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## Credit and Poverty Alleviation in Uganda

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### Introduction

While Uganda achieved its independence in 1962 with a sound economy, efficient civil service and vibrant democracy, it had by the 1980s been engulfed by deepening economic crisis, dictatorship and the virtual collapse of the state. The consequence of this cumulative degeneration was unprecedented poverty levels that continue to afflict many Ugandans. The magnitude of poverty has had a larger impact on the rural people than the urban-based ones. Appleton (1999) indicates that 48% of the rural population is below the absolute poverty line, compared with 16% of the urban dwellers. He further shows that poverty declined by 43% in urban areas in comparison to only 16 % in rural areas of Uganda since 1992. Although poverty cannot be claimed to be a recent phenomenon in Uganda, its juxtaposition with high economic growth rates has caused widespread concern both at the national and international levels.

Poverty in Uganda is attributed to both domestic and international factors. At the domestic level, the poverty crisis is blamed on pursuing irrational policies together with the mismanagement of the economy by the predecessor governments prior to 1986. Particular policies that undermined Uganda's economic performance include Obote's nationalisation<sup>1</sup> programmes of the 1970 and Amin's economic war<sup>2</sup> of 1972. Furthermore, political dictatorship also

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<sup>1</sup> Whereas President Obote's independence government was modelled on Western capitalist systems, there was a radical shift in government policy since 1969. Not only did Obote declare Uganda a one-party state, but also adopted *dirigiste* economic policies. The ideological conversion to *dirigisme* was contained in the policy document code-named 'The Move to the Left' (The Common Man's Charter, 1970). The ideological shift subsequently paved the way to the nationalization of foreign investments in which government compulsorily acquired 49% shares.

<sup>2</sup> The aftermath of General Amin's *coup d'état* of 1971 witnessed the declaration of 'Economic War' in 1972, which led to the expulsion of over 50,000 Asian

undermined the economy. The gross abuse of human rights in the 1970s and early 1980s not only forced many Ugandan entrepreneurs and professionals to exile but also discouraged foreign investment and development assistance. Notwithstanding the domestic distortions, Uganda's crisis is partly attributed to the turbulence within the international economic system. The fact that Uganda's economy predominantly relies on agricultural exports puts it at a disadvantage. Until recently Uganda has been over-reliant on coffee exports for much of its foreign exchange revenues.<sup>3</sup> The fluctuating prices of Uganda's agricultural exports have continuously disadvantaged Uganda's economy. More particularly, the collapse of the International Coffee Agreement in 1989 seriously devastated Uganda's export earnings.<sup>4</sup> Therefore, the declining terms of trade coupled with increased protectionism by Western countries equally contributed to Uganda's economic crisis in the 1980s.

It was in the context of this economic crisis that Yoweri Museveni's National Resistance Movement (NRM) regime, approached the World Bank and International Monetary Fund (IMF) for financial assistance. There are three explanations for this engagement. First, the NRM urgently required funds to rehabilitate and reconstruct the collapsed economy. Secondly, the NRM's attempt to use interventionist policies in the economy was futile. Thirdly, the changing international political and economic environment favoured the neo-liberal paradigm, especially with the coming to power of conservative governments in the West. Accordingly, the only alternative to get the much needed finances was to enter into a relationship with the international financial institutions (IFIs) which was effectively done in May 1987.

### **Poverty as a social cost of adjustment policies**

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businessmen and the seizure of their properties by the military regime. These Asians had been brought into the country by the British colonialists and most of them retained British citizenship even after independence.

<sup>3</sup> Coffee exports currently account for less than 50% compared to about 95% between 1981 and 1986 and 97.3% between 1978 and 1981 (Background to Uganda's Budget 1987/88).

<sup>4</sup> Whereas Uganda earned US\$272 million from coffee exports in 1988, this had declined to US\$ 251 million in 1989 despite the increase in volume terms. The projected coffee earnings for the year 2002 are US\$ 407 million despite increased tonnage (Background to Uganda's Budget 2001/02).

Engagement with the World Bank and IMF necessitated the implementation of radical economic reforms since 1987. The stabilization and structural adjustment reforms have led to high economic growth rates averaging six % per annum for over ten years. Much as economic growth is considered to be a necessary condition for poverty alleviation (Fields, 1989; Lipton & Ravallion, 1995), it has become increasingly recognized that growth alone may be insufficient to mitigate the social effects of adjustment (Stewart, 1985). The Ugandan growth process has as a result been characterised by inequality and high incidences of poverty (World Bank, 1993; Kayiso, 1996; IHS, 1992; CDRN, 1996; IHS, 1996; UNDP, 1998; Uganda Poverty Status Report, 1999; UPPAP, 2000). The UNDP (1997) ranks Uganda as the 159<sup>th</sup> out of 175 poor countries. Its external debt was estimated at US\$ 3.68 billion by June 2000 (Background to Uganda's Budget 2000/01). Similarly, the World Health Organization (WHO) (2000) put the life expectancy of Ugandans at 42 years and identified the major communicable diseases to be linked to poverty. Likewise, government statistics equally concede that poverty is a big challenge. According to the national Integrated Household Survey (IHS) (1992), 56% of Ugandans were unable to meet their basic needs and lived below the poverty line. In 1997, the number reduced to 44% while 25% could not even meet their daily food requirements. It was estimated that nine out of an estimated twenty-two million people lived below the poverty line irrespective of the fact that poverty had, in absolute terms, decreased by 21% since 1992 (Appleton, 1999).

Even though government quantitative surveys of 1992 and 1997 give an impression that poverty levels were declining, these figures have been disputed by qualitative study findings (CDRN, 1996; UPPAP, 2000). Qualitative studies, which studied poverty from the poor people's perspective indicated that poverty was increasing and deepening especially in rural areas. This revelation has been corroborated by criticism from the two presidential aspirants during the March 2001 presidential elections. They criticised neo-liberal policies pursued by Museveni's regime and accused them of impoverishing the people. They further disputed government statistical figures, which indicated declining poverty levels. They instead accused government of faking figures to conceal the failure of economic policies (*The New Vision*, November 20, 2000).

Whereas there is no agreement on whether poverty has been declining or increasing since economic reforms were pursued fifteen years ago, the stark reality is that poverty remains a big challenge to

national policies. The recognition by both the government and the international donor community that growth has not had a 'trickle-down' effect on the Ugandan majority created the need for intervention strategies to mitigate the social costs of adjustment. Notwithstanding the various intervention strategies pursued by the NRM regime, this field-based study<sup>5</sup> specifically focuses on credit as one of the anti-poverty strategies. It assesses the extent to which credit programmes set up by government, NGOs and CBOs have been effective in combating rural poverty.

### **The role of credit**

The notion of credit is etymologically derived from the Latin word '*credere*' which means 'to believe' (Hicks, 1969). The strategy to reduce poverty by providing credit to the poor has of recent generated scholarly interest and enthusiasm (Mosley & Hulme, 1998). Credit programmes for the poor have not only multiplied but have also gained significance in development circles.

Credit programmes for the poor can be categorised into two types. Those whose evolution has been 'bottom-up' (informal credit associations (ICAs), more particularly, the mutual aid societies; and the 'top-down' ones set up by governments or/and Non-governmental Organisations (NGOs). The major distinction between the 'bottom-up' and the 'top-down' credit programmes is that the former evolves organically while the latter is imposed. The 'bottom-up' credit programmes are a result of poor people's initiative and effort to harness pre-established social ties (social capital<sup>6</sup>) through collective

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<sup>5</sup> This research was carried out in the two districts of Mbarara and Mpigi. It involved a study of two state credit programs (*Entandikya* Credit Scheme (ECS) and Poverty Alleviation Project (PAP)]. Four NGO credit schemes namely, the Agency for Co-operation and Development (ACORD) and Initiative of Small Scale Industrialists Agency (ISSIA) were purposely selected in Mbarara district as well as Feed the Children (FTC) and World Vision (WV) in Mpigi district. In addition, four informal credit schemes (ICAs) were purposely selected in Mbarara while two were chosen from Mpigi. The total sample of respondents interviewed was 120. Apart from interviews, two focus group discussions of between 5–15 respondents were conducted in each district. These interviews were supplemented by physical observation of the conditions of the respondents and their households as well as their economic activities.

<sup>6</sup> The notion of social capital has been broadly defined as those features of social organisation, such as the density of civic organisations, levels of

action for the purposes of social and economic betterment. They are premised on self-reliance mechanisms especially when the state is unable to support social programmes (Ardener, 1996). Examples include labour groups, burial societies, rotating savings and credit associations (ROSCAs), accumulating, savings and credit associations (ASCRAAs), and other voluntary credit unions or associations. Africa is particularly notable for the proliferation of mutual aid groups with a finance component (Seibel & Damachi, 1982). Local examples of these voluntary credit associations include 'Ebigombe' in Uganda, 'Tontines' in Cameroon and Senegal, 'Stokvels' in South Africa, 'Susu' in Ghana, 'Esusu' in Nigeria, 'Ekeubs' in Ethiopia, 'Kajfo' in Gambia among many others. More importantly, 'bottom-up' groups that have emerged in response to the needs of their members and through their own initiative have greater prospects of success than when the formation of the group is imposed from above (Huppi & Feder, 1990).

In Uganda's case, the rise of 'bottom-up' credit programmes is associated with the failure of the state, which forced people to disengage from the state and devise coping mechanisms. These include engaging in the informal sector as well as the underground economy (Kasfir, 1983; Brett, 1993). The growth of the informal sector therefore substituted for the failed state and decayed economy. People, especially in rural areas, harnessed the existing social networks (social capital) to initiate ICAs, burial groups, cultivating groups, parents-teachers associations as an adaptive response to the hostile economic situation. Moreover, the social costs of adjustment which include cost-sharing, retrenchment and de-subsidization increased self-help efforts to cope with the adverse socio-economic situation.

On the other hand, the rise of 'top-down' credit programmes that target the poor is attributed to the failure of the traditional commercial institutions to meet the credit demands of the poor (Hollis & Sweetman, 1998). State intervention in rural financial markets has sometimes been defended (Huppi & Feder, 1990; Barham, Boucher & Carter, 1996). It has been justified by the fact that formal financial institutions exclude the rural poor. This is because they are considered

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interpersonal trust, and norms of reciprocity, that act as resources for individuals, and facilitate collective action. It manifests itself in norms, values, and informal networks, as well as in local associations such as ploughing groups, burial societies, informal lending societies, and neighbourhood support groups (Putnam, 1993; Narayan et al, 2000). According to Coleman (1988), social capital is important to those less affluent social structures where individuals are less self-sufficient and more interdependent.

risky due to the difficulty in accessing information about their economic status, lack collateral, seek small loans, and invest mostly in agricultural activities whose returns are unpredictable. In the case of Uganda, the agricultural sector<sup>7</sup> which is predominantly supported by the rural people has been neglected by commercial bank lending as illustrated by Table 1.

**Table 1:** Commercial Banks' Lending Allocation in Uganda (Ushs Billion)

Sector	1989		1990		1991		1992		1993		1994
	Dec	June	Dec	June	Dec	June	Dec.	June	Dec	June	Dec
Crop Marketing	6.3	9.0	12.1	16.1	23.8	25.3	27.7	30.0	35.5	40.9	51.2
Agric. Production	4.1	6.8	8.3	9.8	3.9	2.5	5.1	7.6	6.7	6.0	6.7
Manu-facturing	4.9	5.1	7.1	9.0	12.3	17.8	22.1	26.3	32.4	40.2	46.1
Trans- portation	4.1	4.5	4.9	6.1	5.7	6.7	7.3	7.9	9.5	9.1	8.2
Trade/ services	12.7	17.6	23.0	30.2	34.7	44.8	60.0	71.1	77.6	85.4	96.2
Building	2.5	4.4	4.3	5.7	7.7	10.1	10.5	10.9	11.5	12.7	18.0
Total	34.7	44.6	59.8	77.0	88.4	104.8	129.4	154.1	175.4	194.6	228.8

*Source:* Bank of Uganda Data on Commercial lending by Sector Compiled from Bank returns.

**Note:** The exchange rate of one US\$ to the Ush at the time was: 1 US\$ to 1000 Ushs.

Table 1 shows that in real terms, financing of trade and services has grown rapidly in terms of receiving bank credit while agricultural production has been marginalised.

The standard justification for state intervention in credit markets is premised on the need to avail the rural poor with financial resources so that they can be able to revolutionize their farming techniques. Credit is believed to be essential for introducing new and

<sup>7</sup> Agriculture is the leading sector in Uganda's economy accounting to 60% of GDP, 93% of the total export earnings and 80% of household employment. Yet, the total export bank credit to agriculture constitutes less than 0.3% of GDP (Bank of Uganda, 1994). Given the liberalization of the financial sector in the 1990s, the agricultural sector has increasingly been neglected by commercial bank lending. Whereas agricultural production credit constituted 46% of the total commercial bank loan portfolio in the 1970s, it has been considerably reduced to less than 3% because of liberalisation.

better technology, improve yields and productivity while at the same time increasing production. Apart from the need to use credit as an instrument to modernize rural agricultural practices and consequently spread the benefits of a modern economy, credit has been used as a strategy to alleviate poverty. Credit is perceived to assist the poor with initial investment capital to engage in income-generating activities so as to generate incomes and assets to improve their welfare on a sustainable basis.

On the other hand however, critics of state credit programmes contend that they distort credit markets since resource allocation is not efficiently determined by the demand and supply mechanism. It is further asserted that concessionary lending leads to inefficiencies and inequities (Adams & Vogel, 1986; Adams, Graham & Pischke, 1984; Baydas, Meyers & Aguilera-Alfred, 1994). State intervention in the credit market is also criticised for serving the interests of the already privileged members of the community (élites) (Bibangambah, 1985). They further contend that the heralding of subsidised credit as an instrument against poverty creates a wrong impression that poverty is a simple problem that can be tackled by capital injections instead of structural changes of the socio-economic conditions that define informal sector activity (Buckley, 1997). It is within the context of this debate that this chapter attempts to analyze both the 'top-down' and 'bottom-up' credit programme interventions *vis-à-vis* poverty in Uganda.

### **Informal credit associations (ICA) and poverty alleviation**

This research identified three categories of ICAs. First, was the category in which members regularly contributed funds into a pool. Part of these funds was kept permanently in the pool as insurance against risk and uncertainty and was only given out as loans to members on a nominal interest of 5%. The balance of the contributions plus proceeds from internal loans as well as miscellaneous receipts like fines and penalties, donations, and earnings from income-generating ventures were equitably shared by members, as long as it was available. The second category involved a situation where members contributed funds that were kept in a pool to cater for unknown contingencies and risk. The pool consisted of both insurance and investment funds. These were only extended to those members who wanted to invest on a small interest rate of about 5%. Nonetheless, the insurance fund was given to any member when need

or emergency arose like in cases of sickness, death, meeting of pressing needs like paying school fees, medical bills or settling a debt. No interest rate was charged on insurance funds. In the third category, members rarely exceeded twelve and made regular contributions, usually on a monthly basis, where the pooled contributions were passed on to members in a rotational order.

While the ICAs investigated were found to differ in their mode of operation, composition, and the number of members, they generally exhibited a similarity of organisational structure and procedure. Criteria for membership of such associations require residence in the community, ethics of hard work and uprightness of character, as well as abiding by the terms and conditions of the ICA. These included making mandatory contributions according to the constitutional requirements of each association. These associations maintain a skeleton management staff which serves on a voluntary basis. They are elected by all members on the basis of exemplary character, that is, disciplinary record and proven transparency. Women were found to dominate the position of treasurer even among mixed sex associations because of their moral credibility.

These associations were also characterised by high levels of participation as evidenced by monthly meetings which are attended by all members. It was established that exclusive women associations were predominant in the two districts. This can be attributed to the general economic and cultural marginalisation that has characterised women although reforms towards women empowerment have been initiated by Museveni's NRM regime since 1986. The size of membership tended to vary according to the density of the population, the intensity of poverty as well as absence of alternative credit agencies like those run by moneylenders, private organisations, NGOs, and government. Remote areas, such as Kabuyanda (Mbarara district), where people are very poor, population was dense and there was limited existence of alternative credit schemes, had many ICAs. It was confirmed that all able-bodied adults belonged to one association or the other. ICAs keep few records and avoid formalism that characterise formal financial institutions. Procedures for accessing financial resources were less bureaucratic (simple and flexible) and it takes a few days or weeks to acquire a loan. It was evident that the strength of ICAs depends on superior accessibility of information about members, simplicity of procedures, flexibility, participation and transparency of the institution. It was established that members intentionally kept these associations simple and informal to jealously

guard them against infiltration and subsequent take-over by elites. This is the reason why most of them resist formal registration and expansion. They fear to lose control over them since formalizing them requires sophistication which they lack.

### **The impact of ICAs on poverty alleviation**

Much as there is doubt about the ability of the associations of the poor to alleviate poverty (World Bank, 1994; Anderson & Smucker, 1998; Narayan & Nyamwaya, 1996; Narayan, 1999), contrasting perspectives argue that such mutual aid agencies improve the plight of the poor (Geertz, 1962; Seibel & Damachi, 1982; Narayan & Pritchett, 1997). The findings of this study confirm that informal associations of the poor provide a coping mechanism against poverty even though they lack the capacity to completely eradicate it.

It is evident that members of ICAs access some funding through the sharing of proceeds and loans, which can be invested in small income-generating projects and agriculture. In addition, to a certain extent, this credit contributes to the improvement of members' family welfare. Apart from extending financial resources to members, ICAs also benefited members in terms of collective ploughing as it was confirmed by physical observation and interviews with both the beneficiaries and non-beneficiaries (control group). All the non-beneficiaries (control group) accepted that there were many benefits accruing to members of ICAs. They mentioned financial gains, community co-operation, as well as welfare insurance against risk and uncertainty. The non-beneficiaries also appreciated that members of ICAs were better off than them. The improvement of the welfare of members of ICAs was further verified using physical observation of assets in their individual households. Most of them had solved basic problems of having basic shelter, household items and clothing. Questions to these respondents about their consumption habits also confirmed positive change that coincided with membership to ICAs. They also indicated improved children nutrition as well as meeting school fees and medical bills for their households, as well as meeting other social obligations like church tithe, contributions to funerals, weddings and fund-raising for community projects. Besides, interviews revealed asset accumulation like purchase of additional pieces of land, erecting simple buildings, acquiring more animals, buying a bicycle, investing in business and many others. Much as these humble acquisitions may not be a panacea to poverty, they make a difference

in the lives of the poor. They have inculcated into them a culture of hard work and the conviction that they can rely on their own ideas and efforts as a solution instead of waiting for external assistance. Indeed, some although very few, were found to have improved their standard of living using such networks like ICAs.

In terms of outreach, most ICAs were generally found to be restricted to the neighbourhood and the immediate community. The sizes of the ICAs investigated consisted of between twelve and sixty-eight members. The proliferation of ICAs in rural areas has tended to improve their outreach in terms of geographical area, numbers and composition of beneficiaries as well as the sums of money involved. The explanation for limited outreach of individual ICAs hinged on suspicion coupled with fear of losing control over expanded ICAs. It has been asserted that small and isolated local organisations like ICAs need to come together to form a wider and formidable organization that can be able to negotiate for and attract substantial resources from the state or NGOs. It is further contended that without doing this, the impact of ICAs on their members may remain insignificant (Narayan *et al*, 2000). The major limitation to the power of ICAs to bargain for resources from higher levels is their inability to forge ties so that they can have one negotiating voice. The ICAs are fragmented, each pursuing its own interests without any attempt to have a concerted effort and then negotiate for resources from above. It was only in one case where two women ICAs of *Nyampikye* Women's Group (NWG) and *Kiyoro* Women's Group (KWG) were found to have forged ties. They occasionally exchanged visits, helped each other, organised collective meetings, and exchanged ideas. These ties however had just been established and it was not possible to establish whether they would lead to a serious framework of co-operation like a joint working committee or a merger of sorts. Nevertheless, interviews with leaders of ICAs showed scepticism about the possibility of forging such ties and mergers. They argued that the problem was due to differences in interests being pursued by individual ICAs. Detailed discussions however established that members of ICAs feared to lose grip of their organisations to strangers as a result of such mergers. They also doubted the possibility of benefits reaching them, if at all such mergers attracted them.

Such worries and doubts were not far fetched given the experience of KWG. It was reported that the chairperson of this ICA was chosen to represent other women ICAs from the area at two national workshops. In return, she was given an exotic male goat, an

agricultural drier and improved seeds to share with members of the other ICAs that nominated her. Nonetheless, all these acquisitions were physically observed and found located in the home of the chairperson. During the course of this research, other members of ICAs expressed their bitterness about how this lady had used them for her personal benefit. The experiences with co-operative societies in Uganda do provide a similar example. Much as peasants were convinced that they collectively owned co-operatives and were for their benefit, the stark reality is that co-operatives were hijacked by elites. Moreover, Michel's 'iron law of oligarchy' does not provide any hope about large membership organisations either (Michel, 1959). They tend to be bureaucratized and elitist instruments of the leadership. Fox (1992) agrees that organisations tend to take on their own dynamics, as leaders and staff develop interests, which differ from those of the members. The issue of whether ICAs should forge ties or merge with others as a means to accessing resources from higher levels as advanced by Narayan *et al* (2000) remains a highly debatable issue. Much as a merger could facilitate the access of resources from above, the controversy is about whether the resources can trickle-down to members.

Our findings further established that ICAs that had ventured to attract external loans from banks, NGOs and government, were able to increase their capabilities and henceforth provide more benefits to members. One of such beneficiaries of external assistance was *Kabuyanda* Women's United Group (KWUG) in Mbarara district. It had accessed a loan of Ush 4,500,000 (US\$ 2500)<sup>8</sup> from the government project—South Western Uganda Rural Programme (SWURP). In addition to other benefits, this particular ICA enhanced the incomes of its twenty-seven members by extending loans of Ush 100,000 (US\$ 56) to each of them. The association also purchased a business premise at Ush 240,000 (US\$ 133) which was being rented out. This excluded the revolving capital, which was used to trade in agricultural produce as well as that banked in Uganda Commercial Bank (UCB).

Another ICA that attracted external loans was *Nyabubikye* Women's Catering Association (NWCA) in Mbarara district. It attracted two loans of Ush 300,000 (US\$ 167) from the district and Ush 200,000 (US\$ 111) from the National Association of Women of Uganda (NAWOU). These loans were used to purchase twenty

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<sup>8</sup> The exchange rate of one US\$ is Uganda Shillings 1800.

taraulins which were being hired out at Ush 2000 (US\$ 1.1) each, bought plates for their catering business and had repaid all the loans. Proceeds from these loans were used to buy a cow for the group at Ush 350,000 (US\$ 195) and they were in the process of buying another so that they could be distributed to members. It is therefore vividly clear that ICAs that accessed external loans performed well and had a trickle-down effect on members. Moreover, the unique feature about these ICAs is that they were predominantly composed of women. This reaffirms theoretical arguments that credit extended to women has multiplier effects on the other members of the family (Blumberg, 1993; Goetz & Gupta, 1996). Whereas, the spectacular performance of these two ICAs tends to agree with Narayan *et al* (2000) that ICAs which establish linkages with bigger funding from NGOs or government may avail more benefits to members, the only difference is that the two ICAs accessed funding as individuals and not as mergers. It is the mergers that tend to fall prey to manipulations by the leaders and subsequently alienate their members.

Another area in which ICAs were found to make a significant contribution to the communities was the empowerment of women. Women ICAs tremendously empowered members in two different ways. First, they empowered them financially by enabling them to engage in income-generating activities. They were able to meet their needs without over-dependence on their spouses. Moreover, findings revealed that women gained confidence in public speaking and leadership skills as a result of being exposed through the activities of ICAs. Most significant was the fact that women's accessibility to resources changed the power relations within the household. Through interviews, it was confirmed that women's involvement in the household decision-making had increased because of the material contributions they were making. Women respondents revealed that their spouses were increasingly consulting them on most household issues. Moreover, the restriction of women movements by their spouses had reduced. They were increasingly having more freedom to attend meetings, visit their friends, attend social functions and workshops without grave repercussions.

Additional indicators of women empowerment in the household as reported by respondents included situations where husbands delegated their wives to attend community meetings. Also, some women reported that they freely stood for elections and their husbands campaigned for them. Others indicated that their husbands listened to their suggestions and respected them. It was further

revealed that all these achievements have increasingly reduced household disputes and created harmony within rural households. This change is attributed to men's recognition of women contributions to household resources. It was also indicated that most women ICAs undertook a sensitization campaign to educate their spouses about the benefits that accrued to membership of ICAs. This was done through periodic functions, especially at the end of every year, when women invited their spouses and local leaders to make them aware of their activities and benefits. It was found out that such awareness campaigns motivated other men to encourage their wives to become members of ICAs.

Apart from the material form of empowerment, it was established that women had become power brokers as a result of membership to these solidarity organisations. Most women who constituted the leadership of ICAs were also represented on local councils. Whereas this empowerment can be attributed to the NRM's policy to allocate a 30% quota to women in all local and national councils, the fact that it was mostly women members of ICAs who dominated local councils and not others at large was enough evidence to strengthen the argument. Members of Women ICAs were found to have an edge over others because of being organised and therefore being able to broker for power. ICAs have economically and politically propelled the participation of women in the affairs of the community.

Substantial evidence has been given to prove the significant contribution of ICAs in alleviating poverty amongst the rural poor. The inherent explanation for the versatility and impressive performance of ICAs lies in the unique manner in which they have been created as well as the approach used by these institutions. ICAs organically evolved out of specific realities and needs of the community. In short, they arose out of the initiatives of the rural poor in the community to serve their interests. These local institutions have therefore been tailored to suit the circumstances of the rural poor. ICAs are operated on principles that are quite familiar with the traditions of the rural poor. In other words, the rural poor not only identify with ICAs but also own them. The issue of ownership is particularly significant since the rural poor have confidence in ICAs and feel that these organisations are responsive to their priorities. In addition, their exemplary performance is underscored by simplicity, transparency, and a participatory mode of operation, which has made them relevant to the circumstances and interests of the rural poor. Genuine participation is particularly reputed for improving

performance (Freire, 1973; Korten, 1980; Esman & Uphoff, 1984; World Bank, 1991; UNDP, 1993; Isham, Narayan & Pritchett, 1995). These factors that underlie the resilience and efficiency of ICAs therefore confirm that they are sustainable in contrast to those induced by higher organisations like NGOs and government.

### **NGO credit programmes and poverty alleviation**

One of the indicators that were used to assess the performance of the NGO credit programmes was outreach. Much as NGOs are reputed to reach out to the poor in inaccessible remote areas (Esman & Uphoff, 1984; Korten, 1987; Edward & Hulme, 1994), the study's findings indicate that only one (ACORD) of the four NGOs studied attempted to operate in a remote area. ACORD offices and their activities were spread inside undeveloped areas. Besides, ACORD employed Rural Development Workers (RDWs) who resided and had regular contact with credit recipients in the programme areas. However, at the time the research was being conducted, ACORD field offices were being relocated to a more conducive urban environment of Kabingo. Similarly, the location of FTC and WV's credit activities were not in remote parts of Mpigi district but covered areas that stretch along Entebbe and Masaka main roads respectively. The location of the activities of the four NGOs studied, to a big extent, failed to meet the outreach criteria of operating in remote areas where the activities of public agencies are either inadequate or lacking.

In the case of gender perspective, all the credit programmes pursued by the four NGOs had a preference for women. Indeed, women have substantially benefited in terms of numbers. The targeting of women as a means to alleviate poverty is a good approach since poverty studies conducted in Uganda indicate that women consist the majority poor (CDRN, 1996; UPPAP, 2000). NGOs targeted women simply because they are trustworthy. Two conflicting situations were therefore noticed in households where housewives accessed credit from the four NGOs. In a majority of households, it created harmony because women were increasingly contributing to the household budget using proceeds from the loans. Women generally reported that this phenomenon had increased their respect since major decisions were no longer being taken behind their backs. They were increasingly being consulted because of their potential to make a contribution. Besides, women who managed to utilise their credit effectively also had their social status and popularity propelled. They

were not only frequently invited for parties and other social functions but were also preferred for leadership positions on local councils and houses of worship. In addition, other women in the village consulted them frequently for advice or to arbitrate disputes. This attitudinal change therefore indicates that credit extended to women had to a great extent contributed to women empowerment.

On the other hand, it was also established that housewives who accessed loans found their household responsibilities increased. Their husbands tended to abdicate their responsibilities. This attitude increased the financial burden of women to the extent of diverting part of the loan for meeting household demands. This was the opposite with widows and unmarried women interviewed. These categories appeared to have performed much better because they had the freedom of decision making. This category productively used loans to generate reasonable incomes and small assets. The bigger impact noticed was therefore experienced by this category of women. It was also established that some of the housewives who accessed loans used them in collaboration with their spouses or relatives or handed them over to their spouses. This scenario can be explained by two factors. The fact that most NGOs prefer to extend credit to women rather than men has created a situation where men use women as conduits for accessing such opportunities. Besides, the roles of women as caretakers of the family together with the cultural inhibitions that continue to disadvantage rural women forced them to pass over the credit to their husbands. Housewives whose loans were used by their husbands or male relatives did not realize the accruing benefits and had problems with repayment.

Women accessibility to credit had also led to suspicion and increased tensions in the household. Such incidents were however few and were attributed to lack of transparency especially where housewives tried to conceal loans. It was also attributed to indiscipline and jealous on the part of some men who were obsessed with spouse domination in the household. Such characters feared loss of control in the event of the financial empowerment of the wife. The two scenarios therefore undermined the objectives of some of the NGOs that targeted women while at the same time affecting individual housewives. All these findings strongly indicate a correlation between women access to credit and their empowerment. Those women who engaged in productive ventures and subsequently managed to generate some little revenue had a trickle-down effect on the family. In such cases, women spent those meagre earnings on purchasing household

belongings like mattresses, utensils, and clothes as well as improving the food menu and meeting medical and school fees for the children.

As regards the beneficiaries of NGO credit programmes, it was established that they were the active<sup>9</sup> poor. The four NGO credit programmes confirmed that they preferred to extend credit support to those persons who were already engaged in income generating activities (the active poor) and not the very poor. This research found out that out of 90 beneficiaries interviewed only 13 could be categorised as the very poor as indicated by physical and personal indicators. Seventy-seven beneficiaries owned assets like land, banana plantations, shops and other income generating activities. They also had basic education and some were involved in trade. It was found out that most credit associations tended to comprise of persons with a similar income bracket. Interviews with the non-beneficiaries (control group) indicated that they did not belong to any credit group because they failed to meet terms and conditions, which required big financial contributions and regular payment schedules.

It was also established that performance of NGO credit programmes in poverty alleviation was affected by the disbursement approach, which was patronising. All the four NGO credit programmes studied extended credit through organised groups which were formed according to specifications of each NGO. They did not disburse credit through the already existing informal credit associations (solidarity groups) but instead created new and parallel groups. While NGOs were not opposed to channelling their credit in the already existing mutual associations, their specifications required the traditional mutual associations to change. The specifications for forming credit groups were found to be sophisticated and included rigid rules. Credit groups are required to meet regularly, absence of which is fined. They require minutes to be recorded and systematic keeping of books of accounts. Bank accounts have to be opened. Interest rate is charged plus other fees. They have strict repayment terms and schedules where default calls for arrest and/or attachment of personal assets. Therefore, even those informal mutual associations that apply for credit from NGOs are forced to restructure to meet the required standards demanded by NGO credit programmes. In the process of transformation, they are defiled, lose their intrinsic values

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<sup>9</sup> The active poor can be described as those persons or households that are slightly above the poverty line and are able to engage in income generating activities.

and eventually become something different. The need for ROSCAs to change according to NGO specifications makes them lose their originality and flexibility. Moreover, their membership lose the bonds of attachment, principles and mission objectives that had initially bound them, in order to fulfil the NGOs' objectives and mode of operation. In other words, there is change of ownership since NGOs rather than members now own credit groups. The 'top-down' approach used by all the NGOs studied contradicts the assumption that NGOs are better placed to serve and empower the grassroots needs because of their participatory approach. It also puts into question the whole issue of innovation and sustainability. The interviews conducted with credit beneficiaries revealed that they joined these exotic groups for the sole purpose of accessing credit. All the respondents indicated that they retained their membership to ICAs. The fact that group solidarity is maintained by material inducements is worrying since the end of funding would pave the way for the collapse of these hybrid groups. This would be different if the initiative to form solidarity groups evolved autonomously from the existing local associations which are tailored to peoples experience's, capacities and interests instead of being socially engineered.

It was further noted that terms and conditions for accessing credit from these NGOs are stringent. Borrowers are required to meet both the requirements of the NGOs as well as those of solidarity groups. NGOs' requirements include opening bank accounts, weekly or monthly repayments, and mandatory savings. Group requirements include payment of membership fee, subscription fee, fines and compulsory savings or contributions. Whereas the interest rates of the four NGOs are low when compared to those of commercial banks (15% and 28% per month), the combined requirements create a burden to the borrower. The terms and conditions for accessing such small credits make the loan expensive and create a condition of indebtedness amongst the already poor. If consideration is given to a first loan cycle of Ush 50,000 (US\$ 28) as given by FTC, ISSIA and WV, the beneficiary of such credit is most likely to become poorer if he/she is engaged in agricultural activities that require a long gestation period. This is because the repayment duration is short (three to six months) and most of them do not have a grace period. WV, for instance, does not have a grace period, FTC only allows one week while ISSIA allows two weeks.

The lack of, or short grace period, along with the short repayment period tended to affect the performance of borrowers.

While the question of stringent credit terms may be challenged on the basis of high repayment rates averaging 98%, the findings attribute high repayment rates to two factors. First, borrowers who successfully repay loans are those mostly involved in speculative activities like trade. The explanation given for the NGOs' reluctance to support agriculture was that its outcome is unpredictable and yet loans to support it require a long gestation period. The long-term implications of this trend are likely to affect Uganda's economy, which over relies on agricultural exports. Secondly, it was also established that the impressive repayment rates lay much more in multiple membership of clients to other credit programmes than the productivity of credit *per se*. All the credit beneficiaries interviewed belonged to more than one credit programme. They therefore access loans from different sources to clear outstanding debts. The argument is that high repayment rates are creating a wrong impression that loans are productive and therefore an indication that beneficiaries are better off than they were. There is an impending debt crisis in rural areas as a result of credit from these NGOs. This finding corroborates press reports in Uganda that have been warning of the adverse effects of NGO credit on beneficiaries. These reports indicate that credit is increasing the misery of the beneficiaries to the extent that some of them have been forced to sell their household belongings to repay loans (*The Monitor*, 5 September 2000).

The borrowers are also required to make mandatory savings. The amount of savings determines the amount of loan to be given. ACORD gives three times while ISSIA gives five times the amount saved. Although the inculcation of the saving culture is important, in this case it may undermine the progress of the loan recipient. Given the low interest rates of savings accounts, it would be better to plough back the money than save. The loan beneficiaries need not be forced to save before breaking even because premature and forced savings may harm their small economic activities. Contrary to the impression that mandatory saving is intended to inculcate a culture of saving, the motive appeared to be a safeguard to the NGO credit programme. In case of default, the NGOs seized such savings. Mandatory savings were therefore found not to be in the interest of the credit beneficiary but to the institution.

Moreover, loans that were being disbursed by NGO credit programmes were found to be small to make the beneficiaries break-even. Besides, the period for repayment is short to make a tangible investment and they require a lot of sacrifice before they can be

accessed. The applicant has to first open an account and makes deposits for a certain period before he/she can access the first credit. WV for instance requires the borrowers to have saved 20 programmes of the loan being applied for. These loans are also given in cycles. The first cycle is small but the amount increases with the next loan cycle. Even though there are many cycles, the amount involved is small to be invested productively. An example can be given of ISSIA credit programme, which has four loan cycles to groups. The first loan to a group is Ush 400,000, the second cycle is Ush 750,000, the third cycle is 850,000 and the fourth cycle is Ush 1,000,000. These loans are small given the fact that ISSIA's groups are composed of seven to fifteen members each. If the block loan is divided between the members it becomes very small to be invested in a viable income generating activity. The recipients end up engaging in petty trades, which do not allow them to break-even. They are therefore kept dependent by the virtual amount of small loans given. The loan recipients interviewed indicated that their income generating activities could not be sustainable without continuous borrowing. The size of the loan therefore keeps the beneficiaries in perpetual dependency.

It was apparently clear that these categories of the poor required much more than credit to break-even. Whereas bigger loans may speed up the alleviation of poverty among the poor, it is necessary that the process be incremental so that beneficiaries are allowed to graduate and acquire capacity in the due process. This is because most of the active poor do not have the capacity to use big loans due to inherent limitations like limited education and lack of investment experience. The issue of increasing loan sizes therefore needs to be treated with caution. Even if the poor beneficiaries had the capacity to utilise bigger credit, they would still be bogged down by structural limitations like lack of accessible roads to markets and factors like the need for security, and a favourable economic environment.

Moreover, a wrong impression is created that NGOs charge small interest rates<sup>10</sup> on their credit to enable beneficiaries to break-even. The financial and management responsibilities of NGOs are transferred to credit groups. This is because credit groups are required to undertake additional activities like screening clients, determining the amount of individual loans according to ones capacity, peer monitoring to guard against credit diversion, and credit recovery.

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<sup>10</sup> This study found that FTC, ISSIA and ACORD charged an interest rate of 3% per month, while World Vision charged 22% per annum.

Besides, credit groups perform the function of collateral and risk insurance. Hence, risks that would have been borne by the NGOs in the process of credit management and disbursement are instead borne by credit groups. This transfer of responsibility increases the burden of clients more especially if viewed in terms of opportunity costs foregone. The transfer of costs onto credit groups explains the secret behind the NGOs' star performance in terms of repayment. NGO credit programmes are basically preoccupied with institutional performance at the expense of the accrued benefits to the credit recipients.

Notwithstanding the stringent terms and conditions, NGO credit programmes were found to be efficient in disbursing loans to clients. The NGOs procedure of giving credit is simple and efficient when compared with that of formal financial institutions. These include membership to a group, being of good character, having a bank account, and having an idea about an income generating activity. The disbursement of loans to applicants takes a shorter period of one week to a month. The rural poor appreciated the disbursement style of NGO credit because it did not delay their planned activities.

Much has also been written about NGOs possessing an advantage in dealing with the poor because of their participatory approach. Whereas this could be the case with their traditional undertakings, little can be correlated with credit handling. Field investigations established that in very few circumstances did beneficiaries participate in the decision-making process of NGO credit programmes. Circumstances in which changes were effected as a response to the input of clients were only in those areas where the interests of the NGOs were protected.<sup>11</sup> Action would be taken as long as the issues raised did not affect the terms and conditions of repayment. Fundamental issues that were raised by credit beneficiaries like the desire to have reasonable grace periods, increase in the size of loans, scrapping of mandatory savings, and having fewer meetings were rejected. The foregoing therefore indicates that the degree of participation allowed in respect to credit has not softened the stance of

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<sup>11</sup> A case in point was with FTC where the committee members complained and appealed for exemption of the 1% fee for administering loans. It is only this exemption that was allowed despite the fact that there were many other outstanding issues. The appeal for exemption was accepted because it is the committee members who virtually carried out all the administrative chores of book keeping, credit recovery and banking.

NGOs and neither has it given any kind of leverage to the credit beneficiaries.

Furthermore, the performance of NGO credit programmes can also be assessed on the basis of the non-monetary benefits extended to clients. Non-material benefits to clients are believed to enhance the capacity of borrowers to productively use the loans and subsequently improve their welfare. While all the NGO credit programmes had a training component as part of the credit package, this research found that the kind of training offered catered for institutional interests as opposed to enhancing the management skills and production techniques of beneficiaries. The general objective of pre-loan training was to educate the borrowers on the objectives of the credit programme, its terms and conditions, and the repayment procedure. The training therefore concentrated on issues like loan duration, repayment terms and dates, interest rates and other fees, record management and the implications of delaying or failing to repay. In very limited circumstances were beneficiaries trained on how to identify and manage an income generating enterprise. Similarly, supervision and monitoring was also found to be driven by repayment needs<sup>12</sup> as opposed to assisting beneficiaries improve credit utilisation as well as the accruing proceeds. Credit supervisors were not involved in educating and advising the rural beneficiaries on what appropriate techniques they could employ to maximally utilise credit or which alternative opportunities would be more productive. Neither were they educated on the means and ways to ensure self-sustainability after credit. It was established that their role could not be compared with that of traditional government extension workers. Their contribution was therefore more in fulfilling the interests of the NGO credit recovery than networking with the clients to enhance their capabilities. The interest was to guard against loan diversion and to make sure that repayments were promptly made. Data gathered also confirmed that all the NGO credit programmes did not tolerate delays and neither were they willing to reschedule loans in circumstances where clients found it difficult to pay on time. This is why all the NGOs preferred to deal with groups because the failure by an individual to repay is directly borne by the whole group. It is therefore clear that NGO

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<sup>12</sup> During the two field visits with credit officers of FTC to Bunamwaya (Mpigi district), it was observed that they were preoccupied with the maintenance of books and weekly repayments. This appeared to be a similar case with the other NGOs studied.

credit programmes do not tolerate risks, which are inevitable in day to day life, but they are instead transferred onto the borrower. This is quite surprising given the fact that even commercial banks sometimes listen to clients' problems and reschedule loans and/or interest. NGOs were found to be highhanded when dealing with credit repayment contrary to their conventional image of being compassionate and having the best working relations with the poor.

As regards the debate on whether NGO credit programmes do indeed alleviate poverty among the poor, it is highly questionable that they do. All the credit beneficiaries interviewed expressed appreciation of the assistance but complained about the stringent terms and conditions as well as the size of loans given. Some of the meagre benefits indicated to have accrued from credit include ability to meet household basic needs as already cited, as well as purchase of a few humble assets. From the study findings, it was noted that such benefits did not accrue to each and every one but to those who were mostly involved in trade because the rate of returns are faster to enable repayment of the debt and leave a balance. Notwithstanding some of the benefits arising from credit, none of the beneficiaries interviewed had attained self-sustainability. Whenever asked if they were able to continue with their income-generating ventures on a self-sustaining basis, the reply was 'no'. This is because the beneficiaries' income-generating activities were small. Besides, stringent terms and conditions of the loans and the smallness of credit given hampered their growth. This situation has put such categories of the active poor in a risky situation.

### **Critical assessment of state credit programmes in poverty alleviation**

There has been wide spread tendency to measure the effectiveness of credit programmes using repayment rates. Even though repayment performance is one of the vital components, it may not reflect the welfare improvement attained by the credit beneficiaries. There is therefore need to go beyond the superficialities of repayment rates to look at material and social achievements. The reason why social achievements need to be critically assessed is because social relationships (social capital) have been recognized to be instrumental in improving economic performance (Putnam, 1993). Situations in which social capital expanded were found to exhibit better economic performance and good governance. There is therefore need to analyze

both the material and social benefits that emanate from state credit programmes.

The first achievement of both ECS and PAP is making funds available to the rural poor who could not access credit from conventional financial sources. The ECS covers the entire country while the first phase of PAP credit covered 29 districts. The second phase which was supposed to start in January 2000 is expected to cover the whole country but had not begun by the time this research was conducted (October, 2000) because African Development Bank (ADB) had not released the funds. According to the national project officers, 25,380 clients of whom 15,228 were women and 10,152 men had by August 1999 accessed PAP loans. The total loan portfolio was put at Ush 11.5 billion. In the case of Mpigi district, a total of 2490 loan recipients were recorded. These had accessed PAP loans equivalent to Ush 1,174,687,250 and repayment amounted to Ush 1,157,000,000 (86%). Comparatively, ECS has extended loans equivalent to Ush 9,308,400,000, which was accessed by 39,200 people whose categories are indicated in Table 2 below.

**Table 2:** Categories of Beneficiaries of ECS (September 1997)

<b>Beneficiaries</b>	<b>Total Number</b>	<b>%</b>
Men	14,050	34.6
Women	13,250	33.7
Youth	11,400	30.5
Disabled Persons	500	1.2
Total	39,200	100

**Source:** *Entandikwa Secretariat*

Notwithstanding the absence of precise records about the activities of ECS, the available data from ECS and PAP illustrate that there has been substantial credit coverage in terms of outreach.<sup>13</sup> There is therefore evidence that these state credit programmes have generally reached many rural people who were previously excluded or were not served by formal financial institutions. Accordingly, if outreach is to be used as an indicator of good performance, then there is no doubt that ECS and PAP have performed well given the fact that they have been operating for about six years.

Much as this justification for state intervention in rural financial markets has to some extent been achieved, there is apparently no clear evidence that this coverage has had a corresponding positive effect on the beneficiaries' welfare. This study found that ECS was facing a crisis in terms of failure to recover the money loaned out. There was also no tangible impact of *Entandikwa* on the household incomes of the beneficiaries investigated. Beneficiaries of the credit did not appreciate its contribution because most of it was diverted to other activities other than those indicated on application forms. Besides, the recovery rate has been miserable.<sup>14</sup>

In comparative terms, PAP's performance was found to be better than that of ECS. This success can be attributed to its organisational efficiency.<sup>15</sup> Even though this organisational framework

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<sup>13</sup> In this case outreach refers to the numbers of credit beneficiaries, gender, geographical coverage, and loan amounts involved.

<sup>14</sup> While the Commissioner in charge of *Entandikwa* Secretariat put the recovery rate at 55%, interviews with beneficiaries in Mbarara and Mpigi districts found that the majority had not repaid and therefore the figure could even be lower than that indicated. In fact the official poverty status report from the OPM gives the repayment rate for ECS as 40%. The exact repayment rate was unknown because of poor coordination of the credit program, which has adversely affected information collection.

<sup>15</sup> The executing agency of the credit program is the OPM. The specific departments dealing with PAP at the ministry headquarters were originally the National Steering Committee (NSC) and the Income Generation Support Unit (IGSU). Four zonal offices of Arua, Gulu, Luwero and Kabale coordinate the program. These zonal offices are presided over by the Area Project Coordinators (APCs). At the district level, PAP's activities previously provided for a District Loans Committee (DLC) to scrutinize and approve credit disbursements while the PAP offices at the district level were manned by Area Project Officers (APOs). Then at the lower bottom is the Intermediary Entities (IEs) which are grassroots NGOs and CBOs that are contracted to disburse credit to beneficiaries at a commission of 15% of the

was not as detailed as it is the case with ECS, it had to be scaled down in order to make it more efficient as well as lower the administrative costs. Therefore, the District Loans Committee (DLC) and the IGSU at the ministry headquarters were scrapped to leave only the NSC, APCs, APOs and IEs. PAP has since the restructuring had only three levels which make it efficient and effective in credit delivery. It has maintained an efficient credit delivery system whose performance in terms of repayment rate is 93%. Field investigations also established that the beneficiaries of PAP credit were performing well in terms of engaging in income generating activities, asset accumulation, creation of employment opportunities, and general welfare improvement. The description of the PAP programme design together with its mode of operation indicates that it is an efficient credit programme. The efficiency is attributed to the absence of political interference and bureaucratic procedures in disbursing credit, and also due to the adoption of group mechanism that has been proven to be efficient and effective in credit management. The most significant of all these is the fact that PAP has been allowed more operational autonomy than ECS. It has therefore subjected it to efficient management systems and strict financial controls. It was established that every activity whether it involves opening new branches or recruiting new staff or disbursing credit, and even purchasing any equipment has to be endorsed by ADB. It was even found out that lack of political interference was much more explained by Uganda government's fear to lose the funding than discipline *per se*. The government is fond of using such programmes for patronage purposes, as has been the case with ECS. Through in-depth interviews with PAP officers at both the district and centre, it was established that PAP's activities are periodically reviewed using external and independent consultants, which then recommend changes. It is such a mode of operation that has enabled PAP credit programme to outperform ECS, which is a parallel state credit programme.

Additional indicators of such efficiency include good terms and conditions of accessing credit. The procedure of acquiring credit is simple and fast. According to the APO Mpigi district, it takes two weeks to two months to disburse credit. He however indicated that disbursement of credit is sometimes affected by delays in remittances

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loans disbursed. It must have been working with the community in the areas concerned for not less than three years and must be acceptable to the local leadership. The APOs deal directly with the IEs and also supervise their activities.

of funds from ADB and Uganda government. The procedure requires individuals within groups to apply for loans from the IE within that locality or directly from the APO in case of absence of the IE. The credit programme has harnessed principles that are recognized for the success of NGOs and CBOs credit programmes. These include emphasis on individuals within solidarity groups (15–30 members) from the same locality. Solidarity groups are instrumental for good performance because they simplify the screening of loan applicants and reduce credit risk through co-guaranteeing. They also minimize operational costs, ease monitoring, supervision and enforcement through peer pressure. The procedure also insists on the feasibility of the project as well as for loan applicants to acquire credit for on-going activities for which they have proven experience. Whereas no physical security has been required from the beneficiaries, alternative forms of collateral have been opted for in form of group co-guaranteeing and mandatory savings. PAP requires applicants to have saved 12% of the loan applied for if they are individuals within solidarity groups or 22% if they are individuals outside a group. It also charges an open market interest rate of 22% which caters for operational costs as well as risks involved in credit intermediation. Peer pressure and monitoring, supplemented by the effective supervision by credit officers were used to secure the loans disbursed. Monthly meetings where repayments are made are also encouraged within groups as well as between groups and credit officers. In contrast to ECS, PAP's clients have been induced with a five loan cycle system as a way of motivating them to make timely repayments. The first cycle maximum loan is Ush 200,000 with an increment of Ush 200,000 for each of the four subsequent cycles. Reports from both the credit administrators and beneficiaries confirmed that this particular method has been effective in motivating beneficiaries to repay the loans.

Other attributes that have contributed to PAP's good performance include the enhancement of the capacities of IEs through training their staff in credit management as well as giving basic training to the beneficiaries. Credit beneficiaries are given pre-loan training for eight weeks in which they are given basic knowledge about group dynamics and management, bookkeeping, record management, and enterprise management. In addition to all this, PAP's non-financial services include the provision of extension services and market information to beneficiaries. PAP facilitates government extension officers at the district by paying them daily allowances to advise the credit beneficiaries of PAP. It also provides market information to

farmers from government departments and the Uganda Chamber of Commerce. Lastly, PAP credit allows participation of beneficiaries through monthly group meeting as well as meetings organised with PAP credit officers, which has created some degree of transparency and flexibility. No similar innovation was found to exist in ECS. The few who accessed the loans did not have a second alternative. Moreover, the amount to be accessed depended on the whims of the County Steering Committee (CSC). Most of the beneficiaries of the ECS interviewed complained that they had received less credit than that applied for. This finding also concurs with the argument that the possibility of beneficiaries accessing another bigger loan is instrumental in improving repayment rates.

In addition, ECS failed to safeguard loans because of the wrong procedure<sup>16</sup> used. By allowing politicians to identify the beneficiaries, ECS was unable to get honest clients. The procedure for accessing credit from ECS requires an applicant to have his/her application endorsed by local politicians. This procedure has a lot of loop holes because the people entrusted with this responsibility are local politicians whose screening criteria of loan applicants is not necessarily based on technical competence and objective considerations but political interests and patronage. The only three technical officers represented on the CSC were the Assistant Chief Administrative Officer, the Cooperative Officer and the Unified Extension Worker. Much as these three officers are technical in occupational terms, it was established that none of them was competent in credit management. In-depth interviews with both the recipients and Intermediary Agencies (IAs) revealed that local politicians themselves accessed the loans, recommended their relatives and friends, and their political supporters especially their campaign agents.

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<sup>16</sup> The scrutiny of the procedure of disbursing credit under ECS was found to be bureaucratic and wasteful. Funds budgeted for ECS are released by the Ministry of Finance, Planning and Economic Development (MFPED) to the *Entandikwa* Secretariat which subsequently forwards the funds to the Chief Administrative Officers (CAOs) at the district. The CAOs then dispatch the funds to IAs for onward transmission to the successful applicants. The ECS procedure also requires the IAs to monitor, supervise and enforce repayment while at the same time it gives the same responsibility to the County Steering Committee (CSC) which is dominated by local politicians. The roles dispersed to each of these implementing committees are duplicated and it was unclear who was fully responsible and accountable. This confusion was reported to be responsible for adversely affecting monitoring, supervision and recovery of the loans.

The IAs also took advantage of the laxity within the ECS procedures to connive with applicants and then fraudulently overrated their applications. Interviews with some of the beneficiaries revealed that there were many cases where applicants bribed IAs to make their applications qualify for credit. In other circumstances, IAs diverted credit<sup>17</sup> for other things other than those specified. Therefore, in terms of securing loans, PAP was found to have outperformed ECS whose operational procedures were politicized, full of laxity and very ineffective.

Apart from cases where established and experienced NGOs like World Vision and Co-operative societies accepted to be used as conduits for *Entandikwa*, some of the IAs investigated in remote rural areas admitted to never handling any activity related to credit before. Some of those IAs visited neither had adequate and qualified staff in the areas of credit and business management<sup>18</sup> nor possessed physical facilities to handle credit. Most of them had offices which lacked basic equipment like a typewriter and were manned by unqualified personnel. The question of ECS being mismanaged by IAs had even been raised by the Auditor General of government. In his audit report referenced G/9/1/95 dated April 16, 1996, the inspection of *Entandikwa* credit funds in five districts by the Auditor General's office found serious financial irregularities. The report noted 'the absence of records at the districts showing amounts received, ledger accounting showing status of each loan, repayments and so forth. Auditors were informed that the management of the scheme was left in the hands of IAs. They were therefore unable to certify whether all amounts disbursed reached the rightful beneficiaries and whether the loans were being repaid' (Auditor General's Report, 1996). This report by the Auditor General therefore testifies to the fact that the ECS was being mismanaged by those very offices that were being facilitated at high administrative costs.

During the course of this research, it was further established that IAs/IEs were sometimes not easily available in some of the remote areas. For instance, PAP was not able to extend credit to

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<sup>17</sup> A case in point was in Mpigi district where two IAs embezzled credit for Kyadondo and Gomba counties respectively. The two IAs were however made to refund these funds after which their services were terminated.

<sup>18</sup> The IA that was responsible for managing *Entandikwa* in Kabuyanda (Isingiro) was for instance a livestock farm called *Kaibo Farm*, whose activities had neither experience nor relevancy for credit management.

counties of Butambala and Gomba while some parts of Mawokota in Mpigi district were not covered due to lack of IEs. In the case of ECS, the counties of Kyadondo and Gomba faced a similar problem of having no IAs to handle credit disbursement. The information received from Kabuyanda in Mbarara district indicated that the cheque for the second disbursement of *Entandikwa* credit expired because there was no IA to cash it since the manager of *Kaibo Farm* had died and the farm had become non-operational by the time the cheque was dispatched.

This disconcerted and bureaucratic mode of operation of ECS was found not only to lead to information breakdown and poor coordination, but also led to substantial waste of funds that could have been given out as credit to many poor people. According to the design of the ECS each implementation level is allocated a percentage of the total loans disbursed to meet operational costs. The IAs used to get 4% which has since been increased to 6% of the total amount of credit (Ush 30 million) allocated to each constituency (county) as a commission (to meet their transaction costs). The CSC is given 1% while the DSC gets 0.5% of the total credit disbursed in that area. The administrative costs incurred by ECS are substantial. A total amount of Ush 615,600,000 (US\$ 342,000), which is 6.2% of the total loans disbursed was wasted on administrative costs. Yet, if the programme was well designed and had a cost effective structure, these funds would have been better utilised by being given out as loans to tens of thousands of the rural poor. Assuming that small credits of Ush 50,000 (that are usually given out to the rural poor by NGOs and CBOs micro credit schemes) were disbursed, then the funds spent on administrative costs would have effectively benefited 12,312 rural poor. What is however unfortunate is that these enormous operational costs could not enhance the performance of ECS whose repayment rate stood at 40%.

Research findings established that the ECS had favourable terms and conditions compared to PAP and therefore performance would have been expected to be better. *Entandikwa* loans were character loans that required no collateral. Besides, they carried a modest interest rate of 12% before it was increased to 16% during the second phase, had a grace period of three months and repayment is in one year, and 30% of the loans are earmarked for women, the youth and people with disabilities. In contrast, PAP charged an open market interest rate of 22%, had no gestation period, insisted on monthly repayments and earmarked 60% of the total loans to women. Yet, the

performance of PAP loans registered a high repayment record of 93% as well as generating benefits to the beneficiaries. This impressive performance was regardless of the fact that PAP's terms and conditions were stringent in comparison with ECS. It is basically the critical questions of client identification, monitoring and supervision as well as enforcement procedures that determine the performance of the credit institution as well as that of its clients. Therefore, it was quite clear that the size of the loan given and the interest rate charged had no relationship with performance. Irrespective of the fact that most of the beneficiaries of ECS received bigger loans that ranged from Ush 100,000 to 1,500,000 at a favourable terms and conditions, which was never honoured anyway, the performance of ECS generally as well as that of the beneficiaries was extremely poor. This finding therefore shows that open market interest rates have no effect on credit performance as has been exemplified by PAP's experience. PAP has had an impressive record regardless of the fact that it charged open market interest rates while ECS's low interest rate could not salvage its poor performance.

It has generally been argued that the utilisation of credit determines the performance of the beneficiary in terms of individual benefits as well as the repayment record. The research findings indicate that better credit utilisation from ECS and PAP depended on both gender and organisational vigilance. In both credit programmes women were generally found to have restricted their credit to those very projects that were indicated in loan applications. Women tended to utilise their credit better and their repayment rates were high in comparison to those of men. The few women who defaulted either had no experience in that specific project executed or were affected by genuine factors like natural hazards or lack of markets in the case of agriculture. There is therefore a possibility that this impressive performance may be explained by the fact that women constitute 60% of the clients of PAP. This is because the credibility of women in terms of honesty and better utilisation of credit<sup>19</sup> has for long been proclaimed (Blumberg, 1993; Hashemi, Schuler & Riley, 1996).

The gender aspect notwithstanding, effective credit utilisation was associated with those beneficiaries who were already engaged and had experience in an income-generating micro project. The

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<sup>19</sup> It was only women that had a high repayment record as well better utilization of credit proceeds irrespective of whether they accessed credit from ECS or PAP.

respondents who accessed and utilised *Entandikwa* credit successfully, were those that never diverted loans to projects other than those specified in their applications. A good number of these were traders and smallholder farmers. The majority of those beneficiaries, who had utilised the loans in accordance with the projects identified in their applications, had repaid the loans. It is therefore clear from the foregoing that loan diversion is highly correlated with poor performance.

Another fundamental issue, which is widely recognized is the significant role played by information in determining the effectiveness of interventions. It is necessary that the beneficiaries are succinctly informed about the terms and conditions of the loans. They should be informed about the interest involved, when repayment is due and how to utilise the loan. This is important in order to guard against misconceiving the loan as a grant. Whereas the beneficiaries of PAP had adequate information about the terms and conditions of the credit, it was apparent that some of the beneficiaries of ECS were not adequately informed about the loan requirements, which is partly responsible for poor performance. The most common response as to why they had not repaid the loan was that *Entandikwa* was gift money from President Museveni in appreciation of the support given to him during the 1996 presidential elections; hence it was not necessary to repay it. This group was found to be inadequately informed about the terms and conditions of the loan. They therefore confused it for a grant.

Much as the minister responsible for *Entandikwa* has tried to mobilise the credit recipients countrywide to comply with repayment, other politicians were reported to discourage repayment. In areas where this research was conducted information received indicate that both local and national politicians had promised the beneficiaries that if they got elected they would scrap the loans during the 1996 and 1998 parliamentary and local government elections. However, the same trend was being repeated with the 2001 presidential and parliamentary elections. In the case of northern Uganda, area politicians were reported to be discouraging people from repaying the loans because the government had failed to bring security to the area. Even President Museveni himself was quoted during a rally in Wakiso to have warned those enforcing repayment of *Entandikwa* not to harass his people (beneficiaries) since they were going to pay any way. Therefore defaulting on the repayment of *Entandikwa* can be attributed to the politics of patronage, poor mechanisms to identify honest

clients, failure to train the beneficiaries and poor or lack of enforcement. These weaknesses that have characterised the ECS subscribe to the argument that subsidised credit tend to benefit elites (Braverman & Guasch, 1993; Basu, 1997; Navajas *et al*, 2000) and that such credit tends to be given on the basis of patronage (Bibangambah, 1995).

It was also established that there appears to be a general reluctance for people to honour the repayment of loans from the state. Even in circumstances where they paid well like it was the case with PAP, there had to be clear demarcation from politics as well as strong provisions for enforcement. People perceive funds from the state as a kind of repatriation of what was rightly theirs but had been lost to the state. The officer responsible for ECS in Mpigi district when interviewed on why the beneficiaries of *Entandikwa* were hesitant to repay, he made this remark: “*As long as it is government money, it cannot be taken seriously. If someone steals from government, it is not considered stealing. It is taking back your things.*” This perception and feeling about credit from the state which has adversely affected repayment in the case of ECS apparently confirms Peter Eke’s proposition about the two publics in post-colonial Africa. He observes that the civic public in Africa is amoral and lacks the generalized moral imperatives operative in the private realm and in the primordial public. He further notes that the unwritten law of the dialectical relationship between the two publics is that it is legitimate to rob the civic public in order to strengthen the primordial public (Eke, 1975: 92 & 108).

The question of participation has often been emphasized as being a prerequisite for the success of interventions designed to improve the welfare of the poor. It is argued that when the poor are allowed to participate in the design, implementation and evaluation of policy outcomes or programmes to alleviate poverty, then there are higher chances for them to succeed (Uphoff & Esman, 1974). As far as the two state credit programmes are concerned, it was established that their inception had no grassroots inputs. Even though there is an impression created that consultations were carried out in the designing of PAP, it only involved the top policy makers and technocrats at the central government level. In the case of ECS, it evolved from a presidential promise, which was later formalized. Therefore, credit as a state intervention to mitigate the social costs of adjustment was not a result of a well thought out, researched and designed policy outcome. Although poverty surveys had been conducted by government to establish the magnitude of poverty in the country through Household

Budget Survey of 1989/90 and the Integrated Household Survey of 1992/93, these poverty surveys were quantitative and therefore never incorporated a component of participation by the rural poor. The information about poverty provided by these surveys was not accurate because data was collected using a few samples in urban and peri-urban areas from which generalizations were made. It is not until 1998 that the government conducted a qualitative study known as Uganda Participatory Poverty Assessment Project (UPPAP). This was done after realizing that the 1997 policy on poverty which had been designed on the basis of data generated from Household poverty surveys had shortcomings because it had not incorporated the views of the poor.

Notwithstanding the fact that the two state credit programmes had been established without consultations with the rural poor stakeholders, there also existed no clear policy framework to address the phenomenon of poverty. It is not until 1997 that a comprehensive poverty eradication action plan (PEAP) was compiled. Even the formulation of PEAP failed short of streamlining and rationalizing the existing credit programmes.<sup>20</sup> It is precisely clear that the state credit programmes were established without a clear policy framework. It is therefore not surprising that some of the credit programmes like ECS have not performed according to expectations.

Apart from the absence of participation in the design of the state credit programmes, there is evidence that limited or no participation is provided for the beneficiaries of credit. While PAP's approach allows some degree of participation to beneficiaries, there was no component of participation within ECS. PAP extends credit

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<sup>20</sup> Much as an impression is created that *Entandikwa* Secretariat was responsible for linking MFEP with all programs focusing on poverty alleviation, this was however found not to be the case. During the conduct of this research no linkage was established between this Secretariat and the various programs engaged in poverty alleviation. Different credit programs were found to be operating under different departments irrespective of whether they were governmental or NGO credit programs. The credit activities of NGOs were registered and co-ordinated under the Ministry of Internal Affairs while PAP, Plan for Modernization of Agriculture (PMA), and the Northern Uganda Reconstruction Project (NURP) was being co-ordinated under the Office of the Prime Minister (OPM). Likewise, Karamoja Development Agency (KDA) was under the President's Office and the Cotton Sub-Sector Development Project (CSDP) under Bank of Uganda (the central bank). The *Entandikwa* Secretariat was therefore not linked with the various credit programs that are engaged in poverty alleviation.

through local IEs and requires beneficiaries to be organised in groups. The formation of these groups is however according to the specifications of PAP. Even grassroots associations that were already in existence had to be restructured to fit the standards of PAP. This approach allows participation within solidarity groups or between groups and IEs. It was established that PAP organizes meetings with IEs as well as beneficiaries where clients air their views and problems encountered and then they were freely discussed. Much as PAP's credit mechanisms allowed participation, it was confirmed that this had no significant influence on the terms and conditions of PAP loans. Therefore, participation was found not to have a significant impact on PAP's mode of operation. In contrast, ECS did not disburse its credit through groups and neither did it have a component of participation where clients meet with creditors to discuss pertinent issues that arise during the process of using credit.

### **Policy implications for state-sponsored credit programmes**

The question as to whether the state should intervene with credit as a means to alleviate poverty has drawn a lot of controversy in the development literature. While some scholars are skeptical about the implications of such intervention, others have defended the move as being necessary and justified. Justification for state credit intervention in rural areas include the need to redistribute income, transform agricultural practices, and reach out to rural areas in general and agriculture in particular, which have been neglected by commercial banks. In the case of Uganda, there is evidence to support state intervention in rural markets.

Whereas the informal sector and NGOs have been heralded for their effective interventions amongst the poor, available evidence indicates that such interventions do not possess adequate resources necessary for such a challenge. Poverty being multidimensional requires concerted state action. While the role of the state has been subjected to intense debate, it is nevertheless generally acceptable that governments must assume responsibility for macro-economic management and stability (Finn, 1993). This means that the state must intervene when appropriate to correct the imperfections of the market using administrative resource allocations as was the case with ECS and PAP. Whereas state intervention is acceptable, the dispute is on the appropriate way to intervene. The acceptable form of state intervention is through fiscal and monetary manipulations as well as

the budgeting process. Even though state intervention to alleviate poverty is necessary, credit as an intervention strategy generally appears to have had poor performance. Bureaucratic procedures, corruption, patronage and high default rates have characterised state credit programmes. Experience with state credit programmes further shows that it has been skewed in favour of elites.

Whereas PAP has performed well when compared with ECS, it would be premature to argue that it has succeeded given the fact that it has been in operation for only six years. Moreover, the fact is that PAP's impressive performance is generally attributed to the stringent controls attached as a result of funding conditions from ADB, which contributes 90%. It is therefore too early to judge whether such an impressive performance record will be maintained in the event of ADB phasing out its funding activities. The performance record of ECS reinforces this scepticism, which is a parallel state credit programme solely funded by the state. Its performance has been a fiasco regardless of the astronomical sums of government funds that have been put into it. Therefore, it would be inappropriate to dispute the arguments against state credit programmes on the basis of PAP's performance given the fact that its current performance cannot be disassociated from the controls and strict monitoring and supervision by ADB. In addition, this research established that PAP credit programme was not self-sustaining regardless of the fact that it had been in operation for six years and with substantial funding amounting to US \$ 15 million. The investigations carried out revealed that PAP was not self-sustaining and heavily relied on external funding (ADB). Its future therefore still hangs in the balance more especially in the event of ADB pulling out of the programme funding. These findings about state credit programmes therefore confirm the contention that subsidised credit programmes are wasteful, unproductive and unsustainable (Braverman & Guasch, 1993). There is therefore need to redefine the role of the state in rural financial markets. While the state has the responsibility for policy making and provision of the necessary enabling environment, it should also be involved in building the capacity of the evolving grassroots financial institutions, that is, the ICA. The role of the state in the capacity building of ICAs should involve training them in organisational dynamics as well as credit and business management techniques. In addition, the state should channel poverty alleviation funds through ICAs in order to avoid such interventions being hijacked by elites and as an appropriate channel to reach the genuine rural poor. This position disagrees with the Bank of

Uganda Report (1994) on rural finance and credit schemes which recommended that *“the role of the state should be confined to policy making and provider of an enabling environment and not as a supplier of concessionary funds for cheap credit”*.

While it is true that most state credit programmes have failed as indicated by the Bank of Uganda report, it is recognized even in market economies of the West that states should have the capacity to intervene in the economy in the interests of their people (Lewis, 1969; Munro, 1996). Therefore, the question is not whether to intervene or not to intervene but about how to intervene. The argument therefore is not to scrap state intervention in credit markets because state programmes have historically performed poorly but to find an alternative approach through which state intervention can be improved. The underlying justification for state intervention is because formal financial institutions have failed to reach out to the rural areas. Moreover commercial banks are biased against lending to the rural poor as well as agricultural activities. It is against this argument that we contend that state intervention should continue but only the delivery methods should be changed. State intervention has failed because of the ‘top-down’ approach. There is therefore need for the state to use the ICAs at the grassroots whose efficiency and effectiveness in credit management is outstanding in spite of having limited funds.

### **Conclusion**

Much as credit makes a tremendous contribution in the effort to alleviate poverty, there is evidence that credit on its own cannot do much. It is frequently argued that credit by itself cannot generate income without profitable investment opportunities, adequate incentives, markets and infrastructure, without which credit will remain a debt and grow to be a debt burden. Credit schemes though significant and necessary, cannot be substitutes for broader policies and investment infrastructure to foster economic opportunities for the targeted sector or people. Therefore, credit on its own should not be viewed as a panacea to poverty eradication. It is only a component of a much larger enabling environment and infrastructure needed to foster economic growth as well as opportunities that poor people need to improve their lives. It is therefore precisely clear from the foregoing that problems of mass poverty and deprivation require a combination of interventions, a synergy that involves a concerted action by the state, the private sector, non-profit organisations as well as informal

sector self-help grassroots associations of the poor themselves. There is therefore no single solution or quick fix. Rural poverty requires not only a partnership of all the institutions interested in the development process but also many interventions like good macro-economic policies, infrastructure, markets, credit and institutions which must be coordinated within a specified framework.

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