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Preface and Acknowledgements

Many researchers, from economists to philosophers, have tried to find solutions to eradicate poverty. It would be highly exaggerated to say that any attempt of poverty alleviation was a failure, but in the end – and so tell us the statistics – we still have more than 1 billion people living in vast poverty. The effort to make this world a better place is a good one and professional development work is absolutely justified and more important than ever.

Which topic for a diploma thesis could be a better example of development than the analysis of the synergies between an economic activity like microfinance and people living in poverty? Billions of Euros are invested for microfinance based projects; millions of people pay their living on micro financial debts; Muhammad Yunus and his Grameen Bank even got awarded with the Nobel Peace Prize for their achievements in combining economic with social development by micro financial solutions. Microfinance is important, and as a matter of fact, it is real, whether experts like it or not. Microfinance is a scientific area of conflict. That is the reason why this topic is of such interest to me: Does microfinance really alleviate poverty and how is it possible that there are so many differing opinions?

Many thanks to the International Development Studies at the University of Vienna; I had the great opportunity to look beyond the scenes of our world. It was a fascinating time, in an era of radical change that Austria has not seen since the 1960s: The #unsereUni and #unibrennt movement brought the discussion of underfinanced studies with marching protests on the streets; the Audimax and the rector's office got occupied, which caused lots of public attention and solidarity movements all over Europe; students forced the Federal Ministers of Science and Development Hahn, Karl and Töchterle to act, unfortunately with limited success. There is no political interest in financing a well respected and unique institution like the International Development Studies.

Writing this diploma thesis is not my sole merit, there was a lot of support along my way. Although it was a set-back that prompted me to start with the International Development Studies, I would not even have started attending university without guidance and support of my family and friends. As a logical consequence I simply dedicate this diploma thesis to those I love. Dear parents, thank you so much for being patient with me and giving me the scope for development that I always needed so much. My beloved brothers, thank you so much for teaching me the rules of life the hard way, it was never straight but always forward. Very special thanks to my friends, the new and the old ones, those who share their perspectives and let me see what hides beyond my own horizon. And of course this diploma thesis would have never become true without you and your all-embracing support, my love.

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List of Abbreviations

AMFIU	Association of Microfinance Institutions of Uganda
BOD	Board of Directors
BOU	Bank of Uganda
DFID	Department for International Development
GDP	Gross Domestic Product
GPS	Global Positioning System
GKMA	Greater Kampala Metropolitan Area
HH	Household
IFAD	International Fund for Agricultural Development
KCC	Kampala City Council
KCCA	Kampala Capital City Authority
LFPR	Labour Force Participation Rate
MDI	Micro Deposit-taking Institution
MF	Microfinance
MFI	Microfinance Institution
MoFPED	Ministry of Finance, Planning and Economic Development
MoLHUD	Ministry of Land, Housing and Urban Development
MRT	Mass Rapid Transit
NGO	Non-Governmental Organisation
ODA	Official Development Assistance
OVC	Orphan and Vulnerable Children
PLE	Primary Leaving Examination
ROSCA	Rotating Savings and Credit Association
SACCO	Savings and Credit Cooperative Organization
SLA	Sustainable Livelihood Approach
UBOS	Ugandan Bureau of Statistics
UN	United Nations
UNDP	United Nations Development Programme
UNHS	Uganda National Household Survey
USh/UGX/Shs	Ugandan Shilling
WB	World Bank
WHO	World Health Organisation
WTO	World Trade Organisation

Abstract

This diploma thesis describes the impacts of microfinance activities in the slums of Kampala, Uganda. Based on a field research on microfinance clients and microfinance institutions conducted in 2012, this diploma thesis aims to identify the effects of microfinance and the clients' development. All impacts on the clients are determined according to the principles of the Sustainable Livelihood Approach in order to understand the complexity of livelihood relations, e.g. a financial income activity like a microcredit and the malnutrition of household members.

Furthermore this thesis outlines all microfinance development models used by urban microfinance institutions in Kampala. While in other research papers the focus has been on clients only, this diploma thesis also describes and analyses the practices and situations of small microfinance institutions. These financial service providers play an essential role in implementing an institutionalised microfinance system and in helping people overcome extreme poverty. These institutions suffer from severe problems as well because they seem to be chronically underfinanced with little capital stock. The following questions are addressed in this thesis: Why is it so difficult for those institutions to develop beyond an infant stage? Why do institutions charge high interest rates to cover payment defaults, although these payments make a development success of clients less likely? What are the long term interests of microfinance institutions and why do they have different policies?

The partners in this field research suggest business loans instead of educational loans, so should there be a stronger focus on the entrepreneurs' development than on the payment of school fees and providing future opportunities for the offspring? What are the consequences if a client applies for a second or third microcredit with larger total amounts? Can there be any development with increasing debts? This diploma thesis shows why microfinance can be a real success for those with large capital, while the risk of failure is much higher for those with limited sources of capital.

Concluding this diploma thesis, the group of beneficiaries of microfinance are identified. In fact, the poorest of the poor do not have access to institutionalised financial markets, although the demand for financial support is strong. The policies of microfinance institutions serve the active poor by group or individual lending systems, but they are not capable of serving the unsheltered and those with very little capital or assets.

Keywords: Uganda, Kampala, Microfinance, Poverty Reduction, Sustainable Livelihoods

Zusammenfassung

Diese Diplomarbeit beschreibt die Auswirkungen von Mikrofinanzen in den Elendsgebieten in Kampala, Uganda. Basierend auf einer 2012 durchgeführten Feldforschung mit Mikrofinanz KlientInnen und Mikrofinanz ExpertInnen werden die Verhältnisse zwischen den einzelnen Akteuren dargestellt. Weiters werden die einzelnen Modelle der Mikrofinanzierung erörtert und die Mikrofinanz Institutionen auf ihre Entwicklungsqualitäten hin geprüft. Die Auswirkungen auf die KlientInnen wurden anhand des Sustainable Livelihood Approaches präzise dargestellt, um die komplexen Zusammenhänge zwischen einem finanzgeprägten Entwicklungsinstrument und dem Leben von KlientInnen zu erklären. Während bei einigen KlientInnen klare Entwicklungsfortschritte festgestellt wurden, waren in anderen Fällen die Entwicklungsbemühungen durch Mikrokredite eher gebremst beziehungsweise nicht feststellbar. In manchen Fällen konnte sogar von einer Verschlechterung der Lebenssituation gesprochen werden. Die Ursachen dafür sind umfangreich. Während Mikrofinanz Institutionen chronisch an einer Unterfinanzierung leiden – vor allem Jungunternehmen sind davon betroffen – und sich den harten Regeln des Wettbewerbs ausgesetzt fühlen, müssen zusätzlich noch höhere Zinsraten verlangt werden, um das Ausfallsrisiko des Einzelnen für die Bank zu minimieren, wobei doch die Zinslast das Entwicklungspotential für KlientInnen am stärksten beeinträchtigt.

Wie kann diese Negativspirale durchbrochen werden? Wie können sich KlientInnen von einer gesellschaftlichen Verschuldung, durch Verschuldung mit Mikrokrediten in eine schuldenfreie Zukunft entwickeln? Sind die Bezahlung von Schul- und Studiengebühren mit Mikrofinanzgeldern ausreichend, um eine nachhaltige Entwicklung zu gewährleisten? Wie effektiv kann ein finanzgestütztes Entwicklungsinstrument sein, wenn jegliche Investitionen in Bildung erst nach Jahren finanzielle Rückflüsse ermöglichen? Investitionen mit Mikrokrediten sollten innerhalb kurzer Zeit die Einkommenssituation verbessern, denn die Rückzahlungsfristen sind auf wenige Monate begrenzt. Mit den höheren Einkommen können Konsumbedürfnisse besser befriedigt werden. Doch nicht alle KlientInnen profitieren im gleichen Ausmaß von ihren Mikrokrediten, denn es hat sich herausgestellt, dass jene KlientInnen, welche bereits über höheres Kapital bei der Kreditaufnahme verfügt haben, auch nach Abzahlung des Kredites einen besseren Entwicklungsverlauf genommen haben. Diese Arbeit erklärt, warum Mikrofinanzen ganz unterschiedliche Auswirkungen auf KlientInnen haben können, obwohl die Lebensumstände recht ähnlich sind.

Schlagwörter: Uganda, Kampala, Mikrofinanzierung, Armutsbekämpfung, Lebensunterhalt

1. Introduction

1.1 Research Problem and Purpose

Over the past decades microfinance has become a very important topic in the attempt to eradicate poverty. It has become a key policy for programme intervention, following the logic of a bottom-up strategy, keeping the focus on local structures and grass root development. Microfinance is a mixture of financial services (deposits, loans, payment services, money transfers, and insurance) for low-income households among the urban and rural poor. Microfinance also includes use of collateral substitutes to compensate for a lack of fixed assets. With these services, poor people should have a tool in their hands for self-development, escaping the poverty circle, and living without the need for further development assistance.

People face the problem that physical labour and ideas are not enough to make things happen. Microfinance started because of financial exclusion from markets. All over the world people have the problem of accessing money, especially those living in developing countries, so the poor developed informal community-based financial agreements to cover their needs. (Brau; Woller 2004: 3) During the 1970s, microfinance started to institutionalise. Financial pioneers like Muhammad Yunus, an economist from Bangladesh, started a new era of financial developing assistance by founding the Grameen Bank Project. He received the Nobel Peace Prize in 2006. By then, with every year micro financial development became more and more popular, and so did its significance. Experts acknowledged the importance of microfinance, discussing the efficiency of microfinance in the 1995 World Summit for Social Development in Copenhagen. Microfinance as development instrument officially contributes to the fulfilment of the MDGs, the Millennium Development Goals, which have been proclaimed in 2002 by Kofi Annan, the former Secretary General of the United Nations (UN), to halve poverty by 2015. The year 2005 was the International Year of Microfinance as a strategy of development aid.

The effects of microfinance activities on households are still not unquestioned. Many researchers doubt that the provision of money and saving deposits is a sustainable method to eradicate poverty. History has shown that the attempt of poverty alleviation by a single finance-based discipline may not be sufficient, or even worse, may cause more problems than it solves. There is a lack of a transdisciplinary understanding of microfinance services and their impacts on the poor. The importance of microfinance is beyond controversy, but its efficiency is still questioned. Huge amounts of the official development assistance (ODA) are spent on microfinance development solutions. Thus, it is reasonable to question its efficiency on household level, trying to analyse which kind of effects microfinance services have on the poor; more specifically, which effects do microfinance services have on the poor in Kampala, Uganda. The attempt of this diploma thesis is an illustration of microfinance clients and microfinance institutions in an impoverished area.

1.2 Research Questions

The following research questions shall be answered:

- What are the problems between microfinance clients - microfinance institutions - microfinance services?
- How does the access to microfinance services influence the development of microfinance clients?
- Is a finance-based development tool sufficient to escape the poverty cycle?

1.3 Methodology

The basis of this diploma thesis is a self-conducted field research in Kampala in 2012, where I interviewed microfinance clients and local microfinance experts. The analysis of the collected data relies on an economic view according to the principles of development economics as well as on the theories of the Sustainable Livelihood Approach.

There are many economic approaches in order to understand microfinance and poverty. It seemed to be advantageous to focus my economic understanding on the principles of the World Bank, which is a global opinion leader in the development field; on economic development theorists, who take a less liberal stance, e.g. Supriya Garikipati or David Macarov; and on local actors like the Association of Microfinance Institutions of Uganda (AMFIU). The economic scope in this diploma thesis remains on a household level.

The Sustainable Livelihood Approach includes diverse principles of poverty reduction strategies; it describes the attempt of life-sustenance, life-security, and life-arrangement. The Sustainable Livelihood Approach should compensate for the inability of economic theories with a holistic view of a person's development. It combines necessary criteria for its understanding of development, e.g. social relations, access to public transport or the role of enabling agencies. The Sustainable Livelihood Approach identifies vulnerability to risk and external shocks as important development factors. Widely recognised development organisations, e.g. UK's Department for International Development (DFID) or the Swedish International Development Cooperation Agency (SIDA), have implemented their own Sustainable Livelihood Framework.

1.4 Literature Review

Poverty is a well-researched topic, and therefore it was a challenge to find and select suitable literature about poverty which can be connected to microfinance. *Poverty Measures and Analysis (2002)* by Aline Coudouel (et al.) is the World Bank's basic reference in defining and understanding poverty. It defines poverty by looking at whether households have enough income, consumption, education, or similar attributes. It further analyses the distribution of those attributes and finally describes the probability of living in poverty. Basically its focus is on objective and quantitative measures, while subjective and qualitative measures receive only cursory treatment. Another book for better understanding of poverty is *What the Market does to People (2003)* by David Macarov. His arguments are much more critical than Coudouel's. He describes market dependencies and the individual's dependency of money. He criticises the fact that only those are poor who live under a specific poverty line and he questions those who define these lines.

The Sustainable Livelihood Approach (SLA) is very well explained by Leo de Haan (et al.) and Lasse Krantz. *The Livelihood Approach and African Livelihoods (2005)* and *Exploring the frontier of livelihoods research (2005)* by Leo de Haan (et al.) give an overview of livelihoods in African countries along practical examples from existing literature. Those examples describe the problem of access to livelihood opportunities, which is increasingly recognised as key problem in poverty eradication. *The Sustainable Livelihood Approach to Poverty Reduction (2001)* by Lasse Krantz illustrates how development organisations (SIDA, UNDP, CARE, DFID) adopt Sustainable Livelihood Frameworks for their own programmes and operations. It identifies strengths, like the multiplicity of assets that people make use of, but also the weaknesses of the SLA, like its high complexity in the implementation process.

There is a broad variety of existing literature, articles, and statistics about microfinance. It ranges from statistics at global scale to local field research. Apparently, an economy-based perspective provides more promising and positive results of development effects by microfinance than research of other sciences, primarily sociological research, does.

Thanks to the Ugandan Bureau of Statistics (UBOS), the Association of Microfinance Institutions of Uganda (AMFIU), and the Kampala Capital City Authority (KCCA) I had access to up-to-date literature and statistics about Uganda and Kampala as well as data for poverty and microfinance at a national and local scale.

1.5 Structure of the Diploma Thesis

The diploma thesis *Microfinance in Kampala, Uganda* sets out the actual topic in chapter *2. Definitions*, which introduces the theoretical concepts of poverty, the sustainable livelihood approach (SLA), the sustainable livelihood framework (SLF), and of microfinance (MF). Chapter *2.3 Microfinance* starts with common aspects of microfinance and subsequently focusses on Ugandan characteristics.

Chapter *3. SLF for Urban Population in Kampala* goes one step further and describes the situation of people living in Kampala. The capital of Uganda is a very diverse metropolis and, because it is quite difficult to find literature about impoverished areas of Kampala, I had to combine existing literature about the Greater Kampala Metropolitan Area (GKMA), the Kampala Capital City (KCC) with my own documentations and memories of slum areas. There is only little suitable literature about the regions of Kamwokya and Kyebando which are relevant for this diploma thesis, because of the close relation to the field research. This chapter gives an overview about the living conditions in Kampala, and it describes the surrounding field, the organisation, and functionality of Kampala from the perspective of the Sustainable Livelihood Framework.

Chapter *4. MFIs in Uganda and Research Partners* starts with the institutionalisation of MF in Uganda by companies and organisations which have dedicated their work to provide MF services to Ugandans, especially to poor people. Furthermore this chapter introduces two partners for this field research, KCCC Sacco and Tumbakosar, both microfinance institutions (MFIs) and local actors in Kamwokya and Kyebando.

Chapter *5. MF Clients* illustrates the lives of MF clients who are interview partners in the field research. With the data collected in the field research it was possible to provide a sound understanding of these individuals. This chapter pictures the clients' lives and their relation with MF activities. Several of the interview partners will be introduced in case stories in chapters 5. and 6.

Chapter *6. MF According to the SLF – Is There Any Development?* goes one step further and combines the facts about poor people living with MF with the SLF, identifying the effects MF services have on the clients' lives according to the holistic principles of the SLF. Chapter 7. provides recommendations and concludes this diploma thesis.

2. Definitions

2.1 Poverty

Poverty is an assessment, a rating, and an estimation of people. Researchers have suggested many definitions over time, e.g. poverty could be the lack of command over commodities in general (Watts quoted from Bellù 2005: 2). Alternatively, it could be the lack of command over some basic goods like food and housing. More generally, Sen argued in 1985 that poverty is the lack of capability (capability approach) to function in a given society. All these definitions point to poverty as a status in which a reasonable standard of living is not achieved. Bellù evaluated a definition for poverty that rests upon World Bank research: "*Poverty is the lack of, or the inability to achieve, a socially acceptable standard of living."* (Bellù 2005: 2) The inability refers to a situation where individuals lack command over economic resources.

2.1.1 Measurement and Drawing Lines

Every institution, company or NGO that works in the field of development has its own definition of poverty; the same applies to governments and international actors like the World Bank or the United Nations (UN). Because of this variety of definitions it is important to understand how actors deal with their own definitions and if they act accordingly in their approach of poverty eradication. One might think that the UN, as a legitimate representative of 193 states, may have developed a harmonised definition of poverty, but in fact every actor uses different criteria and follows suitable assumptions. While one country uses a percentage of the median income to define poverty, another country uses the cost for a basket of commodities. The United States Census Bureau has listed nine different poverty measurements. Each government decides which kind of measurement is utilised. It is in the government's interest to minimise the number of poor people in its own country, to cloud reality from the public. And the attempt of drawing poverty lines like the "one Dollar a day" by the World Bank is not a scientific approach but an attempt to pack poverty into comparative statistics. All methods of measurement can be categorised as absolute measures, relative measures, subjective methods or normative perspectives, including overlaps among them. (Macarov 2003: 14f)

Absolute Measures

An absolute poverty line is a single number, figure or situation and a person below that line counts as poor (Macarov 2003: 16). Absolute measures do not take anything else into consideration but money and income. If there is a lack of something it can be bought to fill the gap, so it is just a matter of a sufficient amount of money. It does not matter if the line is drawn along food consumption by counting calories, limited mobility because of transport costs, or access to education because of school fees; income and money are the major criteria to satisfy needs. But the assumption of higher income solving the problem of poverty by bringing people above the drawn poverty line does not go far enough. What happens if people live in regions with limited access to water, medical care or educational opportunities? These problems cannot be solved with higher purchasing power. Those people are really poor because of limited access to resources and social exclusion. Thus, money is just one aspect among many others to define and measure poverty. (Macarov 2003: 21)

Relative Measures

Regarding relative measures of poverty, an individual is considered poor only in relation to other people. A common way of relative measures is a definition in percentages, e.g. someone is poor if the person's income is below 50 per cent of the average median income. The measurement in relative terms has the advantage that poverty cannot be eradicated as long as a society is not completely equal in terms of money or possessions, as long as there are people who possess more and others who possess less. Another positive feature of relative definitions of poverty is the demonstration of income gaps. When two segments of society are compared over a period of ten years, it is possible to discern whether the gap is narrowing or widening. This does not change the situation of poor people, but demonstrates developments and trends. (Macarov 2003: 23, 25)

The problem with relative measurements to define poverty lines is the extensive effort in precise data-gathering, statistical handling and a constant updating process. However, what happens if the data is not kept updated? In other words, how valuable is the explanatory power of average incomes and baskets of available commodities when this data is three years old? Because of high bureaucratic barriers and high efforts in the collection and evaluation of data - to some extent - a good deal of guesswork and interpretation is involved. Moreover, poverty lines based on relative measures are not always very comprehensive, because primarily economic factors are recognised as poverty indicators; social deprivation or exclusion are not included in the statistics and the evaluation. In fact, the definition of poverty lines with relative measures offers advantages for governments to hide poverty, but does little to help people to escape the poverty trap. (Macarov 2003: 24f)

Subjective Measures

Subjective measures, compared to absolute and relative measures, are a complete different approach to define poverty. This type of approach asks people about a specific situation in their lives, e.g. “Do you think you are poor?” or “Does your family live in poverty?”. While this method is common practice for researchers to obtain information beyond numbers and statistics, it is not used by governments to define poverty lines. In other words, people place poverty lines higher than governments and governments have little interest to identify people as poor, because then governments would then have to take expensive development actions. (Macarov 2003: 25)

While this approach has practical use on an individual basis, it causes difficulties in the application on a wider scale. The information received from individuals is always in reference to familiar reference groups, like family or neighbourhood; or in reference to events in the past, present or future. Another problem is that satisfaction is a function of expectations. If someone is a selfless and frugal person, then this person is satisfied with little efforts and might self-identify not as poor, while others in a similar situation think about themselves living in great poverty and many efforts are needed to solve the situation. Consequently, it would be very difficult to define poverty lines on subjective measures on a nationwide scale. Maybe that is another reason why not a single country or programme uses people’s own evaluation of their situation as a basis for poverty lines. (Macarov 2003: 26)

Normative Measures

Normative measures are evaluations according to stereotypes of other people. Immigrants, old people, children, mentally retarded and disabled people, or just people living in slum areas are often identified to be part of the poor population in a country, along with many other groups that are commonly considered poor. Also, there is an advantage for governments and politicians to play with these stereotypes - ethically correct or not - because some groups are expected to be poor. In this case no support is requested by the public authority, and people think that some groups cannot be adequately helped. (Macarov 2003: 25f) These stereotypes are used for those groups in society that are not living “our way of life”, they (whoever “they” are) are coming from outside, “they” do not know what it means and what it takes to be one of “us”. In fact, it is just an excuse for denying social, economical, cultural and political participation; that is all part of the envy debate. The actual discussion about migrants and refugees coming to Europe is an example for normative measures. Those who are coming from outside, that is, foreign countries, have no or very limited legal claims. That is the result of a political process and a contentious jurisdiction over the past decades. After World War II Europe had great interest to nationalise foreigners, since the 1990s this has reduced to key employees.

2.1.2 Income and Consumption

The World Bank is very clear in its assumptions about indicators for well-being, a term that means poverty but has a positive connotation; it can be defined in monetary or non-monetary terms. In particular, the concentration is focussed on quantitative, objective measures of poverty. Subjective and qualitative measures of income or consumption poverty receive only cursory treatment, as do measures related to non-monetary dimensions, such as health, education, and assets. The typical source of data for the indicators and measures presented in World Bank reports is the household survey. (Coudouel 2002: 30, 32)

The World Bank is primarily using monetary measures to identify poverty and suggests the use of consumption data, because consumption has a better explanatory power than income, due to the following reasons (Coudouel 2002: 30):

- Consumption is closely related to people's well-being when they have enough to satisfy their needs. In contrast, income is just a single element that allows consumption.

- Consumption can be measured better than income. Seasonality in rural areas and informal urban sectors causes great fluctuations in household income, which results in difficulties of collecting valid data. Another problem is the estimation of an agrarian income when inputs for agricultural production are purchased from immediate revenues and without book keeping. In addition, it is difficult to identify income when households consume their own production or exchange it for other goods.

- Consumption better reflects a household's actual standard of living and its ability to meet basic needs. It shows which goods and services a household can afford, a household's access to credit markets as well as a household's savings when current income is low because of factors that cause fluctuations in income, like seasons or harvest failure.

2.1.2 Gender, Health and Education

Norms and values in society still raise gender inequalities, which are differences between women and men that empower one group and weaken the other. A typical example for gender inequalities is the fact that women have a lower average income than men. Also, many inequalities affect the health status of women, e.g. women do not receive health care when the community prevents them from travelling alone into clinics; or women get HIV/AIDS because society approves polygamous behaviour of men and simultaneously prevents women from using condoms. But gender inequalities not only affect women but men also become victims of social standards, norms and traditions; e.g. young men are bold risk takers to gain the respect of their ancestors. (WHO 2009: 8)

These examples show that norms and values cause unnatural, socially forced behaviours that negatively affect health. Bad health causes chain effects in all aspects of life. But norms and values are not fixed and experience constantly changes. Likewise, the outcome of negative effects caused by gender inequalities is not static and can be changed over time. (WHO 2009: 9)

The health status of household members is definitely an important indicator of poverty. In this field, analysts can focus on many aspects, e.g. the nutritional status of children as a measure of occurrence, the incidence of specific diseases (diarrhea, malaria, or respiratory diseases), or life expectancy for different groups within the population. If data on these health issues are unavailable, other input can be evaluated, such as an individual's number of visits to hospitals and health centres, access to specific medical services (such as pre- and postnatal care), or the extent of vaccinations children receive, affecting their future health status. Regarding education, the level of literacy could be used as the defining characteristic and determine the threshold for illiteracy as the poverty line. In countries where literacy is nearly universal, one might opt for specific test scores in schools as the relevant outcome indicator to distinguish among different groups of population. Alternatively, the number of years of education completed could be compared to the expected number of years which should be completed. (Coudouel 2002: 33)

Even though these measurements of deprivation have a long tradition and are reflected in the international development goals, for example in reduced maternal mortality rates or enrolment of all children in primary school by 2015, data on this non-income indicators are problematic. Since infant mortality data are collected mostly in periodic intervals during national censuses, this can cause problems because many countries lack an extensive working registration system. Therefore, infant mortality rates were only available for one year in the period from 1990 until 2001 for most developing countries. The availability of data for life expectancy is even sketchier. (World Bank 2001a: 18)

Dealing with education data is also problematic, since school enrolment does not state anything about school attendance and can be increased by grade repetitions. The net primary enrolment rate, which shows the relation between enrolled primary-school-aged children and all primary-school-aged children is available only for around 50 countries in the period between 1990 and 1997 (World Bank 2001a: 19).

2.1.3 Vulnerability

Vulnerability can be understood as the risk in terms of income and health if a household or person experiences an episode of income and health poverty over time. Vulnerability also includes the probability of being exposed to a number of risks, e.g. violence, crime, natural disaster, or being pulled out of school (World Bank 2001a: 19).

Measuring those risks poses some problems since they cannot be measured by observing households once, though significant household panel data is necessary over a period of several years. Another challenge is to find indicators of vulnerability for at-risk households since effective welfare programmes reduce the necessity for persons to diversify their sources of income or networks of mutual support; they also reduce the necessity to have stocks of food or daily needed goods. As a result, income and household assets may not be sufficient to measure vulnerability. The World Bank offers and suggests some indicators for the measurement of vulnerability (World Bank 2001a: 20):

- Physical assets are assets that can be sold to compensate income loss, which can be used as an indicator for self-insurance. It is important to understand how easily theses assets can be sold by applying the knowledge of the functioning of asset markets.

- Households with lower education levels (low human capital) are more exposed to the risks of poverty and less able to manage them.

- Income diversification has been used as an indicator for vulnerability, but can be misleading since one low-risk source might be better than multiple high-risk income sources.

- Links to networks are family based networks, money lending networks. e.g. rotating savings and credit associations (ROSCAs), and other groups and associations that are part of a household's social capital which can be a source of help in times of need and shortages.

- Participation in formal safety nets refers to being entitled to social assistance, unemployment benefits, pensions, workfare programs, social funds or other public transfers can reduce vulnerability.

- Access to credit markets can help to smooth consumption and therefore reduce vulnerability.

2.1.4 Poverty and Capabilities

Amartya Sen's writings about poverty have been highly influential in the paradigm shift away from economic growth and GDP to poverty understood as a denial of choices and opportunities for living a tolerable life. This paradigm shift can also be seen in the human developments reports and their indices, which reflect Sen's notion of poverty.

Sen asks why income and living standards matter and comes to the conclusion that they are only instrumental to what really matters, which is the kind of life a person is able to lead and the choices and opportunities that are open to a person's life. The key terms in this respect are function and capability. The first term refers to what a person can actually manage to do or be. This ranges from elementary nourishment to participation in a society of self-respect. The latter term refers to what a person can do or be, referring to the choices that are open to a person. Sen argues that money is just a limited tool, not more than lubricating oil, since money only can buy commodities, which is a way to achieve functioning. It is important to note that achieving functioning through money is dependent on the extent to which the goods and services are exchanged for money, which can vary from society to society. The conversion of money into capability and function is crucial since this can also vary according to age, sex, caste, and disability. For example disability can mean higher effort in order to achieve the same function as a non-disabled person. Amartya Sen therefore argues that poverty should be understood as a failure of basic capabilities to reach certain minimal acceptable levels (Lister 2004: 16).

2.2 Sustainable Livelihoods Framework (SLF)

2.2.1 Overview

The concept of sustainable livelihoods is a deviating approach to conventional attempts of poverty alleviation and the understanding of poverty. The focus on certain aspects of poverty, e.g. low income or fertility, is too narrow to understand the complexity of poverty. Poverty alleviation programs had their main focus on economic factors, which offered unsatisfactory results. It is important to include vital aspects of poverty like vulnerability or social exclusion. It is now recognised that more attention must be paid to the various factors and processes which either limit or improve the individual's ability to self-develop an economical, ecological, and social life in a sustainable manner. The concepts of a Sustainable Livelihoods Approach (SLA) offer the prospects of a more coherent and integrated approach to poverty. (Krantz 2001: 6)

The Sustainable Livelihoods Framework (SLF) is a holistic method of understanding poverty. It includes assets, capacities and resources that are needed to escape the poverty cycle. All factors have equal values and need to be combined to resist or overcome external influences like stresses or shocks and to improve the actual status, so that the poor will enhance their future on a sustainable basis. In general, the focus is placed on economic factors, but the framework enables access to a wider range of assets, e.g. social, political and cultural assets. The approach keeps its focus on the poor, while taking surrounding factors of the poor into account. (DFID 1999: 1)

2.2.2 History of the SLF and the Sustainable Livelihood Approach (SLA)

The ideas of sustainable livelihoods were first introduced by the Brundland Commission on Environment and Development and at the United Nations Conference on Environment and Development in 1992. Robert Chambers and Gordon Conway proposed the following composite definition of a sustainable rural livelihood, which is best applied at a household level:

> *A livelihood comprises the capabilities, assets (stores, resources, claims and access) and activities required for a means of living: a livelihood is sustainable which can cope with and recover from stress and shocks, maintain or enhance its capabilities and assets, and provide sustainable livelihood opportunities for the next generation; and which contributes net benefits to other livelihoods at the local and global levels and in the short and long term. (Krantz 2001: 1)*

In the debate a micro-orientation became predominant, accompanied by a clear focus on households. Increased attention was paid to household strategies to interpret the behaviour of people with little income. The focus on households was a possibility to connect the principles of micro-economics (as well as microfinance) with the political economy of development. Analysis at household level became popular as a practical measurement category and a convenient unit for the collection of empirical data. Due to this focus, poor people were not passive victims anymore, but poor people with capabilities instead; it highlighted the active and proactive role of the individual for development. Despite their lack of access to services and to adequate income, members of a household can provide their own sustenance. (Haan, Zoomers 2005: 28)

It became the preferred objective of household studies to identify the micro-social behaviour of poor people when coping with different types of crises, e.g. droughts, famines or inflation. These studies increasingly turned into survival strategies, that is, concepts to prepare for uncertainties to reduce the effects of externalities. Those studies also showed that households have only limited possibilities in their decision making process; their decisions were bound to structurally inherent constraints by culture, society, or law. Nevertheless, families operate with relative autonomy. (Haan, Zoomers 2005: 29)

The central objective of the livelihoods approach was 'to search for more effective methods to support people and communities in ways that are more meaningful to their daily lives and needs, as opposed to ready-made, interventionist instruments' (Appendini quoted from Haan, Zoomers 2005: 30). The insights of Chambers and Conway are based on previous research activities regarding food security and agro-ecological sustainability and, accordingly, have put sustainable livelihoods at centre stage in the poverty debate. They discussed sustainability as a matter of trade-off for poor people between vulnerability and poverty. (Haan, Zoomers 2005: 30)

> *There are, however, three basic features which most approaches have in common. The first is that the approach focuses on the livelihoods of the poor, since poverty reduction is at its core. The second is that it rejects the usual sectoral entry point (e.g. agriculture, water, or health) and instead begins with an analysis of people's current livelihood systems to identify an appropriate intervention. The final feature is its emphasis on involving people in the identification and implementation of activities where appropriate. (Krantz 2010: 11)*

2.2.3 Further Development of the SLF

Sustainable livelihoods have become an important topic in the UK's development policy. The Department of International Development (DFID) started multiple new research projects and policy debates on the future development of sustainable livelihoods. While the definition by Chambers and Conway remained more or less the same, the understanding of sustainability has changed; it is understood both as long-term flexibility and as ecological soundness. (Haan, Zoomers 2005: 31)

> *A livelihood comprises the capabilities, assets (including both material and social resources) and activities required for a means of living. A livelihood is sustainable when it can cope with and recover from stresses and shocks and maintain or enhance its capabilities and assets both now and in the future. (DFID 1999:1)*

Institutions, like The International Fund for Agricultural Development (IFAD), UNDP, Care, Sida, and others, have established their own SLFs. The various frameworks were thus considered to be analytical devices for supporting poverty eradication. (Haan, Zoomers 2005: 31)

There are three factors why the SLA is implemented in poverty alleviation programs. First, while economic growth is important for poverty alleviation, the new focus lies on the capabilities of the poor to make use of economic opportunities; sole economic activity does not eradicate poverty. It is still an object of research to find out what prevents the poor from improving their fortune under specific circumstances as well as designing development activities accordingly. (Krantz 2010: 10)

Second, development research is aware that poverty is caused by interdisciplinary factors and not based on economic factors like little income. Health, illiteracy, limited access to services, and vulnerability are undisputed facts of poverty. The linkages between these disciplines have mutual effects. The following scenario serves as an example: People with better nutrition may have a better educational level, which may lead to higher income because of better qualification on the employee market, which leads to higher consumption or savings and savings may be invested in new capital assets, and so on. When people are less exposed to risk and uncertainties, they can try out new things, can be creative and more productive, and may start reorganising their society. (Krantz 2010: 10f)

Third, people working in fields of development are aware that ‘the poor’ know the situation they are living in very well. Therefore, it is important to include the beneficiaries into the design of policies, projects and programmes. The participation of the poor improves the development performance due to higher commitment in the realisation of development activities. (Krantz 2010: 11)

To raise the effectiveness of SLFs for poverty eradication, the following issues should be considered very carefully.

Households

Households are convenient entities for development research, because of their economic behaviour of maximising wealth with limited resources and capital by a single decision making process. Gender studies have evaluated that a household is much more complex than was previously assumed, at a time when family members were more dependent on each other and when it was impossible to sustain life alone. Households change because of an individualisation process in society, with people pursuing their own goals. There are many differences and conflicts, divergent interests between family members, struggles and different expectations. Households are still an important measurement category, but cannot be treated as a homogenous unit. (Haan 2005: 149)

Diversification

The poor show a change of their economic behaviour, diversifying their income to decrease the dependency on a sole income. It is difficult to compensate the loss of a single income with other capital. (Haan 2005: 150) It is a strategic choice of individuals to change their livelihoods on the one hand, but on the other hand poor people with many sources of income lack in specialisation which would create higher profit margins at a less competitive level.

Multilocality

The world is rapidly changing: internet, efficient transnational transport, increased mobility, and telecommunication are part of globalisation. Local households have to cope with global market requirements, or rather, markets which request flexibility and mobility. People migrate to places where they can find work and support their families with remittances. Migration is a process where people seek new livelihood opportunities in foreign places. This means that migration can also be seen as a diversification of livelihoods, because migrants become multi-local, on a national or on an international level. There are many possibilities how family members support each other; by sharing information, sending food to urban areas, financial remittances from industrialised countries, and so on. While transnational networks spread and an increasing number of people share goods and information, the poorest of the poor do not seem to gain benefits. (Haan 2005: 150)

Institutions and Organisations

In the context of livelihoods, institutions cover formal rules and conventions, e.g. markets, laws and property rights, as well as informal codes of ethics, which are the norms and customs that rule social relations. Organisations are groups of individuals that try to achieve certain objectives, like NGOs, political parties, companies, and churches. Institutions and organisations govern access to livelihood capitals, opportunities and qualifications. While poverty eradications policies had their focus on organisations, there was no focus on institutions, although institutions and organisations are connected. When implementing a SLF, it might be advantageous to include its poverty eradication focus on institutions. (Haan 2005: 150)

Power

People may have certain entitlements to capitals or opportunities according to informal institutions, but whether they can succeed in deploying these for their livelihood strategies is a matter of power struggles. Gender studies started analysing power as the critical mass upon which livelihood depends, and empowerment is the key to development and wellbeing. Villareal speaks of the 'room for manoeuvre' (Villareal quoted from: Haan 2005: 151) that women have and explains that in the interaction between individuals power never completely belongs to anyone. The outcome of the interaction is always the result of negotiation, taking into account each other's goals, irrespectively of the inequality at the outset. Power relations are recreated in interaction and that is why they can also change through interactions; the start of a dynamic process. From this point of view, women are not merely victims but have an active role in their subordination, namely their minor role in the decision making process. They not only have the possibility of change but also of improving their position when they use their room for manoeuvre. This is where empowerment starts. The livelihood approach should focus on the working of institutions, analyse how the poor use their room for manoeuvre to improve their livelihoods and find out how organisations could enable them to improve their performance. Poverty eradication activities do not solve the problems of the poor, but enable the poor to fix their problems themselves. (Haan 2005: 150f)

2.2.4 Forms of SLF

DFID

The UK's Department for International Development (DFID) has developed the SLF as a model for use in Canada, as an asset-based framework for understanding poverty and the work for poverty reduction. This model appears to cover all relevant levels in this complex process of poverty reduction. It can be used as a conceptual framework and as a practical tool for design, monitoring and evaluation of development projects or programmes.

According to the UK Department for International Development sustainable livelihoods are:

A livelihood comprises the capabilities, assets (including both material and social resources) and activities required for a means of living. A livelihood is sustainable when it can cope with and recover from stresses and shocks and maintain or enhance its capabilities and assets both now and in the future. (DFID 1999)

With this understanding of sustainable livelihoods, it is important to clarify the key influencing factors: assets, vulnerability, techniques and interventions. (DFID 1999)

- Assets: Human, social, financial, physical and personal assets are the basis of this approach and all of them are needed to encounter challenges in life.
- Vulnerability: The individual (and even groups) has almost no influence on shocks, trends or seasonality, but suffers its consequences. What is important in the context of vulnerability is the question of how people's lives can be prepared to minimise negative effects caused by social, economic and ecological externalities.
- Techniques and Interventions: The SLF offers two types of interventions. First, the practical intervention, which covers direct work with beneficiaries like education, employment or skills. Second, strategic interventions, which aim at systematic social and economic change, e.g. policies, advocacy or founding of unions.

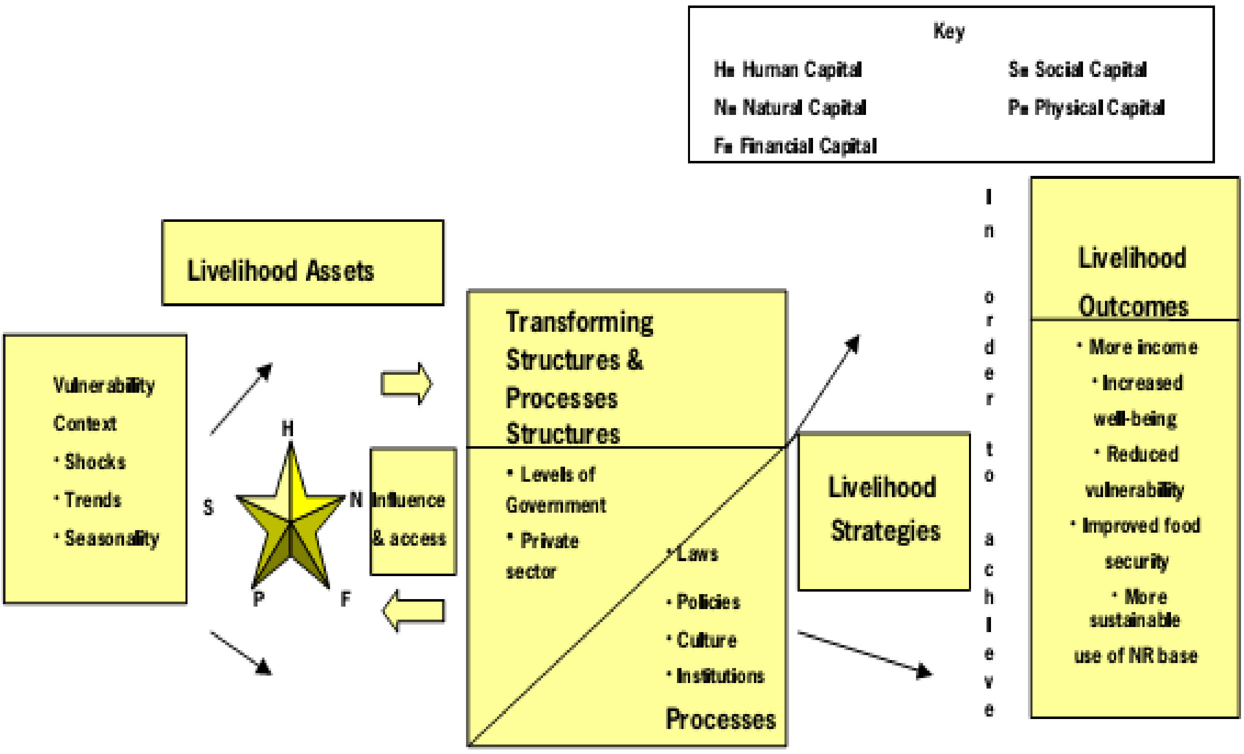


Figure 1: DFID SLF (Krantz 2001: 19)

UNDP

The United Nations Development Programme (UNDP) identifies sustainable livelihoods as a function of how people use their assets on a short- and long-term basis. Sustainable livelihoods are those that are able to cope with and recover from shocks and stresses such as drought, civil war and policy failure through coping and adaptive strategies; economically effective, ecologically sound and socially equitable. (Krantz 2001: 12)

UNDP rather focusses on people's strengths than on their needs. Often the SLF works at the national level and runs specific programmes and activities at district and village levels. The UNDP has developed a procedure for the design, implementation, monitoring and evaluation of sustainable livelihood programmes, consisting of five steps: (Krantz 2001: 13)

1. *A participatory assessment is carried out on the risks, assets, and indigenous knowledge found in a particular community as reflected in the coping and adaptive strategies pursued by men and women.*
2. *An analysis of the micro, macro, and sectoral policies that influence people's livelihood strategies.*
3. *An assessment and determination of the potential contributions of modern science and technology that complement indigenous knowledge systems in order to improve livelihoods.*
4. *An identification of the social and economic investment mechanisms (i.e. microfinance, expenditures on health and education) that help or hinder existing livelihood strategies.*
5. *An assurance that the first four stages are integrated in real time, so that this process is part of an overall programme of development rather than a series of isolated events.*

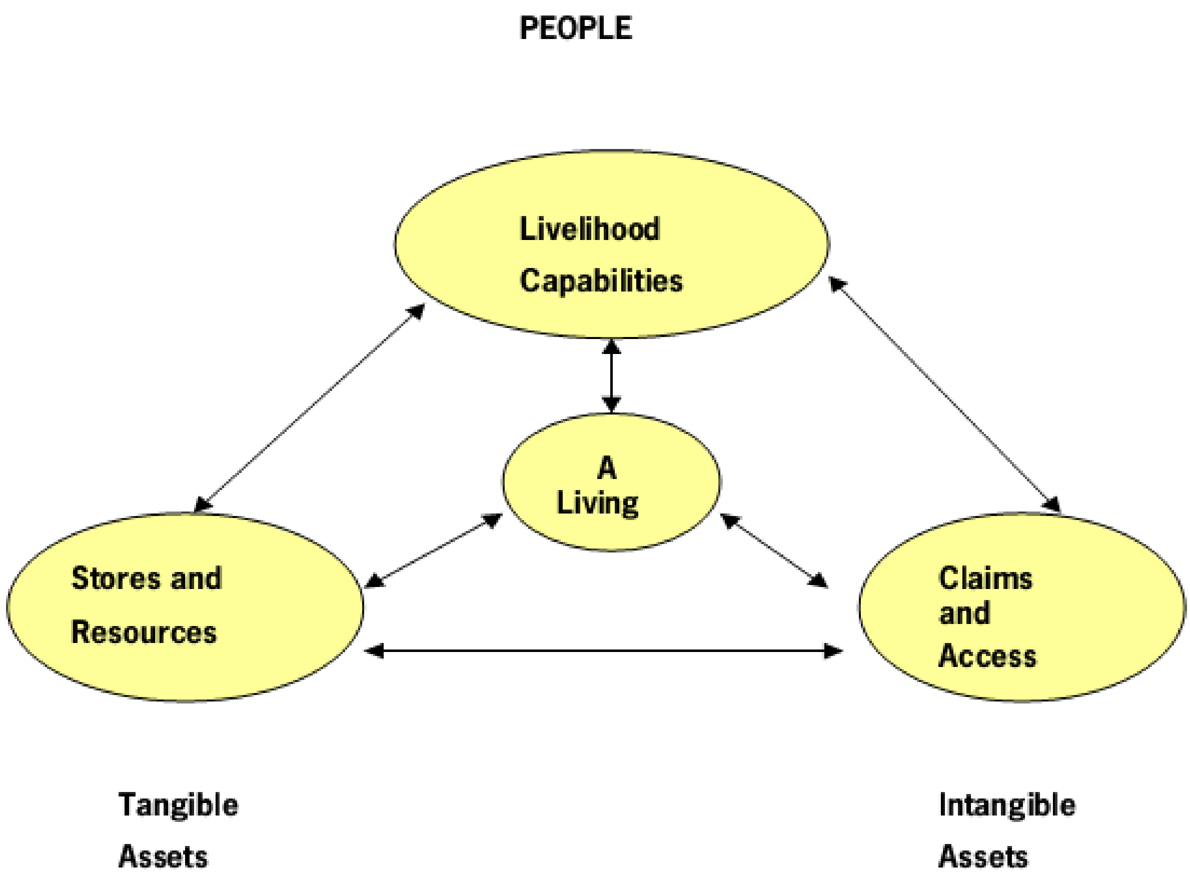


Figure 2: The UNDP SLF (Krantz 2001: 14)

CARE

CARE's company mission as an international NGO is to focus its programmes on helping the poorest and most vulnerable, either through regular development programmes or through emergency assistance. In 1994 CARE has developed its own SLF, the Household Livelihood Security (HLS). It is a framework for programme analysis, design, monitoring, and evaluation. (Krantz 2001: 14)

CARE defines the HLS as a capacity building approach to development and emergency assistance activities, working with beneficiaries as active people and not as passive victims. These people should be supported in their efforts to construct their own livelihoods and should become independent from external help in their development. The development of the HLS has helped to change organisational procedures, making CARE's work more adaptive on an individual basis (Krantz 2001: 15):

- A shift of concern from regional and national food security to the food security and nutritional status of the household and the individual.

- A shift from a 'food first' perspective to a livelihood perspective, which focusses not only on the production of food but also on the ability of households and individuals to procure the additional food required for an adequate diet.

- A shift from a materialist perspective focussed on food production to a social perspective which focusses on the enhancement of people's capabilities to secure their own livelihoods.

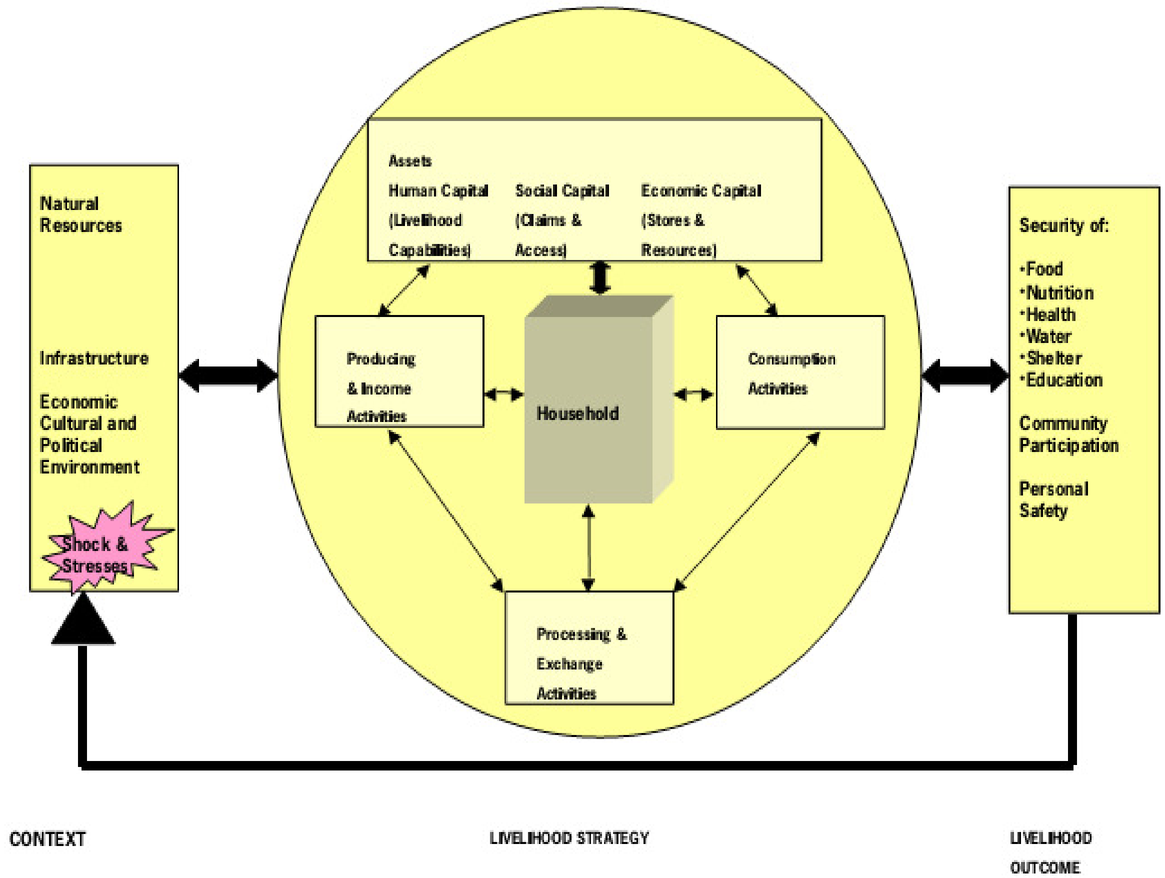


Figure 3: CARE SLF (Krantz 2001: 16)

IFAD

The International Fund for Agricultural Development (IFAD) has organised workshops (IFAD n.d.: 1-2) on the basis of the SLF by the UK Department for International Development to encourage its staff to reflect on their experiences in the development work. The goal of these workshops was to help the beneficiaries to analyse their actual status and enhance possibilities by accessing their available assets and resources to overcome poverty. In cooperation with the staff, beneficiaries can use the developed SLF to reorganise their lives and access linkages that were not obvious before. It turned out that the SLF is an easy tool to use, but participants were focussed too much on developing the assets instead of supporting the beneficiaries, the poor. With some adoptions the new SLF appears to be a suitable tool to not focus too much on the surrounding assets which also need to be developed, but to always keep the beneficiaries in the centre, so they can better understand the linkages between the poor, their assets, institutions, policies and all the other influences.

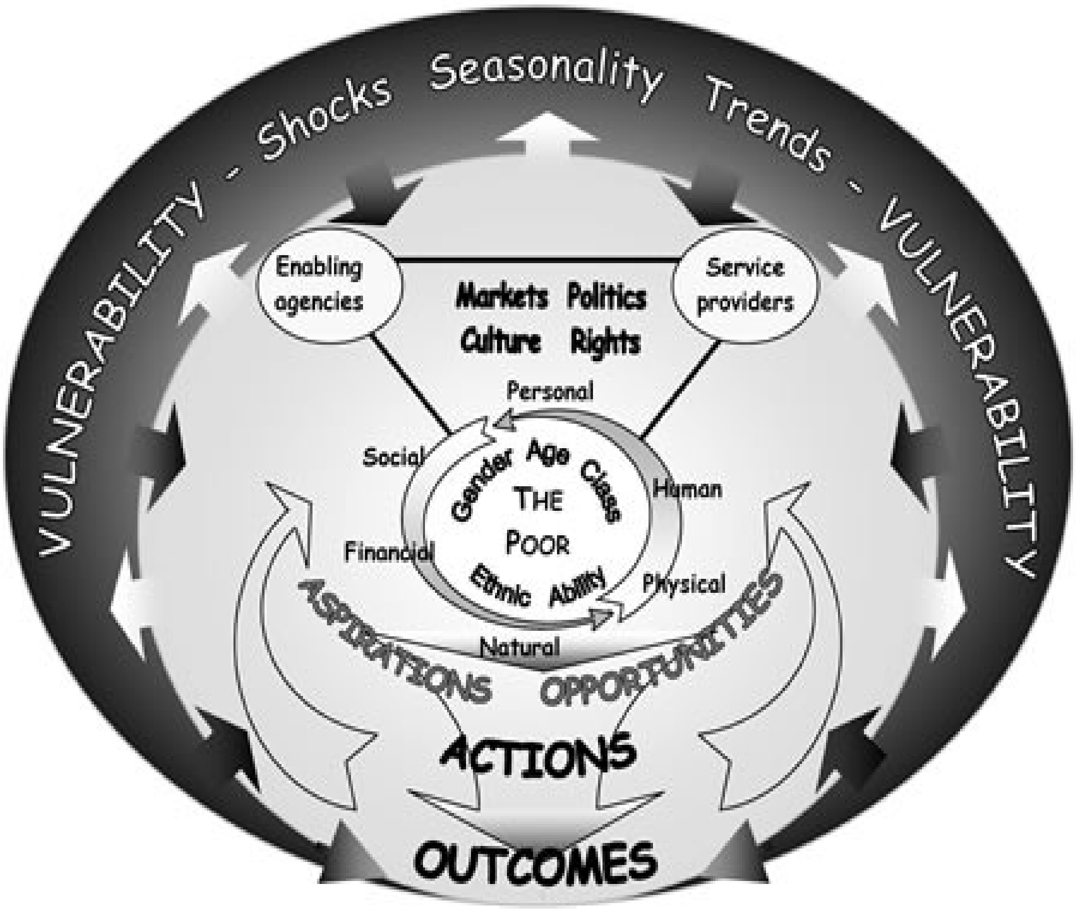


Figure 4: IFAD SLF (www.ifad.org/sla/framework)

2.2.5 SLF Assets

Assets are different kinds of capital that have direct influence on everyone's livelihood. They are needed for production, daily life, entertainment, and all other aspects of life. This capital can be used to increase output, which offers new possibilities for reinvestments, but can also be depleted because of mismanagement. With the five types of capital, the SLF identifies five assets (Carney quoted from Balgis 2005: 8):

> *Natural capital: consists of land, water, and biological resources such as trees, pasture, and biodiversity. The productivity of these resources may be degraded or improved by human management.*
>
> *Financial capital: Consists of stocks of money or other savings in liquid form. In this sense it does not includes financial assets only but should also include easily disposable assets such as livestock, which in other senses may be considered as natural capital. It includes income levels, variability over time, and distribution within society of financial savings, access to credit, and debt levels.*
>
> *Physical capital: Is that created by economic production. It includes infrastructure such as roads, irrigation works, electricity, reticulated equipment, and housing.*
>
> *Human capital: is constituted by the quantity and quality of labour available. At household level, therefore, it is determined by household size as well as by education, skills, and health of household members.*
>
> *Social capital: Any assets such as rights or claims that are derived from membership of a group. This includes the ability to call on friends or kin for help in times of need, support from trade or professional associations (e.g. framers' associations) and political claims on chiefs or politicians to provide assistance.*

2.2.6 PIPs

But there is still the challenge to clarify linkages between the poor and the PIPs (Policies Institutions Processes). For example service providers can include everything from national-level departments whose task it is to implement policy measures to the community-level operators with whom the poor are likely to have direct contact in their day-to-day lives. (IFAD n.d.: 3-4) Enabling agencies can range from the highest national-level policy making bodies to local administrations whose decisions on priorities and strategies in dealing with poverty might facilitate or hinder the work of those responsible for implementation. To examine the interactions between PIPs and the poor, the IFAD recommends the "hub model" for institutional analysis. Enabling agencies and service providers are separated from the central assets and their relations to the poor cannot be clarifies as simply as for example the markets because interactions between the poor and markets are daily routine. In this diploma thesis, agencies and service providers play a prominent role because MF is intrinsically tied to institutions like Saccos (savings and credit cooperatives) or similar finance companies.

2.2.7 Vulnerability

Frameworks also make the relationships between the "vulnerability" context and the other elements in the framework more clear and explicit. If the poor are able to access the livelihood assets they require and are adequately supported by service providers and enabling agencies, and if they are able to participate in markets or politics, and rules and norms work to their advantage, then it should help them to cope with those elements of their vulnerability context where they can do little to change. The representation of the vulnerability context as "all-embracing" for the poor, but mediated by the interplay of the other elements in their livelihoods, emphasises the responsibility of development interventions to help the poor to cope with vulnerability factors. (IFAD n.d.: 8)

2.3 Microfinance

Microfinance (MF) is an important field of development actions, and many organisations and researchers have evaluated definitions for MF. The United Nations Department of Public Information defines MF in its brochure *Microfinance and Microcredit* quite simply as loans, savings, insurance, transfer services, and other financial products targeted at low-income clients. (UNDPI 2004: 2) Although it remains unsolved who is providing MF and what the goals of MF are, at least the components of MF are specified.

If we take a look at a different definition such as the one by Joanna Ledgerwood, MF can be understood as

> *… the provision of financial services to low-income clients, including the self-employed. In addition to financial intermediation, some MFIs also provide social intermediation services, including help in group formation and the development of self-confidence, financial literacy, and other services. (Ledgerwood 1999: 268)*

Other definitions such as the one by Marguerite Robinson specify the target groups and the services offered by microfinance institutions (MFIs).

> *Microfinance refers to small-scale financial services – primarily credit and savings – provided to people who farm or fish or herd; who operate small enterprises or microenterprises where goods are produced, recycled, repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and groups at the local levels of developing countries both rural and urban. Many such households have multiple sources of income. (Robinson 2001: 9)*

Another definition, by the Asian Development Bank (ADB 2000: n. p.), is the following:

> *Microfinance is the provision of a broad range of financial services such as, deposits, loans, payment services, money transfers and insurance, to poor and low-income households and their microenterprises. It also shares the concept that low-income individuals are capable of lifting themselves out of poverty if given access to financial services. Three types of sources of microfinance:*
>
> *• formal institutions - i.e. rural banks and cooperatives*
>
> *• semiformal institutions - i.e. nongovernment organizations*
>
> *• informal sources - i.e. money lenders and shopkeepers*
>
> *Institutional microfinance includes microfinance services provided by both formal and semiformal institutions. Microfinance institutions are institutions whose major business is the provision of microfinance services.*

2.3.1 Development of Microfinance

MF is a relatively new term coined at the end of the 20th century, but the concept of MF is not new. Already in the 19th century, European farming credit cooperatives invented a system for mutual liability in case of crop failure or environmental disasters. Hulme & Mosley (1996) with *Finance against Poverty* and Muhammed Yunus with his Grameen Bank in Bangladesh defined a modern instrument for the development of eradicating poverty. (Fouillet 2013: 2)

Development policy makers did not make much use of research to design credit schemes and programmes. In fact, participants of Bretton Woods proposed state-led development banking models, but neo-liberals complained about its bureaucratic inefficiency and promoted private financial services. MF has evolved as a sub-field of development research studies, grounded in economics and management but incorporating other disciplines. Since 2000 MF has been an important field of research, which can be illustrated by the number of publications devoted to it. These publications show the characteristics of a set of theoretical and practical models which distinguish MF from traditional banking activities, including the use of group loans and dynamic incentive mechanisms. (Fouillet 2013: 3)

The institutionalisation of MF occurred in an environment where the poor had little possibility for saving or obtaining credit. Although loans among family members, relatives, and friends are a common feature of credit delivery as part of informal insurance relationships, people in rural areas had little access to financial institutions. In family structures there are normally no interest rates to pay. The field of MF has spread: now there are also moneylenders, rotating savings and credit associations (ROSCAs), credit cooperatives, and commercial banks providing MF services. (Buss 2005: 2) All these sources for credit and saving are seen as imperfect by proponents since they lack resources and can be very costly, especially when dealing with moneylenders. ROSCAs and savings and credit co-operatives (SACCOs) have individual lendership and use groups for lending and saving, which normally consist of friends and neighbours. These MFIs have some degree of institutionalisation and a legal status. Hence these two institutions offer the possibility to understand the group-lending approach since they use groups for mobilising savings and credits. These groups are also important in the respect of group pressure as an incentive for repayment.

The pioneers of MF development practice were NGOs, but lately commercial banks have developed interest in MF and many micro-enterprise-lending NGOs have also transformed themselves into profit organisations, regulated either as intermediaries with links to non-financial development institutions or as banks. Since many MFIs started as NGOs or in informal activities, commercial operations represent a major transformation of their business model. The transformation from an informal non-profit status to a regulated and more commercially oriented status is not confined to MF. As a sector originally seen as part of the social economy which is currently integrated into national and global markets, MF is an emerging example of institutional hybridisation. While the transformation seems to be a logical economic consequence (growth and profit), there is only a minority of MFIs that have transformed because the process is difficult to implement and some managers refuse to engage with commercialisation of social interests. (Fouillet 2013: 7f)

2.3.2 Gender in Microfinance and Inclusive Markets

Researchers are not sure if MF activities empower women or not. In many cases the outcome of a study is related to the kind of measurement and data collection used to find pros and cons in the gender discussion about MF. It seems as if those studies which are using women's life outcomes as a measure of empowerment generally tend to find positive impacts, while those researchers who focus on processes of loan use identify negative effects. To interpret empowerment solely on outcomes for women is insufficient and might be misleading because outcomes ignore context-depending settings to a large extent. These settings include gender relations that are essential to women's well-being. There is a need for a better understanding between the linkages of empowerment and financial lending systems to women, especially the examination of processes relating to loan use. (Garikipati 2013: 71)

Poverty is intrinsically tied to markets and the ways how some people are part of the market, while others are excluded by relational processes. Recent developments in poverty eradication and MF illustrate a shift away from a focus on building sustainable MFIs to serve poor people to a focus on the development of a formal financial sector as a regulatory and enabling environment in which MF operates. The concepts of *Making Markets Work for the Poor* seek to improve market functioning and its relations. This new financial market development perspective refers to the World Banks' 2008 publication *Finance for All* (FFA) (World Bank 2008: 23f, 100f, 133f). The FFA suggests that financial poverty eradication should not start with poverty, but with the thought of more inclusivity towards those without access to formal financial services and those people with little income. The positive effects on poverty come from better working product and labour markets that benefit from an inclusive sustainable financial sector. (Johnson 2013: 35)

This policy discourse about financial inclusion raised the question of how exclusion and poverty are understood in order that inclusion can be addressed through policy. The discourse highlights the causes of exclusion or the negative consequences of existing forms of inclusion and the ways in which these are implicated in the reproduction of poverty. It furthermore discusses the role of women as a core beneficiary of MF in terms of whether women are exploited or are truly empowered through MF activities. The outcome of this discussion is the *inclusive financial markets approach* that leaves the perspectives of gender and women's empowerment outside the core of the debate. (Johnson 2013: 36) Yet, it is not clear how market opportunities are structured and formal regulatory environments are patterned by social regulatory structures, which constrain poor people's emancipated and equal participation in financial markets. Empowering actions need to follow incorporate strategies with social regulatory structures with better education and training programmes for women, minorities, and excluded groups. (Johnson 2013: 49)

2.3.3 Microfinance in Sub-Saharan Africa

While the field of microfinance is relatively similar all over the world, there are some specifics for the Sub-Saharan region. These are HIV/AIDS, post conflict countries, impact evaluations, and microcredit programme sustainability. (Buss 2005: 1)

Sub-Saharan Africa has about 10 per cent of the world's population. In 2011 an estimated 23.5 million people were living with HIV. This has increased since 2009, when an estimated 22.5 million people were living with HIV, including 2.3 million children. The increase in people living with HIV could be partly due to a decrease in AIDS-related deaths in the region. There were 1.2 million deaths due to AIDS in 2011 compared to 1.8 million in 2005. Almost 70% of people living with HIV worldwide live in sub-Saharan Africa. (UNAIDS 2012: 8-14)

Microcredit programmes have focussed on impacts caused by HIV/AIDS, especially impacts on women, as a way to empower them to participate in economic activities because they have been excluded in the past. Taking people with HIV/AIDS into microfinance activities poses special challenges because many traditional societies suspend people with AIDS, which makes it difficult to let them participate in group lending systems. (Buss 2005: 3f)

The next specific characteristics for the Sub-Saharan region are civil war and outsider aggression. In countries like Sierra Leone, Liberia, Congo or Rwanda conflicts are still ongoing; many countries are post-conflict areas. The question is if microcredit programmes can foster poverty eradication programmes. (Buss 2005: 4)

Now there are thousands of MF programmes for millions of people, but there is very limited data on MF impacts. Although some studies have already been conducted, e.g. Morris in 2005, more data would be helpful to understand the impacts on households and entrepreneurs. The study by Morris identified some positive impacts: more new products and services, expansion of companies, reduction of costs for additional stock or an increase in sales, long term planning, improved economic thinking, less vulnerability, and diversification of household income. (Buss 2005: 6)

There is also more research needed in microcredit programme sustainability. Which forms of MFIs are more likely to become a self-running business? Many NGOs depend on donor agency subsidies that are not commercially viable, but depend on their ability to meet donor expectations while behaving effectively and efficiently. Government-sponsored programmes tend to function similarly to NGOs. Commercial programmes are sustainable to the extent that they survive and thrive in the competitive market while meeting the needs of investors or owners. There might be a suitable form of MF according to political, social, and economic factors. (Buss 2005: 7)

2.3.4 History of Microfinance in Uganda

Microfinance is the provision of financial services to the poor. This involves small amounts – hence “micro” – of savings, credit, insurance and money transfer services. There is a significant net demand for financial services in many areas of the developing world as well as in Uganda, especially in rural areas. The formal banking system has so far been unable to fill the gap, even for the core services of safe savings and short-term credit for both productive activities and consumption. As a result a niche microfinance industry has emerged, and innovation and experimentation has led to success that has promoted the renewed interest and involvement of the commercial banking sector. Microcredit came into existence in the

1970s when rural finance was targeted at credits meant for the poor in substance agriculture. The attempts failed due to illiteracy and widespread corruption at community level as well as to a lack of skills and lack of ownership. (UBOS 2010: 1f)

Formal microfinance started in Uganda in the late 1980s through foreign funded NGOs. During the 1990s the government developed interest in this sector and actively participated in credit delivery through a number of programmes. Although these programmes had noble objectives, they were misused, misdirected, and had little or no impact on the intended objectives. From the lessons learnt, the role of government was directed towards the provision of a conclusive policy, legal and regulatory environment for private financial service providers. Therefore the government decided to invest in the capacity building of private service providers in Uganda, microfinance has been increasing since 1996 when stakeholders formally came together. There has, however, been inadequate and scattered information on the sector. Yet, the availability of accurate, complete, and timely information is critical for policy formulation and planning, policy monitoring, and prudent investment decisions. (UBOS 2010: 2)

The first attempt to obtain accurate and complete information about the microfinance industry was made in 2001/02 when the Ministry of Finance Planning and Economic Development, with support from DANIDA carried out a national survey under the Rural Financial Services Programme (RFSP) to establish the extent of outreach of MF services. This was against a backdrop of the widespread belief that MF services were accessible to the rural population mainly through Burial Societies, 'Merry-go-rounds', Rotating Savings and Credit Associations (ROSCAs), and Accumulating Savings and Credit Associations (ASCAs). It became obvious that the provision of MF was rapidly becoming institutionalised and delivered through specialised Microfinance Institutions (MFIs) such as FINCA-Uganda, Uganda Microfinance Union, Opportunity Uganda, and the Finance Trust Bank. This was followed by the 2006 Census of Tier 4 Financial Institutions conducted by the Ministry of Finance, Planning and Economic Development (MoFPED) and the Department for International Development (DFID), Financial Sector Deepening Project (FSDP) and other stakeholders. The results of the survey revealed that, in the recent years, the MF industry had enjoyed a very steep growth rate of about 70% per annum. Despite this growth rate, however, a digitalised map showed that certain areas, especially in the northern corridor, were underserved. (UBOS 2010: 3)

More generally, it was established that the rural financial sector continued to be largely underdeveloped, fragmented, and not adequately integrated within the formal financial sector. This acted as an input in making the policy decision of setting up the Microfinance Outreach Plan (MOP). Based on the same results of the 2001/02 MFI survey, the

Government of Uganda developed a rural development strategy with microfinance as a major component. With this strategy, the government plans to support the establishment of SACCOs in every sub-county in the country where they are non-existent and to strengthen the existing ones. It is the firm belief of the government that an established and strengthened SACCO will help in saving, mobilising and providing the much needed credit in the rural and agricultural sectors. Given the above scenarios, the government decided to undertake the Census of MFIs in Uganda not only to obtain accurate information concerning its rural development strategy but also to provide accurate, complete, and in-time information on all MF institutions in the country, including those registered as NGOs and Companies Limited by Guarantee and Shares. The information obtained will also be important for donors and private investors to make prudent investment decisions in the MF industry.

MFIs in Uganda follow common strategies to run their businesses, especially at an infant stage: First, there is the strategy of business running businesses with a weekly cash flow. Second, the whole group guarantees for the loan of an individual member, making the group responsible for the repayment in case of individual default. Third, MFI costs are covered by charging interest rates. Fourth, the MFI requires mandatory savings and weekly group meetings for credit repayments. (Morris 2005: 42)

2.3.5 Map of Uganda

Figure 5: Map of Uganda
(Source: http://www.un.org/Depts/Cartographic/map/profile/uganda.pdf)

2.3.6 MF-related Types of Money Institutions in Uganda

Commercial Banks

Commercial banks are institutions regulated by the BOU (Bank of Uganda). Not many commercial banks in Uganda have MF portfolios targeting the economically active poor. It is only the Centenary and Equity banks that have MF portfolios targeting the economically active poor. Yet, limited information is available on the size of their portfolio in MF in these institutions. (UBOS 2010: 3f)

Credit Institutions

There are currently two credit institutions offering MF regulated by BOU. Those are Post Bank and Opportunity Uganda, which also offer MF products.

Micro Deposit taking Institutions (MDIs)

Micro Deposit taking Institutions are fully regulated commercial banks that serve small and micro-sized enterprises with a broad range of financial services targeting low income and the economically active poor in urban areas. These offer savings and lending products. They also provide products like money transfers and micro insurance. There are currently three such institutions, namely Pride Uganda, FINCA, and the Uganda Finance Trust.

Microfinance Institutions (MFIs)

These are financial institutions and associations which are not regulated by BOU. They include SACCOs and NGOs/Companies. MFIs are non-deposit taking, non-profit making organisations that operate in various legal forms and are predominantly engaged in providing microcredit services to financially excluded populations. In the majority of cases, these institutions were established by donor-driven international networks. The majority of these MFIs are now locally registered and funded by a mix of donors and MF investors, for example BRAC (Bangladesh Rural Advancement Committee).

Money Lenders

Money lending is a legal activity in Uganda that is registered under the Money Lending Act of 1952. Money lenders are supposed to register annually and pay interest that is regulated by the Act. This interest cannot exceed 24 per cent annually. The act requires written contracts between the lender and the borrower and obliges the money lender to keep proper records of accounts.

2.3.7 Legal Status of MFIs in Uganda

The MFI's legal status often directly affects its financing strategy. In Uganda restrictions based on the MFI's legal status include limitations on accepting certain types of investment. For example, SACCOs are not regulated by BOU and are not authorised to take any deposits. Only 0.3 per cent of the institutions providing MF services (micro-loans, savings, and insurance or transfer services - to low income households) are regulated and supervised by BOU. This implies that over 99 percent are not regulated and supervised under the *Financial Services Act 2004* and the *MDI Act 2003*. Despite the fact that about 92 percent of the MFI are registered under the *Cooperative Societies Act CAP122*, 1991, there is no policy regarding their operational requirements and supervision. The lack of an established policy framework creates a gap in the MF policy laws to protect members' savings. Due to the lack of clear roles and duties of those responsible for supervising MF providers, members, especially in the SACCOs, do not have enough information on their performance and are more likely to lose their savings in case the institutions collapse (UBOS 2010: 12).

2.3.8 Staff in MFIs

Well educated staff is important for a sustainable development of a MFI. Leadership refers to both the management team (manager, loans officers, cashiers, and accountants) and the board of directors (BOD). The management team implements policy decisions and monitors the performance of the institution. For these reasons, the members of the BOD and management team must be trustworthy, motivational, accessible, have technical capacity, and be respected by the community and local leaders. Well trained employees and managers make further growth more likely, foster innovation and mission attainment. MFIs have to note that their strength and competitive advantage comes from their people. If the MFIs are offering new products to clients, there is a need for people who can develop relationships with clients in order to understand their needs and translate that understanding into new and innovative products. This can be difficult for MFIs with people in charge who have low or no academic qualifications. Training the staff has a special significance for the success of a MFI. Additional skills in areas of environmental risk management, business development, computer and software skills, financial literacy, delinquency management, and accounting skills are needed (UBOS 2010: 13ff).

	Banks	SACCOs	MDIs	Credit Institutions	NGO/Company	Money lending Institutions	Others	Total
No schooling/Primary	0.0	4.0	0.0	0.0	1.8	1.2	17.0	3.8
Secondary	0.0	21.1	3.4	0.0	9.0	18.3	37.7	19.5
Professional certificate	0.0	8.3	1.7	0.0	2.4	7.3	11.3	7.6
Diploma	4.4	47.8	3.4	15.4	13.3	22.0	18.9	41.5
First Degree	68.9	16.8	81.4	61.5	62.7	45.1	13.2	24.0
Post graduate and above	26.7	2.1	10.2	23.1	10.9	6.1	1.9	3.7
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 1: Educational Attainment of in Charge Officers by Type of MFI in Per Cent (UBOS 2010: 16)

Training	Managers	Accountants	Loan officers
Environmental risk management	58.8	51.6	63.9
Business development support	51.2	41.5	59.5
Management information system	44.3	33.8	53.3
Personnel management	36.2	34	49.6
Internal controls and audit	35.4	23.4	48.7
Computer (Knowledge of soft ware used, loan	37.4	23	44.7
Basic management on MFI/SACCOs	25.8	26.5	36.8
Financial literacy	28.1	22.4	36.6
Delinquency management	34.2	31.1	35.9
Basic accounting and record keeping	18.8	11.3	30.5
Credit management	27.1	24.6	29.8
Financial management	19.7	14.3	29.6

Table 2: Needs of Different Categories of Employees in Per Cent (UBOS 2010: 17)

3. SLF for Urban Population in Kampala

This chapter focuses on the urban population in Kampala. To avoid any generalisation in Kampala's social structure, the focus of this master thesis and the following field research is on the poor and the conditions of their living, which means it is important to see the bigger picture of their lives. Furthermore, Kampala is a very diverse city with high differences in income, social imbalance, high unemployment rates, high inflation, and a structural gender gap. On the one hand, people live in areas of wealth and beauty; on the other hand, hundreds of thousands of people live in extreme poverty and misery. This chapter shows all areas of Kampala, because there simply are no qualified data and statistics about poor and slum areas alone. This thesis and the data collected refer to two different areas: The first one is Kampala City, often termed KCCA (Kampala Capital City Authority), and second GKMA (Greater Kampala Metropolitan Area), which includes the suburbs of Kampala.

Kampala's authorities and officials are confronted with a variety of problems and challenges: Tackling poverty and slum areas, education, housing, and health and community development. To have a balanced society and community in the future, great efforts are needed to absorb the scale of the rural in-migration rate, and to provide the necessary services for a proper integration of the migrants whilst ensuring the upward social and economical mobility of the current population as well as guaranteeing the partly existing social stability. These are difficult tasks which require pointed interventions and precise alignment of a large number of fields. These fields can be imbedded in the asset mix of the SLF, so the reader can get a clearer perspective on the living conditions and surroundings of Kampala's poor population.

3.1 Human Capital

> *Human capital: is constituted by the quantity and quality of labour available. At household level, therefore, it is determined by household size, but also by education, skills, and health of household members. (Carney quoted from Balgis 2005: 8)*

3.1.1 Labour in Uganda

Although the following data is at a Ugandan wide scale, the informative value for this diploma thesis in Kampala is still high because of the high migration ratio of labour force moving from rural to urban areas. There are reasons that most people moving to Kampala have no other choice but living in slums. Migration into cities is an important trend in Uganda, and this trend changes economy, society and the environment. People move into GKMA searching for work, income and well-being. However, the migrants are facing limited employment-markets offering little income opportunities on a regular basis. Without an income it becomes very difficult and almost impossible to live outside slum areas.

The Ugandan Labour Market Indicators in *Table 3: Labour in Uganda* are based on the population of working age persons (working class from 14 to 64 years) from the 2009/10 UNHS (Uganda National Household Survey). The survey includes those persons only who have been working at least one hour per week. The data does not include students at the age from 14 to 21 years. The major of these students (90 per cent) were in agriculture helping on household farms. (UBOS 2012: 17)

> *The total labour force in Uganda increased from 10.9 million persons in 2005/06 to 13.4 million persons in 2009/10, an increase of 23.0 percent. The Labour Force Participation Rate (LFPR) increased from 82 percent in 2005/06 to 91.5 percent in 2009/10. The overall unemployment rate was 3.6 per cent in 2009/10, while the urban unemployment rate was 8.7 per cent in 2009/10. The time related underemployment rate was about 3.2 percent.*
>
> *By status in employment, 79.4 percent of the working population in 2009/10 was self-employed. The paid employees constituted 21.7 percent of the work force in 2009/10, compared to 16.3 percent in 2005/06. The results further indicate that nearly three quarters of the workforce either had primary level or no education. […] Only 6.8 percent of the work force had specialised training, that is, post-primary.*
>
> *The majority of the working population is employed in agriculture. The agriculture sector employed 66.0 percent of the working population, while, by occupation, 60.0 percent of the working population were agriculture and fishery workers. […] Despite the prominence of agriculture, there was a decline between 2005/06 and 2009/10 in both industry and occupation. (UBOS 2012: 17)*

Indicator category	2005/06		2009/10	
	All	Working only*	All	Working only*
Population (000's)	27,200	27,200	30,700	30,700
Size of labour force (000's)	10,883	9,526	13,357	11,484
Labour Force Participation Rate (LFPR)	82.0	71.8	91.5	78.7
Size of the working force(000's)	10,638	9,333	12,880	11,006
Employment – to – Population Ratio (EPR)	80.4	70.3	88.2	75.4
Unemployment rate	1.9	1.9	3.6	4.2
Urban	6.9	6.4	8.7	9.5
Rural	1.1	1.1	2.5	3.0
Underemployment				
(a) Time related	12.1	13.2	3.2	3.5
(b) Skills related	-	-	3.9	4.6
(c) Income related	-	-	10.6	12.1
Average hours worked (per week)	33.3	25.0	32.7	32.6
Median wages, Ug Shs	54,300	54,300	80,000	80,000
Activity Status of the Work Force				
a) Self employed	83.7	81.2	79.4	76.4
b) Paid employee	16.3	18.2	20.7	23.6
Sector of Employment				
a) Agriculture, Mining & Quarrying	75.0	71.8	67.0	66.0
b) Service	20.7	23.0	24.5	27.9
c) Manufacturing	4.2	4.5	5.5	6.0
Total	**100**	**100**	**100**	**100**

Source: UNHS 2005/06 and 2009/10

Note Excludes working students aged 14 – 21 years*

Table 4: Labour in Uganda (UBOS 2012: 18)

> *The working poor are defined as individuals who were part of working labour force but whose incomes fell below the poverty line. According to the 2009/10 UNHS, 25 percent of the population (7.5 million persons) live below the poverty line and the bulk of these individuals were children and adults who do not constitute the labour force. The working poor were 2.7 million (36.0 percent) of the poor population. However, the number reduced from 3.0 million persons (35.5 percent) that was estimated in the 2005/06 survey. The incidence of the working poor is highest among those in the primary sector (25.5 percent) followed by those in the production sector (19.9 percent). The working population involved in the service sector is less likely to be poor (7.2 percent) compared to those employed in the primary and manufacturing sectors. There were reductions in the proportion of the working poor during the period 2005/06 to 2009/10 in all sectors. However, this was more pronounced in the primary sector where the proportion reduced by eight percentage points compared to three percentage points each for the manufacturing and service sector. (UBOS 2010: 18)*

3.1.2 Labour in Kampala

UBOS conducted the Urban Labour Force Surveys (ULFS) in 2009 and 2010 with the aim of providing up-to-date information on Greater Kampala Metropolitan Area (GKMA), comprising of Kampala City, Kawempe, Rubaga, Makindye, Nakawa and the highly urbanised sub counties of Wakiso and Mukono districts. *Table 4: Labour in Kampala* from UBOS provides following information:

> *The total labour force has increased from 920,000 in the 2009 survey to 1,098,000 in 2010, which is an increase of 19.3 per cent. The Labour Force Participation Rate (LFPR) increased from 69.3 per cent in 2009 to 72.2 per cent in 2010. The overall unemployment rate was about 13 per cent during both surveys, while the time related underemployment rate was reduced from 12.2 per cent to 4.2 per cent. The proportion of self employed has almost remained the same during both surveys. The results further indicate that 29.1 per cent of the workforce had either primary level or no education in 2010, compared to 31.5 per cent in 2009. About 22 per cent of the work force had specialised, post-primary training. The pattern is almost the same for both surveys. Two thirds of the working population was in the trade and services sectors, with 37.7 per cent and 30.2 per cent respectively. About 36.1 per cent of the working population by occupation were service workers, shop and market workers (trade) during 2010, indicating a drop of about 2 percentage points compared to 2009. The agriculture sector, compared to the Uganda National Household Survey of 2009/2010, is relatively small with 6.1 per cent in 2009 and 8.1 per cent in 2010. (UBOS 2012: 19)*

Indicator category	ULFS 2009	ULFS 2010
Population (000's)	2,204	2,372
Size of labour force (000's)	920	1,098
LFPR	69.3	72.2
Size of the working force(000's)	797	958
EPR	60.0	63.0
Unemployment rate	13.3	13.0
Underemployment		
Time related	12.2	4.2
Skills related	12.7	12.4
Income related	4.0	5.3
Average usual hours worked (per week)	65.4	65.1
Median monthly wages (Paid employees, Ug Shs)	150,000	152,000
Activity Status of the Work Force		
Self employed	50.2	51.9
Paid employee	49.8	48.1
Broad Sectors of Employment		
Agriculture	6.1	8.1
Production	14.9	16.4
Service	78.6	75.5
Sector of employment		
Formal sector	35.8	39.9
Informal sector	60.9	54.5
Private household	3.3	5.6
Informal employment	88.6	85.0

Source: ULFS 2009 and 2010

Table 5: Labour in Kampala (UBOS 2012: 19)

3.1.3 Education

People in Kampala perceive education as a key determinant of the well-being of an individual, a household and of the community in general. Schools are recognised as developmental institutions that provide the necessary service for the masses to eliminate illiteracy for a more efficient workforce in the future.

The quality of the educational system differs a lot. On the one hand, Kampala has well established and growing universities with high standards, on the other hand, public nurseries, primary and secondary schools are overcrowded. In 2011, the student-teacher ratio (public and private schools) for secondary schools is 19, the pupil-teacher ratio for primary schools is 49, and the ratio at university level is unknown. (UBOS 2012: XIV) The whole educational system is structurally underfinanced by the public authorities, with the result that families may have to pay considerable sums of money for school fees if they want to send their children to private schools. Especially single mothers, widows and parents with a lower educational status have problems to send all their children to school, considering that there are on average 6.2 children per mother (UBOS 2012: 10). The education system of Kampala requires significant upgrading and extension. The expansion of education needs to concentrate on provision of full universal secondary education with a full diversified offer in subjects; extensive, accessible and affordable pre-school education; vocational training (including adult vocational training); and technical academic training. (KCCA 2012: 206)

For people living in slum areas it is very important that the Ugandan Government provides more and better education at low costs for children of poor families. In 2010, Uganda had 1.3 million pupils who are orphans; they need special support by the public authority. (UBOS 2012: V) In general, a higher percentage of pupils in lower primary forms do not have adequate sitting space compared to those in upper primary forms. Adequate sitting and writing space enhances learning and therefore it is recommended that a standard desk accommodates not more than three students.

Indicators like the PLE (primary leaving examination), teacher-student ratio, total enrolment and literacy show that Uganda has improved the educational system as far as quantity is concerned, but the quality of education has not improved especially at primary and secondary level. In fact, the plan of the Ugandan authorities to place the educational focus on teaching English at primary and secondary levels has proven insufficient for the past 20 years. It is important to consider that there are few vacant jobs for young people with no special skills. Unfortunately the costs are much higher for vocational training centres with all its machinery and equipment needed than the costs for regular upper schools. Still, the market needs either labour with a high academic degree, skilled engineering workers, technicians, and mechanics; in other words, skilled young people with a good vocational training. Due to the fact that high education institutions request high fees per semester, it is very unlikely that the poor can afford these costs, although, as the author observed during the field research, not impossible with adequate support by other family members, private donors or educational loans by MFIs.

The government policy of encouraging public private partnership in the education sector has led to an increase in the number of private higher learning institutions, in total 164, in Uganda. The number of universities/tertiary institutions has therefore increased and more courses have been introduced, making it possible for more students to get access to higher education. 71.3 per cent of the tertiary enrolment in 2011 was from universities and more than half of those enrolled in institutions of higher education in 2011 were males. (UBOS 2012: 15)

3.1.4 Health

Life in Kampala is fraught with health risks (KCCA 2012: 208):

- Endemic diseases associated with the wetlands, malaria in particular, but also bilharzias and diarrhea;
- Contagious diseases associated with poor sanitary conditions compounded by the warm climate;
- Road safety and work related accidents;
- HIV/AIDS and many more.

Table 5: Major Health Risks in Kampala shows the proportion of cases among the leading causes of morbidity for children below 5 years of age from 2007 to 2011. Malaria is the highest ranked cause of morbidity during the last five years in Kampala, followed by Cough or Cold without Pneumonia. In 2011, these two accounted for over 56 per cent of all cases of morbidity down from 72 per cent in 2010. The proportion of persons with intestinal worms, skin diseases and pneumonia as causes of morbidity slightly decreased in 2011.

Type of illness	2007	2008	2009	2010	2011
Malaria	33.6	26.1	48.5	48.2	36.2
No Pneumonia- Cough or Cold	15.6	12.2	15.5	24.1	19.3
Intestinal Worms	5.3	4.0	4.4	6.5	5.2
Skin Diseases	3.3	2.7	2.9	3.8	3.2
Pneumonia	2.9	2.2	2.4	3.2	2.4
All Others	39.3	52.8	26.3	14.2	33.7

Source: Ministry of Health (HMIS) annual report 2011

Table 6: Major Health Risks in Kampala (UBOS 2012: 31)

The social and economic impacts are significant for individuals, families, communities and cities. The health of Kampala's population needs to be greatly improved and life expectancy and, consequently, working age prolonged significantly. This should be achieved by (KCCA 2012: 208):

- Extension of the sewer system with necessary service and upkeep;
- Improving standards for all new house constructions and upgrading the existing housing stock to basic requirements;
- Systematic infill, drainage and flood protection for existing housing in wetlands where slums are primarily located;
- Systematic upgrading of markets, specifically enabling refrigeration, and strict enforcement of hygienic standards for all non-durable food products;
- Appropriate road safety measures and their rigorous enforcement;
- Educating about and rising awareness for sustainable development.

3.1.5 Gender

There is a considerable lack of infrastructure in slums and settlements regarding basic needs of women, like basic produce and commercial markets in close proximity, or provision of efficient, reliable and affordable physical therapy. The point is that women have specific needs due to their life circumstances, which means that usually they have less mobility than men because of family care which requires many working hours and close contact. Another aspect is that women have less income than men because the economic system favours men. Consequently, there are important factors like financial support for vocational trainings, skills, job-seeking and micro-business training for single mothers. There is a considerable lack of appropriate and affordable pre-school and day-care services to enable mothers to enter and remain in the job market without asking for the help of other mothers who stay at home and cannot work. As far as I noticed, there are no free recreation areas, playgrounds for children, parks or gardens, least of all in the slum areas. Finally it is important to ensure the physical safety of women, particularly at night. In combination with alcohol or drug abuse, sexual and violent assaults are routine. Safety can be best assured with employment and economic independence, so women can make their own decisions, do not need the support of others and cannot be exploited as commercial sex workers.

Furthermore, it is important that women, especially in slum areas, face the problem of an increase in alcohol abuse. The more people drink, the less control they have over their lives. Women, who are generally responsible for childcare, forget about their families, forget about cooking for their children, do not wash themselves and their children anymore and do not send their children to school. With their frustration with life, the consumption of alcohol is increasing, and more money is spent. The family structures become more fragile and loose. Husbands and fathers do not support their children anymore, leaving behind single mothers with little or no income. These women in slum areas with poor education and no employment do not have many chances in life, but they have many responsibilities. Under these circumstances, women become commercial sex workers, start drinking alcohol, and take intoxicants to forget. Drug related crimes, robbery and theft happen all the time. In Uganda prostitution is illegal, with the result that sex workers have no possibility to charge offenders for sexual violence and commercial abuse in court.

But it has to be differentiated between areas of wealth and areas of poverty. The development is much slower in slum areas than in other areas of Kampala, not only as far as economic development is concerned. There has been a progress in the fields of gender equality and female empowerment in Uganda in general and in Kampala in particular; for example, there are women in public offices or MOP, but significant gaps and constraints remain. Men are still dominant with higher income, more independence, higher mobility and accommodating jurisdiction. The polygamous behaviour of men has considerable effects on family life and on their wives and it also is a fundament for sustaining the dominant role of men in a patriarchic society. Widows and single mothers in particular often face exceptional hardship, with a concentration of single parent households in slums and/or emergent slums. Hence, special emphasis needs to be placed on provision of appropriate basic affordable shelter and low cost basic housing with priority and support for single parent households. By ensuring the interests of women in general and single women in particular in land tenure issues, women can act more independently. Women also need more support regarding family planning. (KCCA 2012: 210)

3.2 Natural Capital

> *Natural capital: consists of land, water and biological resources such as trees, pasture and biodiversity. The productivity of these resources may be degraded or improved by human management (Carney quoted from Balgis 2005: 8).*

Kampala's ecosystem is defined first and foremost by Lake Victoria, which is a sweet water lake. Together with its location on the equatorial highlands, they have defined the region's climate and carved out its topography. Primary elements include the lake itself and particularly Murchison's Bay; the topography and morphology of Kampala; the inland rivers, water-bodies and wetlands; the sensitive geo-hydrology, aquifers and the multitude of water sources throughout the area. (KCCA 2012: 91f)

Problems include wetland encroachment and degradation, inadequate sanitation and solid waste disposal, air pollution, forest depletion and the impacts of climate change. Concerted and integrated planning, implementation and enforcement are essential to a sustainable future for the GKMA. Lake Victoria serves as the centre of the GKMA's ecosystem. Together with natural precipitation, the lake provides an unlimited source of water to the city, its inhabitants, its industry and its agricultural back-country. Its role in the life of Kampala extends into various fields, such as fishing, recreation, agriculture and many more. In addition, it provides large expanses of the GKMA with extraordinary views and beauty. (KCCA 2012: 92)

The wetlands serve sensitive ecological functions, primarily water and waste filtration. However, as the wetlands have been systematically filled in the city centre and inner-city suburbs, they have become polluted by residential and industrial activities and almost all the wetlands are deemed degraded to some extent. It is apparent that they have not withstood the impacts of the city's growth and cannot continue to serve as Kampala's primary sewage plant and dumpsite. Moreover, they constitute a distinct health hazard and constraint on development and movement. The wetlands enjoy legislative protection and are of significant environmental importance and concern, but in reality they are not protected. The wetlands have been studied repeatedly and in depth, primarily from ecological and environmental perspectives, but a comprehensive approach is lacking. There is an evident need for a balanced and comprehensive determination of the wetlands' role and function, sensitivity and system-wide impacts and clear policy as to their utilisation and/or protection. (KCCA 2012: 93)

In all circumstances, regardless of which wetlands will actually be filled in and which will be protected, the rapid expansion of the sewage network as well as the waste collection and treatment systems needs to be implemented without delay, because the house coal and its toxic fumes cause severe respiratory problems. Acting is urgently required and widely demanded, and will contribute immensely to the preservation of the lake and the wetlands, in addition to the contribution to the health and quality of life of Kampala's inhabitants. Kampala and its natural flora and the extensive forests around the present day city have been devastated and the process is ongoing with new development continuously encroaching on the remaining forests, including supposedly protected forests. There is an urgent need to reforest and reintroduce trees and foliage into the city on a large scale, for soil protection, for climate and runoff mitigation but primarily for the advantage and wellbeing of Kampala's inhabitants. (KCCA 2012: 94)

Kampala has a very constant climate contributing first and foremost to the quality of life of the inhabitants who are not required to battle excessive heat or cold, nor do they need to cool or heat their homes and work spaces. Rainfall is both plentiful and well distributed over the year and the day, beneficial for cultivation and barely restricting most human activities. (KCCA 2012: 94)

However, climate change is already affecting the seasons as well as the timing of rainfalls and this will most probably lead to a rise in average temperatures and to an increase in rainfalls. This will require (KCCA 2012: 95):

> *Stringent development constraints along the lake shorefront, along the wetlands and watercourses and in flood prone areas as well as practical, on-the-ground enforcement;*
>
> *Reassessment of engineering standards, specifically for drainage and for infrastructures, including roads in flood prone areas;*
>
> *The preparation of an integrated drainage and water management master plan for the GKMA;*
>
> *Resolution of the issue of residential areas in flood prone areas, in general slums which are located in cuttings, either providing effective flood protection or relocation whilst ensuring no further encroachment;*
>
> *Large scale reforestation and appropriate large scale tree planting in GKMA, in both the public and private realms, for temperature and runoff mitigation and for amenity.*

3.3 Social Capital

> *Social capital: Any assets such as rights or claims that are derived from membership of a group. This includes the ability to call on friends or kin for help in times of need, support from trade or professional associations (e.g. framers' associations) and political claims on chiefs or politicians to provide assistance. (Carney quoted from Balgis 2005: 8)*

3.3.1 Migration

The urban population in Uganda is increasing rapidly from less than 0.8 million inhabitants in 1980 to more than 5.0 million in 2012, and will be approximately up to 8 million in 2030. Responsible for this growth are newly created urban administrative units, natural growth, better sanitation, higher fertility than mortality rates and migration from rural to urban areas. (UBOS 2012: 10)

Upward socio-economic mobility is the product of rising real incomes, education and social awareness (itself a function of education and exposure). The key to upward socio-economic mobility is therefore the acquisition of appropriate knowledge and skill sets, the continuing acquisition of appropriate experience and its application to attain access to higher income employment or business opportunities. (KCCA 2012: 201)

The ongoing reform in the education system in Uganda and its implementation in Kampala serves as the keystone for future upward socio-economic mobility. However, this alone is insufficient and the education system needs to be upgraded urgently. In addition, it is necessary to extend the access to levels S6-S7 (senior 6 and senior 7) as planned, to make tertiary education available to more people, and to place emphasis on vocational and technological education, particularly on the applied sciences. As important as the tertiary education sector is the vocational training at secondary level. Especially children from low wage earners and low income families can escape the poverty cycle by vocational skills. Therefore the Ugandan government and international donors face the great challenge to equip vocational training centres with partially expensive machines (e.g. for mechanics) and to hire trained teachers.

In parallel, the local economy requires restructuring in order to provide higher remuneration employment opportunities. Here, the goal is to increase the income levels of the working and middle classes, while at the same time reducing poverty. If this is achieved and the rate of rural in-migration mitigates, the socio-economic structure of Kampala's population will stabilise. (KCCA 2012: 202)

Particular risk lies in the rapidly increasing numbers of poor slum dwellers, “streetwise” and unencumbered by traditional customs and norms of their rural migrant parents and grandparents. Facing unemployment and under-employment, suffering great poverty and observing ever growing disparities in income and lifestyle in comparison to the wealthy and the middle classes, they face a future in poverty. They are at risk of alcohol, drugs, teen pregnancy, crime, violence, and desperate poverty; as a consequence, they constitute a significant risk to safety in Kampala, especially in slum areas.

3.3.2 Tradition and Change

As Kampala’s population modernises, traditional norms and structures inevitably lose their influence on the younger generation. Social support networks are weakened over time and social constraints on differing behaviour are increasingly limited in their impact. In addition, the city’s poor are already characterised by high residential mobility, moving on every 4 years in response to changes in employment, undermining community stability and cohesion. Ongoing in-migration and growing socio-economic mobility can be expected to further increase residential mobility and to further challenge community cohesion. The public services do not fill a compensatory role, lacking facilities and concentrating their limited resources on “high risk” populations, such as disabled persons, senior citizens, sick, “at risk” children who are living on the streets, and single mothers. (KCCA 2012: 205)

The ecumenical structures today fill the primary role in providing community identification and cohesion, with the Buganda Kingdom serving as a traditional social network, consisting of 52 tribes. (http://www.buganda.or.ug/) Although Ugandans do not see themselves living in tribes, they identify this system as a clan structure. However, Kampala’s population is multi-denominational and increasingly multi-ethnic. Historically the various denominations were geographically concentrated, each with its own hill. However, as the city sprawled out and migrants came in, the population became increasingly mixed denominationally and tribally. Hence, whilst the Buganda Kingdom’s “umbrella” identity encompasses the entire metropolitan area, ecumenical community identity increasingly lacks spatially continuity and communities are somewhat scattered in their neighbourhoods. (KCCA 2012: 205)

Ugandan’s fear the foreign cultural-economic influence by Indians and Chinese but admire “western” lifestyle, with the effect that the traditional Buganda culture in Kampala dissolves entirely. The dominant cultural factors are TV-stations in Nigeria, the United Kingdom, USA, and, in general, Christian believes. Local communities, the church and extended families are the social dominants in Uganda’s society. Ugandan families can easily consist of 500 up to 1000 people. For social stability, the Buganda Kingdom tradition forbids marriages amongst the 52 clans, which supports the ethnic, cultural and social intermix. Cultural events and ceremonies are closely linked to local actions and places. If there is any situation where a person needs advice, help or any kind of support, the person either asks a local leader who is responsible for a satisfied living together in the community, the patriarch of the family or a Christian father.

But not only traditions and believes are changing, but also the whole mentality of a modern Kampala does not feel comfortable with daily life. Citizens raise their voices against political leadership, which brings protests and demonstrations to the streets. The well known society/union/association structure in Austria is largely missing in Kampala, it simply has no tradition. With the influence of foreigners, mainly NGOs and NPOs (non profit organisations), the number of associations is growing constantly. Nationwide associations work primarily in fields of poverty reduction, tourism or business cooperation. This western instrument of community organisation is not internalised by the Ugandan society. By law there is no representation of interests for labour and entrepreneurs and there are no unions on a nationwide level.

Consequently, instead of talking it out, in the last decade it became common to strike, to enforce a solution by still stand or force, in order to convince officials and politicians. Students strike for a better educational system, and entrepreneurs strike for lower business tax rates, causing fatalities and bloodshed on both sides.

3.4 Physical Capital

> *Physical capital is created by economic production. It includes infrastructure such as roads, irrigation works, electricity, reticulated equipment, and housing. (Carney quoted from Balgis 2005: 8)*

3.4.1 Housing

GKMA towns and sub-counties adjacent to KCCA are indistinguishable from KCCA's outer suburbs and are viewed by their inhabitants and representatives primarily as dormitory towns and suburbs of Kampala. There is a significant unmet demand for improved housing driven by the middle classes. (KCCA 2012: 210)

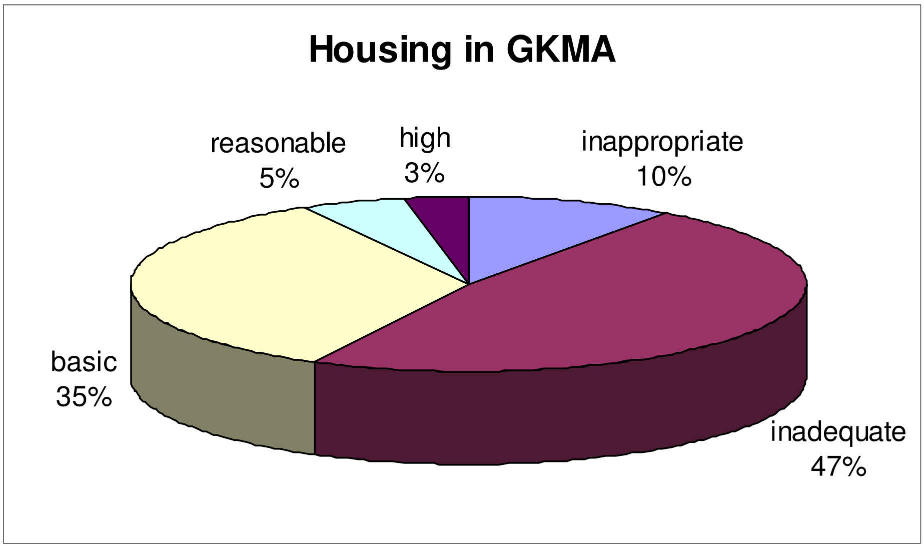


Figure 6: Housing in GKMA

The Kampala housing property market simply fails to meet current needs. It is not merely a case of market immaturity or market inefficiency, but it is a classic case of market failure as a result of a combination of different factors (KCCA 2012: 109):

- *The lack of appropriate, available land as a result of the tenure system and the ensuing duality in property rights and tenure uncertainty;*
- *The high scale of rural in-migration, lacking realistic alternatives for urban life apart from living in slums;*
- *The extreme poverty in the city and the continually low level of household income, severely compounded by the weight of expenditure on education and transportation;*
- *The inhibiting effects of inflation on savings, further distancing the average middle or working class family from home ownership;*
- *The lack of appropriate housing alternatives, specifically inner-city condominiums (sectional title apartments), as needs considerably exceed their availability;*
- *The incapacity of the formal sector, both developers and contractors, to build the number housing units that meets future needs in time;*
- *The extensive infrastructural gaps;*
- *Power failures on daily basis;*
- *Botched construction works.*

3.4.2 Land Tenure

Land tenure refers to the relationship between landlord and landholder, the tenant, and this relationship lacks transparency as well as sufficient definition by the law. People do not trust this land tenure system anymore, because of failed management in the legislation, which in turn results in less investment. A resolution of dual ownership encourages development, upgrading and maintenance of the property. A nationwide land charge and title register of ensuring land information with free access for everyone would efficiently bring transparency, because at present there is an overlap in the registration between the different levels of administration.

Picture 1: Example for Land Tenure Problems (Jones 2012: n. pag.)

Furthermore, a definition is needed as well as statutory approval and implementation of an effective, economic land acquisition system for infrastructure and public service provision in combination with stream-lined compulsory acquisition procedures, reasonable compensation - financial or otherwise, effective property taxation, investment recovery fees, property allocation mechanisms and/or alternative mechanisms. Finally, more capacity building in the MoLHUD (Ministry of Land, Housing and Urban Development) and the District Land Boards, including KCCA whose legal status under the new Capital City Act requires resolution, in order to ensure supportive service levels for investments. (KCCA 2012: 115)

3.4.3 Transport

In Kampala the transport system and the roads need urgent development. Because there is no evidence of any action taken by the authorities, with the exception of the Northern Bypass, it is more effective to show the actual status without future goals.

Kampala's roads are literally falling apart. Heavy rainfall worsens already existing damages in the road surface, which results in massive pot-holes that cannot be driven around anymore. This in turn causes traffic jams and whole traffic routes have to be detoured. Some roads have what can be termed galleys, where big chunks of road surface have been washed off and created big water logged ponds in the middle of the roads. The deterioration of roads continues until officials will implement a modern urban traffic system as well as road planning instruments. Road designers came to the conclusion that the soil is one of the major problems. The loose soil is advantageous for agriculture on the one hand; on the other hand, it is a fundamental problem for construction of buildings and roads as it does not compliment bituminised road constructions. The high concentration of traffic in and around the GKMA area coupled with narrow roads means that road surfaces weaken faster as countless vehicle tyres cause pavement failure. (KCCA 2012: 328f)

A second challenge is the physical planning of residential areas. As the city expands, so should the roads. This goes hand in hand with physical planning. Kampala's officials need to encourage commercial high-rise residential buildings to maximise space rather than the current practice of small individual but untenable housing units. At the moment Kampala has too many roads to develop, simply because residents are building everywhere. Each person who builds a small residential house on a small piece of land expects to have private access in form of a road and other public services, like drainage, sewer, electricity and water access systems, which are very costly because of inefficiency and need to be paid by public authorities.

Policy & Strategy for Integrated Public Transport

The GKMA has a population of approximately 3 million and is expected to grow to 5 million by 2022 and 8 million by 2030. A 2,000 households travel habit survey conducted in 2011 revealed that almost 60 per cent of all travel activities by people with low income in GKMA are walking. Therefore, it is not surprising to find that 80 per cent of the low income population only make two trips per day: from their homes to their workplaces and from their workplaces to their homes. This finding was also confirmed by GPS (Global Positioning System) units with data loggers that were given to the interviewees for recording their activities during a 24 hour period. The main reasons for not using public transport are the (relatively) high costs as travellers have to pay for each single trip. In combination with the fact that, to reach a destination, one needs to make on average between one and three trips on public transport, either by minibuses (called taxis) or a combination of minibus and for-hire motorcycles (called Boda Boda). Thus, transport expenses can reach up to 25 per cent of the available income of low income families per month. (KCCA 2012: 342)

Picture 2: Old Taxi Park, Old Kampala, 2011

Most trips by public transport are conducted using the taxi system, which is usually an aging 14 seats minibus. Since there are no subsidies to public transport and almost no regulations, there is severe competition between taxi operators for the same routes. Also, as each taxi may carry only 150 passengers per day, the fare box revenues from the single tickets fails to cover all maintenance and operating costs including the driver's salary, the driver's assistant's or the conductor's salary, monthly payment for the use of bus parks, maintenance costs, and all fuel costs. The taxi system in Uganda works unlike the systems in other East

African countries. For example, in Kenia and Tanzania the taxis keep on driving, while in Uganda the taxi waits at a stop until it is filled to capacity. This practice wastes a lot of passenger's time and causes traffic jams. Currently, the cost of a single trip varies considerably, depending on daytime and distance. While a trip at midday from Old Kampala or Kampala centre to a suburb like Kawempe in the northwest costs approximately 2,000 USh (approx. € 0.60), the price doubles in the evening.

It is evident that by careful reorganisation of the public transport network, by introducing high capacity and fast bus operation, and by providing a variety of ticket options, it will be possible to have a revenue making service with significantly lower costs per single trip. Each bus on the network can serve 1,500 to 2,500 passengers per day, and even at half of the current single trip price, the service will be profitable. Thus, the most important policy recommendation in the transport sector is to introduce a Mass Rapid Transit (MRT) system as soon as possible. This means that during the first stage, the MRT will be based on buses. So, the taxi routes should feed and complement the bus routes but not compete with them. A new ticketing system should be introduced to allow more ticket options, including the ability to have a seasonal, namely a daily, weekly or monthly, ticket that will be valid on all public transport modes and that will be accepted by all operators. (KCCA 2012: 335ff)

3.4.4 Infrastructure

There are many gaps in the infrastructure of Kampala. The major gaps have severe implications for the population's health, the ecological system, the economy, and an acceptable urban environment for the residents of Kampala. The primary focus is on providing infrastructure for industrial and economic areas, with almost no concern for poor and slum areas. The most important projects are the drainage infrastructure, the water supply systems, the electricity system, the wastewater systems and solid waste collection and disposal. (KCCA 2012: 26f)

The vision by the KCC (Kampala City Council) is that all of Kampala's residents live in areas which are reasonably protected from floods, have easy access to clean water, and have piped sewerage systems and regular collection of solid waste. The concomitant goals are as follows: the protection from floods should include drainage measures which prevent regular inundation of residential, business and industrial areas; the access to clean water should include all residents of GKMA, whether by house connection, yard pipe or, as temporary solution, a standpipe close to the place of residence; economic prices; the use of springs and shallow wells should also be eliminated. All residential areas should have either piped sewers with treatment plants of sufficient capacity or, as temporary solution only, regular collection of faecal sludge from latrines and other facilities; with the sludge being filtered in a scientific manner which prevents pollution of ecological systems and allows recycling of the end product. In addition, all industrial areas should be connected to proper sewerage systems with pre-treatment as appropriate, and - if necessary - specialised treatment facilities. The reality shows a different picture. (KCCA 2012: 343)

Picture 3: Drainage System in Kawempe, a GKMA Slum Area, 2010

All areas and activities should have regular and effective collection of solid waste, with emphasis on sorting at source or close by, recycling, composting and environmentally sound land-fills. Hazardous industrial, health and other waste should be treated in specialised facilities. (KCCA 2012: 343)

3.5 Financial Capital

Financial capital: Consists of stocks money or other savings in liquid form. In this sense it does not include financial assets, yet should include easily disposable assets such as livestock, which otherwise may be considered natural capital. It includes *income levels, variability over time, and distribution within society of financial savings, access to credit and debt levels. (Carney quoted from Balgis 2005: 8)*

The financial capital in the poor regions and slums of Kampala is very limited. Access to money is easy, because there are a various number of money lenders, bank institutions, SACCOs or simply a close community and family who can lend financial support. On the other hand, the access is limited and restricted, linked to conditions e.g. already existing capital in form of assets, existing working capital or valuable consumer goods.

There are few people with livestock except some poultry farmers, because chicken need little investment capital for a start-up and are cheap in their stock breeding. But when it comes to natural capital like fruits and vegetables, due to the good climate and soil, people with a little agricultural plot have easy access for self support and an extra market income. The market competition is very high, because only basic skills are needed to sell the products at fruit and veg stalls. But only 8.1 per cent of the urban population generate their income in the agricultural sector, because especially in slum space areas is very limited and the population density is high. 16.4 per cent of the income is generated in the production sector; the major part with 75.5 per cent is generated in the service sector. (UBOS 2012: 19)

The financial situation of the people in Kampala as well as detailed descriptions of MF clients and their financial capital is discussed in chapter 5.

4. MFIs in Uganda and Research Partners

4.1 MFIs in Uganda

Micro Finance Institutions (MFIs) in Uganda are defined as financial institutions and associations which are not regulated by the Bank of Uganda (BOU). MFIs include SACCOs and NGOs and other types of finance companies. MFIs are non-deposit taking, not-for-profit making organisations that operate in various legal forms and are predominantly engaged in providing microcredit services to financially excluded populations. In the majority of cases, these institutions were established by donor-driven international networks. The majority of these MFIs are now locally registered and funded by a mix of donors and microfinance-investors, for example BRAC. (UBOS 2010: 4f) Two institutional research partners participated in research for this diploma thesis: KCCC Sacco and Tumbakosar.

Player	Role
Ministry of Finance, Planning and Economic Development (MoFPED)[4]	Management of Government's Treasury, policy level oversight of the financial sector, promotion of inclusive provision of financial services
Bank of Uganda (BoU)	Regulation of the financial sector to ensure orderly and safe growth as well as stability of the financial system
Commercial Banks	Normal banking services
Credit institutions	Loans and in some cases savings accounts
Development Banks	Large loans and other types of start-up capital, mainly for corporate business concerns
MDIs	Deposit and loan facilities, mainly for low income people
Tier 4 MFIs and SACCOs	Loans for low income people (in the case of SACCOs, savings facilities as well)
MF Wholesale lenders	Lending to MFIs
Forex Bureaus	Buying and selling foreign currencies
Insurance companies	Normal insurance services to the population
National Social Security Fund	Management of social security contributions by workers and their employers
Uganda Securities Exchange (USE)	IPOs, trading in shares, bonds and other securities
Capital Markets Authority (CMA)	Regulation of the Uganda Securities Exchange and overall capital markets within the country
Money lenders	Individuals and firms that lend money, usually at very high interest rates

Figure 7: Key Players in the Financial Sector of Uganda (Friends Consult 2008: 13)

4.1.1 Distribution of MFIs

The following figure shows that, overall, the Western region (29%) has the highest number of MFIs, followed by the Eastern region (26%) and the central region without Kampala (22%), while the Northern region has only 13%. The distribution of the MFIs by district shows that the Kampala district has the highest proportion of MFIs, followed by Bushenyi, Wakiso, Mukono, Masaka, Iganga, and Jinja respectively. The Buliisa district had only three operating MFIs in the district, though some MFIs have satellite offices in the district. (UBOS 2010: 8)

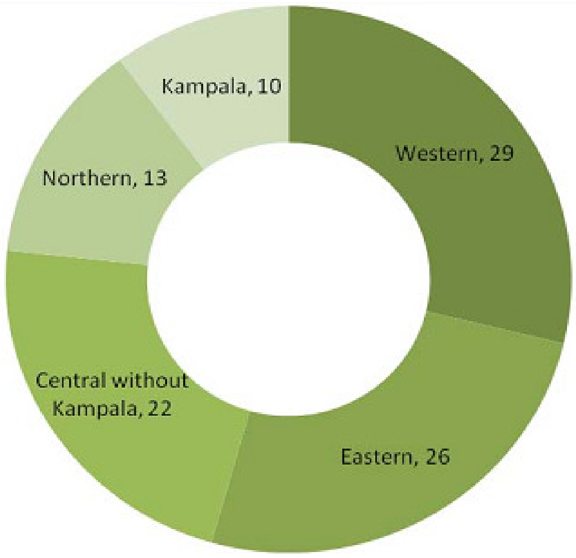


Table 7: Regional Distribution of MFIs in Uganda (UBOS 2010: 9)

Statistics show that, apart from SACCOs, most of the MFIs are located in urban areas. Sixty percent of SACCOs are in rural areas, compared to only 11 percent of the MDIs operating in rural areas, as shown in the following figure. The large percentage of NGOs/companies operating in rural areas is explained by BRAC, which has the majority of its branches located in rural areas. (UBOS 2010: 9)

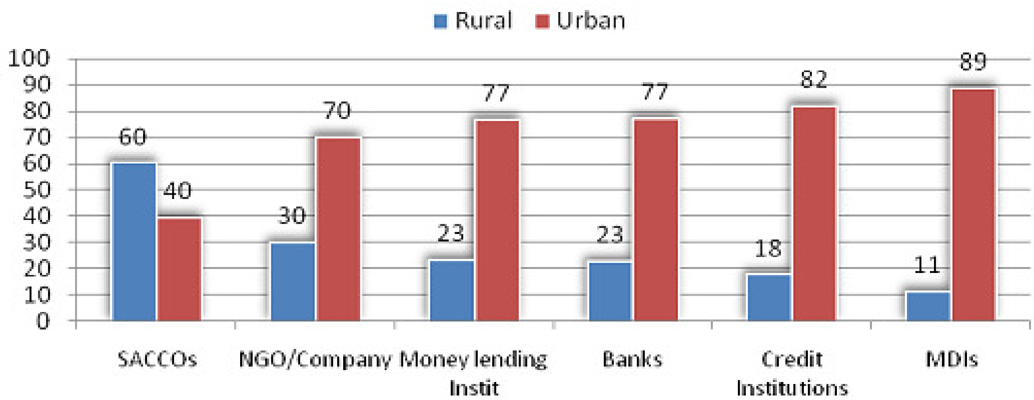


Table 8: Distribution of MFIs by Location in Per Cent, Satellite Offices Not Included (UBOS 2010: 10)

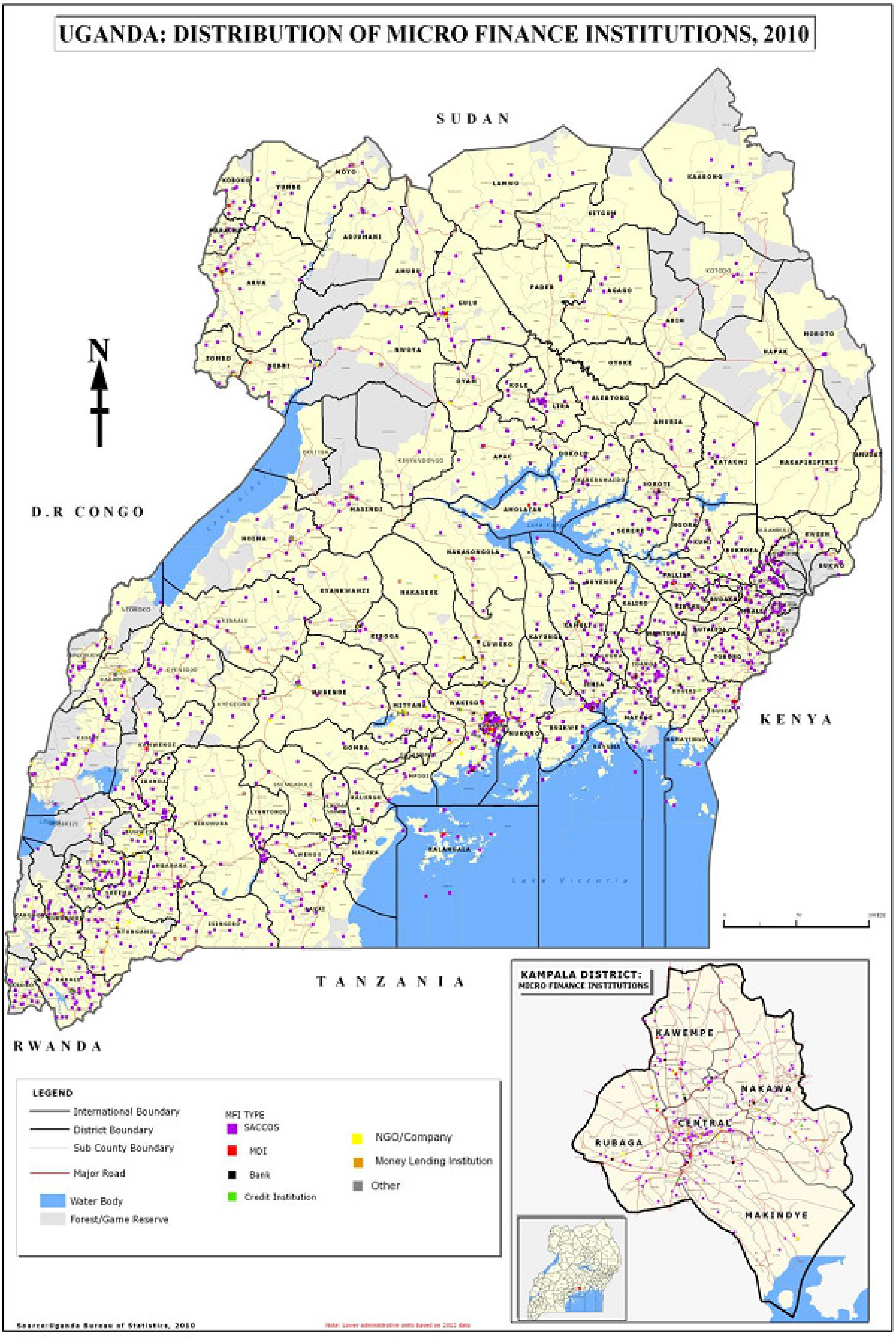


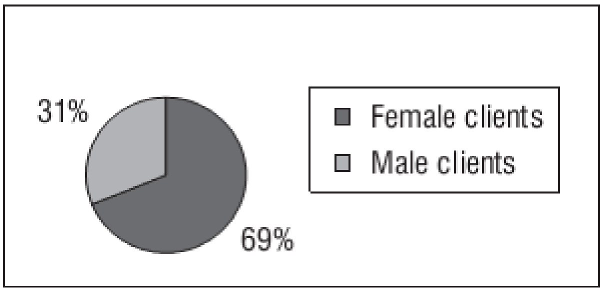
Figure 8: Distribution of MFIs in Uganda (UBOS 2010: XI)

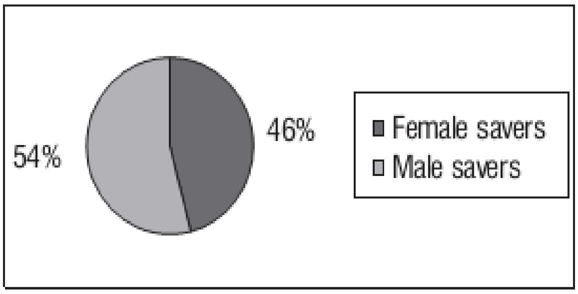
4.1.2 AMFIU and Their Members in Uganda

AMFIU is the Association of Microfinance Institutions in Uganda and the sole MF association in Uganda. It was funded by 110 members in 2007. In 2013 it had 133 members, out of which 96 are ordinary MFIs and 36 associate members, which are other institutions or individuals that support MF interests. AMFIU members cut across all tiers and categories. Tier 1 members are commercial banks which offer MF services as well, tier 2 are credit institutions, tier 3 includes Micro Deposit-taking Institutions (MDIs), and tier 4 comprises SACCOs, NGOs and other smaller companies that are not supervised by BOU (Bank of Uganda). (Kumwesiga 2009: 5f)

Tier	No. of AMFIU Members	Description	Legal status	Applicable Act/ Law
Tier 1	2	**Banks** (Centenary Bank & Equity Bank)	Company Ltd by shares	Financial institutions Act (2004)
Tier 2	2	**Credit institutions** (Faulu Uganda & Post Bank Ug)	Company Ltd by shares	Financial institutions Act (2004)
Tier 3	3	**MDIs** • Finance Trust • FINCA • Pride Microfinance	Company Ltd by shares	MDI Act (2003)
Tier 4	71	Other financial institutions that do not fall under the 1st three tiers.	**9 companies** **17 NGOs** **45 SACCOs**	Not regulated but a proposed bill has been presented to Parliament for review.

Figure 9: AMFIU Members by Tier and Legal Status (Kumwesiga 2009: 6)





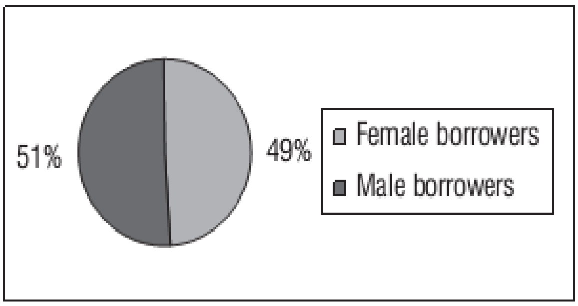


Table 9: AMFIU Clients (Kumwesiga 2009: 11)

The client structure of AMFIU members was investigated in 2008. In total, AMFIU members served 1,814,976 Ugandans with MF services. (Kumwesiga 2009: 10)

4.1.3 Access and Barriers to MF-services in Uganda

Only 38 per cent of Uganda's population has access to financial services of any sort (status 2007, data from the *Finscope Study 2007*): 18 per cent have access to formal financial services, 3 per cent have access to semiformal institutions, 17 per cent to informal sources, and the remaining 62 per cent are unserved by any kind of financial services.

	Rural	Urban	Central Kampala	Central Other	Eastern	Northern	Western
Financially Served (%)	35	48	49	28	33	34	50
Un-served (%)	65	52	51	72	67	66	50

Table 10: Financial Access by Location and Region (Friends Consult 2008: 22)

Total all respondents	Total	Rural	Urban	Male	Female
	%	%	%	%	%
Unserved	62	65	52	58	66
Banks	16	12	28	21	11
Informal groups –minus ASCAs	11	12	6	11	10
ASCAs	5	5	6	4	6
MDIs	2	2	3	1	2
SACCOs	2	2	2	3	2
MFIs	1	1	1	1	1
VSLAs	1	1	1	1	1
Credit Institutions	0	0	1	0	0

Table 11: Financial Access Strand by Location and Gender (Friends Consult 2008: 22)

Formal banks mainly serve male clients, while all other forms of financial service providers are relatively balanced in their client structure. The majority of Ugandans live in rural areas, and the strategy of financial institutions is to increase the access for those future clients who are actually excluded from the financial services because of non-suitable products. The development of agricultural financial products is still at an infant stage, but some MFIs already try to expand their portfolios to attract these clients by suitable agro-business products. The study also shows that 22 per cent of Ugandans borrow from more than one institution at once, so called multi borrowers, without the knowledge of the financial institutions. This shows that it is very important for Uganda to implement a national credit reference system to reduce financial risks. Banks and institutions regulated by the BOU already have that reference system. (Friends Consult 2008: 23).

Regions with a high percentage of financially unserved people have similar problems. In the last decades, these regions suffered from insurgencies and dry periods which have affected economic progress. Additionally, insufficient and no sustainable investments in the infrastructure (e.g. communication, roads, and utilities) were done, with the effect that companies (or outlets) settled in other regions of Uganda. To improve access to financial services, government and development organisations lay their focus on support of initiatives that support the outreach to remote and rural people. These initiatives may include products that serve small scale agricultural companies, covering initial company start-up costs in the first year or supporting SACCOs in their efforts to establish pro-poor wholesale lending. (Friends Consult 2008: 23)

The following list shows major problems of private people, especially for poor people, to have access to financial services (Friends Consult 2008: 24)

- Limited branch network;
- Unsuitable products for poor people/ low income people/ rural people/ farmers;
- High transaction costs for MFIs to deliver financial services to the poor or to people in rural areas;
- High transaction costs for clients, e.g. for transport, service fees and time;
- Profit considerations of MFIs because of a limited customer base in rural areas;
- Seasonal fluctuations of income in rural areas, and
- High rates of illiteracy, especially in rural areas.

4.2 Kamwokya Christian Caring Community - KCCC Sacco

4.2.1 History and Background of KCCC Sacco

In 1989 as the *Small Basic Christian Communities* were providing medical care and psychosocial support to people living with HIV/AIDS (PLHAs) under KCCC, it was realised that HIV/AIDS was not only a medical matter but was manifesting itself in so many other aspects which were social, economic, cultural, and spiritual. Many of the families that were affected by HIV/AIDS did not have any household income or skills to solve their socio-economic challenges e.g. nutrition, housing, formal education for their children, or adequate medication among others.

In response to this, KCCC started providing grants to HIV/AIDS affected households to enable them to start income generating projects for sustaining their day-to-day needs. But most of the beneficiaries misused the grants and remained dependent on the organisation. KCCC therefore realised that the grants approach was not sustainable and was not building the capacity of families to address their own socio-economic challenges but was simply perpetuating the helplessness, dependence, and powerlessness mentality that pervaded society.

Besides, most people lacked a saving and investment culture, which made them live from hand to mouth. KCCC therefore mobilised beneficiaries into self-supporting and monitoring groups where they learned about the need to develop a saving and investment culture.

The groups mobilised an initial capital investment of five hundred thousand Ugandan Shillings (USh 500,000.-), which they loaned among themselves on a revolving fund basis. Building on this, KCCC solicited support from Catholic Relief Services, Scottish Catholic International Aid Fund, Comic Relief, American Jewish World Services, and COOPI (Cooperazione Internazionale) to increase the capital base for lending to more people. With this support, more families accessed credit and business skills training opportunities. This in return created a network of people attuned to personal financial security and on-going peer support to liberate each other from the shackles of poverty. The group concept served as collateral for beneficiaries without any assets to stake before accessing the loans.

With growing numbers of beneficiary groups and savings, it became obvious that a lot would be gained if these groups constituted themselves into a registered cooperative and savings society. In 2004, upon fulfilment of the requirements of a cooperative society, KCCC Sacco was formally established with an initial membership of 30 people (17 males and 13 females).

4.2.2 General Information about KCCC Sacco

The main goal of KCCC Sacco is to promote economic and social interests of the vulnerable poor in low resourced communities of the Kampala District. Further objectives are to promote a saving culture among the community in order to facilitate development, to provide loans and credit facilities at affordable and accessible interest rates, to provide members with skills for developing microfinance concepts and enterprises, and to promote and train members to acquire good business skills.

For clients it is important to save with KCCC Sacco because the money will earn interest of 2 per cent per year, with the relatively low charge of USh 500 per withdrawal, but especially it is one of the most respected and trusted SACCOs in the Kampala District and in the area of Kamwokya. To become a member of KCCC Sacco clients need to be at least 18 years old or above and live ore work in the Kampala district. As entrance fee, KCCC Sacco charges Shs 10,000, and an additional Shs 1,200 for a passbook. A practice which is also very common with Saccos is buying one share of the Sacco as a member; at KCCC Sacco each share costs USh 10,000.

4.2.3 Loan Types, Conditions, and Charges

Business loans are issued for business purposes, injecting working capital to improve or to start a business. Land and building loans (also construction loans) are issued with the purpose of assisting beneficiaries in the purchase of land or building new homes. Education loans are issued to assist beneficiaries in the payment of school fees of dependants. And finally social loans are issued to assist in special life events such as weddings or funerals.

The saving/borrowing ratio is 1:4 (save USh 1,000 and you can borrow USh 4,000). Minimum loan amount is Shs 50,000, the maximum is Shs 4,000,000. Before the client accesses the loan, he or she has to attend a two-day business training. The loan repayment period ranges from one to six months.

KCCC Sacco charges fees for its services. It starts with a handling charge of 1 per cent of the face value of the loan. The interest rate on loans is 2.5 per cent per month, which is 30 per cent per annum. Insurance charge for Loan Protection Fund is 1 per cent of the loan value. Loan insurance is covered by the American International Group (AIG) Uganda.

Requirements for the future client to get a loan are the 5 Cs: One has to be with good <u>Character</u>. One has to be <u>Capable</u> of paying back the loan. One has to be <u>Credit</u> worthy. One has to be with <u>Capital</u>. One has to be with <u>Collateral</u>.

4.3 Tumbakosar

4.3.1 History and Background of Tumbakosar

Tumbakosar was founded in 2009 as a MFI by Barnabas Tumwekwatse, the CEO, and other partners, investors, and stakeholders. In comparison to KCCC Sacco, it is not a non-profit organisation, but a money institution with commercial bank ambitions and interests, still with the goal of poverty alleviation and providing services for the poor. The bank at its infant stage has several branches around the area of GKMA and is planning branches outside urban areas. The headquarters and main branch is located in Kyebando, which is a neighbouring area of Kamwokya. Within five years Tumbakosar plans to have at least five branches, with at least 20 credit officers employed, with an increased capital base and an improved portfolio gross. According to the CEO, Tumbakosar needs an increase in active clients (>1000) and more customised services for their clients. In five years he sees Tumbakosar in a close competition with other established MFIs in the area, like KCCC Sacco, which means they can offer loans at a lower interest rate. After doing a lot of research on the internet, Tumbakosar found out that its competitors are much better funded. So they need more active capital than just the funding from the board of directors and the micro loans back-payments.

4.3.2 Conditions of Tumbakosar for Group Loans

The interest rate is 3.3 per cent per month, a flat rate that is 40 per cent per year. Tumbakosar tries to reach 30 per cent per year. Tumbakosar requires a security deposit with a ratio of 1:4 and USh 3,000 weekly flat compensatory security deposit additionally. They offer pre- and post-trainings to assure that earned skills do not get lost. Those trainings are focussed on financial skills and improved credit worthiness.

As far as group formation is concerned, groups have no limits and are formed based on the areas the clients live in. The groups are structured in cells, which consist of 5 to 6 members. While group members do not know each other, the cell members do. The whole group is responsible for any kind of failure of a single cell member. So the whole group is taking a loan guarantee. All members are supposed to fill in and sign the form as guarantors.

Payments before getting the loan are as follows: USh 4,000 are needed for a passbook to become a member. Loan application and monitoring fee before getting the loan is 4 per cent of the total loan in advance. 2 per cent insurance of the total loan has to be paid in advance to the Tumbakosar emergency fund. The loaners get the loan three weeks after all preparation and requirements are fulfilled. This time period might be long, but it gives the client some time to think about his or her decision.

The payback of the instalments is on a weekly basis, and a weekly attendance at the cell meetings is also required. Photos are taken of all clients who request a loan above USh 600,000.

4.3.3 Requirements for Group-Clients

In the first week, clients receive their primary training, so they are aware of all the responsibilities and effects of being a loanee. Clients have to pay a membership payment of USh 4,000 for the blue passbook. In the second week, there is an additional training to repeat the learned information. The cells and the chairperson of the group decide by mutual agreement. Knowledge and information have to be shared with other cell members, and they give advice on the sum which serves the client's needs best in the future. Following the loan appraisal, which includes a group decision of accepting the new cell member, Tumbakosar in general accepts the group's decision and grants the loan because all group members guarantee.

Loan disbursement is done in the third week, when the client receives the money in the office. The client, the chairperson, the credit officer, and the branch manager have to attend. The disbursement comes with a short training reminding the client of all conditions of the loan. The security deposit has to be paid as well. One quarter (ratio 1:4) functions as a security and remains on the account of the client, so it remains with Tumbakosar, but it is still the money of the client. The payback of the instalments starts in the fourth week. It includes the weekly payment of the loan, the interest rate, and the security deposit.

4.3.4 Conditions and Requirements for Individual Loans

The payback of the loan is on a monthly basis. The client has to pay 7 per cent per month interest rate when there is no security deposit, 5 per cent when there is an already existing security deposit, for example when it is a following loan. In the same way as group loans, the security deposit is defined by a ratio of 1:4. But in contrast to a group loan, security or collaterals are a must, but are depending on the nature of the client's situation. The loan can be accessed within three days, but still the trainings are necessary and need to be completed before the client receives the money. Charges stay the same as for a group loan and a picture for documentation is taken in any case.

4.4 Differences between Research Partners

There are a variety of differences between the research partners KCCC Sacco and Tumbakosar: legal status, development, size, capital, future goals, surrounding area, clients and, as already mentioned in the previous chapter, the modalities of the MFIs for granting a loan.

The main difference between KCCC Sacco and Tumbakosar is their legal status. KCCC Sacco is regulated under the *Financial Services Act 2004* and the *Cooperative Societies Act CAP122*, 1991. Tumbakosar is regulated under the *Financial Services Act 2004* only. Both MFIs do not have an official policy regarding their operational requirements and supervision. This lack of an established policy framework creates a gap in the MF policy laws to protect members' savings. (UBOS 2010: 12)

KCCC Sacco started out in a container used as an office to provide its services. This was at an infant stage of business development, similar to the present situation of Tumbakosar. But KCCC Sacco has grown and became an important part of Kamwokya, a sustainable partner of private households and the economy, with thousands of active clients and a wide ranged portfolio of services. Furthermore, KCCC Sacco in cooperation with KCCC headquarters is organising and providing social activities and welfare programs for the poor. With an increased number of active clients, they even managed to overcome two bank hold-ups in the last two years, which resulted in a setback in day-to-day business.

KCCC Sacco is located in Kamwokya along the main road, in a heterogeneous slum area in GKMA. Kamwokya is a very busy place, day and night. Along its main road there are lots of different businesses: fashion stores, bars, restaurants, mobile service providers, groceries, flea markets, record and video shops and many small entrepreneurs on the street who sell food, snacks and lots of bric-a-brac. A look beyond the shopping mile offers lots of small houses, buildings which are in a state of disrepair, farming areas for vegetables, fruits or even stock-breeding. Some residential areas are fenced with stone walls and barbed wire and a metal entrance gate, constituting a little community of five to ten families. Other residential areas are more like an urban housing sprawl.

The population of Kamwokya grows rapidly, because it is a slum area with low rental prices, high fertility rates combined with low educational status and a high migration rate from rural areas, as well as a lack of income opportunities and work. Kamwokya is – as many slums are – located in a cutting or ditch, which means that the surrounding areas, including Kyebando, are on higher ground. The effect is that heavy rainfalls cause floods if the drainage systems are blocked and flooded areas are a perfect breeding ground for mosquitoes which transfer malaria. The hygiene situation is dramatic, too, because lots of dirt, toxins, bacteria, and sewage from the drainage system swash into the whole area, which presents a serious threat to people's health. And even if the drainage system is not blocked, it still may not be able to hold the masses of water, simply because of insufficient water capacity or outward flow. But officials do not want to invest into pumps to transport the water out of the basin because initial and running costs are too high.

In the past years there have been investments in the infrastructure, for example in improved drainage systems, although the best drainage system is useless if blocked with garbage. The asphalt main road, or the Northern Bypass, is one of the most important arterial highways of Kampala. It enables free access to low-quality water (boil it first, drink it later), the construction of public and private schools and accommodation units.

Tumbakosar has branches all over GKMA, but the main branch is located in Kyebando, north of the Northern Bypass. Kyebando – compared to Kamwokya – is less crowded, has no bituminised main road and, in general, has a more residential atmosphere than Kamwokya. This impression may be confirmed by waste land areas, which are not used for private or economic purposes by the landlords. Lacking any sewer system, Kyebando also has few drainage systems, which means that the roads are very desolate, washed out and eroded. Additionally, before rainfall, it is common practice in slum areas to break a brick out of the latrines, so the excrement gets washed away down the hill in a little rill on a road to the next drainage system.

Apart from the surrounding area of the MFIs, there are other differences between KCCC Sacco and Tumbakosar. In the MF-business the size of an MFI really matters. The BOU or public and private donors have criteria for dealing with MFIs, which result in a different legal status of a MFI to a commercial bank, network benefits and access to additional funding, which increases the capital stock. In general the requirements for establishing a recognised MFI are at least four years in business and an active client stock of a minimum of 1,000. Tumbakosar has about one hundred active clients, and in the summer of 2012 it has been in business for about two years. As a consequence, it has to be more strict, conservative and cautious in the selection of profitable clients and loan disbursement. In practice, this results in the preference of business loans, which have a higher probability of back-payment. Also, with a quick raise of business-stock and better customer care by an improved offer of a variety of goods and products, the redemption rate is much higher.

And that is exactly where Tumbakosar sees society's future development, by improved business activities, less vulnerability and poverty through higher profits, due to self-employed income of small businesses. KCCC Sacco has a similar perspective of giving support to the society. Of course it supports economic development, because it is in a bank's main interests to support customers with financial needs and economic potential in growth, while expecting the back-payment plus interest rates for self-development. But KCCC Sacco and SACCOs in general, defined by their legal status under the Cooperative Societies Act CAP122 from 1991 and their corporate mission, have the obligation to support those who have special needs, to fill the gap where the rest of the economic market fails and the family or society lacks capability to provide assistance. A typical example, which also applies to KCCC Sacco, is to provide assistance for people with HIV/AIDS, which is a major problem in the slums of Kampala. That does not mean that other MFIs do not support people with HIV/AIDS, but they regard those clients as potential risk or as a business loss in the future and, therefore, not as a top priority.

Tumbakosar's economic activities are hindered by a low capital stock, caused by small returns on few loan disbursements with a small number of active clients. Tumbakosar would immediately support more clients, but without money this is difficult and expensive for clients. In that case Tumbakosar would have to borrow more money from commercial banks, but, then, the clients cannot afford higher interest rates. This can be seen as a vicious circle. The only solution is slow and steady development and sustainable economic actions. KCCC Sacco has overcome this infant stage of development and has now more opportunities regarding their economic behaviour. Lower interest rates attract more MF-clients, which in turn makes business more profitable, provided that business allows the MFI to grant loans with lower interest rates. This is not necessarily an endless downward spiral, but according to managers of KCCC, a potential interest rate of 20 % per annum can definitely be reached. This, in turn, would bring an MFI in direct competition with commercial banks.

4.5 Problems of MFIs

This chapter shows two different points of view: the first is of MF clients and the other one is the point of view of bank managers and credit officers of KCCC Sacco and Tumbakosar, obtained by expert interviews. Every interview partner was questioned if he/she could identify any problems with MF products or the MFI itself and multiple answers were possible. Problems with the MF products are discussed in chapter *5.5.*

Clients are complaining about high interest rates; a rigid MF system; MFIs' lack of money to meet the client's needs; MFIs' lack of development of products to match the specific needs of the client; and the relatively high crime rate on the streets near MFIs.

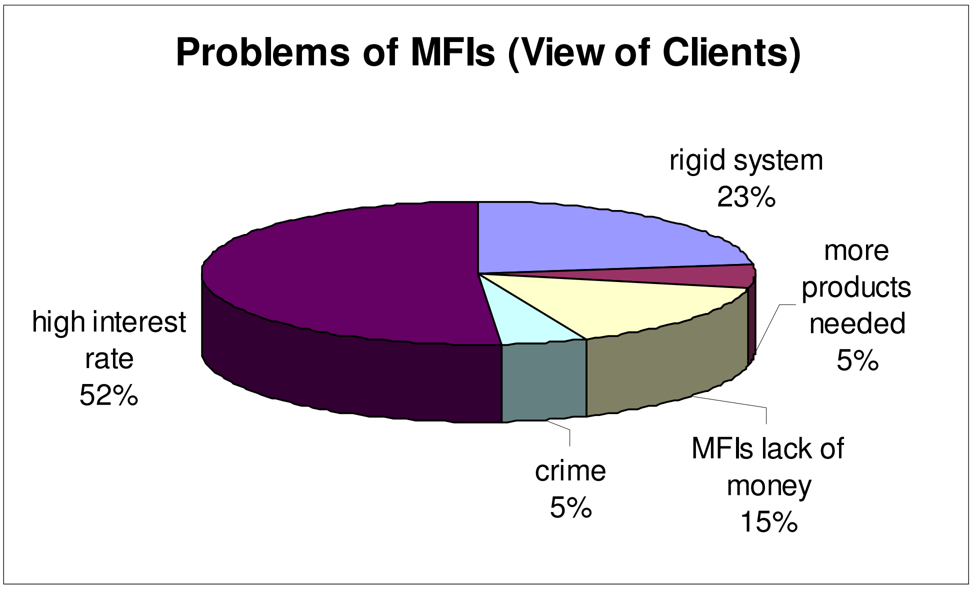


Figure 10: Problems of MFIs

4.5.1 Interest Rate

The relatively high interest rates for MFIs, ranging from 25 per cent to 40 per cent per annum, are a considerable burden for MF clients. Although there are different kinds of financial institutions working in Uganda and the competition is fierce, MFIs provide services commercial banks are reluctant to offer. Commercial banks have a different client structure and profile and, accordingly, do not regard poor people from slum areas as profitable customers. Also, commercial banks have no branches near or in slum areas, which makes it even more complicated and costly for poor people to do business with commercial banks because of transport and time efforts. Despite the severe competition in the bank and finance sector, poor people do not have the chance to get loans at low interest rates from international financial markets, so they have no other choice but working together with MFIs.

High interest rates at MFIs are the consequence of the commercial banking system. MFIs can not keep up with low interest rates granted by commercial banks for the following reasons: MFIs employ more credit officers and field workers for a certain number of clients because MF clients need more attention, which means the employee-client ratio is higher than at commercial banks; MFIs have less investment opportunities because of prohibitions by Ugandan law to this effect; MFIs have fewer clients than commercial banks and the competition between MFIs is intense since there is more than one SACCO allowed per region; the default rate of MF clients is higher than for clients at commercial banks. The MFIs, especially in an infant stage and the size of Tumbakosar, do not have the resources to provide all financial services out of its own capital stock, but have to borrow money from other commercial banks. So Tumbakosar also has to pay interest rates for their own loans, which range between 15 and 20 per cent per year, forwarding the costs to their clients.

The high cost of microloans does not necessarily mean a greater risk for low-income people. As a matter of fact, well structured MC programs have lower default interest rates than commercial banks. MCs imply higher operating costs given the higher distribution costs of small loans which require a face-to-face relationship between debtor and creditor. In addition, MFIs use personal contact as a substitute for traditional collaterals or high end computerised IT techniques. The cost of a small loan will always be greater in percentage terms compared to the cost of a large loan. With the interest rate charged, three kinds of costs have to be covered: the costs of lend funds, the cost of risk for loan losses, and administrative costs like the selection of clients; processing of credit applications; distribution and collection of loans; and follow-up of outstanding debits. (Delfiner 2007: 17)

4.5.2 Rigid System and More Products

Clients often mention that the MFIs put them under pressure and set requirements in advance or during the whole process, although their lives are already fraught with responsibilities and problems. Because of the clients high vulnerability – and most of the clients are completely aware of that situation – they fear loosing their collaterals. Some clients say that they do not understand why it is necessary that they have to bring securities when they are in a group lending system. Some would even accept to pay higher interest rates for not being in a group system, because weekly meetings cost a lot of time and money for transport and they cannot run their businesses at the same time. Clients get stuck together in a group/cell, sometimes without mutual trust and fear of the others failure, because clients are aware of the difficulties. Taking responsibility for another client you do not trust, being a guarantor for any case of failure, is what many clients do not understand but have to accept as a fact.

At least as problematic as the aspects described above is the lack of financial confidentiality and privacy between MFI and client, when everyone in the group knows private details, although it might not be in the clients best interest that everyone knows that, for example when having HIV/AIDS, which has little or nothing to do with e.g. the MF support of a business loan. And some clients say that MFIs should be more adaptive when the client is late with his back-payments, because sometimes the profits are not as high as expected or will come after the weekend business, or too much money had to be used for buying medicine or for any other unexpected case. The MFIs are completely aware of the broad variety of situations which can occur in a client's life, but it is difficult to keep the system running, when clients are late with their payments or even fail to pay their debts.

The conditions and terms on MCs are similar but they should not be that way. For example, when taking out an agricultural loan, returns cannot be expected very soon but for the next season. A change of modalities would help the client's needs, without loss for the MFIs and the client. Like the example above, when the payback of the agricultural loan for fertilisers would start with a two or three months delay and with an adopted interest rate which even might be a bit higher than normal, then the client could pay the loan back, starting with the harvest and because of the adopted interest rate, the MFI would not lose money because of the delay.

MFIs should offer estate/asset/acquisition loans, especially when the MFI is well established and seeking opportunities for further growth. Of course this kind of loan does not fit into the core bank business area, but it gives the MFI - and the poor as their local partners - new development opportunities. This kind of financing can be held as long term investments by MFIs, while the client has great interest in its development. During and after the asset development, the client pays back his instalments and years later the client gets the title. The change of action is that the bank does not give money to the client; instead, the bank gives the right to develop a property, land or asset, e.g. a plot for farming, a house for a restaurant or a motorcycle for a Boda Boda driver.

4.5.3 Capital Stock

The capital stock might be one of the biggest challenges MFIs are confronted with. Especially at an infant stage, MFIs have the problem of scarce funds to provide their services. With MF activities it takes relatively long to achieve a capital stock which sustains society at a suitable level without expansion. High transaction costs for client care are a significant problem, particularly with group lending systems. MFIs could cut transactions costs per client by nearly three-fourths, or reach nearly four times as many clients for the same cost, by moving from a weekly to a monthly schedule. (Feigenberg 2010: 27)

Independence is difficult to achieve for MFIs, as there would have to be other ways to increase the capital stock. First, the founders bring more money into the business, which can only be provided by an additional income from an economic activity besides MF. Second, the CEO (chief executive officer) or the BOD (board of directors) would have to find private/public capital providers and donors who support the MF activities by adding money to the capital stock, with the very likely consequence of influence taking actions. Third, MFIs could leave the path of slow but sustainable growth and take the chance of liberal expansion through debts, with an increasing risk of failure.

Today, with growing needs of the society, MCs of USh 300,000 are not enough anymore to build up a business. Clients need USh 1,000,000 and more to make their ideas become real. With few MCs the people need to go to other MFIs and borrow there as well, becoming a multi borrower is inefficient and including higher costs. That causes more failures, which ends in a small capital stock. And still: people need higher MCs.

4.5.4 Decision Between New Stakeholders or Economic Independence

Both partner organisations have problems with their capital stock, which results in shortages of active working capital. Should MFIs be financially independent instead or receive funds from public or private donors? To raise active capital, the MFI Tumbakosar takes out loans from commercial banks. At the same time, does the MFI loose its independence in business activities? James Kizza, credit officer of Tumbakosar, has the following thought:

> *Only to some extent, because it is still our decision how to use our money. The issue is to have a proper financial capital stock by the owners and stakeholders to run our business and to provide loans. In case of insufficient funds we take loans as well. […] We as an official MFI work under the condition of the Central Bank, which gives us limitations and regulations. We try to do anything which is in between the lines of MFIs. But if a big stakeholder came with big funds from e.g. a commercial bank, then you work under their conditions and Tumbakosar would have to agree to many things. But how we do our work is stated in a strict framework by the Central Bank and we even have to pay for our license to be allowed to run our business as a MFI.*

Barnabas Tumwekwatse, manager, stakeholder and founder of Tumbakosar, has his own opinion about the future of Tumbakosar:

> *The fact is that they cannot be independent and should not be independent. One thing is that MFIs do not have a high enough capital base. Second, donors or funders, when they give out money, most of the times they intend to follow up how the money has been used. Sometimes they assist, for example with trainings. So at the end MFIs benefit from getting more funds, but they also benefit according to trained staff members. But of course there should be limits in influence by donors when it comes to management of MFIs, because when management is distorted then you find out that*

things become terrible. […] Which kind of support Tumbakosar needs? Well, primarily funding, secondly more trainings for staff members, additional to the trainings Tumbakosar can provide. For example other bigger companies can hire people who are skilled and highly motivated and in the end the staff is more empowered and skilled. Third, Tumbakosar needs better facilities; we need more computers, at least one vehicle like a small motorcycle, because Tumbakosar needs to spend a lot when it comes to transport. But facilities in total are a big thing. So we need more funds, but still keep our independence high.

Thomas Kakande, manager of KCCC Sacco, has a different point of view, being asked about additional funds by the government or private donors:

When the government brings money into MF or Saccos, someone would come to the Bank of Uganda and say "Pay this!" There is a big challenge when government comes in, to the extent that they are installing their own people. They would use the bank to please their personal needs. I can give you an example: There was this transport union, have you ever heard of it? You see, the corporative actors in the past were ok; it was not until the government came in and interfered. Then there were changes in government and it came in. And there were so many banks that collapsed because of the influence by the government. This all happened during the "liberation war". [Liberation war between Uganda and Tanzania 1978-1979, author's note] Influence by the government leads to much corruption.

[…] This democratic process in Saccos is not always the best for the Sacco. Our members are the stakeholders of KCCC Sacco. They pass resolutions on how the work has to be done. But some of the board members are not skilled enough in the banking business. But they are elected at the annual general meeting and when they elect the executives, they may elect someone who does not know how the banking goes on.

4.5.5 Crime

Crime is an imminent threat in slum areas. Due to lack of essential necessities, such as adequate shelter and sanitation, these regions are inhabited with populations that can hardly survive on more than "a dollar a day". Low education profiles, high unemployment rates and little legal income and development opportunities force young people into illegal activities. Common illegal activities are: illicit distillation and brewing, robbery (with violence), burglary, mugging, drug dealing, assault, murder and pick pocketing. But the major part of violence is directed against women and family members: rape, sexual abuse of women, child abuse, exploitation of women and children and especially prostitution. All those crimes threaten a society and weaken social stability and sustainable development.

And when it comes to MF, then bank employees have noticed that clients told them, that it is not always safe to leave the MFI with money in the pocket. Thieves wait for a good opportunity to shake the client down for its money. And MFIs like KCCC Sacco are victims of robberies, two times in 2012. With the consequence, that the MFI has lost part of its good reputation as safe place for the client's savings, and furthermore it made loan disbursements more complicated. For two months, KCCC Sacco had to limit withdrawing from accounts.

4.5.6 Clients

Another challenge is the type of clients in poor areas, who move from one place to another and are therefore also called "shifting clients". MFIs have an urban society, where it is easy to shift from one place to another. Most of the clients are tenants; that is why they keep on shifting. And when it comes to multi borrowers, in the past there was control by the ministry of finance and by law, but these days there is no regulation by law anymore. Some years back, the law limited the number of MFIs per region, and only one Sacco was allowed per area. But today there are many MFIs in slum areas and in 2012 there are already five MFIs in the area of Kamwokya.

Clients often misuse the money and subsequently may face the problem that it is difficult to pay back a loan misused for social activities, for a wedding gown or a suit. Also, there is no new source of paying it back because no additional value has been created.

The MC disbursement process is much more complicated with people from slum areas than from other, more developed areas. In fact, slum areas have the problem that many illiterate people have a great demand for business loans for, e.g., a small grocery. Illiteracy implies that this person cannot properly calculate and it takes a long time to fill out adopted loan application forms. Barnabas Tumwekwatse, manager of Tumbakosar, has the following thoughts about the key problems of Tumbakosar's clients, as well as simple recommendations for future MFI actions with clients:

> *At the moment many of the clients that we have do not know how to read and write. We, as we operate in pre-urban regions of Kampala, we have not gone so far. If we are going to the village, we have planned to ensure that our clients can write and*

read. Since our target clients are impoverished people, especially young people, women who are widows or separated single mothers, we will implement this kind of training. Other important trainings are social training, discipline in how to treat themselves, for example with diseases. So of course necessary trainings are not limited to financial skills. Here in Kyebando our clients know at least a little bit how to read and write, but that is totally different in the countryside areas.

Although the loan disbursement takes a long time, the client has become frustrated by frequent group meetings, yet urgently needs money for his business, while still waiting and learning about the consequences of business failure, it is necessary for the client to understand what it means to make that kind of commitment.

MF activities make the client's life more complicated, because there are requirements and preconditions for loan disbursements. Also, clients need to acquire new and essential skills for social and business development. James Kizza, credit officer of Tumbakosar, has the following opinion about client's problems with proper dealing with liquid funds and running businesses:

They [clients, author's note] *need to be told about record keeping in their businesses, because that is one thing which is absolutely not common in Africa here. People try to underestimate the necessity of record keeping. They think that it is just important for those big businesses; that is what they think. So without record keeping you cannot see the progress of your business but the failure will come sudden. If you keep monitoring your business and also separate business from your family affairs and needs, which would really help out. If you move around in the community or our clients and ask them "what is the financial status of your business?" none of them will know the answer. None of them will give you correct information. Most of the people realize too late that their business is failing; often it is too late to help them out. That mentality of record keeping has to change.*

5. MF Clients

MF clients are different for every MFI, area and country. Social, cultural, economical and environmental differences enable or require different kinds of micro financial activities. For some clients, MF brings advantages today or in the future while for others, MF solutions may cause more problems than they solve. For some sections of society, MF products are still not available, prohibited or denied. This diploma thesis pays special attention to clients of small urban MFIs with local development and little access or influence from national or international partners, because a substantial amount of research data about big players in MF, like FINCA or BRAC, already exists.

The questions of who the clients of the local MFIs in the slums of Kampala are, under what conditions they live and what their relationship and interaction with the MFIs are like remain. For better understanding, this chapter is arranged into the following sections:

- General information about the clients of the research partners KCCC Sacco and Tumbakosar,
- families and surrounding field,
- economic activities,
- their MF products and
- problems with their MF activities.

5.1 General Information about the Clients

The field research was only possible by the voluntary help of the MFIs KCCC Sacco, Tumbakosar and their clients. Finally, the research was conducted with 29 client interviews and four expert interviews with managers and credit officers of the partner organisations.

The following table gives general information about the clients. The column *children in HH* means the number of children the client is responsible for, regarding provision, education, housing, food or any other kind of financial and social assistance. That does not mean that all children are biologically their own, some were adopted by the household due to incapability, incapacity, sickness or death of family members or friends. The column *type of MC* shows business loans, education loans, construction loans and multi borrowers. In this case, multi borrowing does not imply that these clients have multiple loans running at the same time, but tries to explain the situation, namely that clients have taken out different types of loans over time to satisfy their needs. The column *number of MCs* explains the quantity of MCs taken by the client over a lifetime, but not the number of running MCs. It should simply express the experience of clients with MF products.

name	sex	age	relationship status	children in HH	educational level	type of MC	number of MCs
Srivia Sebowa (Naluwu)	f	49	married	7	S 1	BL	4
Margaret Nsemerirwe	f	35	married	3	S 1	BL	3
Maureen Owinyi	f	33	widowed	3	S 4	BL	2
Molly Tugarurirwe	f	27	single	1	P 7	BL	1
Hadidja Namulondo	f	48	single	5	P 2	BL	3
Prossy Namutebi	f	24	married	2	S 2	BL	1
Sicola Nakagayi	f	35	married	4	P 7	EL	1
Geoffrey Luzinda	m	32	married	3	P 2	EL	6
Judayah Namitala	f	25	single	1	S 2	BL	1
Anton Gebo (Lubega)	m	25	single	2	S 1	BL	1
Ruth Najjuma	f	49	single	6	P 5	MB	2
Emmanuel Mukyiza	m	24	married	1	P 6	BL	2
Robinah Kyobutungi	f	42	single	6	P 7	BL	1
Jane Turyahirwa	f	40	widowed	3	P 7	BL	1
Gertrude Kyarisiima	f	43	single	4	P 7	BL	1
Rose Kenyonyoz	f	42	married	7	P 7	MB	14
Florence Malemo	f	42	widowed	4	S 4	BL	2
Mary Nanfuka	f	40	widowed	4	P 5	BL	1
Eunice Kitu	f	28	widowed	4	P 3	MB	7
Nabulima Afisa	f	31	married	4	P 7	BL	1
Felista Namugga	f	55	widowed	6	S 2	EL	5
Tonny Zziwa	m	50	married	4	P 7	MB	6
Edward Kizza	m	27	single	0	Bachelor	MB	3
Mary Nakanjako	f	38	widowed	9	P 6	MB	3
Noah Kato	m	36	married	1	P 7	CL	4
Constance Sanyu	f	41	single	4	P 7	BL	8
Jacob Aoru	m	45	married	5	Bachelor	MB	8
Jane Kyeyune	f	47	widowed	4	P 7	MB	5
Asiat Zzikuza	f	44	single	4	P 6	MB	5

Table 12: General Information About the Clients in This Field Research

5.2 Families and Surrounding Field

The majority, which is 75 per cent, of MF clients are women. This applies not only to this field research, but also to the specialist literature and the accounting records of my partner organisations. There are specific reasons why women are the preferred clients of MFIs and why women prefer the services of MFIs. For example, women have fewer opportunities to generate capital compared to men. Due to the fact that women are more rooted in their living environment and because of the resulting immobility, women seek MF services to achieve goals in daily life. It is difficult to manage childcare, housing, and work at the same time. So women need to find local solutions that are nearby.

Another eye catching fact is the client's relationship status. Out of all clients, 34 per cent are singles, 38 per cent are married and 28 per cent are widowed. Many people in Uganda die at a young age, and although that is a relative term, compared to western countries like Austria, where the life expectancy at birth is 81 years, in Uganda it is 54.5 years. (UNDP 2012: n. pag.) So often the consequence of a family loss is poverty. And there are many cases where families with single mothers have problems to manage life, primarily because of little financial income and resources. The most vulnerable members of society are single or widowed mothers and their children. Either they left because of domestic violence, or the husband left them or died. In most of the cases, the mother takes full care of the children, while fathers do not take responsibility or even refuse to recognise the children as their own. Still, women face the problem to find a source of income, while at the same time carrying the burden of taking responsibility for children, accommodation and food.

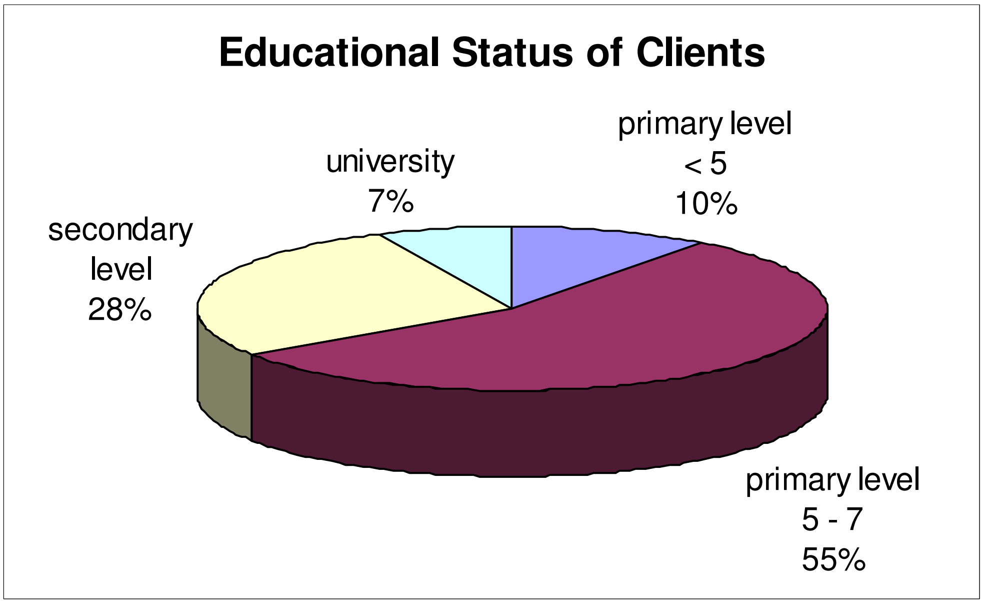


Figure 11: Educational Status of Clients

Similar to the educational debate about the correlation between the educational achievements of parents and their children in Austria, this aspect is also a topic for discussion in Uganda. Compulsory education for children until the age of 15 years is guaranteed by law; and every Ugandan has the right of seven years of education, finishing with primary 7 (P 7). There are free public schools, which are overcrowded and lack money. The Ugandan Government pays Shs. 12,000,- (about € 4,-) per year and child to public schools for their education, which is nowhere near to covering all costs; at least, € 140,- or Shs. 420,000,- are sufficient. Those who can afford it send their children to boarding schools; however, it is not possible for poor people living in slum areas to pay the large school fees. Consequently, many parents have no choice but to take the third option of paying school fees for private schools which provide education under acceptable circumstances. However, many parents cannot afford the fees for private schools, the children may have to work for the household income, or older siblings need to take care of the younger ones so the parents can work. In other words, many circumstances can prevent children from going to school in Kampala. This adverse situation has not been changing for decades. The bottom line is that people living in slum areas are poorly educated and have limited skills. Two thirds of the clients have either finished their compulsory education or stopped going to school and therefore have no school leaving diploma. With a lower educational status it is much more complicated to find work on a regular basis and with a fixed salary, and, consequently, almost impossible to escape the poverty cycle.

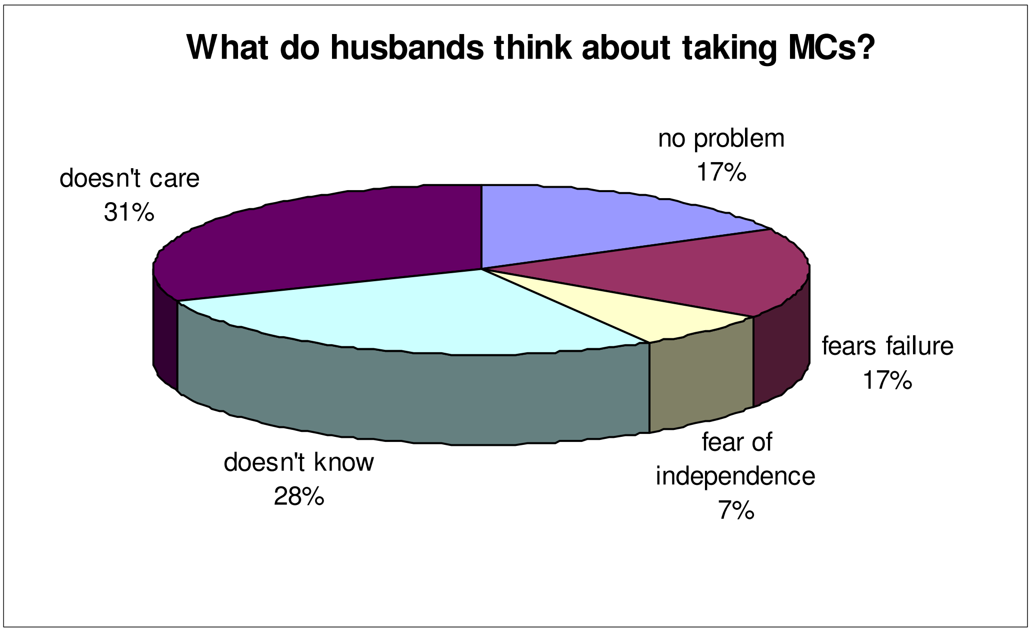


Figure 12: What do husbands think about taking MCs?

Taking out MCs can be a cause for tensions in families. Female clients avoid telling their husbands about their MF activity because they expect the husband to be against taking out a MC. Women talk about MF sporadically, but do not specify and hide their intentions. According to the husband's reaction to this topic, women often have no other choice but to keep it a secret. James Kizza, credit officer at Tumbakosar, explains why MCs may cause problems in family life:

> *Women are playing the key role in MF and it could not exist without them. I did not know that till I joined the MF business. Women are very much involved in MF, because in most families they find themselves suppressed. So for them it is very essential to experience an increase in income. Many men do not want them to have a high income, because men want to be the only decision makers in family. So you find many women who come here without any knowledge of their husbands, because the husbands always want to be on top. Women always take care about their family and children. Men are always mobile, but women are bound to their place. That brings MFIs into play, because this capital is available in the area.*

Case Story: Hadidja Namulondo

Picture 4: Hadidja Namulondo working in her grocery, 2012

Hadidja Namulondo is a 48year old single mother with five children. Two of her children go to school, the other three are working. She lives in Bukoto, a neighbouring district in the east of Kyebando, not far from her workplace. She finished P 2, although she wanted to attend school longer, her parents could not afford the school fees. As a result, she had to work and learned very early to be independent and stand on her own feet. Today she runs a small grocery, selling goods of daily need: bread, vegetables, sweets, oil, flour and spices, but also soap, candles and many more different goods. With Shs 200,000,- profit per month from her shop, she tries to save as much as she can, in order to be able to pay the school fees without delay at the beginning of term. There were years when she had acute problems supporting her children, especially since her husband left several years ago. Sickness is a permanent threat, Malaria and skin rash break out several times per year and so the family needs medicine which often consumes the savings. At times she is very grateful that her three working children support her with some money, so she can afford the most basic things when the business profits do not suffice.

She took out her first MC at the Opportunity Bank, a well established MFI in Uganda. She was thinking about sending her children to school and therefore taking a loan from an MFI. She visited introduction meetings, made contact with other clients and received information about the group lending system. Because of her life situation, she was advised to take a business loan to increase the stock in her grocery so she could pay the school fees out of her own profits, instead of taking an educational loan. She then talked about her decision with her family. They did not approve of her plans, because they feared she would not be able to pay back big loans. Her first loan was Shs 360,000,- which was about € 110,-. There was also concern that she could fail with her shop and be forced to sell it or, even worse, that she could be sent to prison. But Hadidja Namulondo saw no other possibility and took her chance. The last business loan she received was from Tumbakosar, where the main branch is only approximately 50 meters down the road. That is very convenient for her, because she loses little time and no money for transport and only has to close her shop for a short time during the weekly group meetings.

With the business loans she increased her stock and attracted more customers. Already after the first month she experienced an increase in income and several sustainable economic improvements. For the time being, she has always been on schedule with her back-payments. The problems she has with the MCs are the high interest rates and the fact that other group members are late with their payments; sometimes group members even shift their home and are gone. But basically the lending system was working; the savings of the failing clients covered the costs. In the end, she is very satisfied with the way her life is turning out.

5.3 Economic Activities of MF Clients

Employment for people in slum areas means something completely different than for people in other areas of Kampala. If they have an income source, no matter which kind, then it is usually full time work. However, this cannot be compared to a 9 to 5 job; rather, this means starting early in the morning at 5 am and working until sundown at 8 pm. In Kampala this is called to be “on the move”. Many people work on the streets selling food, air time (credit for prepaid cards), second hand clothes or different kind of bric-a-brac, while others are washing clothes. But in general, all those activities do not meet the requirements for becoming a MF client. Clients have other activities, like being a small entrepreneur, running a bar or restaurant with local food or being a market seller, others are taxi or Boda Boda (motorcycle taxi) drivers, and some work as teachers. These types of employment are also on a full time basis, have a minimum daily working time of ten hours, but they are not considered to be “on the move”.

In 2010, when the author was staying with a family in Kazo, a slum area in the north-west of Kampala in the Kawempe district, the family’s mother was - and still is - a teacher in a primary school. This generally means hard work, many working hours and a small income of USh 250,000 per month. Public transport is very expensive and takes one third of the income. Her husband left several years ago; since then she has been living together with four children, who were attending school, under one roof while two children were in boarding schools thanks to European sponsorship. She said that the transport to work is the most tiresome part of her daily routine because she would really need those two hours for her children. That story tells me that it is very important for single parents to have their income source close to their families and in the area they live in.

It is important to mention that many households (HH) have only a single income source. So the whole HH depends on that income, because there is no public social net of benefits, no unemployment insurance and there are no public reserve funds for poor people. If the earner fails and the extended family is not capable to lend support with financial contributions, then the family loses its accommodation and most likely ends up living on the streets, faced with hunger and malnutrition. Also, children cannot attend school any longer. As a consequence of extreme poverty combined with liabilities, people living under severe pressure of earning money take up illegal income opportunities, like prostitution or selling drugs. Finally they are segregated from society. So it is very important for MFIs and MF clients to build up capital on already existing structures, to enable growth in profits and income with more stability in life to overcome set-backs. The vulnerability is very real for people living in slum areas, so any source of income is highly appreciated.

People in slum areas live under much more complicated circumstances than others. Only five out of 29 MF client families have two earners, where the spouse also has a source of income. There are several reasons for that. First, the society Uganda and Kampala is very patriarchal; men do not want women to work, they do not want them to be independent, especially in families with poor education. Husbands are the head of the family and often do not accept that their wives go to work, because it is the responsibility of a husband to bring home the money and to be the bread-earner. A common argument asks: “Who would take care of the children when mother is not home?” That is just an excuse for the insecurity of men when women stand up and defend themselves, when they are protesting against the backward social and family structures.

name	type of income in HH (other family HH members behind "/"	household profits /month (Shs)	increase in income	savings	amount of savings in Shs	purpose of savings
Srivia Sebowa (Naluwu)	retail shop (self employed)	350.000,00	no	yes	500.000,00	uncertainties
Margaret Nsemerirwe	small shop (self employed) / farming	900.000,00	yes	yes	no answer	no purpose
Maureen Owinyi	snack bar	400.000,00	yes	yes	no answer	no purpose
Molly Tugarurirwe	bar	400.000,00	yes	yes	no answer	uncertainties
Hadidja Namulondo	retail shop (self employed)	200.000,00	no	yes	340.000,00	no purpose
Prossy Namutebi	video shop (self employed) / driver	950.000,00	yes	yes	250.000,00	hair saloon and YMCA course for "beauty stuff"
Sicola Nakagayi	small stand and snack bar	-	no	no	-	no purpose
Geoffrey Luzinda	Boda Boda driver (self employed)	700.000,00	yes	no	-	no purpose
Judayah Namitala	selling ladies shirts	200.000,00	not yet	no	-	building own house
Anton Gebo (Lubega)	local food market (self employed)	250.000,00	yes	yes	600.000,00	buying land and building house
Ruth Najjuma	local food market (self employed)	200.000,00	yes	no	-	no purpose
Emmanuel Mukyiza	chako seller / vegetable stand	70.000,00	yes	no	-	not mentioned
Robinah Kyobutungi	retail shop (self employed)	150.000,00	yes	no	-	school fees
Jane Turyahirwa	restaurant (self employed)	200.000,00	yes	yes	200.000,00	school fees
Gertrude Kyarisiima	restaurant (self employed)	100.000,00	yes	yes	300.000,00	school fees
Rose Kenyonyoz	bar (self employed) and retail shop / employee	400.000,00	yes	yes	400.000,00	security for additional and higher loans; uncertainties; investments
Florence Malemo	catering service (self employed) and selling clothes	600.000,00	no	yes	500.000,00	school fees; sickness; uncertainties
Mary Nanfuka	restaurant (self employed)	50.000,00	yes	no	-	not mentioned
Eunice Kitu	sells matoke and chako (employed)	-	yes	no	-	not mentioned
Nabulima Afisa	restaurant (self employed)	200.000,00	no	yes	200.000,00	school fees and rent
Felista Namugga	sells milk (self employed) and washes clothes	80.000,00	no	yes	no answer	school fees
Tonny Zziwa	farmer (self employed) and taxi driver	600.000,00	yes	yes	no answer	uncertainties
Edward Kizza	farmer (self employed)	100.000,00	no	yes	no answer	investments in education and construction; wants to build a school
Mary Nakanjako	retail shop (self employed)	-	no	no	-	not mentioned
Noah Kato	electrician (self employed) and rentals	600.000,00	yes	no	-	he invests his profits in assets
Constance Sanyu	cantine (self employed) and matron	350.000,00	yes	no	-	not mentioned
Jacob Aoru	head teacher (employed) and Maize-Milling / teacher	870.000,00	yes	no	-	school fees; house construction; investments in school and milling business
Jane Kyeyune	none	-	yes	no	-	not mentioned
Asiat Zzikuza	sells milk (self employed) and rentals	600.000,00	yes	yes	1.000.000,00	school fees and construction of rentals

Table 13: Economic Activities of Clients in This Field Research

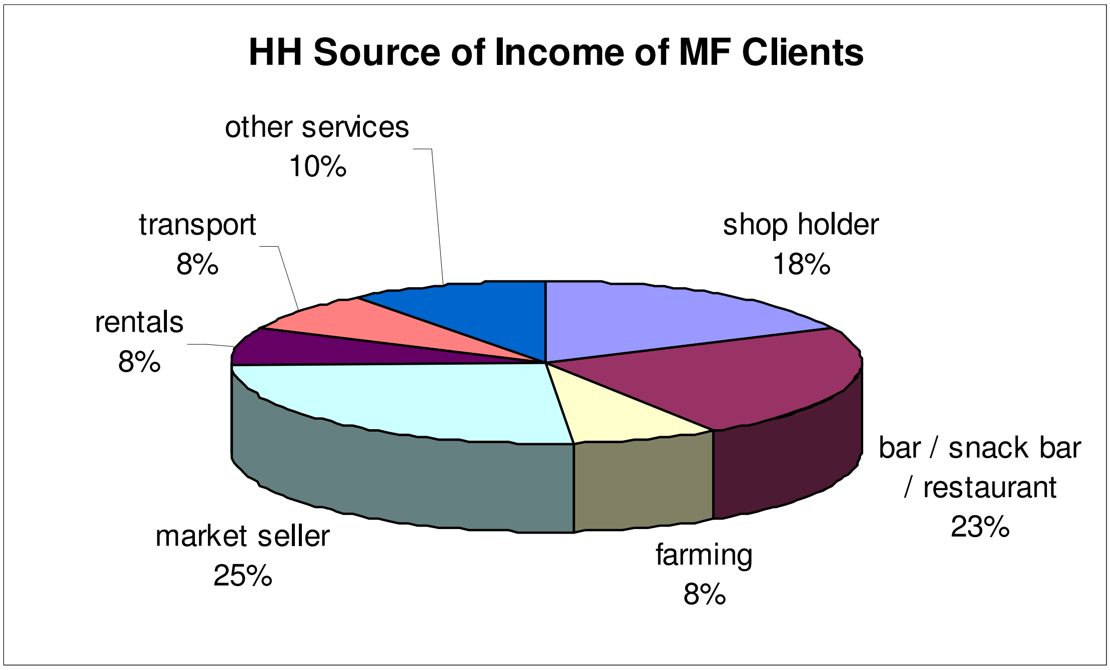
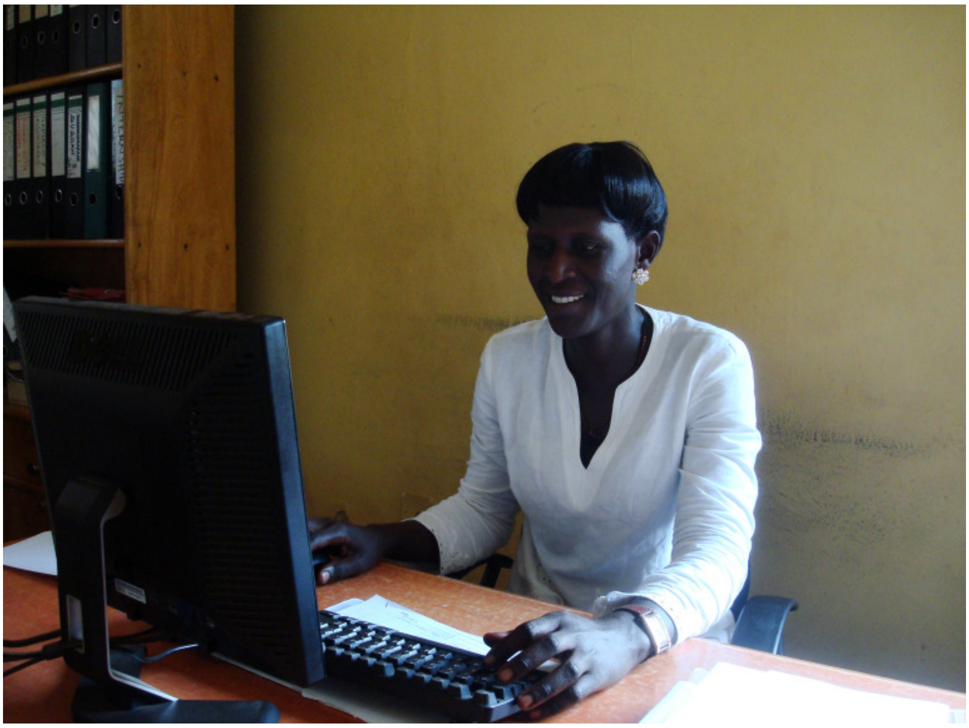


Figure 13: Household Source of Income of MF Clients

Another aspect for single earner HHs is that there are almost no vacant employments in slum areas or, in simple terms, there are no jobs at all. People need to go for work into other areas with high economic activity and density, better infrastructure, with industry and production at a large scale and adding value businesses. Slum areas only provide income sources for small market sellers, small retail shops and groceries, a few basic services like haircutting and tailing, lots of bars and a high level of self-employed tradesman businesses. But many people, in general women and single parents, cannot afford day-care for their children while they go into other areas for work. For that reason, some communities consisting of three to ten HHs have arranged for the mothers to take turns in caring for the children during daytime.

And finally there are the problems of poor education for women and men and unequal payment for work. While men have the possibility to work in heavy labour, e.g. the construction industry, which is relatively well paid, women have assembly-line work with low wages. A second income source, especially the woman's, would be profitable for the HH income in order for the children to be sent to boarding schools. So many parents want to be able to afford to send their children to boarding schools, because they provide the best education in Uganda. But without skills and education, parents in slum areas will be almost unable to find well paid employment and to escape this vicious circle. In the end, there is only the option of self-employed income on small scale basis.

Hard work, a lot of effort and support by service providers like MFIs are needed to achieve an increase in profits per month. The constant bracket creep, high inflation, rapidly increasing food prices, increasing school fees and housing shortage with increasing rental prices make it difficult to have profits at the end of the month. According to the MFIs, the best way to prevent real losses or, at least, to keep the living standard stable are sustainable investments in the client's business activities. Seventy two per cent of the interview partners have mentioned an increase in income since they have started with MF; the rest has not experienced any change yet because they have just recently started while others failed with their MF activities. The key to achieve the recommended investments are savings. Many people from slum areas are refused by established commercial banks, are hindered by minimum amounts of deposits or by charges for deposits which are too high for small amounts. Clare Nambiryo, credit officer at KCCC Sacco, talks about savings with MFIs:



Picture 5: Clare Nambiryo working at KCCC Sacco, 2012

> *Today, people can save some small money and may not just spend it, if the client knows that he can keep it somewhere safe. I add on, I add on and in the end of the day I have some money instead of taking it to a bar or to any other place to spend it there. People spend money unnecessarily, that money becomes just eating money. But the moment someone puts the money on the account may not have the time and chance to use it somehow else. So this is a real social development! People go less into a bar and spend 30,000, they cannot because it is kept in the bank. So just let me go home and sleep or just one bottle of beer or whatever he takes. That also means that he does not get drunk and starts slapping, which means it makes it more peaceful with less shouting; there will*

be no fighting, less picking of things; less violence in families and on the streets. So you see that Kamwokya is getting more peaceful to live in. At the end of the day, maybe after six months, he comes and asks "How much do I have on my account?" With that money he can start a small business he would not have accumulated if KCCC Sacco would not offer saving some little money. And you would have not saved that little money with the big banks.

And savings make society less vulnerable. Like some days back a housewife was at the counter. She said that her husband gives her money for food, 10,000, but she only needs 6,000 per day, so she saves 4,000 per day, but she almost had 400,000 on the account. Yet, she does not have a job, she is a housewife, but the husband gives her some money and she knows she can save money here, she does not spend it. She has withdrawn some money to pay the school fees, because the husband did not have enough money. Just imagine that lady did not save that money and spent it for something, the children would not go to school, but this time there is money to supplement the husband's income. You see the man was failing, but the wife saved the family, although the husband does not even know that she's a client of ours. That's all due to the policies of Sacco, where someone even can save 1,000, which would not have been taken to the Bank of Uganda or Barclays. Now the children do not stay at home to steal from other people, they attend school in classes studying, because of the services by Sacco. Let one save what he can. That is making the society more peaceful.

Savings, either as a by-product and requirement for MF to receive a loan or just as a private practice, play an important role in social development. It is changing behaviours, provides future opportunities, makes life less vulnerable and local development more sustainable.

Case Story: Rose Kenyonyoz

Picture 6: Rose Kanyonyoz in a bar at Kyebando, 2012

Rose Kenyonyoz is 42 years old, married, has seven children and finished the education level P 7. She runs a bar and a retail shop. Her husband works in the Mukono district in an orphan organisation, but she does not know the amount of his salary. But she thinks that the household has about Shs. 400,000 profits per month altogether. But life has become increasingly expensive during the last years, with seven children and USh 1.2m school fees per term.

She is happy that her income is increasing, because the daily living costs are high and it is hard to save money. But she has savings at the Tumbakosar and Opportunity Bank, in total about USh 400,000. She acutely needs those savings from time to time to cover outstanding back-payments in case of little profits or as a security to get higher loans from Tumbakosar. She is also saving for uncertainties, but until now she has never withdrawn money, because she eventually plans to buy some land or another asset.

Rose already had 14 MCs. Actually, she has four running business and educational loans with four different MFIs (Silva 900k, BRAC 1m, Opportunity 700k, and Tumbakosar 600k), which makes her a typical multi-borrower. The interest rates are troubling her, but as long as she has profits she can manage. And she still needs more money, not to cover the costs but for further investment opportunities. But the MFIs only allow one MC at a time, so she had no other choice but to become a multi-borrower. The MFIs do not know this, but friends of hers who are group members of Tumbakosar know about it. It is not a big issue; many MF clients are multi-borrowers. She thinks that MFIs do not want to take the risk to give one client more money, because that could make the group unstable.

She noticed that at other MFIs the interest rates are lower, for example at the Opportunity Bank. But that does not mean that the loan is generally better, some MFIs have high initial fees and sometimes she dislikes the management. She is a bit tired of the group system, simply because some group members are not responsible. At Tumbakosar she was forced into a group, but would have preferred to choose her group members instead, because in the end she is responsible in case of another's failure. After all those loans she has taken out, this is the first time that she has problems with paying back the loan because of personal problems.

At the moment there is not much development in her life, she does not feel different because of MF anymore, and her family status did not change either. Her husband dictates what she has to do; the family decision process did not change, because he brought money into the business. He has no problems with MCs, as long as she repays the loans in full. But in total, MF has had a positive effect on their lives.

5.4 Clients and Their Life With MCs

MFIs have requirements for their future clients, depending on the type of loan. Clients need to have

- Capital in form of assets, like a vegetable stand, a small retail shop, skills, or good education.
- A collateral, like a refrigerator or a TV.
- Regular employment.
- Credit worthiness and good character, which means that local leaders know that person as a trustworthy and reliable member of society.

Not all requirements need to be met at once when applying for a MC. For example, a small entrepreneur who applies for a business loan to expand a retail shop already has capital in form of assets, so this client does not need another collateral or regular employment.

Likewise, a teacher with a regular employment does not need other capital or collateral for an educational loan for his/her children. In case of a group lender system, only credit worthiness and good character are necessary for a loan, because the rest of the group assumes liability for that client. It also depends on the client and on the MFI whether individual or group lending systems are implemented and what the policies are.

MF products do not make life easier, on the contrary, they make it more complicated and challenging. Future MF clients need to learn a lot even before they obtain benefits out of their interest. For example, they need to learn about strategic development, about adapting to the needs of MFIs and about entering the capitalistic market. Yet, many cannot read and write, let alone speak English. The whole process of acquiring a loan is a burden for many clients. It takes a lot of time and effort to attend the question and answering meetings. And when clients do not have enough collateral for receiving an individual loan then the single chance is to be part of a group lending system, which means talking to local leaders about financial problems and private issues, effectively making them public. Furthermore, clients need to gain the confidence of their group, convincing the group that they are a trustworthy MF partner, which means that personal problems have to be made public again, maybe even in front of friends and neighbours. Imagine the situation that a future client has HIV/AIDS and needs money in a group lending system. There is a chance of the client and/or his/her children becoming excluded from society. All that is very unpleasant, but the alternative is much worse, knowing that there is a chance that the children cannot go to school anymore because of high school fees, or medicine cannot be bought for the spouse to recover. So the action of taking out a MC always happens in a severely complicated phase of life, under conditions of high pressure and vulnerability.

During the period of pay-backs, MF actions are becoming more and more a routine and part of the background. For individual loaners, who show up once a month, pay and return home. That is very different in group lending systems, where every client has to show up at their weekly cell-meetings. Those meetings are important, because it keeps all cell members together, they stay in contact, have social interaction beyond their family and it reminds all clients to pay off their debts, thinking and taking actions in more sustainable and long term patterns. In case of problems they find a solution together with the credit officer. But those meetings are also a place where ideas to find solutions for any kind of problem and ideas for future actions are presented. A cell consists of relatively similar clients, also regarding their economic activities. As a consequence, some members build business co-operations and evaluate ways of e.g. cheaper merchandise purchases from wholesale traders. Beside the chit-chat, sharing knowledge and information is an important aspect of those group meetings.

Case Story: Nabulima Afisa

Picture 7: Nabulima Afisa at Tumbakosar, 2012

Nabulima Afisa is 31 years old, married, has four children and finished her education at level P 7. She runs a restaurant for local food, which generates profits of Shs 200,000,- per month. She has become a single earner after her husband had an accident. He is not able to work right now as he is not even able to stand. His recovery will take a long time, but then he wants to work as a taxi driver again. Her family is dependent on her income.

The family has savings at another bank, but only a few thousand USh at Tumbakosar, because it is her first MC and she took it out not long ago. In total, those savings amount to about Shs 200,000,-. The family needs to tap into the savings every four months, when the school fees have to be paid; this term they paid 610k to send their children to school. And sometimes, when profits are low and the medication costs too much, then the family needs the savings also for paying the rent.

Nabulima Afisa took out a business loan to buy some new kitchen equipment for her restaurant. Unfortunately her old kitchen equipment was stolen, so she had to buy new kitchen equipment very quickly. However, this was very difficult with her little savings and no profits because of the standstill in her restaurant. Also, she wanted to increase her stock to attract more customers.

She thought that receiving a loan would not be so complicated. She heard from friends that it was easy to get some money from a MFI, but she was mistaken. To receive the loan, she first had to organise and recruit new cell members, because this is a precondition for an aspiring cell leader. She was disappointed that she had to provide so many securities, while the other members of her cell did not have to bring anything of value into the cell to get their money. She cannot understand this inequality. Moreover, the disbursement process took more than three weeks, a time when her family at home had serious problems and she could not work because of the theft.

Apart from the sickness, she has problems at home as she has to take on full responsibility for the survival of her family. Yet, she cannot tell them about the MC and has to keep her MF actions a secret. Her husband is not supportive and would not give his permission for taking out a MC. She talked to him about it, but he did not like the idea of having debts. She thinks that her family would have stopped her. Her husband says that the family should just use what little money they have, although that money would never be sufficient for paying the school fees and for buying the kitchen equipment. Her husband offered the advice that instead of taking out a loan they should sell the TV for the replacement of the stolen kitchen equipment. She had to sell the TV but because the money was not enough she had to take out the MC.

After she had decided to take out a MC, she was looking and listening around to find a good MFI. She did not like some MFIs, because there were rumours about financial problems. A friend told her to choose Tumbakosar, despite the relatively high interest rate compared to other MFIs.

5.5 Problems for Clients with MCs and Group Lending Systems

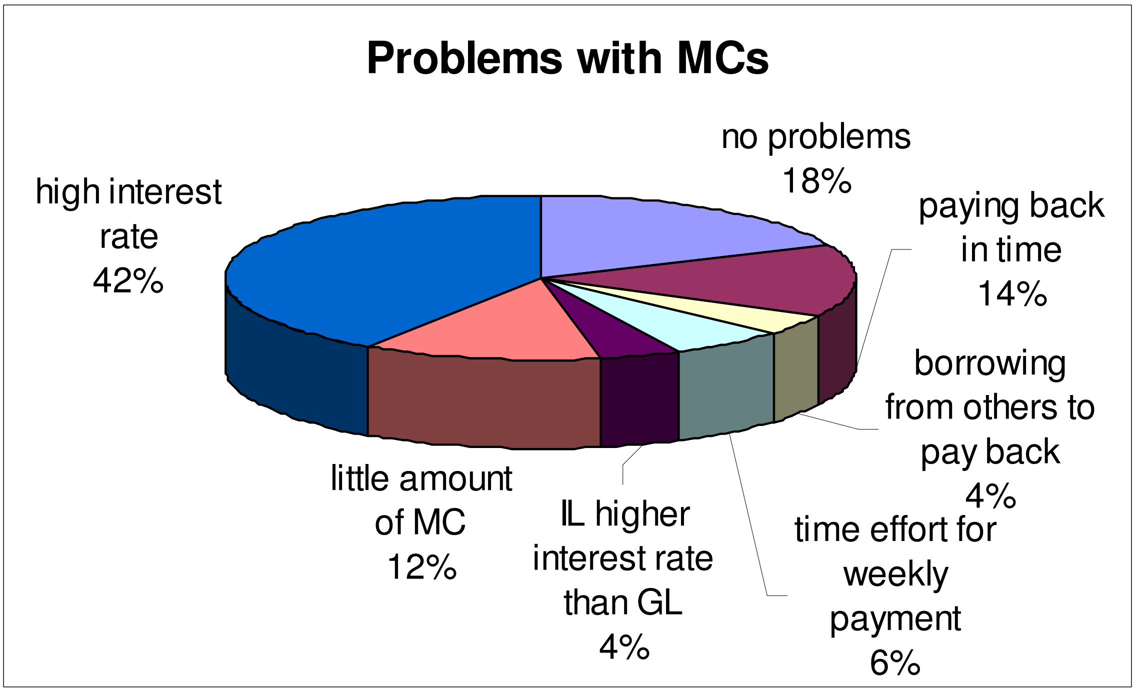


Figure 14: Problems with MCs

Although MF activities have many advantages, it is also important to be aware of possible negative outcomes, problems and areas of conflict. This chapter tries to cover problems which are related to MCs. All problems which have been mentioned in the client interviews are system inherent risks, problems which cannot be solved easily, because the concepts of MF have been cross-checked and evaluated over the past decades with the result that MFIs and MF clients cannot have everything all time and consequently have to make concessions for the greater good.

The following problems have been identified: high interest rates; little time for paying back MCs; the amount of money given by the MFI per MC is too small, which results in multi borrowing, increasing costs and problems for paying back the instalments in time; time effort for weekly payment in group lending systems; higher interest rates for individual loans than for group loans.

5.5.1 Effective Cost and the Interest Rate

Interest rate alone is not what the clients imply; rather, they were referring to the effective cost of borrowing as this term means more than just interest rates. When clients borrow money, they accept financial and transaction costs. Financial costs include interest, fees, forced savings, group fund and insurance fund contributions. Transaction costs include direct costs such as child care and transportation costs to attend meetings, and other transaction costs such as time away from the business, plus the opportunity cost of savings.

Case Story: Prossy Namutebi

A business loan is the first MC of Prossy Namutebi at Tumbakosar. The loan amounts to USh 300,000, with a monthly interest rate of 3.34 per cent, and constitutes a flat rate model for interest calculation.

Week	Payments	Principal	Interest	O/S Balance
0				300,000
1	35,000	25,000	2,500	275,000
2	35,000	25,000	2,500	250,000
3	35,000	25,000	2,500	225,000
4	35,000	25,000	2,500	200,000
5	35,000	25,000	2,500	175,000
6	35,000	25,000	2,500	150,000
7	35,000	25,000	2,500	125,000
8	35,000	25,000	2,500	100,000
9	35,000	25,000	2,500	75,000
10	35,000	25,000	2,500	50,000
11	35,000	25,000	2,500	25,000
12	35,000	25,000	2,500	-
		total	30,000	1,650,000

Average principal amount outstanding:

Loan amount - (sum of principal amounts outstanding / number of payments)

30,000 - (1,650,000 / 12)

= 162,500

Actual cost:

(total interest + membership passbook
+ weekly security deposits + loan insurance)
/ average principal amount outstanding
(30,000 + 4,000 + 36,000 + 6,000) / 162,500

cost per total period	**46.77 %**
cost per term	**3.90 %**

Table 14: Flat Rate Model of MC of Prossy Namutebi

Although Tumbakosar offers their services for an interest rate of 3.34 per cent per month, which is 40 per cent per year, the effective costs for MCs are much higher. This calculation does not even include the security deposit at a ratio of 1:4 per MC, which in this case would total USh 75,000,-. This kind of cost could be included in the calculation if this MC is compared to another investment since in that case the USh 75,000 would count as opportunity costs.

MFIs in general, but in this diploma thesis Tumbakosar exclusively, are talking about interest rates per month and per year. At a closer look though, this is not their actual business model as because of weekly payments the whole model is changing. There are no MCs granted by Tumbakosar which have longer back-payment modalities than six months. This practice has a negative effect on MF clients, because the back-payment per month is considerably higher this way; paying the MC back in full over a period of three or of twelve months makes a big difference to the client. Although there is no change in the total amount of interest rates, the money return flow is much higher than at conventional long credit periods.

The strategy of MFIs has been explained in more detail by managers of the partner organisations. On the one hand, MFIs have an interest in the development of clients regarding a need of change in their behaviour, like thinking in strategic terms, planning for their future, setting things in motion today although the outcome will be visible weeks or even months later. This change of behaviour is elementary for any business development, for sustainability in family life and in matters of competitiveness in an intense tradesman business economy. On the other hand, the strategic goals of MFIs can only be achieved by long term MF clients, by providing services which are in fact creating new financial dependencies. James Kizza, credit officer at Tumbakosar, has the following answer for the question of how a client becomes a success:

> *In most cases we record a success with clients when they really have paid up their loan to the end, without any interruptions. Most of them pay on a weekly instalment. Another basis for success of the client is that those who finish the loan come and apply for bigger loans. This will tell us that the client was successful. Then for those who are registered failures, they already have problems in completing the first loan. Even when they complete, they do not reapply. But as I have already told you, those are very few cases. There is one more aspect that MF becomes a success: low interest rates. The more we reduce it the better for the borrowers. The clients always ask for a decrease in interest rates. And we manage a slow but steady decrease in interest rates.*

To sum up, those who finish their loan come and apply for bigger loans. Yet, the question of which kind of business concepts are followed by MFIs remains. By requesting a security deposit and a weekly security deposit payment, the MFI manages to tie the client closer to the MF business. Of course, after the client has fully repaid the MC, the client is free to go and withdraw all savings. However, this makes no sense for a client when presented with the opportunity to take out bigger loans for more acquisitions and further development. The higher the MC, the higher is the total amount of interest rates earned by the MFI. In addition, a higher insurance amount in the beginning means more active capital for the MFI and, consequently, more possibilities to provide services for more clients.

5.5.2 Paying Back in Time

Taking into account MF business practices it is understandable that some clients have problems paying back the instalments in time. Three aspects in particular influence the paying off of MCs: a high amount of money to pay back per week; strategic planning to save for the end of the month and for the next back-payment of the instalment; and inconvenient payment methods for long term MCs. Accordingly, there are two MF business concepts, one for individual loans with monthly payments and one for group lending with weekly payments. Both methods have pros and cons; the choice of business practice depends on the MFI.

Weekly payments, as shown in chapter 5.5.1, have high instalments per week, which makes it difficult for the MF client to pay them back. Every week the client has to achieve a surplus, regardless whether the week was economically successful or not. The high vulnerability of people in slum areas often causes unforeseen situations. Clients have to make their MF activities a top priority, because there are several possibilities how the group and the MFI can react in case of late payments. The group gets nervous, starts asking questions, follows clients who lag behind with their payments home, and reminds them of paying in time and getting back on schedule. All that creates more pressure and it poses a threat to the stability of a group when a member feels under observation. In addition, the group is afraid that the client will fail and consequently reduce their savings.

On the other hand, the modalities of individual loans are less complicated, but the MFI takes a higher risk to pay for a client’s failure. Therefore they want to answer the question why some clients are late with their monthly payments, although their business or other source of income is working well. At the end of the month the client has to bring the requested money that should already have been earned during the month. People forget to save early on in order to be able to pay in time. When clients save just in the last week before the payment is due, then any kind of complication, like sickness or a bad week in business, may cause this client to start failing. It has to be pointed out that most clients did not grow up in a western society, where planning and long term thinking is trained from an early age. Consequently, Ugandan parents cannot be living examples of this western way to their children and a considerable section of society does not think that way, especially the poor.

Then there is the problem of long term MCs, where no immediate returns on investments are possible, e.g. for an agricultural or a construction loan. The modalities should be more flexible when it is obvious that returns will take a while and the client has to cover the costs with other sources of income. For each MC the conditions should be different, not just their labels.

Case Story: Mary Nakanjako

Picture 8: Mary Nakanjako in her retail shop, 2012

Mary Nakanjako is 38 years old, widowed, has two biological children and is taking care of seven more. Some of those children have donors, but she still has to pay USh 700.000 per month for school fees. She finished the education level P 7.

Mary Nakanjako was working as a field worker for KCCC, but lost her job because of cost-cutting measures. Now she runs her own retail shop without any real profits, everything she earns goes straight from hand to mouth. Under these circumstances she has no savings but considerable debts. She took out educational and business loans while she was working for KCCC and she had enough money to pay the instalments. However, the little money she earns from her shop is not enough to buy food for her family. She feels like life is crushing her with all her family commitments and responsibilities. She lost her husband in 2011 and the doctors told her that she is HIV positive, which constitutes a further hardship in her life.

She took out educational loans for the children and business loans for her bar, but the bar failed. Especially now with her condition, the bar was really tiresome for her. She needs much more rest than before. The HIV/AIDS medicine requires a lot of rest, but she had no time because of her customers. But finally, she could not run that business any more, could not stay up until late at night and therefore she needed work which makes her life more convenient. Her loans are still running and the chance of paying them back is slim. When she needs money quickly, she gets it from community based memberships, so called “Compound Saccos”. They are not like KCCC Sacco as they are not registered. Those Saccos are very convenient, because clients always receive money which can be paid back easily. Also, the amount of money clients get is limited to USh 100.000 at a time.

So far, KCCC Sacco has been very patient with her; in general, they are far more patient than other MFIs. She explained her situation and KCCC Sacco understands and gives her more time, without claiming her collaterals. She would never take out an educational loan again, because there is no gain in profits. If she is able to take out further MCs in the future, then she will do so. She did not lose her confidence in MF products because of her MF partners. (See the loan application forms in the Appendix)

5.5.3 Total Amount of MCs

Many clients have mentioned the problem that the amount of money per MC is not enough to satisfy the client’s needs. Three reasons for this situation are: First, the capital stock of MFIs is relatively small. Second, the group lending system requires a pre-paid security deposit of 25 per cent. Third, the MCs in a group have to be relatively equal in their amounts.

As outlined in former chapters, the small capital stock of MFIs turns into a substantial problem when providing MF services for clients. The lower the capital stock, the fewer clients can be granted MCs. Great efforts are needed to raise that stock, like patience for years, with slow but steady growth in the business. Conservative fiscal MF actions combined with financial support by public development assistance, with sustainable terms and conditions for both sides, may support local economic development which causes social chain reactions.

In group lending systems, it is common practice that the MFIs request a security deposit of 25 per cent. For many clients it is a big problem to pay that amount in advance or to provide collaterals as compensation. Many possible future clients are very poor and have little chances of saving money when daily needs have to be covered. Moreover, this request by the MFIs is especially challenging for married women. Often the husband should not know about their MF plans, either because he dislikes the idea of taking out MCs or because he does not want to spend money or provide collateral in advance. Consequently, women have to deceive their husbands and lie to them, all of which causes further problems.

Another problematic aspect in group lending systems is the fact that the MCs should be equal in their amounts. In case of failure, a smaller MC is easier to compensate by the group than a big one. As a new MF client it is not manageable of getting into an already existing and more advanced group, where the group members are at a similar development and income level. Also, in case a client is in a group where his/her income development is much better than that of your group colleagues, it is difficult to change groups. The groups are seen as units where the further existence of a group/cell is depending on their members. When two clients are leaving a cell consisting of six people, the cell ceases to exist, because the clients cannot take the risk of having further MCs. As a result, the cell needs new members and as long as the cell is not complete, the MFI cannot provide MF assistance. Thomas Kakande, manager of KCCC Sacco, has the following explanation:

Picture 9: Thomas Kakande at KCCC Sacco, 2012

> *We started with group lender ship, like the bank I mentioned before, Tumbakosar. But we changed from group lender ship to individual loans. Group systems are very good and ok, but only when the Sacco or MFI is still young. There are maybe groups of ten people, coming for 100,000. Then one member comes and wants to have that money to invest in his business. This works for three years. Then he comes for 500,000, when others cannot afford loans for 500,000, and then someone comes who wants more than 500,000, like one million. That means that group will perish and go away, because of*

inequalities within the group. And then clients come who wanted loans secretly for their business without other members knowing, like buying a piece of land. So our MF services became more and more an individual basis. Individual lending is also much faster and less bureaucratic. It grows faster and it needs less work from our credit officers.

James Kizza, credit officer at Tumbakosar, gives the following advice as to why capital stock is an important issue for MF success:

Another problem is caused by the fact that Tumbakosar has a low capital stock, which results in little loans per client. So many clients become multi borrowers to meet their capital needs. They end up going to many MFIs to take loans, which leads to failure because of high costs. At least one of the multi borrower's loans becomes a failure, which has a huge effect on the society. So in case we need the securities, we might realize that another MFI has already confiscated them. But on the other side many clients must not get bigger loans, because they are low income earners. The higher the loan, the more interest is to pay. The interest rate stays the same, but the weekly payback of the instalments is bigger. So the first assessment we make when having contact to future clients is to have a close look at their businesses and the nature of their business.

Case Story: Constance Sanyu

Picture 10: Constance Sanyu (the second person from the right), 2012

Constance Sanyu is 41 years old and a single mother of four children. She has to pay school fees amounting to USh 4,094,000 per term. Although her oldest daughter, who goes to university, gets supported by a donor with Shs 1m per semester, the school fees are still very high and are increased every year. She works as a matron in a school and she runs the canteen, which belongs to her. She and her children can live for free at the school and do not have to pay rent. She has a total income of USh 350,000 per month. She has no savings anymore, because the school fees are too high. Sometimes she gets financial aid from family members or distant relatives, but in general her family is dependent on her own economic activities.

Since Constance Sanyu has been a client with KCCC Sacco, she has been taking out business loans on regular basis and has experienced a strong increase in her income but not enough to save some of it. She has taken out eight MCs already, seven business loans from KCCC Sacco and one other running business MC with BRAC. She had to go to BRAC because she needed more money immediately. She asked KCCC Sacco for more money but they refused. KCCC Sacco is aware that she has a stable income and is a very trustworthy and reliable client but because of the two hold-ups the capital stock became very small. KCCC Sacco furthermore explained to Constance Sanyu that they are responsible for the whole area of Kamwokya, they have to serve many little clients and cannot grant substantial loans for a few people as this is not in accordance with their company mission.

However, she is happy and proud that she can manage business and family at the same time. She likes the modalities of both MFIs. KCCC Sacco cares a lot about her life-development. BRAC has a group lending system, which is still new for her, but for now everything works fine. Both MFIs know about Constance's MF history.

5.5.4 Lending Systems

There are major differences between the individual and group lending systems. First, time and efforts are invested in the building and formation of a group, a social network which can select future members who are creditworthy and trustworthy for group lending; the credit officer has to provide structure and training in the whole financial MC process as well as giving administrative support. Under the individual lending system, credit officers make the decision which kind of MC the client should take because during the screening process the credit officer gets a better insight into the clients' life. This enables the credit officer to analyse problems, challenges and opportunities, and to find ways for development. During the MC process, the credit officer monitors the client's development and encourages the MC repayments. Second, the primary pressure for repayment in a group lending system is the joint liability, group guarantee and future access to further MCs at bigger scale. Individual lending requests guarantors, collaterals and high repayment discipline by strict enforcement of contracts. (See case story: Mary Nakanjako and loan application forms in the appendix) (Dellien 2005: 35f)

Both lending systems have their advantages and disadvantages; for example, group meetings provide education, useful skills for clients with little experience how to run a business or improving their financial situation by setting targets and achieving sustainable goals. Yet, they also have inherent problems, but in this case excluding systemic failure, as this would be beyond the scope of this thesis. For instance, a well-founded group where one member changes his/her business activities from safe to risky projects, a moral hazard becomes a risk for the group. The possibility of failure is increasing, with the consequence that other group members have to look closer, increasing the group and peer pressure. The group monitors itself and at some point this practice becomes unproductive, because time and effort could have been spent more efficiently for self-development than for monitoring and supervising other group members. (Lehner 2009: 4f)

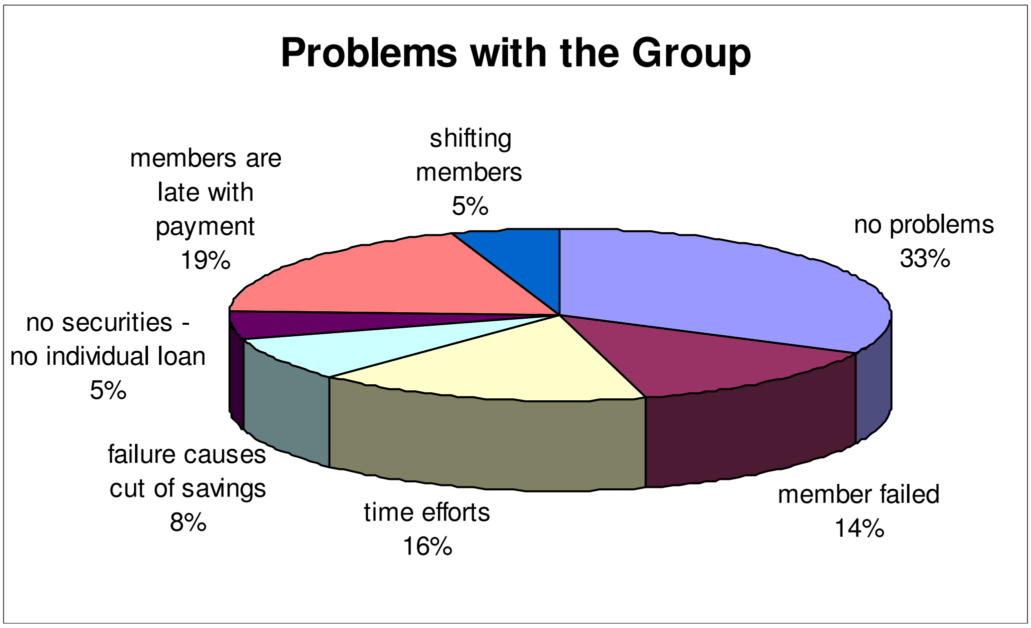


Figure 15: Problems with the group

Other problems of the group lending system include: Group formation costs, training borrowers in group modalities and processes, high degree of supervision, and weekly instalment payments that require a lot of time. Although many interview partners did not mention any problems at all, the major part had already heard of failure from other members. There are two groups of problems which can be categorised by time effort and financial liability for others. The personal fear of MF clients of failure or cuts in savings is a financial threat. But for Tumbakosar, those experiences are relatively rare, because of the client's time efforts. But the clients are tired of shifting members, asking around in the neighbourhood where the shifted clients have gone. Cell members are tired of putting other cell members under pressure just because they are late with their payments. To cut a long story short: Time is a scarce resource and MF clients have better things to do with their time, e.g. running a business or taking care of their families, than chasing people and sticking their noses into personal matters of others.

Case Story: Florence Malemo

Florence Malemo is 42 years old, widowed, has four children and finished education level S 4. The school fees for her children are Shs. 1,150,000,- per term. Since her childhood she has been interested in tailoring and cooking. She has followed her interests autodidactically and she teaches herself by reading books and watching TV.

When her children became teenagers, she started her own businesses. Today she sells clothes she has designed and produced on her own in Kampala, but she also runs a guest house and a bar in Tororo, which is a city in the southeast of Uganda, near the border to Kenya. With her monthly profits of Shs. 600,000,- she earns enough money to provide all necessary goods for her family and herself. For her it goes without saying to have savings these days because of school fees, sickness and uncertainties. Her savings amount to Shs. 500,000,-. Sometimes her brother in law supports her with some money for the children's school fees.

Picture 11: Florence Malemo at Tumbakosar, 2012

During her MC activities she did not experience a big increase in income. She took out her first MC with Silva which was already paid back before she became client of Tumbakosar. All her business loans were for the design and production of clothes and for her catering service. The MCs were quite supportive, but she had expected greater benefits and higher profits. She tried to expand but did not know how. She was thinking of hiring some employees to serve more customers, especially for the catering business. Now she struggles with the problem that she does not have a business plan. In the future she will try taking out higher loans (another Shs. 800k), although the interest rates are high and the repayments per week lead to high financial costs. But before she will take out another MC, she needs to know where exactly to invest that money in her businesses.

After her second loan she became more careful with MCs, because she experienced weeks with good sales and weeks when business is slow. In any case, the MFI does not wait for her back payments. Sometimes she has been late with payments but never failing. For her businesses she wants better sales and distribution in order to avoid financial difficulties and shortages and she needs stock. And she does not want to attend tiresome group meetings anymore, especially when she is late with her payments. Yet, she has no problems with the group, almost everyone has already finished paying back their loans and is waiting to apply for another loan when she has finished hers. That puts her under pressure, the rest of the cell has to wait until she finishes her loan, and there is no further loan disbursement from Tumbakosar for her cell. She likes the system of Tumbakosar, although it is more expensive than at other MFIs. She did not like the management of Silva. For her businesses she needs more money than Shs. 200,000,- . She is satisfied with Tumbakosar, because there she gets the money she wants.

6. MF According to the SLF – Is There Any Development?

The following chapter looks in detail at MF actions and their impacts on MF clients as well as on MFIs, always in relation to the SLF in order to illustrate the client's development. The focus in this final chapter is on the short term development and its sustainable long term outcome for the poor. In other words, the question of what happens if the poor have access to MF services and how does it change their lives in relation to the SLF is addressed.

First, it is necessary to determine which effect MF has on SLF assets on a household basis. Second, it is outlined how MF helps develop clients and their situation. Third, this chapter shows which ideas, possibilities and recommendations MF clients, MFIs and the author have to improve the situation of the poor, the life of MF clients, the work of MFIs and the MF products itself. To put chapter *6.1 MF actions and their immediate impacts* in relation with practical situations, all arguments and thoughts will be compared to the two households of Jane Kyeyune and Jacob Aoru, who are both clients of KCCC Sacco. Their case stories will help to understand the effects of MF services on the poor and, where possible, all explanations will refer to these two clients.

Case Story: Jane Kyeyune

Picture 12: Jane Kyeyune at her home in Kamwokya, 2012

Jane Kyeyune is a 47 year old widow who completed education level P 7. She lives together with her own four children and with several OVCs (orphans and vulnerable children) in her two roomed house in Kyebando. Only two of her children can go to school because they have a free place in a public school. The rest of the children do not attend school, because Jane cannot afford the school fees. Jane is an experienced MF-client. The last two MCs she took out with KCCC Sacco were on an individual basis. Her first three MCs she took out with BRAC in a group lending system. She finished her MCs with BRAC and changed the MFI because KCCC Sacco is located more conveniently and their policies fit her needs better than those of BRAC. That is, she grew tired of group meetings although she liked the group members, needed more money at once to cover all costs and KCCC Sacco is closer to her home, which saves her time and money for transport.

Nowadays, she has no income at all. She was working as a cook in a primary school in the area. She liked the job and the salary was fair, but unfortunately she made the mistake of stealing from the school in February 2012. She took leftovers from the school's kitchen back home for her children and herself to save some time and money.

Now she has no job and income, but considerable debts. She only receives the most essential support from friends and neighbours. Once she used to have savings, but all her savings are gone, used for her own needs or the MFI has taken them to partly payback her running MC. She already finished another four educational MCs, but now she is not able to pay back the fifth MC. With the last MC she wanted to start her own charcoal business, but the money was stolen. She found a seller who promised to deliver charcoal at a good price/performance ratio for the amount of her MC. But she never saw that person again and the money was lost. At the same time she was still working as a cook at the school and normally it would not have been a problem to pay the instalments, but then the money was stolen and she lost her job. Her collateral for the MC was her employment and monthly salary; her savings were already claimed by the MFI.

Although there are many hardships in her life, she is convinced that she will solve her problems and will eventually normalise her economic situation. When her problems are solved, she will try to take out further MCs and if she has that money then she wants to farm vegetables and to start her other business projects again. But right now Jane Kyeyune is scared of failure; therefore, she will not take out other MCs in the near future. She also fears failure in business and prison as consequence of failed back-payments.

Case Story: Jacob Aoru

Jacob Aoru is 45 years old, married and has five children. He finished university, has a bachelor degree of education, a diploma in education and is currently busy with his master programme of education. All his children go to school; the school fees are USh 1,118,000,- per term. Jacob already had five MCs for himself and his family, four MCs to pay the school fees, and one social loan for the treatment of sickness in the family.

His household has three sources of income. First, he is head teacher at Immaculate Heart Primary School, with a salary of USh 160,000 per month. Second, his wife is a teacher in government service with USh 310,000. Third, Jacob runs a maize-milling business, with USh 400,000 profit per month. Because of the extended family structure, Jacob supports other parts of the family with approximately Shs 100,000,- per month, for example one of his sisters has a newborn baby and right now she needs support.

At the moment he and his family have no savings because he is facing many challenges, e.g. high and increasing school fees or even running an institution like this (Immaculate Heart Primary School). And he is going back to school and to university for further studies; otherwise he might not be able to run the school as a head teacher in the future. He needs to finish university before his own children attend university; otherwise the costs are too high for the current household income.

Only a few years ago, he had savings when the family was still able to save some money for future plans: for school and university fees; for the construction of a house for his extended family in Eastern Uganda; for further development of "his" school, including a nursery, secondary classes until S 4, and a vocational training centre; for further development of his maize-milling business, for buying machinery which allows him to mill rice and oil. He already has the raw materials but not the proper equipment to make money out of it. In the long term, he wants to have income from his private milling business when he retires; this business should be developed well enough so his children can run the business and he still has some money for living.

Apart from his private business, Jacob also has MF activities as the head teacher of his school. MF helped him a lot to keep things running. The school needs MF to finance and support the local contribution which is requested by donors (private or public), e.g. building a latrine for the pupils or the construction of a water tank with support of the government. For all these projects the donors requested contributions by the school with its own resources. For example, in 2011 the school planned to construct a water tank, which the government agreed to support. The total costs for the construction was USh 7,000,000, the government requested a contribution of USh 1,000,000 from the school. But with its little income of primary school fees, which even many parents in that area are unable to pay, the school would not have been able to finance that project with USh 1,000,000 out of its own resources. This is why Jacob took out a construction loan for the school at KCCC Sacco.

Picture 13: Jacob Aoru in front of the new water tank, 2012

In general, KCCC Sacco has been the school's partner for the past years. The school has taken out mainly construction loans, but also business loans for paying the teachers. Sometimes the school takes out the loans, sometimes Jacob personally takes them out for the school, with all responsibilities and legal titles involved. He needed to do this because the school needs good facilities without which the parents would not bring their children, the school gets no fees but still has to pay the teachers. Without growth and profits, the school would not be able to work. Too many children in Kamwokya stay at home and do not attend school. The Immaculate Heart Primary School also accepts children where the fees are not paid, at least for one or two terms; but sooner or later the school has to insist on the fees or the child may not attend school anymore until the arrears are balanced.

KCCC Sacco is partner not only of the school and Jacob Aoru, but also of the parents. When the MFI was robbed twice, parents were not able to withdraw their savings to pay fees and only could apply for small MCs and educational loans only. Also the school received small MCs only, but bigger amounts are needed when it comes to the construction of school facilities or sometimes even paying the teachers. So the school had no other chance but to look for additional MF partners: Centenary (another Sacco in Kamwokya) and National Housing Finance. While those MFIs provide similar services, they are a farther away and not part of this community; every kind of transport is intrinsically tied to a lot of time and money. In total, the school had four MCs, three are paid back, and one is still running. The saving deposits have been rising over the past years, so the school is now able to get bigger loans, or maybe in future the school will use its savings to finance current costly expenditures or development projects.

Jacob sees many problems in the field of MF. One problem is that, when MCs are used for long term development with little or late returns, e.g. an educational loan or even investments like a water tank or a latrine, it is becoming difficult to pay back the loans. MFIs should differentiate between long term and short term projects and offer different forms and modalities of lending; labelling the products (MCs) is not enough. Another problem is the Ugandan law, which limits the period of a MC to one year, which makes long term funding even more complicated because at commercial banks poor people either get no loans or the effective costs are too high. The bank charges of commercial banks are higher than of Saccos, and additionally it takes much more time and money for transport because they are not situated in the area. They also request more securities, and in the end poor clients cannot be served because they are illiterate; the clients are simply overwhelmed by all the documents. So many parents of Jacob's school children would need further assistance by these commercial banks. In addition to being illiterate, they have no time because they are always on the move to earn money. They do not have any other choice but to be a client of one of those nearby Saccos. And finally, the community has noticed the robberies at KCCC Sacco; they have lost trust and confidence. Jacob thinks that it might take a long time to restore people's trust. Like Saccos in general, also KCCC Sacco has a lack of capital. Saccos do not have enough money. They need more donors who raise their capital stock without gaining influence, to let them become local development banks.

Jacob thinks that MF, as a development instrument, is a good thing when these loans are invested in projects with quick returns, like the typical business loans. MF services are important for the development of the poor. And speaking as a head teacher, Jakob says that Saccos have high positive influence on the development of institutions like the Immaculate Heart Primary School.

6.1 MF Actions and Their Effects

While it would, of course, be possible to use other MF clients as objects of comparison, these two clients seem to be good candidates to work out the different impacts and long term outcomes of MF actions. Both clients are different in many aspects; the following section will try to identify these important differences. MF services are, as the name already says, a financial instrument of development. The question if there are also other aspects of development in the livelihoods of MF clients is addressed below.

6.1.1 Financial Capital

This aspect of human life is directly addressed by MF activities, it just depends on the kind of usage of the MF product, e.g. if the money is spent on business activities, as an educational loan to pay the school fees, or any other way.

As far as Jane Kyeyune is concerned, she has spent her loans on her children to pay the school fees. This has a simple reason: When the school terms start and children go back to school, the requested amount of money is very high - especially for a household with many children -, so she took out these loans to pay off her school debts. In time, she was experienced already with MF services and thought about another income beside her salary as a cook in school, trying to diversify her income opportunities. Unfortunately her charcoal selling business failed because the money was stolen. Then she lost her job and had no income source anymore. Her financial situation was not good even before she started with MF. Speaking in matters of her financial livelihood, she was depending on credits, accepting debts to pay for the education of her children, paying back as a single earner with a relative small income. But at least her financial situation was solid; she could handle the challenges in her life just by accessing MF services. She fulfilled all needed criteria by KCCC Sacco for loan disbursements. It was not obvious that she would lose her job or would become a crime victim when her money was stolen. Now, without job and a MC which is still running with little chance of paying it back, she fears prison. Her financial livelihood has worsened extremely.

The financial livelihood of Jacob Aoru is very different. First, in his household there are three sources of income: he and his wife have a monthly salary as teachers and he is running a maize milling business. Second, he has more invested capital, so called capital assets, because he runs an already established business with a promising perspective for further growth. With his first business loan, he will have the option to invest into his machinery, so he can produce more products, having a wider product portfolio, and sell these goods on the markets to more customers. Third, with his total household income he has more MF opportunities because he can access higher loans. In contrast to Jane Kyeyune, his financial status was already better when he started taking educational loans for himself and his family. His current financial status is quite limited because he is still depending on his MF activities. When the school terms start, he cannot pay the school and university fees out of his own resources and savings, he still needs that MF access, but his financial outlook is promising with higher business profits. His financial livelihood has slightly increased.

6.1.2 Human Capital

Health, nutrition, education, knowledge, and skills as well as the capacity to work and the capacity to adapt to new situations play an essential role in human life. And although Jane Kyeyune and Jacob Aoru are almost direct neighbours in Kamwokya, many differences can be identified for their human capital in all the aspects mentioned.

> *Education is the most powerful weapon which you can use to change the world. (Nelson Mandela)*

Having been identified by Nelson Mandela as a crucial point for the development of mankind, education is also seen as one of the key instruments for development on an individual basis. Education provides access to capital in many different ways: in forms of having ideas, to form capabilities or simply how to utilise things. Every person needs education to grow beyond an infant stage of life. It has a great influence on a developed livelihood.

Skills are always limited, but, when Jane Kyeyune finished level P 7, her skills acquired in school were very basic or have been lost and forgotten in the meantime. Here, it is relevant what kind of knowledge primary schools in Kampala can provide: Primarily these schools provide language training. In school Jane learned Luganda, the traditional language in the Buganda Kingdom and its second official language, which she can speak fluently but not write or read properly these days. She cannot count correctly either. She knows how to handle common amounts in daily life, e.g. what to pay for goods in Ugandan Shillings, but she is not capable of doing basic arithmetical operations. She does not speak English, although it is the official national language of Uganda and essential in daily life. Speaking English is especially relevant when leaving home. English is necessary after leaving a rural area to move to cities, when leaving the slum neighbourhood to go downtown or in general for living in cities like Kampala. At school she also learned about Ugandan history and gained some knowledge in natural sciences like biology. Finally school is a place of behaviour, discipline and order, which is also very important for a good being together.

But her education is not adequate for actual needs. Jane and her children would really need practical skills taught in vocational training, e.g. tailoring or catering or further attendance at secondary schools. Without skills it is very complicated to find employment on an already limited labour market. With her existing skills Jane is not flexible as far as her income opportunities are concerned, and the opportunities she gets are low-paid. Altogether her educational status is very poor, which has a substantial effect on all other parts of her and her family's life, for example on their health and nutrition.

> *Nutrition is the intake of food, considered in relation to the body's dietary needs. Good nutrition – an adequate, well balanced diet combined with regular physical activity – is a cornerstone of good health. Poor nutrition can lead to reduced immunity, increased susceptibility to disease, impaired physical and mental development, and reduced productivity.* (World Health Organisation)

Jane cannot afford nutritious food, neither for her children nor for herself, because she lacks money and knowledge about what is healthy and what is not. Sometimes she and her children go to bed hungry, and sometimes they have nothing to eat but yesterday's leftovers. But beside their need to have more food, it is not enough to eat local traditional dishes every day. On the family's menu are Matooke (mashed plantain), rice, Posho/Ugali (cooked maize flour), beans, Irish potatoes, groundnuts, and yams. These carbohydrate-based foods on her menu stop the hunger and are filling, but cannot ensure a balanced diet. Jane can hardly afford meat, greens, or tropical fruits on the markets. She and her family do not consume sufficient amounts of proteins, vitamins, minerals, and micronutrients. This in turn affects the health and immune systems of the family members, leaving them feel weak and tired as well as making them more susceptible to illness. In case of viral infections with Malaria or the flu, this can become life threatening. Speaking in general terms, there is too little awareness for malnutrition in Kampala's slum areas and in the impoverished society. Too many people do not know what a balanced diet is, and many people do not follow their doctor's advice.

The four educational loans have had a positive effect on Jane's human capital, more precisely on the human capital of her household. Because she could pay the school fees, her children attended school and had a small breakfast like porridge and a warm meal per day. Furthermore, Jane had more time for herself and more time for work, not having to take care of her children at home. All this would have been an improvement for Jane's livelihood, but her situation in total was not resilient enough to cover her set-backs.

Jacob Aoru's situation is considerably more favourable. With his diploma and bachelor degree in education, he is well qualified for employment as a head teacher in a primary school. His prospect of further development in his qualifications is promising, still attending university at the age of 45 to finish the master programme for education, not only giving him a better position to lead the school in the future, but also bringing knowledge and vision into his work that will benefit the pupils. Consequently, he and his family are less vulnerable regarding uncertainties in life. With the household's income and the educational loans taken out, Jacob and his children can attend school. The family does not suffer from hunger and all of them are healthy. Although he did not want to mention the exact purpose of his social loan, he implied that it helped overcome the sickness of one family member. In the case of Jacob's MF activities, the social and educational loans taken out bring short and long term benefits for the household's livelihood.

6.1.3 Social Capital

Social capital is a very valuable good in low income countries, where formal or public insurance is largely unavailable. Repeated interactions among individuals help build or maintain social capital and encourage interaction for mutual development by economic ties. (Feigenberg 2010: 2, 28) This field research showed that clients like to share information in group meetings. They talk about business activities and exchange gossip about goings-on in the area. The majority of clients mentioned that it had been a mutual interest to share knowledge and information in order to support others because every member wanted the group to become a success, while at the same time trying to avoid covering another one's failure and default. Having said that, most group members are neighbours or friends, so it is not only an economic calculation to support others but also an act of good-will.

In the case of Jane Kyeyune, her MF experience in a group lending system was successful as she received the money to pay off the school fees and paid back the MC in time. In her case it is obvious that, although she had a regular income through her employment, it was a bad decision to leave the group lending system. If she had stayed with BRAC, the group would have covered her failure and her debts would have been compensated through mutual guarantorship. But as she needed more money to start her charcoal business, she took out an individual loan with her employment as security. With this step she decreased her social capital because she lost the insurance of her group. An increase in social interaction in the group improves informal risk-sharing and reduces the probability of default.

Jacob Aoru's social capital has not really changed by his MF activity, seeing him as a private person and not as a head teacher. He always received loans on an individual basis, but they did not improve his rights or claims derived from membership in a group. As a head teacher, he realised that MF services have a much bigger effect on the area's social capital than on himself. Over the years, KCCC Sacco has been a reliable financial partner for the Immaculate Heart Primary School and for the whole area of Kamwokya. KCCC Sacco was integrated in the Kamwokya society. There are many people he knows, friends, colleagues, and neighbours who have MCs with KCCC Sacco, and all of them hold at least one share of that local institution which grants a voting right. According to the *KCCC Empowerment Cooperative Savings & Credit Society Ltd Policies*, all members who paid Shs 10,000,- for a nominal share of KCCC Sacco are invited to the General Meeting, which is to be held at least once a year after audited annual accounts have been compiled. In this meeting, a board of committees of nine people is elected. This guarantees that KCCC Sacco's BOD and their employees act in the best interest of Kamwokya's society. Jacob Aoru, who participates in the annual meeting every year, claims that there is not enough time in these meetings to discuss all necessary topics. For better participation of shareholders, the annual meeting should be extended to two or three days.

6.1.4 Physical Capital

Investments in physical capital, e.g. in the infrastructure in forms of roads or power supply lines, are less likely to be made by MF services because the total number of such projects is too high. The financial power of the poor and the opportunities provided by MF services are limited; however, there are opportunities for individuals in rural areas to raise their physical capital, e.g. with irrigation for farming. For people, who live in cities, the only possibility for investments in physical capital is housing. Constructing houses and using them as rentals is a sustainable form of income and income diversification.

A newly built solid house with more rooms financed with construction loans of MFIs is still unlikely because the total amount of this investment is too high to be covered solely by MF. It takes a long time until the construction is completed and tenants can move in. In the meantime, the rental does not yield any money to pay off the loan. Two participants of this field research, Asiat Zzikuza and Noah Kato, have rentals. They had enough working capital from other income sources to cover the instalments of the construction loan. They did not use these loans to build their houses, but to repair the roof of or to build an extension to an existing building.

Jacob Aoru has also taken out a construction loan for the construction of a house in Eastern Uganda for his extended family to live in. As the head teacher of the Immaculate Heart Primary School, he took a construction loan to build a water tank and a latrine for the school. These investments were necessary; otherwise parents would send their children to other schools; as a consequence, the school would have to reduce their fees because of poor sanitation standards, while running costs like teachers' salaries remain constant.

Investments in physical capital are long term investments. Jacob Aoru suggests that certain adoptions of the MFI's policies regarding construction loans should be made: First, investments for social welfare projects should have lower interest rates; and second, construction loans should have paying back periods lasting longer than one year. Jakob's second suggestion contradicts Ugandan law because the *Financial Services Act 2004* (UBOS 2010: 12), under which MFIs are operating their business, says that the MC's total period must not take longer than 12 months. In the case of Jacob Aoru, his physical capital due to MF activities has increased, whereas there is no change for Jane Kyeyune.

6.1.5 Natural Capital

Picture 14: Edward Kizza and his plantation in Kamwokya, 2012

The effects of MF activities on natural capital are very little for people living in urban areas. In 2010, only 8.1 per cent of the population living in Kampala generated their income in the agricultural sector, while it was 67 per cent in Uganda. (UBOS 2012: 18f) The field research on MF clients in Kampala shows similar results: only 8 per cent of the households have a regular or additional income from an agricultural activity, more precisely it is poultry keeping by Margaret Nsemerirwe, Tonny Zziwa and Edward Kizza. In addition these three clients have a plot with a small plantation which are dedicated to their farm, using this land to have crop to feed their chicken.

While Margaret Nsemerirwe has taken a business loan to invest that money in the expansion of her poultry keeping and Tonny Zziwa did not take out a MC, neither for his plantation nor for his poultry, Edward Kizza has taken an agricultural loan to buy seeds. He claims that MF modalities did not fit his needs because he expected late returns in advance. In order to meet his needs, KCCC Sacco adopted the redemption rate by accepting a delay of two months for the first payback rate of the loan. There are only few MF clients similar to Edward Kizza at Tumbakosar and KCCC Sacco; it is obvious that the development of natural capital is not a priority for urban MFIs; but this example may show that there is potential, although fallow land in slum areas is a very scarce resource. In case of Edward Kizza, his natural capital has increased, whereas there is no noticeable change to natural capital for all other MF clients due to their MF activities.

6.1.6 Vulnerability

If the poor are able to access the livelihood assets they require and are adequately supported by service providers and enabling agencies, if they are able to participate in markets or politics, and if rules and norms work to their advantage, it should help them to cope with those elements of their vulnerability context they cannot change. Savings always decrease a person's vulnerability by improving resilience against uncertainties. MCs may have an influence on the client's vulnerability context; it depends on which kind of investment is made.

Educational loans are long term investments and vulnerability will be reduced after finishing school, but they do not improve the resilience against present negative circumstances. Social loans are similar as there is the necessity to buy medicine to cure sickness. However, there are social loans which are spent on wedding gowns or holidays. Without a doubt, it might be in the client's best interest to get married or to go on vacation, but there is no economic benefit if MCs are used for social activities. MFIs and their credit officers try to avoid misuse of MCs, assuring that it is in the client's best interest to invest the money into projects with quick returns to have an income source.

Incorrect usage of MCs leads to increased dependency caused by higher debts. Then, a MC impairs the client's freedom to act; for that reason, business loans should not be used for other investments than those discussed in the meetings with the credit officer. Jane Kyeyune has become less vulnerable because of her MF actions. In her case it was not the problem of a misleading investment plan or malpractice, but the fact that the money was stolen and she has no income to pay back her debts. Theft is an element of the "all embracing" vulnerability context, where Jane can do little to change the situation. Instead of business development and higher income, she is facing prison if she is not capable of paying back her loan. She does not have sufficient assets to cover for this set-back.

For those clients who already have a job and earn their own money but want to diversify their income sources, MFIs suggest investing into business expenditure or assets; Jacob Aoru does both. He has enough financial, human, and social capital to receive loans for housing, for his maize milling business and for the school and tuition fees. The question remains if he is he now better off. In fact it is difficult to judge if his resilience against uncertainties has become strong enough through MF services to cover set-backs like Jane Kyeyune has experienced. The next question is when he will reach the point of financial autonomy. As long as he has running loans, there is still liability and hindered autonomy. In other words, his vulnerabilities have shifted: Before taking his last MC at KCCC Sacco, he had problems paying school and tuition fees and trying to expand the maize milling business. With the MC he paid the fees and started to expand his business; yet, he paid everything through debts.

In unison, managers and credit officers of KCCC Sacco and Tumbakosar stated that successful clients can be identified by the number of MCs taken out and by an increasing total amount, starting with Shs 300,000,- of their first MC and, over time, with their following loans up to three millions and more. They say that this increase of MF activity indicates the client's development. The following questions arise here: What are the client's expectations from MF services and what is the goal of MF as a development instrument? Is it development in form of increased (economic/social) activity or (financial) independence and more security?

6.2 Development of MF Clients

All clients have similar concerns in life: income, school, sickness, and family. Accordingly, the question of how MF services cover those concerns and how MF clients experience the support of MF products has to be addressed. Most of the clients are women and their children are their main priority. Women realised that it is more important than ever to be independent from external factors, even from their own husbands. Female MF clients notice the greatest changes in life because with MF services they have a tool in their hands which makes them independent and proud of themselves. Women now know that they can manage their lives on their own, they have turned into decision makers instead of remaining decision takers.

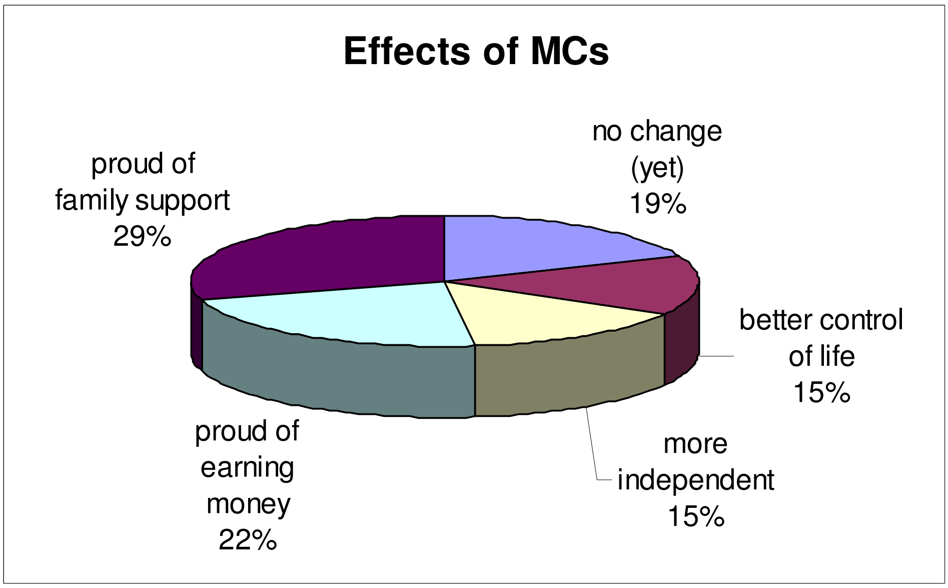


Figure 16: Effects of MCs

Only a minority of 19 per cent has not experienced any change in life, but all other clients have experienced immediate positive effects because of their MF activity. The data also reflects women's interests. Due to MF services, women are proud to be able to support their family because they earn their own money for food, accommodation, small gifts, and the payment of school fees. While that money might not be enough to cover all of the family's needs, it covers shortages in income. MF clients have better control over their lives than they had before, because with MF they have more creative power to make their ideas come true.

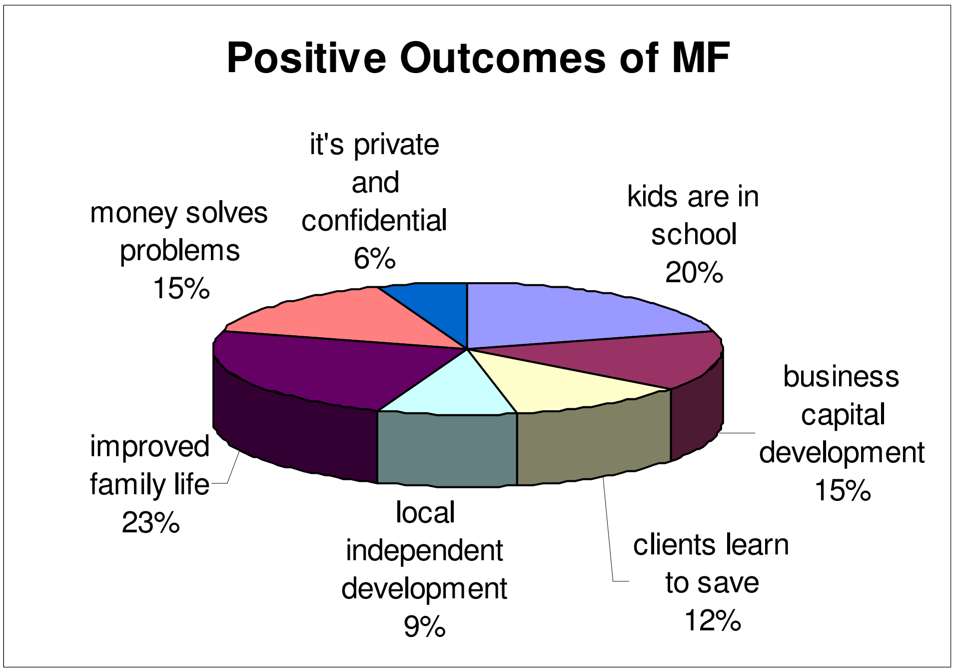


Figure 17: Positive Outcomes of MF

When the clients were asked about sustainable changes in their lives, the response is for the most part positive, but not specifically regarding their own lives but the whole society of Kamwokya and Kyebando. Clients know how important MF services are for the area because they notice the changes every day. The possibilities of secure saving and receiving loans have helped to empower the society. Clare Nambiryo, credit officer of KCCC Sacco, sees that change in society as well:

> *I have seen people building houses, good houses, out of our loans. And I have seen people buying land with land titles. That is real development. So I think I have seen the change so much because of our services. […] People have spent money anyhow unnecessarily, just eating money. But the moment someone puts the money on the account may not have time to use it anyhow. So this is really a social development.*

People notice the development because it is happening on a local scale. They talk to each other and MF clients advise others not to spend their money at, for example, the hairdresser's, but to save it with one of the MFIs in the area instead. After some months, clients have accumulated enough money to start their own small businesses, which generates more household income to cover at least some of those most pressuring needs. MF services are identified as private and confidential services that help covering uncertainties, making society less vulnerable. Clients notice a change of behaviour in society, stating that it is becoming more prospective.

In general, MF clients respond positively to the questions about MF services and MFIs, with 83 per cent of all clients having a positive opinion and positive impressions/experiences with MF services and their MFIs. Thirteen per cent are not sure and cannot be more specific because they have just started with their first MC and there have not been any changes in their lives yet and consequently they neither have had positive nor negative experiences with MF. Only 3 per cent of all clients would not take out another MC again.

Thomas Kakande, manager of KCCC Sacco, remembers very well how KCCC Sacco and its MF services helped Kamwokya:

> *Our area, if you look back ten years, people had one meal in 24 hours. KCCC has helped; they have about two meals per day. Children did not go to school, but now they can go. Beneficiaries were not used to have shelters, but now they are renting. People who were living with HIV/AIDS, they were used not to having business, but now KCCC Sacco has helped them to run their businesses. When you look at transport industry, logistics and people's access to the Northern Bypass, KCCC*

Sacco had a big impact on that, too. KCCC Sacco has extended these loan facilities to the caretakers of people with HIV/AIDS, and the caretakers help those sick people to do some business. Or when they save, they develop themselves because someone cannot develop without savings. So KCCC has helped the beneficiaries.

6.3 Development of MFIs

KCCC Sacco and Tumbakosar follow two different ways of running their businesses. While KCCC Sacco follows the principles of Ugandan SACCOs, which are organisations strictly dedicated to development, Tumbakosar is more flexible in its business operations, only bound to a few regulations of the *Financial Services Act 2004*, which does not request any policies regarding operational requirements or supervision. Both MFIs declare themselves as development organisations, but Tumbakosar does it "voluntarily". Barnabas Tumwekwatse, manager of Tumbakosar, explained that *"[…] all of those commercial banks have started with small loans to poor people. Their business has grown; they stopped giving services to poor people, because the risk seemed to be too high. Now, even the big banks, start adopting their policies because they do not want to miss this big MF market. […] Right now, Tumbakosar is still at an infant stage, but we want to grow as big as those commercial banks, but keeping our focus on the development of poor people as well."*

Tumbakosar has a small capital stock; a sustainable risk management does not allow anything else but running the operational business with group lendership. Only 5 to 10 per cent of clients are handled on an individual basis. Thomas Kakande, manager of KCCC Sacco, explains MFI's development:

We started with group lendership, like the bank I mentioned before, Tumbakosar. But we changed from group lendership to individual loans. Groups are very good and ok, but only when the Sacco or MFI is still young. There are maybe groups of ten people, coming for 100,000. Then one member comes and wants to have that money to invest in his business. This works for three years. Then he comes for 500,000, when others cannot afford loans for 500,000. And then someone comes who wants more than 500,000, like one million. That means that group will perish and go away, because of inequalities within the group. And then clients come who wanted loans secretly for their business without other members knowing, like buying a piece of land. So it became more and more an individual basis. Individual lending is also much faster and less bureaucratic. It grows faster and it needs less work from

> *our credit officers. […] Individual lending is fast, but it's also steady. As I have told, you cannot lend someone money, without going through the process. All the lending methods have to be there. […] The maximum for group lending should be 500,000 [per capita, author's note] and individual loans should be 15 millions.*

Development between regular MFIs like Tumbakosar and Saccos appear to be different. While Saccos do not expand into other areas, keeping their business in the region where they started, regular MFIs want to build branches in other regions. Barnabas Tumwekwatse explains Tumbakosar's mid-term goals:

> *Within five years Tumbakosar needs to have at least five branches, with at least 20 people employed, with an increased capital base and an improved portfolio gross. We need an increase in active clients like at least 10,000 active clients. We will have more suitable tailed services for our clients. In five years I see Tumbakosar in a close competition with other established MFIs, which means we can offer loans with lower interest rates. I do lots of research in the net and I find out that our competitors are much better funded than we are. So we need more capital than just from us two directors and the micro loans. And finally, we want to see our clients with an improved financial status and seeing our clients better managing their lives, also because of our larger variety in our trainings.*

7. Recommendations and Conclusions

7.1 MF Makes a Difference between the Poor

MF has become an important instrument for development in so called “underdeveloped countries”, although it is increasingly used as an economic instrument in more and more countries all over the world. Questions whether MF is a universal remedy for poverty eradication or whether it supports the poor need to be asked. As talking about *the poor* could end in a broad generalisation, more specific terms should be used when referring to MF as a development instrument and to its beneficiaries.

MF as a development tool does not work for all poor people and MFIs do not offer their services to all members of society. Also, MF cannot work without emphasis on skill development for future clients. At this point the reasons why MF does not work for all poor people need to be addressed. If MF worked for everyone, this would imply that the individual’s situation did not matter, that everyone had the same chance to become a success just by adequate usage of MF services. However, unemployed single mothers or refugees in camps do not have the same chance for success as employees with a regular income. Relevant literature has documented this phenomenon of exclusion. The field research about MF in the slums of Kampala conducted for this diploma thesis confirms what is discussed in the literature.

All MF clients who have been partners in this field research follow or followed an economic activity. All of them had a source of income when they first took out loans, and most of them had an income after finishing their loan; only a few made serious mistakes causing them to lose their jobs or source of income. Several clients had to cope with strokes of faith in their personal lives, families or communities, which made it impossible to continue with their work. When the clients started with their loans, they usually had stable living conditions. All of them were living in houses with more than one room, some owned rentals and not a single client was homeless. Furthermore, not a single client was starving, even though some clients were most probably suffering from malnutrition. However, it is very difficult to define malnutrition, even for industrialised countries like Austria. Although many clients have had substantial health issues in their lives, ranging from daily threats like malaria and HIV/AIDS to third party negligence in the form of false medical treatment by unqualified physicians in local clinics, all clients have access to medical services. Also, people in Kampala have access to free medical treatment in hospitals like Mulago or Mengo Hospitals, to government financed free HIV/AIDS medicine, and to pharmacies stocking all sorts of medicine for private treatment of illnesses.

And still, many people in Kampala's slums are so poor that they do not fulfil the MFIs' requirements for MCs, because their capital stock is limited and MFIs are not willing to take the risk of failure of thousands of people. The need for capital support for people who are not fulfilling the criteria and requirements of MFIs is as great as for already existing clients. James Kizza, credit officer of Tumbakosar, knows why the poorest of the poor do not have access to MF services:

> *In fact, those people have not enough capital even for a group lending system. Other clients choose the cell members, Tumbakosar is just a facilitator. What those people need is money without interest and more credit skills, for example learning which effects have debts. Especially it is important for women who want to start little businesses. For the poorest of the poor it is not easy to get a loan from a MFI, because there are no people who recommend a loan for them. It would really put our business into risk.*

This means that failure of private MF services, organised by the markets as an instrument of development for the poorest of the poor, is real. MF services are limited development instruments for a very specific patronage, which constitutes only of a segment of society, namely poor people who have at least some securities or skills. There are not enough resources, securities and stability in Kampala's society to cover the risk MFIs would take if they offered services to a greater number of poor people living in slum areas.

James Kizza has an idea how to support people who are very poor and explains who should provide further assistance:

> *What those people [the poorest of the poor, author's note] need is vocational training and skilled handwork, so they can become self sustained people, who sustain their own lives and stop being dependents. You see, the poorest of the poor have not attended school and never got formal education. Most of them never attended secondary school. But most of the people have talents, so it needs the government to support developing their talents by giving them some handwork talents so they can get themselves out of their deepest poverty. Nobody will employ an uneducated.*
>
> *What they have got to do is to help themselves out, but with empowerment from the stakeholders. Especially widows and people with HIV/AIDS need support. I have seen them with tailoring skills, or any other skills. Most services here are provided by the government. Development actions need to be taken in all sectors, by private organisations, by the community but especially by the government. For the poorest of*

the poor the government needs to take major responsibility to provide those needed educational services in development.

[…] The choice for development in any country or nation is a priority for all governments, and also an obligation. They cannot sit back and fail, because government is always accountable. As long as for example people who only have one meal per day, there is always that pressure on government. The way business is done is because of government and its legislation. They are the major players to favour the whole population; all other players just play a part in the game. How can other players be successful if government is not willing to provide suitable circumstances to do work? And that is exactly the challenge, to coordinate actions under the framework of government.

7.2 Connection between MFIs

There are various differences between commercial banks and MFIs regarding capital stock, legal regulations, number of clients, type of clients, and more. MFIs can do very little to change that. During the field research, the author addressed the difficulties of MFIs concerning the regulation and control of shifting clients, who become uncontrollable risk factors because of multi borrowing. This, in turn, poses a threat to the development of MFIs, their clients and, most crucially, the development of the impoverished society.

Thomas Kakande, manager of KCCC Sacco, explains why it is difficult to identify multi borrowers and shifting clients:

There is no way how you can rule it out [multi borrowing, author's note] because when a member comes from far, for example Tumbakosar, we would not know that. When our services are better, one client of Tumbakosar will come here, unless the government does that.

Regarding the interlinking and sharing of information about clients between the Bank of Uganda and other commercial banks, Thomas Kakande stated:

But with MFIs, no. Other MFIs will not share their clients and memberships with other MFIs, because there is that bit of confidentiality. Well, we have got to share, because our confidentiality is not higher than at other banks. We should go for consultations, but not with greater depth.

It seems that stakeholders, credit officers, managers and the board of directors of KCCC Sacco are aware of this situation but could not find a solution to solve this particular problem. When asked whether MFIs would benefit from better connections to other MFIs in the same area, Thomas Kakande mentioned that there are only six other MFIs in Kamwokya. Their clients' data could be shared in a digital file, such as a Microsoft Excel/Access table, which can be easily accessed and updated via the internet. If this system is successful, it most likely will be taken up by other regions. Thus, in the long run the system should at least cover the region of the Kawempe division. The following data might help to avoid multi borrowing, without breaching confidentiality issues: name, date of birth, place of birth, home address, type of income, and the client's photo. Ugandan authorities need to be consulted in the Bank of Uganda, as it has to be ascertained in advance if the suggested data-sharing is in accordance with Ugandan law.

7.3 Conclusion

MF serves poor people in impoverished areas in many different ways. While men prefer MCs for investments, women prefer MFIs for savings in order to accumulate money. Women need this money as a fall back option, for covering high costs like school fees which are due three times a year or for investments in small businesses like fruit and veg stalls. Savings have a strong positive influence on the vulnerability context of poor people who are marginalised and excluded from society and have no access to the benefits of social welfare programmes. For those people MF is an easy, practicable and suitable tool to cover set-backs and to manage income opportunities. Furthermore, credit officers provide good advice on business practices and daily life problems; they may even offer training in management skills, financing, funding and insurance.

MCs are a comfortable tool for adding capital into business or other income generating opportunities. Although MCs are often used as educational or social loans, they do not seem to be very sustainable in the long run, because constant financial outflow including high interest rates and other charges have to be covered with higher income. Many clients have problems covering the rising costs, because they did not expect that paying back the MC on a weekly basis in group lending systems can be problematic in case of fluctuating sales. For individual loans with monthly instalments, those fluctuations cause fewer problems, but the client has to put aside enough money for payment at the end of the month, which might be difficult if a client does not save or keep records. The majority of all small entrepreneurs in slum areas have no accounting and no book keeping. Moreover, they do not know their earnings and expenditures, which prevents strategic planning and hinders sustainable business development. MFIs could provide additional training in *profit and loss account* for clients with business loans.

Finally the question if a finance-based development tool like MF is sufficient to escape the poverty cycle remains. According to the findings of this field research and the principles provided by the SLA, active poor clients with adequate capital resources benefit from their MF activities, while those clients with a small capital may be affected negatively by MF services. Transferring problems to the *financial asset (financial capital)* might not be enough to alleviate poverty. People living in cities have easy access to MCs, which can have many positive outcomes. However, clients can also fail with their businesses, lose their jobs or have other set-backs while their debts remain.

MF provides suitable services on an individual basis for specific problems and situations, but has only a moderate effect on poverty in terms of equity, equal opportunities and empowerment. The vulnerability issue of the poor will not be solved by a single financial solution; instead, more trans-disciplinary actions by MFIs, NGOs, society and government are needed to make MF a better development tool. These actions will have to include training in reading and writing in English, calculating, book keeping, information on family planning and on healthy nutrition. In addition, this field research has shown that MF has limited effects on the physical and natural capital of urban clients, simply because the capital endowment of MFIs and MF clients is too small.

Appendix

Uganda Country Profile - Human Development Indicators 2012

Indicator	Period			
	1991	**2002**	**2006**	**2007**
Total population (*figure in millions*)	16.7	24.4	27.3	28.2
Population growth rates (%)	2.5	3.3	3.3	n/a[1]
% of population living in rural areas	89	88	87	87
% of population living in Urban areas	11	12	13	13
Literacy rates (%)	54	68	70	n/a
	1999/ 2000	***02/ 03***	***2004/05***	**2006/07**
Income poverty (%)[2]	33.8	38.4	31.3	

Table 15: Key Population and Demographic Indicators (Friends Consult 2008: 11)

Indicator	Period			
	04/05	***05/06***	***06/07***	***07/08***
Per Capita GDP (US $)	335	353	400	490
GDP growth per annum (%)	6.2	5.1	6.5	8.9
<u>Sector contribution to GDP (%)</u> Agriculture Industry Services	 35.1 20.0 44.3	 33.3 20.9 45.8	 31.9 21.0 47.1	 22.6 24.6 52.8
Underlying annual inflation rates (%)	4.7	5.4	7.7	11.8
Exchange rates (USh per US$)	1,738	1,825	1,751[3]	1,684
<u>Weighted Interest rates (%) per annum on;</u> - Savings Deposits - Demand Deposits - Time Deposits - Lending	 1.92 1.18 7.85 19.37	 2.02 1.14 9.12 18.19	 2.23 1.16 10.44 18.83	Not Available
<u>Employment (%):</u> - Formal- Government employment - Self employment in agriculture - Self employed outside agriculture - Private employment - Not working	 5.1 70.8 12.0 7.1 4.9	 4.8 57.7 25.2 6.7 5.6	Not available	Not available

Table 16: Key Macroeconomic Indicators (Friends Consult 2008: 12)

Human Development Index

Ranking: 161 of 187 countries

Year	Uganda	Low human development	Sub-Saharan Africa	World
2012	0.456	0.466	0.475	0.694
2011	0.454	0.464	0.472	0.692
2010	0.450	0.461	0.468	0.690
2009	0.445	0.455	0.463	0.685
2008	0.437	0.448	0.456	0.683
2007	0.427	0.442	0.449	0.678
2006	0.417	0.432	0.440	0.672
2005	0.408	0.424	0.432	0.666
2000	0.375	0.385	0.405	0.639
1995	n.a.	n.a.	0.397	0.618
1990	0.306	0.350	0.387	0.600
1985	n.a.	n.a.	0.378	0.578

Health

Indicator	**Value**
Expenditure on health, public (% of GDP) (%)	2.0
Under-five mortality (per 1,000 live births)	99
Life expectancy at birth (years)	54.5
Health index	0.544

Education

Indicator	**Value**
Public expenditure on education (% of GDP) (%)	3.2
Primary school teachers trained to teach (%)	89.4
Primary school dropout rates (% of primary school cohort)	68.2
Expected Years of Schooling (of children) (years)	11.1
Adult literacy rate, both sexes (% aged 15 and above)	73.2
Mean years of schooling (of adults) (years)	4.7
Education index	0.482
Combined gross enrolment in education (both sexes) (%)	69.0

Income

Indicator	**Value**
GNI per capita in PPP terms (constant 2005 international $) (Constant 2005 international $)	1,168

Inequality Indicator	**Value**
Loss due to inequality in life expectancy (%)	39.1
Loss due to inequality in education (%)	32.2
Loss due to inequality in income (%)	29.1
Inequality-adjusted education index	0.327
Inequality-adjusted life expectancy index	0.331
Inequality-adjusted income index	0.257
Inequality-adjusted HDI value	0.303

Poverty

Indicator	Value
MPI: Multidimensional poverty index (%)	0.367
MPI: Intensity of deprivation	52.5
MPI: Headcount, percentage of population in multidimensional poverty (% of population)	69.9
MPI: Population living below $1.25 PPP per day (%)	38.0

Gender

Indicator	Value
Population with at least secondary education, female/male ratio (Ratio of female to male rates)	0.437
Adolescent fertility rate (women aged 15-19 years) (births per 1,000 women aged 15-19)	149.9
Labour force participation rate, female-male ratio (Ratio of female to male shares)	0.956
GII: Gender Inequality Index, value	0.517
Shares in parliament, female-male ratio	0.538
Maternal mortality ratio (deaths of women per100,000 live births)	310

Sustainability

Indicator	Value
Carbon dioxide emissions per capita (tonnes)	0.1
Population living on degraded land (%)	23.5
Change in forest area, 1990/2010 (%)	-37.1

Demography

Indicator	Value
Population, total both sexes (thousands)	35,621.0
Population, urban (%) (% of population)	16.0
Population, female (thousands)	17,806.00
Population, male (thousands)	17,814.97

Composite indices

Indicator	Value
Non-income HDI value	0.511

Innovation and technology

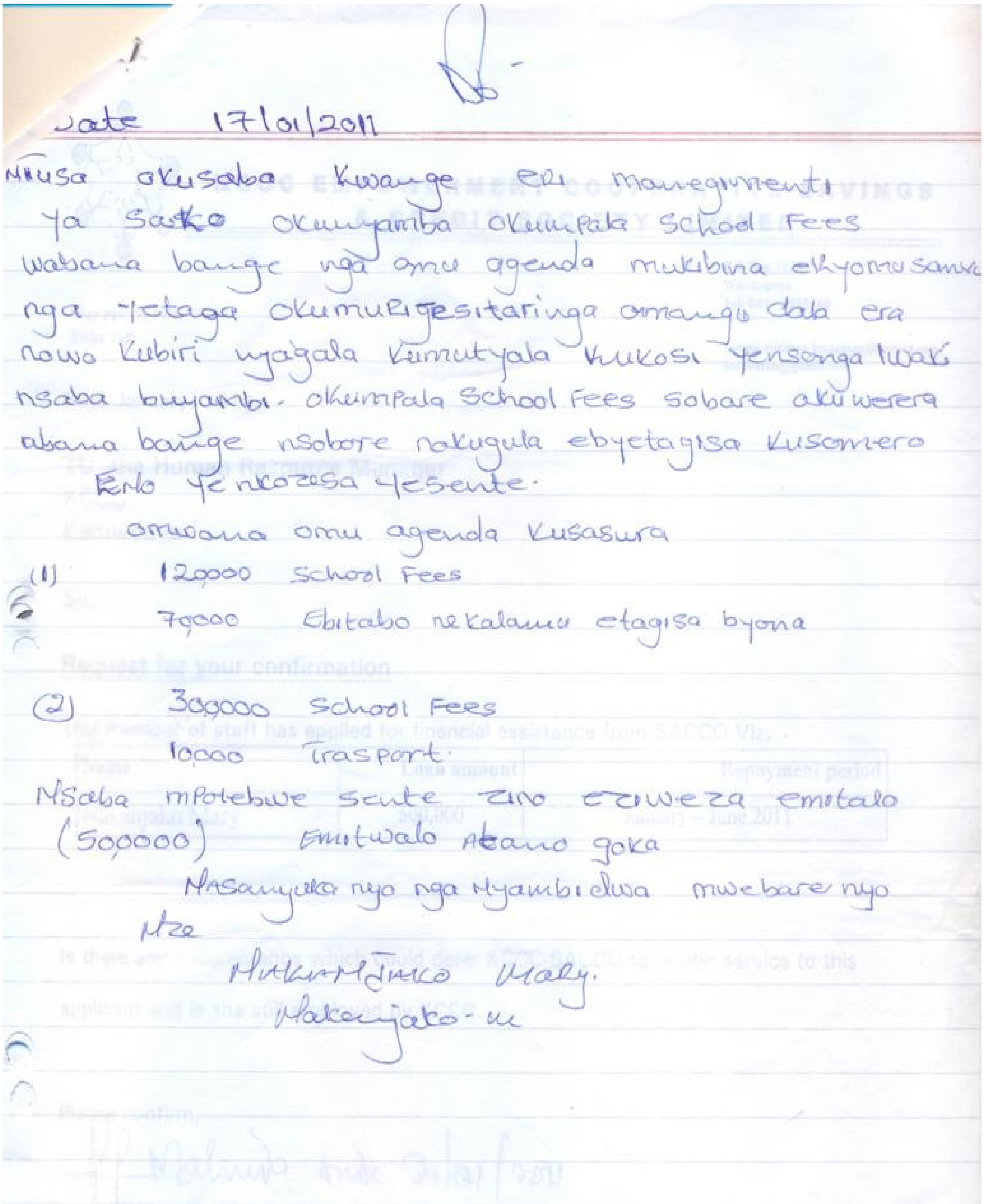
Indicator	Value
Fixed and mobile telephone subscribers per 100 people (per100 people)	39.4

Trade, economy and income

Indicator	Value
GDP per capita (2005 PPP $)	1,188
Income index	0.363

Table 17: Human Development Index of Uganda (UNDP 2012: n.pag.)

Loan Application Letters and Forms of Mary Nakanjako



Date 17/01/2011

Nkusa okusaba kwange eri management ya Sacco okunyamba okumpola School Fees wabana bange nga omu agenda mukibina ekyomusanvu nga yetaga okumuregesitaringa omangu dala era nowo kubiri nyagala kumutyala kukosi yensonga lwaki nsaba buyambi. okumpala School Fees sobare akuwerera abana bange nsobore nakugula ebyetagisa kusomero Era yenkozesa yesente.

Omwana omu agenda kusasura

(1) 120,000 School Fees
70,000 Ebitabo nekalamu etagisa byona

(2) 300,000 School Fees
10,000 Trasport.

Nsaba mpolebwe sente zino ezirweza emitalo (500000) Emitwalo atano goka

Masanyuka nyo nga nyambiddwa mwebare nyo

Nze

Nakanjako Mary.

Nakanjako. M

Figure 18: Application Letter

KCCC EMPOWERMENT COOPERATIVE SAVINGS & CREDIT SOCIETY LIMITED P.O Box 16266 Kampala
Tel: 041-533160 e-mail kcccsacco@yahoo.com/kcccsaccogmail.com

Ref: 8634/RCS

Date: 1/7/11.

FAMILY/HOUSEHOLD PROFILE

Name: Nakanjako mary.

Age: 38yrs. Zone: Church Area.

Business (Income Generating Activity) tenant houses
Duration of involvement in the income Generating Activity ____

Purpose for the Loan School fees / comprision of tenant houses

Landlord/Tenant Landlady (if Tenant, landlord's Name) Nakanjako mary

Marital status: Single level of education P.7.

Spouse's Name: — Occupation CSB
No. of People in Household: 8 No. of Dependants 7 dependents
No. of those in school/working; 5

Reason why school going aren't in school if any: —
Physical fitness of parent/caregiver: —

Is there any other source of household livelihood: ____
Monthly profit from business utilizing the loan: 220,000
Current capital of the same Business: 20,000,000

Total household income: 250,000

Membership to any other financial organization: non/nill

Land owned/rented: land own Size: 77ftX35ft Location: Church Area.
Rental fee of business premises: — accommodation: —

Signature

Applicant: Nakanjako m **Field officer:** Nalume susan

Figure 19: Family/Household Profile

KCCC EMPOWERMENT COOPERATIVE SAVINGS & CREDIT SOCIETY LIMITED P.O Box 16266 Kampala Tel: 041-533160 e-mail kcccsacco@gmail.com

LOAN APPRAISAL FORM

1. Name of the applicant Nakanjako Mary
2. Residence Address Church Area Tel No.
3. **Account No.** 430 Physical Address Church Area
4. Amount of Money Applied 500,000= (Amount in words)
   Five hundred thousand only.
5. **Purpose of the loan**
   School fees & Completion of tenant houses.
6. Duration of membership in KCCC-SACCO
   Since 2004
7. **Security offered**:
   a. Land Agreement value at 20 m.
   b. value at
   c. value at
8. Is the security worth the amount applied or? **YES/NO**. (IF YES give reason(s)
   Yes land worthy 20 m
9. Are the supporting documents genuine for the assets/Security declared? **YES/NO**. (IF YES give reason(s)
   Yes A sales Agreement Declared.
10. Guarantors are they worth to guarantee the applicant? **YES/NO**. (IF YES give reason(s)
    Active members of the Society & can easily be followed up.
11. Is the applicant capable of paying back that loan? **YES/NO**. (IF YES give reason
    Yes Considering the history of loan so far paid
12. The information on the application form is it relevant to the purpose of loan applied for? **YES/NO**. (Specify)
    Completion of the tenant house & partly School dues
13. **Loan officer's Assessment**
    Qualifies, since she declared a sales agreement.

Figure 20: Loan Appraisal Form

17/1/2011

NSD

KCCC EMPOWERMENT COOPERATIVE SAVINGS & CREDIT SOCIETY LTD P.O. Box 16266 Kampala Tel: 041-533160 8634/RCS e-mail kcccsacco@yahoo.com/kcccsaccogmail.com

LOAN APPLICATION FORM

Name	A/c.	Residential Address	Business Location
NAKANJAKO MARY	430	KAMWOKYA	KCCC

Amount of loan applied for........ 500000/=

(Amount in words)........ Five hundred thousand Shillings only

Purpose for which the loan is required........ School fees / completion of Tenant House

Occupation........ CB HW .... Employer........ PHC

Other source of income........ Bussiness

Security offered **Verification**

A. .... Land Agreement ....Approximate value........ 3000000/=

B. ....Approximate value........

C. ....Approximate value........

D. ....Approximate value........

E. ....Approximate value........

Value of shares in the society (shs)........

Total savings/Deposits in the society (shs)........

Guarantors

I/We agree to repay from our own source, the total amount of the loan owed by the applicant to the society if the applicant fails to repay the loan granted to him/her by the society by the time it's done.

1. ....Tel .... A/c No........ Signature........
2. Nakasujja Josephine Tel 0701908774 A/c No. 843 Signature... N.J
3. Nalukwuma Ruth Tel 0772562164 A/c No. 2649 Signature...
4. .... Tel .... A/c No........Signature........
5. .... Tel .... A/c No........Signature........

NB: I undertake to fully repay the loan applied for with interest thereon in a period of 6 months. I also authorize the society to deduct from my savings account, share capital or sell off my assets pledged as securities for the loan without any hindrance from me or anyone else to recover any amount of the loan that I will have failed to pay.

Date: 17/1/2011 Signature of the applicant........ Thumb print........

Spouse/Business Partner:

I agree with and give my Spouse/Business partner permission to borrow........ (Shs) in your society Amount in words........

Name: .... Signature........

Dependants: 1. .... 2. .... 3. .... 4. ....

Comments from Area LC,........

CHAIRMAN........ **SECRETARY**........

1

Figure 21: Loan Application Form

KCCC EMPOWERMENT COOPERATIVE SAVINGS & CREDIT SOCIETY LIMITED

P.O Box 16266
Wandegeya
Tel: 041– 4533160

E-mail address kcccsacco@yahoo.com/
kcccsacco@gmail.com

Our ref: 8634/RCS
Your ref:

20th January, 2010

TO the Human Resource Manager
KCCC
Kamwokya

Sir,

Request for your confirmation

This member of staff has applied for financial assistance from SACCO Viz,

Name	Loan amount	Repayment period
Nakanjako Mary	500,000	January – June.2011

Is there any encumbrance which could deter KCCC-SACCO to render service to this applicant and is she still employed by KCCC.

Please confirm,

PP Mahinda date 21/01/2011

Loans officer

Cc. Accountant

Contracts not yet renewed. Use your discretion to award.

HR Office
24/01/2011

Figure 22: Confirmation Letter

KCCC EMPOWERMENT COOPERATIVE SAVINGS & CREDIT SOCIETY LIMITED
P.O Box 16266 Tel: 041-533160 e-mail kcccsacco@yahoo.com

Ref: 8634/RCS

Date: 14/1/2011

To the Accountant,
KCCC
Kamwokya

Sir,

Authority to deduct money from my salary to pay off my Loan + Interest

I Makanjako Mary. authorize you to deduct 100,000= ugx from my salary and remit to KCCC.E.C & C Soc. Ltd office as follow,

MONTH	AMOUNT
JANUARY	100,000=
FEBRUARY	100,000=
MARCH	100,000=
APRIL	100,000=
MAY	100,000=
JUNE	100,000=
JULY	
AUGUST	
SEPTEMBER	
OCTOBER	
NOVEMBER	
DECEMBER	
Total:	

NOTE:
Neyongeye okweta sente
okwamba Pangisa bange nga
mbeta bulli mwezi shs 100000=
singa omusasa ngategutukodde
mubude.
Makanjako.m
02/02/2011

Department: Makanjako. m

Signature: Makanjako. m.

Figure 23: Delegation of Authority

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Curriculum Vitae

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EDUCATION

2012 – 2014	Diploma Thesis: Microfinance in Kampala, Uganda
2008 – 2013	International Development Studies in Vienna, Austria.
2003 – 2008	Economic and Management Studies in Graz and Vienna
1996 – 2002	College of Economics Grazbachgasse, Graz
Languages	German (mother language)
	English including Business English (university standard)
	Italian (A-level)
	Spanish (basics)
Skills	Advanced IT skills

PROFESSIONAL EXPERIENCES

Since 2012	Freelancer at Event Ants
Summer 2012	Field research for Microfinance in Kampala, Uganda
Summer 2010	Voluntary work for Life Earth in Kampala Uganda: Monitoring and Evaluation of development projects Reorganisation of the partner organisation
2009 – 2011	Freelancer at Wiener Medien Werkzeuge
2006 – 2008	Voluntary Work at Arbeiterkammer Steiermark, department for business and labour law
2005 – 2007	Steel construction mechanic/assembly operator at JCH Christof-Group: Egger factories in Rambervillers, France 2007 Egger factories in Brilon, Germany 2006 OMV Wien Schwechat, Austria 2005
2004 – 2009	Limited Partner of Wechtnjogl Marketing GmbH & Co KEG
Summer 2004	Seasonal Work at Brauhaus Puntigam, Graz
2001 – 2002	Military Service Kirchnerkaserne Graz
1997 – 2002	Diverse practical trainings at Styrian companies