MICROFINANCE AND POVERTY ALLEVIAITON

UGANDA

-a case study of Uganda finance trust

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Spring 2006
ABSTRACT

Background

Today one of the most compelling challenges facing Uganda is the problem of poverty. Poverty is not only on a steady increase but also wide spread in rural areas. In the quest for solutions to the country’s development challenge and poverty alleviation, microfinance is becoming one of the most popular options as credit has been identified as a barrier facing the poor. However there is a general consensus that microfinance is not for all the poor. One wonders who the poor are benefiting from the intervention.

The overall aim of this thesis is to explore the impact of microfinance on rural women. I must emphasize that I am more interested in the impact of the intervention although as a resource, it does require the support of other factors most importantly entrepreneurial skills. The questions that have guided me in the empirical investigation are based on what impact does microfinance programmes have on household welfare, can microfinance programmes using savings reduce risks faced by clients, can microfinance empower rural women and under what circumstances can microfinance help the poor out of poverty?

This thesis is divided into two parts namely a qualitative study and a minor field study conducted in mid April 2006 in Kayunga-central Uganda. The minor field study will give answers to the first three questions while literature study will give the answer to the last question. The methods used in the field were mainly questionnaire framework and semi-structured interviews. Other sources include written materials. The theoretical framework is based on written literature about grass root models that create change like social capital, participatory and livelihood. I tried to get a better understanding of them during interviews.

The results that have been analysed with microfinance permit the following conclusions: All the women clients reported an increase in their incomes which has improved their standard of living, have sent their children to school; have been able to pay for their medical bills and can feed their families, can cope with future crises using their savings, women have been empowered economically. Well functioning markets, entrepreneurial skills and other infrastructure support microfinance to achieve results. However some of the findings may not be conclusive and therefore one should be careful in drawing conclusions.
ACKNOWLEDGEMENTS

I wish to express my sincere gratitude to my thesis Supervisor, Lennart Bångens. This thesis would never have been completed without him. His constructive, outstanding knowledge in the field and experience having been a regular visitor to Africa for many years guided me through this study.

Special thanks go to Michael Kagugube in Uganda who coordinated all my correspondence with the staff of Uganda Finance Trust. Thanks go to Peter Okaulo-General Manager UFT for the lively discussion about microfinance, Patrick Muhindo the Risk Credit Manager for all the valuable information to this thesis, the manager and staff of Kayunga branch. Thanks go to Martha for all her assistance and the two ladies who assisted me in the interviews.

Finally, I gratefully acknowledge all the efforts of the lecturers Lisen Dellenborg, Lennart Wohlgemut and Jonas Ewald who have successfully conducted this masters program.
LIST OF ABBREVIATIONS

IMF      International Monetary Fund
UFT     Uganda finance Trust
UWFT   Uganda Women Finance Trust
CIDA    Canadian International Development Agency
WWB     Women World Banking
MFIs    Micro financial institutions
GDP     Gross Domestic Product
NGOs    Non Government Organisation
SAPs    Structural Adjustment Programs
CGAP   Consultative To Assist The Poor
MSMEs   Micro Small and Medium Enterprise
UPE     Universal Primary Education
NRM     National Resistance Movement
GB      Grameen Bank

Definitions

This thesis contains different concepts that can be interpreted differently by academic scholars. I have picked a few to give a brief definition.

Micro credit: is a small amount of money loaned to a client by a bank or other institution. Micro credit can be offered, often without collateral, to an individual or through group lending (see, www.yearofmicrocredit.org).

Microfinance refers to loans, savings, insurance, transfer services and other financial products targeted at low income clients (see, www.yearofmicrocredit.org).

Entandikwa loan scheme: literally means “start capital”. This is state financed microfinance. Money is borrowed to start an economic activity and then is paid back to the fund to be borrowed again by another client hence a “revolving fund” (see, NRM, 2006 manifesto p 98).
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1. INTRODUCTION

Poverty remains a matter of growing concern in many developing countries of the world. Today, as other continents continue to register sustainable economic growth and development, Africa is not only lagging behind but is trapped in a vicious circle of borrowing and donor dependency syndrome which some critics point out as one of the causes practically sabotaging real development. Africa has perpetually failed to focus its development efforts on the optimum utilisation of the immense natural resources that many countries are endowed with to turn it into wealth to propel their economies and people towards a high level of economic and social development and as a consequence eliminate pervasive poverty.

Although Africa is not the poorest continent, it is the only region where poverty is constantly on the increase. As a result millions of people live each day in abject poverty. Children go without food, their bodies stunted by malnutrition which is wide spread. The commission for Africa finds the conditions of the lives of the majority of Africans to be deplorable and an insult to their dignity\(^1\). Therefore, there is need to change these conditions in order to make poverty history in Africa. Lufumpa (1999) points out that in the mid 1990s close to 50 percent of Africa’s population of 700 million lived in absolute poverty and the majority of the poor live in rural areas. In both urban and rural areas, women as a group comprise of a high disproportion number of people in absolute poverty\(^2\).

One of the biggest problems of Uganda like many other countries in Africa is poverty. The country ranks 158 out of 174 poorest countries in the world\(^3\). Using international poverty measures, 82.2 percent of the population lives below US$1 a day, 96.4 percent live below US$ 2 a day\(^4\). Poverty is not only widespread in rural areas but poverty is rural and yet this core problem has not been given the necessary attention it deserves. The majority of the people who live in rural areas are women and children and many are dependent on agriculture. However, a large sector of agriculture is still subsistence and women are dominating using poor technology. The poor in rural areas are in most cases not reflected in the macroeconomic interventions and because of this scenario poverty is growing. Society holds women responsible for all the key actions required to end hunger, family nutrition,

health, education, and increasing family income. Yet women are still enslaved by customs and traditions which systematically deny those resources and freedom of action to carry out their responsibilities. The rural women operate mainly in the informal economy where the whole context for their lives and economic activities do not produce enough surpluses to lift their standard of living. As a consequence they lack the ability to generate incomes, to save, to start economic activities and to access credit from the formal sector is heavily restricted due to lack of collateral. The poor are traditionally disregarded as “unbankable” and “uncreditworthy”\(^5\).

Therefore the problem of microfinance to enable the poor women to pull out of their poverty situation is critical. Although microfinance is a vital component in poverty alleviation, there is a general consensus among its proponents that it is not for everyone\(^6\). One wonders who these poor women are to benefit from the intervention. In order for microfinance to produce results, it requires the support of other factors, most importantly, entrepreneurial skills, proper functioning infrastructure like capital markets, financial services like insurance, and working institutions. Therefore Yunis’s (1999) belief that he can eradicate poverty using a simple model of microfinance has been put to question in the development debate.

In the quest to promote women empowerment and poverty alleviation, donors are now investing in microfinance programmes. The Uganda Women’s Finance Trust was originally funded by international aid organisations such as (WWB) Women’s World Banking global network\(^7\). As a pioneer of microfinance, Grameen Bank which started in 1976 by Yunus has been a success story in Bangladesh. GB provides credit to the poorest of the poor without any collateral. At GB, credit is a cost effective weapon to fight poverty and it serves as a catalyst in the over all development of socio-economic conditions of the poor who have been kept outside the banking orbit on the ground that they are poor and hence not bankable. His hypothesis is, its not people who aren’t credit-worthy. Its banks that aren’t people-worthy has been tested and proved right. (see, [http://www.grameen-info.org/](http://www.grameen-info.org/) 2006-04-29)

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\(^6\) Khandeker S R (2001) Does Microfinance benefit the poor?
\(^7\) Uganda Women Finance Trust responsible for microfinance is now known as Uganda Finance Trust
1.2 Aim and questions

The overall aim of this thesis is to explore the impact of microfinance intervention on rural poor women. Lately the role of financial services in the struggle against poverty has been given increased attention given the informal economy where the majority of poor women operate. Since microfinance is one factor, my interest will focus also at the mix of other factors most importantly entrepreneurial skills. To do a case study, I have chosen Uganda Finance Trust. In order to achieve my aim in this thesis, I shall try to answer the following questions.

1 What impact does microfinance programmes have on the household welfare?  
2 Can microfinance programmes savings reduce vulnerability and risks of clients?  
3 Can microfinance promote empowerment of rural women?  
4 Under what circumstances can microfinance help the poor out of poverty?

1.3 Limitation

Today, microfinance is becoming one of the most vibrant and successful sector in the fight against poverty not only in Bolivia and Bangladesh but also in Uganda. However this study will neither focus on microfinance sector in Bolivia nor Bangladesh but instead will focus on the impact of microfinance on rural women in Uganda particularly those household clients in Kayunga district in central Uganda. The non participating groups are excluded in this study. I have excluded also the control group method which compares a population that had benefited from microfinance scheme to another group which had not because of time constraint. The reason I choose to limit myself on rural women in Uganda because women are the most vulnerable and marginalised group in Ugandan society.

1.5 Earlier studies

The thesis is based on earlier studies of the Grameen Bank model in Bangladesh. The rural banking programme was started as a modest action research in one of the villages called Jobra near Chittagong. The earlier studies will help me with deeper understanding of the present

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situation. There are three main components used by Grameen which are relevant to my thesis namely, the focus on women who are the most vulnerable and marginalised, their willingness to form groups to focus on poverty alleviation and lastly lack of credit being identified as a barrier to start economic activities. Social capital model has been used in group lending and it is a theory used in Uganda Finance Trust group lending to which Grameen in Bangladesh and BancoSol in Bolivia have been credited for.

1.6 Disposition

The first chapter begins with introduction, which contains the purpose of my study. This chapter includes the main questions to be answered, the method, and the limitation. Chapter 2 presents the method and impact analysis, research design, validity and reliability. Chapter 3 gives a brief presentation of the development theoretical frame work, development theory concept and poverty trap. Chapter 4 gives overview of microfinance in its context, the financial sector, and formal, informal sector, microfinance and target groups. Chapter 5 presents background of Uganda, poverty dimensions, economic development and government microfinance programmes. Chapter 6 covers Uganda Finance Trust visions and objectives. Chapter 7 deals with Kayunga district. Chapter 8 presents the findings, analysis, discussion and conclusion.

2 METHOD & MATERIAL

In this Sub-chapter I will describe the method used to arrive at my answers and impact assessment is used as the tool to measure impact of the intervention, discuss reliability, validity of these answers and the empirical material based on interviews conducted in central Uganda.

2.1 Method

This thesis integrates a qualitative study and a minor field study approaches. The minor field study with the clients of Uganda Finance Trust will give answers to the first three questions while literature study will give answers to the rest. The material that constitutes the qualitative study is taken from different sources of literature books like Finance against poverty (Hulme & Mosley 1996), Banker to the Poor by Muhammad Yunus (1999), Chambers (1993) Rural development, Putting the last first, David Ferrand et, al (2004)making markets work for the
poor only to mention a few, articles, papers and internet sources. With interviews and literature, I will be able to establish the impact of microfinance on the poor and a better understanding of grass root theories like social capital in the theoretical framework.

As mentioned earlier the reason for choosing to study the clients of Uganda Finance Trust is because the majority are women who are most vulnerable and marginalised in society. Secondly UFT is one of the pioneers’ of microfinance in Uganda. According to Uganda Finance Trust their mission is to provide unique financial services to low income groups in Uganda and these are mainly women.

This research methodology was designed in a simple way and conducted using a detailed questionnaire (semi-structured and informal interviews) to gather and systematically track the client’s responses on the impact of microfinance. The interviews were conducted in one week and a half (April 2006). However some academicians like Chambers (1983:7) are critical of the way rural research is carried out mainly by the young and inexperienced researchers who are not rural. He is of the view that fieldwork must be performed in the correct manner as prescribed by custom. He argues that the social anthropologist has to spend a year or so in the village to prepare, apply, analyse and the write up a questionnaire survey.

2.2 Sampling

According to Trochim (2005), Sampling is the process of selecting units (e.g., people, organizations) from a population of interest so that by studying the sample we may fairly generalise our results back to the population from which they were chosen.

The research was carried out in three sub counties namely Bbaale, Kitwe and Kitimbwa in mid April 2006 in Kayunga district in central Uganda. The respondents were selected in a largely random manner, but with regard to the individual’s ability to provide the types of information sought through each research instrument. These sub counties were selected purposely because of the density of the credit clients in the village. Secondly, the duration of the credit was considered an important ingredient to enable me to track the impact after a long period. This gives a better understanding if the clients have had their quality of life improved. This can be measured in several dimensions such as economic variables like their businesses,
registered increment in incomes, improved living conditions, keep her family well-fed and healthy, educate her children and also develop respect at home in her community.

**2.2.1 Interviews**

All the respondents interviewed were women and the household was the basic sampling unit. The sample size of 60 clients was interviewed on an individual household basis. The household level is relatively easy to identify. The selection of these villages was done in consultation with the loan officers though the selection of the interviewed clients was done by random sampling as already mentioned. I interviewed the Risk Credit Manager who was assigned to me by the UFT general manager. I did not use an interpreter because the two women who assisted me to interview and I speak the local language.

**2.3 Impact assessment**

Greeley (2003) identifies the following dimensions in impact assessment. He examines the poverty “credentials” of clients at entry and subsequent poverty reduction impact on clients and their families, by distinguishing between income poverty and all other dimensions affecting clients. The latter are put together under the heading of social impacts. These would include health, education and empowerment benefits. Another dimension of impact assessment is recognising that, as the scale of microfinance programmes grows, there are wider economic and social impacts, we also need to be concerned with these wider impacts and their effects on poverty for both clients and non-clients. In practice, it is difficult for MFIs, or anybody else, to provide a rigorous assessment of these wider impacts but in some circumstances they can be very significant. In this thesis, Greeley’s approach is more relevant to my thesis since I have focussed more on social indicators.

**2.4 Validity and reliability**

According to Trochim (2005) Reliability has to do with the quality of measurement. In its everyday sense, reliability is the “consistency” or “repeatability of your measures. Before one can define reliability precisely one has to lay the groundwork. First one needs to learn about the foundation of reliability, the true score theory of measurement. Along with that, you need to understand the different types of measurement error because errors in measures play a key role in degrading reliability (see, [http://www.socialresearchmethods.net/kb/reliable.htm](http://www.socialresearchmethods.net/kb/reliable.htm); 2006-05-05)
Validity in research means measuring what I think I am measuring whereas reliability means that applying the same procedure in the same way will always produce the same measure. Esaiasson, et al (2003) defines validity in one or three ways.

1. agreement between theoretical definition and operational indicators
2. absence of systematic mistakes and
3. that we measure that we say we measure.\(^9\)

Concerning validity I set out to measure the impact of microfinance services among the rural poor women and the questions in the questionnaire were clear though they were framed in English. After a few test interviews I had to add one more concluding question as to whether UWFT has been of great help to the clients other factors remaining the same to strengthen what I am measuring (see, q.12 appendix).

Regarding reliability there were some difficulties in my field study. Firstly, it is very difficult to find out whether the clients are telling the whole truth about how much they have benefited. In most African countries like Uganda, one of the roles of the state is that of a tax collector. The clients may not give the whole truth for fear of being taxed. Besides this household matters are in most cultures considered private matters and as a consequence this might lead to valuable information being withheld. Another problem is that of taking a loan and invest in other things not mentioned in the loan application for example pay school fees are common features and yet the loan was intended to buy a cow. This cow was probably bought by the husband before. It may be difficult to get reliable information.

However, the way the interviews were conducted tried to minimise some of these risks as I had to triangulate data from different sources. There could have been a minimal risk even on the side of interviewers because it is always difficult to know whether the interviewers exactly presented the questions as intended. I tried to minimise any risk by discussing the questions in details, what was expected of them and discussed the thesis in general. I discussed the different approaches to interview. The place where the interview takes place is important for reliability of the investigation. In most cases we were forced to interview in their places of

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work as it would prove difficult to tell a client to close her business especially women selling in the markets.

The fact that some questions were sensitive in nature and too personal (such as questions as polygamous, who makes decisions) made me to moderate them in an indirect way before the interviews and I assured the clients that all information given was strictly confidential and was intended to help them to improve their services. Many clients on the first day were not receptive but eventually through intensive explanations, we managed to come to terms with them.

3 DEVELOPMENT THEORETICAL PERSPECTIVES

This chapter presents the theoretical framework of my thesis. It discusses briefly the mainstream approaches and presents an elaborative perspective of the grass root models.

How to pursue development has always been a contested issue. In the development debate, there are different arguments depending ones ideology for example the neo-liberals believe in economic growth which they argue will lead to the trickle down effects reaching the poor and the problem of poverty will be gone. However, it is not just economic growth that matters but the translation of growth into services for the people in order to promote their quality of life. The term development has no precise meaning. According to Hettne (1982:7) there can be no fixed and final definition of development, merely suggestions of what development should be an open ended concept, to be constantly redefined as our understanding of the process deepens, and as new problems to be solved by development emerge. After severe disappointments with mainstream models and their failure to deal with the problem of poverty, I see it most appropriate to focus on the bottom-up approach given the whole context of rural women operating in the informal sector and the majority being illiterates. The theories relevant to this study are grass root models like livelihood, participatory and social capital among others. My study requires models that create change, promote women participation in decision making, owning the process and make markets work for the poor and build their assets. Mainstream models contribute to understanding change and therefore irrelevant to this particular study. This study will focus on social capital theory which is mainly used by the poor without collateral in microfinance group lending. This theory is interrelated and interlocks with the livelihood and participatory models.
3.1 Mainstream approaches to development

According to theorists of the 1950s and early 1960s viewed the process of development as a series of successive stages of economic growth through which all countries must pass (see, Hettne 1982:31). Development was viewed in an evolutionary perspective. The state of underdevelopment was defined in terms of observable differences between rich and poor countries. It is widely believed that development implied the bridging of these gaps by means of an imitative process. Hettne made important observations in regard to the modernization theory as part of the larger evolutionary tradition, of which it forms the most recent tradition, conceives of social change as a basically endogenous process. The criticism with modernization paradigm is that underdevelopment and poverty had no place. There was only an original stage of backwardness, on which should follow a process which released the forces of modernization. It does not mention about economic growth, neither does it mention on income distribution in developing countries.

During the 1970s, international-dependence models gained increasing support among the developing country intellectuals (see Colman 1985: 54). The criticism with the dependency perspective has been retained as an explanation of the process of underdevelopment but has not been of much help to poor countries as to how to help them out of the poverty situation.

The 1980s have been a particularly characterized as the” ”lost decade” for Africa. In this decade, many countries witnessed much of the material progress of the previous years eroded out. When the crisis first emerged, the World Bank and IMF largely blamed what they viewed as ill-conceived economic policies of African governments for the crisis. Shivji (2005:1) quotes the World Bank argument of the cause of Africa’s troubles-that the villain of the declining economic performance in Africa was the state, it was corrupt and dictatorial, it had no capacity to manage the economy and allocate resources rationally, it was bloated with bureaucracy and nepotism was its mode of operation. They therefore prescribed policy reform: the IMFs stabilization programs included measures to cut the fiscal deficit, devalue what was typically an overvalued currency, and contract the money supply. Critics have argued that SAPs were short term measures which were used to solve long term problems and this was a big weakness for their poor performance

3.2 Alternative development perspective

Mainstream models of development and the policies based on them had been challenged for failing to address the question of mass poverty in developing countries. Brett (1993:100) cited Chambers (1986) who criticised western-based science and models imposed on the poor people who override traditional knowledge, use inappropriate forms and methods and require constant tutelage from outsiders who have limited knowledge and sympathy for local needs and skills. According to Todaro (2000:14) the persistent massive poverty signalled that something was very wrong with the narrow definition of development. Indeed, there is need to address the issue of poverty using “home grown” grass root development approaches which reflect the social, economic and political realities of poor underdeveloped economies.

3.3 Livelihood approach.

The livelihoods approach has attracted increased attention in research and policy in poor countries which usually depend on one income generating activity to support them. Rakodi citing Chambers and Conway (1992), a livelihood is defined as comprising the capabilities, assets required for a means of living citing (Carney, 1998,:4). He articulates further, coupled to this definition and based on the recognition of the importance of natural resource to rural livelihoods and the vulnerability that so frequently characterizes the poor rural households.

Rakodi (2002:11) articulates the following household livelihood assets, namely human, social, political, physical, financial and natural capital. At house, community and societal levels, the assets available are said to constitute a stock of capital. These include human capital, social capital (networks, membership of groups, relationships of trust and reciprocity, access to wider institutions of society), physical capital which includes productive and household assets, including tools, equipment, housing and household goods, as well as stocks and natural capital.

3.4. Participatory development

Baas (1997:1) and Mbilinyi (2003:55) have advocated a participatory development approach in the rural development debate. Baas defines participatory institutional development, in its broadest sense as process which mobilises locally co-ordinated collaborative linkages between these groups and other local and higher level institutions. Since the poor generally lack economic and physical capital, focusing on strengthening their social capital makes sense
as it is a pre-requisite for achieving sustainable collective action and useful in acquiring all other forms of capital. Participatory institutional development strengthens localised social capital accumulation processes by mobilising self-help capacities, progressive skills development, and local resource mobilisation (savings, indigenous knowledge) in order to improve ultimately the group member’s human, natural, and economic resource base and their political power.

According to Mbilinyi (2003:55/56) participatory institutional development is made of four interrelated cornerstones: Process, Empowerment, and Participation in decision-making, and Networking: This refers to the building-up of collaborative action among locally formed groups and their interaction. Brett (1993:100) articulates the benefits of participation. It strengthens managerial competence, the motivation and performance of workers, social and political solidarity and the relative position of poor and marginal groups in society.

3.5 Social capital

The concept of social capital has added a new input in the development debate. The nature of this input is aimed at achieving sustainable development at local decentralised levels. According to Ismawan (2000:7) the effort to alleviate poverty traditionally has used and was based on natural capital, physical or produced capital and human capital. Together they constitute the wealth of nations and form the basis of economic prosperity. His criticism is that the three types of capital determine only partially the effort to keep poverty at a minimal level but forgets to recognize the way in which the poor interact and organize themselves to generate growth and development. The missing link is social capital.

Rakodi (2002:10) defined social capital as “the rules, norms, obligations, reciprocity and trust embedded in social relations, social structures, and society’s institutional arrangements, which enable its members to achieve their individual and community objectives For social interaction to be termed “capital”, it must be persistent, giving rise to stocks (for example, of trust or knowledge) on which people can draw, even if the social interaction itself is not permanent. The collective resources are built up through interaction with other people outside the families. It includes trust as the main component, co-operative behaviour, helpful networks, and willingness to give and take and to participate in issues of common concern.
Baas (1998:1) refers to Social capital as the social cohesion, common identification with forms of governance, cultural expression and social behaviour that makes society is more cohesive and more than a sum of individuals- in short, to social order that promotes a conducive environment for development and solidarity. He argues that social capital plays an important role in encouraging solidarity in overcoming market failures through collective action and common pooling of resources.

However, serious questions need to be asked about what sorts of norms, networks and associations are to be promoted, in whose interests, and how they can best contribute to empowerment, particularly for the poorest women. Social capital is used as security in the group credit lending methodology. It is considered by many as the best way to reach the poorest who qualify for microfinance, and evidence indicates that group credit procedures are indeed easier to target at clients taking very small loans. Another potential advantage why social capital has become popular to the rural poor is that the association or trust is neither bought nor sold but freely shared.

Social capital is also seen as simultaneously contributing to financial sustainability, poverty targeting and women’s empowerment. The assumption underlying the paradigm is that social capital is inherently positive and beneficial and can be used by programmes without external intervention to build or increase it. However group credit has come under criticism in that the group may share joint liability in the event of one group member’s inability to repay is supposed to be covered by others in the group.

3.6 The poverty concept

The definition of what is meant by poverty and how it is measured and who constitute the poor are fiercely contested issues. In the poverty debate, stands the question whether poverty is largely about material needs or whether or it is about a much broader set of needs that permit well-being.

According to Sida, “Poverty has a multiple and complex causes. The poor are not just deprived of basic resources. They lack access to information that is vital to their lives and livelihoods, information about market prices for the goods they produce, about health, about the structure and services of public institutions, and about their rights. They lack political
visibility and voice in the institutions and power relations that shape their lives. They lack access to knowledge, education and skills development that could improve their livelihoods. They often lack access to markets and institutions, both governmental and societal that could provide them with needed resources and services. They lack access to and information about income-earning opportunities” (see, Sida: November 2005:14: ICTs for Poverty Alleviation).

Hulme and Mosley (1996:105) define poverty as not purely about material conditions. It also refers to other forms of deprivation, and the effects of innovative financial services on those who suffer from social inferiority, powerlessness and isolation are considered.

In order to discuss microfinance as a tool for poverty alleviation, it is important to understand the concept of poverty both at a micro and a macro level. It is not enough to define poverty in terms of basic needs only because this is likely to omit other important components therefore focusing at poverty as a single sided problem. It is necessary for microfinance institutions (MFIs) to embrace broad aspects of economic development.

3.7 Robert Chambers

According to Chambers (1983: 112) the poor are poor because they are poor. Their poverty conditions interlock like a web to trap people in their deprivation. Poverty is a strong determinant of the others. The causes of poverty are many and must be attacked from all fronts to save the poor from the poverty trap. Poverty contributes to physical weakness through lack of food, small bodies, malnutrition leading to low immune response to infections and inability to reach or pay for health services. Chambers has recorded the many forms of deprivation that very poor people identify themselves as experiencing that are not captured by income-poverty measures. These include,

1. Poverty is a strong determinant of the others. Poverty contributes to physical weakness through lack of food, small bodies, and malnutrition. There are inability to pay for health services, to isolation because of inability to pay school fees for children to go to school, to vulnerability through lack of assets to pay expenses or to meet contingencies and powerlessness because of lack of wealth goes with low status.
2. *The physical weakness of a household contributes to poverty in several ways: through the low productivity of weak labour through an inability to cultivate larger areas or work long hours, through lower wages paid to women and to those who are weak. It sustains isolation because of lack of time or energy to attend meetings.*

3. *Isolation (lack of education, remoteness, being out of contact) sustains poverty, services do not reach those who are remote, illiterates cannot read information of economic value, and find it difficult to obtain loans. Isolation means lack of contact with political leaders and therefore misses government development policies.*

4. *Vulnerability is part of the many links. It relates to poverty through the sale or mortgage of productive assets, to physical weakness because to handle contingencies, time and energy have to be substituted for money, to isolation through withdrawal.*

5. *Powerlessness contributes to poverty in many ways, not least through exploitation by the powerful. It limits or prevents access to resources from the state, legal redress for abuses and ability to dispute wage or interest rates, and only feeble influence on government to provide services for the poorer people and places. They are powerless to demand what is meant for them and cannot attract government aid, schools, good staff or other resources.*

### 3.8 Microfinance and poverty

The majority of the poor in Uganda especially women lack access to the basic financial services which are essential for them to manage their lives. The poor are excluded from the opportunities of financial services than the informal alternatives that are considered unsuitable. Microfinance is therefore considered as a vital tool break the vicious circle of poverty which is characterised by low incomes, low savings and low investment. According to Hulme et al (1996:1) most institutions regard low-income households as “too poor to save”. In order to generate higher incomes, savings and more investment, there is need to inject capital in the form of microfinance. However capital is only one ingredient in the mix of

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factors necessary for a successful enterprise. Most importantly it requires entrepreneurial skills and efficient markets to reduce poverty.

According to Ismawan (2000:4) the real idea of microfinance is to help the weakest member of civil society who in this case is the poor. However Roth (1997:6) has another view. He argues that microfinance programmes often treat the symptoms and not the causes of poverty. Poverty is frequently the result of powerlessness. The proponents of microfinance programmes as a panacea of poverty ignore the complex matrix of power relations that circumscribe the capacities of the poor to run micro enterprises.

However Roth (1997:6) argues that credit is only one ingredient in the mix of factors necessary for a successful enterprise. He is critical of the microfinance evangelists who create a vision of the rural poor as a collection of budding entrepreneurs, waiting for salvation from credit agencies, which on receipt of credit, will develop successful micro enterprises and leave poverty forever. Their promotional activity gives rise to worrying spectre of a return to a “blueprint”, implicit in the new microfinance approach to development. To respond to a potential demand for a good or service, a rural micro-entrepreneur may need access to one or more of the following: transport, communications, power, water, storage facilities, a legal system for enforcing contracts and settling disputes. Apart from infrastructure, micro entrepreneurs need access to information about market trends and skills to run their macro enterprises. Roth cites Weber (1958) who argues that hard work, skills and enthusiasm are essential ingredients for an enterprise to be successful. Non-numerate people struggle to start enterprises by themselves as it is extremely difficult for them to keep track of the flows of income in their enterprise.

Ismawan (2000:5) calls for differentiation between two categories of the poor. Some are able to increase their income by themselves, create activities that would enable them to move closer to or above the poverty line. Those in the second category are unable to do so and would need permanent financial support from microfinance. The latter category would include the poor who have no capacity to undertake any economic activity, either because they lack personal skills or because they are so destitute that they are in no position to develop

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12 Roth James (1997) The limits of Micro Credit as a Rural development Intervention- paper prepared for institute for Development Policy and Management- Manchester University, p 6
13 Roth James (1997) The limits of Micro credit as A Rural Development intervention, p 6
any meaningful economic activity in the environment in which they live. Those in the first category are described as the “entrepreneurial poor”. The entrepreneurial poor do not need assistance for themselves, but they do need help in setting up an activity that will eventually increase their income. In particular they need assistance in accessing the resources to develop this activity, and to some extent managerial assistance. The non-entrepreneurial poor require direct assistance to survive.

The transfer of resources in terms of credit does not only give the poor access to resources but also the economic empowerment and increased self-reliance\textsuperscript{14}. The goal of MFIs as a development organization is to service the financial needs of unserved or underserved markets as means of meeting development objectives. Ledgerwood (1999:34) identifies the following objectives in development offered by MFIs which include the following among others, to reduce poverty, to empower women or other disadvantaged, population groups, to create employment, to help existing businesses grow or diversify their activities, to encourage the development of the new businesses.

There is much debate in the field of microfinance as to whether access to financial services benefit the “the poorest of the poor”. It has been argued that while there are now many credit institutions serving the poor, there is less experience of successfully serving the very poor, the destitute, and the disabled\textsuperscript{15}

3.9 To help the poor out of poverty

It is argued that stimulating economic growth, making markets work better for the poor and building their capacity is the key out of their poverty situation. There is need to change the whole context of the lives of the poor and economic activities which do not produce enough surplus to lift their standard of living. Some critics argue that the necessary infrastructure has been put in place in some areas for microfinance to trigger economic processes but very little success has been recorded which makes the problem of poverty and the poor very tricky.

Capital in terms of microfinance is just one factor which requires other factors access to markets, information, and training of any kind, business development skills and business

\textsuperscript{14} Albee Alana, (1994) Support to Women’s Productive and Income generating activities (paper) UNICEF, p n.g

\textsuperscript{15} Hulme and Mosley (1996)Finance Against Poverty, p 2
networks and entrepreneurial skills. Indeed, microfinance is not a panacea to the problem of poverty but improved access to capital and other financial services are significant to the poor. The problem is that market failures weaken the effectiveness of microfinance.

According to Ferrand, et al (2004:11) he argues that functioning markets is critical for poverty alleviation. The danger is that it does not work effectively for the poor. Ferrand outlines three steps for the markets to work namely, understanding markets, focusing on factors that inhibit their improved performance and opportunities for their development, developing a vision of the future, a picture of how markets can work effectively, and acting to build markets, to make markets more effective and inclusive. According to Copestake (2002) microfinance has a polarizing effect as there is discrimination in favour of richer clients, who benefit from better access to credit, and exclusion of poorer people. If one of the aims of microfinance is to assist the “poorest of the poor” the microfinance is not always the most appropriate intervention.\footnote{Roth James (1997) The limits of Micro Credit as a Rural Development Intervention, p 6}
Marek Markus (2003:236) in his research on how the social capital findings relate to micro-enterprise development and specifically to microfinance used Robert Chambers (1983) literature to help him to put together the “poverty trap”. Marek argues that poverty is a complex web of disempowering relationships, which don’t work. Households trapped in this spider’s web suffer from material poverty, vulnerability, powerlessness, physical weakness, isolation and spiritual poverty. Therefore, addressing the problem of material poverty through microfinance services is vital and critical, but it will not be enough for the poor households to escape from the poverty trap. Marek argues that it is not possible to neglect other aspects of human nature and the multi-sided nature of poverty.

4. MICROFINANCE CONTEXT

At independence in 1962, Uganda boasted with a relatively buoyant economy and effective social economic infrastructure. The rapid economic growth came to abrupt end when Amin took over power in a military coup in 1971. Uganda’s economy which was dominated by agriculture controlled by small peasants stagnated. This coupled by poor leadership and civil conflicts in the later years led to the deterioration of the economy. The economy was at the verge of total collapse in the late 1970s with massive shortages of even the most basic hand tools. The vacuum in leadership left after the fall of Amin in 1979 increased the level of insecurity and consequently weakening attempts to pursue economic reforms and stabilise the economy. However after the NRM government took power in 1986 pursued further the IMF/World bank macro economic policies.

Uganda has experienced impressive economic growth rate averaging 6.5% per annum since 1991/1992. At the same time, the structure of the economy has been changing positively as a result of donor sponsored macro economic policies. Despite the macroeconomic reforms and relatively high growth rates, Uganda remains one of the poorest countries in the world.

The country has made little headway in the fight against poverty and there a general
consensus that at least over 50% of the population lives below the poverty line. Its economic prospects are threatened by a variety of factors among others the heavy donor dependency (half Uganda’s budget is donor financed through budget support), the perpetual civil conflict in northern Uganda for the last 20 years resulting in heavy military spending.

A close analysis reviews that rural underdevelopment remains a fundamental issue of overall underdevelopment. The majority of Uganda’s poor who subsist on less than one dollar a day live in rural areas and the majority are women. Poverty is mainly wide spread in rural areas. The impoverished, underfed population also live in the rural areas of Uganda and will live there for several decades in pervasive poverty if the issue is not given the necessary attention. In Uganda peasants and small holders are a fundamental source of supply of food. In this case, the problem of rural development becomes important with that of agricultural development. What needs to be questioned is the nature of this economic growth which has failed to translate in improved welfare to benefit the rural poor women.

4.1 Financial markets

In order to mobilise capital, the Uganda government has realised the need to develop capital markets. Financial services do not only play an important role in an economy but also the pace and pattern of rural development are influenced by the efficient functioning of markets. The role of the financial sector from the financial markets perspective is crucial because it encourages productive use of resources and to enforce contracts. It helps to mobilize and allocate resources, co ordinate savings and investments. It is widely believed that both the formal and informal financial institutions represent one of the most important institutional infrastructures necessary for the effective operation of the markets. The existence of efficient financial markets is a security or insurance against future shocks and vagaries of nature. It facilitates and intermediates between investors and savers leading to capital formation both in group and at individual levels. It has been argued that capital investment is a key factor in determining economic growth and raising income, but capital markets in developing countries do not, in a state of nature, work well\textsuperscript{20}.

\textsuperscript{20} Hulme & Mosley (1996) Finance against poverty, p 1
It has been argued that capital markets will improve domestic resource mobilisation and consequently promote its efficient use. In most African countries, the government has been responsible for the financing of the public sector using mostly donor resources. The inefficient financial markets can constrain economic development because of limited access to financial services like credit and insurance. Mpuga (2004) argues that financial markets in developing countries are largely underdeveloped and therefore lacking in depth, highly inefficient in their operations, concentrated in urban areas and dominated by a few, often foreign-owned commercial banks\(^{21}\). The formal financial institutions are not attracted to service small borrowers and savers due to high transaction costs and they do not provide insurance options through state contingent contracts.

### 4.2 Informal finance

According to Beijuka (1999:2/3) the informal financial sector consists of a large number of small, non-registered micro-finance service providers, including loans to relatives and friends, money lenders and a network of savings and credit cooperatives. Providing the poor the financial services is one of the ways to help them increase their incomes. The formal system requires collateral and it has complex legal and operational procedures, involving lot of paperwork. Credit disbursement is time consuming and the stigma attached to the poor people so that the bankers do not think them credit-worthy and their recovery rate unsatisfactory. This has left the poor with little room for manoeuvre.

Lack of savings and capital make it difficult for many poor people to undertake productive employment generating activities. In response to missing credit markets for the rural poor, microfinance institutions (MFIs) have attempted to bridge the gap by extending small loans for income generating purposes. Informal finance involves savings, borrowing and lending activities. It also involves short term small loans and deposits, operates without collateral, provides easy entry and quick access to credit and is not regulated by formal laws. Informal finance caters to specific needs of clients, and the funds are locally generated and circulated within the group or community. In most low-income countries, informal finance thrives because formal financial systems often exclude the poorer sections of the society.

\(^{21}\) Mpuga Paul (2004) Demand for credit in Rural Uganda, p 2
The informal system has advantages for example the credit disbursement is easy and relatively quick. No collateral is required and there is least paper work. Credit can be given for any activity, especially for consumption and emergency purposes without any complication. Credit is usually given for non productive purposes as well\(^\text{22}\).

4.3 Markets and the poor

It has been argued that the role of the markets is critical to understanding and addressing poverty. Different types of market situation impinge on the lives of the poor on daily basis, for example factor markets of labour, land and financial services, commodity and product markets (such as agriculture), services markets (such as infrastructure and business services), and markets for services that are traditionally seen as more public in nature (such as water)\(^\text{23}\). Ferrand, et al (2004) argues that countries that have succeeded in reducing poverty have used and shaped markets to provide for the right conditions- jobs, opportunities, services, information-to allow people to raise their incomes. Furthermore, markets are at the heart of a successful economic growth because markets offer the means through which poor people can participate in economic activity. Several problems have been identified that hinder the role of markets in Uganda like accessibility to banks, the distance from rural areas to urban centres where banks are located is long and expensive for the poor, know-how, how to open a bank account or providing references from existing account holders may present even greater constraints than the real distance, the personality of the poor, they have low esteem, their literacy level is too low for the formal bank systems and lack of the collateral that the formal banks demand.

4.4 Target groups

The clients of microfinance are mainly female households, small farmers and micro-entrepreneurs. Targeting women has always involved efficiency considerations because of high female repayment rates and contribution of women’s economic activity to economic growth. The targeted individuals are categorised as “the poor”, even when a division into different kinds of poor is made: “destitute, extreme poor, moderate poor and vulnerable non-poor\(^\text{24}\)”. The representation of poor people and how they are benefiting from microfinance services implies homogeneity. Liljefrost (2005) argues that categorising the poor is

\(^\text{22}\) Singh Naresh (yr, NG) Building Social Capital Through Microfinance, p 2
\(^\text{24}\) Liljefrost Emilia (2005) same as below, p16
unsatisfactory and not very informative. Furthermore, it does not explain how people come to find themselves in an economic situation that corresponds to these labels. The emphasis lies with what methods and designs have to be created depending on which group of the poor- out of the four categories- that is targeted.

4.5. Group lending

Group-based microfinance programmes usually favour the very poor without collateral. It is seen to have significant benefits for women, contributing not only to poverty alleviation, but also to women’s empowerment. It is argued that savings and credit provision in itself is assumed to contribute to a process of individual economic empowerment through enabling women to decide about savings and credit use. At all these levels, group-based programmes are assumed to build “social capital” through developing and strengthening women’s economic and social networks. Social capital is therefore seen as simultaneously contributing to financial sustainability, poverty targeting and women’s empowerment. Group lending, often five in number, organize themselves into groups that offer joint liability for member loans.

4.6 Individual lending

These are the loans given on individual basis: Individual lending is more flexible, but minimum loan sizes are almost always larger by members of credit groups. Within broad limits, loan sizes and tenors are negotiable, tailored to the borrower’s activity. Loan amounts and maturities increase as the borrower demonstrates prompt repayment and acceptable loan use. It has been argued that group credit arrangements tend to deteriorate over time, while individual lending can go from strength to strength if good institutions are in place to provide incentives for repayment.

4.7 Microfinance and women empowerment

The issue of women’s empowerment has been at the centre of discussions on planned interventions for poverty alleviation. Microfinance programmes mobilise and organise women at the grassroots levels. It is generally argued that micro-credit plays a vital role in bringing

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26 Mayoux Linda (article: 438). Tackling the Down side: social capital, women empowerment and MF in Cameroon .p n.g
about changes in the rural women’s standard of living. It is widely believed that an empowered woman would be one who is self-confident, who critically analyses her environment and who exercises control over decisions that affect her. Many women’s organizations in developing countries have included credit and savings, both as a way of increasing women’s incomes and bring women together to address wider gender issues.\textsuperscript{27}

Women empowerment in developing countries like Uganda is understood in a context where women take control and ownership of their lives. These are the three core elements of empowerment. The first one is agency or ability to define ones goals and act upon them. However, evidence from participatory studies shows that although the affirmative action policy that government is pursuing is showing some positive results. The second is gender awareness which means that women should be aware of the forces and structures working against them. The third is self-esteem and self confidence. Women are a vulnerable group, subordinated and subject to different kinds of oppression which makes them see their own powerlessness as natural or justified (See, poverty eradication action plan 2004/5-2007/8:29).

5 UGANDA

The purpose of this chapter is to give a brief overview of the geography, economy, and dimensions of poverty and government microfinance. These reason I give overview of the following areas is because of its relevance to this study.

5.1 Geography of Uganda

Uganda is a small land-locked country with a surface area of 241,000 square kilometres, of which about 20% is covered by fresh water. Uganda enjoys a tropical type of climate. It borders Democratic Republic of Congo in the west, Rwanda in the south west, Tanzania in the south, Sudan in the North and Kenya in the East. The altitude is between 4,000 and 5,000 feet above sea level.\textsuperscript{28} Uganda gained its independence in 1962 after many years under the British colonial rule. At independence, the country boasted not only one of the continents most buoyant economies, but also one of its most effective social and economic infrastructures.

\textsuperscript{27} Mayoux Linda: (Yr. N.G) paper: microfinance and the empowerment of women: A review of key issues
\textsuperscript{28} Beijuka John (1999) Microfinance in Post Conflict countries: The Case Study of Uganda.p1
5.2 Economy

On the economic front, Uganda can in fact, boast on its impressive economic growth averaging 6.5% per annum since 1991/92. At the same time, the structure of the economy has been changing as the share of agriculture fell from 51% in 1991/2 to 39% in 2002/3. The share of revenue in GDP in Uganda is relatively low, at 12.1% 2002/3. Revenue generation is hampered by the large size of informal sector, the unreliability of data and unequal income distribution. Overwhelmingly agricultural, with coffee as the mainstay, other important cash crops in the economy were cotton, tobacco and tea.

Poverty is most pronounced in rural areas. Women are the most affected by poverty because women have less access to education and income than men. Poverty is aggravated by high population growth rates. Women’s awareness and access to family planning controls is limited resulting in extremely high birth rates. With a GDP per capita of 332 dollars, Uganda is still among the lowest layer of low income countries. Household studies and official statistics show that the number of poor fell from approximately 55% in 1992 to 44% in 1997\(^\text{29}\). However, poverty continues to be more wide spread than GDP/per capita indicates particularly in northern Uganda. AIDS epidemic, has fallen to 39 and 40 for men and women respectively. The overall performance of the economy, as measured by real Gross Domestic Product (GDP) at market prices, increased by 5.8% for the financial 2003/04\(^\text{30}\).

5.3 Dimensions of poverty in Uganda

It has been argued that the people of Uganda are amongst the poorest in the World. While the majority of the poor are found in rural areas and employed in agriculture, only a few are involved in self employment activities as means of generating income. Poverty manifests itself in many ways. It is not just lack of income. Poverty can be defined as the inability to satisfy a range of basic human needs, and stems from powerlessness, social exclusion, ignorance and lack of knowledge, as well as shortage of material resources. The different dimensions of poverty reinforce each other. Powerlessness is seen in terms of lack of participation, voicelessness, unmet aspirations, gender discrimination and poor governance as illustrated by the following voices.

\(^{30}\) Background to THE BUDGET for Financial Year (2005/06) (UGANDA) p1
“It is only the chairman whose voice can be heard. In meetings I can’t speak because I don’t have money. I can’t concentrate or talk…. the voices of women are down… Women cannot talk in front of men … When I am poor I cannot speak among the middle class, they shut you down” (see, Uganda Participatory Poverty Assessment Process (UPPA)-National Report December (2002: 10).(See also, Appendix 1)

5. 4 Government and microfinance

The government is aware and concerned with rural poverty. It is concerned about lack of savings mobilization and credit needed to cater for the needs of the poor in rural areas. The biting poverty and the existence of unanswered needs at local level indicate that there are limits beyond which the banking system has not been able to go. In Uganda the government has in the past relied on state-owned banks to extend rural credit and microfinance services like the Rural Farmers Scheme in 1987 was run by the Uganda commercial Bank. It has been argued that the government failed to realise its objective because cheap loan disbursements were made to the politicians instead of the poor and as a consequence the scheme collapsed.

The government has embarked on tackling rural poverty through micro programmes. These include among others Bonna Bagaggawale (Prosperity for all) and entandikwa scheme (see NRM manifesto 2006 p, 97). The”entandikwa loan scheme” (start capital) a government intervention started in 1996/7 with a total capital of Uganda Shs 9 billion was put in the scheme to function as a revolving fund (see NRM manifesto 2006 p, 98). It ran into serious difficulties, largely of political and administrative nature. Politically the local councillors feared to recover the loans for fear of being politically unpopular and therefore running a big risk of re-election. The entandikwa cheap credit leaked to the relatively richer rural households and the subsidy dependence of these institutions required regular injection of government and donor funds. Mpuga (2004:2) cites (Republic of Uganda, 2000b) that these government-provided credit schemes have been plagued with a culture of default and the presence of political interest, which limit their efficacy even if, as in the case of the entandikwa the credit scheme were otherwise well intended.

6. UGANDA WOMEN FINANCE TRUST LTD

Uganda Women’s Finance Trust was founded in 1984 with a mission to economically empower disadvantaged women in Uganda, to be a Non-Governmental and Non-Partisan
Organisation and shall be governed by its constitution. UWFT was to realise its mission through the delivery of an integrated package services, which included awareness creation, savings mobilisation and credit. Uganda Finance Trust Limited was incorporated in 2004, and licensed as a Micro deposit taking institution by Bank of Uganda in 2005. It was formed as a share based for Profit Company, to assume the financial services business of Uganda Women’s Finance Trust Limited (UWFT). Over two decades ago, banks were reluctant to serve the low income people especially the women because they were considered unbankable. So a group of professional and business women formed UWFT as a not-for-profit Company in 1984. Since then it has been proven that the low income people are bankable and are excellent customers. Today UWFT has grown and is not only serving women but providing financial solutions to the entire family.  

6.1 The vision of UWFT

The vision is that low income people should have access to financial services and women empowered in a sustainable manner. The mission is to provide unique financial services to low income people in Uganda especially women, to build their capacity and to enhance their social and economic status. The objectives are both strategic and specific. The specific objectives include among others, to promote best practices in the microfinance industry and within Micro Small and Medium Enterprise (MSMEs), to provide advisory services to the financial services providers and their customers. The strategic objective is to promote the better health and livelihoods of specific vulnerable groups.

6.2. Core values of UWFT

Uganda Women Finance Trust has core values. These include the Equity and Gender Parity- UWFT is committed to the elimination of marginalisation of individuals and peoples, due to their gender, origin or social status, low income women as entrepreneurs and change agents, integrity- UWFT shall promote and uphold integrity in all its operations, focus on results and creating value, voluntarism- UWFT shall at all times expect its members and employees to be primarily motivated by compulsion and commitment to uphold human rights and philanthropic spirit to serve the under privileged and not their interests, financial or otherwise.

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31 UWFT brochure is the source of vision & mission, core values-objectives were from the UWFT constitution.
6.3 Target market and outreach

UWFT criterion for selection of the target segment for inclusion in microfinance program is a viable economic activity. Program estimates include, 70% of clients are women, 30% are men, 22,000 borrowers, 80,000 savings account holders (these numbers are staggering). Currently UWFT has a branch network of 21 branches concentrated mostly in the Central, Eastern and Western region of Uganda. The Northern region has not been reached because of the civil conflict and insurgency in the region.

6.4 Lending

Group lending constitutes 10% of the clients while individual lending constitutes 90%. The reason given as to why individual lending dominate is because of the fear of a member of the group to default. Second, most clients seem to be empowered when they join and can manage as individuals. The concept of group lending is that of a group of borrowers usually 5-10 people organise themselves into groups that offer joint liability for member loans. If one fails to repay, all members are liable to pay. Failure would mean that all members are denied future loans. Group loans range between 250,000-750,000 shillings and according to Bank of Uganda regulation, this amount lent in a group should not exceed 5% of core capital. Loans given to groups are usually short term loans and these are better since repayment is made faster. Individuals can borrow from 750,000 shillings and above but should not exceed 1% of the core capital. Interest charged is 2.5% monthly and 30% per annum subject to market changes. With salary loans it is 3% monthly which is a bit expensive.

6.4.1 Lending procedure

Lending is open to all especially the rural poor but the most important criterion for selection of a client must have a viable income generating activity. UFT supplements on the available resources which means that a client must have a stake or a contribution and the rest of the resources are supplemented from UFT. Before a loan is granted, the client must make an application indicating the amount and the business to be done. The loan officer will visit the client to explore the relationship, (use the principle of know you client) verify and conduct

32 Source: interview with Risk Credit manager, it includes lending procedure, training, outreach, lending and financial sustainability
business appraisal, engage a client in the business discussion. The loan officer will evaluate the intended investment and the collateral to the loan in case of individual lending and takes the photos.

After the loan officer appraises the client, he/she takes the report to the rural branch committee to approve. The branch committee approves between 0-3 million shillings and above 3m shillings is decided by the committee sitting at the head office. To minimise the rate of default, the loans are attached to some form of collateral like a house, land title, TVs, sofa sets, and other available valuable assets which have a psychological attachment. Second, the client must be certified by the local councils (LC 1) that she/he is a permanent resident of the area. Third, it requires third party references to act as guarantors and in case of default the guarantors must be liable or help to locate the client.

UFT clients businesses include, retail shops, grocery stores trade in charcoal, fish, matooke (banana) tailoring, poultry production, hair saloons, old clothing and dairy farming among others.

6.5 Training

The clients especially those in group lending undergo training for about a month in the entrepreneurial skills, book keeping accounting and loan deposits and administration. They are trained to appreciate what is expected of them with their loans like optimum exploitation of loan use, savings, deposits and loan repayment. Before the initial loan is disbursed, all clients must attend some training which explains the rules of membership, savings requirement and penalties for late payment.

6.6 UFT financial sustainability

Financial sustainability is a vital component in microfinance operations. This is because the client will be sure to access another loan cycle. UFT enjoys assets worth 19 billion Uganda Shillings. Of this amount, loans constitute to 13.3 billion Uganda Shillings and approximately
8 billion Uganda shillings are savings\textsuperscript{33}. UFT has 200 employees of which 60\% are women employees.

The source of some of this information about UFT is retrieved from the interview I made at the UFT head office with the credit risk manager Patrick Muhindo.

7 MICROFINANCE IN KAYUNGA DISTRICT

The research in this chapter of the study was conducted primarily in three villages of Bbale, Kitwe and Kitimbwa in Kayunga District. Before I give the details of the research findings, I will give a descriptive picture about Kayunga district.

7.1 Kayunga district.

Kayunga is a cosmopolitan district that evolved from Mukono district. It is located in the central region of Uganda with a total surface area of 1 803 187 sq km. The district borders with 6 districts with Apac in the North, Mukono in the South, Luwero and Nakasongola in West and Jinja and Kamuli districts in east. Kayunga has a total population of 297 081 of which 144 609 are males and 152 472 females. It has an annual average temperature of 19c-

\textsuperscript{33} 1 US $=1820 Uganda shillings
25c with average rainfall of 1000mm-1200mm per year over two main rain seasons (March-May and August-November).

### 7.2 Economic activities

Agriculture is the backbone of Kayunga district and constitutes 90% of the total labor force. Kayunga district depends on agriculture as a source of income. The climate, fertile soils, bimodal rainfall which peaks in March-May and October-November and vast lands makes agriculture one of the best options for Kayunga’s population.

With the Savannah type of vegetation, the major economic activity and the main source of income of Kayunga is farming although recent tourism has come in. Kayunga practices mainly two types of agriculture i.e. Crop husbandry and Animal husbandry or Livestock. Bbaale County that is located at the Northern part and that is in the cattle corridor practices mainly livestock. This is where Cattle keeping, Goat rearing, Sheep and Bee keeping are practiced while the Southern part, that is Kangulumira, Nazigo, Busaana are actively involved in commercial and subsistence agriculture. Today, 88% of the population is engaged in production of pineapples, watermelon, cassava, matooke maize, millet, potatoes and passion fruits. Most of these agricultural products have ready markets both locally and to external markets.

### 8 What is the impact of microfinance on household welfare?

The impact of the program has been manifested in education, health, nutrition, accommodation and in savings mobilisation. One of the components of the program is a requirement to save on a regular basis. The clients were asked if they had personal savings excluding the forced loan guarantee. The figure below reflects that the majority of the clients (87%) responded to have personal savings while 12% said they had no savings. The loan guarantee savings is 15% of the loan amount partly contributes to savings. If a client get a loan of 250 000 Ushs (US$ 137), will deposit a loan guarantee of 37 500 Ushs (21 US$).
Again with regard to savings, the clients were asked whether their savings in the last 12 months had increased, decreased, remained the same and the response is demonstrated in the figure below which shows 66% having increased savings while 18% said it decreased and 16% said it remained constant. The loans acquired by clients are mainly short term loan and to avoid accumulated interest, the clients are encouraged to make regular savings and this partly explains the increment because they work hard. The main reason given as to why people save is to enable women in case of severe crisis and to cope up with the shocks; savings can provide protection against risks, used to acquire another microfinance cycle and also to expand the existing economic activities. However some clients prefer to save in physical assets such as land, TV, radio, sofa set, houses and other valuables after the obligatory loan guarantee savings.

Chart 2.2 Savings in the last 12 months

Source: Fieldwork Kayunga (2006)
8.1 Income generation

The generation of income is another ingredient and the majority of the client’s interviewed responded positively that they had registered 77% increment in incomes as shown in the figure below while 11% noted a decrease, 7% remained the same and the 5% never answered to this question or gave another answer. The clients were asked if their incomes had increased, decreased, remain the same or any other; the majority responded that their incomes increased. Business profits are an important income source for all groups. Those who run big businesses like dairy farming have higher incomes than for example women selling fish in the market.

*Chart 2.3 Income over the last 12 months*

<table>
<thead>
<tr>
<th>Has your income over the last 12 months...</th>
<th>77%</th>
<th>11%</th>
<th>7%</th>
<th>5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decreased</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remain the same</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Fieldwork Kayunga (2006)

8.2 Education

There are different questions asked to the clients about their children’s education. The first one sought to find out how many children are in the household who were in the school age (4-17 years of age) and how many attended school both boys and girls. The reason I asked this question is because girls are usually discriminated against when it comes to education which is not usually the case with boys. The findings are that boys as well as girls attend school in almost in all the households attend school except a few. The reason given for children not attending school was simply that they refused probably because they lacked the motivation to go to school. Many of the clients interviewed have almost enrolled all their school-age children in school even if some clients credited the universal primary education having helped them. But all the same children under the Universal primary education system are not fully
catered for in all ways so that the clients had to fill the gap. Many clients praised UWFT which has given them a push to cater for their children.

**8.3 Basic information**

I will start briefly by giving a picture and the general characteristics of the poor women clients served by Uganda finance Trust. The household was defined as all members living in the house at the time of the interview.

*Table: 1.3 shows the composition of women clients interviewed in the study*

<table>
<thead>
<tr>
<th>Marital status</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married</td>
<td>43</td>
<td>72%</td>
</tr>
<tr>
<td>Widow</td>
<td>8</td>
<td>13%</td>
</tr>
<tr>
<td>Single</td>
<td>5</td>
<td>8%</td>
</tr>
<tr>
<td>Others (did not answer)</td>
<td>4</td>
<td>7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>60</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Fieldwork Kayunga (2006)

Most of the clients of Uganda Finance Trust interviewed in the study are married women as shown in table 1.3 and the constitute 72% out of the total number of 60 clients. They are followed by the widowed women, followed by single women while 7% never revealed their marital status.

*Table: 1.4 Accommodation and utilities*

<table>
<thead>
<tr>
<th>Accommodation</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owned</td>
<td>33</td>
<td>55%</td>
</tr>
<tr>
<td>Rented</td>
<td>24</td>
<td>40%</td>
</tr>
<tr>
<td>Sharing</td>
<td>2</td>
<td>3%</td>
</tr>
<tr>
<td>Others</td>
<td>1</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>60</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Fieldwork Kayunga (2006)

The majority of the clients interviewed own their houses (55%) as indicated in table 1.4 and even have electricity and water connection in their houses. While 40% rent their accommodations, while the 3% are sharing and the 2% never revealed their accommodation status.
A question was asked to the clients about how many boys are in the household and they responded as follows. In eighteen of the households interviewed there is one boy, while in ten households there are two boys, nine households there are three boys, six households there are four boys, three households there are five boys while in three households there are six boys.

The above chart explains the number of girls in the household as indicated in the household frequency. In nineteen households there is one girl each, two girls in fourteen households, three girls in eleven households, four girls in four households, and five girls in the last three households.
**Chart 3.3 shows total children in the Household**

Source: Fieldwork Kayunga (2006)

The chart 3.3 shows the number of children in the household both girls and boys and a majority of the clients interviewed did not have big hinders to maintain their households after being facilitated by Uganda Finance Trust.

**Chart 3.4 boys schooling**

Source: Fieldwork Kayunga (2006)

The question asked to the clients about how many boys are going to school and the response is indicated in the figure above for example in seventeen households one boy is going to school. Clients are doing reasonably better because all the households have the capacity to send their children to school using the generated incomes.
In the same way another question was asked to explore how many girls are going to school and indicated below showed that a big number did attend school.

Concerning how many children are going to school, a question was asked to the clients and the response was very positive partly because of their facilitation by Uganda Finance Trust and the Universal Primary Education. The response is indicated in chart 3.6 Three households have one child, nine households have two children, eleven households have three children, another eleven have four, five households have five, eight have six, three have seven, one has eight, one has nine and lastly one has eleven children.
A question was asked of how many children don’t go to school and the number is three children that don’t go to school and the reason that was given was not lack of school fees but the children simply refused to school probably they lacked motivation. The chart shows that in the three households there is one child who do not go to school and in another household, there are two children which do not go to school.

A question was asked whether the clients are able to educate their children, all the clients answered that they had the capability to do so send their children to school. On question number (12) all the clients were asked to comment their views whether Uganda Finance Trust has helped them. All of them were full of praises of the role of U F T in their lives and their answer was only Yes.

8.4 Health

Health is an important ingredient for protecting the productivity of the household’s effective use of the household resources. It is evident that most clients interviewed took household health as a critical issue for their continued well being. At least all the households had a sick person in the household in the last two weeks of the interview and the most prevalent illness in the household was malaria. This could have been because of the rainy season. All the clients could afford to visit health clinics and hospitals and also could afford to pay the medical expenses every time a member of the household could fall sick.
Chart 2.5 Sick in the Household

Has there been anyone sick in the household over the last two weeks?

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>47%</td>
<td>53%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Fieldwork Kayunga (2006)

A question was asked to the clients if the household had a sick person in the previous two weeks of the interview and 53% of the households responded that they had a sick person in the household and the majority mentioned malaria as a common sickness. This could have been due to the rain season. A question was asked to the clients if they can afford to pay their medical expenses. All the respondents answered 100% that they had the capacity to meet their medical expenses.

Table 1.5 Consumption Pattern

<table>
<thead>
<tr>
<th>Food</th>
<th>Quantity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matooke (Bananas)</td>
<td>43</td>
<td>72%</td>
</tr>
<tr>
<td>Posho</td>
<td>38</td>
<td>63%</td>
</tr>
<tr>
<td>Cassava</td>
<td>34</td>
<td>57%</td>
</tr>
<tr>
<td>Rice</td>
<td>27</td>
<td>45%</td>
</tr>
<tr>
<td>Sweet potatoes</td>
<td>26</td>
<td>43%</td>
</tr>
<tr>
<td>Maize</td>
<td>4</td>
<td>7%</td>
</tr>
<tr>
<td>Maize</td>
<td>1</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: Fieldwork Kayunga (2006)

The clients reported improved diet after joining microfinance service as indicated in the consumption pattern table. Many responded that they could afford to eat fish, meat, vegetables, milk, bread and butter which was not possible before joining the programme.

8.5 Can microfinance promote empowerment of rural women?

The women clients were asked whether participation in microfinance programmes has empowered them. The majority who answered to this question felt that their position in the family had been strengthened, had attained a real change in their lives and self–esteem when they compare themselves to that period before they joined microfinance. Many felt that they
can look after their children and educate them, afford a nutritious diet to the household and are no longer dependents on their husbands. Some women said that with the income they get, have managed to buy a plot of land and build a house while others said that their voices are heard in the household, their contribution in terms of income, their involvement in the decision making process has increased. On a business level, several women have managed to set up their businesses and run them. As a consequence of this their leadership and business skills have been enhanced. Generally, access to microfinance resources tends to improve women’s bargaining position within and outside the household.

Table 1.6 Measuring Empowerment

<table>
<thead>
<tr>
<th>Has your role in terms of income contribution increased after MFIs?</th>
<th>Percentages %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>87%</td>
</tr>
<tr>
<td>No</td>
<td>2%</td>
</tr>
<tr>
<td>Others (never responded)</td>
<td>11%</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Fieldwork Kayunga (2006)

Most respondents 87% said that their role of income contribution in the house increased after joining microfinance programmes.

8.6 Can microfinance savings reduce vulnerability and risks?

Risks and Shocks are common features in any business undertaking. Therefore the poor households have to deal with this challenge. It is in this vein a question was asked to the clients how they respond to the risks and shocks and if they had faced any major unexpected challenge within the household in the last 12 months that led to a financial burden in the household. The clients affected by shocks were 38% of which 33% used their cash savings to deal with crises, 7% borrowed from relatives, 5% sold their assets, 2% reduced their expenditure and 15% gave no answers.

What is interesting is that none of the clients mentioned having been helped by the obligatory insurance premium paid to Uganda Finance Trust. Another risk that clients mentioned having affected is when a member of the household falls sick for a long time especially with the problem of Aids pandemic. The social and economic costs involved are enormous. One client mentioned that after she had acquired her loan, her husband passed away and as a consequence used the money intended for business for burial expenses. This put her in trouble.
with UFT as she could not service the loan. As a result, she lost her collateral attached to the loan. Vulnerability focus on both the structural (exogenous factors like the impact of SAPs where clients have no control) and crisis factors related to negative impact facing the household and to deal with it is to increase the assets of the poor. The poorer households tend to use more of their savings to cope with risk and therefore able to reduce their vulnerability.

Table: 1.7 Strategies to cope with Risks and Shocks  
(Total Clients=60)

<table>
<thead>
<tr>
<th>Used</th>
<th>23</th>
<th>38%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowed</td>
<td>20</td>
<td>33%</td>
</tr>
<tr>
<td>Sold Assets</td>
<td>4</td>
<td>7%</td>
</tr>
<tr>
<td>Reduced expenditure</td>
<td>3</td>
<td>5%</td>
</tr>
<tr>
<td>Others (never answered)</td>
<td>1</td>
<td>2%</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Fieldwork Kayunga (2006)

9 ANALYSIS AND DISCUSSION

Today the solution to the poverty problem has been oversimplified in development studies despite being a broad and complex concept that requires a deep analysis. The proponents of microfinance argue that when you help the poor with microfinance, then the problem of poverty is gone for ever. However one has to be very careful with this type of argument because it ignores the fact that capital as a resource is just one factor of production which must be combined with other factors like entrepreneurial skills, well functioning markets, good feeder roads to transport merchandise and good communication among others in order to add value to it.

My theory of social capital and other grassroots models namely participatory and livelihood focus on social networks, trust, interaction and organization to achieve a common objective which in this case is poverty alleviation. Since the study is about poverty and the poor rural women, these theories provide the relevant framework to create change as the poor have to exploit their social characteristics and use it as their collateral. However the danger with social capital is that should one group member default the whole group is liable. This theory is commonly used in microfinance group lending and therefore demands a lot of financial discipline. There is a general consensus today that the mainstream models had failed to address the problems of poverty a sign that acknowledges that something was wrong with the narrow definition of development.
9.1 The Poor in poverty trap

The high levels of poverty prevalent among the rural poor women in Uganda has pushed them in the poverty trap where they are suffering from material poverty, vulnerability, powerlessness, physical weakness, isolation and spiritual poverty. It is argued that the poor rural people must help themselves out of the poverty trap. The problem they face according to some scholars is because of the shortcomings found in the poor themselves like laziness and lack of intelligence. Other scholars argue that poor people are poor not because they lack access to certain things like education but because the whole context for their lives and economic activities do not produce enough surplus to lift their standard of living. It is in this vein that poverty is viewed as a symptom or an indicator that something is wrong in the economy and fighting poverty has to be done using a holistic approach. It is argued that microfinance is a critical component to solve the problem of material poverty. However as already mentioned it will require the support of other factors including well functioning markets, entrepreneurial skills, and a proper functioning infrastructure like good feeder roads. Some critics argue that the poor may not benefit from the microfinance sector because the rich are exploiting them by putting them into a debt-trap of money lending system. They base their argument on the fact that MFI s have become too commercialised. This criticism is subject to debate as one should not forget that MFI s must also be self sustaining in their operations and one of the ways of doing it apart from donor funding are the various fees charged on clients. In my view I see a win-win situation between the borrowers and the lenders.

What is interesting to analyse in this study basing on the field survey is the type of the poor people coming for loans in MFI s. The question one can ask is whether the people served by MFI s or Uganda Finance Trust in particular are the poor people in Ugandan context. How does one position a woman client who runs a retail shop and comes for a loan to expand her business? These are not the poorest of the poor (the destitute). Instead they are those clients who are already empowered, having entrepreneurial skills just in waiting to pull the trigger to start economic activities or expand the existing ones. One can see a perception of a market driven system of the economy with clients who are ready to take risks by investing in micro enterprises.
9.2 Microfinance savings to reduce vulnerability and risks

It is true that microfinance savings can reduce vulnerability and risks as the majority of the clients have personal savings excluding the obligatory savings. This is the main reason given as to why people save is to enable them to cope with severe crises and vulnerability. Savings is critical as it can be used for the expansion of economic activities and another microfinance cycle. The problem is usually the general environment in which these women operate which has its demands. The savings can subjected to both family and extended family pressures which can make it difficult to save for long term purposes. Moreover these savings are in most cases short term savings and its intended aim may not be achieved. The fluctuations in savings do not only obstruct the efforts to cope with risks and vulnerability in times of crises but also the efforts to break out of poverty. Another problem with savings is that it lacks comprehensive details because some clients mentioned that they had joint accounts with their husbands. For one to draw a line of demarcation between savings accruing from the enterprise and that of the husband becomes complicated to measure in a quantitative manner. Moreover these savings were not established before starting the micro enterprise to give me the necessary data before and after to enable me to come with conclusive answers that the clients had really saved. In addition the clients lack written accounts. However the obligatory insurance premium is difficult to use in case of risks because of the long cumbersome process which forces the majority to resort to their savings or to borrow.

9.2.1 Income Increase

The women clients have reported an increase in their incomes. It is these incomes that can help clients to solve some problems of poverty, isolation, physical weaknesses as they can afford a good diet, powerlessness as now they acquire social connections, vulnerability as they can save and now able to deal with crises and as a consequence break the poverty trap. Much as the clients argue that there was an increase in their incomes, the problem I was not told to what extent and what percentage these incomes of individual clients rose. One cannot be sure whether income measured in this manner is credible. The clients are often exposed to fluctuating incomes which means that they rotate in and out of poverty. The issue that can attract debate is the duration of this income as to how long it can last. Such pervasive fluctuations affect savings and investment. As already mentioned the clients lack proper written records and how they separate business incomes from their private resources is also a
tricky issue which is difficult to measure. In the informal sector it is usually difficult to separate enterprise activities from household economics. It becomes complicated to measure incomes based on perception and not written records.

9.2.2 Impact of microfinance on household welfare.

The most positive impact of micro finance is registered in the education sector and the medical sector among others. Education is a human right and an important ingredient for any progress in any society. It contributes to the accumulation of human capital. Education is one of the important components to fight poverty, disease and ignorance. Critical is also the health ingredient for the well being of the client since a healthy client is more productive in society and resources that go to health if a client is not sick can be saved or invested in income generating activities, hence progress in society and out of the poverty trap. The positive impact is viewed in improved diet and accommodation which became better because of the intervention. The findings reviewed that both boys and girls attend school without discrimination. The evidence on the impact of credit on household’s children education is not well articulated. It becomes difficult to draw a line of demarcation between those clients who send their children to school using a government financed free universal primary education facility and their own resources.

9.2.3 Microfinance to promote empowerment of rural women

There are remarkable changes in the situation of women accruing to microfinance intervention. Women have had their voices strengthened, they have managed to set up their businesses and run them, they are no longer dependents on their husbands and their leadership as their business skills have been enhanced. They have gained more confidence that can enable them to stand in public and speak. Some of them have managed to join politics and have been elected on local councils. Now they can attend and speak freely in village meetings. Most of them can no longer be confined in the kitchen as the trend used to be. However, there is much discussion as to what empowerment of women comprises and what relationship is there between microfinance and women empowerment. There are still arguments which are not conclusive as to whether microfinance can break the structural sub ordinate position of rural women given the existing socio economic, cultural settings and mindset of society.
This line of argument calls for a more detailed study since to some conservative societies in Uganda, it is unheard of for a woman to ascend from a subordinate position as women are considered subservient to men. These prejudices still exist in society and greatly compromise the promotion of empowerment. It is true that changes in resources can lead to individual women to enjoy, but the danger is that they leave intact the structures of inequality and discrimination. It may not help to improve the women economic welfare without empowering them. In view of this analysis, one can argue that empowerment cannot be assumed to be an automatic outcome of microfinance programmes, especially given socio-cultural settings and mind set of some societies in Uganda. The fact that women are no longer confined to kitchen as their area of operation can be put to question because much as they run businesses their role in the kitchen remain and wait for them. Therefore women empowerment has generated mixed results in the academic discussion. It is argued that it does not even change the decision making patterns within the household but instead aggravates it.

In fact to call for empowerment of women in some societies is another way to challenge social structure. In order to talk conclusively about empowerment one needs to consider the hidden pressures from family, culture and society that intervene to remind you that you are a woman. Although some evaluations are positive about the capacity of microfinance to empower women some critics indicate that microfinance reinforces existing gender imbalances.

9.3 Circumstances for microfinance help the poor

There has been severe criticism to Yunu’s argument that poverty can be eradicated using a simple model of credit. In order for microfinance to help the poor out of poverty, it does require the support of other factors as it has been already articulated. These include not only to promote women entrepreneurial skills in business management, and elementary bookkeeping, but also to ensure efficient functioning of financial markets since they play an important role in the economy and rural development. There is need for access to markets for their local products and other infrastructure and institutions to promote sustainable development and a successful microfinance. The danger is that capital markets do not function well in Uganda. It is argued that if capital is linked with the necessary infrastructure to help the poor, they will break their poverty situation. But in some areas of Uganda, this has
happened with very little success. The issue of helping the poor from poverty becomes very tricky because of the complexity of forces working against them.

It has been argued that microfinance works in developed areas while in other areas it hits a dead end. The developed areas include those with good working infrastructure like good feeder roads, working markets where clients can access markets to sell their products, availability of schools, health centers and other business services. The countries or areas that have been successful in reducing poverty have utilised and shaped markets to provide the right conditions. Despite some failings, the use of credit to make an impact impinges on the critical role of the well-functioning markets because it avails the opportunities for financial services, information which enables people to raise their incomes and hence economic growth.

A close analysis reveals that the poorest group of society, the destitute, the sick are not eligible for microfinance programmes. Instead, it is the empowered who can take risks to invest, who have a business plan and those already in business, the economically active poor are the ones to access capital. The destitute is a risky segment which lacks the capacity to use the loan productively. Some proponents of microfinance acknowledge that the poorest people often do not benefit from microfinance and the viable option the better off poor and as their businesses grow they will offer employment benefits to others. The danger with this argument is that there is no credible evidence that the benefits will trickle down in this manner and it is rare in the informal sector to employ outside the household.

9.3.1 Markets

In order for microfinance to succeed in its role of poverty alleviation, the role of markets is critical. Markets mobilise capital, savings and investment which are long-term economic growth and development components. It is widely believed that both the formal and informal financial institutions represent one of the most important institutional infrastructures necessary for the effective operation of the markets. Financial services do not only play an important role in an economy but also the pace and pattern of rural development are influenced by the efficient functioning of markets. The role of the financial sector from the financial markets perspective is crucial because it encourages productive use of resources and to enforce contracts. The problem as already cited by Mpuga (2004:2) is that financial
markets in developing countries like Uganda are underdeveloped, lack depth, highly inefficient and concentrated in urban areas. These problems therefore undermine the efficient functioning of microfinance in Uganda.

9.4 Is the data credible?

It is very difficult to establish hundred percent the data in developing countries like Uganda. The issue is to try as much as possible to minimise the risks in order to make the research credible. Critics’ question the degree to what extent the data in developing countries is reliable as reliability concerns the quality of measurement. Information given may not reflect the real truth as it may be withheld by clients because of being regarded as “private affairs”. This is likely to compromise the accuracy of the sought data but this cannot be given as an excuse to discourage researchers conducting research in the developing world.

The other problem with the research as it tends to focus on a given specific locality and a small client group like in the case of Kayunga and women as a group. It is very difficult to generalize or make reliable conclusions that reach across borders or the whole country in income levels or socio-economic status. The conditions in Kayunga may be favourable for a successful microfinance industry which may not necessarily be the case in Karamoja located in northern Uganda. It is still a big challenge in measuring the impact of microfinance intervention because the data may not be reliable. However there is still some scepticism even if good data may be obtained that allows for some analysis of the impact of microfinance. It is possible to conclude that there is a relationship between microfinance programmes and the improved quality of life. On the other hand one can argue that the program did not cause the outcome but some other factors like good infrastructure, markets, and entrepreneurial drive were responsible for outcome of this study.

9.5 General discussion

Although the focus of this study is to explore the impact of microfinance on the poor, it becomes extremely difficult for me not to analyse both the endogenous and exogenous factors responsible for the creation of this deplorable situation in rural Uganda that has necessitated microfinance intervention as one of the tools to reduce poverty. Corruption is so pervasive in Uganda and has been responsible for market failures. Corruption does not only undermine the
legitimacy of political leaders and institutions but causes the failure of the proper functioning of the markets which is a critical component for a successful microfinance sector. The effectiveness of the state to deliver the services to the masses like building the necessary infrastructure, good feeder roads for the poor to effectively transport their merchandise and link with markets, educational, health centre facilities and financial services are also undermined by corruption and other governance problems resulting again in market failures.

In the gospel of free market forces and globalisation the role of the state has been heavily marginalised as a development agent and a diminished state redistributive capacity aggravates to state problems of legitimacy and as a result the state is severely weakened. In order to build viable institutions and the necessary infrastructure for the microfinance development and to merge the centre and rural areas where the majority of the poor reside, it requires a strong state and not a weak one as it is the case today in many developing countries like Uganda. Women should be fully emancipated so that their participation in the social and economic development is recognised but the problem from a gender perspective is that they lack power over resources for participation and development. The inequalities between the male and female sexes must be rectified so that women can access resources and decision making processes which is one of the reason why women’s socio-economic position is low. This will require the changes in both the written and unwritten laws like customary laws which favour the male sex making the system both undemocratic and patriarchal.

Microfinance (as a tool) is just a drop in the ocean regarding poverty alleviation. It is treating the symptoms and not the real causes of poverty. This calls for more state intervention to strengthen itself and have the dynamism to create the necessary infrastructure, institutions (legal and financial) good governance and invest heavily in rural development infrastructure where the majority of the poor struggle with biting poverty. Microfinance is not a blueprint for poverty alleviation and development but what Uganda requires is their own mix of policies to reduce poverty. These should reflect a number of components like national priorities, local realities, economic, political and cultural context of the country as well as individual communities.

Poverty once again is a very tricky issue. It requires a deep understanding both at a micro and a macro level. The causes of poverty and in particular rural poverty are many, difficult, and complex and cannot simply be reduced to microfinance. Microfinance as mentioned earlier
treats the symptoms but real causes of poverty remain. One needs to be very careful in over-emphasizing the role of microfinance for poverty reduction since it requires support of other factors most importantly entrepreneurial skills. There is need not only to create a development environment for microfinance with favourable conditions like access to knowledge and information, infrastructure like good roads, markets but also to build local institutional capacity in rural communities and public investment in rural infrastructure.

9.6 Conclusion

The aim of this thesis is to explore the impact of microfinance intervention on rural women and the circumstances under which microfinance can help the poor out of their poverty situation. I should emphasize that I have been more interested in the impact of the intervention.

The first question asked in this study was: what impact does microfinance programmes have on the household welfare? According to research findings, it is apparent that the majority of women clients had registered increased incomes. It is these incomes that can help them to solve some problems of poverty like isolation, physical weaknesses and they can afford a good diet, can deal with vulnerability as they can save and now able to deal with crises, has the capacity to send their children to school and to pay for their health which is critical for their continued wellbeing and as a consequence break the poverty trap.

My second question was: Can microfinance programme savings reduce vulnerability and risks of clients? The findings reported that clients had increased incomes which enable them to save and to buy property. The savings enables clients to deal with severe crises and to cope up with the shocks and reduce vulnerability and bought property can be sold also to deal with the crises; savings can be used to acquire another microfinance cycle and also to start and expand the existing economic activities.

This leads me to my third question: Can microfinance promote empowerment of rural women? The majority of women felt that their position in the family had been strengthened, set up businesses and run them, could occupy a political office at local levels and had attained a real change in their lives and self-esteem when they compare themselves to that period.
before the program. Many felt that they can look after their children, educate them, afford a nutritious diet to the household and are no longer dependents on their husbands.

Finally, my fourth question: under what conditions can microfinance help the poor out of poverty? Microfinance hinges on a number of other conditions if it is to play a meaningful role. Microfinance is just only one factor and requires the support of other factors. These include women entrepreneurial skills in business management, and elementary book-keeping, efficient functioning of markets since they play an important role in the economy and rural development. There is need for access to markets for their local products and other infrastructure like good feeder roads to transport the merchandise and institutions for example to deal with legal matters to promote sustainable development and a successful microfinance. The network of financial institutions functions in an economy which mobilizes and allocates resources, co ordinate savings and investment which are long term growth and transformation. Markets in Uganda do not work well.

**9.6.1 Concluding remarks**

Although this thesis indicates that the clients who participated in microfinance programmes have registered improved standard of living as a result of improved incomes, the challenge remains how to obtain reliable data.

The poor people and how they are benefiting from microfinance services have proved tricky to measure and requires a deeper analysis. This study paints another picture than what I expected when a division into different kinds of poor is made among others: the destitute, extreme poor, moderate poor and vulnerable non-poor.

There is need for more future research that must focus on a deeper understanding of poverty alleviation since microfinance is only treating the symptoms than attacking the real causes. The issue of women empowerment as a result of microfinance programmes also requires more research. Critics of microfinance have emphasised the view that MF alone is like a drop in the sea bearing in mind the pervasive degree of poverty levels mainly in rural Uganda. I must acknowledge that Uganda is a rich country that requires vision and acumen to turn its resources into wealth in order to reduce poverty and the donor dependency syndrome.
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APPENDIX 1

Man in Focus Group Discussion (FDG), Kagoma Gate, Jinja

Table 1.2: Most frequently mentioned causes of poverty overall in PPA2 & PPA1 in Uganda

<table>
<thead>
<tr>
<th>Priority Cause</th>
<th>PPA2 % Communities</th>
<th>Rank</th>
<th>PPA1 % Communities</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor health/diseases</td>
<td>50%</td>
<td>1</td>
<td>67%</td>
<td>1</td>
</tr>
<tr>
<td>Limited access/shortage of land</td>
<td>47%</td>
<td>2</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Lack of market and market access</td>
<td>40%</td>
<td>3</td>
<td>44%</td>
<td>4</td>
</tr>
<tr>
<td>Lack of jobs/unemployment</td>
<td>38%</td>
<td>4</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>High unfair taxes/market dues</td>
<td>35%</td>
<td>5</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Low prices and exploitation</td>
<td>33%</td>
<td>6</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Lack of education or vocational training</td>
<td>33%</td>
<td>6</td>
<td>50%</td>
<td>3</td>
</tr>
<tr>
<td>Limited income, funds or capital</td>
<td>33%</td>
<td>6</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Large family/many dependents</td>
<td>33%</td>
<td>6</td>
<td>42%</td>
<td>5</td>
</tr>
<tr>
<td>Excessive alcohol consumption</td>
<td>32%</td>
<td>7</td>
<td>56%</td>
<td>2</td>
</tr>
<tr>
<td>Death of a family member/widowhood</td>
<td>27%</td>
<td>8</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>HIV/AIDS</td>
<td>27%</td>
<td>8</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Peas and Diseases</td>
<td>27%</td>
<td>8</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ignorance and lack of information</td>
<td>27%</td>
<td>8</td>
<td>44%</td>
<td>4</td>
</tr>
<tr>
<td>Low productivity-crop, fish, animal</td>
<td>25%</td>
<td>9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Lack of credit facilities/financial assistance</td>
<td>23%</td>
<td>10</td>
<td>50%</td>
<td>3</td>
</tr>
<tr>
<td>Idleness and laziness</td>
<td>-</td>
<td>-</td>
<td>42%</td>
<td>5</td>
</tr>
<tr>
<td>Lack of cooperation</td>
<td>-</td>
<td>-</td>
<td>42%</td>
<td>5</td>
</tr>
<tr>
<td>Insurgency</td>
<td>-</td>
<td>-</td>
<td>40%</td>
<td>6</td>
</tr>
</tbody>
</table>

--was not identified among the priority causes of poverty in that PPA

Source: Ministry of Finance, Planning and Economic Development-Kampala, Uganda

The most frequently mentioned causes of poverty in Uganda according to a research that took place in different districts in both participatory poverty assessments 1 & 2 (PPA1 & PPA2) as shown in the above table. The table may partly or wholly explain the variation in the causes and the way it is ranked.

Poverty is viewed in terms of social exclusion where a particular group may be excluded from accessing certain services or benefits or they are never heard in community meetings. Those who are usually excluded included the elderly, refugees and people with disabilities. The elderly in particular feel that they are not listened or taken seriously when they talk in public
Appendix 2 SURVEY

SURVEY OF MICROFINANCE AS A DEVELOPMENT TOOL WHICH GIVES THE OPPORTUNITY FOR RURAL WOMEN TO IMPROVE THEIR INCOMES. THE RESEARCH WILL GIVE ANSWERS THAT ARE IMPORTANT TO OUR UNDERSTANDING OF MICROFINANCE AND ITS ROLE IN POVERTY ALLEVIATION. The Information you give will be kept strictly confidential and only for academic purposes. Thank you very much for your cooperation.

Name of Interviewer _____________________________
Put a (Tick) where appropriate

Interview Schedule
Identification
1.1 Sub-County ________________________________
1.2 Parish ____________________________________
1.3 Village _________________________________

Individual level: Basic Information
2.1 Your name (client) ____________________________
2.2 Sex: ______________________
2.3 How old are you? _____________________________
2.4 Marital status 1.Single/never married 2 Married 3 Widowed 4 Divorced/separated 5. Other (specify)
2.5 If currently married, do you stay with spouse? YES ___________NO ______________
2.6 If NO to 2 5, Why? _______________________________
2.7 Type of marriage 1 Monogamous 2 Polygamous 3 Other (specify)
2.7.1 When did you join microfinance programmes?
2.7.2 How did you know about microfinance?
2.7.3 When did you open an account with Uganda Women Finance?

Household level: Basic information
3.1 Are you the head of the household? YES (if yes go 3 3) _________NO ______________
3.2 If No who is the head? Husband ___ Father ____ Mother _____ Other (specify)
3.3 How many people in your household?

<table>
<thead>
<tr>
<th>Adults over 18 years</th>
<th>Number of Persons</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Children under 17 years</td>
<td></td>
</tr>
</tbody>
</table>

3.4 How many persons in your household are actively active (generating some income)?
3.5 How many are dependents?
3.6 What is your status of accommodation? Owned house _____ Rented _____ Sharing ______ Other (specify)
3.7.1 What are the walls made of? ____________________________________________
3.7.2 What kind of roofing is the house made of? _____________________________

Utilities:
3.7.3 What kind of fuel do you use for lighting? Paraffin __________ Electricity ______
3.7.4 Do you have water connection in your house? ____________________________
3.7.5 Who is responsible for collecting water and firewood for the household?
___________________________________________________________

3.8 Do you plan to build a house in the near future? (Answer if you don’t have one)
YES __________________ NO _________________.

Individual Savings and Income
4.1 Do you have personal savings? YES_______ No _______ Don’t know __________
4.2 Have your savings in the last 12 months Increased? _____ Decreased? __________
Remained the same? __________________________________________
4.3 Has your income in the last 12 months Increased? ____ Decreased? ____ Remained the
same __________________ other (specify) __________________________

5 Children education.
5.1 How many children in your household (4-17 years of age) are Boys__________ Girls
__________ Total _______________
5.2 How many of these attend school? Boys ___________ Girls ________ Total ______
5.3 How many of your children are of school age but do not go to school?
___________________________________________________________________
5.4 Why are they not going to school? ______________________________________
5.5 Are you able to educate your children? _________________________________

6 Health and medical services
6.1 In the last two weeks did you have any sick person in your household?
YES ________ NO __________________
6.2 Where do you get treatment when a member of the household falls sick? ______
6.3 Do you afford to pay the medical expenses every time a member of the household falls
sick? YES __________________________ NO __________________________
6.4 If NO, what do you do? _____________________________________________
6.5 What have been the prevalent illnesses in this household? Children
______________________________________ Adults _______________________

7 Consumption pattern
7.1 What are the basic foods that form your household diet? ______________________
7.2 Is the current household diet the same as the one you used to have 12 months ago? __________________________________________________________________________ If not how has it changed? ____________________________________________________________________________________________.
7.3 What is your total cost of your daily diet? ________________________________.

8 Household Assets
8.1 What assets have been individually bought by you as a woman in the household? List the items.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>PURCHASE PRICE (SHS)</th>
<th>IF NOT PAID CASH(outstanding amount)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
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<td>10</td>
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<tr>
<td>11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total amount outstanding</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9 Land assets.
9.1 Have you bought yourself a piece of land? YES ___________ NO ________________
9.2 Is it Residential? ___________ or Commercial? _____________________________
9.3 Where? ______________________________________________________________________
9.4 What do you intend to do with it? ____________________________________________________________________________________________

10 Coping with shocks
10.1 Have you had any major unexpected event within your household in the last 12 months that lead to an increased financial burden for your household? YES _________________ NO
10.2 How long did this period last? No. of months ______________ Don’t know ________-

10.3 How did you respond to the shocks? Used my savings __________________________ Borrowed __________________ Sold my household assets _____________________________ Reduced my expenditure __________________ Any other (specify) ____________________________

11 Women empowerment
11.1 Has your role in terms of income contribution in the household after joining microfinance programmes increased? YES ______________ NO ___________ If YES how?
11.2 Does your role in decision making and your position in the family increased after joining microfinance? YES _________ NO ________________

12. In your view has Uganda Finance Trust helped you? YES _________ No __________

Thank you very much
THE END

APPENDIX 11: SURVEY
Please note that your insightful answers are crucial to our efforts in understanding the challenges facing rural women and how microfinance offers the opportunity by creating an environment that will help a low income woman to build her business and improve her living conditions.
Thank you in advance for your effort

1 What are the challenges facing microfinance Industry in Uganda?

2. Does the participation of rural woman in microfinance programmes improve their quality of life?

3. What impact does microfinance have on the lives of rural women? Give full details.

4 (a) What is the criterion for the selection into microfinance programmes  
(b) Microfinance institutions have been subjected to severe criticism that the have not addressed the concerns of the poorest of the poor? What is your view?

5 How do microfinance clients respond to? 
   a) Structural crisis) Crisis factors? 
   OR 
   Does participation in microfinance programmes Reduce Vulnerability? If YES, How?

6 What are the strengths and weaknesses of microfinance? 
7 What are the biggest obstacles to women benefiting from traditional microfinance initiatives? 

8 What are the social and cultural barriers to women participation in microfinance institutions? 
9 Have microfinance institutions achieved financial sustainability and viability?

10 What are the lessons and experiences learnt from the pioneer Grameen Bank started in 1976 by Muhammad Yunus in Bangladesh?

11 To what extent has microfinance promoted women empowerment in rural areas? 
12 What has been the response of rural women towards microfinance? 
13 What are the major factors/hinders that prevent women from acquiring loans from the formal banking system? 
14 In which way has microfinance led to economic empowerment of rural women?