Number	Percentage
Men	14,050	34.6
Women	13,250	33.7
Youth	11,400	30.5
Disabled Persons	500	1.2
Total	39,200	100

Source: *Entandikwa Secretariat*

The above illustration shows that ECS made some achievements in terms of outreach. Apart from covering both urban and rural areas, it was accessed by those categories of people that were always discriminated against by formal financial institutions. Formal financial institutions discriminated against women, the youth and disabled because they rarely own property and therefore lack physical collateral. Therefore, the fact that ECS was able to access those areas that were historically neglected was not a mean achievement.

In the particular case of Mpigi district, there were no clear records of how many beneficiaries had accessed ECS and neither was the exact amounts known. This happened to be the general problem affecting ECS where the only figures available indicated loan disbursements while those for recoveries were absent, an indication that the programme was poorly managed. When we asked the officer in charge of Mpigi district ECS about the number of beneficiaries, this was his reply:

> I do not have the exact figures with me except if I sit down and compile them. It requires some bit of time to sit and look into the files. This is because ECS is a revolving fund and therefore when we have a sizeable amount of loan recoveries on the collection account[49] then we give it out to those on the waiting list. What I can only give you is a rough estimate.[50]

He gave the estimates of 1500 to 1800 beneficiaries and said that the total amount disbursed was over USh 350 million. Nonetheless, these estimates for Mpigi district were contradicted by the progress report signed by the CAO but prepared by the same official for submission to the *Entandikwa* Secretariat, dated September 25, 2000 and referenced CR.210/2. This was one of the documents we found among the few ECS documents he willingly gave to us after we had requested for relevant documents. These estimates are illustrated in Table 4.4.

[49] *Collection Accounts* were as a result of a government directive to districts to create a bank account that was specifically for *Entandikwa* loan recoveries.

[50] Interview with Assistant Chief Administrative Officer in charge of

Table 4.4: *Progress Report on ECS Activities in Mpigi District*

Constituency	Phase 1 Disbursement	Recovered	Phase 2 Disbursement	Recovered	Unpaid Balances	Phase 3 Disbursement
Busiro North	USh 30,000,000	USh 13,203,150	USh 22,117,500	USh 10,995,200	USh 17,929,270	-
Busiro East	30,000,000	6,772,930	27,400,000	10,372,619	6,325,000	-
Busiro South	30,000,000	8,795,950	-	-	6,794,000	-
Mawokota North/ South	56,700,000	25,923,700	24,454,000	1,982,800	5,751,000	12,518,100
Butambala	28,350,000	13,117,320	5,912,000	-	1,791,300	-
Kyadondo North/ East	90,000,000	-	-	-	16,850,288	-
Gomba	30,000,000	-	-	-	8,638,000	-
Entebbe	30,000,000	-	60,000,000	-	-	-
Kyadondo South	-	-	15,000,000	8,778,200	-	7,057,355
Total	325,050,000	67,813,050	154,883,000	32,128,819	64,078,858	19,575,455

Source: *Mpigi District Administration.*

Table 4.4 indicates the amount of *Entandikwa* loans that were disbursed and recovered in the three phases to the nine counties (constituencies) of Mpigi district. However, the table had many missing figures especially in regard to recoveries. While the Table above has a lot of missing figures, it still gives a vivid picture about the disbursement in three phases

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Entandikwa, Mpigi district headquarters in November 2000.

amounting to USh 499,508,455, which was a lot of money even though the recovery of loans was very poor compared to the PAP scheme. The major problem with ECS was the absence of accurate information about its credit activities. The explanation for lack of vigilance on the part of district officials was because their role in ECS could be compared to that of a messenger. The districts were not involved at the level of programme design and felt that they had no power over it. Neither did they have any influence at all on how it was operating. Yet, it was riddled with many weaknesses.

The question of participation by stakeholders has often been emphasised as being a prerequisite for the success of interventions designed to improve the welfare of the poor.[51] It is argued that when the poor are allowed to participate in the design, implementation and evaluation of policy outcomes or programmes to alleviate poverty then there are higher chances for them to succeed and be sustainable.[52] As far as the two state credit programmes were concerned, it was established that their inception had no grassroots inputs. Even though there was an impression created that consultations were carried out in the designing

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[51] World Bank (1994), *The World Bank and Participation*, Operations Policy Department, Washington, D. C.: The World Bank, December, p. 30.

[52] Elizabeth Kleemeier (2000), 'The Impact of Participation on Sustainability: An Analysis of the Malawi Rural Piped Scheme Programme,' *World Development*, 28 (5), p. 931.

of PAP, it only involved the top policy makers and technocrats at the central government level. In the case of ECS, it evolved from a presidential promise, which was later formalised. Therefore, credit, as a state intervention to poverty was not a result of a participatory policy outcome. It was rather an outcome of top-down approaches. Interviews with local government officials revealed that the policy framework on credit as an interventionist strategy did not include their input. A district councillor in Mpigi district had no kind words for the institution of ECS:

> The government disregarded the districts when initiating ECS and yet it is the districts that are supposed to oversee its implementation. The management of *Entandikwa* loans should have been decentralised to the districts because we are the ones accountable to the people and not the distant bureaucrats sitting in Kampala. This is why there is no serious follow up and the programme hasn't had a serious impact. Almost each and everybody is involved – the president, members of parliament, local councillors, name it. All these are sending conflicting messages to the people. As far as we are concerned at the local level, this programme is not owned by us. We have no power over it and therefore cannot have influence over its implementation. So, why be responsible for something we have no control over?[53]

Therefore, there is no doubt that participation of the beneficiaries in programmes designed to improve their conditions is essential.

Further evidence indicated limited participation in the operations of PAP by the beneficiaries of credit. While to a certain extent PAP's approach allowed some degree of participation to beneficiaries, there was no component of participation within ECS. PAP extended credit through local IEs and required beneficiaries to be organised into groups. The formation of these groups was however according to the prescriptions of PAP. Even existing grassroots associations were restructured according to PAP's methodology, which required participation within solidarity groups. It was established that PAP organised meetings where problems faced by the beneficiaries were discussed. These meetings were held between solidarity groups and IEs or sometimes between solidarity groups and APOs.

Beneficiaries of PAP also reported that they sometimes made suggestions, which were accepted by PAP officials. An example was the suggestion that group sizes should be increased from 7-15 to 15-30 so as to lower individual contributions as well as group administrative costs. Another indicator of participation was attending to the complaints of clients and sometimes rescheduling loans. Though PAP's credit mechanisms allowed some participation, it was learnt that this had no significant influence on the terms and conditions of PAP loans as captured in this testimony:

> The participation that is emphasised in PAP is much more within groups. However, when it comes to issues that affect PAP's relationship with groups there is a lot of rigidity. For example, we had wanted PAP officials to give us a grace period of at least three months before payment begins but they could not listen. They are not flexible when it comes to issues that involve money.[54]

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[53] Interview with the district councillor for Mpigi district in November 2000.
[54] Interview with a female respondent and beneficiary of PAP in Bunamwaya,

Therefore, participation was not found to have a significant impact on PAP's mode of operation. In contrast, ECS did not use the group mechanism as a basis for disbursing its credit and neither did it have a component of participation where clients could meet with creditors to discuss pertinent issues that arose during the lending process.

Although the participatory approach used by PAP was to some extent limited, it some how led to positive programme outcomes. The group mechanism to access credit was found to have impacted positively on the beneficiaries of PAP credit. Cases of improved relations and co-operation between members were reported. It was for instance indicated that group members advised and sometimes assisted each other in various ways as reported by one female respondent:

> Ever since I joined the PAP group I have benefited a lot. Group formation increased co-operation in the village. We offer advice to each other even on issues that are outside credit. We also assist each other, for example, when I'm going to the weekly market, I leave my young children with a member of my group. We also assist each other in many different ways that are intimate to women.[55]

Whereas PAP had an impressive performance in terms of a good repayment record (93 percent) and had improved the welfare of its clients, ECS performed poorly with a repayment rate of 40 percent and

Mpigi district in November 2000.

[55] Interview with one female respondent and beneficiary of PAP in Buwama,

with no noticeable impact on the welfare of beneficiaries. Evidence of participation in the activities of PAP was further acknowledged by the consultant's report.[56]

The participation of the beneficiaries in the development programmes intended to benefit them has for long been recognised.[57] It is now recognised in development circles that the involvement of stakeholders in identifying the problem, designing the strategy, implementing and evaluating the programme outcomes leads to success. Participation has therefore been found to have a positive correlation with the success of development programmes.[58] The failure of state-directed credit programmes to involve the stakeholders especially the districts in the initiation and design of credit programmes partly explains why ECS was futile.

In the case of Mbarara district, a total of USh 453,253,000 was received as *Entandikwa* loans. Only, USh 193,547,975 was recovered by 9th November

Mpigi district in November 2000.

[56] Ichoya Consortium Company, *Final Report on the Mid-Term Evaluation of Poverty Alleviation Project (PAP)*, Submitted to Poverty Alleviation Project (PAP), Office of the Prime Minister, Kampala, Uganda, June 1997.

[57] Joseph Ascroft and Sipho Masilela (1994), 'Participatory Decision-Making in the World Development,' in Shirley A. White, K. Sadānadan Nair and Joseph Ascroft (eds.), *Participatory Communication: Working for Change and Development*, New Delhi and London: Sage Publications, p. 260.

[58] J. Isham, D. Narayan and L. Pritchett (1995), 'Does Participation Improve Performance? Establishing Causability with Subjective Data,' *World Bank Economic*

2001. The outstanding balance was USh 242,183,895. For over five years, the loan recovery rate was 43 percent. The details are in Table 4.5 below.

Table 4.5: *Entandikwa Loan Recoveries in Mbarara District (1995-2000)*

County	Intermediary	Phase	Principal	Recovery	Amount Due	Recovery Percentage
Nyabushozi	NYDA	1	28,100,000	21,624,800	6,475,000	77
		11	39,500,000	3,900,000	35,600,000	10
Sub-Total			67,600,000	25,524,800	42,075,000	40
Kazo	KADET	1	28,350,000	28,718,000	378,000	100
		11	39,875,000	14,606,000	25,269,000	37
Sub-Total			68,225,000	43,324,000	25,647,000	64
Ibanda North	IDA	1	28,010,000	16,894,000	11,116,670	60
	CHL	11	35,150,000	7,000,000	9,568,000	20
Sub-Total			63,160,000	23,894,000	20,984,670	40
Ibanda South	IDA	1	25,090,000	21,539,695	3,550,705	86
	IDA	11	34,550,000	18,898,630	15,551,370	54
Sub-Total			59,640,000	40,438,325	19,102,075	68
Kashari	KDA	1	28,350,000	12,242,100	16,107,900	43
		11	30,000,000	-	30,000,000	0
Sub-Total			58,350,000	12,242,100	46,107,900	21
Bukanga	UNFA	1	28,350,000	12,744,500	15,605,500	45
		11	15,000,000	-	15,000,000	0
Sub-Total			43,350,000	12,744,500	30,605,500	29
Isingiro South	UNFA	1	28,350,000	10,048,000	18,302,000	35
		11	13,150,000	-	13,150,000	0
Sub-Total			41,500,000	10,048,000	31,452,000	24
Rwampara	AVECSH	1	28,350,000	22,365,650	5,984,350	79
		11	23,078,000	2,966,600	20,225,400	13
Sub-Total			51,428,000	25,332,250	26,209,750	49
Grand Total			453,253,000	193,547,975	242,183,895	43

Source: *Mbarara District Local Government.*

Review, 9 (2): 175-200.

Table 4.5 shows the distribution of *Entandikwa* in the ten counties (constituencies) of Mbarara district. The Table shows that performance in terms of recovering the loans was poor as exemplified by the recovery percentages. Apart from the counties of Kazo, and Ibanda South whose recovery rates were 64 and 68 percent respectively, the rest of the counties recorded miserable recoveries. Besides, there were missing figures in the case of loan recoveries for the counties of Kashari, Bukanga and Isingiro South. Therefore, it was evident that loan repayment was very poor when compared to PAP. There are various explanations as to the varying performance of the two state-directed credit programmes. These range from participation to co-ordination and institutional mechanisms as elaborated in the proceeding discussion.

Rather than involving stakeholders in the design of state-directed credit programmes, the NRM government adopted a top-down approach. The government created the *Entandikwa* Secretariat to co-ordinate and monitor the operation of the ECS. The other responsibility for the Secretariat was to provide a link between the Ministry of Finance and Economic Planning (MFEP) and all government programmes focusing on poverty. However, this research found no link between the Secretariat and the various programmes engaged in poverty alleviation. Different credit programmes were operating under different departments without any linkage with *Entandikwa* Secretariat. The credit activities of NGOs were registered and co-ordinated under the Ministry of Internal Affairs while PAP and the NURP were being co-ordinated under the Office of the Prime Minister (OPM). Likewise, Karamoja Development Agency (KDA) was under the President's Office and the CSDP under Bank of Uganda (the Central Bank). The *Entandikwa* Secretariat was therefore not linked with the various credit programmes that were engaged in poverty alleviation.

Moreover, it was established that the Secretariat lacked the capacity to even know what was happening within its own backyard. Interviews with the officials of the Secretariat confirmed that they were not effectively in touch with the activities of ECS but depended on reports from the districts because they were not supplied with logistical support to do the monitoring and supervision:

> It has not been easy for us to effectively monitor the activities of *Entandikwa* in the country because the government does not give us adequate facilitation. The Secretariat is crippled by poor facilitation. Funds are released late and are not even enough for country tours. We have one dilapidated vehicle and the Secretariat is understaffed with only three officers for this immense job. We therefore have no alternative but to depend on reports from the districts although they are sent late and sometimes they are either inaccurate or not forthcoming. We have been pressing the ministry to increase the facilitation funds and it has now agreed to raise it.[59]

[59] Interview with the Programme Officer for ECS, Kampala in December 2000.

One telling indication that there was weak co-ordination between the Secretariat and other government departments engaged in poverty alleviation was their inconsistency about repayment figures. Whereas the Commissioner of ECS insisted that the repayment rate for ECS was 55 percent, the official poverty status report from the OPM indicated that the recovery rate for ECS was 40 percent.[60] The later figure not only appeared to be authentic but almost confirms our findings in the districts of Mbarara and Mpigi. It was, therefore, evident that the performance of ECS was poor.

In contrast, the first phase of PAP credit covered twenty-nine districts. The second phase was supposed to start in January 2000 and was expected to cover the whole country but had not begun by the time this research was conducted (October 2000 and 2001) because the ADB had not yet released the funds. According to the National Project Officer, 25,380 clients, of whom 15,228 were women and 10,152 men, had by August 1999 accessed PAP loans. The total loan portfolio was put at USh 11.5 billion. In the case of Mpigi district, a total of 2,490 loan recipients were recorded. These had accessed PAP loans equivalent to USh 1,174,687,250 and repayment amounted to USh 1,157,000,000 (86 percent). In the case of Mbarara district, it was not included in the first phase but it

[60] Republic of Uganda, *Poverty Alleviation at the Household Level: Status and*

was to be covered in the second phase, which had not started by the time this research was conducted.

Notwithstanding the absence of precise records about the activities of ECS, the available data from ECS and PAP illustrate that there was substantial credit coverage in terms of outreach. Outreach refers to the number of beneficiaries, the gender categorisation and loan amounts disbursed. In terms of outreach the two state credit programmes were able to access the youth, disabled and women as well as rural areas. For example, 30 percent of ECS beneficiaries were the youth and women while 60 percent of PAP beneficiaries were women. Therefore, it is evident that these state credit programmes generally reached many rural people who were previously excluded or not served by formal financial institutions. Accordingly, if outreach or credit coverage in terms of the number of beneficiaries and loan amounts was to be used as an indicator of good performance, then there was no doubt that ECS and PAP performed well in a spate of seven years.

We have indicated that the NRM government was able to achieve its justification for the intervention in rural financial markets. Notwithstanding the state's objective of reaching the discriminated, one

Prospects, Office of the Prime Minister, May 1999.

of our research objectives was to assess the impact of the two credit programmes on the welfare of the beneficiaries. In other words, the research sought to establish whether state credit enabled the beneficiaries to acquire some assets that would in the long-run help to alleviate their poverty. The results are discussed in the proceeding sections.

4.41: Credit Delivery Mechanisms of ECS and PAP

In comparative terms, PAP was more successful than ECS. This success can be attributed to organisational efficiency and appropriate credit delivery mechanisms. The indicators of such efficiency can be categorised in terms of access, disbursement and enforcement of loan repayment. PAP did not require physical security from the beneficiaries. Instead, it used group co-guaranteeing and mandatory savings. Peer pressure and monitoring, supplemented by effective supervision by credit officers were used to secure the loans disbursed. Monthly meetings where repayments were made, were also encouraged within groups as well as between groups and credit officers. Moreover, PAP's clients were induced with a five loan cycle system as a means of motivating them to make timely repayments. The first cycle involved a maximum loan of USh 200,000 (US$ 112) with an increment of USh 200,000 for each of the four subsequent cycles. Reports from both the credit administrators and beneficiaries confirmed that this particular method was effective in motivating beneficiaries to repay the loans. Some of the common responses from a focus group discussion about the attractiveness of graduating to a bigger loan on repaying the previous one were:

> The good thing about PAP loans is that once you repay the first loan you qualify for the next and bigger one. This is a very good arrangement especially for some of us involved in business. Small businesses of our kind require constant injection of funds in order to grow. Otherwise, given the daily domestic and market pressures we face, our businesses can easily collapse without further support. Our only prayer is that PAP should continue to operate in this area.[61]

In contrast, no similar incentives were found to exist in ECS. The few who accessed the loans did not have a second alternative. Moreover, the amount to be accessed depended on the whims of CSC and availability of *Entandikwa* loans was not regular. Most of the beneficiaries of the ECS interviewed complained that they had received less credit than that applied for.

> Although I had applied for a loan to start trading in agricultural produce. I was surprised to receive an amount that was worth buying only a weighing scale. I do not know exactly what they considered when approving such an insufficient amount and yet I indicated the requirements in my application. These people are not serious! Now, how do they expect me to start this business and later on repay the loan?[62]

Similarly, a middle aged female member of a PAP-constituted group confided in me that:

> PAP is a good loan scheme. You know sometimes after acquiring a loan you can get domestic problems and use part of the loan to solve

[61] Responses from a focus group discussion composed of beneficiaries of PAP. It was conducted in Bunamwaya, Mpigi district in November 2000.

[62] Interview with a male respondent and *Entandikwa* recipient in Kabuyanda, Mbarara district in September 2000.

> them. Even in normal circumstances when the loan is duly invested but no profits are realised, you have to try and make sure that you look for money from elsewhere and repay it. Otherwise, you will not only lose the next loan but also the credibility for future access. Nobody wants to lose such an opportunity because PAP loans are helpful.[63]

This finding also concurs with the argument that the possibility of beneficiaries accessing another bigger loan is instrumental in improving repayment rates. The World Bank Development Report[64] revealed that borrowers acknowledge that their greatest incentive for strict repayment is the expectation of getting another loan. It is also argued that one of the innovations that have made the Grameen Bank a successful micro-credit institution has been the initiation of repeat loans.[65] Access to further credit has been recognised as a strong incentive for repayment and many micro-credit programmes have adopted this innovation.

On the other hand, ECS failed to ensure transparency in access to the loans because of using political agents. By allowing politicians to identify the beneficiaries, ECS was unable to get honest clients. This procedure was found to be deeply flawed because many of the agents entrusted with this responsibility were local politicians whose screening criteria of

[63] Interview with a female respondent and recipient of PAP credit in Bunamwaya, Mpigi district in November 2000.

[64] World Bank (1989), *Financial Systems and Development, World Bank Report*, New York: Oxford University Press, p. 120.

[65] Joseph E. Stiglitz (1990), 'Peer Monitoring and Credit Markets,' *The World Bank Economic Review*, 4 (3), p. 361.

loan applicants was not necessarily based on technical competence but on political interests and considerations. Only three technical officers mentioned earlier were represented on the CSC. However, their role was basically advisory. We learnt that the local politicians ignored their advice on various occasions:

> There is a lot of conniving among local politicians sitting on the CSC and for us we watch helplessly because if you interfere with their agenda they can make your work difficult. These councillors hold private meetings and agree in advance on how to support each other's loan applicants. They come to CSC when they already have predetermined positions. The CSC is just for window dressing purposes because unconnected loan applicants lose out. The CSC will continue to be unfair to some loan applicants unless politicians are removed from it.[66]

The manipulative roles of local political leaders notwithstanding, the three technical officers were not versed with credit management. Therefore, even if the local politicians were to listen to them probably there was not much they could do. It would have been appropriate, if the management of *Entandikwa* loans were put under the control of a competent body or person qualified and experienced in credit management. One that could undertake feasibility studies of the projects submitted for loan consideration by loan applicants. This was unfortunately ignored to the peril of ECS. In-depth interviews with both the recipients and IAs also confirmed that the local politicians themselves accessed the loans, recommended their relatives and friends, and their

[66] Interview with the Community Development Officer for Ibanda, Mbarara

political supporters especially their campaign agents. One of the revelations was that:

> There is a lot of influence peddling in approving loan applications. Local politicians have their own favourites and they push their way through. There is not much I can do about it because they have all the power. They even have the power to decide on which Intermediary Agency should manage the disbursement of *Entandikwa* loans in their area of jurisdiction. What I can tell you is that the process of allocating loans is highly manipulated. I'm just a Secretary to the CSC and I can only advise but not influence the trend of making decisions.[67]

Another response from a male beneficiary in Nyabuhikye confirmed the information given by the Intermediary Agent. He said:

> I was one of the few who succeeded to get a loan of USh 200,000 because I had a good plan and my reputation is known in this area. I'm a prominent businessman. But not all those who got loans did on merit. Many are connected in one way or the other to local councillors. Some of us were given because they know we are opinion leaders in this area and would make noise. But how many people can do that? Something needs to be done to correct this system.[68]

In another interview with a local councillor in Kabuyanda, he assured us that there was no problem with the allocation of *Entandikwa* loans as captured in this testimony:

> The whole process of screening and extension of loans to successful applicants is very transparent and people are happy with the outcome. At least I have not received any complaint from any applicant.[69]

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district in October 2000.

[67] Interview with the representative of Ibanda Development Agency (IDA), an Intermediary Agency (IA) for Nyabuhikye and Igoroora, Mbarara district in October 2000.

[68] Interview with a male respondent and recipient of *Entandikwa* credit in Nyabuhikye, Mbarara district in October 2000.

[69] Interview with the Chairperson LCIII (Sub-County) in Kabuyanda, Mbarara district in September 2000.

It should be noted that there was discrepancy in the two responses from an Intermediary Agent of Ibanda and a local leader in Kabuyanda. It was found out that the local politician gave us misleading information because he was part of the problem affecting the implementation of ECS. It was however very difficult to confirm the reports that local politicians accessed the loans because they used other people as conduits to access such loans. Most of these local politicians were reported to have used their spouses and children to acquire ECS loans.

The IAs also took advantage of the laxity within the ECS procedures to connive with applicants and then fraudulently overrate their applications. Interviews with some of the beneficiaries indicated that there were cases where applicants bribed IAs to make their applications qualify for credit. However, these assertions were difficult to verify because IAs insisted that beneficiaries were selected on the basis of the strength of their recommendations as well as the feasibility of their proposed projects:

> Don't listen to the allegations of some of these people. There is no grain of truth in them. It is just nonsense. You know people in rural areas are fond of gossiping especially when they have not qualified. It is sheer jealousy otherwise the system of allocating credit does not allow any influence to the IA. Many people including their locally elected leaders constitute the allocation committee. The selection is not a single-handed act of the IA. Of course, not everybody can qualify. The money is not enough for each and everybody.[70]

[70] Interview with the representative of Ibanda Development Agency (IDA), an Intermediary Agency (IA) for Ibanda, Mbarara district in October 2000.

Despite the denial, a critical observation of some of the beneficiaries showed that they were the influential who were comparatively well off. On the other hand, it is evident from the above responses that the low status and poor unconnected groups were generally left out on the pretext that their applications were inadequate. Therefore, the allegation of corruption, though difficult to ascertain, appears to have been well founded.

The concerns about the distortions of state-sponsored credit programmes such as ECS have for long been raised. Basu[71] asserts that experience has shown that government-sponsored agencies have in fact benefited local elites who could have obtained loans at commercial rates. A comparative experience with ECS can be found in Buckley's work on Malawi.[72] He notes that one of the weaknesses that contributed to the poor performance of the Smallholder Agricultural Credit Administration (SACA)[73] was the fact that loans largely went to the better off or elite

[71] Santonu Basu (1997), 'Why Institutional Credit Agencies are Reluctant to Lend to the Rural Poor: A Theoretical Analysis of the Indian Rural Credit Market,' *World Development*, 25 (2), p. 267. Also see Marguerite S. Robinson (1994), 'Savings Mobilisation and Micro-enterprise Finance: The Indonesian Experience,' in Maria Otero and Elisabeth Rhyne (eds.), *Opcit*, p. 29.

[72] Graeme Buckley (1996), 'Rural and Agricultural Credit in Malawi: A Study of the Malawi Mudzi Fund and the Smallholder Agricultural Credit Administration,' in David Hulme and Paul Mosley (eds.), *Opcit*, p. 360.

[73] SACA is a national agricultural credit agency (Government scheme) established to give credit to the poor in Malawi.

borrowers instead of the targeted poor. Despite the better lending terms, SACA's recovery rate stood at 43.5 percent.

In other circumstances, IAs diverted credit to other things other than those specified. A case in point was cited in Mpigi district by the Assistant CAO where two IAs embezzled credit for Kyadondo and Gomba counties respectively. He reported that the two IAs were however made to refund these funds after which their services were terminated. Therefore, in terms of accessing and securing loans, PAP was found to have outperformed ECS whose operational procedures were politicised, full of laxity and very ineffective.

In the case of PAP, organisational effectiveness led to high repayment rates. There has been widespread tendency to measure the effectiveness of credit programmes using repayment rates. Snow and Buss[74] argue that micro-credit programmes all too often measure their effectiveness in terms of credit recovery and loan repayment rates. They further contend that although the 'persuasive' assumption has been that micro-credit increases the wellbeing of the poor, very little has been done to determine the extent to which micro-credit programmes actually increase

[74] Douglas R. Snow and Terry, F. Buss (2001), *Opcit*, pp. 296-301.

economic wellbeing of the beneficiaries. Rahman[75] harbours the same feelings when he argues that in recent years the most important criterion for success of micro-credit programmes is determined by their ability to achieve financial sustainability with less regard to the beneficiaries' wellbeing.

Repayment performance is an important criterion for evaluation because without it credit institutions would not be sustainable. While repayment rates are an important ingredient of the effectiveness of credit programmes, there is also need to look at the material contribution of credit programmes to the beneficiaries. Available evidence, for instance, shows that while the much heralded Grameen Bank has been able to maintain high repayment rates of over 95 percent, its clients appear not to be faring well contrary to the impression created. Rahman[76] has pointed out how the Grameen Bank's policy to ensure economic viability has had crippling effects on the beneficiaries especially women. He reports that this approach has increased the indebtedness of borrowers, frustration and led to acts of violence. It is against this concern that this study assessed state-directed credit programmes in regard to poverty alleviation as opposed to their sustainability prospects. We therefore

[75] Aminur Rahman (1999), 'Micro-credit Initiatives for Equitable and Sustainable Development: Who Pays?,' *World Development*, 27 (1), p. 78.
[76] Aminur Rahman (1999), *Ibid*, p. 72-9.

attempted to establish whether the two credit programmes impacted positively on the welfare of beneficiaries. In an attempt to assess the impact of state credit on the beneficiaries, we looked at the purpose of borrowing, loan utilisation and repayment performance as hitherto presented and discussed.

4.42: The Utilisation of State-Directed Credit by the Beneficiaries

Our research findings established that the performance of beneficiaries had a significant relationship with how the loan was utilised as well as gender composition. The other variables such as age, education level and family size were found not to have any serious influence. The respondents who accessed and utilised state credit successfully were those that never diverted loans to projects other than those specified in their applications as Table 4.6 below indicates:

Table 4.6: *A Contrast between Borrowing Purpose and Loan Utilisation*

District	Loan Type	Gender	Borrowing Purpose			Loan Utilisation				Total Number
			Investment	Services	Consumption	Investment	Services	Consumption	Other	
Mbarara	ECS	Male	7	0	0	2	3	2	0	7
		Female	3	0	0	2	1	0	1	3
Mpigi	ECS	Male	6	0	0	2	2	2	0	6
		Female	4	0	0	3	1	0	0	4
	PAP	Male	4	0	0	4	0	0	0	4
		Female	6	0	0	6	0	0	0	6
Total Number			30	0	0	19	7	4	1	30

Source: *Compiled from Field Data.*

Details of items under each of the three categories in the Table 4.5.

1. **Assets**, namely, land, buildings, motorcycle/bicycle, business stock, income-generating agricultural activity, acquisition of animals, occupational equipment e.g. sewing machine, toolbox etc.

2. **Services** include: education, health, nutritious foods.

3. **Household consumption** goods include: paying debts, food, purchase of household property e.g. furniture, kitchenware, radio, beddings, etc.

4. **Other uses** include: stolen funds or funds lost during the course of investment.

It was not possible to strictly categorise between traders and smallholder farmers because all of those involved in trade also had a leg in agriculture. Our interviews also met problems in trying to make a distinction between the purpose for borrowing and credit utilisation. As

Table 4.6 above illustrates, all the responses to the question: *What was your reason for borrowing?* were 'to invest in an income-generating activity.' The various categories that constituted the category 'investment' are indicated under Table 4.5.

However, when it came to the other two questions: *What did you use the loan for?* and *What achievements did you realise from the loan?* The responses as indicated in Table 4.6 gave mixed results. These included investment, paying for services and consumption. Out of the thirty beneficiaries of state credit in both Mbarara and Mpigi districts, nineteen respondents reported that they invested the loans in income-generating activities as indicated on their application forms. The other twelve beneficiaries diverted the loans into services like health as well as consumption while one had her money confiscated by the husband.[77] As the Table 4.6 illustrates, eleven women beneficiaries adequately used the loans and could mention their achievements. However, men gave a lot of excuses. They blamed the small amounts given, the delay involved as well as natural hazards (in the case of agriculture) for the poor performance of loans.

[77] It should be noted that when the figures are added up they become more than the thirty respondents. This can be explained by the fact that some respondents used the loans in a diversified manner. Part of the loan was invested while another portion was

The responses in Table 4.6 can be interpreted as follows. First, many of the *Entandikwa* recipients lied in their loan applications. This is why the general response on why they borrowed indicated that they wanted to invest in an income-generating activity and yet many did not. This was done for the sake of qualifying for credit. Many of the responses in Table 4.6 show that *Entandikwa* recipients and especially men used the loans for a variety of activities other than those indicated on their applications. These ranged from paying for household services such as education, health as well as for consumption. The diversion of loans can be attributed to organisational laxity and the use of local politicians as part of the implementing machinery.

The second interpretation is that PAP loans were overwhelmingly invested in income-generating activities and also generated some benefits to the clients than was the case with ECS. The effectiveness of PAP can be attributed to organisational vigilance such as strict monitoring. In addition, other innovations such as the use of group mechanism, training, repayment incentives and provision of extension services and market information played an important role.

spent on services or consumed.

Another observation about the above responses is that it was difficult to make a clear distinction on how credit was utilised. This is because some clients invested part of the credit while the other part was spent on either paying for services or consumption. There was also no clear separation of income or benefits from the loans from those of other household activities. The benefits were mixed up and the beneficiaries had a lot of difficulty in pointing out with precision the accruing benefits.

It is such kinds of problems that make it difficult to assess the real impact of credit in rural contexts where there are no records of transactions, benefits and losses or specialisation. This phenomenon is characteristic of peasant households and their transactions as noted by Rhyne and Otero.[78] They argue that many micro-enterprises are not autonomous units but are part of larger family or household units. Therefore, the cash associated with one micro-enterprise is frequently mingled with that of other household activities. They, therefore, contend that the financial needs of families, or at least of individual entrepreneurs, are often not separable from the financial needs of the enterprise themselves.

[78] Elisabeth Rhyne and Maria Otero (1994), 'Financial Services for Micro-enterprises: Principles and Institutions,' in Maria Otero and Elisabeth Rhyne (eds.), *Opcit*, p. 13.

In comparable terms, PAP beneficiaries generally recorded better performance than those of ECS. The performance was measured in terms of repayment rates and beneficiary achievements such as assets acquired and other welfare benefits. This was irrespective of the fact that the ECS had favourable terms and conditions compared to PAP and therefore performance would have been expected to be better. *Entandikwa* loans were character loans that required no collateral. Besides, they carried good terms and conditions and 30 percent of the loans were earmarked for women, the youth and people with disabilities. However, it was only women whose repayment credibility, in terms of a high repayment record as well a better utilisation of credit proceeds, was found to be impressive irrespective of whether they accessed credit from ECS or PAP, as Table 4.7 illustrates:

Table 4.7: *Repayment Performance of ECS Loans*

District	Type of Loan	Gender	Repaid	Not Repaid	Total Number of Beneficiaries
Mbarara	ECS	Male	2	5	7
		Female	2	1	3
Mpigi	ECS	Male	2	4	6
		Female	2	2	4
	PAP	Male	2	2	4
		Female	5	1	6
Grand Total			15	15	30

Source: *Compiled from Fieldwork Data.*

The APO Mpigi as well as the PAP National Co-ordinator told us that PAP loans registered a high repayment performance averaging 93 percent per annum and that it was generating benefits to the beneficiaries. This information was cross checked with our empirical data and found tallying. Field investigations confirmed that the beneficiaries of PAP credit were performing well with respect to income generating activities, asset accumulation, creation of employment opportunities, and general welfare improvement.

Moreover, the impressive performance of PAP loans was regardless of the fact that its terms and conditions were stringent when compared with those of ECS. PAP charged an open market interest rate of 22 percent, had no gestation period, insisted on monthly repayments and earmarked 60 percent of the total loans to women. Therefore, the good performance of PAP can be explained by the critical questions of credit delivery mechanisms. These included effective screening, training, monitoring and offering extension services and market information. Besides, the adoption of solidarity groups was instrumental because it simplified the screening of loan applicants and reduced credit risk through co-guaranteeing and subsequently led to impressive results. Solidarity groups also minimised operational costs, eased monitoring, supervision and enforcement through peer pressure.

The argument that market interest rates are not necessarily bad for small-scale borrowers had for long been proved by the resilience of moneylenders in rural areas. Moneylenders charge high interest rates but have continued to survive despite frequent interventions in rural financial markets with subsidised credit by many governments in developing countries.[79] A comparative experience on the interest rates issue can be drawn from Indonesia where prior to 1984 the government used to give subsidised agricultural credit to farmers through BIMAS[80] programme administered by Bank Rakyat Indonesia (BRI). This approach to rural financial intermediation had to be abandoned because of high losses and disincentive to saving. Nonetheless, with the government's change from subsidised to commercial interest rates and the encouragement of savings mobilisation, the new approach reversed BRI's decline and generated over two-thirds of its total profits in a spate of only five years.[81] Therefore, there is substantial evidence from developing countries that subsidised rural credit is not necessarily productive.[82]

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[79] Joseph E. Stiglitz (1990), *Opcit*, p. 352.

[80] BIMAS is an acronym for Bimbingan Massal, or Mass Guidance credit programme for Indonesia.

[81] Marguerite S. Robinson (1994), 'Savings Mobilisation and Micro-enterprise Finance: The Indonesian Experience,' in Maria Otero and Elisabeth Rhyne (eds.), *Opcit*, pp. 30-31.

[82] *Ibid*, pp. 30-31. Also see Paul Mosley (1996), *Opcit*, p. 43.

Therefore, it was quite clear that the beneficiaries of PAP performed well despite the fact that they received small loans and were charged market interest rates. This finding, therefore, agrees with the argument that open market interest rates have no effect on credit performance as exemplified by PAP's experience. Comparative experiences of this issue can be found in Indonesia and Kenya. In the case of Indonesia, the change of approach by Bank Rakyat Indonesia (BRI) from offering rural credit at subsidised to commercial rates after 1984 enabled it not only to be successful but also viable.[83] Another comparable experience can be drawn from Kenya's Juhudi Credit Scheme. The Juhudi Credit Scheme's adoption of a financial systems approach, which emphasised market interest rates made the programme achieve cost-effectiveness and improved its impact.[84] PAP has had an impressive record regardless of the fact that it charged open market interest rates while ECS's low interest rate could not salvage its poor performance.

The experience of PAP should be contrasted with that of ECS. Whereas the beneficiaries of ECS received bigger loans that ranged from USh 100,000 to 1,500,000 at favourable terms and conditions, the performance

[83] Marguerites S. Robinson (1994), *Opcit*, p. 30. Also see Paul Mosley (1996), *Opcit*, p. 68.

[84] Albert Kimanthi Mutua (1994), 'The Juhudi Credit Scheme: From A Traditional Integrated Method to a Financial Systems Approach,' in Maria Otero and Elisabeth Rhyne (eds.), *Opcit*, pp. 269-72

of the programme was poor. Our research findings confirmed that ECS was facing a crisis in terms of failure to recover the loans.[85] There was also no tangible impact of *Entandikwa* on the household incomes of the beneficiaries. Beneficiaries of credit could not point out any tangible benefits derived from ECS. This was partly because much of it was diverted to other activities other than those indicated on application forms.

There is also a possibility that this impressive performance could be explained by the fact that women constituted 60 percent of the total clients of PAP. This is because the credibility of women in terms of honesty and better utilisation of credit has for long been recognised.[86] The honesty of women in Buganda and Ankole also has some connections with local traditions. The customs of the two societies emphasize that women be humble and honest or else they risk having broken homes. Absence of the two virtues can lead to failed marriages and subsequently

[85] The Permanent Secretary in the Ministry of Gender, Labour and Social Development (MGLSD) conceded the crisis facing *Entandikwa* credit scheme when he appeared before the powerful Parliamentary Public Accounts Committee. He revealed that government required USh 766 million (US$ 383,000) to recover outstanding loans and to produce a status report. He also told the committee that his Ministry had no records to compile an up-to-date status report on the scheme (See *The New Vision*, Wednesday, June 5, 2002, 'Sh 766m Needed to Recover *Entandukwa*,' p. 5.

[86] Mark M. Pitt and Shahidur R. Khandker (1998), 'The Impact of Group-Based Credit Programmes on Poor Households in Bangladesh: Does the Gender of Participants Matter?,' *Journal of Political Economy*, 106 (5): 958-96.Also see Aminur Rahman (1999), *Opcit*, p.69.

undermine the social esteem of the woman as confirmed by a respondent in Kabuyanda:

> Women generally have good records of repaying debts including credit. It is a great shame and a social and family humiliation for a woman being dishonesty leave alone being taken to prison. This is because women are not only seen as pillars of a household but are also important role models for their children. They are therefore not supposed to be wrong examples since that could infect their children as the Kinyankore adage indicates: *Kwoyiba ohekire oyegyesa owomumugongo* (meaning that when a mother steals when the child she is strapping on the back is watching, that child learns such bad habits). Therefore, women try to be exemplary to avoid infecting their children with undesirable habits and also to anatagonising their marriages and subsequently being socially humiliated.[87]

Hence, women generally try to be credible in order not to be break their marriages and subsequently abondon their siblings. Therefore, local customs partly explain the credibility of women in regard to credit utilisation. The credibility of women in regard to credit utilisation has also been noted by_Moore and Schoombee.[88] They attribute the Grameen Bank's preference of women customers to being the needy and most reliable customers. It was also established that the utilisation of credit determined the performance of the beneficiaries in terms of individual benefits as well as the repayment record.

Our general findings indicated that better credit utilisation from ECS and PAP depended on both gender and organisational vigilance as Table 4.6 illustrates. In both credit programmes, women interviewed reported that

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[87] Interview with a female respondent and beneficiary of credit from Kabuyanda, Mbarara distrcit in September 2000.

[88] B. J. Moore and G. A. Schoombe (1995), 'Bank Credit to the Informal Sector:

they restricted their credit to those very projects that were indicated in their loan applications. In the case of PAP, all women executed all the programmes indicated in their applications while for ECS 67 and 75 percent of the women in Mbarara and Mpigi respectively invested the loans in approved projects. Women tended to utilise their credit better and their repayment rates were higher compared to men.

Even in terms of repayments, the gender aspect was more instructive. It is evident from Table 4.7 that in terms of general repayment of state credit, ECS achieved 40 while PAP realised 70 percent repayment performance. However, when this is contrasted in the perspective of gender, it comes out succinctly that women generally performed better in both programmes. In the case of both credit programmes women performed better (69 percent) than men (35 percent). Even the repayment performance of women in each credit programme was better than that of men. In regard to PAP, 83 percent of women repaid compared to 50 percent for men. In the case of ECS, women still performed better with 57 percent compared to 30 percent of men who repaid the loans. The two women who defaulted reported that they either had no experience in that specific project executed or were affected by genuine factors like natural

Challenge and Reward,' *Development Southern Africa*, 12 (3), p. 352.

hazards or lack of markets in the case of agriculture. One of the beneficiaries reported her experience:

> I received a loan of USh. 50,000 (US$28) and I invested it in growing tomatoes. I was however unfortunate that it rained heavily that time and I lost the yield. This misfortune has made it difficult for me to repay the loan and yet the IE has ignored my pleas. My husband has refused to help me to repay the loan. I'm now trying to look for work so that I can raise funds to repay this loan.[89]

Other circumstances that led women to default included business failure, sickness and confiscation of loans by spouses. One of the victims of loan confiscation said:

> I'm ashamed for having failed to repay the *Entandikwa* loan I got from the sub-county. My husband forced me to hand over the loan to him after finding out that I had accessed a loan. I had not told him because he would demand for the money to pay the various debts that are hanging on his neck. Now I will have to find a way to repay the loan. I may be forced to sell my only goat because I have no any other alternative. You can see how you men have continued to oppress women and thwart their progress.[90]

While one case of spousal confiscation of loans was reported in Mbarara district, there were no similar cases in Mpigi district. Similarly, a case where a man used his wife to access a loan[91] was also reported in Mbarara but this was not the case with Mpigi district. This variation can

[89] Interview with a female respondent and beneficiary of PAP in Buwama, Mpigi district in November 2001.

[90] Interview with a female respondent and beneficiary of *Entandikwa* in Nyabuhikye, Mbarara district in October 2000.

[91] In Mbarara district, one out of six women *Entandikwa* loan recipients reported that it was his husband who sent her to apply for a loan. The affected man was reported not to be on talking terms with the Chairman of the local council because he had decampaigned him during the previous local elections.

be attributed to cultural differences between the Banyankore[92] and Baganda societies.

Cultural differences have had varying implications for the empowerment of women in the two societies. Buganda tradition tends to accord women an elevated status in contrast to the Banyankore culture. Whereas divorcing and being a single parent by women is tolerated and common among the Baganda, it is despised among the Banyankore. The implication is that Baganda women are more free to divorce or go back to their parents or live independently if they disagree with their husbands, which is not easily accepted by the Banyankore. Failure in marriage by Banyankore women brings shame to the parents in the community. It is perceived as parental failure to nurture one's daughter according societal expectations. Nonetheless, it should be noted that these traditions have been weakened considerably by the forces of modernisation.

Therefore, the level of empowerment seemed to have given a lot of leverage to Baganda women in utilising credit than Banyankore women. Hence, it was not surprising that the Baganda women in Mpigi district had no incidents of loan confiscation as well as being used by their spouses to access credit as was the case with Mbarara district. Whereas

[92] *Banyankore* and *Baganda* are two nationalities that reside in the Mbarara and

the spectacular performance of women could be attributed to PAP's vigilance in terms of strict supervision, the fact that a similar situation transpired in ECS where there was a lot of laxity and lack of seriousness proved that women were exemplary in their credit performance. This empirical finding confirms the theoretical argument that women are good credit performers in comparison to men.[93] According to Rahman,[94] women's good credit repayment record is attributed to having limited physical mobility because of their culturally patterned behaviour. In other words, they are easier to trace. Women are also reported to be disciplined and fear humiliation.

The other fundamental issue, which is widely recognised is the significant role played by information in determining the effectiveness of interventions. It is necessary that the beneficiaries are succinctly informed about the terms and conditions of the loans. They should be informed about the interest rate involved, when repayment is due and how to utilise the loan. The importance of this information is to guard against misconceiving the loan as a grant. Whereas the beneficiaries of PAP had adequate information about the terms and conditions of the loan, it was apparent that some of the beneficiaries of ECS were not

Mpigi districts respectively.

[93] Mark M. Pitt and Shahidur R. Khandker (1998), *Opcit*, p. 959.

[94] Aminur Rahman (1999), *Opcit*, p. 69.

adequately informed about the loan requirements, which was partly responsible for poor performance. The most common response as to why ECS clients had not repaid the loan was:

> *Entandikwa* was gift money sent to us by President Museveni in appreciation of the support we gave him during the last elections (1996), and yet some people are making noise about repaying it. Why should I return it. It is against tradition (ingratitude) to demand for a refund of gifts.[95]

This category of beneficiaries appeared not to have been adequately informed about the terms and conditions of the loan.[96] Some, therefore, confused it for a grant. On the other hand, some of the defaulters were found to be conversant with the terms and conditions but seemed to have deliberately refused to abide by the rules because of their social positions. One of the responses as to why they had not repaid the loans was:

> It is not my fault that I have not repaid the *Entandikwa* loan. Nobody seems to be interested in following up these payments despite announcements on radio that those who have not paid will be prosecuted.[97]

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[95] Interview with a male respondent and beneficiary of ECS in Kabuyanda, Mbarara district in September 2000.

[96] It should, however, not be misconstrued that the government did not clarify on the terms and conditions of *Entandikwa*. The Minister for *Entandikwa* used the media and mass meeting to inform the public about ECS loans requirements. Nonetheless, these channels of communication appeared to have been inadequate. The appropriate approach should have been to train the successful applicants in credit methodology and management, which was not done.

[97] Interview with a male respondent and beneficiary of ECS in Igoroora, Mbarara district in October 2000.

Many of defaulters were men (nine out of thirteen or 69 percent) compared to women (three out of seven or 57 percent) in the two districts. What was more interesting was that research findings established that a significant number of the defaulters had sufficient education to have understood the requirements of ECS.[98] Moreover, these were the rich and influential in rural areas. It was established through interviews that seven of them had a close relationship with the local leaders. They were described as councillors, their campaign managers, friends and relatives. Therefore, default by these specific cases was not due to inability to understand the implications or because of unavoidable circumstances but by the sheer fact of being stubborn. Therefore, the laxity in credit management as demonstrated by poor supervision of credit beneficiaries affected the performance of ECS. Moreover, the poor timing of the ECS programme, which coincided with presidential campaigns was misconceived by recipients and also manipulated by politicians for their own ends.

Even though the minister responsible for *Entandikwa* went around the country and used the media to warn against non-compliance of ECS, other politicians were reported to have discouraged repayment. In areas where this research was conducted informants reported that both local

[98] Table 4.1 on the household characteristics shows that all men beneficiaries

and national politicians had promised the beneficiaries that if they got elected they would write off the loans. This was during the 1996 and 1998 parliamentary and local government elections. Moreover, the same trend was being repeated with the 2001 presidential elections as evidenced by the responses in Kabuyanda:

> We would have repaid the loans but the problem is that we received mixed and sometimes confusing signals. While the sub-county chief and the Intermediary agent (IA) have been pressurising us to pay, some aspiring candidates for parliament and local councils had promised to write off the repayment of loans once we elected them. Since we voted for them, the repaying of the loans is now out of question. This is a new era. We actually expect more government credit in accordance with their pledges.[99]

In the case of northern Uganda, area politicians were reported to be discouraging people from repaying the *Entandikwa* loans because the government had failed to bring security to the area. Even President Museveni himself was quoted during a rally in Wakiso to have warned those enforcing repayment of *Entandikwa* not to harass his people (beneficiaries) since they were going to pay anyway. Therefore defaulting on the repayment of *Entandikwa* can to some extent be attributed to the politics of patronage. This phenomenon reinforces Braverman and Guasch's[100] argument that subsidised credit tends to be driven more by political considerations than developmental motives.[101]

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had educational qualifications that ranged from primary to tertiary level.

[99] Interview with male respondents and beneficiaries of ECS in Kabuyanda, Mbarara district in September 2001.

[100] Avishay Braverman and J. Luis Guasch (1986), 'Rural Credit Markets and

It was also established that there was a general reluctance for people to honour the repayment of loans from the state. Even in circumstances where they paid well as was the case with PAP, there had to be a clear demarcation from politics as well as strong provisions for enforcement. According to Hoff and Stiglitz[102], funds from the state are viewed as grants and therefore there tends to be hesitation when it comes to repayment. This perception tends to afflict state-sponsored credit programmes elsewhere as illustrated by the case of Malawi Mudzi Fund (MMF). Buckley[103] reports that organisationally, the MMF failed to distance itself from the government and many rural people viewed it as a government welfare-based agency. The officer responsible for ECS in Mpigi district when interviewed on why the beneficiaries of *Entandikwa* were hesitant to repay, he made the following comment:

> As long as it is government money, it cannot be taken seriously. If someone steals from government, it is not considered stealing. People perceive funds from the state as a kind of repatriation of what was rightly theirs but had been lost to the state or government. It is taking back your things.[104]

Institutions in Developing Countries: Lessons for Policy Analysis from Practice and Modern Theory,' *World Development*, 14 (10/11), p. 1256.

[101] Karla Hoff and Joseph E. Stiglitz (1990), Introduction: Imperfect Information and Rural Credit Markets: Puzzles and Policy Perspectives,' *The World Bank Economic Review*, 4 (3), pp. 246-7.

[102] *Ibid*, p. 247.

[103] Graeme Buckley (1996), *Opcit*, p. 378.

[104] Interview with the Assistant Chief Administrative Officer (ACAO) in charge of *Entandikwa* in Mpigi district on 31st October 2000.

The perception about financial obligations to the state seemed to confirm Peter Eke's[105] proposition about the two publics in post-colonial Africa. He observes that the civic public in Africa is amoral and lacks the generalised moral imperatives operative in the private realm and in the primordial public. He further notes that the unwritten law of the dialectical relationship between the two publics is that it is legitimate to rob the civic public in order to strengthen the primordial public.

In stark contrast to ECS, recipients of credit from PAP were found to be performing well. In this case, indicators such as the acquisition of assets and the degree of sustaining their income generating projects without continued borrowing, were used to measure good performance. Below are responses to the two interview questions that attempted to measure good performance: *Have you acquired any assets since you received the loan?. To what extent are you able to continue generating income from loan proceeds without more borrowing?*

[105] Peter P. Ekeh (1975), 'Colonialism and the Two Publics in Africa: A Theoretical Statement,' Comparative Studies in Society and History, 17, p. 108.

Table 4.8: *Acquisition of Assets from Loan Proceeds.*

	Gender	Responses		Total No. Of Respondents		Gender	Responses		Tota[l] Resp[ondents]
		Yes	No				Yes	No	
ECS	Male	5	8		PAP	Male	3	1	
	Female	4	3			Female	6	0	
	Total Responses	9	11	20		Total Respondents	9	1	
Percentage		45	55	100		Percentage	90	10	

Source: *Compiled from Fieldwork Data.*

Table 4.9: *Extent to which Credit Creates Sustainability.*

Responses	ECS	Percentage	PAP	Percentage
Bigger Extent	1	5	0	0
Some Extent	4	20	3	30
Not possible	15	75	7	70
Total No. of Respondents	20	100	10	100

Source: *Compiled from fieldwork Data.*

The above interview responses from credit beneficiaries of ECS and PAP showed that the clients of PAP generally benefited from credit in comparison to those of ECS. Even among them, women reported to have benefited more than men. However, responses by both groups indicated that they had not yet attained sustainability of their income-generating projects. There are explanations for some of the responses that indicated that credit creates sustainability to a bigger extent (5 percent) and to some extent (20 percent). These can be attributed to the problem earlier pointed out where loan proceeds were mixed up with proceeds from other activities and household assets. This lack of distinction, which was common to all households, can easily be deceptive. Besides, such responses can also be attributed to opportunism. This is whereby the beneficiaries were of the view that if they gave negative responses it could easily discourage government from further extension of loans to them.

The beneficiaries of PAP credit generally performed better in comparison to those of ECS as illustrated by Table 4.10. Of the twenty, nine clients of PAP in Mpigi district reported that their projects were performing well. Some of the projects cited and observed included agricultural and trade-related activities. Three respondents were involved in piggery farming, one in horticulture, one in carpentry, and five in retail trade. They further reported that loan proceeds were being utilised to expand their micro projects while at the same time enhancing their welfare and that of their dependants. Physical observation also confirmed that beneficiaries of PAP loans had bought household property and accumulated a few assets as illustrated in the checklist below:

Table 4.10: *Benefits Accruing to the Clients of PAP*

Gender of Respondent	Type of Project	Household Acquisitions	Assets Accumulated
Female	Agriculture (piggery)	Utensils, beddings, Clothes, a bed, etc.	Bank savings, Constructed a sty, bought ten iron sheets
Female	Agriculture (Piggery)	A set of chairs, utensils, lantern, clothes, etc.	Bank savings, a bicycle, radio, a goat.
Female	Agriculture (piggery)	Chairs, utensils, clothes, essential commodities, radio.	Bank savings, bought plot of land.
Female	Trade	Beds, chairs, table, utensils, clothes, essential commodities, mattresses.	Bank savings, sewing machine, weighing scale, three goats.
Female	Trade (Brewing)	Beds, mattresses, utensils, clothes, radio, bicycle, chairs, beds.	Bank savings, three commercial saucepans, business premise and a bar.
Female	Trade	Beds, chairs, utensils, clothes, essential commodities, etc.	Bank savings, bought a business premise, a shop, weighing scale, business stock.
Male	Trade	Chairs, table, beds, radio, clothes, etc.	Motorcycle, a house, business premise, bank account, plot of land.
Male	Agriculture (Horticulture)	Chairs, table, clothes, utensils, bed, beddings, etc.	A piece of land, one cow, bicycle, radio, a house.
Male	Trade	Utensils, bed, Clothes.	No assets except savings account.
Male	Carpentry	Chairs, tables, clothes, utensils, radio, etc.	A house, carpentry equipment, carpentry shop, furniture for sale, and timber.

Source: *Compiled from Fieldwork Data.*

Some of their achievements included improved housing, purchase of goats, cows, a bicycle and many others. Other respondents also mentioned many achievements that could not be physically verified, which they attributed to credit. These ranged from paying debts, taxes, bride-price, helping relatives as well as solving domestic welfare related issues like improved healthcare, tuition, clothing and feeding. The APO for Mpigi district also confirmed that PAP clients were doing well. The explanation given by the APO for underlying this success was:

> The achievements of our clients are attributed to PAP's capacity to ensure that those who get credit have an experience in a micro project rather than wanting to experiment with credit. Our emphasis when screening loan applicants is to make sure that they invest in an on-going activity for which they have prior experience.[106]

However, while investing the loan in an on-going activity in which the credit beneficiary was experienced led to positive results, such an approach discriminated against the very poor. This was the practice of PAP, which targeted the economically active ones. The PAP Area Project Officer for Mpigi district confirmed this position:

> PAP loans are for those who are already engaged in an income-generating project and not for the terminal poor because these have no capacity to repay. I do not think that the terminally poor require loans. They need a different form of assistance.[107]

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[106] Interview with the APO in charge of PAP in Mpigi district in November 2000.

[107] Interview with the APO in charge of PAP in Mpigi district in November 2000.

This practice contradicted the government rhetoric that state-directed credit was driven by the motive to empower the poor and subsequently alleviate their poverty. The other reason for the success was attributed to the appropriateness of the monitoring and supervision mechanisms employed. PAP credit was highly monitored and supervised by IEs and credit officers to guard against diversion. Apart from the strict monitoring and supervision, PAP loans had an inducement component where the repayment of one loan cycle automatically qualified one for a bigger one. One of the recipients of PAP loans made the following comment about how loan cycles motivated the beneficiaries:

> The reason why I have managed to pay the first loan from PAP is because I had to work extra hard. I had to work hard so as to repay in accordance with the given schedules. Besides, PAP loans make many of us work very hard so as to repay and subsequently be able to qualify for a second and bigger loan. The second loan cycle is particularly vital to me because it is big and I'm anticipating expanding my project.[108]

This response makes it clear that strict monitoring and supervision of credit beneficiaries reinforced by an inducement component in form of many loan cycles enhanced performance.

In addition to these important factors, the pre-loan basic training of PAP clients for two months involved group dynamics, budgeting for small projects, bookkeeping and record management was reported to have

[108] Interview with a female respondent and beneficiary of PAP in Bunamwaya,

enhanced the performance of individual projects. Furthermore, PAP had an arrangement with government extension officers stationed at the district to assist those beneficiaries engaged in agriculture. Extension services were highly appreciated by the beneficiaries as captured in this testimony:

> Every farmer that is involved with PAP appreciates services extended to us especially the assistance given by the agricultural officer. He gives us useful farming tips on modern methods and control of crop pests, which are rampant in this area. This has improved our yields compared to what we used to get previously. For example, I have been able to realise a sizeable harvest of tomatoes but problems do not end because the market prices paid to us are still low. And it is worse when the harvests are big like it was this season. For us involved in agriculture we find it difficult to repay the loans because PAP is not flexible in its terms.[109]

Rahman's[110] research on the micro-credit programme of Grameen reported a similar practice. He found out that women were forced to borrow from other sources to meet weekly payments due to stringent loan terms. Therefore, loan recycling can be attributed to the harsh terms given by micro-credit programmes for accessing their loans.

This testimony further confirmed that the extension services offered by PAP free of charge were indeed paying off. Though these services were appreciated by those engaged in agricultural activities, there was need for more assistance in marketing. Farmers needed assistance to access

Mpigi district in November 2000.

[109] Interview with a male respondent and beneficiary of PAP in Buwama, Mpigi

markets where reasonable prices could be realised to enable them repay their loans and improve their welfare. Even though we were informed that PAP also had a component of providing market information, this appeared to favour big producers of cash crops such as vanilla and maize but not for food crops such as tomatoes cited in the testimony above. This problem now brings in the role of the state in connecting farmers to markets through providing good infrastructure and information about markets. In the case of Uganda, the state lacked capacity as a result of many years of political and economic decay.

In regard to the question of the absence of a grace period, some of the respondents revealed that they had to borrow from another source in order to repay. The explanation given for doing that was because agricultural projects required a longer gestation period before the proceeds would be realised:

> We appreciate government assistance to bring us PAP loans. However, for us engaged in agricultural projects we still confront problems of not being given ample time to realise and sell off our yields. This has been a problem. We have tried to overcome this problem by borrowing from our self-help associations and sometimes from NGOs. This has put us under a lot of pressure. We have been talking to these PAP officers but nothing has come out of these talks yet. We hope you will take our concerns to them.[111]

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district in September 2001.

[110] Aminur Rahman (1999), *Opcit*, pp. 68 and 78.

[111] Interview with a female respondent and a beneficiary of PAP in Buwama, Mpigi district in September 2001.

However, through an in-depth interview, the APO for Mpigi confirmed that PAP did not give a grace period because loan applicants were required to engage in an on-going economic venture. A perusal through the overall summary of PAP loans disbursement according to sector as of April 1999 indicated that 60 percent of loans had gone to the agricultural sector (crop [34 percent] and animal husbandry [26 percent]) while commerce took only 28 percent, manufacturing eight percent, and others four percent.[112] Though these figures showed that PAP emphasised agriculture, our empirical research established that this was more in theory than practice. Field officers were strictly sticking to the terms and conditions of PAP, which gave no grace period and indirectly favoured trade whose returns were immediate and allowed for repayments. They did not, however, turn down those applying for agricultural loans.

Besides, it was established that trading in agricultural produce was also being categorised as agriculture, which was not necessarily the case. Although the terms and conditions of PAP enabled it to have a good repayment performance, it was discouraging agriculture, which is a backbone to Uganda's economy as well as the main source of employment and income to rural people. Therefore, if the strategy of

[112] Republic of Uganda (1999), The Republic of Uganda, *Poverty Alleviation at the Household Level: Status and Prospects*, Office of the Prime Minister, May 1999.

using credit to reduce poverty is to be effective, different credit terms have to be designed for those engaged in agricultural activities.

The findings about PAP loans indicated that good performance of credit beneficiaries tended to be determined by factors other than money *per se*. These included the credit delivery mechanisms, which involved social collateral, peer monitoring, the targeting of women, compulsory saving and monthly repayments. Other innovations included training, participation, provision of extension services and market information to the beneficiaries. These components of PAP loans were found to be associated with good project performance and subsequently positive benefits to individual beneficiaries. This however seemed not to be the case with *Entandikwa* credit which never generated similar benefits to its beneficiaries regardless of extending sizeable loans with better terms and conditions.

4.5 Policy Implications for State Credit Programmes: A Conclusion

Empirical findings about the performance of the two state-directed credit programmes indicated that autonomy was instrumental to performance. In organisational terms, PAP exhibited various innovations, which were responsible for successful credit institutions such as the Grameen Bank. These included social collateral, peer monitoring, targeting women, compulsory weekly or monthly repayments, mandatory savings and repeat loans. In addition, PAP clients benefited from pre-loan training in group dynamics, enterprise management, and book keeping. They were also provided with the services of an agricultural extension worker as well as market information. These organisational innovations were found to have enhanced the institutional performance of PAP to the extent that it was able to achieve a high credit repayment rate averaging 93 percent. Apart from organisational success, PAP also generated material and social benefits to its beneficiaries. It extended investment capital to those income groups that would otherwise have been ineligible to access conventional financial sources. Beneficiaries of PAP indicated that credit had positively contributed to their welfare. Besides, it was further established that PAP's credit delivery mechanisms, which required applicants to organise into groups enhanced the formation of social networks. Some of the mentioned social benefits accruing to groups included increased co-operation between members, free advice and counselling, material assistance to one another, and sharing of information. The enhancement of social networks was reported to have contributed to the economic performance of PAP beneficiaries.

While both material and social benefits were associated with PAP, the reverse was the case with ECS, which was a parallel state-directed credit programme. Poor institutional methodology, credit delivery mechanisms, supervision, and loan recovery bedevilled the ECS. Likewise, the performance of the clients of ECS was poor. No material and social impact could be associated with credit.

The different outcomes of the two credit programmes can largely be explained by two factors. First, the superior programme design and mode of operation of PAP in comparison with that of ECS was largely responsible for the variation in performance. Second, the operational autonomy given to PAP enabled it to undertake useful innovations while ECS was derailed by political interference. The degree of autonomy given to PAP can be partly explained by the role played by ADB in its funding in comparison to ECS, which was fully funded by government. Therefore, there was a likelihood that if ECS had been given similar operational autonomy it could also have performed better.

Notwithstanding the differences in performance exhibited by the two state credit programmes, they had one similarity. Both of them did not extend credit to the very poor (absolute poor). PAP supported the economically active poor while credit from ECS, to a large extent, benefited the influential and local elites. Besides, Whereas PAP had performed better in comparison to other state credit programmes, it would be premature to argue that it was successful. PAP's impressive performance was generally attributed to the stringent controls attached as a result of conditions from ADB, which funded 90 percent of its activities. It was also attributed to the adoption of group methodology. Therefore, it was premature to judge whether such an impressive performance record would be maintained in the event that ADB phased out its funding activities.

The findings about the two credit programmes have two policy implications. The first is that state intervention in credit intermediation is still relevant and necessary because of continued neglect by formal financial institutions. Moreover, credit is increasingly being recognised as a strategy against poverty. Credit is believed to empower people to participate in the economic growth of their countries. Credit generates employment and income that are essential for the improvement of the welfare of the poor. State credit programmes are therefore necessary to fill this gap so that the rural areas in general and the rural poor in particular can be activated to participate in the economy.

Nonetheless, the state's involvement need not be through direct intervention. There is need for a policy strategy that encourages the independent operation of credit institutions. The state's role could only be limited to enhancing their capacity by extending financial support and the improvement of the policy climate. This is important because the explanation of the variations in the performance of ECS and PAP was largely due to the degree of autonomy.

There is also need to allow a high degree of participation in the activities of credit programmes. This is because participation is associated with better performance. Besides, credit programmes targeted at poverty alleviation need to be financially subsidised so as to give affordable credit to the poor. This is necessary to avoid a situation where credit institutions are forced to charge high interest rates in order to ensure sustainability of their activities. This has had negative effects as the Ugandan cases have revealed. Therefore, there is need for policy makers to extend support to credit programmes aimed at helping the poor while those not associated with anti-poverty policy initiatives can be left to charge market interest rates.

Finally, credit programmes that are aimed at poverty alleviation need to be tailored to the different realities in order to have a meaningful contribution. In the context of Uganda, anti-poverty credit programmes need to relax the rigid terms and conditions so that they fund agriculture. This is because the majority of the poor people reside in rural areas and their major economic activity is agriculture. Therefore, for credit to be a successful anti-poverty strategy then it has to support agriculture, which was not the case with ECS and PAP activities which were oriented to off-farm activities.

It can therefore be concluded that intervention with credit should be encouraged. However, the state needs to desist from direct intervention and create a supportive policy environment towards the smooth operation of credit programmes. In order for anti-poverty strategies such as credit to be effective and sustainable they have to be owned by the poor people through their grassroots organisations such as ICAs. The analysis now turns to NGOs credit programmes and poverty alleviation in the proceeding chapter.

Chapter Five: Non-Governmental Organisations and Rural Credit

5.0 Introduction

This chapter first gives a background to the credit programmes that were covered by the research. It then looks at the household characteristics of the beneficiaries of NGO credit programmes. It also critically analyses the organisational structures and modes of operation of the four NGO credit programmes studied. The chapter further assesses the impact of NGO credit programmes on the beneficiaries. Finally, it looks at the policy implications of NGO credit programmes.

5.1 NGOs in Uganda's Historical Context

NGOs have not only played a formidable role but have increasingly gained reputation as the leading practitioners of rural development in Africa since the 1980s.[1] NGOs have been defined as mainly voluntary, or not-for-profit organisations that are found in the realm outside of the public and private commercial sectors.[2] They are principally value-driven and oriented toward meeting the needs of the poor. NGOs are therefore distinguished by their voluntary nature, which means that they are located in the realm outside

[1] M. Bratton (1989), 'The Politics of Government-NGO Relations in Africa,' *World Development*, 17 (4), p. 2. Also see Gerard Clarke (1998), 'Non-Governmental Organisations (NGOs) and Politics in the Developing World,' *Political Studies*, 46 (1), p. 36.

[2] L. D. Brown and Korten, D. C. (1991), 'Working Effectively with Non-Governmental Organisation,' in S. Paul and A. Isreal (eds.), *Non-Governmental Organisations*

both the public and commercial sectors.[3] Similarly, they are characterised by their independence and humanitarian objectives.[4] Although NGOs are not a recent phenomenon on the African scene, their changing role and influence has attracted a lot of attention in development and theoretical circles.[5] Prior to the 1980s, NGOs were much more pre-occupied with relief and humanitarian assistance. This approach however began to change especially with the failure of the development models of the 1950 and 1960s and the subsequent socio-economic crisis that ensued in the 1980s.

In the particular case of Uganda, NGOs are as old as its colonial history. During the colonial period, the delivery of social services in rural areas such as the provision of education and health services were predominantly undertaken by missionary-based NGOs.[6] It was not until after 1945 that there occurred a notable shift in British colonial policy, which emphasised the development of the colonial territories. The role of NGOs in the provision of social services to Uganda's population continued to grow even though the post-colonial government became increasingly involved in the delivery of services.

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and World Bank Co-operation for Development, Washington, D.C.: The World Bank, p. 49.

[3] S. Paul (1991), 'Non-Governmental Organisations and the World Bank: An Overview,' in S. Paul and A. Isreal (eds.), *Ibid*, p. 3.

[4] Michael Craplet (1992), 'The Role of Non-Governmental Organisations,' *Policy Issues*, 92 (3), p. 103.

[5] Roger Chalton (1995), 'NGOs, Politics and Probity: A Policy Formulation Perspective,' *Third World Quarterly*, 16 (2), p. 237.

[6] W. Elkan (1961), *The Economic Development of Uganda*, London: Oxford University

The new government's attempt to replace the NGOs as the main provider of social services was constrained by the scarcity of resources. Government provision of social services therefore tended to be restricted to urban areas. Hence, NGOs' provision of social services is concentrated in rural and remote areas unserved or underserved by government. The coming to power of President Amin's dictatorship in 1971 which was characterised by gross abuse of human rights and the absence of freedoms witnessed more political control of the activities of NGOs while many foreign ones withdrew.

The growing inability of the Ugandan State to pursue effective developmental strategies climaxed in the 1980s with the virtual failure to deliver social programmes. This period was characterised by mounting international indebtedness, declining productivity, inflationary pressures and balance of payments problems. The ensuing crisis forced the NRM regime to seek foreign aid. Foreign aid required the adoption of a neo-liberal policy perspective and managerial style. Macro-economic reforms adopted as a result of the neo-liberal policy environment had two particular consequences. First, the implementation of reforms initially created socio-economic 'shocks' that adversely affected the welfare of the people. This situation moreover arose at a time when the state was retreating from socio-economic development due to the virtual lack of the required capacity. On

Press, p. 48.

the other hand, the neo-liberal reforms created a favourable environment for the increased role of the private sector and NGOs.[7] Besides, the new policy environment that allowed NGOs to flourish coincided with changes in the climate of debate about international development policy, which favours NGOs.[8]

Reacting to the dismal performance of the African State, developmental theorists have increasingly called for institutional alternatives. This has mostly focused on privatising development.[9] Aid has been given on condition that stabilisation and structural adjustment reforms be implemented and allowing a limited role of the state in development.[10] However, the embryonic nature of the private sector in Africa has led donors to explore alternatives of working through NGOs.[11] The prominence of NGOs in Uganda's development process has since grown to such an extent that the number of operational NGOs is estimated between 700 and 1000.[12]

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[7] D. Hulme and M. Edwards (1997), 'NGOs, States and Donors: An Overview,' in D. Hulme and M. Edwards (eds.), *NGOs, States and Donors: Too Close for Comfort?*, New York: St. Martin's Press, pp. 3-22, p. 5.

[8] Gerard Clarke (1998), *Opcit*, p. 37.

[9] M. Bratton (1989), *Opcit, p. 570.* Also see Brett, B. A. (1993), *Providing for the Rural Poor: Institutional Decay and Transformation in Uganda*, Kampala: Fountain Publishers Ltd, p. 291.

[10] Leon Gordenker and Thomas G. Weiss (1997), 'Devolving Responsibilities: A Framework for Analysing NGOs and Services,' *Third World Quarterly*, 18 (3): 443-56, p. 443.

[11] Ibid, p. 569.

[12] Susan Dicklitch (1998), *The Elusive Promise of NGOs in Africa: Lessons from Uganda*, London: Macmillan Press Ltd., p. 125.

The resurgence of NGOs[13] in Uganda in the late 1980s can also be explained by the return of political stability to the country and more especially with the advent of the NRM regime. The NRM regime permitted the activities of NGOs partly because of overwhelming social needs, which could not be met because the Ugandan State was weak. The resurgence of NGOs in Uganda since 1986 can to a great extent be explained by the collapse of the state and the vacuum created subsequently. The state had no capacity to fulfil its mandatory responsibilities like the provision of social infrastructure and the accompanying social amenities. The NGOs therefore came in as 'gap-fillers' after they had been recognised and accepted by the regimes as indispensable partners in service provision.[14] They therefore started providing assistance in form of relief and social services like clean drinking water, rehabilitation of education and health infrastructure as well as providing equipment.

The resultant policy environment together with the escalating forms of impoverishment within the population, seem to have influenced the NGOs

[13] The number of NGOs in Uganda has increased since the 1980s. All NGOs in Uganda are by law required to register with the Ministry of Internal Affairs (The Non-Governmental Organisations Statute, 1989; The Non-Governmental Organisations Regulations, 1990, Statutory Instrument No.9). According to the Ministry of Internal Affairs, 3493 are registered. The number of foreign NGOs is 123 of which 62 are from USA and UK. These NGOs are involved in a whole range of activities. These include: religion, social services, human rights, micro-finance, environment, poverty alleviation, infrastructure, orphanages, HIV/AIDS, family planning, agriculture, relief, advocacy, women, children, youth, elderly, handicapped, cultural heritage, theatre/arts, tourism, associations and many other activities (NGO Database, Ministry of Internal Affairs, 1st May, 2001).

[14] S. N. Ndegwa (1996), *The Two Faces of Civil Society: Non-Governmental Organizations and Politics in Africa*, West Hertford, Conn.: Kumarian Press, p. 291. Also see

to take on new responsibilities in addition to the traditional ones of relief and humanitarian assistance. Given their traditional orientation towards the rural poor, NGOs increasingly became involved in channelling credit towards the poor as an instrument to alleviate poverty. Credit was intended to raise household incomes of the poor and subsequently improve their welfare.

NGOs have historically acquired a reputation because of their virtues in dealing with the poor in respect to their traditional activities of delivering relief and social services.[15] NGOs are not only recognised but hailed for working towards the poor people's empowerment.[16] Similarly, they are valued for their capability to reach the remote communities and the poor. Furthermore, the excellent record of NGOs is explained by their efficiency and low cost of their operations, their qualities of innovation, flexibility and participatory style, and freedom from corruption. In short, NGOs are reputed for having a comparative advantage over governments and international development agencies.[17]

Gerard Clarke (1998), *Opcit, p. 42*. Also see E. A. Brett (1993), *Opcit*, p. 291.

[15] M. Esman and Norman Uphoff (1984), *Local Organisations: Intermediaries in Rural Development*, Ithaca, New York: Cornell University Press, p. 574.

[16] World Bank (1989), *Adjustment in Africa: Reforms, Results and the Road Ahead*, Washington, D. C.: World Bank, p. 182.

[17] Alan Fowler (1988), 'NGOs in Africa: Achieving Comparative Advantage in Relief and Micro-Development,' *Discussion Paper No. 249*, Brighton: IDS, pp. 5-13.

Though NGOs have been praised for their effectiveness in developmental activities, there is not much empirical evidence about the performance of NGOs in the newly acquired role of extending credit to the poor. It has been taken for granted that the extraordinary performance of NGOs in their traditional roles automatically translates into similar effectiveness in extending credit for poverty alleviation amongst the rural poor. This assumption can be misleading if not empirically verified. It is on the basis of this scepticism that this chapter attempts to empirically test these assumptions by critically analysing the performance of NGO credit in poverty alleviation in Uganda.

5.2 Background to the NGO Credit Programmes

The research involved the study of credit activities of four NGOs in Mbarara and Mpigi districts. On one hand, these included the Agency for Co-operation in Research and Development (ACORD) and the Initiative of Small Scale Industrialists Agency (ISSIA), which conducted their credit activities in Mbarara district. On the other hand, Feed the Children Uganda (FTCU) and World Vision (WV) were operating their credit activities in Mpigi district. The methodology used to study the activities of these NGO credit programmes has been detailed in the introduction.

ACORD is a British registered NGO. It approached the Ministry of Planning and Economic Development in 1987 to identify needy areas in Uganda that could be assisted. Isingiro was one of the areas identified by government to benefit from ACORD's assistance. In addition to channelling credit to the poor, ACORD extended support to other sectors such as agriculture, HIV/AIDS and water in Isingiro County in Mbarara district. According to the programme proposal, a total of 926,956 British pounds were to be spent on the four programme components.[18] Of this total, water was allocated 72 percent, Agriculture two percent, HIV/AIDS 10 percent and credit 16 percent.[19] ACORD started implementing its credit activities in 1991 in Isingiro, which was located in the south of the district bordering Tanzania. This place was very remote and impoverished. It was not only semi-arid but also had limited physical and social infrastructure.

On the other hand, ISSIA was located in Ibanda and was chosen because of its remote location in the northern part of Mbarara district. Smallholder peasant farmers, who were generally poor, predominantly inhabited this area. According to the Executive Director, ISSIA was a local initiative by nine people and its focus was to support small-scale industrialists. It started with

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[18] While ACORD's programme proposal had four components, the focus of this research is on the credit component. Therefore, the other components are out of the scope of this study.

[19] Programme Proposal (1999-2001), *Oruchinga Rural Development Programme*, Kampala, Uganda, p. 2. See also ACORD, *Evaluation of the Credit Component of the Oruchinga*

an internally generated revolving fund of USh 350,000 (US$ 196) in 1991 and obtained registration in 1993. Even though the activities of ISSIA started in 1991 with a focus on supporting small-scale industries with small credit, it later diversified to extend credit to other enterprises in 1996. It was formally registered in 1998 as a micro-finance NGO with the primary objective of poverty alleviation. By the time this research was carried out, it was extending credit support to one hundred solidarity groups, which had 3600 members. It has since disbursed substantial amounts of credit as will be discussed in this chapter.

In the case of Mpigi district, one international NGO - Feed the Children Uganda (FTCU) and another indigenous agency, BUSO Foundation (BF), were initially identified by this researcher. However, after various attempts to have an interview with the Director and other officials of BUSO foundation failed,[20] an alternative NGO, World Vision (WV), was sought as a replacement because it operated in the same area where BUSO Foundation

Rural Development Programme, Kampala, Uganda, 17th December 1999, p. 3.

[20] It was later established that the reason why BUSO Foundation's management avoided an interview with us was because the undertaking of this research coincided with the period when BUSO was being audited. According to information from the district sources, BUSO had received funds from foreign donors to provide clean drinking water to some areas of Mpigi (Masulita and Gomba). However, the donor funds were not put to proper use and when the donors came to verify the project they were shown bore holes that had been sunk by the central government. The management of BUSO was elusive because they suspected this study to be connected to donor investigations. Much as BUSO could have provided a distinct characteristic of those locally registered 'Briefcase' (quack) NGOs that have been set up by some cunning elites to tap in-coming donor and central

had its activities. WV is an American Christian childcare NGO, which was founded by a pastor and journalist who covered the Korean War. It came to Uganda in 1985 but reached Mpigi district in 1992 and started engaging in delivering credit to the poor in Bunamwaya and Buwama respectively.

Similarly, FTCU was an international non-profit Christian organisation registered in Uganda as an NGO since 1991. It first came to Uganda in 1987. It has its headquarters in Oklahoma, USA. It was founded by Larry Jones in 1979 to assist victims of natural and man-made calamities. At the time of conducting this research, FTCU was operating in the districts of Mpigi, Ntungamo, Rukungiri and Mukono though our focus was Mpigi district. Apart from its major focus on assisting children, it also had a credit component, which was the focus of our study. It started group lending in 1995 and in 2000 it had 4136 loan recipients in Mpigi district alone.

FTCU has been involved in giving out credit since 1995 while WV started giving out credit in 1994. The two NGOs reported that they chose their respective sites because of the existence of the disadvantaged poor people whom they sought to assist with credit. According to its mission statement, FTCU is to 'promote sustainable community development that targets the

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government funds, the NGO could not be investigated because of unavoidable circumstances.

productive poor through micro-finance in order to meet children needs.'[21] It sought to improve the conditions of disadvantaged children by availing credit to either their parents or caretakers to undertake income-generating activities. Similarly, WV was a philanthropic NGO whose motive was driven by the desire to improve the living conditions of the poor and disadvantaged persons and communities. The activities of both NGOs were premised on the need to support the needy and involved grassroots assistance and attempted to build capacity.

In regard to the location of the activities of the four NGOs studied, it was only ACORD, which, to some extent, met the criteria of operating in a remote area where government impact was negligible. Not only were ACORD offices located inside the area but also their activities were spread deep inside this undeveloped area. Even though not all places in Isingiro benefited from ACORD credit, a substantial area had been covered. ACORD's credit outreach covered four parishes in Ngarama sub-county, six parishes in Kabingo sub-county, four parishes in Kikagate sub-county and one parish in Nyakitunda sub-county. Out of six sub-counties, only two counties of Masha and Birere had not benefited so far. However, there were plans to expand the initiative to these remaining areas. The credit scheme was therefore extended to 734 heads of households out of a population of

[21] Feed the Children Uganda, *The Community Banking Programme (CBP) Mission,*

71,000. In contrast, ISSIA's credit activities were not located in remote areas. Its credit activities covered areas along the Mbarara-Ibanda main road, which were easily accessible.

Similarly, the location of FTCU and WV credit activities was not in remote parts of Mpigi district as would have been expected. FTCU operated as far as Kisubi on Entebbe road, which was about thirty kilometres from Kampala, while WV operated in Buwama and Kituntu some forty kilometres along the Kampala-Masaka highway. The accessibility of the two areas was easy since all-weather roads served the two areas. Moreover, FTCU co-ordinated its credit activities from its head offices in Kampala city. This was possible because their areas of operation were easily accessible by public transport. The offices of WV were also located in Buwama town, which had modern facilities such as electricity.

The foregoing brief description of the location of the activities of the four NGOs investigated indicates that they generally did not meet the outreach criteria of operating in remote areas where the activities of public agencies were either inadequate or lacking. It was only ACORD whose activities were spread deep in remote areas of Isingiro in Mbarara district. Therefore, the argument that NGOs serve the very poor in remote and inaccessible

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Kampala, Uganda, p. 1.

locations where public agencies are either thin on the ground or are completely absent did not apply in the case of these three NGO credit programmes.

5.3 Household Characteristics of Beneficiaries of NGO Credit Programmes

In regard to the household characteristics of the beneficiaries, they were similar to those of beneficiaries of state-sponsored credit programmes already described in chapter four. This similarity can be explained by the fact that the samples of beneficiaries of credit programmes initiated by government, NGOs and CBOs (whose effectiveness is being compared) were picked from the same areas (villages). Therefore, they constitute no significant variation in socio-economic characteristics. First of all, the villages selected were at least the remote ones detached from modern infrastructure. These locations were also characterised by subsistence and smallholder agriculture and largely settled by peasants. These peasants generally owned small pieces of land and engaged in other modest income-generating activities such as petty trade, craft making, and sale of casual labour, brewing, catering, poultry and horticulture among many others. The details of their household characteristics are given in Table 5.1 below:

Table 5.1 *Household Characteristics of Beneficiaries of NGO Credit*

District	Gender	Total No.	Age	Total No.	Educational Status	Total No.	Family Size	Total No.	Economic Activity	Total No.
Mbarara	Male	8	16-30	6	None	2	1-3	6	Agriculture	20
	Female	12	31-50	11	P.1-F.4	4	4-6	12	Trade	13
			51-65	3	P.5-P.7	8	7 and above	2	Employed	2
					S.1-S.6	6			Remittances	0
					Tertiary					
Mpigi	Male	4	16-30	12	None	0	1-3	4	Agriculture	6
	Female	16	31-50	8	P.1-P.4	2	4-6	13	Trade	14
			51-65	0	P.5-P.7	6	7 and above	3	Employed	1
					S.1-S.6	8			Remittances	0
					Tertiary	0				
Grand Total		40		40		40		40		40

Source: *Compiled from Fieldwork Data.*

The above Table 5.1 summarises the socio-economic characteristics of the beneficiaries of credit from NGOs. Women constituted the majority of beneficiaries (70 percent) in both districts because three of the four NGO credit programmes preferred more women than men as illustrated in Table 5.2. FTCU extended 95 percent of its credit to women, ISSIA also extended 80 percent of its credit to women while World Vision gave 60 percent to women. It was only ACORD, which gave more credit to men (60 percent) than women (40 percent). The reasons for preferring women were borrowed from the successful micro-finance schemes such as Grameen and BRAC. Women are generally reputed for being trustworthy and disciplined when it comes to the use of loans. They are known to invest the loans and rarely divert the funds. Besides, there is growing evidence that loans extended to women have a positive impact on the household and more especially, on the welfare of the children.[22] These reasons have tended to influence micro-finance NGOs world-wide to extend most of their credit to women.

The majority (92.5 percent) of credit beneficiaries from the four NGOs were in the age bracket of 16-50 years. This phenomenon is explained by the fact that the most active people are within this age range. This is probably why only 7.5 percent were in the age range of 51-65 because they either had accumulated enough assets for their maintenance or feared loans because they were no longer economically active.

Many of the beneficiaries had some education. Seventy percent of credit beneficiaries had educational status ranging from primary five (upper primary) to senior six. This can be explained by the requirement of the NGO

[22] Mark M. Pitt and Shahidur R. Khandker (1998), 'The Impact of Group-Based Credit Programmes on Poor Households in Bangladesh: Does the Gender of Participants Matter?,' *Journal of Political Economy*, 106 (5), p. 960. Also see Aminur Rahman (1999), 'Micro-Credit Initiatives for Equitable and Sustainable Development: Who Pays?,' *World Development*, 27 (1), p. 69. Also see G. Buijis and G. Atherfold (1995), *Savings and Money Lending Schemes: How Rotating Credit Associations Help Poor Families*, Pretoria: Human Science Research Council (HSRC), p. 3.

credit scheme. Their institutional loan requirements tend to scare away the less educated. This does not however mean that the less educated (25 percent) and uneducated people (5 percent) were not considered. They were also considered because of the fact that they were within groups, which helped them to cope up.

As with the case of the households that accessed state credit, the beneficiaries of NGO credit were also characterised by large families. This phenomenon can be attributed to cultural perceptions as already explained in the previous chapter. It is also due to the AIDS pandemic, which has led to a burden of orphans to many families. Therefore, the family sizes of most NGO credit beneficiaries ranged between four and six children (62.5 percent). The effect of large families was that it encouraged expenditure on services such as education and health. Apart from these services, large family sizes did not have a serious effect on consumption because of the subsistence nature of these households where food was free.

The economic activities pursued by NGO beneficiaries differed between the two districts. In Mbarara district, all the credit beneficiaries were engaged in agriculture as the main economic activity even though 65 percent of these supplemented it with off-farm employment. Most of this was in trade-related activities. In the case of Mpigi district, trade dominated with 70 percent while 30 percent supplemented trade with agriculture. What should be noted is that NGO credit programmes tended to generally discourage agricultural loans because of the related risks. They preferred off-farm micro-enterprises. This was because they guaranteed higher returns in comparison to agricultural activities. Twelve of the twenty beneficiaries (60 percent) in Mbarara district who indicated that their dominant activity was agriculture were also largely engaged in marketing produce from farmers to towns or weekly markets. Therefore, the credit beneficiaries were engaged in crosscutting economic activities.

5.4 The Nature and Operations of NGO Credit Programmes

This study established that all the NGO credit programmes were well organised and functioned according to conventional management standards. All the four NGOs were registered as micro-finance organisations. They all had organisational structures, which functioned well. In the case of foreign NGOs like WV, FTCU and ACORD, the core staff at the headquarters took the major decisions. These credit programmes kept records, had regular meetings and minutes were recorded. Besides, the day to day operations of the credit programmes were guided by operational guidelines, which clearly stated the objectives, duties and responsibilities of the employees.

ACORD's approach of extending credit to the poor was well conceptualised and designed. ACORD first conducted participatory action research (PAR) to identify pertinent problems that particularly affected the area in 1991. The rural residents of the area expressed the need for credit to alleviate their poverty. It was on the basis of these expressed needs that ACORD embarked on giving credit.

ACORD had initially (1991) started by extending credit to individuals. This practice however engendered a lot of defaulting to such an extent that it had to be scrapped and redesigned. The resumption of giving loans in 1994 heavily borrowed from the concepts of successful micro-credit institutions such as the Grameen Bank, BancoSol, BKK and BRI. These concepts include group-based lending, mandatory savings, targeting women and peer monitoring. It, therefore, targeted only those persons organised within groups. In other words, the programme encouraged intending borrowers to organise in savings and credit groups (SCAs), which were formed according to the specifications of ACORD. Credit was given in form of block loans and channelled through SCAs to the beneficiaries. The revised approach became operational in 1994 and has since improved the repayment rates to 97 percent. Besides, ACORD employed Rural Development Workers (RDWs) who resided and had regular contact with credit recipients. Their main responsibility was community mobilisation and the supervision of credit beneficiaries.[23]

Furthermore, the organisation of the clients of FTCU and WV was not very different from that of ACORD. The two respective NGOs induced the formation of groups according to their own specifications before credit could be extended to them. They also had a similarity with ISSIA since they all imposed their *modus operandi* on the credit applicants as opposed to working with the existing local associations, which were tailored to people's experiences, capacities and interests. Comparative experiences of the operating mechanisms of these NGO credit schemes can be found in another NGO in Uganda, the Foundation for International Community Assistance (FINCA). The institutional characteristics of FINCA were similar to that of the four NGOs.[24] It used the group-based lending methodology. Groups were also formed in accordance with the requirements of FINCA's methodology. Each group had 29 members who were given basic training in its loan methodology. The group members co-guaranteed the loans and monitored each other (peer monitoring). Other characteristics of FINCA

[23] The responsibilities of Rural Development Workers (RDWs) are described in the report titled: ACORD, *Evaluation of the Credit Component of the Oruchinga Rural Development Programme*, Report Prepared by Sustainable Development Centre, Dated 17th December 1999, p. 4.

[24] Bank of Uganda (2000a), *Micro-Finance in Uganda: Lessons From FINCA*, A Case Study by Bank of Uganda/GTZ Financial Systems Development Project (FSD), FSD Series No. 4, Conducted by Luke Okumu, Michael Muliisa, Michael Fiebig and Gabriele Benning from 27th May to 18th June 1999, pp. 3-14.

such as strict supervision, targeting of women (99.99 percent), four loan cycles of four weeks each, compulsory saving and weekly repayments were modelled on the Grameen practices. Therefore, FINCA like the four NGO credit programmes imposed its structure and mode of operation on the beneficiaries. These structures and modes of operation disregarded the social and economic realities of the beneficiaries in Uganda's context as the proceeding sections reveal.

The top-down approach used by all the four NGOs studied challenges the assumption that NGOs are better placed to serve and empower the grassroots needs because of their participatory approach. The top-down approach used also puts into question the whole issue of sustainability. The fact that group solidarity was maintained by material inducements was worrying since the end of funding was likely to pave the way for the virtual collapse of these groups. This would have been different if the initiative to form solidarity groups evolved internally and autonomously.

Ninety-five percent of the beneficiaries of FTCU and WV were women engaged in off-farm activities such as poultry keeping, hawking, trade and other income generating activities. Both organisations extended credit to individuals within credit groups. The two NGOs extended start-up capital to the active poor. Both NGOs offered a first loan of USh 50,000 (US$ 28).[25] The smallness of credit was targeted at the disadvantaged groups especially women. Given the stringent conditions for obtaining such credit, the better off would find its access an inconvenience and the amount very small. The fact that credit was small and accessibility required membership within a solidarity group eased the screening of the targeted low-income groups. Nonetheless, like in the other two cases (ACORD and ISSIA) the beneficiaries were not the very poor but the active poor who were engaged in income generating activities. The fact that both NGOs insisted on weekly repayments and compulsory savings meant that the very poor could not be admitted because of the stringent credit conditions.

The foregoing analysis has pointed out the underlying weaknesses of NGO credit activities in regard to location. Their activities were not located in remote parts that were not served or under-served by public agencies. The research findings further indicated that only one of the four NGOs studied was operating in a remote area. However, during the conduct of the research the very NGO (ACORD) was relocating its field offices from the remote area to a more conducive urban environment of Kabingo. Similarly, the beneficiaries of credit were not the very poor but the active poor. The four NGO credit programmes confirmed that they preferred to extend credit

[25] The current (2001) exchange rate is one United States dollar ($) to 1800 Uganda

support to those persons who were already engaged in an income generating activity than the beginners. Hence, the findings established that credit extended through NGOs neither went to remote areas nor reached out to the real poor in contrast to the conventional assumptions.

However, the case of ISSIA was different. Although it was organised as a micro-finance NGO in 1998, it had all the trappings of a business company. The holding of shares and acquisition of share certificates determined membership of ISSIA. It was the members' share capital and donor funds that constituted the moneys that were loaned out. On top of their shares, ISSIA shareholders met at every end of year to distribute the proceeds between themselves according to each one's share holdings. However, not all share proceeds were divided between the shareholders. A fraction was ploughed back. Even though ISSIA created an impression of being a non-profit organisation, its activities and mode of operation showed that it was driven by the profit motive. Though most beneficiaries appreciated the contribution of this 'NGO', it operated in a similar fashion to a commercial undertaking. While it charged an interest rate of three percent per month, no grace period was given to borrowers. Interest was also not calculated on declining balances. Repayment of the principal and interest on a monthly

Shillings (USh).

basis left borrowers little if any proceeds. Therefore, the whole operation of ISSIA's credit conditions was exploitative.

ISSIA like the other three NGOs also had a well-functioning organisational structure, kept records about its transactions and had precise operational guidelines. The operational guidelines required credit applicants to follow the borrowing procedure. Intending borrowers were required to open bank accounts and then start depositing money regularly for a period of three months for an individual, and two months for individuals within groups. It was after this period that one graduated to apply for a loan from ISSIA. The loan application was judged on the basis of the banking record of the applicant. In addition to this, the ISSIA credit officer visited his/her village to establish the applicant's character and also to confirm whether he/she had land and a family. ISSIA insisted on land collateral together with the applicant being co-guaranteed by a spouse as well as members of his/her credit group. These conditions notwithstanding, the applicant was required to have two other guarantors who were either shareholders or had bank accounts with ISSIA. These were required to either surrender their share certificates or mortgage their bank accounts to ISSIA. It was vividly clear that ISSIA's loan conditions were very stringent even when compared with those of commercial banks.

There was a close relationship between the practices of all the four NGO credit programmes studied. The organisation of all the four NGO programmes, to some extent, borrowed from the Grameen operational principles.[26] For example, they extended credit through organised groups and used joint liability. They also emphasised compulsory saving, peer monitoring, weekly/monthly repayments and positive interest rates. In addition, they gave priority to women borrowers and enforced strict supervision among many others.

However, the ways in which particular NGOs related to credit groups affiliated to them varied significantly. Some NGOs such as FTCU and ISSIA were highhanded in their relationship with credit groups. They did not encourage individual initiatives and instead strictly monitored and supervised these groups through credit officers on either a weekly or monthly basis. FTCU organised weekly meetings between the credit officers and credit groups. Such meetings were geared towards ensuring that repayments were made regularly. The meetings also gave opportunities to clients to raise their problems. In the case of ACORD and WV, meetings were organised on a monthly basis while ISSIA's meetings were organised on a bi-weekly basis. Most beneficiaries interviewed did not appreciate the

[26] Mark M. Pitt and Shahidur R. Khandker (1998), *Opcit*, p. 959. Also see Manohar Sharma and Manfred Zeller (1999), 'Placement and Outreach of Group-Based Credit Organisations: The Cases of ASA, BRAC and PROSHIKA in Bangladesh,' *World*

frequency of meetings, more especially the weekly ones as illustrated in Table 5.2. This was because they wasted much of their time, which they could have used to do productive work.

Table 5.2: *The Size, Composition and Meeting Frequency of NGO Credit Programmes*

Credit Institution	Group Size	Women Composition	Meeting Schedules
FTCU	25-45	95 percent	Weekly
World Vision	7-15	60 percent	Monthly
ACORD	8-90	40 percent	Monthly
ISSIA	5-10	80 percent	Bi-Weekly

Source: *Compiled from Fieldwork Data.*

All the four NGOs studied had a gender emphasis in their credit programmes as indicated in Table 5.2. There are well known reasons why credit institutions prefer women. These range from their outstanding reputation for repayment, trustworthiness (honesty), empowerment, to the trickle-down effect of their earnings on the household.[27] To a certain extent ACORD and WV differed from the other two NGOs in the way they related to credit groups affiliated to them. They had, to a great extent, decentralised loan assessment, allocation, monitoring and repayment to the committee

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Development, 27 (12), p. 2124.

[27] World Bank, 'Using Micro-Credit to Advance Women,' *PREMnotes*, Number 8, November 1998, p. 3. Accessed on: www1.worldbank.org/prem/PREM Notes/premnote8.pdf. Also see Mark M. Pitt and Shahadur Khandker (1998), *Opcit*, pp. 960 and 980. Also see Aminur A. Rahman (1999), *Opcit*, p. 69. Also see Anne Marie Goetz and Rina Sen Gupta (1996), 'Who Takes the Credit? Gender, Power, and Control over Loan use

members of credit associations. Each credit association had a loan allocation committee, which received, considered and disbursed credit depending on the applicant's record. The RDW in charge of a sub-county represented ACORD on the allocation committee while WV used credit officers to monitor the functioning of these committees. Whereas ACORD had an allocation committee for each credit group, WV had an elected committee of five people organised at the parish level, which screened applicants, reviewed loan applications and ensured repayment. The association committee members did the other activities of ensuring repayment, monitoring and banking.

ACORD and WV had succeeded in maintaining this arrangement by giving block loans to credit associations affiliated to them. According to an interview with the Credit Officer in Isingiro, ACORD had twenty-seven credit associations and out of these, seventeen had been registered as companies[28] while WV had twenty groups. It was, therefore, up to the allocation committee to call meetings according to the operational guidelines of the two NGOs and then ration credit according to their members' needs,

in Rural Credit Programmes in Bangladesh,' *World Development*, 24 (1), p. 46.

[28] The two evaluation reports we accessed only mention the 17 registered associations. They do not talk about the other ten because they were still in the formative stages (see ACORD, *Evaluation of the Credit Component of the Oruchinga Rural Development Programme*, Compiled by Sustainable Development Centre, Dated 17th December 1999, p. 7. Also see ACORD-Mbarara Programme (UGA/11), *A Report on Oruchinga Valley Rural Development Programme's Savings and Credit Component*, Compiled by Bwerere Fulgence (Credit Officer), Dated 31st December 1999, p. 9.

capacity, and track record. In addition, credit groups of the two NGOs organised meetings once every month. In the case of general meetings with all credit groups, WV organised such meetings once every three months. On the other hand, ACORD organised general meetings with representatives of credit associations when need arose. For example, such a meeting was organised in July 2000 to discuss the modalities of forming an umbrella association - *Orukyinga Micro-finance Promotion Agency (OMPA)* to succeed ACORD since it was in the process of phasing out its activities.

Therefore, the role of ACORD and WV was to facilitate credit associations to build internal capacity. This approach saved both NGOs a lot of operational costs and risks of default while at the same time it allowed the groups to acquire organisational and management expertise and experience. The repayment for ACORD and WV were 97 and 98 percent respectively. On the other hand, the decentralised management of credit allowed independent initiative to the local associations, built management experience and sometimes allowed internal flexibility. This management approach had the potential of building local capacity and subsequently self-sustenance.

It was further noted that conditions for getting credit from these NGOs were very stringent as indicated in Table 5.3.

Table 5.3: *Terms and Conditions of Credit for the Four NGO Credit Programmes*

Conditions	FTCU	World Vision	ACORD	ISSIA
Loan guarantor	Local councils	Group and mandatory savings	Spouse or close relative	Wife or husband
Physical collateral	Use peer pressure	Use peer pressure	Yes	Yes
Compulsory saving	20 percent of loan	20 percent of loan	Yes	Yes
Membership of a group	Yes	Yes	Yes	Yes
Have a bank account	Yes	Yes	Yes	Yes
Repayment duration	Three months	Six months	Six months	Six and four months for groups and Individuals respectively
Registration of the association	Yes	Not required	Yes	Not required
Training	Yes	Yes	Yes	Yes
Interest rate	Three percent per month	22 percent per year	Three percent per month	Three percent per month
Administration fee	One percent of the loan	Two and half percent of the loan	Yes but figures were not available	USh 1500
Entrance fee	None	One percent of the loan	None	USh 10,000
Pass book fee	None	None	None	USh 3000
Commission	None	None	None	Half percent of each loan

Source: *Compiled from Fieldwork Data.*

To access credit from the four NGO credit programmes, borrowers were required to meet most of the conditions indicated in Table 5.3. In addition to these, clients were required to fulfil internal requirements of individual credit associations. These included membership fees, subscription fees, fines and compulsory savings or contributions. Whereas the interest rates of the four NGOs were low when compared to those of commercial banks[29] the combined requirements of mandatory savings, having a bank account, other charges and those internal to credit associations were a burden to the borrower. The terms and conditions for accessing such small credits made the loan expensive and created a condition of indebtedness amongst the poor. If consideration is given to a first loan cycle of USh 50,000 (US$ 28) as given by FTCU, ISSIA and WV, the beneficiary of such credit was most likely to become financially burdened especially if he/she was engaged in income generating activities that required a long gestation period. This is because the repayment duration was short (three to six months) and most of them did not have a grace period. World Vision, for instance, did not have a grace period, FTCU allowed the borrowers only one week while ISSIA allowed a grace period of two weeks.

The absence or shortness of grace periods as well as the short repayment periods of three to six months provided very little leverage to borrowers to

[29] According to the *East African*, 8-14th May 2000, interest rates charged by Uganda

take advantage of these loans. Notwithstanding the nature of the terms for accessing credit from these NGOs, high repayment rates averaging over 95 percent were registered. The data generated by the study found out two factors that explained the impressive repayment rates of NGO credit programmes. First, those borrowers who successfully repaid their loans without difficulties were mostly those involved in activities with short-term returns such as trade. The returns from trade were immediate when compared to those of undertakings such as agriculture. In fact, credit from NGOs was seriously undermining agriculture in favour of trade as reported in Mbarara and Mpigi focus group discussions. The following were major statements that emerged from the four focus groups:

> We appreciate the value of credit extended to us. However, the problem is the lack of flexibility by these credit institutions especially on the repayment of the loan. It is difficult to start repaying a loan in a week's time. These credit programmes require us to start repaying in a month or week's time. But our main activity is agriculture and the time given is not enough. Not everybody can become a trader! This is a big problem to us and the government should address it. Many of our pleadings with the credit institutions have been ignored.[30]

An increasing number of credit beneficiaries were getting engaged in trade in order to meet repayment schedules, which was likely to undermine food security and the export sector. The explanation given for the NGOs' reluctance to support agriculture was that it was unpredictable and yet loans

commercial banks between 15 and 28 percent per month.

[30] The main issues emerging from the four focus group discussions held in Mbarara and Mpigi districts between September and November 2000.

to support it required a long gestation period. In an interview with the Executive Director of ISSIA, he made this comment:

> We made an effort to assist people in this area with small loans so that they can improve their living conditions. We have to recover this money so that others can access it or else our initiative would die. Agriculture requires a long gestation period and has many risks, which we can't afford because it means a few people will access the loans. Agricultural loans require the intervention of government. If government can give us money then there wouldn't be a problem because we can help to extend such loans.[31]

The long-term implications of this trend are likely to affect Uganda's economy, which, over relies on agricultural exports. Agriculture remains the dominant sector, contributing over 40 percent of total GDP and employing approximately 80 percent of the working population.[32] These stringent terms and conditions of NGO credit programmes contradicted their mission objectives of helping to improve the wellbeing of the beneficiaries. They did not put into consideration the circumstances in which the beneficiaries lived. These were generally rural conditions where the major economic activity was agriculture as illustrated in Table 5.1. Therefore, such activities required flexibility of the terms of the loans if they were to benefit the clients. Buckley[33] pointed out the significance of understanding the circumstances of credit beneficiaries. In his study of rural agricultural credit in Malawi, he

[31] Interview with the Executive Director of ISSIA in Ibanda, Mbarara district in October 2000.

[32] Republic of Uganda (2000), *Uganda Bureau of Statistics: 2000 Statistical Abstracts*, Ministry of Finance, Planning and Economic Development, Kampala, Uganda, p. 77.

[33] Graeme Buckley (1996a), 'Rural and Agricultural Credit in Malawi: A Study of the Malawi Mudzi Fund and the Smallholder Agricultural Credit Administration,' in David Hulme and Paul Mosley (eds.) (1996), *Finance Against Poverty*, London and New York, p.

cautioned lending programmes against replicating successful models such as Grameen regardless of environmental differences. He warned that replicating practices such as weekly repayments without addressing the very nature of the rural economy could be counterproductive. He argued that lending programmes needed to put into consideration social circumstances such as the seasonal nature of rural activities and income. A comparative example can also be drawn from the loan technology used by FINCA in Uganda. In a study conducted by Bank of Uganda/GTZ on FINCA,[34] it was observed that FINCA's prescriptions of a strict time schedule for loan repayment was having negative effects on borrowers. It was argued that such stringent loan terms did not take into account the fact that business income was unstable and that some businesses required longer periods of time before sufficient income could be generated. Therefore, stringent loan terms of NGOs credit programmes were oppressive to the borrowers even though they tended to improve institutional performance.

It was also established that the explanation for the other impressive repayment rates lay much more in multiple membership of clients to other credit programmes than the productivity of credit *per se*. Thirty-five (87.5

381.

[34] Bank of Uganda (2000b), *Rural Micro-Finance Clients in Uganda: FINCA Client Analysis*, A Case Study by Bank of Uganda/GTZ Financial Systems Development Project (FSD), FSD Series No. 6, Conducted by Barbara Grimpe from 18th February to 21st April 2000, p. 13.

percent) of all the credit beneficiaries interviewed belonged to more than one credit programme as illustrated in Table 5.4 below.

Table 5.4 *Sources of Loans to Beneficiaries*

District	NGO	Gender	Number of Beneficiaries	Other Sources of Credit			
				Government	Other NGOs	ICAs	Friends a Relatives
Mbarara	ACORD	Male	6	2	0	4	0
		Female	4	0	0	4	0
	ISSIA	Male	2	0	0	2	0
		Female	8	0	2	8	0
Mpigi	FTCU	Male	0	0	0	0	0
		Female	10	0	0	10	2
	WV	Male	4	1	0	0	3
		Female	6	0	0	6	2
Total Number of Beneficiaries			40	3	2	34	7

Source: *Compiled from Fieldwork Data.*

It is vividly clear from Table 5.4 that on top of accessing loans from the NGO credit programmes, beneficiaries also accessed credit from a combination of other sources. The most significant other source of credit was the informal credit associations (ICAs) or self-help associations. Beneficiaries who accessed credit from ICAs as a supplement to credit received from NGOs were 85 percent. The explanation for this phenomenon was that many of the clients of NGO credit programmes were also organised in ICAs and did not abandon their informal organisations. These were kept as a form of insurance in case the NGO credit programmes phased out. The maintenance of ICAs can also be explained by the fact that local people tend to be suspicious of outside initiatives. While these institutions had to some extent attempted to involve them through the group mechanism, people still felt that they did not own them because of the condescending approach they were using. Though an impression was created that people were participating in these programmes, the approach used showed that this was not genuine participation but a form of legitimising participation. It was a form of participation that involved people at the level of executing development programmes.[35] Participants lacked the power to influence the decision making process despite participating.

Another explanation as to why many beneficiaries of credit also maintained their membership of ICAs was attributed to the stringent conditions that were attached to NGO credit. These included high interest rates, compulsory savings, weekly/monthly meetings, short-term loan duration as Table 5.3 shows. These stringent conditions put a lot of pressure on the beneficiaries to such an extent that they kept one leg in ICAs in case things did not work out with NGO credit. Therefore, beneficiaries kept their membership in ICAs as a form of insurance and indeed they sometimes had to access funds from ICAs to repay NGO loans.

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[35] See Glyn Williams, Ren'e V'eron, Stuart Corbridge and Manoj Srivastava (2003), 'Participation and Power: Poor People's Engagement with India's Employment Assurance Scheme,' *Development and Change*, 34 (1), p. 164.

A few men (50 percent) compared to women (100 percent) did access loans from ICAs because many of the ICAs belonged to women. This can be explained by the fact that men generally have a leverage over women because they own property and their mobility in search of work is not restricted because of cultural advantages. The issue of women's limited social and economic mobility and their lack of physical collateral can be attributed to the patrilineal nature of many African families where inheritance and property ownership are often biased against women.[36]

Furthermore, a few beneficiaries (ten percent) accessed loans from other NGO sources because of their strict terms and conditions. Most clients found it difficult to fulfil the conditions from more than one NGO. Even the few who accessed credit from other NGOs were engaged in business and could therefore afford to meet the necessary requirements. Besides, NGO credit programmes enforced strict supervision of the activities of the beneficiaries. It was also made clear in their terms that they did not extend credit to someone who was already benefiting from another source. Therefore, few beneficiaries could risk seeking a loan from another NGO since their discovery would jeopardise their current and future access to such loans.

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[36] World Bank (1998), *Opcit*, pp. 3-4), p. 1. Accessed on: www1.worldbank.org/prem/PREM Notes/premnote8.pdf. Also see Peter Kiko Kimuyu (1999), 'Rotating Savings and Credit Associations in Rural East Africa,' *World Development*,

Hence, the issue of multiple membership can be explained by many factors. First of all, NGOs dealt with individuals within groups and most of these groups also had a component of internal loans. Besides, some individual recipients of loans from NGOs were members of ICAs as well as other NGO credit schemes. They therefore accessed loans from different groups to clear outstanding debts. The argument is that high repayment rates recorded by NGO credit programmes are creating a wrong impression that loans are productive and therefore an indication that beneficiaries are better off than they were. This appeared not to be the case. Though these credit programmes benefited the clients engaged in trade, they adversely affected those recipients engaged in agriculture. Press reports[37] in Uganda also corroborated the widespread adverse effects of NGO credit on beneficiaries. These reports indicated that loans were creating more burden and increasing people's poverty instead of eradicating it.

The phenomenon of recycling loans appears to be common even in more successful credit programmes such as the Grameen Bank. Loan recycling refers to borrowing from other sources or payment of instalment from the

27 (7), p. 1304.

[37] *The Monitor,* Tuesday, September 5, 2000, 'Micro-Credit forces Women into Hiding,' p. 22. See *The New Vision*, October 8, 2000: The Other Voice, Vol. 3, No.11, 'Does Credit Produce New Poor Groups.' Also see *The Monitor*, Friday, November 17, 2000, 'Fake NGOs Con Locals of Sh1 Billion.'

capital to meet weekly repayments. According to Rahman's[38] research on micro-credit programme in Bangladesh, he noted that many Grameen borrowers maintained their repayment schedules through a process of loan recycling. The implications of this practice were that it considerably increased the debt liability on individual households. A similar practice was reported in the case of FINCA borrowers. The Bank of Uganda/GTZ[39] study reported that due to a strict time schedule of repayment, some clients borrowed from other sources to cope with repayment requirements, which created a problem of multi-indebtedness. It was therefore evident that stringent loan terms of NGO credit programmes were generally putting intense pressure on borrowers.

All the four NGOs had a training component as part of the credit package. Some NGOs like ACORD were even contemplating educating credit applicants on proposal writing, budgeting, banking and formats of record keeping as part of its future plans as revealed by the credit officer:

> ACORD intends to start training SCAs (groups) in the near future. We want to train them on how to write loan proposals, formats of record keeping and banking as well as budgeting methods. Once we impart these skills in our clients then we can be sure that they will be able to manage their credit activities effectively.[40]

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[38] Aminur A. Rahman (1999), *Opcit*, pp. 68 and 78.

[39] Bank of Uganda (2000b), *Opcit*, p. 14.

[40] Interview with the ACORD's Credit Officer in Isingiro, Mbarara district in September 2000.

However, the kind of training offered by the four NGO credit programmes catered for institutional as opposed to client interests. Training was mostly given prior to loan disbursement. The general objective of this training was to educate the borrowers about the principles of the credit programme, its loan terms and conditions and the procedures of repayment. The training, therefore, concentrated on issues like loan duration, repayment terms and dates, interest rates and other fees, record management and the implications of delaying or failing to repay. In very limited circumstances did the study find situations where credit beneficiaries were trained on how to identify and manage an income generating enterprise. It is only in the case of Buwama where such a case was reported:

> This NGO initially assisted victims of HIV-AIDS with support to generate income. This was done from a humanitarian point of view because we are a Christian philanthropic organisation. We donated in-calf heifers to them so that they could improve their nutrition status and also earn an income to assist them to buy other requirements. The recipients were first trained on how to look after the cows and manage income generated by the sale of milk. This project was successful but we abandoned it because it was expensive and therefore not sustainable. It only helped a few. We decided to change to the approach of giving credit so that we reach many needy ones.[41]

The contents of training were geared towards mainly institutional interests as opposed to empowering the beneficiaries to maximise opportunities arising from such loans. The training was therefore much more geared to ensuring repayment than increasing the capacity of borrowers to take

[41] Interview with the World Vision's Project Manager in Buwama, Mpigi district in November 2000.

advantage of available opportunities. The Bank of Uganda/GTZ[42] study reported a similar incident in the case of FINCA. It observes that 'FINCA offers some basic training for group formation. Apart from this, no business development training or other technical assistance is offered on a systematic basis.' In contrast however, Uganda National Farmers Association (UNFA), another NGO extending credit to farmers, offered better training in both loan use and modern farming techniques. Farmers were trained in preparing and evaluating their business plans, and technical farming matters after which members sat for exams. Those that passed exams and graduated were given the Yellow Farm Management Certificate (YFMC). However, its performance record was poor (54.95 percent) in terms of loan repayments[43] and depended on external funding. This means that engagement in serious training involved a lot of costs. Therefore, it is most likely that most NGOs were avoiding such costs by restricting their training to the programme loan methodology.

Supervision and monitoring was also driven by the need to ensure that credit was repaid on time than assisting beneficiaries to improve loan utilisation as well as the accruing proceeds. The credit supervisors were not involved in educating and advising rural beneficiaries on what appropriate

[42] Bank of Uganda (2000a), *Opcit*, p. 12.

[43] Uganda National Farmers Association (UNFA), Project Assistance Provided by EC Under Stabex CPF Funding, *Progress Reports Numbers 4 and 10*, Dated 1st January 1997 to

techniques they could employ to maximally utilise credit or which activities would be more productive. Neither were they educated on the means and ways to ensure self-sustainability after credit. It was established that their role could not be compared with that of traditional government extension workers. Their contribution was therefore more in fulfilling the interests of the NGO credit recovery than networking with clients to alleviate their poverty.

In two of the field visits with credit officers of FTCU, it was observed that they were preoccupied with the maintenance of books and weekly repayments. This appeared to be a similar case with the other NGOs studied. The main concern was to guard against diversion of loans and to make sure that repayments were made on time. In the case of WV, loan diversion attracted a penalty fee of one percent of the loan. The data gathered also confirmed that all the NGO credit programmes did not tolerate delays and neither were they willing to reschedule loans in circumstances where clients found it difficult to pay on time. This is why all the NGOs preferred to use the group mechanism because the failure by an individual to repay was directly borne by the whole group. Therefore, it was evident that risks, which are inevitable in day to day life, were not appreciated by NGO credit but were instead transferred onto the borrower. This is quite surprising

30th June 1999, pp. 1and 7 respectively.

given the fact that formal commercial banks sometimes listen to problems of their clients and reschedule loans and interest. These NGOs were found to be highhanded when dealing with credit repayment contrary to the conventional image of NGOs being compassionate and having the best working relations with the poor.

Nonetheless, the institutional behaviour of Uganda's NGO credit programmes need not be treated as an isolated case but appears to have some similarity with Kenya's KREP-Juhudi. Buckley's[44] study of KREP-Juhudi group-based credit structures popularised by the Grameen Bank showed that there were hidden costs attached to a Juhudi loan. These comprised of membership fee, passbook, insurance fund among others. The real costs of a Juhudi loan amount were found to be considerably more than the published interest rate, which was deceptive. A similar example can also be drawn from FINCA's practices in Uganda as revealed by the Bank of Uganda/GTZ.[45] The report observed that FINCA's main purpose of using the group-lending methodology was to lower the transaction costs which were relatively high. While group-based lending serves as a cost-reducing

[44] Graeme Buckley (1996b), 'Financing the Jua Kali Sector in Kenya: The KREP-JUHUDI Scheme and Kenya Industrial Estates Informal Sector Programme,' in David Hulme and Paul Mosley (eds.) (1996), *Opcit*, p. 291. Also see Shari Berenbach and Diego Guzman (1994), 'The Solidarity Group Experience World-wide,' in Maria Otero and Elisabeth Rhyne (eds.), *The New World of Micro-Enterprise Finance: Building Healthy Financial Institutions for the Poor*, London: IT Publications, p. 120.

[45] Bank of Uganda (2000b), *Opcit*, p. 1.

measure for the financial institution, it has negative repercussions on borrowers. Not only does it transfer transaction costs to members but also undermines individual progress. King[46] observed a similar weakness in regard to Kenya. He criticised the inclination of NGOs to approach economic development as inseparable from social development, and vice versa. Hence, the group-based as opposed to an individualistic lending approach means that the progress of individual borrowers within the group can be retarded by the weaknesses of the other members because of the joint liability, which binds all of them.

One of the significant practices that are recognised for the good performance of credit institutions is the use of the participatory approach. Participation is believed to enhance efficiency, effectiveness and sustainability.[47] When asked as to whether the four NGOs allowed participation of credit beneficiaries, all the four NGO project managers responded in affirmative:

> 'Participation is one of our major institutional principles and that is why we insist on groups and not individuals (Credit Officer of ACORD, Mbarara).'
> 'Beneficiaries participate. We ensure that they participate through their groups as well as through group meetings with our credit officers. It is through such fora that beneficiaries raise problems that are affecting them and they are openly discussed and addressed (Project manager WV, Buwama).'

[46] Kenneth King (1996), *Jua Kali Kenya: Change and Development in An Informal Economy 1970-95*, London: James Currey Ltd., pp. 179-80.

[47] Jonathan Isham, Deepa Narayan and Lant Pritchett (1995), 'Does Participation Improve Performance? Establishing Causality with Subjective Data,' *The World Bank Economic Review*, 9 (2), pp. 175, 193 and 194. Also see James Midgley (1995), *Social Development: The Development Perspective in Social Welfare*, London: Sage Publications, p. 114.

'There is a lot of participation in the activities of ISSIA. This organisation was created for and is owned by the clients. That is why we insist that each beneficiary buys shares from ISSIA. The major decisions affecting the organisation are discussed by the general assembly at the end of every year (Executive Director ISSIA, Mbarara).

'It is our mission to ensure that beneficiaries are organised into groups, which are self-selected. This enhances the participation process. Our role is that of facilitating participation. We attribute the success of FTCU to participation (Senior Credit Officer of FTCU, Bunamwaya).'[48]

However, our own findings established that these responses were for the purposes of public relations. It was true that NGOs organised meetings with credit beneficiaries and listened to the issues that were sometimes raised. Nonetheless, in very few circumstances were the issues raised acted upon. Action was taken as long as such issues did not affect the terms and conditions of credit as well as the repayment schedule. Therefore, as far as pertinent issues about the terms of credit were concerned, NGOs were unwilling to compromise. Fundamental issues that were reportedly raised by credit beneficiaries such as the desire to have reasonable grace periods, increase in the size of loans, a delay in commencement of repayment, relaxing of compulsory savings and having fewer meetings were not accepted. This was reported during a focus group discussion in Bunamwaya:

I can assure you that every member in this group appreciates the assistance given by FTCU. We value the assistance because before FTCU came to this area there was no any other major credit programme. Our concern with FTCU is that their staff is difficult. We have in various meetings explained to them how difficult it is to utilise their loans because of stringent conditions but they don't listen. We have pleaded with them to give us a grace period of at least one month and also relax

[48] Interview responses from the Credit Officer of ACORD, Project Manager of World Vision, Executive Director of ISSIA and Senior Credit Officer of FTCU in Mbarara and Mpigi district between September and November 2000.

the weekly meetings, which consume a lot of time but they have refused.[49]

The few circumstances where changes were effected as a response to the input of clients, were only in those areas where the interests of the NGOs were protected. A case in point was with FTCU when beneficiaries complained and appealed for exemption of the one percent fee for administering loans. It was only this exemption that was allowed despite the fact that many other issues, as already mentioned above, were frequently being raised. The appeal for exemption was probably accepted because it was the beneficiaries themselves who virtually carried out all the administrative chores of bookkeeping, credit recovery and banking.

Besides, our observation of the progress of two FTCU meetings attended by the credit officers in Bunamwaya gave us important clues. In both cases the credit officers dominated the meeting. They asked and answered questions in a patronising manner. The women looked submissive and tried to be polite all the time. They addressed the credit officers with a lot of respect and hidden fear. When I revisited the two groups the following week but this time without the credit officers, the women beneficiaries told me of their predicament especially in regard to the terms of repayment and the size of loans. The common expression from these women was: *'Wama Ssebo,*

[49] Issues emerging from an FTCU focus discussion group in Bunamwaya, Mpigi

tukwegayiridde tuyambe otuteleko edobozi eyo kubobuyinza kubizibu byetusanga mu looni za FTCU.' This expression literally means that 'Please sir, we are appealing to you to help us and talk to the authorities in FTCU so that they can address the problems we confront when using the loans.' This appeal and many similar ones indicated that the relationship between the beneficiaries and the staff of NGO credit programmes was far from being cordial. The relationship was much more characterised by unequal power. On one hand, the staff of NGO credit programmes used their power to coerce the beneficiaries to repay the loans because their performance was assessed in terms of their ability to extend loans and ensure maximum and timely repayment. On the other hand, the beneficiaries feared to come out openly and express their disappointment with the terms of credit terms because of the fear to lose the only opportunity available in a desperate situation.

Therefore, the foregoing evidence clearly shows that the degree of participation allowed in respect to credit was limited. It did not soften the stance of NGOs and neither did it give any kind of leverage to credit beneficiaries. Participation was therefore found to be a gimmick as opposed to facilitating the beneficiaries to raise their predicaments and have them addressed. The issue of highhandedness of credit programmes vis 'a vis the

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district in November 2000.

beneficiaries was also reported to affect successful micro-credit programmes such as the Grameen Bank. Rahman's[50] study on women borrowers of the Grameen Bank found out that bank workers were putting intense pressure on women borrowers to ensure high recovery rates and to earn profits necessary for the economic viability of the institution. Therefore, the drive by the institution to achieve financial sustainability tended to undermine the participation and empowerment component of the bank's principles. Hence, the bank's aspirations of financial sustainability made borrowers vulnerable and trapped and subsequently undermined their performance. It is this very situation that affected Uganda's NGO credit programmes.

5.5 NGO Condescending Relationship with Affiliated Credit Groups

NGO strength lies in working with the grassroots. They are also claimed to be innovative. One of such innovations is extending credit to the poor through solidarity groups. The NGO credit programmes have been recognised for enhancing co-operation and improving the welfare of beneficiaries through group-based lending programmes. The role of solidarity groups in poverty alleviation is also undisputed. Nonetheless, there is need to distinguish between solidarity groups that evolve to serve the needs of members, and credit groups that are socially engineered by NGO credit programmes. It is the former, which have been successful in

[50] Aminur Rahman (1999), *Opcit*, p. 68.

terms of working in the interest of and benefiting members. These have arisen out of prevailing social conditions. They had therefore been tailored according to members' capacities, understanding, and needs. This is why most traditional mutual associations (self-help groups) were kept simple, informal, and small as indicated in Table 5.5 below.

Table 5.5: *Terms and Conditions of Informal Credit Associations (ICAs)*

Name of ICA	Membership Requirements	Mode of Operation	Records Kept
Kisyoro Women Group	Needy women; New members are vouched for by old members; Good character; Hard working; Membership fee of USh5000.	Hold monthly meetings; meetings take place in member's homes; Committee members are elected yearly; Decisions are by consensus in general meetings; Members with emergency problems are assisted; Proceeds are shared at the end of year.	Keep simple records e.g. Rosta of all members, record of income, expenditure and loans given out as well as assets.
Nyabuhikye Women Catering Association	Needy women; New members are vouched for by old members; Good character; Membership fee of USh 1500.	Committee members are elected yearly; Hold monthly meetings; Each member contributes Ush 20,000 every year; Decisions are by consensus in general meetings; Proceeds are shared equally at the end of year.	Minutes; Records of income and expenditure; Record of group assets.
Bataka Kweterana.	Membership fee; Good character; Guarantor; Monthly contribution of USh 5000.	Committee members are elected by all members every year; Hold monthly meetings; Decisions are by consensus in general meetings; Proceeds are given to two persons every month through voting method.	As above

Source: *Compiled from Fieldwork Data.*

Members of the three informal credit associations (self-help groups) were from the same villages and knew each other well. These associations kept simple records. They had simple admission requirements. They had no bank accounts, fewer meetings and their operations were simple and flexible (non-bureaucratic). Moreover, these associations were characterised by participatory decision-making and democratic elections. A detailed analysis of these ICAs is given in the next chapter. In contrast to the organically evolved ICAs, NGOs caused the formation of credit groups known as solidarity groups. These were modelled on the principles of the Grameen Bank. The NGO credit programmes channelled credit to the poor through solidarity groups.

There is therefore a difference between credit groups that evolved organically and solidarity groups that were engineered by NGOs. In the process of disbursing credit, NGOs preferred to channel their credit through groups that were created or adjusted according to their specifications. Though they were not opposed to channelling their credit into the already existing mutual associations, their specifications required the traditional mutual associations to change. The specifications of NGOs were much more sophisticated as illustrated in Table 5.6 below.

Table 5.6: *NGO Conditions for Affiliated Credit Groups*

Name of NGO	Membership Requirements	Credit Accessibility Procedure
ACORD	Fill a form in the association; organise in groups of 8-10 members; Have a guarantor and collateral; Pay membership fee; Groups must have a bank account; Organise regular meetings; Each member must save USh 2000 per month; Women must constitute 40 percent.	Give block loans to Groups; Loan allocation committee for the group considers loan allocation; Loan guarantor (collateral); commitment to save; Pre-loan training; Takes a month to disburse the loan; Repayment in six months.
World Vision	Members must be from the same project area; Organise in groups of 7-15 members; Groups screen new members; Organise monthly meetings for the group; Groups are responsible for repaying the loans; 60 percent must be women.	Write two loan agreements i.e. one with the individual and another with the group. Mandatory savings (20 percent of the amount loaned). Pre- and post loan training; Takes a month to disburse a loan for an old member and three months for the new member; New members are trained; No grace period; Loans are recovered in six months; No influence by clients on how the NGOs' credit program operates.
Feed the Children Uganda	Fill forms; Must be from the neighbourhood; Organise into groups of 25-45 members; Association must be registered with the district; 95 percent must be women.	Loan agreements are made and endorsed by local leaders; Open bank account; Pre-disbursement training for a week; Compulsory savings (20 percent of the loan acquired); Weekly repayments; must keep books of accounts; repayment in four months.
ISSIA	Make an application; Must be guaranteed by spouse and two guarantors from ISSIA; Individual collateral (land); Organise into groups of 5-10; Pre-loan saving and have an a bank account with ISSIA; Hold regular meetings; 80 percent must be women.	Must save for three months for an individual and two months for a group before accessing a loan; Groups co-guarantee members; Pre-disbursement training; Mandatory savings; Monthly repayments (instalments); Grace period is two weeks; Repayment is four months for individuals and six months for groups.

Source: *Compiled from Fieldwork Data.*

The solidarity credit groups were characterised by rigid rules that required regular meetings, absence of, which was fined. They also required recording of minutes, systematic keeping of books of accounts, opening of bank accounts, the charging of interest rates plus other fees. Besides, repayment terms and schedules were strict and default was severely penalised. These terms and conditions of credit that was channelled through exotic NGO credit groups were stringent especially when consideration is given to the nature of activities in the rural areas. Therefore, even those informal credit associations that applied for credit from NGOs were forced to restructure to meet the required standards demanded by NGO credit programmes. In the process of transformation, they lost their intrinsic values and therefore became something different.

The need for ICAs to change according to NGOs' specifications made them lose their originality and flexibility. Moreover, their membership lost the bonds of attachment, principles and mission objectives that had initially united them in order to fulfil the NGOs' objectives and mode of operation. In other words, there was change of ownership since credit groups were now owned by NGOs rather than by members. The future of the socially engineered credit groups seemed uncertain because members only valued them as long as they continued to generate credit. The moment such credit dried out especially in the event of the parent NGO phasing out, then the affiliated credit groups were also likely to disintegrate. The social engineering aspects of NGO credit programmes tended to undermine the autonomy and self-help initiative of ICAs. It also transformed them into dependent organisations.

The negative effects of top-down interventions had long been recognised especially in regard to the failure of state interventions in the 1960s and 1970s.[51] Another comparable experience can be drawn from Kenya's *Jua Kali*. The encouragement by government of *Jua Kali* associations to formalise their associations so as to be assisted was reported to have had negative implications. According to King,[52] formalisation created a situation of opportunism characterised by a dramatic increase in associations registered with the hope to access government assistance. Moreover, formalisation undermined the self-help initiative that had initially sustained most *harambe* groups. Instead of *Jua Kali* engaging in innovative ways of generating revenue to fund their enterprises, they became dependent and wasted a lot of time lobbying government for assistance.

Another comparable experience of the negative consequences of social engineering can be drawn from Ndione and Hamid's experience with innovative finance in Senegal in quote:

> We had treated and executed projects as being economic or technical interventions, without fully comprehending that every project is a social process bringing an array of different social networks into play. At the field level, the internal structure and functioning of the groupings we encountered (*tontines* and *Mbotayes*) did not correspond to our preconceived notions of 'democratic' community-based organisations. We therefore encouraged the creation of organisations that we considered as more suitable to foster democratic communitarian community. Not surprisingly, due to insufficient ties between members, the majority of the grouping we helped to create foundered.[53]

It is evident from the above testimony by development workers in Senegal that social engineering can be a form of abortive intervention. It is counterproductive to the whole question of building and empowering grassroots institutions for self-sustainability. It is contrary to the assumption that groups whose formation is influenced by NGOs for purposes of channelling credit have a potential of self-sustainability.

Notwithstanding the crippling effect of social engineering by NGOs, the exotic organisation and management that ensued in these affiliated credit groups made them more preoccupied with meeting the conditions of the institution rather than the economic interests of the beneficiaries. Whereas NGOs are believed to give affordable credit to the rural poor when compared with moneylenders and commercial banks, this did not appear to be the case. The justification for usury (high interest rates) charged by

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[51] Joseph Stiglitz (2000), 'The Insider,' *The New Republic*, April, p. 58.

[52] Kenneth King (1996), *Opcit*, pp. 26-7.

[53] Emmanuel Ndione and Yara Abdul Hamid (1997), *Experiences with Innovative Finance in Senegal*, Paper Presented at Alternative to Co-operation: Sustainable Finance as An End to Development, ECDPM Anniversary Seminar, Maastricht, 12-13 May, European

moneylenders and a commercial bank is to compensate for information asymmetries and unforeseen risk. However, in the case of NGOs, an impression is created that they charge small interest rates (see Table 5.3) on their credit to enable the beneficiaries to break-even. Whereas this appeared to be the case when one only looked at the interest rates, the real interest rates were indirectly borne by the borrower through the transfer of management responsibilities to credit groups. For example, the executive committees of FTCU solidarity groups had various administrative responsibilities. They screened loan applicants, enforced weekly repayment of loans, took deposits to the bank, organised weekly meetings, and prepared statement of accounts on a weekly basis. Similarly, the loan allocation committees for WV and ACORD credit groups were required to disburse credit, and monitor the activities of clients to ensure that the loan was used appropriately.

The financial and management responsibilities, which were supposed to be handled by the paid staff of NGOs were instead transferred to credit groups. Credit groups were required to undertake additional activities such as screening clients, determining the amount of individual loans according to ones capacity, peer monitoring to guard against credit diversion, and credit recovery. Therefore, members of solidarity groups had to bear the hidden

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costs. Besides, credit groups performed the function of collateral and risk insurance. Hence, risks that were supposed to be borne by the NGOs in the process of credit management and disbursement were instead borne by credit groups. The transfer of responsibility and related costs appear to be ignored when analysing NGO credit performance.

The transfer of administrative costs to credit groups has also been documented by Rahman[54] in the case of the Grameen Bank. He attributes part of the Grameen's high repayment rates to the transfer of loan transaction costs through group-based lending. Buckley[55] reached similar findings in regard to the KREP JUHUDI scheme of Kenya. He noted that the 'real costs' of a Juhudi loan amount was considerably more than the 'published' interest rate. His computation shows that hidden costs comprised of membership fees, loan application fees, pass book, insurance fund and others. Therefore, the abdication of duty and transfer of responsibility by NGO credit schemes increased the burden of clients more especially in regard to opportunity costs foregone.

The high repayment rates create an impression of highly efficient operations, which is not always the case as noted by Reinke.[56] He argues that while

[54] Aminur Rahman (1999), *Opcit*, p. 79.
[55] Graeme Buckley (1996b), *Opcit*, pp. 271-332, p. 291.
[56] Jens Reinke (1998), 'How to Lend Like Mad and Make a Profit: A Micro-Credit

operations of such institutions like Grameen have experience very good repayment rates, their operational costs are high and sometimes prohibitive. On a similar note, Stiglitz[57] also observes that while peer monitoring is heralded as an effective innovation, it also has costs. He notes that members of the borrowing groups in the Grameen Bank bear risks, which in the absence of the monitoring problem could much better be absorbed by the bank. The above evidence confirms the fact that NGO credit programmes transfer their operational expenses to solidarity groups. Therefore, it can be argued that NGO credit programmes are basically preoccupied with the financial systems approach,[58] which prioritises institutional performance at the expense of the accrued benefits to credit recipients.

Two of the four NGO credit programmes studied encouraged the formation of small groups whose sizes were not more than fifteen members. These included ISSIA, which had a membership of 5-10 while WV had groups of 7-15 members. The information accessed from the programme managers of these NGO credit programmes indicated that the group size had an impact on repayment performance. This was because small groups were assumed to

Paradigm Versus the Start-up Fund in South Africa,' *The Journal of Development Studies*, 34 (3), p. 45.

[57] Joseph E. Stiglitz (1990), 'Peer Monitoring and Credit Markets,' *The World Bank Economic Review*, 4 (3), p. 353.

[58] The financial systems approach emphasises institutional sustainability as a crucial element in providing credit services (see Albert Kimanthi Mutua (1994), 'The Juhudi Credit Scheme: From a Traditional Integrated Method to a Financial Systems Approach,' in Maria Otero and Elisabeth Rhyne (eds.) (1994), *Opcit*, p. 269.

be composed of homogeneous people who possessed detailed information about each other's character. Such groups irrespective of whether they comprised of friends, neighbours or relatives frequently rejected persons with dubious backgrounds and characters. The explanation given for keeping credit groups small was attributed to such intimate relationships, which involved a few people in the village. The project manager gave this response:

> We give loans to individuals within groups who know each other very well and are in most cases friends. We prefer small group sizes because they are easy for committee members to manage. They also have few conflicts when compared to large groups.[59]

Besides, the information received indicated that big groups tended to complicate management. The larger the size, the more members absented themselves from attending meetings. Large sizes also tended to increase the work burden of committee members since they were required to co-ordinate and monitor the activities of many members. It was also reported that large groups were characterised by faction struggles and high delinquency rates. The issue of large groups can be analysed in the context of large organisations as argued in Michels'[60] 'iron law of oligarchy' whereby the core management tends to pursue their own interests over those of the

[59] Interview with the Project Manager of World Vision in Buwama, Mpigi district in November 2000.

[60] Robert Michels (1959), *Political Parties*, New York: Dover Publications, pp. 21, 373 and 401.

organisation. Similarly, Bouman[61] also points out that large organisations run a greater risk of rival factions, mismanagement and diminishing social control. It was most likely that NGOs such as World Vision encouraged the formation of small groups to avoid such dangers associated with large groups.

In contrast, ACORD credit programme had credit groups composed 8-90 members while FTCU had 25-45 members. The explanation given for larger sizes by FTCU was that:

> Our objective of having many members in each group is to ensure cost-effectiveness. Large sizes reduce expenditures of credit groups in terms of members' contributions to open a group bank account, and purchase stationary. Members also contribute little when it comes to transport fees for committee members who take repayments and compulsory savings for banking on a weekly basis.[62]

Large groups were, therefore, justified on the basis of minimising the costs of NGOs in terms of credit management. Fewer and larger groups reduced administrative costs. The NGO spent less when dealing with a few groups. In the case of FTCU, it was however deduced from the analysis of their activities that the motivation for having large groups was driven by cost-cutting motives. FTCU was much more interested in minimising administrative costs by transferring such costs to the credit groups. Much of

[61] F. J. A. Bouman (1995), 'Rotating Accumulating Savings and Credit Associations: A Development Perspective,' *World Development*, 23 (3), p. 374.

[62] Interview with the Senior Credit Officer of FTCU in Bunamwaya, Mpigi district in November 2000.

the administrative responsibilities and costs therefore ended up being borne by members of credit groups through monetary contributions.

The opportunity costs for doing this institutional work is in most cases ignored when assessing the NGO credit disbursement performance. Their achievements tend to be based on outreach and recovery rates, which is one side of the story. In this case, the large size of the groups improved the performance of FTCU while it burdened the members of credit groups with increased administrative responsibilities and costs as reported by the Chairperson of an FTCU funded group in Bunamwaya:

> While we appreciate the assistance given to our group by FTCU, they demand a lot from us. As a group we are required to meet every Thursday. Members make their weekly repayments and for us on the executive committee we handle the paper work, which includes writing the books of accounts and banking. This is quite taxing especially when consideration is given to the time and expenses involved. We have to balance the time spent on the activities of FTCU with that of running our homes while at the same time we have to manage our income-generating projects so as to repay the loans. We have pleaded with the credit officers especially on abolishing the weekly meetings but they have been adamant.[63]

Besides, this approach had the potential of undermining the sustainability of such credit groups in the advent of the NGOs phasing out the credit programme as already indicated. This was due to the fact that members were not united by special bonds but by the desire to access funds.

[63] Interview with the Chairperson of a solidarity group and beneficiary of FTCU

NGOs' performance is also heralded for being free from bureaucratic delays, which significantly contrasts with that of formal agencies like commercial banks. Formal financial agencies tend to be characterised by long and intimidating procedures. Clients are required to fill lengthy forms, declare collateral, submit feasibility studies, sign legal contracts and wait for long periods before credit is finally disbursed. NGOs have therefore been praised on the basis of being free of bureaucratic management styles and being down to earth when dealing with the rural poor. The study of the four NGO credit programmes confirmed that NGO credit programmes were fast in disbursing loans to applicants. For example, it took one week for FTCU to process and disburse a loan while it took WV, ISSIA and ACORD one month.

Although loan processing and disbursement took a shorter time, terms and conditions for accessing the credit were a bit stringent. It was established that the beneficiaries appreciated the disbursement style of credit because they did not delay their planned activities like planting seasons and market days. Nonetheless, they complained about the stringent terms for accessing loans:

> FTCU has helped us women in this area by giving us loans to start income-generating projects. We however experience some hardships because of the loan terms. They do not give a reasonable grace period. The compulsory weekly meetings consume much of our time while

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credit in November 2000.

> weekly repayments are difficult to sustain. At least if these conditions could be relaxed, it would reduce the pressure on borrowers and make the loans more productive.[64]

One of the attributes of NGOs is the assumption that they are well positioned to meet the needs of the rural poor.[65] The effectiveness of NGOs in meeting credit needs of the poor was questionable as revealed by our study. First of all, all the four NGOs studied extended their credit to the active and not the very poor. The category that was served by the NGO credit programmes could only be described as the relative but not the absolute poor. The absolute poor were not only powerless but were also discriminated against in their communities. Hence, they were not easily accommodated within groups that were formed for purposes of accessing credit. The reason given by members for rejecting the very poor was that:

> I don't think any serious group would admit the very poor. Unless you want to pay for them or you want your group to collapse. They have a lot of problems and cannot fulfil the requirements of ISSIA. They cannot manage pre-loan saving and no one can accept to guarantee them because it is risky. We cannot admit that type because they will bring us unnecessary problems when they fail to pay. It is the group members that will in the end be required to pay.[66]

The absolute poor have a high propensity to default because of the various needs they are required to meet. Credit groups rejected them because they were likely to reduce their chances of accessing more credit in case they

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[64] Interview with a female respondent and member of a solidarity group that is a beneficiary of FTCU credit in Bunamwaya, Mpigi district in November 2000.

[65] M. Esman and N. Uphoff (1984), *Opcit*, p. 574.

[66] Interview with a male respondent and member of a solidarity group that is a beneficiary of ISSIA credit in Igoroora, Mbarara district in October 2000.

defaulted. They were therefore considered to be risky and a nuisance. Moreover, it was established that the very poor whose physical and mental faculties were intact were despised and therefore blamed for their plight as revealed in the interview with a female and non-beneficiary respondent in Buwama:

> There are some people in this community who are not serious about their future. In this era, how can one fail to work hard especially when God endowed you with the hands and energy? Many young men in this society despise physical work and they want to be smart and loiter in towns and trading centres. If women can try to work through groups despite their disadvantages, why not these young and energetic men? The problem is not that they are rejected because of being poor, it is because of their characters and laziness. Who in this village doesn't know that they are indisciplined and irresponsible.[67]

Such categories were completely discriminated against. It was the women, aged, disabled and orphans that got sympathy from the rural communities and were accommodated in credit groups.

However, when the absolute poor were interviewed as to why they could not join credit groups so that they benefit from credit, they said that they could not afford them. When probed on why they could not afford them, they explained that the conditions for joining such associations were very difficult and their rules were stringent:

> I would very much like to become a member of one of these credit groups but their conditions are prohibitive for some of us who are poor. They require you to pay membership fee, entrance fee and other various contributions. For example, contributions for buying paraffin for the

[67] Interview with a female and non-beneficiary of NGO credit in Buwama, Mpigi district in November 2000.

> secretary to write minutes and for the treasurer's transport to take money to the bank. Apart from this condition of group membership, you are required to repay ISSIA loan on a monthly basis, which is very difficult. This means that if I fail to pay on a monthly basis then I may end up in prison or my piece of land will be sold to recover the loan. It is these loan terms, which do not consider our plight that discouraged me from joining these groups.[68]

A similar response from Kikagate also indicated that the very poor lacked the initial funds that were required to start their own associations. The commonly given response was:

> We are not acceptable to any credit group because we cannot afford the subscription fees as well as the monthly contributions. These credit associations require you to have a regular income. Other members refuse to vouch for us because they think we will bring problems to their associations. We cannot raise extra funds to meet membership obligations because the little we sometimes earn is overwhelmed by household demands. There are even no casual employment opportunities for us. It is also very difficult for us to start our own association because our problems are similar and we cannot manage to raise the necessary funds and later on afford pre-loan savings.[69]

Although the configuration of these credit associations showed that ACORD failed in its mission to reach out to the real poor, an interview with an official of ACORD confirmed that their programme support was not intended for the very poor. He clarified ACORD's position as that which supports the 'active' poor. He justified this position by arguing that:

> The very poor are not supported. We support the active poor because if the beneficiaries are to break-even, then we have to support those projects they have been doing before. The loan is to support them to expand.[70]

[68] Interview with a male and non-beneficiary of NGO credit in Igoroora, Mbarara district in October 2000.

[69] Interview with a male respondent and non-beneficiary of ACORD credit in Kikagate, Mbarara district in September 2000.

[70] Interview with the Credit Officer of ACORD's credit component in Isingiro, Mbarara district in September 2000.

It is clear from the above testimonies that there were serious concerns about regular repayment schedules. Respondents complained about their inability to sustain the weekly or monthly contributions because of the unique economic problems that pertained to rural circumstances. These included seasonality of economic activities (characteristic of the agricultural sector) remoteness and weather effects, a notable weakness observed by Buckley[71] that was characteristic of targeted rural credit schemes. They therefore feared reprisals in case they delayed or even failed to repay the loans.

Our deduction from the findings indicated that there were two categories of the poor. There were those, especially the youth, who were irresponsible and lacked discipline in their villages. Many of these were drunkards and lazy. They lacked the necessary skills to join formal employment and yet they despised physical work. Many in this category were found loitering around trading centres. On the other hand, we observed another category of the real destitute but these were few. These were mostly people that were affected by misfortunes such as loss of a breadwinner, loss of property or relatives especially during old age. The destitute required a unique and different type of assistance. Their poverty required wider social interventions than credit *per se*. Some of them were already receiving assistance from their relatives, the church or their immediate communities.

[71] Graeme Buckley (1996a), *Opcit*, p. 381.

In any case, the loans that were being disbursed by NGO credit programmes were found to be small to make the beneficiaries break-even as Table 5.7 illustrates.

Table 5.7: *The Sizes of Loans Disbursed by NGO Credit Programmes*

Credit Institution	First Loan	Maximum Loan
ACORD	USh 150,000 (US$ 84)	USh 500,000 (US$ 280)
ISSIA	USh 50,000 (US$ 28)	USh 1,000,000 (US$ 560)
FTCU	USh 50,000 (US$ 28)	USh 1,500,000 (US$ 840)
World Vision	USh 50,000 (US$ 28)	USh 1,000,000 (US$ 560)

Source: *Compiled from Fieldwork Data.*

Note: The current exchange rate stands at one US dollar for Ushs.1800.

It is vividly clear from Table 5.7 that the first loans were very small. Besides, the period for commencement of repayment was short to make a tangible investment. The loans also required a lot of sacrifice before they could be accessed. The applicant had to first open a bank account and make deposits for a certain period before he/she could access the first loan. For instance, WV required the borrowers to have saved 20 percent of the loan being applied for. The loans were also given in cycles. The first cycle was small but the amount increased with the next loan cycle. Even though there were many cycles, the amounts involved were small to be invested productively. An example can be given of ISSIA credit programme, which had four loan cycles to groups. The first loan to a group was USh 400,000, the second cycle was USh 750,000, the third cycle was USh 850,000 and the fourth cycle was USh 1,000,000. These loans were small given the fact that ISSIA's groups were composed of seven to fifteen members each. If the block loan was divided between the members it became very small to be invested in a viable income generating activity. The recipients ended up engaging in petty trade, which did not allow them to break-even. They were therefore kept dependent by the virtual amount of loans given. The loan recipients interviewed indicated that their income generating activities could not be sustained without continuous injections of credit in the project. For example, when asked whether she was in position to sustain her business without future borrowing, a female beneficiary of FTCU replied:

> No, I won't be able to sustain my poultry farm because it has not acquired capacity. The proceeds from the sale of eggs cannot meet the expenses on feeds and drugs. To meet these expenses requires me to continue borrowing until such a time the project has grown. If FTCU was giving us loans according to the financial needs of our projects, it would be easy to attain sustainability. But the problem is that they have their predetermined loan cycles. So you have to graduate from one cycle to another.[72]

The loan size therefore kept the beneficiaries in perpetual dependency. However, interviews with the management of the four NGO credit programmes gave what appeared to be similar responses as summarised below:

[72] Interview with a female respondent and beneficiary of FTCU credit in Bunamwaya, Mpigi district in November 2000.

'We start with small loans because the borrowers have to first gain capacity and a credit history. Loan cycles are good at achieving these objectives' (Credit Officer of ACORD).
Our objective of giving small loans of USh 50,000 is to try as much as possible to cover the many women who are in dire need of assistance' (Senior Credit Officer of FTCU).
'When you are a beginner, you start with a small loan. As you acquire experience in the use and management of the loan then you graduate to a bigger loan. If we don't do this, then we can have problems' (Executive Director of ISSIA).
'Small loans are good for beginners because we are not sure about their capacity and discipline to use them effectively. These are established in due process and individuals then graduate to bigger loans. We are very cautious because of our experience. At first we were giving big loans to individuals and many defaulted. So we changed the approach to the group mechanism and the loan cycles. So far so good' (Project Manager of World Vision).[73]

In other circumstances, the borrowers were required to make savings. The amount of savings determined the loan to be given. ACORD gave three times while ISSIA gave five times the amount saved. Two different explanations were given for the saving requirement. We were informed that mandatory saving inculcates the culture of saving:

> One of our objectives is to inculcate the culture of savings within our clients so that they can be able to sustain their activities in future without continued borrowing. If you don't encourage saving, clients will tend to have a high propensity to spend on consumption. So we make them sacrifice a little to be better off in the future.[74]

Notwithstanding the rosy picture painted, compulsory saving appeared to be used as a form of insurance to the NGO credit programme so that in the event of default the NGOs would not hesitate to seize such savings.

[73] Interviews with the Executive Director of ISSIA, Project Manager of World Vision, Senior Credit Officer of FTCU and Credit Officer of ACORD between September and November 2000.

[74] Interview with the Executive Director ISSIA in Ibanda, Mbarara district in October 2000.

Although all the management of NGO credit programmes cited the inculcation of the culture of savings, it appeared that the real explanation that underlay mandatory savings was loan insurance. While the culture of savings was appreciated, it tended to undermine the progress of the loan recipient. Given the fact that no interest was given, it would have been better to plough back the money than save. The loan beneficiaries needed not be forced to save before they had broken-even because premature and forced savings stagnated their small economic activities. It is evident from the above testimonies that the terms of NGO loans were having crippling effects on the beneficiaries. There was therefore a potential risk of NGO lending being harmful to borrowers as per the warning of Albee.[75] He warns of a potential 'debt trap' for female borrowers who may use new loans to pay off old loans, creating the illusion of high repayment rates.

The issue of crippling loan terms of NGO credit programmes on the beneficiaries need not be taken lightly. In the case of Uganda these effects appear to characterise other NGOs credit programmes such as the Foundation for International Community Assistance (FINCA). FINCA is one of the biggest micro-finance institutions in Uganda. It operates in twelve districts of Uganda and has 20,587 loan beneficiaries. It charges a flat interest rate of four percent and has a loan portfolio of more than USh1.9 billion

[75] A. Albee (1996), 'Beyond "Banking the Poor': Credit Mechanisms and Women's

(US$1.3 million).[76] According to the case study done by the Bank of Uganda/GTZ Co-operation Financial Systems Development (FSD) Project, FINCA was ranked a very successful micro-finance.[77] Its success was judged on the basis of outreach and sustainability (ibid: 21). It was therefore clear that FINCA had achieved a high repayment rate of 93 percent and had achieved self-sustainability. Such an exemplary performance in a matter of eight years can be explained by the use of the same village banking methodology driven by the financial systems approach such as that of ISSIA, FTCU, WV and ACORD. Therefore, FINCA had successfully replicated the credit methodology of such successful credit schemes such as Bangladesh's Grameen, BRAC, BRI Unit Desa, Bolivia's BancoSol and Kenya's KREP-JUHUDI. The methodology involved charging market interest rates, group-based lending, targeting women, mandatory savings, strong supervision, training of staff and clients, repeat loans, weekly meetings and repayments (ibid: 4-13).

It was therefore evident that the success of FINCA and the four NGO credit programmes investigated were attributed to institutional characteristics. However, the very institutional characteristics that made FINCA achieve high repayment rates and financial sustainability did not have a

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Empowerment,' *Gender and Development*, 4 (3): 48-53.

[76] Bank of Uganda (2000a), *Opcit*, p. 1.

[77] *Ibid*, p. 1.

corresponding impact on the credit beneficiaries as pointed out by another assessment study conducted by Bank of Uganda/GTZ.[78] This particular study specifically assessed the impact of FINCA on poverty alleviation of its clients. The conclusions from the study paint a gloomy picture of the credit beneficiaries. While FINCA provided crucial financial services to the poor and micro and small enterprises, its stringent terms prevented the beneficiaries from graduating out of poverty and created a problem of (multi-) indebtedness (ibid: 6, 8, 13 and 14).

The problems that affected FINCA loan recipients as pointed out by the study were similar to those that affected the recipients of loans from ISSIA, ACORD, WV and FTCU. These included low proceeds from the loans because of their smallness, high interest rates (16 percent per cycle or four percent per month), one-week grace period, and weekly repayments (ibid: 7). Moreover, clients were blocked by FINCA from accessing their mandatory savings until they completed repayments (ibid: 4-15). This was also common with the other four NGOs. The consequences of these stringent terms included low loan proceeds (ibid: 4), decreasing borrowing[79] and saving[80] over time as well as high dropout rates of 53 percent.[81] Thus, the

[78] Bank of Uganda (2000b), *Opcit*, pp. 4-15.

[79] The report points out that almost half of the members had decreasing loans over time (p. 10).

[80] The report further indicates that more than 50 percent of the members had a decrease in the weekly savings amount (p. 11).

report concluded that 'clients treasure micro-finance not only as smoothening out their funding needs but also as an essential part of a survival kit to "muddle through" their finances.' In other words, clients appreciated FINCA loans (as was the case with the four NGOs that are the subject of this study) as a coping mechanism.

This comparison has therefore made it succinctly clear that the stringent terms of NGO credit programmes made them achieve an outstanding performance at the cost of the beneficiaries. The beneficiaries loyalty to these NGO credit programmes can be attributed to their desperate condition and not that they achieved any serious benefits that would make them self-sustaining and overcome poverty. That was why they were not graduating but instead remained dependent. Moreover the looming danger of indebtedness among the clients was a sign that the loans were not having a serious impact.

Therefore, if credit programmes are to be meaningfully used to reduce poverty amongst the poor, then emphasis has to be on improving the welfare of beneficiaries. The terms and conditions of loans have to be softened so that the poor can be able to benefit from them. The study findings found out that the current practices of credit institutions were

[81] Bank of Uganda (2000a), *Opcit*, p. 8.

biased towards institutional sustainability. While sustainability is important, there is need for government to subsidise such credit initiatives so that they can be able to give favourable loan terms to the clients without jeopardising the existence of these credit programmes.

The condescending tendency of NGO credit programmes was also measured on the basis of the disbursement approaches. These NGO credit programmes were not using the bottom-up approach to disburse credit as it is sometimes assumed. The mode in which they organised credit groups indicated a somewhat condescending attitude. The fact that all the four NGOs influenced the way in which the groups were organised instead of channelling credit through existing local self-help associations, was a proof that they used a 'top-down' approach. The problem with this approach was that it created dependency and undermined independent initiative. The consequence of this approach was lack of innovation and sustainability. The interviews conducted with credit beneficiaries revealed that they joined these exotic groups for the sole purpose of accessing credit. When asked how they became members of NGO credit groups, these were some of the replies:

> I was told by a friend that there was an organisation, which was giving credit to people who were willing to organise within groups and fulfil certain conditions. I took the message to other people and that is how we formed our association.[82]

[82] Interview with a female respondent and beneficiary of FTCU credit in

> Our representative to parliament informed us of an NGO that was giving credit during a mobilising meeting. He told us to form groups so that we can access the loans and then stop complaining about poverty. We immediately formed groups and approached ACORD. This is how many of us became members of ACORD.[83]

What we observed during the conduct of this research was that many of the beneficiaries of NGO credit programmes also maintained their membership in ICAs. Out of the forty beneficiaries, thirty-four (85 percent) reported that they kept their parallel ICAs as revealed by a female respondent in Igoroora:

> Before ISSIA introduced their credit activities in this area and called upon us to form groups, we were already organised in our self-help group. We have since used the same group to access ISSIA loans but it also functions as a self-help group and maintains its traditional goals. It has two functions, that of ISSIA, and our local objectives. We kept our original association because when ISSIA ends we will remain with ours. Suppose ISSIA runs out of money or refuses to give us more loans in future? We must have the alternative.[84]

Moreover, we observed that, in some cases, NGO credit programmes were competing for beneficiaries. In the case of Nyabuhikye and Igoroora (Mbarara district), we confronted a situation where an NGO started by the wife of President Museveni had also introduced credit programmes in the area. The Uganda Women Efforts to Save Orphans (UWESO) was reported to have been encouraging women from the area to form groups and access loans. The Executive Director of ISSIA was not amused with this development as could be captured from his testimony:

Bunamwaya, Mpigi district in November 2000.

[83] Interview with a male respondent and beneficiary of ACORD credit in Kikagate, Isingiro, Mbarara district in September 2000.

[84] Interview with a female respondent and beneficiary of ISSIA credit in Igoroora,

We hear UWESO has also come with a lot of money and they are publicising their credit. They are calling upon people in this area to go for their loans. We have been assisting people here for a long time, where was UWESO? Now we hear they are luring our clients. Let them try. We shall see.[85]

The scramble for NGO credit programmes was in a way creating suspicion among the people. More especially their stringent conditions made them to believe that they were after profit and not poverty alleviation *per se* as indicated by a female beneficiary of ISSIA:

If it is true that these NGO credit programmes want to assist us to alleviate our poverty, why are they competing? Each of them is busy convincing people that their services are better than that of the competitor. Yet, to us there is not much difference. Their conditions are almost the same. They are all rigid in their terms. Already the information we get from ISSIA beneficiaries is discouraging.[86]

It can be deduced from these responses that while people were being mobilised to access NGO credit programmes and some indeed accessed them, many still remained cautious. They kept their self-help groups (ICAs). The keeping of their ICAs can be attributed to the unfavourable terms and conditions of NGO credit programmes. They were also cautious about the sustainability of outside assistance hence they had to maintain their traditional ICAs in case the funding ceased in future. This behaviour, therefore, revealed that in the advent of NGO credit programmes phasing out, the credit groups created for that purpose would most likely collapse

Mbarara district in October 2000.

[85] Interview with the Executive Director of ISSIA in October 2000.

[86] Interview with a female respondent and non-beneficiary of NGO credit in Nyabuhikye, Ibanda, Mbarara district in October 2000.

and the members would relocate to their informal credit associations. This showed the limitations of external interventions, which disregarded local institutions and instead used social engineering. In order to ensure that institutions created to benefit the poor are sustainable, it is necessary that such institutions reflected their social realities and be owned by them.

5.6 NGO Credit Programmes and Poverty Alleviation

The grassroots approaches used by NGOs are quite often believed to be effective in alleviating poverty. However, this assumption has not been empirically tested in the case of credit. There has been a tendency to assume that the institutional effectiveness of NGO credit programmes directly corresponds with the welfare of credit beneficiaries. While institutional efficiency is significant for the performance of micro-finance programmes, there is also need to assess the benefits that accrue to the clients of such institutions. It is in this regard that Buckley[87] expressed similar concerns when he argued that 'to date, institutional innovation and experimentation appears to have raced ahead of serious analyses of client impact, the evidence of which appears quite anecdotal or inconclusive.'

If the yardstick for assessing the performance of the four NGO credit programmes was institutional sustainability and not the alleviation of poverty of beneficiaries, then their performance would have been indisputable. The basis for qualifying this would be the area covered, number of loan recipients, affirmative action for women, recovery rates and savings mobilisation. Our research findings confirmed that all the four NGO credit programmes investigated were performing well institutionally in the duration of eight years they had been in operation as evidenced by Table 5.8. Moreover, these credit programmes had not only penetrated those areas that were shunned by formal financial institutions but had also extended financial support to people that would never have been considered by formal financial institutions. While the outreach might be limited in terms of not reaching the remotest areas and serving the very poor, NGO credit programmes assisted those areas and sections of society that were previously neglected. Therefore, while all the four NGO credit programmes did a tremendous service in delivering credit as indicated in Table 5.8, their impact on the welfare of the beneficiaries was lacking as the proceeding discussion elaborates.

[87] Graeme Buckley (1997), 'Micro-Finance in Africa: Is It Either the Problem or the

Table 5.8: *The Outreach of the NGO Credit Programmes*

NGO	Area Covered	Period	No. of Loan Recipients	Gender Aspects	Repayment Rates	Accumulated Savings
ACORD	Isingiro	1994-2000	27 groups (734 people)	40 percent women	97 percent	USh 38,035,419
FTCU	Mpigi	1995-2000	4,136 people	95 percent women	98 percent	USh 143,249, 020
ISSIA	Mbarara	1996-2000	100 groups (3600 people)	80 percent women	98 percent	Not available
WV	Buwama	1994-2000	20 groups (200 people).	60 percent women	98 percent	Approx. Ush 4.4 million

Source: *Compiled from Fieldwork Data.*

In the case of gender perspective, all the credit programmes pursued by the four NGOs had a preference for supporting women. Indeed as Table 5.2 indicates, women had substantially benefited in terms of numbers. The targeting of women as a means to alleviate poverty was a good approach since it is argued that credit extended to women has spill-over effects on the family compared to that given to men.[88] Nonetheless, like earlier argued, not the very poor but the active ones were assisted. Even within this group of women, it was not as easy as expected. Some of the conditions of the NGO credit programmes like ISSIA and ACORD insisted that spouses be the guarantors of the loan. Although this condition was intended to guard

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Solution?,' *World Development*, 25 (7), p. 1081.

[88] World Bank (1998), *Opcit*, p. 3. Accessed on: www1.worldbank.org/prem/PREM Notes/premnote8.pdf. Also see Mark M. Pitt and Shahadur Khandker (1998), *Opcit*, pp. 960 and 980. Also see Aminur A. Rahman (1999), *Opcit*, p. 69. Also see Anne Marie Goetz and Rina Sen Gupta (1996), *Opcit*, p. 46.

against family conflicts, it ended up disadvantaging the women as reported by one female respondent:

> I have since accessed two loans from ACORD. But the access of these loans has increased pressure on me. When there are problems at home, for example, when a child falls sick or there are other domestic pressures, my husband always tells me to solve them since I now have the money. I have had sometimes to divert some of the earnings to sort out domestic problems. This has given me problems of repayment. Men are jealous. They don't want women to have money. They think they will lose control. This is the problem we are facing.[89]

This corroborates the findings of Schoepf and Engundu[90] in the case of Zaire. They reported that women's increased earnings from the informal sector also increased their household expenditures. This was because men tended to abdicate their responsibilities. They were reported to contribute only a small part of household expenditure leaving the rest to women.

On the other hand, other NGO credit schemes such as FTCU sought to assist children through their mothers or caretakers. Other credit schemes targeted women simply because they are disciplined and trustworthy as far as repayment is concerned. It was, therefore, established that housewives who accessed loans found their household responsibilities increased. Their

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[89] Interview with a female respondent and beneficiary of ACORD credit in Kikagati, Isingiro, Mbarara district in September 2000.

[90] Brooke Grundfest Schoepf and Walu Engundu (1991), 'Women's Trade and Contributions to Household Budgets in Kinshasha,' in Janet MacGaffey et al (eds.), *The Real Economy of Zaire: The Contribution of Smuggling and other Unofficial Activities to National Wealth*, London: James Currey, pp. 124-51, p. 135. Also see Linda Mayoux (1997), *The Magic Ingredient? Micro-finance and Women's Empowerment*, A Briefing Paper Prepared for the Micro-Credit Summit, Washington, February. Accessed on: http://www.gdrc.org/icm/wind/magic.hml, p. 2.

husbands tended to abdicate their responsibilities. This attitude increased the financial burden of women to the extent of diverting part of the loan for meeting household demands like purchasing essential commodities, paying medical and tuition fees.

The situation was, however, different in the case of widows and unmarried women interviewed. In an interview with the Credit Officer FTCU, she reported that:

> Our field visits have confirmed that widows and unmarried women or single mothers perform better with FTCU loans. This is because they are free and therefore take independent decisions on how to use the loans without interference. Men are fond of limiting the activities of women. They are required to report home early if they are to avoid having misunderstandings with their spouses. Yet, when a woman is involved in trade, sometimes she has to trade up to late in the night. That is why the unmarried category tends to perform better.[91]

These categories were reported to perform much better because they had the freedom of decision-making. They were reported to have productively used loans to generate reasonable incomes and acquired some assets.

It was also established that some of the housewives who accessed loans used them in collaboration with their spouses or relatives or handed them over to their husbands. A female respondent in Kikagate reported that involving a husband created harmony at home. It also led to faster returns:

[91] Interview with the Credit Officer of FTCU in Bunamwaya, Mpigi district in November 2000.

> I got a loan from ACORD but I had first discussed it with my husband and we had agreed that he uses the loan in brewing. Brewing *Waragi* (a potent drink) is a profitable business but it is a man's task. I decided to give him the loan so that we make profit while at the same time we maintain harmony in our home. Loans acquired by women in this area have to some extent led to domestic conflict. This is bad because it affects children and I tried to avoid that and for the time being it is working effectively and hopefully it will continue like that.[92]

This scenario can be explained by two factors. The fact that most NGOs preferred to extend credit to women than men created a situation where men used women as conduits for accessing such opportunities. It was further found out that husbands used their wives while sons used their mothers to access such loans. Besides, the roles of women as caretakers of the family together with the cultural inhibitions that continue to disadvantage rural women forced them to pass over the credit to their husbands.

A comparative experience can be drawn from the rural credit programmes of Bangladesh where similar problems and effects have been documented.[93] The two scenarios therefore undermined the objectives of some of the NGOs that targeted women while at the same time they affected some housewives. Housewives whose loans were used by their husbands or male relatives were few (eight) and five of them reported that they were having problems of repayment.

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[92] Interview with a female respondent and beneficiary of ACORD in Kikagate, Mbarara district in September 2000.

Two conflicting situations were therefore noticed in households where housewives accessed credit from the four NGOs. In many households it created harmony because women were increasingly contributing to the household budget using proceeds from the loans. Some spouses whose burdens were reduced appreciated this. Some women reported that this phenomenon had changed the domestic power relations:

> Ever since I joined this credit group and started accessing credit my life has fundamentally changed. I now contribute to the family needs, which I never used to do before. I have at various times intervened financially like when the children are sick or have no school fees. I have also contributed through the purchase of essential commodities for the home without waiting for my husband. These interventions have improved my relations with my husband. He now respects and consults me in decision making because he now knows that I contribute. I also now feel important and confident in my family, which was never the case before.[94]

Some women, therefore, reported that they were increasingly being consulted because of their potential to make a contribution. Besides, women who managed to utilise their credit effectively also had their social status and popularity propelled. They indicated that they were not only frequently invited for parties and other social functions but were also preferred for leadership positions on local councils and houses of worship. In addition, they reported that other women in the village consulted them frequently for advice or to arbitrate disputes:

> Access to FTCU credit has propelled my status in this community. Before accessing this credit, I was having a lot of problems looking after

[93] Anne Marie Goetz and Rina Sen Gupta (1996), *Opcit, pp.* 45-63.
[94] Interview with a female respondent and beneficiary of ISSIA credit in Nyabuhikye, Mbarara district in October 2000.

> my children. Their father died five years ago and I had to struggle hard so that they study. With my access to FTCU loans I have been able to have this shop plus poultry business. I'm now doing well in this community. People buy from my shop and even some take commodities on credit. Compared to some three years ago, I'm now a respected woman. Many residents invite me when they organise parties because I can afford to give a gift. Even those contesting local council elections approach me because I'm an opinion leader here.[95]

This attitudinal change therefore indicated that credit extended to women had to some extent led to women empowerment. However in some other cases, women accessibility to credit had led to suspicion and increased tensions in the household. According to the credit officer ACORD:

> We sometimes receive complaints about conflicts especially where a wife receives a loan. But these are very rare because we insist that the wife's application for a loan be guaranteed by the husband and vice versa so that there is transparency. Problems tend to arise when there is no transparency. Sometimes women are the ones that bring such misunderstandings.[96]

Such incidents were however few and were attributed to lack of transparency especially where housewives tried to conceal the loans. Nonetheless, by being transparent it meant that women had to shoulder extra household responsibilities. This is because their husbands tended to spend less on household activities and left much of the burden to women. The behavioural outcomes of women's access to credit therefore confirm Mayoux's[97] argument that women's access to credit was double-edged since

[95] Interview with a female respondent and beneficiary of FTCU credit in Bunamwaya, Mpigi district in September 2001.

[96] Interview with the Credit Officer of ACORD in Kikagati, Mbarara in September 2000.

[97] Linda Mayoux (1997), *Opcit,* p. 2.

it tended to improve the status of women at the household and community level while at the same time it increased their household responsibilities.

5.7 Credit Utilisation by the Beneficiaries of NGO Credit Programmes

During the conduct of this research attempts were made to establish how borrowers utilised the loans accessed from the four NGOs. There were differences on how the loans were used especially along district and gender divides as illustrated in the Table 5.9 below:

Table 5.9: *Borrowers' Use of Loans Obtained from NGOs Credit Programmes*

District	Gender Composition	Numbers	Utilisation of Loans		
			Productive investment	Services	Consumption
Mbarara	Male	8	8	0	0
	Female	12	12	0	0
Mpigi	Male	4	4	0	0
	Female	16	16	0	0
Grand Total		40	40	0	0

Source: *Compiled from Fieldwork Data.*

In regard to the use of loans by the beneficiaries of the four NGOs, we asked a question: *How did you utilise the loan received from the NGO?* All respondents replied that they invested the loan in an income-generating project or productive investment. As Table 5.9 shows, all respondents indicated that they invested in income-generating activities. Besides, everyone had a project to show for the loan. Most respondents (67.5 percent) reported to have invested their loans in trade related activities while (32.5 percent) indicated that they invested their credit in agricultural related activities. However, even those who reported that they invested in trade they also indicated that they were engaged in agriculture and vice versa. For example, one respondent who had invested in buying and grazing cows for sometime also reported that he sometimes slaughtered the bulls and sold the meat. Another respondent who reported that he invested his money in improving his banana plantation also reported that he brewed beer out of bananas and sold it. Therefore, any attempt to draw a distinction between the two activities (agriculture and trade) would be misleading since they were intertwined.

More particularly, it was evident from the respondent who had invested in the banana plantation that part of the proceeds was channelled into consolidating networks. He reported that some of the beer is sold while he keeps some for his friends and neighbours as quoted below:

> I give part of the beer to my friends and neighbours because they are very important to me. Even though the money invested in beer is borrowed and has to be paid, it cannot be more important than my friends and neighbours. Money cannot substitute for people. When I have a problem they come to my rescue. We have lived and shared many things for a long time. How can I all of a sudden be selfish? Whenever they brew beer they invite me. How can I refuse to invite them? Such an act would lead to my isolation in this community.[98]

This response shows that part of the beer was used to consolidate his networks with his friends and neighbours. The contribution of beer to building and consolidating networks has been documented. Karp[99] asserts that beer parties are the vehicles through which co-operation is achieved. He therefore argues that beer is a symbol of diffuse solidarity and unencumbered sociability, which expresses the ideal form of relations among men that Iteso would like to achieve.

Networks were taken seriously by respondents and were considered to have long-term benefits when compared to loans. I was able to witness an incident while conversing with a female respondent during lunchtime. Three primary school children came to this lady and greeted her. She then picked some of the ripe bananas and gave the children to eat at no cost. When I asked her whether such forms of charity were not endangering her business, she retorted:

> How I can leave the children of my friends to go hungry when I have ripe bananas in front of me. How will their mothers think of me when my own children are entertained well when they visit their homes? [100]

[98] Interview with a male respondent in Igoroora, Mbarara district in October 2000.

[99] Ivan Karp (1980), 'Beer Drinking and Social Experience in an African Society: An Essay in Formal Society: An Essay in Formal Sociology,' Ivan Karp and Charles S. Bird (eds.), *Explorations in African Systems of Thought*, London and Washington, D. C.: Smithsonian Institution Press, p. 84, 88 and 104. Also see Omori Motoyoshi (1978), 'Social and Economic Utility of *Omuramba*, the Chiga Sorghum Beer,' *Senri Ethnological Studies*, 1: 89-104.

[100] Testimony by a female respondent in Buwama, Mpigi district in November 2000.

She then added: *Mwana wange sente tezisinga okubera nemikwano emingi.* This means that 'money cannot be more precious than having many friendships.'

This practice confirms It is evident from the above two testimonies that local customs in both Ankole and Buganda emphasise good neighbourliness where it is frequently demonstrated and cemented through mutual exchange and sharing. It is within this context that some beneficiaries have had to use part of their credit or credit proceeds to fulfil such social obligations. This culture has in some cases affected the repayment of these loans. Rhyne and Otero's[101] observation that many if not most micro-enterprises are not autonomous economic units but are part of larger family or household units and are therefore mixed up in social and economic activities. Therefore, networks were taken seriously and thus could partly explain why not much economic benefits were realised from loans. The fact that part of the proceeds were mixed up in social obligations could explain the poor performance of credit beneficiaries. However, this requires more research.

It was also established that both men and women were involved in agriculture and trade. The only difference was that women trade-related activities tended to be restricted to the proximity of the household. This can

[101] Elisabeth Rhyne and Maria Otero (1994), 'Financial Services for Micro-enterprises: Principles and Institutions,' in Maria Otero and Elisabeth Rhyne (eds.), *Opcit*, p. 13.

be explained by local customs, which tended to restrict the mobility of woman. Besides, the fact that women were over-engaged in domestic activities such as child rearing and providing for the household members also restricted their physical mobility. The effects of local culture on loan use need not be taken lightly in the case of Buganda and Ankole. Both of these societies are patrilineal and therefore tend to give excess power to men at the expense of women. Local customs in both societies require women to shoulder domestic responsibilities of food cultivation, rearing children, and general home upkeep. These chores affect the mobility of women and subsequently constrain their productive use of credit as testified by a female respondent in Buwama:

> I confronted a lot of hardships after accessing a loan from World Vision. Whereas I needed to work extra hard to repay the loan on scheduled dates, this became very difficult due to family demands. I was using the loan to trade in local brew which required a lot of time away from home. Hence, I would leave early and return home late. This created many problems for me. First, the welfare of my children was affected and some started falling sick. Also, my husband became very hostile and threatened to replace me. I had to change from beer trade to cultivation which did not require me to move away from home. However, it has been unprofitable and has made the repayment of the loan very difficult.[102]

The above testimony therefore vividly confirms the negative effects of local customs on the success of credit projects. It should however be noted that these local customs are slowly being eroded as a result of education, government policy, and due to other general modern influences.

[102] Testimony from a female respondent and beneficiary of credit from World Vision in

Other trade related activities that were cited by women credit beneficiaries include brewing, hawking small-scale trade, catering, roadside vending, charcoal burning, brick making and produce marketing. Others invested their loans in motorcycle and bicycle transportation, hair cutting and treatment business (saloons), bicycle repair toolboxes, building tools and sewing machines. We were able to verify many of these activities through physical examination. However, it was difficult to establish whether money invested was from the loan or somewhere else. Nonetheless, every respondent had something to show for the loan.

Moreover, when we asked the respondents to mention some of the achievements from the loans, they mentioned things like small assets, purchase of household properties, paying school fees, spending on medical treatment, paying off debts and many others. The responses therefore showed that either the loan use was diversified over many activities or the proceeds from the loans were mixed with other income sources. The explanation for this phenomenon is that household expenditures and incomes are diversified over many household activities. Benefits from loans were not separated from other household incomes. Even money for repaying the loan did not have to come from a loan investment project. Another explanation is that not all funds borrowed could have been invested. A

Buwama, Mpigi district in November 2000.

fraction could have been used to cater for household needs such as school fees, medical treatment and consumption to mention a few.

Therefore, there was evidence that loans accessed from NGO credit programmes were diversified over different household and investment needs. These findings were however not isolated but appeared to confirm Buckley's[103] argument that it is not always easy to delimit a specific business activity to which the entrepreneur is fully dedicated contrary to assumptions of most credit projects. He notes that 'within a household there is often a blurring of responsibilities concerning work tasks and roles and those of income-generating or, where relevant, agricultural-based activities.' The diversification of loans can be explained by the peasant nature of economies, which have no specialisation at all. Besides, diversification is a form of insurance so that if one activity fails then the other can be relied upon.

On the issue of credit utilisation, it was also established that women generally utilised credit productively when compared to men. In rare circumstances did women divert loans to other uses other than those indicated on their application forms. Even in such circumstances, the diversion was driven by the desperate need to meet urgent household needs such as the purchase of basic necessities or meeting medical or tuition bills for children. Similarly, diversions were made during emergencies like when a family member passed away or when the husband was arrested. Those women, who engaged in productive ventures and subsequently managed to realise some revenues though generally not much, their revenues had a trickle-down effect on the family. In such cases, women spent those meagre earnings on purchasing household belongings like mattresses, utensils, and clothes as well as improving the food menu and meeting medical and school fees for the children.

Our observations and the various interviews with women beneficiaries found out that benefits that accrued to women from loans were largely consumed within the household. The improvement in women's earning did not translate into serious asset accumulation. Instead, it increased their responsibilities in the household. Men tended to leave much of the responsibilities to women. Hence, much of the women's earnings were spent on improving the household through the purchase of household commodities such as clothes for children, kitchen ware, bedding and spending on medical and educational services as well as consumables.

Therefore, it can be argued that the improvement in women's income as a result of access to loans from NGO credit programmes tended to have a

[103] Graeme Buckley (1997), *Opcit*, p. 1089. Also see Elisabeth Rhyne and Maria Otero

positive effect on the household. It contributed to the welfare of the children as well as improving household belongings. This finding is corroborated by similar findings by the World Bank's research on micro-credit programmes in Bangladesh.[104] It noted that in contrast to men's credit, women's credit had a large and statistically significant impact on the nutritional wellbeing of boys and girls (children's welfare). Nonetheless, the improvement in women's incomes appeared to increase their responsibilities and pressure at home. This finding seems to confirm the various studies that have focussed on the relationship between resources and decision-making power within a marriage. These studies have indicated that changing a woman's share of household income may not necessarily translate into empowerment of a woman.[105] This appeared to be the case with women who accessed credit from these NGO credit programmes.[106]

In comparative terms, men were good at investing loans in more viable income generating activities as well as physical capital because they had much freedom and were much more willing to take risks when compared to women. Women were found to be very cautious when using loans compared

(1994), *Opcit*, p. 13.

[104] World Bank (1998), *Opcit*, p. 2.

[105] Lynn Bennet (1990), 'An Approach to the Study of Women's Productive Roles as a Determinant of Intra-Household Allocation Patterns', p. 108 quoted in James Cerven and S. M. Ghazanfar (1999), 'Third World Micro-Finance: Challenges of Growth and Possibilities for Adaptation,' *The Journal of Social, Political and Economic Studies*, 24 (4), p. 452.

[106] Mark M. Pitt and Shahidur R. Khandker (1998), *Opcit*, pp. 960 and 980. Also see World Bank (1998), *Opcit*, p. 3.

to men. Besides, women movements tended to be restricted to the home and areas nearby as revealed by a female respondent in Nyabuhikye:

> It is a bit difficult for married women's businesses to expand because we face a lot of constraints. Apart from the household daily chores of looking after children and ensuring food cultivation, our spouses do not allow us to move far away on business trips. My husband will be suspicious. My business and for other many married women generally has to be in close proximity. This is mostly in the weekly market, at home or nearby trading centres.[107]

It was therefore evident as revealed by this testimony that women's attempt to pursue more economic opportunities as a result of access to credit from NGO programmes was hampered by social custom. Women's mobility tended to be restricted because of the local traditional cultural practices. This appeared not to be an isolated case limited to Uganda's context but had been observed to negatively affect women borrowers elsewhere. For example, Mizan[108] observed in the case of Bangladesh that social customs restricted the mobility of women and had important implications for women borrowers of the Grameen Bank.

However, men's effectiveness in investing loans was not reciprocated by using the proceeds to improve household welfare. The accruing benefits were in most cases used to purchase items like a bicycle, radio, chairs, a

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[107] Interview with a female respondent and beneficiary of ISSIA credit in Nyabuhikye, Ibanda, Mbarara district in October 2000.

[108] Ainon Mizan (1993), 'Women's Decision-Making Power in Rural Bangladesh: A Study of the Grameen Bank', in Abu Wahid (ed.), *The Grameen Bank: Poverty Relief in Bangladesh*, Boulder: West View Press, p. 134.

piece of land or build a better or bigger house. The men's proceeds were in most cases used to accumulate physical assets. In other cases, men's credit proceeds were wasted on drinking sprees.

In regard to drinking sprees, two conflicting views were got from men and women respondents. Men argued that drinking was very important to them because if facilitated the exchange of productive ideas and the clinching of business deals. I was also informed that beer drinking was basically carried out by closely knit groups especially friends and sometimes neighbours or kinsmen. But it was much more on the basis of friendship. It was also indicated to me that it was in such drinking places that cattle gifts were exchanged hence creating new friendships and consolidating existing ones. Therefore, these kinds of positive benefits associated with drinking indicate that it was most likely that beer drinking by some male respondents served the function of building and consolidating ties and networks of co-operation.

In contrast to this view, female respondents disagreed that beer-drinking contributed to men's network building. They instead dismissed the claim that men made connections and clinched deals through beer drinking. They reported that beer drinking had negative implications because it made households poorer as money was squandered in drinking. Women also reported the increasing levels of spousal violence and promiscuity as a result of beer drinking. They argued that drinking sprees influenced men to sleep around with local prostitutes and widows and risked contracting the HIV/AIDS pandemic.

It can be deduced from the two views that while beer-drinking sprees to a small extent facilitated the building and consolidation of networks, it was largely not productive. This is because our respondents reported that they realised limited proceeds from the loans, which would subsequently be depleted when used for beer drinking. Moreover, beer drinking affects productivity because of the related side effects. Therefore, the views of the women respondents appeared to be more reasonable and convincing. These two views to some extent attest to the argument that social capital has both the positive and 'downside' aspects as discussed in detail in chapter one. However, one cannot completely dismiss Karp's[109] observation that beer drinking has a social role of building and consolidating ties and networks of co-operation.

As regards the debate on whether NGO credit programmes alleviate poverty among the very poor, it is highly questionable that they do. Of the forty beneficiaries interviewed, only three (7.5 percent) could be categorised as the

[109] Ivan Karp (1980), 'Beer Drinking and Social Experience in an African Society: An Essay in Formal Society: An Essay in Formal Sociology,' Ivan Karp and Charles S. Bird (eds.), *Explorations in African Systems of Thought*, London and Washington, D. C.:

real poor. The rest (37) (92.5 percent) were the active poor who appreciated credit because it had helped them to solve immediate problems and sustain their income-generating activities. However, they also indicated that stringent terms made them perpetually dependent on loans since withdrawal from such loans would negatively impinge on their businesses and welfare. Loans were therefore like 'life supporting machines' where their withdrawal would mean a condition of more poverty. This finding tended to confirm doubts by Montgomery et al[110] in the case of the frequently praised Bangladesh Rural Advancement Committee (BRAC). In their findings, they observed that 'the ideal impact of BRAC borrowers "graduating out of poverty" is not clearly observable in our survey results (ibid: 138).' While BRAC borrowers were experiencing marginal changes in household economic position (ibid: 147) (as was with the Ugandan cases which were experiencing increasing spending), the authors' research results pointed to the limitations of credit as a poverty alleviation strategy.

Again, the argument that micro-credit programmes alleviate poverty has also been disputed by the findings of Amin et al[111] in northern Bangladesh.

Smithsonian Institution Press, p. 84, 88 and 104.

[110] Richard Montgomery, Debapriya Bhattacharya and David Hulme (1996), 'Credit for the Poor in Bangladesh: The BRAC Rural Development Programme and the Government Thana Resource Development and Employment Programme,' in David Hulme and Paul Mosley (eds.), *Finance Against Poverty*, London and New York: Routledge, pp. 138-74.

[111] Sajeda Amin, Ashok S. Rai and Giorgio Topa (2003), 'Does Micro-Credit Reach the Poor and Vulnerable? Evidence From Northern Bangladesh,' *Journal of Development Economics*, 70, pp. 60 and 79.

Basing on research evidence, they concluded that while micro-credit was successful at reaching the poor in Northern Bangladesh, it was less successful at reaching the vulnerable. They attribute the failure to the fact that the vulnerable poor may either choose not to join or they may be excluded by the micro-credit programmes as was the case with the four NGO credit programmes in Uganda.

These experiences are also corroborated by King's[112] observation about NGO credit support to Kenya's *Jua Kali* small enterprises. He noted that the record of income-generating projects, especially for women, in Kenya was disappointing. He further observed that there were many similar NGO women projects in Africa where no single project showed a profit in the year of study. It is therefore highly questionable that NGO credit programmes alleviate poverty. This is partly explained by their stringent loan terms.

In the case of Uganda's NGO credit programmes, all the credit beneficiaries (active poor) interviewed expressed appreciation of the assistance but complained about the stringent terms and conditions as well as the size of loans given. Some of the meagre benefits indicated to have accrued from credit included the ability to meet household basic needs as already cited, as well as the purchase of a few modest assets such as a goat, cow, and put up a small building. From the study findings, it was noted that such benefits did not accrue to each and everyone but especially to those involved in trade. The rate of trade returns was faster, enabled debt repayment and left a balance to beneficiaries engaged in trade.

Notwithstanding some of the benefits arising from credit, none of the beneficiaries interviewed had attained self-sustainability. Whenever, they would be asked on whether they were able to continue with their income generating ventures on a self-sustaining basis, the reply was:

> The size of the loans we receive and the conditions attached to them are crippling. You look at a situation where I was given USh 50,000 (US$ 28) as my start-up loan and I have to pay back on a weekly basis. How will I be able to achieve sustainability. If I had any other alternative I wouldn't have taken this loan. But I'm desperate.[113]

This situation can be explained by the fact that their income-generating activities were small and their growth was limited by the size of the credit given. Besides, the proceeds were used to service the loans while at the same time fulfilling household basic needs. Although credit had given a temporary relief to beneficiaries especially in meeting basic needs as well handling emergencies, there was no evidence that credit recipients had reached a level of self-sustainability.

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[112] Kenneth King (1996), *Opcit*, p. 180.

[113] Interview with a female respondent and beneficiary of FTCU credit in Bunamwaya, Mpigi district in November 2000.

It was, therefore, apparently clear that the very poor required a different form of assistance. However, it was found out that the active poor could benefit more from credit only if favourable terms were given rather than giving them big loans. This finding disagrees with the argument by the NGO credit beneficiaries that lack of sustainability of their income-generating activities was due to the small loans that were given. This was because most of the active poor did not have the capacity to utilise big loans due to inherent limitations like limited education and lack of investment experience. Hence, it was necessary that credit be increased gradually as borrowers gained the necessary confidence, experience and capacity to handle bigger loans. In other words, the borrowers required time to graduate from small loans to large ones. Therefore, the procedure of using loan cycles was a very useful precaution as a well as a form of orientation. The issue of increasing loan sizes therefore needed to be treated with caution. Even if the poor beneficiaries had the capacity to utilise bigger credit, they would still be bogged down by structural limitations such as lack of accessible roads to markets and factors like the need for an enabling economic environment that affected the areas in question.

5.8 Conclusion

The research findings established that NGO credit programmes were useful to a certain extent. They managed to fill the vacuum that had occurred due to the neglect of the poor in remote parts of Uganda by formal financial institutions and government. Another contribution of NGO credit programmes had been the simplification of the procedure to access credit by the rural poor.

Notwithstanding these positive innovations and good institutional performance that had been characterised by high repayment rates in the credit market, NGO credit programmes did not necessarily translate into meaningful economic empowerment of beneficiaries. This was contrary to assumptions that NGOs have capacity to deal more effectively with the rural poor and subsequently alleviate their poverty. This failure was partly attributed to the condescending or top-down approach used by NGO credit programmes. The creation and imposition of parallel solidarity groups whose operational procedures were sophisticated, undermined local initiatives and were unlikely to be sustainable. They therefore risked being irrelevant once credit dried up. The rural poor would most likely revert to their traditional ICAs the moment NGOs phased out their credit programmes.

Besides, the stringent terms attached to credit repayment by NGO credit programmes were likely to create new poor groups. This therefore showed that credit from NGOs was not likely to make the beneficiaries self-sustaining because of the absence of reasonable grace periods, and the harsh terms and conditions of such credit. There was therefore no indication that these credit programmes would be sustainable beyond the life span of the parent NGOs. Even in cases of best performing micro-finance programmes such as the Grameen Bank, reports indicate that 'dropping out' by borrowers was a growing problem. For instance, Karim[114] noted that the number of borrowers dropping out of the programme had reached 15 percent by 1994. He further observes that about two-thirds of members have tended to leave the programme by the third year, which Grameen considers optimal (ibid: 276). The dropout rates were attributed to childbirth, business failure and familial difficulty.

Hence, the real problems that undermined the effectiveness of loan beneficiaries were the stringent loan terms as well as the wider socio-economic factors such as local cultural impediments, inadequate markets, and the effect of macroeconomic policies. Therefore, it appears that efforts to alleviate poverty need not be pursued in isolation, rather it requires a multi-

[114] Rezaul Karim and Osada Mitsue (1998), 'Dropping Out: An Emerging Factor in the Success of Micro-Credit-Based Poverty Alleviation Programme,' *Developing Economies*, 36 (3), pp. 271 and 276.

concerted approach that involves both micro and macro engagements. Poverty alleviation required more than capital injections, it called for a combination of interventions. During the process of carrying out this research, it became vividly clear that credit needed to be supplemented by good roads, efficient markets, education and health services as well as security and good government policies. Such a combination of interventions therefore required a synergy where the state needs to be supplemented by the efforts of institutions such as NGOs. Given the magnitude of the problem of poverty, none of the two institutions could be an alternative to the other. They could only work as partners.

Besides, the appropriate approach would have been to channel credit through the traditional self-help informal credit associations rather than creating parallel institutions. This would have strengthened their local capacity for self-reliance, improved their chances of sustainability and created a lasting impact on the living conditions of credit beneficiaries.

Chapter Six:: Social Networks and Poverty Alleviation: The Role of Informal Credit Schemes

6.0 Introduction

This chapter first explores the historical factors that led to the increased role of voluntary associations. It largely attributes the proliferation of ICAs and the increased role of social networks in poverty alleviation to a dysfunctional Ugandan state. It further critically analyses the nature and role of social networks that are manifested in ICAs. In other words, it examines how such networks assist the poor to generate resources and their long-term impact on poverty. It argues that even though social networks have been positively harnessed to generate resources and improve the welfare of the rural poor people, they have fundamental limitations. They can only function as coping mechanisms because they lack sufficient resources and capacity to combat poverty on a sustainable basis. It is hitherto argued that poverty being a complex phenomenon requires the bridging of grassroots networks with those of higher organisations[1] that are endowed with bigger capabilities in terms of resources, technologies, information and connections.

[1] Higher organisations, in this respect, comprise of Non-governmental

6.1 Social Networks As Adaptive Responses to Poverty

In the last two decades, Uganda witnessed a proliferation of ICAs. They constitute part of the rapidly expanding informal sector.[2] ICAs are a component of voluntary associations that thrive on social networks. According to Narayan et al[3] social networks are manifested in local associations such as ploughing groups, burial societies, informal lending societies, and neighbourhood support networks and facilitate collective action. There is significant and growing evidence that social networks play a developmental role in the societies and economies of African countries.[4] They enhance co-operation and resource generation at the individual and community level.

The phenomena of social networks that facilitate collective action differ from one society to another. In the case of Uganda, the intensification of social networks can be explained by historical circumstances. These can be divided into three historical phases. The first phase refers to the traditional social setting. This includes social networks built on trust, reciprocity and co-

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Organisations (NGOs), the private sector, the state, and the international community.

[2] Kenneth King (1996), *Jua Kali Kenya: Change and Development in An Informal Economy 1970-95*, London: James Currey Ltd., p. xiii.

[3] Deepa Narayan, Raj Patel, Kai Schafft, Anne Rademacher and Sarah Koch-Schulte (2000), *Voices of the Poor: Can Anyone Hear Us?*, Washington, D.C.: Oxford University Press, p. 130.

[4] Christiaan Grootaert (1998), 'Social Capital: The Missing Link?' Social Capital Initiative Working Paper 3, Washington, D. C.: World Bank, p. 11. Also see Thierry Van Bastelaer (2000), 'Does Social Capital Facilitate the Poor's Access to Credit? A Review of the Macroeconomic Literature,' *Social Capital Initiative Working paper No. 8*, Washington, D. C.:

operation over a long period of interaction. These norms and values are enshrined in traditional social structures such as the institution of the extended family, clan, and friendship ties. Traditional social structures and networks provided the framework through which the public good was protected while at the same time they provided for emergencies and social welfare in times of crisis. Inherent in these traditional social institutions and networks, were also provisions for mutual support. Put differently, the norms and values, which were embedded in traditional norms and networks substituted for the welfare function of the contemporary modern state.

The existence of traditional networks of co-operation in many of Ugandan ethnic groups has been documented. These networks took different forms depending on circumstances that pertained to each particular environment. Some of these networks took the form of vertical ties. This particular form was and still is characteristic of lineage systems. People that are related by blood, like in the case of extended family or clansmen have an obligation to support each other during the time of need. For example, if a person is attacked by poverty he would approach close relatives or clansmen for assistance. Kinship networks provide widespread support systems that help to overcome hardships especially in an environment where the state is incapable of providing comprehensive social programmes and social

World Bank, pp. 1-4.

security. These networks along kinship ties are still sanctioned by culture. They are not based on the free will of individual members to develop independent networks of co-operation. A relative has a moral obligation to assist other relatives as sanctioned by the custom of that particular clan. Such ties are also governed by unequal relationships more especially where the clan elders have more powers and rights. Clan members are sometimes forced into such networks by custom and not because of shared interests and aspirations. Social sanctions are sometimes used to enforce the observation of such obligations. This is normally enforced through boycotting you when you have lost a member of your family or even boycotting your parties.

Besides, these vertical networks are, in some cases, reported to have negative economic implications. Schoepf and Engundu,[5] for example, pointed out the 'downside' of kinship ties in the case of Zaire (now the Democratic Republic of Congo). They argue that kinship ties can sometimes have crippling effects especially in regard to economic performance. They indicate that relatives have obligations to support the elderly or indigent relatives, house and feed others, and pay school fees for relatives' children. They found out that some households in Kinshasha were being constrained by kinship ties, which put a lot of pressure on their household expenditures.

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[5] Brooke Grundfest Schoepf and Walu Engundu (1991), 'Women's Trade and Contributions to Household Budgets in Kinshasha,' in Janet MacGaffey et al (eds.), *The Real Economy of Zaire: the Contribution of Smuggling and Other Unofficial Activities to National*

The other forms of networks are horizontal. People enter into such ties not on the basis of kinship or lineage connections but on their own free will. Such networks involve people from different ethnic groups, men and women, friends and neighbours. These ties are entered into on the basis of similar interests or as a result of the desire to solve a certain problem or achieve a certain objective. Such networks are initiated democratically and are entered into voluntarily. They also cut across social divides such as gender, ethnicity and geographical areas. They however tend to be formed on the basis of class. The rich tend to form exclusive networks as it is the case with the poor. This point is corroborated by the argument of Epstein (1961: 65) quoted by Boswell[6] who concludes that network members are generally of a similar status. However, while Boswell's own research in urban Rhodesia does not dispute Epstein's conclusions, he argues that the importance of each of the two forms of networks depends on circumstances. He emphasises that though kinship ties may be less intense and less frequently activated, the extended family may be used as a much more important instrument during the crisis than the effective ties, which may be less competent or influential. Therefore, the issue of forming or belonging to social networks depends on the prevailing circumstances.

Wealth, London: James Currey, p. 133.

[6] D. M. Boswell, *Kinship, Friendship and the Concept of the Social Network*, Paper Read at the East African Institute of Social Research Conference at Makerere University College,

In the case of Uganda, such horizontal networks of co-operation have been cited in both traditional and modern social systems. Traditionally, people engaged in such networks because of underlying benefits. In most cases such networks involved reciprocity. They performed a function of social investment so that one benefited from them during hard times. Both anthropologists and sociologists have documented many of these networks of co-operation. For example, James[7] reported cattle transactions, which played an important part in the social life of the Bahima in Ankole. The Bahima were fond of giving cattle gifts to neighbours and friends. In most cases, these gifts were given to form new relationships or networks. According to James, such cattle gifts were expected to be reciprocated in form of *empaano* at a later date. He also observes that such cattle transactions served an insurance purpose:

> For instance, if A has lost all his cattle by disease, B may give him a heifer in calf so that A may build up his herd again. After this cow has calved for the third time A is expected to return a heifer of the progeny to B......[8]

These networks are still being entered into because they still perform the function of social security especially among the rural Bahima.

Kampala, Uganda, January 1966.

[7] E. T. James (1953), 'Bahima Cattle Transactions,' *The Uganda Journal*, 17 (1) (March): 74-5.

[8] *Ibid*, p. 75.

Another closely related form of networks of co-operation from Ankole is the age-old blood-brotherhood. This traditional practice involved the sealing of friendship using blood (*omukago*). It was only people from different clans that entered into this contractual obligation. *Omukago* involved a ritual whereby a small cut, usually on the right of the navel on each man. This was done with a sharp arrow (*ekirasho*). Each man then held the other's hand with his left, and they both together swallowed the blood at the same time.[9] William[10] reported that when a man made *omukago* with another he took upon him all the obligations that one clansman has towards another clansman, in addition to the obligations of a friend. In regard to the reciprocal nature of such ties, Williams notes that:

> The obligations involved in the making of blood-brotherhood are those of a true friend. When one is in any kind of trouble, it is the duty of the other to help him. If he comes to his *omunywani* in reduced circumstances and asks for a cow he could not be refused. He is expected to give him lodging when required, or any of his clan, to look after his family or his cattle when needed.[11]

This traditional form of ties helped to build bridges among people of different clans. It provided different types of benefits. Williams observes that the practice of *omukago* provided considerable and extensive social and

[9] Lukyn F. Williams (1934), 'Blood-Brotherhood in Ankole,' *The Uganda Journal*, 2 (1) (July), p. 36. Also see Y. K. Bamunoba (1964), 'Notes: Blood Brotherhood in Ankole,' *The Uganda Journal*, 28 (2) (September): 217-8. Also see Denise Paulme (1973), 'Blood Pacts, Age Classes and Castes in Black Africa,' in Pierre Alexandre (ed.), *French Perspectives in African Studies: A Collection of Translated Essays*, London, Ibadan and Nairobi: International African Institute, pp. 73-95.

[10] *Ibid*.

[11] Lukyn F. Williams (1934), *Opcit*, p. 37.

economic advantages. While the practice is still common, the performing of the rite has died out especially with the coming of AIDS.

In the case of Lango in northern Uganda like in many other parts of Uganda, social networks took the form of communal labour organisations referred to as *Wang tic*. The major characteristic of this form of co-operation was the democratic pooling and sharing of labour. This was done in turns until each member of the group was served. Tarantino[12] argues that *Wang tic* denoted communal working party formed by each village. He notes that co-operation was a matter of principle and not driven by the reward of beer or food offered by the owner of the food. He further indicates that if a member of the *Wang tic* failed to fulfil his obligations (defaulted), he would be unable to obtain help in cultivating his own land irrespective of the amount of beer and food he offered. However, he observes that the existence of the system is in a weakened form because of the coming of the ox-plough. He also points out communal herding (*Wang kwat*) by the Langi as another form of co-operative activity. These networks of co-operation that were practised in Lango were therefore based on reciprocity, equality and on the basis of mutual benefit.

[12] The Rev. Father Tarantino (1949), Notes on the Lango,' *The Uganda Journal*, 13 (2) (September), pp. 149-50. Also see Jan Jelmert Jorgensen (1981), *Uganda: A Modern History*, London: Croom Helm Ltd., pp. 99-100. Also see James E. Opyene (1994), *Forms of Peasant Co-operatives in Agriculture: Case Study in Lango, Northern Uganda*, Working Paper No. 46, Centre for Basic Research (CBR) Publications, pp. 1-17.

Nonetheless, it should be observed that while these social networks had originally been associated with a lot of positive benefits, they later on came to be characterised by negative tendencies. For instance, Mamdani[13] notes that the *Wang tic* (communal labour teams) were reorganised in the late 1970s due to socio-economic changes that ensued at the time. Some *Wang tics* transformed into new labour teams known as *Akibas*. He concedes that Akiba was 'really an adulteration of the original *Wang tic*' because it laboured for beer or money. The fact that the *Akibas* were being constituted by poor peasants (their class character) compared to *Wang tics* (their egalitarian nature) whose collective unity transcended class differentiation, meant that the objectives of networking were no longer for purposes of serving their mutual interests but for money. Mamdani further observes that the *Akibas* were increasingly functioning as 'thinly disguised wage labour teams' that were being hired and exploited by capitalist farmers. In other words, they diverted from the original purpose of *Wang tic*, which was meant to harness existing social networks to substantially improve the productive forces of team members, to a situation where their collective labour was subjected to capitalist exploitation. The overall consequence was the decline in their productivity since the communal labour teams (*Akibas*) increasingly spent much of the time functioning as disguised wage labour instead of serving the production interests of members. Therefore, this

[13] Mahmood Mamdani (1984), 'Forms of Labour and Accumulation of Capital: Analysis of a

divergence confirms the view that social networks can also have their 'downside.'

Beattie documented other forms of networks in regard to Bunyoro even though they apply to many other ethnic groups in Uganda. These involve obligations by neighbours and friends to come to the support of one another in case of death of a member of a community. In case of death, friends and neighbours dig the grave because the deceased person's relatives are not supposed to dig the grave. This was done because they expected the gesture to be reciprocated in future. Beattie also reports that during the days of mourning, friends, relatives and neighbours observed a period of mourning (*ekiragura*). During this period, people in the community gave moral and material support to the bereaved family as a sign of good neighbourly relations.[14]

The idea of mutual assistance is also documented by Nsimbi[15] in the case of Buganda. He reported that traditional forms of co-operation included hunting teams, beer parties, tribal feasts or times of rejoicing, ceremony of

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Village in Lango, Northern Uganda,' *MAWAZO*, 5 (4) (December): 44-65), pp. 48-49.

[14] J. H. M. Beattie (1961), 'Nyoro Mortuary Rites,' *The Uganda Journal*, 25 (2) (September), pp. 172-6.

[15] M. B. Nsimbi (1956), 'Village Life and Customs in Buganda,' *The Uganda Journal*, 20 (1) (March), p. 29 and 35. In regard to beer parties as a form of networks of co-operation in Teso, Eastern Uganda, also see Ivan Karp (1980), 'Beer Drinking and Social Experience in an African Society: An Essay in Formal Sociology,' in Ivan Karp and Charles S. Bird (eds.), *Explorations in African Systems of Thought*, London and Washington, D. C.: Smithsonian

naming children, attending burial of people and visiting the sick, afflicted and bereaved. Besides, he noted that everyone was bound to run to the assistance of anyone who raised an alarm. He asserted that a man's safety depended largely on his being friendly with his neighbours. Therefore, these networks of co-operation and assistance were and are still obligatory and expected to be reciprocated. They function as social security mechanisms. There is therefore no question that various traditional forms of networks existed and some still exist in many societies today though the magnitude could differ.

The second phase explains the rise and prevalence of social networks due to state collapse in Uganda.[16] The socio-economic and political turbulence that afflicted Uganda between 1971 and 1986 tremendously weakened the capacity of the state to effectively fulfil its mandatory responsibilities. This period was characterised by the disengagement of the state from social programmes.[17] The cumulative effect of a dysfunctional state was increasingly borne by the population whose conditions of living enormously

Institution Press, pp. 83-119.

[16] E. A. Brett (1991), 'Rebuilding Survival Structures for the Poor: Organisational Options for Development in the 1990s,' in Holger Bernt Hansen and Michael Twaddle (eds.), *Changing Uganda*, Kampala: Fountain Publishers, p. 297. Also see Nelson Kasfir (1983), 'State, *Magendo*, and Class Formation in Uganda,' *The Journal of Commonwealth and Comparative Politics*, 21 (3): 84-103.

[17] E. A. Brett (1994), 'The Military and Democratic Transition in Uganda,' in Holger Bernt and Michael Twaddle (eds.), *From Chaos to Order: The Politics of Constitution-Making in Uganda*, Kampala: Fountain Publishers, pp. 78-89. Also see Phares Mutibwa (1992), *Uganda Since Independence: A Story of Unfulfilled Hopes*, London: Hurst and Company, pp. 42-176.

deteriorated. This forced people to retreat from the state and join the informal sector. They also had to depend on their own collective efforts through voluntary associations. They organised on a self-help basis to fill the vacuum left by the retreating state.[18] The rural people, therefore, harnessed social networks enshrined in the extended family, clan, friends and neighbours as an adaptation strategy against poverty. People co-operated and organised collectively into ploughing or hoe groups to enhance their productivity. They also organised collectively in voluntary associations in order to handle rights of passage with much ease. In other circumstances, collective action took the form of *Engozi,* (locally made stretcher groups) that substituted for modern ambulances to transport the very sick to distant health centres.[19] Also, Parents-Teachers Associations (PTAs) took over the management and financing of education institutions since the state had failed.[20]

The linkage of state collapse and the rapid expansion of the informal sector has been extensively discussed by MacGaffey et al[21] in the case of Zaire. She asserts that the enormous expansion of the second economy in Zaire was

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[18] E. A. Brett (1993), *Providing for the Rural Poor: Institutional Decay and Transformation in Uganda,* Kampala: Fountain Publishers Ltd., p. 12.

[19] The Republic of Uganda (2000), *Uganda Participatory Poverty Assessment Report (UPPAP),* Ministry of Finance, Planning and Economic Development, Kampala, Uganda, p. 64.

[20] E. A. Brett (1991), *Opcit,* p. 306.

[21] Janet MacGaffey (1991), 'Issues and Methods in the Study of African Economies,' in Janet MacGaffey et al (eds.), *Opcit,* p. 36.

due to the decline of the administrative capacity of the state to satisfy the basic needs of the masses. Brett[22] gives similar explanations in regard to Uganda and Maliyamkono and Bagachwa[23] in the case of Tanzania. Also King's[24] findings also attribute the development and rapid growth of *Jua Kali* in Kenya to the crisis of the state and the formal public sector of the economy.

Therefore, the proliferation of ICAs in the case of Uganda can to some extent be explained by the need for the poor to pool meagre resources so as to fill the vacuum left by the retreating state. The urgent need to meet tuition for school going children, medical bills as well as meet basic and household emergency needs required the harnessing of the existing traditional structures and networks that existed in the community. Social networks provided not only the needed resources but also a comprehensive welfare and insurance scheme against unforeseen contingencies of risk and uncertainty.

The third phase that took shape in the late 1980s can be attributed to changes within both the international and national policy environments. The end of

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[22] E. A. Brett (1991), *Opcit*, p. 306.

[23] T. L. Maliyamkono and M. S. D. Bagachwa (1990), *The Second Economy in Tanzania*, London: James Currey, p. 49.

[24] Kenneth King (1996), *Opcit*, p. xiii.

the cold war paved the way for neo-liberalism and its subsequent influence on the public policies of many countries. Socio-economic and political reforms became the yardstick for Western donor support. This period coincided with the coming to power of the NRM regime in 1986, which allowed civil society to organise freely for purposes of development. Given the fact that the Uganda State had become dysfunctional and could hardly fulfil its social obligations of delivering social services and rehabilitating and/or creating social infrastructure, it encouraged NGOs to fill the vacuum. The ordinary people were also encouraged to form self-help developmental associations to supplement the efforts of the state in social and economic reconstruction. A myriad of associations with varying interests and activities sprung up. Some of these associations were formed to pool resources to fight poverty. The next section examines the household characteristics of the beneficiaries of ICAs.

The proceeding sections in this chapter attempt to analyse the informal credit associations (ICAs), which are manifestations of social networks that facilitate people to access social and economic benefits. Nonetheless, while some of the traditional forms of social networks are still existing, Nsimbi[25] argues that they are rapidly dying out because of the effects of individualism

[25] M. B. Nsimbi (1956), *Opcit*, p. 29 and 35.

and money. He further attributes the decline in social networks to people's differences in religion, tribal origin, and standard of living and education.

6.2 Household Characteristics of the Beneficiaries of ICAs

The beneficiaries of ICAs manifested similar household characteristics as those of the beneficiaries of the state-sponsored and NGO credit schemes already discussed in chapter four and five. This phenomenon can be explained by the fact that all our respondents, irrespective of the type of credit scheme they subscribed to, were drawn from the same environment (villages). Therefore, they were characterised by a similar socio-economic environment. These characteristics are presented in Table 6.1 and hitherto discussed.

Table 6.1 *Household Profiles of Beneficiaries of ICAs*

District	Gender	Total No.	Age	Total No.	Educ. Status	Total No.	Family Size	Total No.	Econ. Activity	Total No.
Mbarara	Male	4	16-30	3	None	3	1-3	1	Agriculture	15
	Female	11	31-50	11	P.1-P.4	6	4-6	13	Trade	5
			51-65	1	P.5-P.7	3	7 and above	1	Employment	0
					S.1-S.6	3			Remittances	0
					Tertiary	0				
Mpigi	Male	3	16-30	1	None	2	1-3	3	Agriculture	12
	Female	12	31-50	12	P.1-P.4	3	4-6	12	Trade	9
			51-65	2	P.5-P.7	8	7 and above	0	Employment	0
					S.1-S.6	2			Remittances	0
					Tertiary	0				
Grand Total		30		30		30		30		30

Source: *Compiled from Fieldwork Data.*

The above Table illustrates that women (77 percent) compared to men (23 percent) dominated the beneficiaries of ICAs that were investigated. This phenomenon has already been explained in the preceding chapters. Women tend to participate more in informal credit association because of cultural impediments. MacGaffey[26] attributes women's over-involvement in the informal sector to cultural discrimination. Her findings on Zaire indicate that the informal economy provided an escape root for women. She argues that Zaire, like many other African countries, is a male-dominated society and its formal institutional structure constrains women's economic activities. Women therefore escape the restrictions imposed by the official institutional structure by operating in the informal economy. Besides, the fact that very few women own property and are uneducated compared to men, means that they are unable to participate in formal financial institutions.

It was also evident that many (77 percent) of the respondents were in the age bracket of 31-50 years. As earlier indicated, this is the age group that is economically active. People in this age range are characterised by a lot of family pressures since they already have children and therefore have to work extra hard to raise them. This is different from those in the age bracket of 16-30 where the pressure has not yet intensified. Similarly, those above 51 years are less active because either they have already achieved or failed. A

[26] Janet MacGaffey (1991), *Opcit*, pp. 34-5.

few of these (10 percent) were involved. Many of the respondents in this age bracket mostly used their benefits on paying for services and consumption.

It is also clear from the above table that the majority (83 percent) of the beneficiaries of ICAs were either not educated or had less education, that is, lower primary (P.1-P.4) or upper primary levels (P.5-P.7). Low education can be explained by the remoteness of the locations investigated. Most of these were deficient in social services. Another explanation is because women were the majority beneficiaries and cultural discrimination tends to affect their educational attainment more than men.

Many (83 percent) of the households also had large families of four to six children. This is characteristic of many rural households due to cultural perceptions and technological backwardness as already discussed in the preceding chapters. Another significant characteristic was that most (90 percent) of the beneficiaries were engaged in agricultural activities. This was not surprising as earlier discussed in the text. This is because agriculture is the major occupation of Uganda's rural areas. It contributes 44 percent of the overall GDP.[27] Many of the explanations of these characteristics have already been discussed in detail in chapters four and five.

[27] David Opiokello, 'The Role of the Central Bank in Developing Rural Financial Markets: The Case of Uganda,' *African Rural and Agricultural Credit Association (AFRACA)*. Accessed on: http://www.afraca.org/html/centrole.htm. on 24th July 2003, p. 1.

6.3 The Nature and Functioning of Informal Credit Associations (ICAs)

This research was conducted on eight informal credit associations in the districts of Mbarara and Mpigi. These included *Kabuyanda Women United Group* (KWUG), *Nyampikye Women's Group* (NWG), *Kyezimbira Tweyombekye Group* (KTG), *Nyabuhikye Women Catering Association* (NWCA) and *Bataka Tweyambe* (BT) in Mbarara district. In the case of Mpigi district, *Twekambe Women's Group* (TWG), *Tukore Bukozi Association* (TBA) and *Twegatte Mubyenfuna Association* (TMA) were studied. Out of eight ICAs selected in the two districts, three were mixed in terms of sex, four were exclusively for women while one was exclusively for men. A sample of forty respondents[28] was interviewed. Also two focus group discussions were conducted in each district. Physical observation and secondary data supplemented in-depth interviews. The ICAs identified during fieldwork can be put into three categories as illustrated in Table 6.2 below.

[28] In each district a sample of twenty respondents were selected. These comprised of fifteen beneficiaries of informal credit associations (ICAs) while five respondents were non-beneficiaries of ICAs. The non-beneficiaries of ICAs constituted a control group that was used to verify the responses of the ICAs beneficiaries.

Table 6.2: *Categories, Sources of Funding, Activities and Benefits Accruing to ICAs*

Category of Association	Source of Funds	Nature of activities	Benefits to Members	Method of Selecting Loan Beneficiaries
Rotating Credit Associations	Member's regular contributions	1.Pools member's contributions and distributes them in a rotational order. 2.Members use funds received on an individual basis. 3.Association only functions as a conduit for funds.	Receive share proceeds periodically and in a rotational order.	Voting or consensus
Insurance and Credit Associations	1.Member's regular contributions. 2.Interest from internal loans 4.Fines, penalties and donations.	1.Pools members' contributions, interest, fines, penalties and donations. 2.Give loans to members. 3.Give insurance to members.	1.Receive emergency assistance. 2. Loans.	According to need and emergency
Savings and Credit Associations	1.Member's regular contributions. 2.Proceeds from external loans and investments. 3.Interest from internal loans. 4.Earnings from the sale of members' labour 5.Fines and penalties.	1.Pools member's contributions. 2.Attracts external loans. 3.Engage in income-generating ventures	1.Receive proceeds in-kind periodically (end of year). 2. Loans.	Voting or Consensus

Source: *Compiled from Fieldwork Data.*

The first category of ICAs[29] requires regular membership contributions, which are shared in a rotational order. This category applied in the case of *Bataka Tweyambe* (BT), *Nyampikye Women's Group* (NWG) and *Tukore Bukozi Association* (TBA). Although only BT had twelve members, the others (NWG and TBA) had more than twelve members. In addition, NWG and TBA cannot be defined purely as ROSCAs but hybrid forms of ROSCAs. Though they possessed traits of ROSCAs, they also had an insurance aspect. The membership of this category consisted of twelve male members. The explanation given to us as to why membership was restricted to twelve people was that they needed to ensure that at least each member received his share at least once a year. We received further information that if the period of rotation extends beyond a year, members become discouraged. It was also reported that the bigger the size the easier the risk of absconding and the more complicated it becomes to manage the association. The restriction of the number of members is characteristic of many ROSCAs as observed by Moodley[30] when referring to South African Stokvels.[31] He attributes the restriction to the desire to keep the institution manageable and to ensure

[29] Informal Credit Associations (ICAs) are a type of Rotating Savings and Credit Associations (ROSCAs).

[30] Loshini Moodley (1995), 'Three Stokvel Clubs in the Urban Black Township of KwaNdangezi, Natal,' *Development Southern Africa*, 12 (3), p. 364.

[31] Stokvels are a kind of ROSCAs in South Africa. According to Lukhele, Stokvels are groups of people who agree to contribute a fixed amount of money into a common 'pot' weekly, fortnightly or monthly. The withdrawal of contributions is governed by the rules of the particular Stokvel, but typically it is either by random rotation (lots are drawn) or according to need (A. K. Lukhele (1990), *Stokvels in South Africa*, Johannesburg: Amagi Books, p. 1.

effective social control. However, this was not found to be the case with NWG and TBA. Their members were motivated and no problems of abscondment and mismanagement were reported.

Another observable characteristic of the three ROSCAs was that their membership was restricted to people personally known to each other and from the same village. Membership of these associations consisted of people from the same area because members had background information about each other's character and habits. Moreover, social sanctions were easy to apply if all the members resided in the same location rather than from outside. The explanation as to why members of ROSCAs tend to restrict their activities to close communities or to the same geographical area is attributed to information asymmetries. Udry's[32] findings in regard to northern Nigeria seem to confirm the information factor. He attributes the absence of credit transactions from the outside community to the high information costs of such transactions. Similarly, Kimuyu[33] observes that ROSCAs attract membership from close communities and kinship to secure commitment. This is because the personal attributes and circumstance are

[32] Christopher Udry (1990), 'Credit Markets in Northern Nigeria: Credit as Insurance in a Rural Economy,' *The World Bank Economic Review*, 4 (3), p. 266.

[33] Peter Kiko Kimuyu (1999), 'Rotating Savings and Credit Associations in Rural East Africa,' *World Development*, 27 (7), p. 1300. Also see Pranab Bardhan (1993), 'Analytics of the Institutions of Informal Co-operation in Rural Development,' *World Development*, 21 (4), p. 636.

well known and social capital is easily extractable. In short, he attributes such closeness among participants to the ease of information gathering.

Therefore, characteristics pertaining to the ICAs studied were not distinct from those of ROSCAs generally. ROSCAs were found to exhibit characteristics such as geographical or kinship networks between the participants, reputation characteristics, for example honesty, work and borrowing habits. They also transacted limited amounts of resources. Besides, the process was characterised by flexibility, high repayment rates and high levels of participation of members.

The second category of ICAs was the insurance type. Members contributed an agreed amount, which was kept in a central pool ('pot') as illustrated in Table 6.2. This fund served two purposes. It was accessed by members in case of an emergency such as sickness, payment of a debt, death or a bailing a relative from prison. The second purpose of this fund was to provide loans to members on an interest fee of five percent per month for not more than three months.[34] The proceeds generated by this fund from interest charged on internal loans and other miscellaneous collections such as fines, penalties and donations were added to the fund. This category of ICAs applied in the

[34] The interest rate of five percent per month was found to apply to all the cases we investigated. It appeared to be a standard rate for the ICAs in the two districts generally. In addition, the duration for internal loans given by ICAs did not exceed three months. This

case of *Kyezimbira Tweyombekye Group* (KTG) and *Twegatte Mubyenfuna Association* (TMA) in Mbarara and Mpigi district respectively. More particularly, KTG had 68 members and each contributed USh 10,000 (US$ 33) per month to the insurance pool. The insurance fund was to cater for emergencies such as deaths, sicknesses and parties among many others. In the case of parties and funerals, the association bought all the requirements. Besides, all the members of the association were required to participate in organising and providing voluntary labour to such events. Therefore, material and social support by members of the association was guaranteed in such circumstances as confirmed by the chairman of KTG:

> Our association has purchased many cups, plates, giant saucepans, wooden forms and chairs, and tarpaulins for occasions such as funerals and parties that involve households of our members. Non-members can also access these facilities on payment of a fee of USh 60,000 (US$ 30). The association also keeps processed timber for making coffins when need arises. When a member loses a relative or has a party, funds are withdrawn from the pool to buy food, drinks, and any other essential commodities that are required for such occasions. Also, members voluntarily provide labour and social support during such functions.[35]

This particular category of ICAs did not involve periodic sharing of members' contributions or proceeds accruing from such contributions.

The third category was a pragmatic association in which members made monthly deposits to a central pool. Part of these accumulated funds was kept

duration was found to apply to all ICAs generally.

[35] Interview with the Chairman of *Kyezimbira Tweyombekye Group* (KTG) in Kikagati, Mbarara district in September 2000.

permanently in a pool as loanable capital. Members accessed this fund only on a nominal interest rate of five percent. Loans were also provided to non-members but were charged a higher interest rate of ten percent. Part of the contributions was invested in income-generating projects. Members only shared the proceeds from internal and external loans as well as miscellaneous receipts such as fines, penalties, donations, and earnings from income-generating ventures. The sharing took place at the end of the year provided funds were available. The sharing was also on an equal basis. Examples of this category of ICAs included *Kabuyanda Women's Group* (KWG), *Nyabuhikye Women's Catering Association* (NWCA) and *Twekambe Women's Group* (TWG).

6.4 Salient Organisational Factors of ICAs

It is sometimes argued that the purpose of ICAs is to fulfil temporary or 'ad hoc' and narrow consumption needs instead of providing long lasting opportunities that enhance the capacity of poor people to fight poverty on a sustainable basis. The World Bank, for example, described CBOs as:

> They are "ad hoc" in nature, rising to address a need and dissipating once that need is addressed. An example of this latter kind are credit and savings schemes amongst women, farming brigades, or hoe groups. [36]

[36] World Bank (1994), *The Role of Non-Governmental Organisations and Community-Based Organisations in Poverty Alleviation*, Report No. 12262-UG, June 22, World Bank, p. 1.

The World Bank's view seems to be shared by Kimuyu[37] who asserts that ROSCAs are consumption driven. He argues that the long-term benefits of participating in ROSCAs are marginal due to the smallness of the funds contributed. Similar perceptions about ROSCAs have been expressed by Sika and Strasser[38] in the case of *tontines*[39] in Cameroon. They contend that *tontines* are of a limited use for long-term investments. They further argue that tontines may probably have a negative impact on durable economic growth. This is attributed to shortness of the lending cycle, low level of loan sums, and high interest rates.

However, our research findings indicate that the role of ICAs transcended narrow consumption functions and included commitments such as modest asset accumulation, empowerment, political influence and social enlightenment as the proceeding sections elaborate. Likewise, Bouman[40] acknowledges that while the main flow of credit from ROSCAs is directed to consumption, a sizeable part is used as fixed and working capital in land, housing, and enterprises. Hence, our findings confirmed that ICAs have a wider socio-economic and political impact on society, which is sometimes

[37] Peter Kiko Kimuyu (1999), *Opcit*, p. 1304.

[38] Jean-Marc Sika and Baltz Strasser (2001), 'Tontines in Cameroon: Linking Traditional and Semi-formal Financing Systems,' *Development and Co-operation*, No. 1, January/February, p. 22.

[39] Tontines are small, informal Savings and loan associations. They are a type of grassroots financing systems (ROSCAs) in French-speaking countries of West Africa.

[40] F. J. A. Bouman (1995), 'Rotating Accumulating Savings and Credit Associations: A Developmental Perspective,' *World Development*, 23 (3), p. 373.

underestimated. They are not as narrow and 'ad hoc' as it is sometimes claimed in the existing literature but facilitate low levels of investment activities such as acquisition of livestock and improvement or starting of micro-enterprises.

The raise and intensity of ICAs in rural areas is partly attributed to discrimination by formal financial institutions. The issue of discrimination of rural areas by formal financial institutions has been extensively discussed. The major constraints of formal financial institutions to rural lending include information asymmetries, absence of collateral, high administrative costs and enforcement problems.[41] Therefore, the lack of access to loans coupled by lack of or inadequate savings, the rural poor have had to use their social networks to forge informal associations for the purpose of pooling resources for mutual benefit. In other words, social networks have been harnessed to provide the rural poor with an alternative source of funding to the mainstream, which mostly excludes them.[42]

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[41] Gabriel A. Fuentes (1996), 'The Use of Village Agents in Rural Credit Delivery,' *The Journal of Development Studies,'* 33 (2), p. 191. Also see Claudio Gonzarez-Vega (1996), 'The Design of Successful Rural Financial Intermediaries: Evidence from Indonesia,' *World Development*, 24 (1), p. 70. Also see Mathew Warning and Elisabeth Sadoulet (1998), 'The Performance of Village Intermediaries in Rural Credit Delivery Under Changing Penalty Regimes: Evidence from Senegal,' *The Journal of Development Studies*, 35 (1), p. 116. Also see Mark D. Wenner (1995), 'Group Credit: A means to Improve Information Transfer and Loan Repayment Performance,' *The Journal of Development Studies*, 32 (2), p. 264.

[42] Michael Woolcock and Deepa Narayan (2000), 'Social Capital: Implications for Development Theory, Research and Policy,' The World Bank Research Observer, 15 (2), p. 233. Also see Buijis, G. and G. Atherfold (1995), *Savings and Money-Lending Schemes: How Rotating Credit Associations Help Poor Families*, Pretoria: Human Science Research Council

The requirements for membership of ICAs studied were simple in comparison to those of formal financial institutions. These requirements included periodic financial subscriptions to the association, personal discipline, being a resident of the area, and abiding by the rules of the association. The requirements for membership to ICAs are illustrated in Table 6.3.

(HSRC), pp. 71 and 76.

Table 6.3: *Membership Requirements and the Nature of Management of ICAs*

Name of ICA	Year Formed	Membership Eligibility	Regulations	Records Kept	Management Committees
Nyabuhikye Women Catering Association (NWCA)	1997	1.Entry fee USh 1500. 2.Share holding fee USh 20,000. 3.Good character. 4.Members vet new entrants.	Monthly meeting.	Minutes, financial records, records of group assets, register.	C/man, VC/man, Sec, V/Sec, Treasurer and four committee members.
Tukore Bukozi Association (TBA)	1999	1.Entry fee USh 5000. 2.Share holding fee USh 20,000. 3.Monthly subscription of USh 10,000. 4.Good character. 5.Residents only. 6.Hardworking.	Attend monthly meetings	As above	C/man, VC/man, Sec, Treasurer and five Committee members.
Bataka Tweyambe (BT)	1992	1.Entrance fee Ush 20,000 monthly. 2.Annual subscription fee USh 10,000. 3. Residents only. 4.Good character 6.Hard working	Attend monthly meeting and punctuality	Minutes, Financial records, register, constitution.	C/man, VC/man, Sec, Treasurer, Defense Secretary and 10 Committee members.
Kabuyanda Women United Group (KWUG)	1987	1.Entry fee USh 10,000. 2.Hardworking 3.Good character	As above	Minutes, financial records, register, constitution, work programme.	C/man, VC/man, Sec, VC/sec, Treasurer and five members.
Kyezimbira Tweyombek	1987	1.Entry fee USh 10,000.	As above	Minutes, financial	C/man, VC/man, Sec,

ye Group (KTG)		2.Good character.		records, register, constitution.	Treasurer and five members.
Nyampikye Women's Group (NWG)	1993	1.Entry fee USh 5000. 2.Good character. 3.Hard working. 4.Residents only.	As above	Record of assets, financial records, minutes, register, constitution,	C/man, VC/man, Sec, Treasurer, Health, Inform., Defence and nine members.
Twegatte Mubyenfuna Association (TMG)	1996	1.Entry fee Ush 5000. 2.Members vet new entrants. 3.Good character. 4.Residents only.	As above	As above	Not Available.
Twekambe Women's Group (TWG)		1.Entry fee Ush 3000 and annual subscription Ush 2500. 2.New members are vetted. 3.Good character. 4.Residents only.	Weekly meetings, and make weekly and monthly contributions of Ush 1600 and USh 500 respectively.	Minutes, financial records, register, constitution.	Chairperson, Treasurer and Secretary.

Source: *Compiled from Fieldwork Data.*

The data summarised in Table 6.3 shows that five out of eight ICAs investigated required members to be residents of the area or from the nearby community because these were people who had had relationships over a long period of time. Besides, these people possessed adequate information about each other. It is widely argued that the possession of information on clients reduces risk.[43] More specifically, emphasis was put on members that were hardworking and of good character as revealed in an interview with the chairperson of TWG:

> When the idea came to three of us who started this association, we decided to admit only women. They had to be of good character and hardworking so as to make our association peaceful and productive. Chaotic and lazy women were avoided because they would create unnecessary trouble and wreck our association. This was very simple to do because we have lived in this area for a long time and therefore we know each other very well. It was, therefore, easy to admit the kind of people we wanted. This has enabled us to have a good working relationship.[44]

The acquisition of information about the character of new applicants was easier because of the advantage of existing networks. In three cases[45] where the activities of ICAs transcended the neighbourhood, old members were required to vet new ones. It was found out that in many cases non-residents were introduced and guaranteed by established members. However, old members vetted those without useful connections.

The other requirement was to pay membership or entrance and subscription fees plus other necessary fees depending on the requirements of each ICA.

[43] Mark D. Wenner (1995), *Opcit*, p. 264. Also see Peter Kiko Kimuyu (1999), *Opcit*, p. 1301. Also see B. J. Moore and G. A. Schoombe (1995), 'Bank Credit to the Informal Sector: Challenge and Reward,' *Development Southern Africa*, 12 (3), p. 350. Also see Avishay Braverman and J. Luis Guasch (1986), 'Rural Credit Markets and Institutions in Developing Countries: Lessons for Policy Analysis from Practice and Modern Theory,' *World Development*, 14 (10/11), pp. 1257-8.

[44] Interview with the Chairperson of *Twekambe Women's Group* (TWG) in Bunamwaya, Mpigi district in November 2000.

[45] The four associations whose activities transcended the immediate neighbourhood included NWCA, KWUG, KTG, all in Mbarara district.

Membership and subscription fees ranged from USh 5000 (US$ 3) to USh 20,000 (US$ 11). Members were also supposed to abide by the rules of the association. These included punctuality, regular attendance of meetings, being co-operative and avoiding antagonistic behaviours such as gossiping and quarrelling. Failure to abide by the rules was penalised through either fines or expulsion depending on the gravity of the matter. The requirements for membership and the rules that governed the functioning of associations were found to have impacted positively on the performance of these associations as indicated in the next section. Among the eight ICAs studied only *Tukore Bukozi Association* (TBA) had a record of four loan defaults, which exemplified extraordinary performance.

The underlying factors that explained such performance included easy access to information about members, which simplified the screening of new members. Monitoring and peer pressure by fellow members also contributed to the effectiveness of the ICAs. One of the reasons that are frequently cited for the neglect of rural areas by formal financial institutions is the high cost of gathering information about the credibility of rural clients and the problems of enforcement. It is argued that rural borrowers are geographically dispersed and lack collateral. Informal lending institutions such as ICAs are therefore said to have advantages over formal financial agencies because it is easier for them to screen clients.[46] By drawing on the social networks of their beneficiaries, ICAs are able to cut costs that would otherwise have been incurred in the process of screening and enforcement.

6.41 The Nature of Membership of ICAs

In relation to the nature of membership, the majority of ICAs were organised separately according to gender as Table 6.4 indicates. Four associations were exclusively for women. These include NWCA, KWUG, NWG and TWG. On the other hand, BT had one woman although it was exclusively a male association. According to the Chairman of BT:

> Our association has twelve members altogether. It is men's association even though one of our members is a woman. We allowed her to take over the place of her deceased husband who was one of the founder members of the association. She also serves as a treasurer of the association.[47]

The other three associations namely, TBA, KTG and TMA were mixed associations. Women groups were found to be prevalent, the most successful, and exclusive. Their prevalence can be explained by the general economic and cultural marginalisation that tends to affect women generally. Women in Uganda are predominantly poor because they are less educated and are culturally discriminated from inheriting property.[48]

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[46] Avishay Braverman and J. Luis Guasch (1986), *Opcit*, p. 1257.

[47] Interview with the Chairman of *Bataka Tweyambe* in Igoroora, Mbarara district in October 2000.

[48] It should, however, be pointed out that positive reforms towards women empowerment have been initiated by Yoweri Museveni's NRM regime since 1986. See

Therefore, poverty and cultural marginalisation that afflict women generally explain the prevalence of women-only associations. The indicators used to measure the success of women's ICAs included the absence of default, longevity and benefits associated with credit to members. When asked why NWCA did not admit men, the chairperson replied that:

> We do not allow men to join our association because they are problematic and difficult to work with. They are forceful and quarrelsome, do not attend meetings, default, and want to be leaders. They also do not want to be treated as equals with women. They have a superiority complex and that is why we prefer to organise separately.[49]

Women considered men a destabilising factor to their associations and therefore locked them out. Besides, women's organisational interests in ICAs differed from those of men. They therefore preferred to organise separately. When interviewed as to why men did not join women's ICAs, one male respondent replied rather arrogantly: 'women are mean and rigid, have narrow ideas and will drag us behind.'[50] Many male respondents as captured in a focus group discussion in Buwama expressed the feeling that women were rigid and cautious when handling money:

> Women are rigid when it comes to issues of money. They are conservative. They keep their associations' money redundant instead of

Republic of Uganda (1995) *Constitution of the Republic of Uganda*, Entebbe: Uganda Printing and Publishing Corporation, Article 33, p. 30. Also see Sylvia Tamale (1999), *When Hen's Begin to Crow: Gender and Parliamentary Politics in Uganda*, Boulder, Colorado: West View Press.

[49] Interview with the Chairperson of *Nyabuhikye Women's Catering Association* (NWCA) in Nyabuhikye, Mbarara district in October 2000.

[50] Interview with a male respondent in Kabuyanda, Mbarara district in September 2000.

> lending it out to make profit. We have approached them many times but they say they fear risk and yet without risking you can't achieve much.[51]

Women, however, agreed that being rigid and cautious enabled them to succeed where men's associations failed:

> Men are impatient and dishonest when it comes to financial transactions. Their associations do not last because of their greed for money, in-fighting and defaulting. For them, they can afford to do without associations because they have other opportunities in their way. But for women, these associations are our last resort. Therefore, we cannot afford to allow in men and squander them.[52]

It can be derived from the above testimonies that unequal power relations explain the existence of separate organisations for men and women. Uganda's cultural environment tends to favour men. Hence, women try to organise differently in order to escape from this power imbalance. Similarly, the rich peasants and traders organised separate ICAs and their requirements were prohibitive to the poor. Therefore, there was a tendency for women, men, the rich, and the poor to organise separately. Bouman[53] attributes the phenomenon of separate organisation to income disparities. He reasons that the fact that members of mutual aid societies make equal contributions at regular intervals, they need a rather comparable income of comparable size. Therefore, he argues that ROSCA membership tends to be homogeneous, participants sharing the same occupation, income group, or

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[51] A summary of responses from male respondents in a focus discussion group conducted in Buwama, Mpigi district in November 2000.

[52] Response from a female member of a focus discussion group conducted in Buwama, Mpigi district in November 2000.

residential area. He further acknowledges that the rich and the poor generally have separate clubs.

In comparison, rural women were found to have more attachment to ICAs than men. Whereas the women's motive to join ICAs extended beyond monetary rewards, men joined such associations for mainly financial interests. For instance when asked the benefits that accrued to them as a result of joining ICAs, one woman responded as follows:

> These associations have become our salvation in this area. We shoulder household burdens because our husbands frequently migrate to far off places to look for employment. If you have a problem you just run to your association and borrow money to solve it. These associations have therefore reduced our vulnerability and hopelessness especially when there is a crisis. In the past there was no where to run to for such assistance. These associations have also united us and we benefit a lot from each other. Young women learn from the old ones on how to look after young children as well as the medicinal herbs that treat common diseases like cough, and measles. Besides, some of us have benefited from the advice of other women on how to run a business and even reduce tensions in the home. We even borrow essential commodities from each other because of this co-operation.[54]

It is evident from the above response that there were various motives as to why women joined ICAs. These included the desire to make friends and co-operate, to exchange ideas about their families' experiences and problems, to wish to learn from each other, as well as to get advice or counselling from their experienced and older counterparts. Whereas the formation of ICAs in rural areas can be explained by the need to access resources in case of

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[53] F. J. A. Bouman (1995), *Opcit*, p. 374.

[54] Interview with a female respondent, Kabuyanda, Mpigi district in September

emergencies, these associations generated a lot of benefits that went beyond coping mechanisms. In regard to women, ICAs contributed to more networking, co-operation and mutual support to each other. It is therefore evident that ICAs contributed to the deepening and widening of social networks for economic and social benefits of members.

The phenomenon, which made women invest more in ICAs can be explained by two factors. First, the rural poor women have a cultural obligation to shoulder the responsibilities of the family. They are required by custom to fend for the their families in terms of nurturing the children and caring for the weak and aged, while at the same time they have the responsibility of providing food to the family. These core responsibilities require networks as a means of insurance against uncertainty. The fact that these are poor rural households means that they are insufficient in many ways, a situation that necessitates occasional aid from relatives and friends. The magnitude of need and responsibilities exhibited by many rural women therefore dictate the desire for collective action, which requires co-operation, co-ordination, trust and reciprocity as a form of welfare insurance for their families. Mayoux's[55] research in Cameroon reached the same conclusions. She observes that many women, including very poor women, saw group

2000.

[55] Linda Mayoux (2001), 'Tackling the Downside: Social Capital, Women's Empowerment and Micro-Finance in Cameroon,' *Development and Change*, 32, p. 446.

activity as a means of addressing many of their problems. A similar explanation was also reached by the World Bank's[56] findings from a survey conducted in Bangladesh. In its analysis of the impact of the three major micro-credit programmes (BRAC, RD-12 and Grameen), the World Bank found that groups provided a forum for women to interact and develop bonds that provide economic security outside traditional household settings.

Second, Uganda's rural women were previously restricted from forming networks by archaic customary practices. Women were barred from attending social meetings and visiting friends or attending social functions without being accompanied by their spouses. Even in limited circumstances when it happened, they had to seek special permission from their husbands. These practices therefore denied women the opportunity to associate, access information and ideas, and make friends. Culturally, men were the breadwinners of their families, and women and children were considered dependants. This was the practice prior to the economic crisis of the 1970s and 1980s. The economic crisis involved reduced economic opportunities and a big burden for men. This phenomenon somehow undermined the authoritarian positions of men. In the case of Kabuyanda, reports from female respondents revealed that the economic crisis of the 1970s and 1980s

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[56] World Bank, 'Using Micro-Credit to Advance Women,' *PREMnotes*, Number 8, November 1998, p. 2. Accessed on: www1.worldbank.org/prem/PREM Notes/premnote8.pdf

forced men to migrate to distant places in search of employment for long periods. Hence, women took over men's responsibilities of managing the households.

Further information indicated that even men who remained around, the increasing economic burden of fending for the household forced them to loosen their control over women so that they also supplemented the scarce household resources. The impact of economic hardships on changing roles of women has also been pointed out by MacGaffey[57] in the case of Zaire. She notes that the decline in real wages made it imperative that women contribute to household expenses. Hence, women were increasingly allowed to get involved in trade, sell their labour and also organise in associations for the purposes of contributing to household welfare. In other words, the deepening crisis associated with the failure of the Ugandan State especially in the 1980s directly impinged on domestic household power relations.

Moreover, the realisation that household welfare greatly benefited from women's membership to associations influenced other men to open up. For instance, the chairperson of *Twekambe Women's Group* reported that their contributions to members' households were having an effect on men that previously resisted their wives from joining such associations:

> Our association helps members to make improvements in their homes. At first we used our contributions to buy gifts like utensils and mattresses to our members but now we construct water tanks for members. This is because water is a major problem in this area and it burdens us women. We have so far constructed five water tanks to our members and we are continuing until every member gets a tank. Our members have also benefited from Feed the Children Uganda (FTCU) loans, which are also accessed through our association. They can now meet school fees and health care for their children as well as feed well and clothe their children properly. Our association is the envy of the area. Men not only allow but also encourage their wives to join. We have many applications from women who want to join.[58]

A similar situation also pertained to *Nyabuhikye Women's Catering Association* as reported by the group chairperson:

> We started this association as fifteen women in 1997 to generate income to improve our family welfare and chase away poverty, which was affecting us so much. We have since benefited a lot. We share our contributions and proceeds at the end of every year, get internal loans, advise each other on family relations and discipline and we have taught illiterate members how to read and write. Members have acquired assets and can meet their home's demands especially school fees and medical care. We also organise a function at the end of the year. We invite our husbands, community elders, the chairman of the sub-county council and the sub-county chief. We do this to let them know about our activities so that we can get advice and donations from them. Our other objective is to sensitise men about what women can do. Now men in this area encourage their wives to join our association. Some men have even approached me to allow their wives to join this association.[59]

It is clear from these testimonies that the opening up was dictated by the state's retreat from spending on social programmes in the 1970s and 1980s. Therefore, ICAs provided an opportunity to women to interact fully and freely with fellow women. It is also evident that while some people joined

[57] Janet MacGaffey (1991), p. 35. Also see Makwala Ma Mavambu Ye Beda, *Ibid*, p. 108. Also see Vwakyanakazi Mukohya, *Ibid*, p. 68.

[58] Interview with the Chairperson of *Twekambe Women's Group* (TWG) in Bunamwaya, Mpigi district in November 2000.

[59] Interview with the Chairperson of *Nyabuhikye Women's Catering Association* (NWCA) in Nyabuhikye, Mbarara district in October 2000.

such associations for economic rewards, others joined to benefit from social networks that pertain to such associations as the preceding testimonies have revealed. Therefore, the essence of social networks is that they are built up for reasons other than their economic value. Arrow[60] disagrees with the notion that people join networks for economic rewards by arguing that much of the reward for social interaction is intrinsic. The motivation to join ICAs by rural women therefore transcended economic rewards.

Apart from these basic requirements, the major considerations for membership included kinship and friendship. These tended to determine the settlement patterns in rural areas. Village settlements tended to be patterned according to extended families, same clans and friends. These villages were, therefore, bound by historical ties which were curved on the basis of clan, marriage and friendship bonds. This is because land in Uganda traditionally belonged to clans. Therefore, by insisting that ICAs members come from the same area made it easy for social sanctions to be applied according to the tradition and culture of that particular society. Such sanctions would not be applicable in case of other people not bound by such cultural ties. A comparable experience can be drawn from Nigeria. According Hoff and

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[60] K. J. Arrow (2000), 'Observations on Social Capital,' in P. Dasgupta and I. Serageldin (eds.), *Social Capital: A Multifaceted Perspective*, Washington, D.C.: The World Bank, pp. 3-5.

Stiglitz,[61] credit markets in northern Nigeria are almost completely segmented along geographical and kinship groups because lenders rely on kinship and village sanctions as a mechanism for contract enforcement and failure to form a sufficiently judgement of 'outside' household ability to repay. They therefore argue that the restriction of ROSCAs' activities to a given geographical area or kinship group serve as devices by which lenders try to limit the consequences of information asymmetries and enforcement problems.

It was therefore noted, in the case of Kabuyanda, that local associations tended to be formed on the basis of close relationships. Informal credit associations comprised mostly women as indicated earlier. Membership to the associations investigated was characterised by close relationships. These women were residing in close proximity with each other (same or neighbouring villages). They reported of earlier friendships and co-operation prior to forming the associations as revealed in two of the testimonies from Kabuyanda:

> I have been married for thirteen years in this village. During this period I have come to know many people and made friendship with some of them within and outside this village. As long as you are a human being, it is inevitable that you have to make friends. Friends are useful because they make life easy. In my case, having friends has been very useful. Before we formed our association, my friends and I used to co-operate in many ways. We used to lend money to each other or sometimes you

[61] Karla Hoff and Joseph E. Stiglitz (1990), 'Introduction: Imperfect Information and Rural Credit Markets: Puzzles and Policy Perspectives,' *The World Bank Economic Review*, 4 (3), p. 241.

realise that you have no salt or paraffin and it is already evening. The idea that comes to your mind is to go to your friends. Then you refund those commodities after you have visited the market. We also used to share farm tools at the time when they were both scarce and expensive. Moreover, as mothers it is very crucial to be close to each other because children sometimes are attacked by strange sicknesses like in the middle of the night and the immediate thing you do is to run to your experienced friends. There are also other intimate areas that bring women together. What I can tell you is that our working together started way back. Even when we were still unmarried our mothers used to co-operate during the weeding and harvesting periods. Therefore, our friendship and co-operation started earlier. We only consolidated our old friendship by forming this association.[62]

The second testimony about the earlier forms of co-operation prior to forming an association also revealed that their ties developed as result of residing in the same area and also attending the same church:

We knew each other because of the fact that we lived in the same village. We occasionally visited each other and our children played together. Besides, we were friends. When I got married I came to know two of my friends as a result of drawing water from the same well and then attending the same church. We also used to meet on parties and funerals, which every neighbour has to attend and give a helping hand because when it is your turn you also benefit from that assistance. However, I would say that attending fellowship in the same church was more influential to our friendship. Many of us became 'born again' Christians and this has increased our trust for one another and cemented our relations. We share information, advise and assist each other as the Bible tells us. The fellowships also enabled us to meet other 'saved' women (*abaikiriza omuri Yesu*) (meaning the believers in Jesus) that were from other areas. We have made friends with them, visited and helped each other. It is this relationship that started from fellowship that developed into this association you see. Although not all our members are 'born again' Christians we still encourage them to accept Christ because it makes you better off because you do not waste money on unproductive activities such as drinking, gossiping or hate.[63]

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[62] Interview with the Chairperson of *Nyampikye Women's Group* (NWG) in Kabuyanda, Mbarara district in September 2000.

[63] Interview with a respondent and member of *Kabuyanda Women United Group (KWUG)* in Kabuyanda, Mbarara district in September 2000. It should be noted that this association had its membership drawn beyond the same village and its Chairperson had been elected as a representative of women at the Sub-county level (Local Council III).

The two testimonies above confirmed that these women had close relationships based on friendship, residence, agricultural co-operation and as a result of attending the same fellowships. It was because of these pre-established forms of networks and co-operation that a firm foundation was formed to establish informal credit associations. This was not surprising because networks based on residence and work parties were very common in many African situations. This is confirmed by Rigby[64] in the case of Gogo village in Tanzania. He notes that neighbours invited people from adjacent villages to share work and that there were rewards associated with such forms of co-operation. Another comparative experience about the formation of networks is the church-based one. Stenning's[65] work on the Bahima in Ankole indicates that *Abaishemwe* (saved ones or brethrens) constructed strong networks of co-operation and friendship on the basis of being in the same *Balokore* movement (same faith). They were reported to exchange gifts, visit each other and give hospitality to each other frequently. Therefore, there is ample evidence that there existed pre-established ties, which formed the basis of forming ICAs as has been demonstrated in the case of Kabuyanda.

[64] P. J. A. Rigby, *Aspects of Residence and Co-operation in A Gogo Village*, Paper Read at a Conference of the East African Institute of Social Research, Makerere University College, Held at Limuru, Kenya, January 1962.

[65] Derrick J. Stenning, *Preliminary Observations of the Balokole Movement Particularly Among Bahima in Ankole District*, Paper Read at a Conference of the East African Institute of

Associations whose formation was not done on the basis of pre-established social networks tended to be unstable. A case in point was the *Kisyoro Women's Group,*[66] which was facing a crisis at the time this research was conducted. This association, compared to many other women associations in the area, had a membership that was not restricted to a closely-knit network. While the Bakiga ethnic group predominantly inhabits Kabuyanda, the chairperson of KWG had admitted Bafumbira women, a different ethnic group. However, the diversification of the association led to problems. The association was experiencing leadership wrangles at the time we carried out this research. The incumbent and troubled chairperson was a Mukiga while the Bafumbira women formed a parallel committee and were opposed to the chairperson's leadership. We received conflicting explanations for the wrangles. The embattled Chairperson of *Kisyoro Women's Group* (KWG) and the founder of the association testified that:

> I'm the one who initiated this association and it was the first in this area. It has since done a lot of good things to members some of which you have witnessed yourself. Through my efforts the association has brought women in this area together and they have achieved a lot. But those Bafumbira women who are resisting me are just jealous and envious of my achievements. When I'm invited at the district to attend seminars, they think I'm given money and other benefits by government. However, what ever I have been able to get from there I have shared it with the members of the association. For example, I got hybrid seeds and a Boer he goat, which I shared with members. I also acquired knowledge from the seminar I attended at the district on how to grow mushrooms and I have taught the members. But it is only the Bafumbira members of the group who do not appreciate. They want their own

Social Research Held at Makerere College, Kampala, January 1958.

[66] *Kisyoro Women's Group* is referred to in the text but not included in Table 6.3 because of the wrangles that afflicted it. During our fieldwork it, for instance, had two parallel management committees.

> person to be the Chairperson. They are going around gossiping that I have benefited a lot from the chair, which is not the case.[67]

However, when we interviewed the leader of the opposing faction, it was evident that there was a mixture of suspicion and sheer jealousy as revealed in this testimony:

> That woman is very clever. She has used the association for personal benefit for all these years she has been the Chairperson. Whatever she gets from government she doesn't tell us. She has divided the association. She only deals with her fellow Bakiga women. They have discriminated against us. We now want change of leadership so that our group can also be represented or else we shall break-off. If we don't have the next Chairperson from our faction then it means they will continue to marginalise us.[68]

The two testimonies revealed deep mistrust rooted in ethnic differences. It was evident that the Bafumbira women thought the Chairperson was deriving a lot of benefits from the Chair. Our observation confirmed that some benefits such as an improved agricultural drier, a Boer he goat and an improved firewood stove were physically located in the Chairperson's household. It was because of these resources that were being promoted by the National Agricultural Research Organisation (NARO) in districts that aroused the suspicion of the Bafumbira women. They thought the Chairperson was using the association for personal benefit. Nonetheless, we established that the resources were for demonstrational purposes. We also

[67] Interview with the embattled Chairperson of *Kisyoro Women's Group* (KWG) in Kabuyanda, Mbarara district in September 2000.

[68] Interview with the leader of the faction that was resisting the incumbent Chairperson of *Kisyoro Women's Group* (KWG) in Kabuyanda, Mbarara district in September 2000.

found out that the Boer he goat was accessible to everyone in the village who was interested in crossbreeding. It also came out vividly that the Chairperson was very innovative and enterprising. It was out of her leadership skills and initiatives that she was able to get such benefits for her association, which were not available to other associations in the area.

Therefore, the misunderstandings can be explained by the fact that the association admitted people without close ties with the original members. The ambition of the Chairperson to expand the membership of the association appeared to have weakened the bonds that had closely-knit it together. Members were no longer closely-knit and the association had become a loose association with different experiences, interests and aspirations. This phenomenon confirms the reason why ROSCAs generally tend to remain small and restrict their membership to people bound by close ties in a strict geographical area. In the case of *Kisyoro Women's Group* (KWG), it was composed of different groups of people with distinct customs, ties and experiences.

Whereas not everyone was a member of ICAs, there was no evidence to show that people were excluded from such groups because of their limited assets as alluded by Boyce[69] in his study of Asian rice irrigation associations. Though as Boyce claims that inequality may have a negative effect on collective action since a powerful minority will dominate them, there was no evidence to suggest that this could have been the case. This because as already mentioned people organised in such associations along closely-knit ties. These associations comprised of people with the same economic status, interests and aspirations. Even the few who were not members of ICAs as indicated in the interviews with the control group, all admitted that there were benefits associated with membership of ICAs and that those who were members were materially and socially better off than them. In one of the interviews at a trading centre in Ibanda, Mbarara district, other respondents ridiculed a group of four men who had requested to be interviewed as to why they were not members of any single ICA:

> Why do you waste your valuable time on those hopeless people. Don't you see how they look! They are always here drinking all day instead of looking for something useful to do. They think you will give them some money to drink.[70]

Despite this discouraging remark, the group was interviewed to get their own side of the story. These were some of the responses captured because they were talking in a disorderly manner. Each one was trying to say something:

[69] J. Boyce (1988), 'Technological and Institutional Alternatives in Asian Rice Irrigation,' *Economic and Political Weekly*, 26 March, pp. A6-A22.

[70] Interview with a male respondent in Igoroora, Mbarara district in October 2000.

> We would have wished to join the ICAs but the conditions for entry are prohibitive. The entrance fees asked are too much for us. This is because they want us to pay the equivalent of what each original member has since contributed. This is an indirect way of excluding other people like us from accessing the opportunities created by these associations. Even when we contributed funds to let one of us join, nobody within the association was willing to become his guarantor. There is a lot of intrigue and selfishness among the members.[71]

Their responses indicated that they appreciated the role of ICAs in improving the standards of living of members. However, these people appeared to be the hopeless type. They looked energetic yet they could not raise the modest funds that were required to join these associations. Moreover, the problem was not that they lacked funds but it was because they were carelessly spending on non-productive activities such as drinking. Therefore, it was vividly clear that their problem was lack of discipline, an attribute that was taken more seriously by the ICAs. Hence, it seemed that the inability to join ICAs was due to inherent personal weaknesses and not discrimination *per se*.

Similarly, there was no proof of a deliberate attempt by elites to dominate such ICAs. It was established that the rich peasants, those others with good employment opportunities, as well as those doing good business did not join ICAs. Those who did, organised in associations that dealt in big sums of money or approached commercial banks for loans. This notwithstanding, the

[71] Interview with a male respondent and non-beneficiary in Igoroora, Mbarara district in October 2000.

mode of operation of ICAs which emphasised the virtues of good character and ethics of hard work as well as high levels of participation by members, made it difficult for elites to hijack or dominate them. All the ICAs studied demonstrated high levels of member participation and financial transparency. Monthly meetings and democratic elections of the management committees were reported to be the characteristic features. Moreover, for one to be elected to the management committee he/she was required to have a good disciplinary record and exemplary character. We were informed that the rude, cunning and uncooperative personalities stood no chance of being elected. For example, the chairperson of *Twekambe Women's Group* explained to us what they consider when electing leaders of their Association:

> We consider honesty more than anything else when we are electing our association leaders. In addition to that, our leaders must be approachable. They must be persons who listen and consult other members. The foundation for our association is consensus and co-operation. Therefore, we make sure that we maintain that spirit. Again, a leader of the association must possess the wisdom and skills to steer the association to higher heights. It has to be some one that is innovative. It must be some one who can initiate new ways of improving the welfare of members.[72]

Among the mixed groups, women were preferred for the position of group treasurer because they generally commanded trust and respect within both sexes as reported by a member of *Twekambe Women's Group*:

[72] Interview with the Chairperson *Twekambe Women's Group* (TWG) in Bunamwaya, Mpigi district in November 2000.

> Women are trustworthy and are easy to locate. Moreover, they are cautious with association funds. For men, they don't fear using the association's money and then giving excuses. They can even speculate with the funds. But for a woman, that can't be done because they fear humiliation. They also fear going to jail and leaving their young children behind suffering.[73]

The tendency to generally trust women can, to some extent, be attributed to their integrity. However, Rahman[74] advances a different explanation why credit institutions prefer women. He contends in the case of Grameen Bank that women were preferred because they have limited physical mobility due to their cultural patterned behaviour. Therefore, women are easier to trace. Moreover, he also attributes the preference for women to their discipline and fear of humiliation. It is evident from Rahman's finding that credit institutions look for soft targets because it makes enforcement of loan repayments less costly. Hence, the much more heralded view that micro-credit programmes target women in order to empower them may not be the real reason behind. While the targeting of women by micro-credit organisations such as NGOs could be influenced by the motive to achieve high repayment rates as argued by Rahman, the motives of grassroots organisations were different. It was not because women were seen as soft targets but it was because of their social and economic marginalisation that

[73] Interview with a female respondent and member of *Twekambe Women's Group* (TWG) in Bunamwaya, Mpigi district in November 2000.

[74] Aminur A. Rahman (1999), 'Micro-Credit Initiations for Equitable and Sustainable Development: Who Pays?,' *World Development*, 27 (1), pp. 69-70.

motivated them to network and organise exclusive informal credit associations.

Therefore, it was because of the importance they attached to ICAs that they tried to keep them simple and jealously guarded them against infiltration by the unscrupulous elites within the community. This was why many of the associations studied resisted expanding and registering with the district authorities. It was because they feared registration would bring in sophisticated people and they would subsequently lose control.

Although there was resistance to formalise ICAs, promises by local and national politicians to link them to external funding sources were changing the attitude of members. In the case of Kabuyanda and Nyabuhikye, we were informed that the local members of parliament for these areas had been encouraging the ICAs to register with the local authorities so that they could be connected to outside assistance. The politicians, however, seemed to have ulterior motives. Their interest appeared to be to use these organisations to mobilise local political support. Our suspicion was based on the fact that their vigilance tended to coincide with the period towards election campaigns. For instance, we were informed that local associations' activities received financial support through fund rising activities during the election period. We were also able to witness these activities in the year 2000 and

2001. This was the time when this research was being conducted. It coincided with presidential and parliamentary elections. Many of the associations invited the aspiring candidates who either gave donations or made pledges.

While members were treating such influences with caution, two associations had taken the initiative to expand and register their associations. It was reported that the area member of parliament for Ibanda South used his influence to connect *Nyabuhikye Women Catering Association* to Mbarara district funding. It was also reported that a Member of Parliament for Isingiro South also lobbied for the funding of the *Kabuyanda Women's United Group* from a government project.[75] This development appears to confirm the fear that ICAs tend to be used by local elites who may be local or national politicians for their own political calculations. This development was likely to erode the control of members over ICAs and make them vulnerable to local elites. While the promising of outside support could lead to positive benefits, there was a danger of killing the local initiative and creating a dependence syndrome. King[76] had observed a similar incident in the case of Kenya's *Jua Kali*. The government's encouragement for the *Jua Kali* artisans to form associations and register them so that they could be

[75] The government programme that gave assistance was the South-western Uganda Rural Programme (RUWASA).

[76] Kenneth King (1996), *Opcit*, p. 26.

assisted was reported to have led to negative consequences. For instance, King reports that the insistence by government that *Jua Kali* should be formalised killed the local self-help initiative where most *harambe* groups used to organise fund-raising events. The encouragement of *Jua Kali* to form and register their associations is also reported to have led to a dramatic increase and duplication of associations. It is further indicated that some association chairmen spent a lot of time in the corridors of the Ministry of Technical Training and Applied Technology (MTTAT) lobbying for government assistance instead of devising their own independent measures. He indicates that the promise for government support discouraged the spirit of self-reliance and tended to create a dependency syndrome.

6.42 The Methods used by Members to Share Benefits

In regard to the sharing of benefits accruing to ICAs, it was learnt that these were passed on to members democratically. The decision on who was to benefit was either arrived at by consensus or through using the voting option. In only two cases of the ICAs investigated were the voting method used to determine the beneficiary. The explanation as to why voting was used in very few circumstances to determine the beneficiaries is captured in this testimony:

> Our tradition emphasises fairness in the making of decisions. We first weigh the gravity of individual situations before a decision is made. Suppose a member wants money for saving a sick child and another one wants money for organising a baptism party. Can you say that let us

> vote on who should get the money? However, there are certain times when voting is resorted to, especially on issues that are not urgent.[77]

Even in the few circumstances when voting was used, it was associated with ICAs composed of men. In all women ICAs studied, decisions were reached by consensus. During the focus group discussion at Nyabuhikye, it was revealed that:

> Men want money immediately. They are impatient, inconsiderate and selfish when it comes to financial matters. But women are compassionate and have the willingness to listen to problems of fellow women, even to the extent of fore-going their turns for those with comparatively grave and urgent problems.[78]

Such general characteristics of men made them unlikely to reach a consensus in comparison to women. This attitudinal difference was found to be the key factor in why women were fond of organising separately. The attitudinal differences between men and women can be explained by the degree of vulnerability. Women tended to attach a lot of importance to ICAs because of the related benefits that accrued to such networks. Women in comparison to men were likely to be vulnerable to poverty and suffering due to cultural impediments. Therefore, forging networks such as those manifested in ICAs was a coping mechanism that had to be guarded jealously. However, in regard to ICAs, women reported that men perceived them as tools to serve immediate interests and in their absence it was easy to substitute them with

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[77] Interview with the Chairman *Tukore Bukozi Association* (TBA) in Buwama, Mpigi district in November 2000.

[78] Interview with the Chairperson of Nyabuhikye Women's Catering Association

alternative strategies. Some of the options cited included sale of personal property or migration to seek employment, a practice that was rampant in both districts. Nonetheless, these alternative strategies were not open to women as a matter of local culture. Therefore, unequal power relations largely explained the degree of attachment to ICAs. Hence, cultural marginalisation of women was associated with the increased propensity to forge social networks as a coping mechanism. This tendency confirms Coleman's thesis that social capital tends to be valued more by the less sufficient people.[79] In the same vein, Collier also observes that:

> One general feature is that the poor have a lower opportunity cost of time and a lower stock of financial and physical capital than the rich. Since social interaction is time-intensive, and since social capital can often substitute for private capital, the poor may choose to rely more upon social capital than the better off.[80]

A similar finding was reached by Knack and Keefer's[81] study of 29 countries. Bates also shares the same view. He argues that:

> Because of lack of collateral, such as individualised rights in land; the lack of information leading to the rigid rationing of credit; and the lack of effective legal systems, such that opportunistic borrowers can renege with impunity, markets for capital often do not exist in developing societies. In such settings, then non-market mechanisms often provide the primary means for savings and investment.[82]

(NWCA) in Nyabuhikye, Mbarara district in October 2000.

[79] See James S. Coleman (1988), 'Social Capital in the Creation of Human Capital,' *American Journal of Sociology*, 94 (Supplement), p. S103.

[80] Paul Collier (1998), 'Social Capital and Poverty,' *Social Capital Initiative Working Paper No. 4*, Washington, D. C.: World Bank, p. 24.

[81] S. Knack and P. Keefer (1995), 'Institutions and Economic Performance: Cross-country Tests Using Alternative Institutional Measures,' *Economics and Politics*, 7 (3), pp. 202-27. Also see Karla Hoff and Joseph E. Stiglitz (1990), 'Introduction: Imperfect Information and Rural Credit Markets: Puzzles and Policy Perspectives,' *The World Bank Economic Review*, 4 (3), p. 245.

[82] Robert Bates (1999), 'Ethnicity, Capital Formation, and Conflict,' *Social Capital*

They confirmed that the importance of trust was found to be greatest in low-income countries where it substituted for formal institutions that were supposed to enforce property rights and contracts.

The sharing of benefits (proceeds and dividends) between members of ICAs was found to occur towards the end of year. They also preferred to share the benefits in-kind. This approach was specifically found to apply to women groups and was a product of consensus reached by members. The explanation for women's preference for extending benefits to members in-kind and not in cash was that they wanted to avoid diversion of such funds due to the competing demands and needs that characterise rural households. The other reason given for preferring benefits in-kind included the association's objective of upgrading household welfare of members by meeting the basic needs while at the same time guarding against the stealing or grabbing of such funds by their husbands. While interviewing a female member of one of the associations, she intimated that:

> We as women agreed to receive our benefits in form of common basic things that we lack in our homes, which make us a laughing stock in the community. Imagine having no mattress, utensils or clothes to enable you attend a social function in present times, is a scandal. We want respect for our homes and not embarrassment.[83]

Initiative Working Paper No. 12, Washington, D. C.: World Bank, p. 8.

[83] Interview with a female respondent and member of *Kabuyanda Women United Group* (KWUG) in Kabuyanda, Mbarara district in September 2000.

Common items indicated as preferable by members included household properties and clothes. On the other hand, loans were used for such basic needs such as medical care, school fees and purchase of basic assets as well as investing in individual micro-enterprises. This finding would most likely create an impression that ROSCAs tend to serve narrow consumption functions. However, these so-called narrow consumption functions to which the resources are put contribute considerably to welfare improvement of the poor people. For example, spending on nutrition, health and education is as good as any other investment. The evidence received for investing more in the education of children by members of ICAs cannot be explained better than in this respondent's expression:

> One of the reasons I joined this association was to make sure that my children attend school like others, and who knows, tomorrow they can also be big people in government. Moreover, we have a traditional adage that *orume kurukura rwonka abaana baarwo* (that when a rabbit grows old, it is suckles its off-springs). I sacrifice for my children to be better so that they can be able to take care of me in my old age.[84]

Therefore, the use of benefits accruing to members of ICAs on household basic needs need not be dismissed because it also contributed to capacity building in the long-run.

[84] Interview with a female respondent and member of Nyampikye Women's Group (NWG) in Kabuyanda, Mbarara district in September 2000.

6.43 Organisational Structures and Procedures of ICAs

Whereas ICAs sampled were found to differ in their mode of operation, number of membership and composition, they exhibited a similarity of organisational structure and procedure. The organisational structure and procedures of ICAs were less bureaucratised, simple, and flexible. The outreach of these ICAs was generally restricted to the nearby community and membership ranged from twelve to sixty-eight members in each association as Table 6.4 below shows.

Table 6.4: The Leadership Profile, Outreach and Funding of ICAs

Name of ICA	Leadership Profile	No. of Members	Outreach (Area Coverage)	Sources of Funds
Nyabuhikye Women Catering Association (NWCA)	Chairperson completed senior two and is a sub-county councillor.	30 women	Nyabuhikye sub-county, Mbarara district.	1.Members contribute share holding fees of USh 20,000 and entrance fee of USh 15,000 2.The association generates extra income from catering services. 3.It accesses external loans. 4.Income from fines and penalties.
Tukore Bukozi Association (TBA)	Chairperson has an advanced craft diploma in civil engineering and a farmer.	50 men and women	Mbizinya village, Buwama, Mpigi district.	1.Entrance fee of USh 5000 and share holding fee of USh 20,000. 2.Interest from internal lending to members. 3.Monthly subscription fee of USh 10,000.
Bataka Tweyambe (BT)	Chairperson completed senior four, a businessman and farmer.	11 men and a woman who replaced her deceased husband	Two parishes in Igoroora, Mbarara District.	1.Monthly share holding fee of USh 20,000. 2.Fines and penalties.

Kabuyanda Women United Group (KWUG)	Chairperson is an enrolled nurse, does business and farming.	27 women	Kabuyanda sub-county, Mbarara district.	1.Annual contributions of USh 10,000. 2.Do commercial farming. 3.Trade in agricultural produce. 4.Access external loans. 5.Interest from internal lending. 6.Fines and penalties.
Kyezimbira Tweyombekye Group (KTG)	Chairperson is a teacher, sub-county councilor, a trader and businessman.	68 men and women	Two parishes in Kikagate sub-county, Mbarara district.	1.Monthly contributions of USh 10,000. 2.Trade in agricultural produce. 3.Access external loans. 4.Interest from internal lending. 5.Fines and penalties.
Nyampikye Women's Group (NWG)	Chairperson completed primary five, is a housewife and village councillor.	16 women	Nyampikye Village, Mbarara district.	1.Annual contributions of USh 5000. 2.Cultivate for money. 3.Interest from internal lending. 4.Fines and penalties.
Twegatte Mubyenfuna Association (TMA)	Chairperson completed primary six and is a peasant.	20 men and women	Buwama Village, Mpigi district.	1.Monthly contributions of USh 5000. 2.Interest from internal lending. 3.Fines and penalties.
Twekambe Women's Group (TWG)	Chairperson had a Diploma in Secretarial Work.	31 Women	Bunamwaya Village, Mpigi district.	1.Membership fee is 3000 while annual subscription is 2500. 2.Each member contributes USh 1600 per week and USh 500 per month.

Source: *Compiled from Fieldwork Data.*

The size of membership of ICAs varied according to the density of the population, the remoteness of the area and the absence of alternative credit agencies such as those run by moneylenders, private organisations, NGOs and government. Remote areas where people were very poor, the population was dense and there was limited existence of alternative credit schemes, had many ICAs. It was confirmed that most able-bodied adults belonged to one association or the other. ICAs that had a wide outreach were either located in densely populated areas or their coverage stretched beyond a village.

The underlying organisational factors that explain the efficacy of ICAs included simplicity and transparency of their management systems. All the ICAs investigated had skeleton staff as illustrated in Table 6.3. The ICA with the smallest management committee (*Twekambe Women's Group*) had three committee members, that is, the chairperson, secretary and treasurer, while the largest (*Nyampikye Women's Group*) had sixteen members and everybody was involved. The number of committee members did not however matter because they worked on a voluntary basis. Committee members were elected by the general assembly for a period ranging from one to two years. They were however eligible for re-election depending on their performance. Transparency stood out vividly in all the activities of ICAs. Meetings were regular and generally conducted on a monthly basis as illustrated in Table 6.3. All members interviewed reported that they participated freely in all the activities of the ICAs as illustrated by this testimony:

> In our association we decide on every activity together. We meet every month and agree on what to do. Each of us contributes ideas until we reach a consensus. In case a member has a problem she can inform the Chairperson so that she arranges a meeting where we discuss how to

> solve it. This is because a problem that affects one member affects all of us. Therefore, we treat it as a problem of the association. For example, we had accumulated funds and some members wanted us to share them at the end of 1999. But one member suggested that we use part of the fund to set up a cereal food bank as an insurance against draught, which had hit the area the previous year. Members saw sense in the suggestion and we anonymously agreed. Therefore, we work like a family and that is why we are all satisfied.[85]

Records kept were observed to be very simple and included minutes of meetings, financial records, records of group assets as well as those of borrowers, and a register of members, as indicated in Table 6.3. They also kept records in an elementary format that could be understood by any layman. It was only one association (*Kabuyanda Women United Group*) that possessed a long-term programme that was professionally drawn up. The operational procedures were kept simple in order to be understood by all members. This can be explained by the fact that members of these ICAs were themselves not sophisticated. Hence, they designed systems that corresponded with their social realities and needs. It is this nature of organisational flexibility and simplicity that made them relevant, efficient and effective in addressing local needs. One of the arguments as to why rural people especially women prefer to organise in ROSCAs is because formal financial institutions are characterised by lengthy paper requirements and interviews, procedures that are intimidating to the poor.[86]

[85] Interview with a female member of *Nyampikye Women's Group* (NWG) in Kabuyanda, Mbarara district in September 2000.

The procedures for accessing loans in ICAs were also found to be simple and transparent. This was because loans were extended to members whose track record was well known. A member desiring a loan notified the Chairperson and depending on the urgency and availability of funds, a meeting would be organised as soon as it was considered necessary. The request would then be tabled before all members. In case of many applicants, the decision would be taken either according to urgency or consensus or voting. As already indicated, it was men who opted for voting while women preferred consensus. However, in normal situations the available funds were allocated according to the applicant's capability to repay. Accessing a loan from ICAs took a few days. Nevertheless, for those ICAs, which kept their funds in commercial banks, the process took about a week. Repayment of loans was required up to three months to allow other needy members to access the funds. These associations were also flexible and occasionally rescheduled loans depending on circumstances where the borrower was unable to repay on time. Such circumstances included the loss of a relative, famine, and sickness or when children were returning to school. In any case, other members would be aware if such a problem existed. It was therefore evident that the success and strength of ICAs was built on the easy accessibility of information about members, simplicity and transparency of the institution, high levels of participation, and simple procedures. It can therefore be

[86] Gabriel A. Fuentes (1996), *Opcit*, p. 191.

argued that social networks as manifested in ICAs facilitated and strengthened co-operation, mutual assistance and participation. Hence, social networks served as a form of infrastructure that was used to improve the welfare of poor people where the state was weak or dysfunctional.

In addition to the advantage of peer pressure by members, it was found out, in the case of Kabuyanda, that ICAs also prosecuted defaulters in local (sub-county) courts. This situation arose as a result of many defaults and the exploitative activities of moneylenders that previously existed. The Chairman of the sub-county council explained:

> Previously the local people here were made to mortgage their properties, land and unharvested gardens to moneylenders. They were also charged high interest rates that ranged between 10 to 40 percent. The Sub-county intervened because of the outcry of residents against the moneylenders who were grabbing their property. We also got concerned because our taxpayers were running away from the area to go and work elsewhere so as to raise funds to repay moneylenders. The Sub-county was losing a lot of revenue (graduated tax) because of this problem. So, we had to intervene.[87]

The sub-county council, therefore, appealed to all those associations involved in financial intermediation, which wished to be protected from such incidents to register with authorities. Registration involved USh 5000 (US$ 2.8) at the village council, USh 5000 (US$ 2.8) at the parish and USh 1000 (US$ 0.6) at the sub-county level which added up to USh 6000 (US$ 3.3) annually. In addition to the registration requirement, a bye-law was enacted,

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[87] Interview with the Chairman of the LCIII (Sub-county) in Kabuyanda, Mbarara

which put a ceiling on all interest rates to five percent monthly. According to the Sub-county chief, this was done to guard against exploitative interest rates, which were forcing local borrowers to sell their properties in order to repay loans. The intervention of local councils in recognising and supporting the functioning of ICAs with formal and legal authority was reported to have significantly reduced cases of exploitation as well as default.

It has been argued that the size of the group and its homogeneity can have a significant impact on the performance of the ICAs.[88] The argument is that the larger the size of the group the more difficult it is for peer monitoring and pressure. In this regard, Bouman[89] argues that larger groups run a greater risk of rival factions, mismanagement, and diminishing social control. This argument was, however, not found to apply since those associations that had many members were also performing well. For example, the performance of ICAs like NWCA, TBA, NWG, and KTG was found to be effective in terms of generating social and economic benefits to members as illustrated in Table 6.4.

Likewise, no evidence was found to indicate that good leadership was associated with high educational levels. Much as there was a positive

district in September 2000.

[88] See P. Bardhan (1993), 'Analytics of the Institutions of Informal Co-operation in Rural Development,' *World Development*, 21(4), p. 636.

relationship between outreach (big numbers and area coverage) and good leadership (exposure and managerial skills), this study found no evidence to show that small ICAs performed better than big ones. Apart from one ICA which had twelve members, the rest had many members with the largest having sixty-eight members as indicated in Table 6.4. Good performance irrespective of educational level of leadership or the number of members was much more explained by the screening procedure, which emphasised good character and honesty, as well as the member's perception of benefits accruing to the association. As already argued, rural people belong to these associations because they provide networks that facilitate their access to a form of welfare insurance or coping mechanisms. Therefore, given the risks and uncertainties that confronted the rural poor on a daily basis, they tried to invest in these social networks. Besides, these networks were forged on the basis of the family and community rather than as individuals, which means that default was very difficult. Even though no case was found where members of ICAs seized the property of the defaulters, it was indicated that this was one of the options. Another option was the expulsion from the association. Moreover, the registration requirement and the passing of a bye-law, as was the case with Kabuyanda sub-county, facilitated enforcement. Therefore, the question of numbers or education levels of leadership did not have significance even though the homogeneity factor was crucial.

[89] F. J. A. Bouman (1995), *Opcit*, p. 374.

Those ICAs that transcended the immediate community and whose economic performance was impressive had good and experienced leadership in terms of managerial and financial skills. These particular ICAs were able to benefit from the innovative ideas of their leadership, which led to the expansion of membership. It also facilitated their access to external credit and enabled them to engage in, and expand their income-generating ventures. On the other hand, ICAs whose leadership lacked the exposure beyond their immediate village were to some extent found to be static and conservative. They were unwilling to expand and did not know where to get additional funding. These findings therefore established that there was a correlation between the calibre of leadership in terms of exposure and skills and the performance of the organisation.

6.5 ICAs and Members' Household Welfare

The findings of this study indicated that social networks of the rural poor were harnessed in various ways to improve their conditions of living. The rural women in Kabuyanda (Mbarara district) organised themselves into ICAs for the purposes of improving their welfare. These ICAs pooled their resources, which were then accessed by members. The methods of benefiting from ICAs differed. Some used the rotating method, others gave proceeds in-kind to members, while others gave a combination of these as well as loans (refer to Table 6.2). Even funds contributed by members varied from group to group as illustrated in Table 6.5.

Table 6.5: *Economic Benefits to Members of ICAs*

Name of ICA	Number of Members	Contribution Terms	Pooled Resources	Periodic Rewards to Members
NWCA	30	USh 21,500 each, annually	USh 645,000 Plus other earnings.	Each member has received a total of USh 360,000 in three years.
TBA	50	USh 21,500 each, monthly	USh 1,075,000 plus other earnings.	Give loans to members of USh 300,000 to 400.000. Also each member gets between USh 200,000 to 620,000 per monthly rotation.
BT	12	USh 20,000 each, monthly	USh 240,000 plus other earnings.	Each member gets USh 240,000 per monthly rotation.
KWUG	27	USh 10,000 each, monthly	USh 270,000 plus other earnings.	Reward members in-kind at end of every year. Also give loans to members.
KTG	68	USh 10,000 each, monthly.	USh 680,000 plus other earnings.	Each gets USh 680,000 per monthly rotation. Also give loans.
NWG	16	USh 2000 each month and USh 5000 annually.	USh 384,000 plus other earnings.	Rewards are both in cash and in-kind. Also give loans.
TMA	20	USh 5000 each month.	USh 100,000 plus other earnings.	Each gets USh 100,000 per monthly rotation. Also give loans.
TWG	31	Membership fee USh 3000; Annual subscription USh 2500; USh 1600 per week and USh 500 per month.	USh 2,739,300 a year.	Members get loans, gifts and water tanks are constructed for them.

Source: *Compiled from Fieldwork Data.*

It was evident that members of ICAs obtained modest funding through the sharing of proceeds and access to loans, which were invested in small income-generating projects and agriculture. In addition, these funds contributed to the improvement of members' household welfare by enabling them to pay for services such as education, health and improve the nutrition of their children.

Apart from extending financial resources to members, ICAs also benefited members socially. The building of social networks was found to have enhanced co-operation and a sense of teamwork in these communities. A good example was the practice of collective ploughing as confirmed through observation and interviews. Large expanses of cultivated gardens were physically observed during the course of this research. These ploughing groups used their networks to complete the amount of work that normally would have required mechanisation. In an interview with the chairperson of *Nyampikye Women's Group*, she explained how women social networks were productively utilised:

> As you can see for yourself, women in this area are hard working. This has been made possible by co-operation among women. If you don't work with others, you can't achieve much. What we have done is to cultivate as a group. We decided in our association that each day we all combine and cultivate for a member until all of us are served. Each of us comes with her hoe at an agreed time and we cultivate for half a day because we have to go and cook for our children. The next day we go to another member's garden and so on until all our ploughing needs are completed. The member is only required to prepare millet porridge for us. We decided on this approach in order to reduce our members' ploughing workload so that they can have time to engage in other

income-generating activities and also to ensure food security for our families.[90]

Through physical observation, we were able to confirm that Kabuyanda had high levels of agricultural output and food security. Apart from observing the large expanses of gardens planted with maize, beans and millet, eight out of ten (80 percent) households visited had granaries of different sizes. The findings, therefore, confirmed that collective action, which was being facilitated by social networks in the area, to some extent, led to good economic performance. Being self-sufficient in food and attaining high agricultural output is an ingredient to economic wellbeing as the proceeding discussion reveals.

It was therefore evident that members of ICAs gained access to modest funding through the sharing of proceeds and loans, which was invested in small income-generating projects and agriculture as illustrated in Table 6.6 below.

[90] Interview with the Chairperson *Nyampikye Women's Group* (NWG) in Kabuyanda,

Table 6.6: *Utilisation of Proceeds by Beneficiaries of ICAs*

District	Gender Composition	Numbers	Utilisation of Benefits		
			Productive Investment	Services	Consumption
Mbarara	Male	4	4	4	2
	Female	11	4	11	11
Mpigi	Male	3	3	2	1
	Female	12	8	10	12

Source: *Compiled from Fieldwork Data.*

<ins>**Details of items under each of the three categories in the Table above**</ins>

1. **Productive Investments** include: Acquisition of a piece of land. Purchase of a banana plantation or livestock. Building a house or shop. Buying a bicycle, sewing machine, a construction tool box, a drum and tube for distilling a local potent (*Waragi*), a weighing scale, catering equipment. Rent a business premise or a piece of land.

2. **Services** include: Spending the proceeds on household education, health, and contributions related to social obligations such as church offerings and tithe plus contributions to weddings and funerals.

3. **Consumption** involves: Spending on household consumption items such as food, clothes, beddings, household furniture, utensils, radio, shoes, paraffin, and essential commodities such as soap, sugar, salt, match box, etc.

The following observations can be made from Table 6.6 above. All men (100 percent) are reported to have translated their benefits from ICAs into physical assets. In contrast, women overwhelmingly (100 percent) used their benefits from ICAs to pay for services especially on health and education of their households. In addition, more women used their benefits from ICA for consumption purposes. Nonetheless, it is evident from the Table that all the

Mbarara district in September 2000.

respondents also spread their benefits on all the three categories of activities. It is only the magnitude that varied. This phenomenon of the diversified use of peasant proceeds is due to the competing demands and a form of insurance as has already been explained in the preceding chapters.

These results confirm the argument that benefits that acrue to women from ROSCAs tend to be used for the betterment of the household. This evidence corroborates study findings by Schoepf and Engundu[91] in regard to women traders in Kinshasha. They noted that women incurred higher expenditures of their earnings on the household through providing for home consumption, medical fees and children's education. The findings also agree with the World Bank study[92] on Bangladesh's micro-credit programmes. It was found out in all the three Bangladesh credit programmes studied that women borrowing increased household spending per capita by 0.40 percent. The household consumption of borrowing by women was about twice as great as for borrowing by men. Women's borrowing also seemed to improve children's welfare much more than men's borrowing. Women's credit had a large and statistically significant impact on the nutritional wellbeing of children compared to that of men. The World Bank study also found that men tended to invest more than women in physical capital.

[91] Schoepf, B. G. and Walu Engundu (1991), *Opcit*, pp. 126-31.

[92] World Bank, 'Using Micro-Credit to Advance Women,' *PREMnotes*, Number 8, November 1998, pp. 3-4. Accessed on: www1.worldbank.org/prem/PREM

It is also clear from the summarised responses that the majority of the beneficiaries of ICAs invested their proceeds in agricultural activities compared to the numbers that invested in trade. This can be explained by the fact the agriculture is the major occupation of rural households especially in Uganda. Many of the off-farm enterprises tend to be located in urban areas. According to the report on the Uganda Business Register 2001/2002,[93] the informal sector had the highest number of businesses (150,138 out of a total of over 160,000) or 87 percent. Moreover, the highest distribution of businesses was in Kampala, which had more than 30 percent of all businesses in the country and employed more than 40 percent of total persons employed. Therefore, it was not surprising that the majority invested in agricultural-related activities given the rural context of the areas studied. However, it should be noted that trade in agricultural produce and livestock was reported as agriculture.

In addition, these funds contributed to the improvement of members' family welfare. Such resources that arose out of collective efforts should therefore not be underrated. This study found that start-up loans that were extended to the poor were not very different from those given by NGO credit schemes, which averaged USh 50,000 (US$ 28) for beginners. Yet, very difficult terms

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[93] Republic of Uganda (2003), *A Report on the Uganda Business Register, 2001/2002*, A Report by the Directorate of Business Industry, Agriculture and Energy Statistics, Uganda

and conditions were attached to them as elaborated in chapter five. Besides, the resources extended by ICAs to members should also be considered within the context of rural economic conditions where people did not rent accommodation or buy food or pay for utilities like water and electricity. However small as they appeared, the resources were productively utilised by many households. They contributed not only to households' wellbeing but also to the acquisition of some assets that contributed to the reduction of poverty as illustrated by Table 6.6.

Although the financial figures indicated in Table 6.5 supply evidence that ICAs extended resources to members as was also evident from physical observation of the benefits arising from collective ploughing, interviews with beneficiaries and non-beneficiaries (control group) provided a much more vivid picture. When asked: *Do you think that there are benefits associated with membership to an ICA in this area?* All the ten non-beneficiaries accepted that there were many social and economic benefits accruing to members of ICAs. The common response of non-beneficiaries on how members of ICAs benefited was:

> ICAs have provided a lot of benefits to members in this area. Members co-operate and assist each other. For example, women members of ICAs undertake collective weeding, cultivation and harvesting. Members have acquired household belongings and their homes look much better. Some have accumulated assets because of the contributions, which they share periodically. ICAs have also helped members during crises such as sickness or death. You know sickness and death give no warning and

Bureau of Statistics, Kampala, January, pp. 6 and 8.

this is where we have seen the importance of being a member to an association. Members assist each other during such emergencies and yet for us we suffer single-handedly.[94]

When asked to enumerate some of the benefits, they indicated financial gains, social co-operation, as well as welfare insurance against risk and uncertainty. The control group indicated that members of ICAs had solved basic household needs as a result of collective action. Examples of benefits included collective assistance to acquire clothes, mattresses, utensils, furniture, and emergency funds. They also reported that they acquired simple assets such as domestic animals, built corrugated iron-roofed houses, bought pieces of land among many other benefits as illustrated in Table 6.6. In addition, the control group indicated that members of ICAs assisted each other especially during cultivation, harvest, emergencies, and when celebrating the rites of passage. It was revealed that co-operation had enhanced their productivity and food security. However, humble these benefits were, it was evident that they contributed to co-operation within the community and also helped to reduce poverty.

Another question that required the non-beneficiaries to compare their welfare with that of members of ICAs indicated that they were worse off:

> Members of ICAs are comparatively better off because they combine their ideas and have where to lean to during the difficult times. You have been to their homes. Do they really look like ours? You see I do not

[94] Interview with a male respondent and non-beneficiary of ICAs in Kikagate, Mbarara district in September 2000.

even have a decent chair to give you. But for members of associations have solved these household needs because they have combined their resources.[95]

It should however be noted that there were some people who did not join ICAs because they were not interested. This category, which included mostly the well off and those employed in the formal sector, was not interviewed. The targeted non-beneficiary category comprised of those who had interest in ICAs but were not members for one reason or the other.

The non-beneficiaries were in addition asked to compare benefits to members of NGO credit schemes and those of ICAs. Those who were knowledgeable about the functioning of the two credit agencies indicated that although more resources could be accessed through NGOs in comparison to ICAs, their terms and conditions were stringent and therefore prohibitive, especially to the poor:

> Prior to the coming of FTCU in this area, some people especially women were already organised in self-help credit groups. They contribute funds and then share them periodically. These ICAs are however organised by poor people who contribute as much as USh 1000 per week or even monthly. They therefore share very little money. In comparison, FTCU gives beginners USh 50,000 and after repayment members graduate to bigger loans. Though NGOs like FTCU give big loans, their terms have given trouble to many borrowers in this area because of the weekly meetings and repayments. It is inconveniencing to clients and they complain a lot. You need to be involved in trade or else you will have problems. Comparatively, although ICAs give little money to members, they are flexible and tolerate problems of individual members, which is not the case with FTCU.[96]

[95] Interview with a male respondent and non-beneficiary of ICAs in Kabuyanda, Mbarara district in September 2000.

[96] Interview with a female respondent and non-beneficiary of ICAs in Bunamwaya, Mipigi district in November 2000.

Another respondent in Igoroora said:

> Many NGO credit schemes like PRIDE Africa, UWESO and ISSIA have come to this place and encourage residents to form associations and then apply for loans. Some people who have got the loans have come under intense pressure to repay within a short time. They have been suffering because of the rigid terms. Some have even sold their properties to repay loans. These loans have increased the indebtedness of people in the area. People with limited means like us organise in ICAs because for them they understand and listen to our problems. NGO credit schemes are good for the better off like traders but not for poor people like us.[97]

It is evident from the above testimonies by the non-beneficiaries that terms and conditions of NGO credit programmes do not suit the rural conditions because returns are unpredictable and take a bit of time and yet NGOs required immediate repayment. Buckley[98] made a similar observation in regard to Malawi Mudzi Fund (MMF) where the lending programme failed to address the very nature of the rural economy. In a bid to replicate the Grameen model, MMF made serious mistakes by disregarding the seasonal nature of rural activities and income and performed poorly. Therefore, credit programmes need to address the peculiar rural circumstances when designing credit programmes instead of blindly trying to replicate successful credit structures and modes of operation. This is the reason why the respondents reasoned that despite the fact that ICAs had inadequate resources, they were more suitable because of their simplicity, flexibility and participatory nature when compared to those of NGOs.

[97] Interview with a male respondent and non-beneficiary of NGO credit in Igoroora, Mbarara district in October 2000.

[98] Graeme Buckley (1996), 'Rural and Agricultural Credit in Malawi: A Study of the

The improvement of the welfare of members of ICAs was further verified using observation of assets in their individual households. Most of them had solved basic problems of having shelter, household items and clothing. By cross-examining members of ICAs about their consumption habits, it was confirmed that there was positive change that coincided with membership to ICAs. They also indicated improved children nutrition as well as affording school fees and medical bills for their households. They also met other social obligations such as church tithe, contributions to funerals, weddings and fund rising for community projects. Table 6.6 illustrates that more women than men spent on services and consumption. This can be explained by the importance to which women attach their households especially the care of children as expressed by one female respondent:

> The major reason I joined this association was because of the problems in my home. My husband was drinking too much and even reached the extent of taking things from home and selling them. I became very worried but I found it difficult to abandon my young children. I discussed my problems with my friends but I found they were also facing similar problems. We resolved to form an association so that we can raise resources to solve our domestic problems. Since then, our initiative has paid off. My children are now okay. They clothe and sleep well. They also attend school like others and when they are sick I'm now able to pay for their treatment. My achievements have also touched my husband and he has changed may be because of guilt.[99]

Malawi Mudzi Fund and Smallholder Agricultural Credit Administration,' in David Hulme and Paul Mosley (eds.), *Finance Against Poverty*, London and New York: Routledge, p. 381.

[99] Interview with a female respondent and member of ICAs in Nyabuhikye, Mbarara district in October 2000.

This testimony confirms the findings by Pitt and Khandker[100] in their study of the impact of Grameen, BRAC and BRI credit programmes on women beneficiaries. They found out that credit extended to women had positive implications for the household than that of men. This is why most women spent their benefits on household wellbeing.

Besides, interviews indicated modest asset accumulation such as purchase of an additional piece of land, erecting a simple building, acquiring livestock, buying a bicycle, investing in small-scale or petty trade and many others. What we noted from these interviews was that it was difficult to distinguish benefits that accrued from ICAs from those of other household incomes. These were mixed up. Also the use of benefits from ICAs was also spread across various activities. All the thirty beneficiaries of ICAs interviewed in the two districts gave mixed reports that combined achievements in asset accumulation, service provision and consumption. This phenomenon as already noted in chapter four can be explained by lack of specialisation. Incomes from trade are mixed with those from farming and other sources. The nature of rural households does not allow an organised way of separating incomes from different activities. Therefore, it was difficult to assess with precision the impact of resources from ICAs. The impact ranged

[100] Mark M. Pitt and Shahadur Khandker (1998), 'The Impact of Group-based Credit Landing Programmes on Poor Households in Bangladesh: Does the Gender of Participants Matter?' *Journal of Political Economy*, 106 (5), p. 960.

from the acquisition of modest assets to spending on education and health services as well as spending on consumption. Though these humble acquisitions fell short of being a panacea to poverty, they made a difference in the lives of the poor.

Comparatively, the non-beneficiaries who were poor and wished to join ICAs but had been rejected did not possess any other assets apart from their traditional small pieces of land, which they tilled. Therefore, membership to ICAs generated benefits to members while the non-beneficiary poor were comparatively poorer with no assets. They were observed to be dirty, shabby (poorly dressed) and their houses were grass-thatched. They also reported to eat one meal a day, their children did not consume nutritious foods such as eggs, milk and meat. They indicated that meat was only bought on big occasions such as Christmas and Easter. When asked why they did not have such foods on their menu, one respondent replied:

> I cannot afford to buy milk, eggs and meat for my family because I'm poor. The little money I get I buy them second-hand clothes and basic essential needs such as paraffin, soap and salt. I also have to pay graduated tax. Therefore, I cannot afford those foods, which are for the rich.[101]

Therefore, in terms of assets and welfare indicators, the poor households who were at the same time non-members of ICAs were poorer in

[101] Interview with a male respondent and non-beneficiary of ICAs in Igoroora, Mbarara district in October 2000.

comparison to the beneficiaries of ICAs. This comparison provided evidence that notwithstanding the modest nature of benefits accruing to members of ICAs, they were still instrumental in improving their living standards. Conversely, it can be argued that ICAs provided coping mechanisms to the poor without, which their welfare would have been worse off as evidenced by the testimonies of non-beneficiaries.

Reports also indicated that ICAs inculcated into the poor people a culture of hard work and the conviction that they can rely on their own ideas and efforts as a solution instead of waiting for external assistance. Responses that alluded to this fact include:

Evidence that ICAs had made members hardworking and innovative could also be traced from the interviews with beneficiaries. When asked about the impact of ICAs on their welfare, they gave the following responses:

> ICAs have taught us to work hard because if you are known to be lazy no association will accept you. This is possible because we share information, advice, support and encourage each other. You also learn a lot. When you see the benefits that accrue to members who work hard you also try. That is how I got the idea of renting a stall in the weekly market. A member told me that it was profitable to sell tomatoes. So, I rented a stall in the market and started selling tomatoes. Since then hard work has made me a happy man. I work very hard everyday and Iam now independent because the little profit I make has enabled me to solve some of my household problems without borrowing and begging from friends and relatives.[102]

Similarly, a female member of ICAs revealed that:

> Local associations for women have changed our lives. We used to depend on our husbands for virtually everything and yet they were over-stretched. Though men did not want us to go out and look for opportunities, they were burdened. Our joining these associations has not only benefited us alone but even our husbands. I have noticed that when my husband comes and finds I have already bought meat, sugar or clothes for children, he feels happy. I also contribute when the children are returning to school. This has changed our relations. I have also become financially independent. I no longer have to beg from my husband for everything I need. When I feel I want a dress, I pull money and buy it. I feel the joy of solving my immediate needs. It has also earned me respect in the community.[103]

There was therefore a correlation of membership to ICAs with improved welfare indicators of members' households and high levels of co-operation in the community. Membership to ICAs, especially for the women who dominated, led to economic benefits that reduced poverty in the household. This situation was also characterised by collective action facilitated by social networks. The reported outcomes include information sharing, mutual assistance in times of happiness and misery.

Nonetheless, it was established that such self-help efforts were sometimes constrained by such economic overheads in the transport sector and the availability of markets for their produce. This was an area that required the intervention of the state. It was, for instance, established that high levels of agricultural productivity were not translating into high incomes because of

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[102] Interview with a male respondent and beneficiary of *Tukore Bukozi Association* in Buwama, Mpigi district in November 2000.

[103] Interview with a female respondent and member of ICAs in Nyabuhikye,

poor infrastructure. In the case of Kabuyanda, our observation showed that collective efforts by women members of ICAs had enabled them to have big gardens under cultivation as well as increased agricultural produce. However, members complained that their big produce was not translating into monetary benefits because of lack of markets and poor communication networks:

> We sat and agreed that all members of the association should pool our labour for the benefit of each member. We therefore cultivate our gardens collectively until all members are reached. This has increased our harvests. We would be better off if our produce had a market. But we end up being exploited by the local traders. Produce buyers from towns do not come here because of bad roads and the rugged terrain. So, our efforts are not rewarded. Otherwise, we would be better than you see us.[104]

The remoteness of the area coupled with poor infrastructure was responsible for frustrating people's initiative to reduce poverty. There was substantial evidence that if this area had connection to efficient markets, people's collective efforts would have contributed more to poverty alleviation.

The situation in Kabuyanda was in stark contrast to the other areas studied such as Ibanda in Mbarara district and areas of Mpigi district, which had benefited from PEAP. These areas had had benefits such as improved rural roads, government-constructed primary schools, and health centres.

Mbarara district in October 2000.

[104] Interview with a female respondent and member of *Nyampikye Women's Group* in Kabuyanda, Mbarara in September 2000.

Facilities such as improved rural roads created opportunities to rural communities as expressed by a female respondent from Nyabuhikye:

> It is true that being organised in associations has created opportunities for us women. We share ideas and resources that are generated by members. Nonetheless, we have also to appreciate the role of government in facilitating our efforts. For example, government has improved the road network in this area and now traders can buy our produce from our door steps. Also, Universal Primary Education (UPE) introduced by President Museveni has also reduced our financial burdens.[105]

The above testimony confirms that programmes initiated and implemented by government with the support of the World Bank, such as UPE, primary health, clean drinking water and sanitation as well as the improvement of rural roads, have also to a certain extent enhanced the welfare of rural people. Therefore, it can be argued that while networks of the poor as manifested in ICAs contributed to the improvement of people's welfare, World Bank-supported poverty eradication programmes also contributed significantly to improving people's standards of living.

This phenomenon brings to question the role poor people's organisations can play in combating poverty. It confirms the argument by Narayan et al[106] that while efforts of local self-help groups are a key resource for the poor, they can only provide limited resources and opportunities. They therefore

[105] Interview with a female respondent and member of ICA in Nyabuhikye, Mbarara district in October 2000.

[106] Deepa Narayan, Raj Patel, Kai Schafft, Anne Rademacher and Sarah Koch-Schulte (2000), *Opcit*, p. 130.

argue that community-based networks require bridging connections across social groups within and outside the community. In addition, the finding concurs with the argument that social networks on their own cannot overcome the crippling effects of corruption, geographical isolation, political exclusion, and social polarisation.[107] This means that the effective harnessing of social networks to increase production by such local organisations need to be facilitated by the state with such economic overheads such as efficient communication systems and markets. However, this does not rule out the fact that ICAs, to some extent, can improve the quality of life of the poor if favourable conditions exist.

It has been asserted that small and isolated local organisations like ICAs need to come together to form a wider and formidable organisation that can be able to negotiate for and attract substantial resources from higher organisations such as the state or NGOs. It is further contended that without doing this, the impact of ICAs on their members may remain insignificant.[108] It is further argued that the major limitation to the power of ICAs to bargain for resources from higher levels is the inability by these ICAs to forge ties so that they can have one negotiating voice. Our study confirmed that ICAs were fragmented, each pursuing its own interests without any attempt to have a concerted effort and then negotiate for resources from above. It was

[107] Michael Woolcock and Deepa Narayan (2000), *Opcit*, p. 230.

only in one case where two women ICAs of *Nyampikye Women's Group* (NWG) and *Kisyoro Women's Group* (KWG) were found to have forged ties. Interviews with the two chairpersons reported that the two associations organised a joint function each year where the two groups exchanged ideas about the challenges faced by each group. They then shared advice. This was reported to take place in the morning hours. In the afternoon, the two groups performed in turn before the invited guests from the two neighbouring villages. The performances were followed by reports on the activities and future plans of the two associations. Finally, the fund-rising ceremony took place and the proceeds realised were shared equally between the two associations. That marked the end of the function. These ties however had been established two years ago and KWG was at the time of the study experiencing internal conflicts. It was therefore premature to predict whether such ties would result in a serious framework of co-operation like a joint working committee or a merger of sorts. Nevertheless, interviews with leaders of ICAs showed scepticism about the possibility of forging such ties and mergers. Some argued that the problem was that different ICAs pursued different and mutually exclusive interests:

> Merging our associations is difficult because different conditions gave raise to individual associations. Our objectives are different and cannot be reconciled. There is also the problem of trusting other groups, which we neither have information about nor control over. Merging also makes the associations big and remote. It detaches them from members. The bonds that unite members of individual associations are likely to be lost

[108] *Ibid*, p. 57.

in big associations. Big associations are not good because they alienate the small and less educated and empower the strong.[109]

Such testimony corroborates research findings from other contexts that suggest certain kinds of association while supplying effective bases for collective action and group solidarity may intensify parochial sentiments and accentuate distrust of outsiders. South African research, for example, suggests that rotating savings clubs' members are less likely to trust outsiders and less predisposed to be confident about the state's integrity than is normal in their local communities.[110] Whether joining such groups simply attracts less trustful people or whether membership accentuates distrust is not evident from research derived from the attitudinal surveys cited in South African work.

Similarly in Uganda, Widner and Mundt's[111] fieldwork conducted in the mid 1990's could find no positive correlations between membership of associations and civic attitudes, which include trust and willingness to undertake voluntary work. More broadly, the point has been made that associations that do not seek to recruit their members across significant

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[109] Interview with a male respondent and member of *Twegatte Mubyenfuna Association*, Buwama, Mpigi district in September 2001.

[110] Tom Lodge (2003), *Politics in South Africa: From Mandela to Mbeki*, James Currey, pp. 222-4.

[111] Jennifer Widner and Alexander Mundt (1998), 'Researching Social Capital in Africa,' *Africa*, 68 (1), p. 13.

social cleavages such as gender, class, or ethnicity are unlikely to nurture generalised trust and community reciprocity and may even inhibit it.[112]

It was, therefore, established through the two focus group discussions (one in Kabuyanda and another in Buwama) that members of ICAs feared to lose grip of their organisations to strangers as a result of such mergers. One common issue that cut across the two discussions was that: 'Our associations do not have the same strengths. Some are poorer while others are richer.' Another observation was the fear by women that: 'Men's associations will swallow ours and our needs and methods of work are different.' The other expressed fear was that: 'Mergers will be dominated by the powerful people.' They were, therefore, also sceptical about the possibility of benefits reaching them, if at all such mergers attracted them. Such fears and doubts were not far fetched and members had telling experiences such as that of *Kisyoro Women's Group*.

The above scepticism notwithstanding, our findings established that ICAs, which had established networks with higher organisations such as NGOs, local and national governments attracted external loans, were able to increase their capabilities and also provide more benefits to members. These were however exceptionally few as Table 6.4 shows. One of such

[112] Dietlind Stolle and Thomas Richell (1998), 'Are All Associations Alike?,' *American*

beneficiaries of external assistance was *Kabuyanda Women's United Group* (KWUG) in Mbarara district. It had obtained a loan of USh 4,500,000 (US$ 2500) from SWURP, which extended loans to rural development programmes. SWURP is one of those programmes that have been initiated by government with the support of international players such as the International Fund for Agricultural Development (IFAD) to alleviate poverty. It extended support to the social services and agricultural sectors. This particular ICA enhanced the incomes of its twenty-seven members by extending loans of USh 100,000 (US$ 56) to each of them. In addition to these accomplishments, the association bought a business premise at USh 240,000 (US$ 133) which was being rented out. This excluded the revolving capital, which was being used to trade in agricultural produce as well as that banked in Uganda Commercial Bank (UCB).

Another ICA that attracted external loans was *Nyabuhikye Women's Catering Association* (NWCA) in Mbarara district. It attracted two loans of USh 300,000 (US$ 167) from the district and USh 200,000 (US$ 111) from the National Association of Women of Uganda (NAWOU) for capacity building. These loans were used to purchase twenty tarpaulins which were being hired out at USh 2000 (US$ 1.1) each and plates which were being used in their catering business. All the loans had been repaid. Proceeds from these

Behavioral Scientist, 42 (1): 47-65.

loans were used to purchase a cow for the group at USh 350,000 (US$ 195) and were in the process of buying another so that they could revolve among members. These achievements were in addition to individual benefits as indicated in Table 6.5. It was, therefore, evident that ICAs that accessed external loans performed well and had a 'trickle-down' effect on members.

The good performance of these two ICAs, to some extent, agrees with the argument that ICAs, which establish linkages with higher organisations tend to avail more benefits to members and therefore wield more potential to address the challenge of poverty alleviation. Nonetheless, the unique nature about these ICAs needs to be put into consideration. They were predominantly composed of women. Associations of women tended to be associated with honesty, transparency and co-operation compared to those of men. Another difference with the two ICAs is that they forged ties with high levels on an individual basis and not as mergers. This situation is different from when a combination of ICAs merge for purposes of accessing such assistance. The latter scenario tends to alienate members and is vulnerable to manipulations by leaders.

Therefore, expressed fears about mergers need not be taken lightly. Michel's[113] 'iron law of oligarchy' does not provide any hope about large membership organisations either. They tend to be bureaucratised and elitist instruments of the leadership. Fox[114] agrees that organisations tend to take on their own dynamics, as leaders and staff develop interests, which differ from those of the members. In Uganda's context, the experience with co-operative societies provides a similar example. Co-operative societies had been created to function as social networks of the smallholder farmers. Whereas peasants were convinced that they collectively owned co-operatives to their benefit, the stark reality is that co-operatives were subsequently taken over by both the government and elites and used to serve their own selfish interests.[115] Another similar example, which is drawn from my own personal experience, relates to President Amin's Land Reform Decree (Decree No. 3, 1975). As a result of this Decree, local people were encouraged to collectively form co-operative societies so as to lease their common lands and obtain land titles. However, it was mostly the elites who were generally elected to the chairmanship of such co-operative societies. These elites cunningly registered the lands as their own. Many ordinary people were left landless as a result of the manipulation by elites and government officials. The issue of whether ICAs should forge ties or merge with others as a means to access resources from higher levels as advanced by

[113] Robert Michel (1959), *Political Parties*, New York: Dover Publications, pp. 21, 373 and 401.

[114] J. Fox (1992), 'Democratic Rural Development: Leadership Accountability in Regional Peasant Organizations,' *Development and Change*, 23 (2): 1-36.

[115] See E. A. Brett (1993), *Providing for the Rural Poor: Institutional Decay and Transformation in Uganda*, Kampala: Fountain Publishers Ltd., pp. 94-5.

Narayan et al[116] remains a highly debatable issue. While mergers could facilitate access to higher resources, the concern (as the evidence shows in regard to Uganda) is whether such benefits can trickle-down to members and subsequently reduce their poverty.

Another area where ICAs made a significant contribution to households was the empowerment of women. Women ICAs empowered members tremendously in two different ways. First, they empowered them financially by enabling them to engage in income-generating activities. They reported to have met their needs without begging from their husbands, which was said to have increasingly minimised their dependency on spouses. Most significant was the fact that women's accessibility to resources was transforming power relations within the household. Through interviews, it was confirmed that women's involvement in the household decision-making was increasing because of the material contributions they were making. Women respondents revealed that their spouses were increasingly consulting them on most household issues:

> Since I joined this association, the changes that have taken place in my life are unbelievable. It is like a miracle! The opportunity to generate my own resources, however small they are, has brought happiness in my family. My children can feed, clothe, go to school and sleep comfortably. Even the relations with my husband have changed for the better because he has recognised my contribution and encourages me. Whereas he

[116] D. R. Narayan Patel, K. Schafft, A. Rademacher and S. Koch-Schutte (2000), *Opcit*, p. 130.

never used to consult me on financial issues, these days we discuss a lot.[117]

The chairperson of *Kisyoro Women's Group* also reported how the benefits from ICAs had improved her relationship with her husband:

> My membership to this association has benefited a lot to my family. I contribute to the daily needs of my home. I have contributed a lot to this home. I have also improved my kitchen with the assistance of members of our association. These contributions have changed the attitude of my husband towards me. He now allows me to go and attend workshops organised by women at the district level. I even sleep there and he does not complain. He stays at home and looks after children because he knows of the benefits that come from such meetings. We now respect each other and are happier than before.[118]

Another female respondent, an elderly and widowed lady and member of *Nyampikye Women's Group* reported:

> Because of the assistance and support that I have got from the association, I have been able to pay bride price for my two sons. The paying of bride price for my sons has earned me self-esteem and respect in this community. There is no function that takes place in this village without being invited. Even men come to borrow money from me. I have also been approached many times to become a local councillor but I have declined because I'm an old woman. I'm not treated like a woman in this community because of my achievements. I do not think I would be what I'm if I had not joined this association.[119]

Moreover, spouses had reduced the restrictions on women's movements. Women were increasingly enjoying more freedom to attend meetings, visit their friends and attend social functions and workshops without grave repercussions:

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[117] Interview with a female respondent and beneficiary of ICAs in Nyabuhikye, Mbarara district in October 2000.

[118] Interview with the Chairperson of *Kisyoro Women's Group* in Kabuyanda, Mbarara district in September 2000.

Benefits that are associated with membership have contributed to the emancipation of women in this area. In the past it was despicable for women to attend meetings away from home or go for seminars at the district and sleep there. But these days men have become flexible. They allow us to go and remain at home looking after young children because they know that such activities bring resources to the home.[120]

The fact that women have acquired the capacity to earn their independent resources and solve immediate problems is no mean achievement.

Additional indicators of women's perceived empowerment in the household as reported by respondents included situations where husbands delegated their wives to attend community meetings. Also, some women reported that they stood for local council elections freely and their husbands campaigned for them. It was further revealed that all these achievements tremendously reduced household conflicts and created harmony within rural households. This perceived change was attributed to men's recognition of women's contributions to household resources.

However, the changing gender relations need to be analysed critically. It appears that men's improved relations with their spouses were opportunistic than genuine. They became flexible as a result of benefits that were trickling down to the households because of the spouse's membership to ICAs. This means that women's household contributions were in a way

[119] Interview with a female respondent and member of *Nyampikye Women's Group* in Kabuyanda, Mbarara district in September 2000.

[120] Interview with a female respondent and beneficiary of ICAs in Kabuyanda, Mbarara district in September 2000.

increasing their burden. They were taking over more responsibilities from men in exchange for recognition by their husbands. This is what appeared to be the case with women traders of Kinshasha. Schoepf and Engundu's findings indicate that women traders reported that their husbands were contributing only a small part of household expenditure living the rest to be met by them. Such relationships need not be misconceived as empowerment.[121]

It was also indicated that most women ICAs undertook a sensitisation campaign to educate their spouses about the benefits that accrued to membership of ICAs. This was done through periodic functions as already explained, especially at the end of every year, when women invited their spouses, local and opinion leaders to make them aware of their activities and benefits. It was found out that such awareness campaigns motivated other men to encourage their wives to become members of ICAs. It is not surprising that women's access to resources was weakening the cultural barriers to women's marginalisation. This was because traditional cultures of the two districts in which this research was conducted denied women from inheriting property such as land. Therefore, while the access of women to resources contributed to improved relations with their husbands, it also increased their household responsibilities. This phenomenon can therefore

[121] Schoepf, B. G. and Walu Engundu (1991), *Opcit*, p. 130.

not be equated with empowerment. It disagrees with the argument by Muhammad[122] that the increased earnings of women translate into more social power within their families and communities. Instead, our research findings indicate that though women's access to resources improved relations with their spouses, it somehow increased their household responsibilities. This finding appears to confirm Mayoux's[123] observation that women's access to credit has both negative and positive impacts. She argues that in some cases it led to indirect benefits and improvements in various aspects of women's wellbeing as a result of the recognition of their role in the household and community. In other cases, it temporarily increased women's autonomy and led to the withdrawal of male support.

6.6 The Implications of ICAs' Activities on the Community

The preceding analysis has shown how ICAs have been used by the rural poor to both raise capital to meet pressing basic needs or/and invest in income-generating activities so as to alleviate poverty. Through the use of networks, people in rural areas have been able to organise through ICAs and generate resources. These resources though modest have been used to accumulate some assets. Besides, the resources accessed through ICAs have

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[122] Yunus Muhammad (1998), 'Poverty Alleviation: Is Economics Any Help? Lessons From the Grameen Bank Experience,' *Journal of International Affairs*, 52 (1), p. 61.

[123] Linda Mayoux (1997), *The Magic Ingredient? Micro-finance and Women's Empowerment, A Briefing Paper Prepared for the Micro-Credit Summit*, Washington, February, p. 2. Accessed on: http://www.gdrc.org/icm/wind/magic.hml.

enabled the local people to send their children to school, access health services and afford basic necessities.

While some gains have been made in regard to improving the beneficiaries' living conditions, it cannot be claimed that the resources accessed through ICAs have enabled the poor to graduate out of poverty. Some of the explanations why beneficiaries of ICAs were unable to graduate from poverty can be found in the local customs that greatly shape such social networks. On one hand, local customs in Buganda and Ankole emphasise ethics of hard work, co-operation, discipline, honesty and transparency, which have been harnessed to improve people's welfare especially with the state's retreat from social programmes.

On the other hand, these same local customs sometimes create barriers to social mobility especially with regard to women, and also to other economically ambitious members of the community. For example, the frequently expressed concerns by some male respondents about women's involvement in ICAs were: 'Women will be corrupted by money from ICAs.' 'Women will be spoilt by the influence of other women in such associations.' Similarly, those who advanced economically and surpassed other members of the association were ridiculed and accused of not sharing their skills and ideas with others, as a testimony from a female member of Kisyoro Women's Association reveals:

> These associations would offer a lot of benefits to members only if all the members were transparent. The problem is that some members are selfish and hide information from others and want to leave them behind. This has been the case with our chairperson who has used the association at the expense of other members because she is shrewd.[124]

It is evident from this testimony that some local customs which manifested in social networks tend to emphasise sharing, co-operation, and economic equality of members of ICAs. The problem with these requirements is that they undermine economic mobility of the hardworking and ambitious members. The emphasis by local custom on sharing resources with other members curtails the principle of accumulation and subsequently confines members of ICAs in a poverty trap because of the fear to be socially isolated. Therefore, it was evident that while social networks as manifested in ICAs positively contributed to people's welfare, they also exhibited negative effects, especially in regard to undermining the social mobility of women and the economic advancement of some other members generally.

Notwithstanding the material contributions of ICAs to the rural poor, beneficiaries were also able to acquire various types of skills. Among those identified, was the teaching of illiterate members how to read and write. This enabled members who were previously illiterate to compile and

[124] A female respondent and member of Kisyoro Women's Group, Kabuyanda, Mbarara district in September 2000.

understand basic business transactions and financial records. Similarly, members of ICAs acquired other skills such as keeping financial records and simple accounting. It was established that skilled members passed on such skills to other members on a voluntary basis. There is no doubt that such skills improved the capacity of other members.

It was established that through their social networks, members of ICAs occasionally and informally exchanged ideas about trade, agriculture, markets and general progressive ideas about the family and social welfare. Women's ICAs in comparison to those of men were more involved in exchanging ideas and learning. The reports indicated that female members educated each other about nutritious foods for children, the best way to care for children, how to ensure good hygiene, business tips as well as good farming practices. This phenomenon can be explained by the fact that rural poor women tend to be sympathetic to each other. Besides, interviews found that women were less selfish and co-operated more among themselves in contrast to men:

> Women experience similar problems of motherhood. We work hard but lack adequate resources because our local customs favour men. We therefore try to assist each other wherever possible. Through working together and sharing information as well as resources we have been able to overcome some of the problems. We have discovered that working together in our associations has helped ease our resource constraints. Every woman in this area knows that if you don't work with other women you lose a lot.[125]

[125] Interview with a female respondent and member of *Nyabuhikye Women's Catering Association* in Nyabuhikye, Mbarara district in October 2000.

It was evident that women shared feelings and perceived their problems to be related, a factor, which was responsible for cementing their solidarity. They supported each other physically and psychologically.

ICAs were also identified to have revolutionised women in terms of social exposure. It was revealed that women gained confidence in public speaking and leadership skills as a result of being exposed through the activities of ICAs. Some traditional cultures that relegated women to inferior social positions in the decision-making process were slowly being eroded. While tradition made the public sphere a man's domain, information received indicated that this old division of social roles was rapidly changing due to the influence of ICAs:

> In the past we used to be timid and shy and feared to attend public meetings. This is no longer the case. Our associations have exposed us to public discussions and we have acquired skills and confidence in public speaking. These days we attend local council meetings and give our views openly. Some women have also stood for and defeated men in local council elections. All this we owe it to our women associations, which have exposed us, made us organised and economically active. Economic benefits from our association have made us confident.[126]

As the above testimony indicates, women reported that whereas they were previously shy and timid, feared to attend public meetings, possessed no public speaking skills, and could not challenge men in public arenas, all this was changing as a result of the positive impact of ICAs. These associations

[126] Interview with a female respondent and member of ICAs in Buwama, Mpigi district in November 2000.

were inculcating into women the skills for public speaking and also sensitising women against self-pity and being timid.

Besides, the exposure of women through ICAs' meetings and discussions during the process of managing the income-generating activities was having a tremendous effect on them. Moreover, the ability to generate their own funds gave them more confidence while at the same time it created social respect for them. The implication of all this was that women were playing increasing roles in their communities. These included arbitration of conflicts and disputes, competing for social leadership positions in local councils and churches as well as participating in public decision-making. It was no longer unacceptable for rural women to speak in public meetings or even challenge men publicly on certain issues because the terrain was tremendously changing.

It was further established that through these social networks, women were becoming power brokers. The fact that women constituted the majority population in areas studied, their organisation into ICAs had turned them into a formidable force that was capable of influencing political outcomes. The Chairperson of *Nyampikye Women's Group* confirmed this development:

> Women in this area now have the power to influence the election of local leaders because they are organised. Unless the aspiring candidate is

acceptable to us, he/she cannot go through. We are many and co-operate on issues that affect our area.[127]

Further evidence to confirm that the organisation of women through ICAs was propelling them to public spaces was observed in their representation in local councils. Most women who constituted the leadership of ICAs were also represented on local councils as illustrated in Table 6.4. Whereas this empowerment can be attributed to the NRM's policy[128] to allocate a thirty percent quota to women in all local and national councils, the fact that it was mostly women members of ICAs who dominated local councils and not others at large was enough evidence to strengthen the argument. Women ICAs had an edge over others because of their social networks and were therefore able to broker for power. The underlying explanations for the changing social position of women included economic empowerment as well as enlightenment and exposure through ICAs.

More distinct however, was the degree to which ICAs inculcated discipline into the rural communities visited. Members of ICAs reported that being undisciplined in the community was a big liability because it denied one an opportunity to be a member of ICAs. All ICAs investigated used character as

[127] Interview with the Chairperson of *Nyampikye Women's Group* in Kabuyanda, Mbarara district in September 2000.

[128] Republic of Uganda, *The 1995 Uganda Constitution (Article 33)*, Entebbe: Uganda Printing and Publishing Corporation, p. 30. Also see Republic of Uganda (1997), *The local Governments Act, 1997 (Article 24)*, Entebbe: Uganda Printing and Publishing Corporation, p. 26.

a pre-qualification for admission as illustrated in Table 6.3. By character, it means that such a person should be trustworthy, respectful, co-operative and not antagonistic to others. The overall social effect of this requirement was reported to be social harmony. When asked about the contribution of ICAs to the area, the chairman LC111 had this to say:

> Apart from making the people hardworking and economically active, ICAs have created an atmosphere of social harmony and co-operation. Many of the disagreements are amicably settled within ICAs. They have helped by improving social relations.[129]

People transacted business without legal contracts and yet they were honoured. This does not however mean that dubious characters did not exist in these areas. They did exist but there was a social price to pay for being dishonest or indisciplined. The questions of trust, discipline and transparency have long been known and recognised to lead to economic efficiency and subsequently improve economic performance.[130] Though conditions pertaining to rural areas visited could be far from being economically prosperous, there was no doubt that the necessary indicators were beginning to emerge.

Social networks such as ICAs that enabled the rural poor to amass resources were also reported to have correspondingly enhanced co-operation and

[129] Interview with the Chairman LCIII (Sub-county) in Kabuyanda, Mbarara district in September 2000.

[130] Robert D. Putnam (1993), *Making Democracy Work: Civic Traditions in Modern Italy*, Princeton, N. J.: Princeton University Press, p. 38.

participation both at the household and community level. The rural poor formed ICAs on the basis of co-operation, which was being enhanced by participation. There was therefore an intertwining of the virtues of co-operation and participation. The combination of the two virtues inevitably leads to good governance. It is no exaggeration to claim that ICAs enhanced friendship, co-operation and were subsequently nurturing good governance in the areas covered by this investigation. The impact might still not be widespread but there is no doubt that it had been made. These associations were formed on the basis of friendship, kinship and neighbourhood. Their relations were constructed on the basis of kinship and/or friendship ties. ICAs also tended to admit members from the neighbourhood. These were people who had lived together, known each other and with shared experiences and crosscutting relationships. They therefore had much in common and trusted each other.

Moreover, the overriding factor in the association, as earlier argued, was the character of the person. Whereas ICAs took advantage of the existing networks that arose due to co-operation, they further consolidated such co-operation into tangible benefits to members. Some of the examples given include collective work on both individual tasks and community works such as cleaning wells, church and school construction, repairing a bridge and others. They also shared agricultural equipment, lent each other bicycles, shared information, and drank beer together. Other reported aspects of close co-operation include the extension of support to each other during parties and funerals. Co-operation was consolidated through participation because without it there could be danger of fragmentation and disintegration. The process of participation within ICAs has already been discussed in the preceding parts. What is of particular importance however is the fact that ICAs enhanced the participation of members.

The culture of participation was increasingly being accepted at the community level as the mode of operation for the handling of community affairs. Though the NRM government is equally recognised for having promoted participatory democracy at the local and national level, it can still be argued that national policies on their own may not succeed unless they suit the social circumstances. Put differently, national policies stand a chance of success if they are appreciated and suit the interests of the people to whom they are targeted. Therefore, there was no question that the enhancement of participation at the community level was paving way to good governance as the following testimony reveals:

> The existence of many associations in the area has somehow changed the politics of this area. Previously a few people took interest in the election of local leaders. It was the enlightened members of this community who influenced the political outcome, and these were men. But now things have changed. These local associations, which are mostly organised by women have not only become interested but also influential. If you manage to win them over, then you are through. This was the strategy I used in the last elections. But it was a bit taxing because I had to

> demonstrate that I was supportive of their activities. You know, they are too organised and smart. They invite you to their association and talk about what they have achieved and their challenges. Of course, after that you have to say something. You have to give out something otherwise they won't support you.[131]

Community leaders were also being identified and nurtured through ICAs because these local organisations emphasised good personal qualities such as character, trust, transparency and accountability. These were the same ingredients that the community sought in a leader. Hence, the very principles that enabled ICAs to achieve extraordinary performance despite having limited resources, were being promoted and emphasised at the social level. The information received during the course of the study indicated that the process of identifying community leaders was no longer a difficult task since communities easily identified exemplary leaders through ICAs.

Besides, the positive change triggered by effective organisation within ICAs was also transforming the balance of power at the community level. The high organisational levels of the rural poor characterised by participation in the decision making process was increasingly undermining the power and influence of elites as revealed by the above testimony. However, this change was still at the lower levels of the community because these rural poor people still lacked the sophistication and resources it required to influence

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[131] Interview with the Chairman LCI (Village) in Kabuyanda, Mbarara district in September 2000.

decisions at higher levels. It was therefore established that the standards and virtues of participation, transparency and co-operation that were being promoted in ICAs were having a spill over effect at the community level. Put differently, the good management practices of individual ICAs were emerging as the acceptable standards at the community level.

6.7 Conclusion

Notwithstanding some of the inherent weaknesses of ICAs, substantial evidence has been adduced to show their significant contribution in managing poverty amongst the rural poor. The underlying explanation for the versatility and impressive performance of ICAs lies in the unique manner in which they were created as well as the approach used by these institutions. ICAs organically evolved out of specific realities and needs of the community. In short, they arose out of the initiatives of the rural poor in the community to serve their interests. Therefore, these local institutions were tailored to suit the circumstances of the rural poor.

ICAs were operated by principles that were quite familiar with the traditions of the rural poor. In other words, the rural poor not only identified with ICAs but also owned them. The issue of ownership was particularly significant since the rural poor had confidence in ICAs and felt that these organisations were responsive to their priorities. In addition, simplicity, transparency, and a participatory mode of operation, which had made them relevant to the circumstances and interests of the rural poor underscored their exemplary performance. Genuine participation is particularly reputed for improving performance.[132]

Besides, ICAs were modelled on the very principles that had enabled successful micro-finance organisations such as the Grameen Bank. These included group mechanisms, co-guaranteeing, participation, targeting women, compulsory saving, positive interest rates, clear communication, repeat loans and supervision.[133] These very factors that underlay the resilience, efficiency and efficacy of ICAs, therefore, confirm that they are sustainable in contrast to those induced by higher organisations such as NGOs and government.

It was, therefore, confirmed that ICAs were effective organisations in which the rural poor pooled resources that were eventually extended to members in different forms for purposes of improving their welfare. It was also established that some of the practices of ICAs such as emphasis on economic

[132] World Bank (1994), *The World Bank and Participation*, Operations Policy Department, Washington, D. C.: The World Bank, December, p. 30. Also see J. Isham, D. Narayan and L. Pritchett (1995), 'Does Participation Improve Performance? Establishing Causality with Subjective Data,' *The World Bank Economic Review*, 9 (2), pp. 175, 193 and 194.

[133] J. Panka, S. Jain (1996), 'Managing Credit for the Rural Poor: Lessons From the Grameen Bank,' World Development, 24 (1): 79-89. Also see Mark M. Pitt and R. Khandker (1998), *Opcit*, p. 959. Also see Manohar Sharma and Manfred Zeller (1999), 'Placement and Outreach of Group-Based Credit Organisations: The Cases of ASA, BRAC and PROSHIKA

equality and sharing undermined people's graduation from poverty. Our research findings, to some extent, agreed with Gratootaert[134] that social networks can have an impact on development outcomes, including poverty reduction. Therefore, while ICAs are indeed a key resource to the poor and make significant contributions to their welfare, they can only work as coping mechanisms in the event of state failure, but they cannot be a substitute.[135] This is because their contributions cannot cater for overheads such as communication networks, efficient markets, security, law and order, as well as a good policy environment that require the state. Without the intervention of the state in these areas, there is little that can be achieved by ICAs to bring about fundamental socio-economic change as the case of Kabuyanda demonstrated.

The contribution of ICAs can only be meaningful if supplemented by the state, private sector and the international community. Many scholars do agree that local organisations alone are no panacea to poverty reduction.[136] They argue that poverty alleviation is a complex task that requires a much bigger capability in terms of resources, technology, information and co-

in Bangladesh,' *World Development*, 27 (12), p. 2124.

[134] Christiaan Grootaert (1998), *Opcit*, p. 11. Also see Sue Fleming (1991), ' Between the Household: Researching Community Organisation and Networks,' *IDS Bulletin*, 22 (1), p. 37.

[135] Graeme Buckley (1996), *Opcit*, p. 341.

[136] Michael Woolcock and Deepa Narayan (2000), 'Social Capital: Implications For Development Theory, Research, and Policy,' *The World Bank Research Observer*, 15 (2), p. 230.

ordination to handle. Narayan et al[137] further argues that in the absence of bridging connections across social groups within and outside the community, poor people's networks will provide only limited resources and opportunities. There is therefore need to build bonds and bridges (a synergy) between the community groups, NGOs, the private sector, governments, and the international community.

[137] D. Narayan, R. Patel, K. Schafft, A. Rademacher and S. Koch-Schutte (2000), *Opcit*, p. 130.

Chapter Seven: Effectiveness of Credit in Poverty Alleviation: A Conclusion

7.0 Concluding Remarks

The thesis has examined credit as one of the policy strategies that have been pursued by the National Resistance Movement (NRM) government to combat poverty. Even though the study addresses credit in the Ugandan context, it has policy implications for other low-income countries, which intend to use or are already using credit as a policy strategy to alleviate poverty. It has been indicated that poverty is attributed to the cumulative decline of Uganda's economy since the 1970s. As discussed in chapters one and two, poverty has been increasing since the 1970s and climaxed in 1980s. The escalating poverty levels have been attributed to both internal and external causes. While the adoption of inappropriate top-down policies and the mismanaging of the economy have been attributed to Uganda's economic crisis, external factors have also been held responsible. It has been explained that external factors such as the declining terms of trade, the soaring oil prices, increasing market pretectionism in developed countries and high interest rates have contributed to the crisis. The overall effect of the economic crisis on the people of Uganda was the increasing levels of poverty.

Chapter two has discussed how the NRM government inherited the economic crisis when it came to power in 1986. It has indicated that while the NRM government initially disagreed with the principles of the World Bank and IMF neo-liberal economic policies, it was forced by the magnitude of the crisis to seek assistance from the two Brettonwoods institutions. It has been argued that the NRM government has been pursuing neo-liberal economic policies since May 1987. The thesis has also explored the nature and effects of economic reforms that were pursued to reverse the negative economic trend. It has argued that while the implementation of stabilisation and adjustment reforms initially had adverse effects on the vulnerable groups, it has in the long run reduced poverty although some policy challenges remain. The stabilisation and adjustment policies have generally succeeded in reversing the poverty levels from 56 percent in 1992 to 35 percent in 2001.[1] Besides, the economy has been able to register an average economic growth rate of six percent of GDP annually for almost two decades.

The thesis has noted that the social dimensions of adjustment that initially affected the welfare of the majority of the Uganda population prompted the NRM government to adopt multifaceted forms of intervention to mitigate the social costs of adjustment. The intervention that was however of

[1] Appleton, S. (2001), *Poverty in Uganda, 1999/2000: Preliminary Estimates from UNHS,*

particular interest to this study is credit. Credit as an intervention policy strategy against rural poverty has been heralded for enabling the rural poor to engage in income-generating projects as a means to improve household incomes, create self-employment, accumulate assets and subsequently get economic empowerment.[2] More particularly, it has been the NRM government policy to increase household income through the provision of credit.[3]

Nonetheless, the undeveloped nature of rural financial markets and the discriminative tendencies of formal financial institutions hampered the accessibility of the poor to credit. In response to the inadequate and imperfect financial markets, various agencies have engaged in extending credit to the poor. This thesis specifically focused on three credit programmes. These included state-directed credit programmes, NGO credit programmes and the self-help grassroots initiatives (informal credit associations). It has critically assessed the extent to which credit can alleviate poverty by comparing and contrasting the three credit programmes.

University of Nottingham, UK, January, p. 3.

[2] David Hulme and Paul Mosley (eds.) (1996), Finance Against Poverty (Vol. 1 and 2), London and New York: Routledge. Also see Shiley Ardener and Sandra Burman (eds.) (1986), *Money-Go-Rounds: The Importance of Rotating Savings and Credit Associations for Women*, Oxford: Berg. Also see S. R. Khandker (1997), *Fighting Poverty with Micro-Credit: Experience in Bangladesh*, Washington D.C.: Oxford University Press of the World Bank.

[3] Republic of Uganda (2001), *Uganda National Household Survey 1999/2000*, Uganda Bureau of Statistics, p. 62.

The major reason for comparing the three credit initiatives has been to establish the underlying explanations for the variations in the performance of the three credit programmes. Put differently, the thesis sought to find out attributes that explain the differences in the performance of the three credit programmes. Basically, the thesis sought to establish whether the adoption of a top-down or bottom-up perspective has any relationship with the performance of that particular credit programme.

Chapter one has indicated that there has been a contentious debate on the effectiveness of top-down and bottom-up initiatives to development. The top-down approach to development has been criticized for being preoccupied with productive efficiency at the expense of people-oriented perspectives. In regard to poverty, it has shown that traditional development perspectives perceived poverty as a consequence of underdevelopment and therefore sought to eradicate it through growth-oriented strategies. It has been further denoted that the World Bank/IMF anti-poverty strategies which have continued to influence the NRM government policies since 1987 are also premised in the context of growth. Growth-oriented perspectives irrespective of whether they subscribe to classical neo-liberalism or statism managed along both Keynesian and Leninist lines advocate for top-down approaches to poverty alleviation. Put differently, the shared characteristic in these perspectives is the tendency to address underdevelopment or poverty from above. Both perspectives believe in the superiority of central planning, which is characterised by bureaucratisation and paternalistic attitudes and disregards grassroots participation.

This approach to development did not adequately involve the people in their development process. The would-be beneficiaries of development were perceived as objects, not as creative and knowledgeable people who could make valuable contributions. In so doing, these traditional models of development ignored the local context, culture and historical realities, which subsequently impeded their effectiveness. In other words, these orthodox models used an approach that Chambers[4] has referred to as 'rural development tourism.' Even in cases where attempts were made to incorporate the communities in the development process (for legitimisation purposes), their role was relegated to provide moral or/and material support to the development programmes or projects. They were not involved in the key aspects of setting the objectives and designing development programmes or projects.

The thesis has specified that as a result of the poor performance[5] of the top-down approaches, there arose increasing concerns and pressure to re-

[4] Robert Chambers (1983), *Rural Development: Putting the Last First*, London: Longman, p. 307.

[5] Poor performance, in this respect, is viewed as the failure to translate the benefits

examine the orthodox strategies and subsequently adopt an alternative approach to development. In other words, the disenchantment with *dirigiste* and market-oriented development strategies led to participatory development as a new paradigm.[6] The new paradigm marked a shift from top-down to adaptive bottom-up perspectives to rural development, a process that puts emphasis on people's empowerment and participation through autonomous self-help grassroots organisations (GROs). It has been argued that the driving force behind the effort to increase participation was the assumption that it could solve the problems of sustainability.[7]

It has also been pointed out that the increased emphasis on the need to harness grassroots potentials to combat poverty especially came at a time when the performance of the African State had become dismal. The era of state-directed development (central planning) in the 1960s and 1970s had led to unprecedented economic crisis and subsequently exacerbated poverty levels. The dismal performance of statism led to increased pressure from the development theorists and practitioners to privatise development. The state came under criticism and more emphasis was put on liberalisation where the

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of growth to the majority of the population.

[6] Darryn Snell and Satendra Prasad (2001), '"Benchmarking" and Participatory Development: The Case of Fiji's Sugar Industry Reforms,' *Development and Change*, 32 (2), p. 256. Also see Peter Oakley and David Marsden (1984), *Approaches to Participation in Rural Development*, Geneva: International Labour Office, p. 7.

[7] Elizabeth Kleemeier (2000), 'The Impact of Participation on Sustainability: An Analysis of the Malawi Rural Piped Scheme Programme,' *World Development*, 28 (5), p. 931.

private sector as well as NGOs and CBOs were given an enhanced role in the development process. It has also been expressed that since the 1980s there has been a steady downgrading of the state in Africa and the increasing impetus of non-governmental institutions in the development process. The bottom-up (grassroots) initiatives have therefore assumed an important role in the development process.

It has been argued that growing attention is now being paid to people's participation and local organisations because they are positively correlated with appropriate and sustainable development practices.[8] The current trend for supporting local organisations is based on evidence that support and sustainability of the development process is only possible if people are given the opportunity to set their own priorities and design locally appropriate solutions, with a high sense of ownership and personal investment.[9] Participation is also lauded for enhancing accountability and service performance.[10] The high regard for participation is also embedded in the conventional assumption that civil society organisations have a comparative

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[8] Sue Fleming (1991), 'Between the Household: Researching Community Organisation and Networks,' *IDS Bulletin*, 22 (1), p. 37.

[9] Jethro Pettit (2000), 'Strengthening Local Organisation: Where the Rubber Hits the Road,' *IDS Bulletin*, 31 (3), p. 57. See also Jean-Philippe Platteau and Anita Abraham (2002), 'Participatory Development in the Presence of Endogenous Community Imperfections,' *The Journal of Development Studies*, 39 (2), p. 104-9.

[10] Andrea Cornwall and John Gaventa (2000), 'From Users and Choosers to Makers and Shapers: Repositioning Participation in Social Policy,' *IDS Bulletin*, 31 (4), p. 54. In regard to participation and improvement of performance also see J. Isham, D. Narayan and L. Pritchett (1995), 'Does Participation Improve Performance? Establishing Causability with

advantage in service delivery over governments. It has since been recognised that participation is not only a pre-requisite but also an essential ingredient to sustainable development.[11]

Ben Fine[12] has argued that the disillusionment with the development outcomes of states and markets led to the growing interest in social networks that facilitate community participation. It is widely recognised that communities participate more effectively through their local and voluntary associations. These associations are characterised by relationships that are driven by co-operation and mutual benefit. According to Putnam,[13] the existence of dense networks of active local organisations (vibrant civic associations) indicates high levels of social capital. Social capital is believed to enhance the functioning of the state and market where they are weak or may even act as a substitute where they are none extant. It is also heralded for being important to the poor societies where individuals are less self-

Subjective Data,' *World Bank Economic Review*, 9 (2): 175-200.

[11] Sue Fleming (1991), 'Between the Household: Researching Community Organisation and Networks,' *IDS Bulletin*, 22 (1), p. 37; Elizabeth Kleemeier (2000), 'The Impact of Participation on Sustainability: An Analysis of the Malawi Rural Piped Scheme Program,' *World Development*, 28 (5), p. 931; James Midgley (1995), *Social Development: The Development Perspective in Social Welfare*, London: Sage Publications, p. 114. Also see Robert Chambers (1997), *Whose Reality Counts? Putting the First Last*, London: Intermediate Technology Publications.

[12] Ben Fine (1999), 'The Developmental State is Dead – Long Live Social Capital,' *Development and Change*, 30 (1), pp. 1-20.

[13] Robert D. Putnam (1993), *Making Democracy Work: Civic Traditions in Modern Italy*, Princeton, N.J.: Princeton University Press, p. 90. Also see David L. Brown and Darcy Ashman (1996), 'Participation, Social Capital, and Inter-sectoral Problem Solving: African and Asian Cases,' *World Development*, 24 (9): 1467-79), p. 1471.

sufficient and more interdependent.[14] Hence, societies that are endowed with social capital also tend to be positively correlated with development outcomes. This thesis offers partial though not complete confirmation of these views about the developmental utility of networks, or what Grootaert and Van Bastelaer call the 'structural manifestation of social capital.'[15]

Notwithstanding the positive attributes inherent in the bottom-up approaches to development, they also have some limitations. Besides, it has also been pointed out that despite the shortcomings of the top-down perspectives, they also have underlying strengths. It is in the context of these differences that this thesis has compared and contrasted the effectiveness of credit programmes that use top-down and those that use bottom-up perspectives. The three credit programmes that have been critically analysed in the thesis vary in their credit methodologies. Two of these (State-led and NGO credit programmes) largely used a top-down approach while ICAs used a bottom-up perspective as has been discussed in chapters four, five and six.

It has been indicated in chapter four that the two state-directed credit programmes exhibited different performances because of the different

[14] James Coleman (1988), 'Social Capital and the Creation of Human Capital,' *American Journal of Sociology*, 94: S95-S120), p. S

[15] Christiaan Grootaert and Thierry Van Bastelaer (eds.) (2002), *The Role of Social Capital*

programme designs and mechanisms to credit delivery. Empirical findings about the performance of the two state-directed credit programmes indicated that autonomy was instrumental to performance. In organisational terms, PAP exhibited various innovations, which were responsible for successful credit institutions such as Grameen Bank. These included social collateral, peer monitoring, targeting women, compulsory weekly or monthly repayments, mandatory savings and repeat loans. In addition, PAP clients benefited from pre-loan training in group dynamics, enterprise management, and bookkeeping. They were also provided with the services of agricultural extension workers as well as market information. These organisational innovations were instrumental in enhancing the institutional performance of PAP to the extent that it was able to achieve a high credit repayment rate averaging 93 percent.

Apart from organisational success, PAP also generated material and social benefits to its beneficiaries. It extended investment capital to those income groups that would otherwise have been ineligible to access conventional financial sources. Evidence to show that credit positively contributed to the welfare of the beneficiaries has been supplied by this thesis. Besides, it has been pointed out that PAP's credit delivery mechanisms, which required applicants to organise into groups enhanced the formation of social

in Development, Cambridge: Cambridge University Press, p. 348.

networks. Some of the mentioned social benefits accruing to groups included increased co-operation between members, free advice and counselling, material assistance to one another, and sharing of information. The enhancement of social networks has been reported to contribute to the economic performance of PAP beneficiaries. The thesis has also specified that while both material and social benefits were associated with PAP, the reverse was the case with ECS, which was a parallel state-directed credit programme. Poor institutional methodology, credit delivery mechanisms, supervision, and loan recovery bedevilled the ECS. Likewise, the performance of the clients of ECS was poor. No material and social impact could be associated with credit.

It has also been argued that notwithstanding the differences in performance exhibited by the two state credit programmes, they had one similarity. Both of them did not extend credit to the very poor (real poor). PAP supported the economically active poor while credit from ECS, to a large extent, benefited the influential and local elites. Evidence obtained from fieldwork shows that *Entandikwa* Credit Scheme (ECS), one of the government-sponsored credit schemes, largely benefited the influential (local elites). In contrast, credit extended by PAP benefited the active poor.

The differences exhibited by the two state-credit programmes have been explained by the differences in the management systems and approaches used to deliver credit. The management of PAP in comparison to ECS, was autonomous and free from political interference. In contrast, ECS was politicised to such an extent that it operated on patronage basis. Not only was its disbursement enshrined in the local political organs of the NRM government (local councils) but also largely benefited the local notables (local elites), local politicians and their supporters but not the real poor. It was evident that ECS failed in its mission to alleviate poverty because the beneficiaries had no or very limited tangible benefits to show for it.

While the failure of ECS to some extent confirms the argument that credit programmes managed by the state do not reach the real poor and largely benefits elites, the good performance of PAP seems to indicate that state-led credit programmes can also succeed if their design and methodology are good. In other words, the good performance of PAP can be explained by the fact that it replicated the best practices that had been responsible for the success of famous credit programmes such as the Grameen Bank credit. It is therefore evident that state-directed credit programmes can succeed if they are well designed and have the autonomy to operate without political interference. However there is need for caution before hurrying conclusions about PAP's impressive performance. This is because its good performance was partly attributed to the stringent controls attached as a result of conditions from ADB, which funded 90 percent of its activities. Therefore, it would be premature to judge whether such an impressive performance record would be maintained in the event that ADB phased out its funding activities.

On the other hand, the performance of NGO credit programmes has been analysed in chapter five. The research findings established that NGO credit programmes were useful to a certain extent. They managed to fill the vacuum that had occurred due to the neglect of the poor in remote parts of Uganda by formal financial institutions and government. Another contribution of NGO credit programmes had been the simplification of the procedure to access credit by the rural poor. However, NGO credit was characterised by stringent terms, which largely used the financial systems approach that emphasised financial sustainability and disregarded the rural conditions when determining their borrowing terms. Therefore, stringent terms such as weekly meetings and repayments, lack of grace periods and high interest rates and forced weekly or monthly savings and insurance were making it difficult for the beneficiaries to break-even. Therefore, the top-down approach pursued by NGOs in their credit programmes coupled with social engineering practices undermined the local initiatives and did not appear to make the solidarity groups sustainable in the event the programme ended.

Notwithstanding the positive innovations and good institutional performance that led to high repayment rates in the credit market,[16] NGO credit programmes did not necessarily translate into meaningful economic empowerment of beneficiaries. This was contrary to assumptions that NGOs have capacity to deal more effectively with the poor and subsequently alleviate their poverty. Various explanations have been given for this failure. On one hand, one observable characteristic was that proceeds from the NGO loans to beneficiaries were used to serve various interests. Our empirical research found out that while part of the loan proceeds was put to economic use, the other part was used to service social networks. Therefore, the benefits accruing to the beneficiaries of NGO credit was mixed up in economic and social activities. The fact that part of the proceeds were mixed up in social obligations could probably explain the poor performance of credit beneficiaries. Nonetheless, this particular problem requires more research. This finding seems to confirm the argument that though social networks have been claimed to enhance economic performance, they also have the 'downside' aspects.[17] It is evident that there are also other forms of

[16] It should be noted that peer pressure and social networks were instrumental in facilitating the good institutional performance that led to high repayment rates of NGO credit schemes.

[17] Michael Woolcock (1998), 'Social Capital and Economic Development: Toward a

social networks that are unproductive.

The thesis has also analysed the performance of informal credit associations in chapter six. The chapter has supplied ample evidence to show the significant contribution of ICAs in managing poverty amongst the rural poor. The underlying explanation for the versatility and impressive performance of ICAs lies in the unique manner in which they were created as well as the approach used by these institutions. It has been indicated that ICAs organically evolved out of specific realities and needs of the community. In short, they arose out of the initiatives of the rural poor in the community to serve their interests. Therefore, these local institutions were tailored to suit the circumstances of the rural poor. ICAs were operated by principles that were quite familiar with the traditions of the rural poor. In other words, the rural poor not only identified with ICAs but also owned them. In addition, simplicity, transparency, and a participatory mode of operation, which had made them relevant to the circumstances and interests

Theoretical Synthesis and Policy Framework,' *Theory and Society*, 27: 151-208), p. 171. Also see M. W. Foley and B. Edwards (1999), 'Is It Time to Disinvest in Social Capital?,' *Journal of Public Policy*, 19 (2): 141-73; J. Harriss and P. de Renzio (1999), 'Social Capital: An Introductory Bibliographical Essay,' *Journal of International Development*, 9 (7): 919-37; Linda Mayoux (2001), 'Tackling the Downside: Social Capital, Women's Empowerment and Micro-Finance in Cameroon,' *Development and Change*, 32 (3): 435-64; A. Portes and P. Landolt (1996), 'The Downside of Social Capital,' *The American Prospect*, 26. Accessed on http://www.prospect.org/archives/26/26-cnt2.html; Paul Collier (1998), 'Social Capital and Poverty,' *Social Capital Initiative Working Paper No. 4*, Washington, D.C.: The World Bank, Accessed on: http://www.iris:umd.edu/socat/papers/papers.htm.

of the rural poor underscored their exemplary performance. Genuine participation is particularly reputed for improving performance.[18]

Another strength of ICAs can be explained by the harnessing of social networks for collective action against poverty. These positive attributes therefore create opportunities and prospects for sustainability. Our empirical findings agree with Gratootaert[19] that social networks can have an impact on development outcomes, including poverty reduction. However, while ICAs are indeed a key resource to the poor and make significant contributions to their welfare, they can only work as coping mechanisms in the event of state failure, but they cannot be a substitute.[20] Our findings also suggest that social networks or structural social capital may well be strengthened and extended by external agencies. In our case studies the external players are foreign funding bodies but there is no reason why the state should not play such a role. Since Robert Putnam's 1993 study, a body of research has

[18] World Bank (1994), *The World Bank and Participation*, Operations Policy Department, Washington, D. C.: The World Bank, December, p. 30. Also see J. Isham, D. Narayan and L. Pritchett (1995), 'Does Participation Improve Performance? Establishing Causality with Subjective Data,' *The World Bank Economic Review*, 9 (2), pp. 175, 193 and 194.

[19] Christiaan Grootaert (1998), 'Social Capital: The Missing Link?' *Social Capital Initiative Working Paper 3*, Washington, D. C.: World Bank, p. 11. Also see Sue Fleming (1991), ' Between the Household: Researching Community Organisation and Networks,' *IDS Bulletin*, 22 (1), p. 37.

[20] Graeme Buckley (1996), 'Rural and Agricultural Credit in Malawi: A Study of the Malawi Mudzi Fund and the Smallholder Agricultural Credit Administration,' in David Hulme and Paul Mosley (Eds.), *Finance Against Poverty*, London and New York: Routledge, p. 341.

emerged that suggest that the state can nurture, replenish, or restore associational networks and the values that arise from them.[21]

It has been concluded from the foregoing findings that while each of the three credit programmes had its inherent strengths, it also exhibited underlying weaknesses and limitations. For instance, state-directed credit programmes were endowed with substantial resources but the ECS was dogged by serious operational weaknesses. In contrast, while NGOs filled the credit vacuum in rural areas and had organisational advantages, their resources were limited and the terms of their credit were stringent and crippling. On the other hand, ICAs which were crafted on the basis of pre-established social networks, had organisational advantages and potentials of sustainability but were limited by inadequate resources.

It has been vividly made clear that individual efforts were unlikely to be effective in poverty alleviation given the complex nature of poverty. Therefore, the positive attributes possessed by each individual credit programme need to be combined for the credit programmes to be more effective and sustainable. These findings have confirmed the importance of a synergy when dealing with complex development issues. Besides, it has

[21] See Peter Hall (2002), 'Great Britain, The Role of Government and the Distribution of Social Capital,' in Robert Putnam (ed.), *Democracies in Flux: The Evolution of Social Capital in Contemporary Society*, Oxford: Oxford University Press, pp. 21-57. Also see Nicolai Petro (2001),

been suggested that the appropriate approach would have been to channel credit through the traditional self-help informal credit associations rather than creating parallel institutions. This would have strengthened their local capacity for self-reliance, improved their chances of sustainability and created a lasting impact on the living conditions of credit beneficiaries.

7.1 Policy Implications of Credit Intervention for Poverty Alleviation

The thesis has established that credit generally made a contribution by extending credit to those areas, which were previously neglected by formal banking institutions. It was also found out that credit which was delivered on the basis of best practices such as those pursued by successful credit programmes such as the Grameen Bank generally performed better irrespective of whether they were state-directed or NGO-supplied. Therefore, the performance of the credit programme tended to be largely influenced by its design and mechanism. However, it was also established that while the best practices improved institutional performance of the credit programme, they did not have the same effects of enhancing the performance of the credit beneficiaries. The stringent loan terms did not allow the beneficiaries to break-even. Moreover, they were found to discourage agriculture and encourage trade-related activities.

'Creating Social Capital in Russia: The Novgorod Model,' *World Development*, 29 (2): 229-44.

While replicating the management principles of successful credit programmes as those of the Grameen Bank is useful, it is necessary that these best practices be adjusted according to the prevailing social and economic realities. For instance, it is important that loan terms, which were found to be generally stringent need to be relaxed. This is because of the fact that the rural economic activities are seasonal and therefore require reasonable gestation periods.

It was also evident that the state is justified to intervene with subsidised credit in rural credit markets. State intervention is necessitated by the fact that NGO credit programmes discriminated against the rural people. Besides, the NGO credit delivery terms were stringent and consequently discouraged agriculture. The stringent credit terms of NGO credit programme is explained by the institutional objective to ensure self-sustainability. However, state intervention does not have to be direct but should be facilitative. The state needs to put in place a favourable policy environment that facilitates the private sector or non-governmental agencies and self-help initiatives to extend credit to the poor. The state also needs to use policy instruments to channel credit to strategic sectors, which it considers important for poverty alleviation. It also needs to support individual initiatives such as those of self-help associations by building their institutional capacity so that they can be responsible for fighting poverty at the grassroots level. Local governments can be used as a conduit for assisting to build the capacity of self-help associations. Programmes can be designed to facilitate the formation of self-help associations, which would be provided with training and resources to implement change at the grassroots level. It is therefore necessary that grassroots initiatives be supported by the higher organisations such as the state so as to effectively address the challenges of poverty. In other words, complex challenges of development such as poverty require joint action if they are to be handled effectively.

Even though credit provided a tremendous contribution in the effort to alleviate poverty, there was evidence that it had limitations. Some of the crucial problems that undermined the effectiveness of credit were the wider socio-economic factors such as local cultural impediments, inadequate markets, and the effect of macroeconomic policies. During the process of carrying out this research, it became vividly clear that credit needed to be supplemented by good roads, efficient markets, education and health services as well as security and good government policies. Credit schemes though significant and necessary, cannot be substitutes for broader policies and investment infrastructure to foster economic opportunities for the targeted sector or people. Therefore, credit alone should not be viewed as a panacea to poverty eradication. It is only a component of a much larger enabling environment and infrastructure needed to foster economic growth as well as opportunities that poor people need to improve their lives.

It is precisely clear that complex problems like mass poverty and deprivation require wider social interventions than credit *per se*. This therefore implies the need to build partnerships that involve concerted action by the state, the private sector, non-profit organisations as well as informal sector self-help grassroots associations of the poor themselves. Rural poverty not only requires a partnership of all the institutions interested in the development process but also a combination of interventions like, social and physical infrastructure, efficient markets, good governance and a good policy framework which must be co-ordinated within a specified framework.

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Appendix

Key Informants Interviewed

Mr. George Bekunda, Commissioner, Poverty Eradication, *Entandikwa* Secretariat, Ministry of Gender, Labour and Social Affairs (MGLSA), Kampala, Uganda.

The National Programme Officer, Poverty Alleviation Project (PAP), Kampala, Uganda.

The National Coordinator, Poverty Alleviation Project (PAP), Kampala, Uganda.

Mr. Richard Ssewakiryanga, Project Officer, Uganda Participatory Poverty assessment Project (UPPAP), Ministry of Finance, Planning and Economic Planning (MFPED), Kampala, Uganda.

Mr Henry Mbaguta, Uganda Participatory Poverty Assessment (UPPAP), Ministry of Finance, Planning and Economic Planning (MFPED), Kampala, Uganda.

Mr. Tim Williamson, Secretary Poverty Action Fund (PAF), Ministry of Finance, Planning and Economic Development (MFPED), Kampala, Uganda.

Ms Marion Tukahurirwa, Assistant Chief Administrative Officer, Mpigi District.

Mr. David Lubuuka, Assistant Chief Administrative Officer, in-charge of *Entandikwa* credit scheme, Mpigi District.

Mr. Stephen Besiga, District Credit and Industrial Promotion Officer, Mbarara District.

Mr. Jackson, Sabila, Area Project Officer (APO), Poverty Alleviation Project (PAP), Mpigi district.

Ms Shirley Misango, Senior Credit Officer, Feed the Children – Uganda, Kampala, Uganda.

Mr Fred Luzze, project Manager, World Vision, Buwama, Mpigi District.

Mr. Fulgence Bwerere, Head of the Credit Component, ACORD, Isingiro, Mbarara District.

Mr. E. Mwongyera, Executive Director, ISSIA, Ibanda, Mbarara District.

Mrs Grace Birakwate, Chairperson, Nyabuhikye Women Catering Association (NWCA), Nyabuhikye, Ibanda, Mbarara District.

Mrs Mary Karusya, Chairperson, Kisyoro Women Group, Kabuyanda, Mbarara District.

Mrs Jovailo Muhawe, Chairperson, Nyampikye Women's Group, Kabuyanda (NWG), Mbarara District.

Mrs Joy Shillingi, Chairperson, Kabuyanda Women United Group (KWUG), Kabuyanda, Mbarara District.

Mr. Johnson Sebadewo, Chairman, Kyezimbira Tweyombekye Group (KTG), Kikagate, Mbarara District.

Christine Nyandera, Chairperson, Abagalana Women's Group, Kakindu, Kisubi, Mpigi District.

Mrs Kanabi, Chairperson, Twekambe Women's Group, Bunamwaya, Makindye, Mpigi District.

Chairman, Twegatte Mubyenfuna Group, Buwama, Mpigi District.

Chairman, Tukore Bukozi Association, Mbizinya, Buwama, Mpigi District.

Chairman, Bataka Tweyambe, Igoroora, Ibanda, Mbarara District.