THE UNIVERSITY
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FINANCIAL SYSTEMS AND RISK MANAGEMENT: THE NATURE AND ROLE OF FINANCIAL SERVICES FOR MANAGING POOR URBAN LIVELIHOODS IN KAMPALA, UGANDA IN 2000

by

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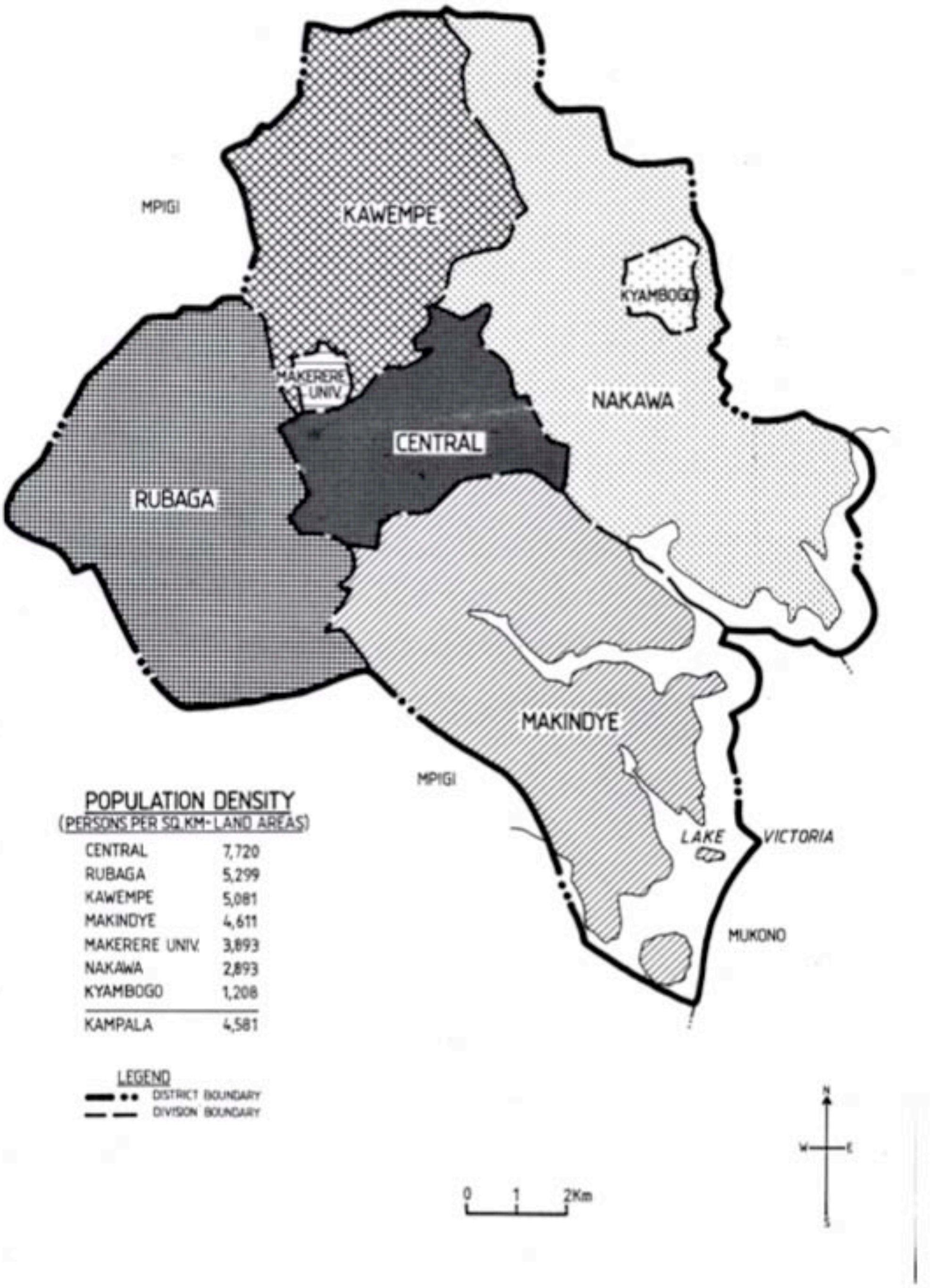
ABSTRACT

Africa is acknowledged as one of the fastest urbanising regions in the world today and the number of urban poor is growing at the same rate, with the urban poor increasingly reliant on a cash economy. The concept of urban poverty has developed from a static income-based absolute approach to a holistic dynamic and complex state, embedded in livelihood assets and a vulnerability context. A variety of livelihood assets including labour, housing, intra-household relations, human capital and especially social capital are important for risk management strategies. Microfinance has been seen as a key panacea for livelihood development.

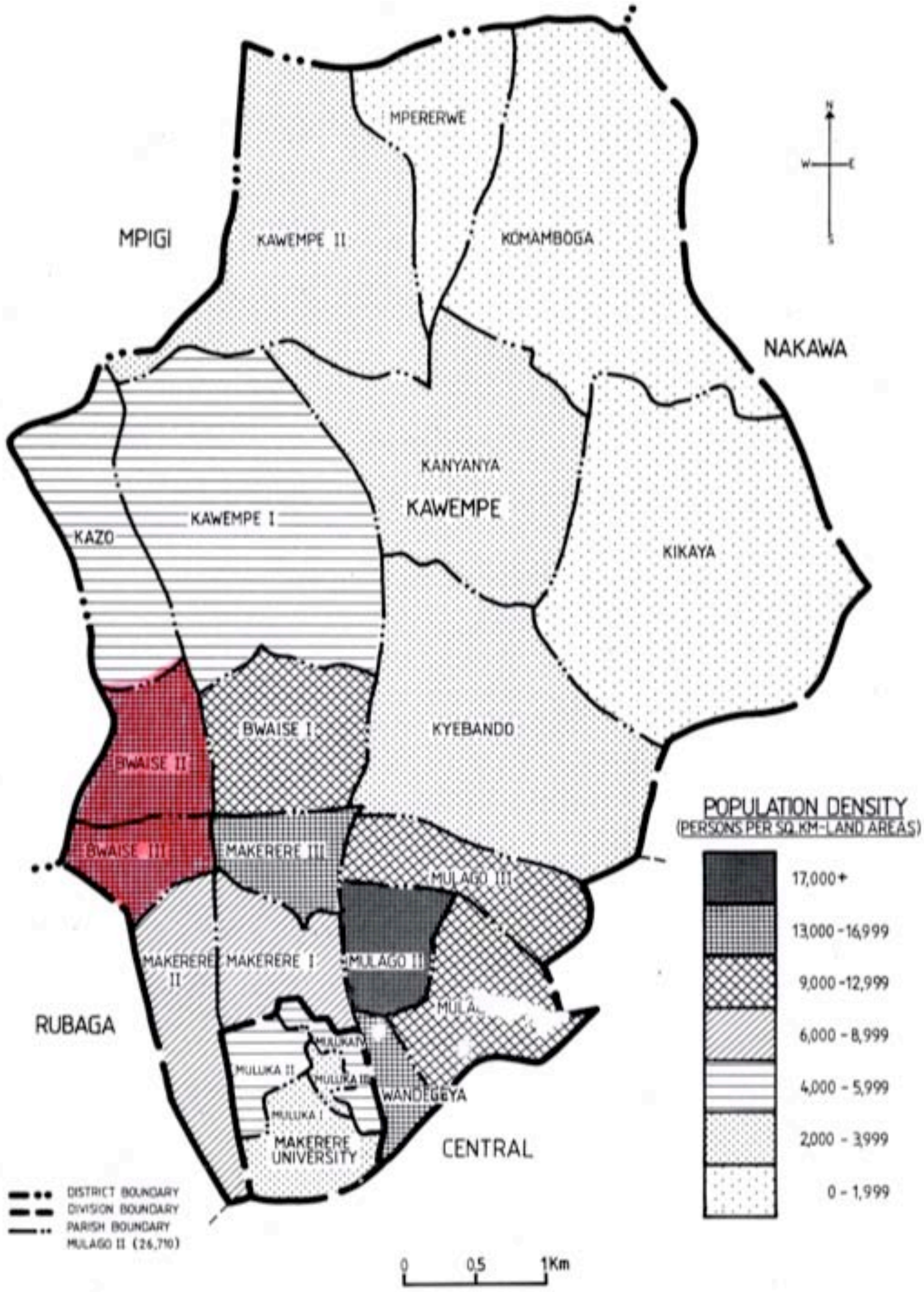
Using the livelihoods framework this research analyses the nature of livelihoods and financial services within Bwaise, an area within Kampala, Uganda that is a poor densely populated area with a mixture of residential and commercial activities. Financial services were diverse, ranging from formal banks, donor-led microfinance and cash rounds to informal loans. These financial services, mainly developed by the poor, were used to secure livelihoods, with a cumulative nesting of use by the poor. The influence of external factors was high and significantly affected how the poor managed their livelihoods and impeded livelihood development. Theft, ill health and unstable employment were key factors contributing to a highly insecure environment. The complexity of urban livelihoods created the need for diverse financial services because expenditure requirements often outstripped income flows, which was why financial services were so important in managing livelihoods. A diverse range of financial services have become a vital part of income and consumption smoothing risk management strategies, which were key strategies for protecting and managing livelihoods.

MAP OF UGANDA

MAP OF KAMPALA DISTRICT



MAP OF KAWEMPE DIVISION[1]



[1] Bwaise II and III denote the research area.

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To my parents, for their unconditional love and support

TABLE OF CONTENTS

ACCESSING FINANCIAL SERVICES

LIST OF BOXES

LIST OF FIGURES

LIST OF PHOTOGRAPHS

LIST OF TABLES

ACRONYMS AND PHRASES

AAU	Action Aid Uganda
Boda boda	Motorbikes and bicycles used as taxis
BoU	Bank of Uganda
BPR	Bwaise Poverty Reduction
BSDP	Business/Entrepreneurship Skills Development Training Programme
BUDP	Bwaise Urban Development Programme
BUDS	Business Uganda Development Services
BVA	Bwaise Vendors Association
Cash round	Cash round was the term used in Bwaise for ROSCAs.
CBO	Community Based Organisation
CEEWA	Council for Economic Empowerment for Women In Africa-Uganda
CMF	Commercial Microfinance
DFI	Development Finance Institutions
DFID	Department for International Development
Dobbi	Launderer
DREPS	District Resource Endowment Profile Survey
El Niño	A disruption of the ocean-atmosphere system in the tropical Pacific having important consequences for weather around the globe causing flooding and increased water temperatures.
Entandikwa	Government's loan programme
EU	European Union
FACS-U	Foundation for African Child Support, Uganda
FAULU	Success or to succeed in Kiswahili
FGD	Focus Group Discussion
FINCA	Foundation for International Community Assistance
FIS	Financial Institutions Statute
GAD	Gender and Development
GDE	Gross Domestic Expenditure
GDP	Gross Development Product
Gomesi	Traditional female dress
GoU	Government of Uganda
GTZ	Deutsche Gesellschaft fur Technische Zummenarbeit (German Aid Agency)
HDI	Human Development Indicators/Index
HIPC	Highly Indebted Poor Countries
IGAs	Income Generating Activities
ILO	International Labour Organisation
IMF	International Monetary Fund
Jua Kali	Kenya Informal Economy literally means Under Hot Sun
Kabaka	King
KCC	Kampala City Council
LC	Local Council
Magendo	Informal economy
Mailo	Local land tenure system
Marram	Dirt track roads
Matooke	Banana plantain
MED-NET	Micro Enterprise Development Network

MFIs	Micro-Finance Institutions
MMWA	Munakukaama Metal Work Association
MSE	Micro and Small-scale Enterprises
MTCS	Medium Term Competitive Strategy
Munno Mukabi	Informal group insurance scheme
Mzungu	European white person
NGOs	Non-Governmental Organisations
NRM	National Resistance Movement
PAP	Poverty Alleviation Project
PEAP	Poverty Eradication Action Plan
Posho	Cooked maize meal
PPA	Participatory Poverty Assessments
PRELAC	Programa Regional del Empleo para America Latina y el Caribe
PRESTO	Private Enterprise Support Training and Organisational Development
ROSCAs	Rotating Savings and Credit Associations
RoU	Republic of Uganda
SAPs	Structural Adjustment Programmes
SCF	Save the Children Fund
SCSs	Savings and Credit Schemes
SEWA	Self-Employed Women's Association
Special Hire	Privately run taxis
SPEED	Savings Promotion and Enhancement of Enterprise Development
SSA	Sub-Saharan Africa
Stage	A bus stop/taxi rank so buses, boda bodas and special hire could congregate within an area.
SUFFICE	Support to Feasible Financial Institutions & Capacity Building Efforts
Taxi	Minivans used as buses
Toninyira Mukange	Evening markets that started in the 1970s in urban areas for people to buy raw and cooked foodstuffs
UCB	Uganda Commercial Bank
UGAFODE	Uganda Agency for Development
UMSFD	Uganda Microfinance Scheme for Development
UNDP	United Nations Development Programme
UPE	Universal Primary Education
UPPAP	Uganda Participatory Poverty Assessment Programme
USAID	United States Agency for International Development
/=USh	Uganda Shillings 2,500/=USh was equal to £1 in 2000.
Wayaye	Useless loiterer
WFP	World Food Programme
WID	Women In Development
YOFA	Youth Development Foundation

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

1.1.1 African Urban Poverty, Livelihoods and Informal Financial Services

The 1990s witnessed phenomenal urban growth, with the worldwide urban population increasing by 36%. By 2007, for the first time in human history, more than half the people in the world will be living in cities, the result of a continuing movement of people that has led to the tremendous growth of urban areas in developing countries in the past decade. It is estimated that by 2030 all regions of the world will have urban majorities and Africa will reach 54% urban population (UNFPA, 2005). Urbanisation, and consequently urban poverty, in Africa have grown substantially since the 1960s. In 2003, 38% of Africa was urban and 57% of urban dwellers lived in slums. The African continent is acknowledged as one of the fastest urbanising regions in the world today with the urban poor growing at the same rate (Bryceson, 2005).

The urban poor are increasingly reliant on a cash economy, which requires more diverse livelihood strategies than in traditional agriculture subsistence. Poverty has been put back on the development agenda since the 1990 World Development Report (World Bank, 1990) and has remained there in the 21st Century (World Bank, 2000). The concept of poverty has developed from an absolute quantitative static measure to a dynamic and complex state embedded in livelihoods and context, which emphasise the wealth as well as the vulnerabilities of the poor. This has developed since the 1960s focusing in turn on absolute food poverty, basic needs, human development and participatory approaches, finally leading to the livelihoods framework in the late 1990s (Rakodi, 2002). Since the 1970s, urban poverty in Africa has been researched in the context of the informal sector (King, 1977; ILO, 1972; Hart, 1973; Moser, 1978) and survival strategies in times of crisis (Chant, 1992 & 1991; Elson, 1992, Mitullah, 1991; Rakodi, 1991, 1995 & 1997); unsurprisingly labour markets are still seen as one of the most important factors when examining urban poverty (Amis, 1997).

Alongside the development of the livelihood concept in the 1990s, micro-credit was seen as the '*magic bullet'* for poverty reduction and women's empowerment (Hulme & Mosley, 1996; Johnson & Rogaly, 1997). In 2000, micro-credit in Africa generally focused on short-term working capital loans for female micro-entrepreneurs, which were supply-led. Since the research was carried out there has been a growing acceptance of a more holistic approach to microfinancial services in assisting with livelihood development (Matin et al, 2002; Rutherford et al, 2002; Rutherford, 2000a &b; Wright, 2000; Robinson, 2001; Cohen, 2001). These microfinancial services aim to be demand-led to meet the needs of the clients. Research on informal financial systems has been more limited, partly due to the difficulty in obtaining information and has mainly focused on ROSCAs[1] in Africa (Ardener & Burman, 1995; Burman & Lembete, 1995).

The increasing acceptance of the livelihoods approach for poverty reduction and broader microfinancial services has meant an increasing need to understand the livelihoods of the poor, and the role that financial services play in developing and managing these complex livelihoods.

1.1.2 Kampala and Uganda

Since 1986, the Government of Uganda (GoU) and donors have made concerted efforts to reduce poverty with the introduction of the Poverty Eradication Action Plan (PEAP) in 1998 (MFPED, 2000e). Uganda was in an advanced state of collapse when the National Resistance Movement (NRM) under Museveni, took political power in 1986. Income levels were very low

[1] ROSCAs are rotating savings and credit associations.

and there had been a large scale '*retreat into subsistence'* (Collier & Pradhan, 1998); social capital was seriously eroded in many areas due to ten years of conflict; the provision of education and health by the Government was almost non-existent, private provision was patchy and not accessible to the poor. In 1992, 54% of people were estimated to be below the poverty line and 36% below the food poverty line. Poverty rates were lower in urban areas with 28% of urban people living below the poverty line and 11% below the food poverty line. In 2000, total absolute poverty was at 34%, this showing that the poverty rates have fallen. Worryingly, though, the poverty headcount has risen to 38% in 2005, which may be as a result of the focus on improving service delivery rather than incomes and also the high population growth in Uganda (Miovic, 2004).

The story was echoed in Kampala in the 1970s where the urban physical infrastructure had deteriorated from neglect, looting and warfare; governmental services had also broken down and an informal economy grew rapidly after the mid-1970s. The decline in real wages in Kampala led to an informalisation of work; diversification of income; increased participation of women in paid labour; urban agriculture and participation in illegal economic activities in the *magendo*[2] economy (Maxwell, 1995 & 1998). In 1992, approximately 13% of the population were urban (MFPED, 1994), which increased to 14% in 1997 (Appleton, 1999 & 2001). The 1990 wage had only 30% of the value of its equivalent in 1964 (Jamal, 1998). Whilst in the 1990s urban incomes had risen, (Collier & Pradhan, 1998) poverty was still endemic in Kampala. In 2000, only 50% of population had access to piped water, 72% used shared pit latrines, 65% rented accommodation with 54% of people living in tenements (RoU, 2000; MFPED, 2000c).

Alongside the focus on poverty reduction has been the rise of microfinance programmes since the late 1990s in Uganda. This rise was at a time when the financial sector was in crisis; several

[2] *Magendo* is the local name for the black/illegal informal economy.

banks closed; which led to a new law to improve the financial system. The Government and donors have recognised the importance of a financial system accessible to all of the population. In 2002, a Microfinance Bill was passed to formalise the growing microfinance institutions (MFIs) operating in Uganda, whose customers are mainly the poor. Despite the growth of microfinance, informal financial services are the most common way the poor access the financial system. The informal financial services are extremely diverse and localised in nature, reflecting the livelihoods in a given area. The research will examine the nature and role of financial services and livelihoods in a poor urban area.

1.2 STUDY OBJECTIVES

In the 1990s micro-credit was seen as the '*magic bullet*' for poverty alleviation. This statement is far too simplistic; there is a need to unpack the role of microfinance for securing livelihoods. The nature of the informal finance services used by the poor is hardly known. Understanding the nature and role of the financial system will help to improve the quality of microfinance programmes. Poor urban livelihoods are only now beginning to be fully understood holistically, rather than being understood simply as enterprises or households (Moser, 1996; Beall & Kanji, 1999; Rakodi with Lloyd-Jones, 2002; Wood & Salway, 2000). Urban livelihoods are complex and require a set of financial services to reflect this complexity. Aiming to understand the complexity of securing livelihoods and the role informal finance and microfinance can play will lead to improved policy on poverty reduction and more responsive financial services for the poor.

The primary aim of the study is to examine the nature and role of the financial system in securing livelihoods in Kampala. The term financial services will be used to describe all avenues of financial support (i.e. where the poor access money or credit-in-kind) for the urban poor, including formal financial services, MFIs, saving and credit schemes (SCSs) associations, loans from friends and savings at home.

The key objectives were:

- To analyse the nature of urban livelihoods, the type of activities carried out, the range of resources used and the context within which livelihoods are carried out.
- To explore the financial system and microfinance mechanisms used.
- To examine who uses the different types of financial services.
- To analyse how the urban poor access these financial services.
- To examine why the urban poor access financial services.
- To examine the costs of using financial services.
- To examine the constraints of the financial services available to the urban poor.

1.2.1 Scope of the Study

The research was carried out in Bwaise II and III, two Local Council (LC) II areas in Kawempe Division, which is a LC III within Kampala City in 2000. The area was chosen because the research needed to be in a poor area, with both residential and commercial activities. Bwaise is dominated by small-scale economic activities from hawking, *boda boda*[3] driving, food-selling and industrial establishments. It is predominantly a commercial centre for micro and small enterprises (MSEs); it also has a few small to medium scale industrial firms. The majority of the population in Bwaise both live and work there. The majority of the population is involved in some form of small-scale activity. There were also problems of unemployment and drug abuse with male youth (MFPED, 2000c). A baseline survey carried out by ActionAid Uganda (AAU) also showed the majority of the population in Bwaise were poor (AAU, 2000). Less than 50% of this population had attained primary school education and 80% lived in single rooms, 10% had

[3] *Boda boda* is the local name for bicycles or motorcycles used as taxis.

no access to latrines and 65% had access to piped water and 1% fetched water from ditches (AAU, 1998). Poor infrastructure in the area meant that Bwaise suffered from poor sanitation, sewage disposal and drainage. These problems are worsened by the swampy physical conditions. The road networks connecting the different zones in Bwaise area were poor except for the Gulu-Kampala highway (KCC, 1999b).

The study argues that:

- A range of resources are used to access financial services beyond traditional forms of collateral.
- A range of financial services, not just credit, is required to manage complex livelihoods.
- Informal financial services are very diverse and are used by the poor to help to secure their livelihoods.
- The urban poor use many resources to secure and develop their livelihoods, beyond income. Livelihoods are complex with risk management strategies to operate in a vulnerable environment.
- The context within which livelihoods operate hugely affects the ability to secure and/or develop livelihoods. A range of shocks and trends inhibit the development of livelihoods, which leads to a focus on securing a regular, even daily, income, rather than livelihood development and profit-enhancement.

1.3 METHODS

1.3.1 Livelihoods Approach: Framework for Analysis

The livelihoods approach has evolved from the concepts of poverty and research findings on the nature of poverty (Moser, 1996 & 1998; Chambers, 1995 & 1997; Carney, 1999; Rakodi with Lloyd-Jones, 2002). The framework realises that the poor are not passive victims but have a set of resources that allows them to survive. Once these resources are applied to the social, economic and political context of these livelihoods it is easier to understand livelihood outcomes of the urban poor. A range of factors influences livelihood outcomes including the variety of resources owned and/or used by the poor, social axes of difference and the context. An understanding of the complexity of livelihoods will help to understand the nature of poverty. Poverty is multi-dimensional and the livelihood approach discussed in Chapter Two will be adapted to the context of the study. The complexity of livelihoods cannot be reflected in traditional income or food poverty indictors; neither can the role of financial services be analysed by loan default rates. The range of financial services should reflect the complexity of managing livelihoods for the poor.

The research was undertaken to study urban livelihoods, risk management and the nature and role of the informal financial system. The use of financial services and urban livelihood risk management are complex and no one methodology or method would be sufficient to meet the research objectives, which combined an exploratory, a descriptive and an analytical focus (Hussey & Hussey, 1997). The use of the livelihoods framework as a conceptual tool influenced the methodology and research methods used. Social science research involves considering many variables, some of which are often difficult, if not impossible to control (Black, 1993). Therefore hybrid research approaches were used to ensure that the research key aims and objectives were achieved. Combining qualitative and quantitative methods in a hybrid approach allowed for pertinent factors to be analysed and also offered a more subtle and deeper understanding of livelihood risk management and the role of financial services. There were considerable advantages in using mixed method approaches, as they yielded both qualitative and quantitative data (Robson, 2002). It is more useful to view each methodology along a spectrum from positivism to phenomenology (Guba & Lincoln 1998). Tashakkori and Teddlie (1998) believe that the qualitative/quantitative debate has now become increasingly unproductive. The two main social science paradigms of positivism and phenomenology have been replaced by a pragmatic research approach. Reichardt & Rallis (1994) believe that *'this pragmatic approach is feasible because the fundamental values of current quantitative and qualitative researchers are actually highly compatible'* (p.85). This allows for a range of methods to be used to examine the role of financial services for managing poor urban livelihoods. This approach recognises that reality is complex and data triangulation increases explanatory analysis of the research (Easterby-Smith et al, 1991).

1.3.2 Data Collection Approaches

The study was carried out in 2000 in Kampala and used qualitative and quantitative research methods, though qualitative techniques have proved more useful in understanding the complexity of livelihoods. The main techniques for data collection were in-depth interviews, focus group discussions (FGDs), individual survey and documentary analysis. As a result, this study does not represent all of Kampala's population. The extent of quantitative data collection was limited in favour of more in-depth qualitative techniques, including participatory techniques. This helps to reveal the role of financial services and the key determinants in managing livelihoods in Kampala. The qualitative data was able to provide a greater explanatory power and a more subtle understanding of the complexities of livelihoods. Appendix One is a description of and reflection on the design and implementation of the methodology, especially data collection, and an outline of the analytical approach.

1.3.2.1 Choosing a Case Study Area

> *Case study is a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence* (Robson, 2002: 178).

After deciding on the purpose of my research I decided I was going to use an area of Kampala as a case study to examine the financial system and livelihoods within that area. The main criteria used to decide on the area were the presence of informal financial services and MFIs; the area being generally poor, and the area had a mixture of commercial and residential activities. After discussions with MFI staff about the location of their groups, I decided on Bwaise because of the high number of MFIs in that area. It was also one of the poorest areas in Kampala and had a mixture of commercial and residential activities. After further investigation, I discovered that Action Aid was operating a Bwaise Urban Development Programme (BUDP) and other Non Governmental Organisations (NGOs) also had projects in the area, for example Plan International, SCF and Living Earth. The area had also been used in a recent UPPAP[4] (UPPAP, 2000). The activities of these agencies provided a useful comparison with my results, as there had already been poverty analysis carried out in the area. It is normal for case studies to use multiple sources for data collection, including interviews, documents, FGDs and observations (Robson, 2002). Many data collection tools were used such as non-participant observation, semi-structured in-depth interviews, surveys, and use of official documents, key external stakeholder interviews and FGDs.

Before I could start my research, I had to obtain research clearance from the Uganda National Council for Science and Technology. To assist with my application I became a research affiliate at the Makerere Institute of Social Research (MISR), Makerere University. Whilst I waited for research clearance I started to find out contact details for the key stakeholders and how to obtain access to Bwaise residents. To gain trust and access to Bwaise was a lengthy process as it took time to arrange meetings and obtain agreement. I had to obtain approval from the council to interview people within Bwaise, as well as permission from each MFI to research their respective

[4] Uganda Participatory Poverty Assessment Programme.

groups operating in the area. The way in which a researcher is introduced to the research setting is important, as it is vital that people are not suspicious of the researcher; if the respondents do not trust the researcher then it may jeopardise the validity of the data that they give during interviews. My research affiliation to Makerere University, Kampala, brought legitimacy to my presence, as people knew of the university. I stressed that I was a student, but there was initial belief that I had been sent by an NGO/MFI. It was important to dispel these ideas, not only for the accuracy of my data collection, but also to dispel expectations that as a researcher I had the power to create change or could influence international and national funding to the area. It is not feasible to carry out research in Uganda without due consideration of certain factors: the local environment, being a *mzungu*, language and gender differences.

Once I received research clearance I started to find out who the key stakeholders were for microfinance in Kampala, through my initial contact in MoF and UGAFODE. This resulted in setting up meetings with MFI directors and obtaining their permission to accompany their loam officers and interview their clients. I received permission from FINCA, FAULU, MED-NET and UGAFODE to accompany their loan officers. This proved invaluable in finding out how the MFIs operated and in gaining access to several MFI groups. I met with over thirty MFI groups in Bwaise. These visits enabled me to be introduced to the area of Bwaise itself, the MFI groups within it and to find out about the other informal financial services in the area. My increasing presence within Bwaise allowed me to become accepted in the area and permission from the LC was easily granted. In fact one of the LC chairpersons was a member of Plan International's groups. Once permission was granted I was able to move freely around Bwaise and speak to residents. I was accompanied by a research assistant who was able to explain in Lugandan when needed the purpose of my research to Bwaise residents.

1.3.2.2 Interviews and Focus Group Discussions

Interviews were the main methods used to carry out the research. Meetings with key stakeholders were carried out throughout the research period, depending on availability and appropriateness. I was able to interview several of the key external stakeholders from the MFIs at the beginning and end of the field research. I was able to ask more insightful questions at the end of the field research, as I was able to draw upon my experiences from my observations, interviews and FGDs. I wanted to use a tape recorder for FGDs and in-depth interviews, but this made interviewees ill at ease and it was difficult to hear due to background noise, as most interviews were carried out at the place of work or at home. Instead of using a tape recorder, both the research assistants and myself took detailed field notes. Table 1.2 shows the number of FGDs and Bwaise/MFI interviews, divided by gender. I decided to go for quality of interview over quantity of interviews. Bwaise interviewees and FGD participants were chosen systematically within or near to the market areas. All interviewees and FGD participants were to be an adult, economically active and lived and/or worked in Bwaise. The MFI interviewees were selected systematically from within the groups in Bwaise. Appendix Three lists the number of interviews carried out. The number of FGDs carried out was derived to give a broad overview of the SCS and MFI clients within Bwaise; as well as a small sample of Bwaise economically active residents. A semi-structured checklist of questions and topic guides were compiled for the interviews and FGDs (see Appendices Four and Five). 40-50 key external stakeholders were also interviewed, as shown in Appendix Two. These were NGOs and agencies that either worked in Bwaise and/or carried out work related to livelihoods and financial services in Kampala.

1.3.2.3 Survey

Once I was familiar with the research area and had carried out some of the MFI FGDs and in-depth interviews, I devised the individual survey. This survey was used to gain supplementary

information to the in-depth interviews and FGDs. It allowed me to gain more descriptive information about the livelihoods in Bwaise, the type of financial services used and the risks experienced. Similar considerations were made when developing topic guides and interview questions. Unlike the in-depth interviews, the survey consisted mainly of closed questions with pre-defined answers to ease coding and analysis. Appendix Six shows the survey questions.
I used the LC zones and market areas as my sample framework as much as possible, even though the zones were not clearly demarcated. My main selection criteria were adults who were economically active and worked/lived in Bwaise. To maximise the likelihood of finding economically active participants I picked three LC zones that had markets present (Kawaala, Ddembe, Bwaise markets) and two zones that were more residential (Katale and Tubyoleka). 200 people were surveyed and three researcher assistants, under my guidance, between September and November 2000 carried out the survey. To try and gain some form of randomness, from the point in a zone where we started the survey we asked every third person, once it was ascertained they were economically active. These respondents were not included in any in-depth interviews or FGDs. This factor should be noted when analysing the survey results, as the results will be representative of the full Bwaise community demographics but only the economically active sector. However, the sample size was not designed to be representative of Bwaise but an adequate number to analyse the key factors for the research. I decided to delegate the survey to three research assistants, because the vast majority of respondents could not speak English well enough so the survey was carried out in Lugandan. The survey was devised in English and then translated into Lugandan. The survey was discussed with the three research assistants to avoid any translation discrepancies. I was present when the majority of the surveys were carried out and was able to gain useful observations as well as the survey results. Each survey was administered at the interviewee's place of work or residence, which was why I had a high response rate. It also helped that I had been visible in Bwaise for several months and many were

aware of the research I was carrying out. Table 1.1 and 1.2 show the number and characteristics of the interviewees, FGDs and survey respondents.

Table 1.1 Survey Respondents Key Characteristics

	Catholic	Protestant	Muslim	7th Day	Other	TOTAL
Religion	53	77	61	5	0	200
	Muganda	Munankole	Musoga	Other		
Ethnicity	154	27	11	8		200

	16-19		20-24		25-29		30-34		35-39		40-44		45-49		50+		Total	
SEX	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F
No.	10	6	18	23	28	28	17	15	14	13	6	7	5	6	2	2	100	100

Table 1.2 Number of Focus Group Discussions and Interviews

		FGDs	**Interviews**	
			Men	**Women**
MFIs	CMF	4	2	
	FAULU	5	3	2
	FINCA	10	0	10
	MED-NET	4	2	4
	Plan International	2	1	1
	UGAFODE	5	2	1
	TOTAL	**27**	**10**	**20**
SCSs	BPR	1	1	1
	UMFSD	1	0	2
	YOFA	1	1	1
	TOTAL	**3**	**2**	**4**
Bwaise	Ddembe Female	1		
	Ddembe Male	1		
	Ddembe Mixed	1		
	Bwaise Female	1		
	Bwaise Male	1		
	Bwaise Mixed	1		
	TOTAL	**6**	**18**	**12**

1.4 STRUCTURE OF THE THESIS

The thesis has nine chapters including this introductory chapter. Chapter Two discusses the main bodies of literature applicable to the thesis, which are urban poverty, household strategies, informal finance, microfinance and livelihood assets including the informal sector, social capital and intra-household relations. The livelihood analytical framework is used as the conceptual basis of the study. The poverty, household strategies and livelihoods literature shows that poverty is dynamic and vulnerability is a key concept in managing livelihoods. Informal finance services are diverse but not fully understood, whereas microfinance, which mainly focuses on short-term loans for micro-entrepreneurs has been heavily researched to assess the impact on poverty reduction and women's empowerment. The final section analyses the literature that has attempted to combine livelihoods and financial services. These studies recognise the need for wider microfinancial services for the poor, so they can manage their livelihoods.

Chapter Three lays out the context of poverty and financial services in Uganda and Kampala. Despite macro-economic growth since 1986, poverty is endemic in Uganda and urban poverty remains a major problem. This Chapter also covers the Government policies that have been developed for poverty reduction and micro-enterprise development. These include the PEAP, the Micro and Small-scale Enterprise (MSE) Policy Unit and the Private Sector Development initiatives. The formal financial sector and microfinance are discussed. The formal sector is weak and microfinance is in its infancy in Uganda; Government and donors had a range of programmes to create an enabling environment as well as a strategy of direct interventions.

Chapter Four examines the nature of livelihoods in Bwaise, derived from the research survey, in-depth interviews, FGDs and observations. Firstly the Bwaise context is examined. Using the livelihood framework the different assets are discussed. These include social, human, physical and labour capital. This Chapter shows the complexity and wealth of assets used by the poor. The contextual vulnerabilities within Bwaise are also examined. These vulnerabilities are vast and undermine attempts to develop livelihoods.

Chapter Five looks at the different financial services that are available within Bwaise. The informal financial services are very diverse and have been developed by the poor to meet their needs. The microfinance programmes in the area however tend to be donor-led and provide limited products, mainly short-term working capital loans.

Chapter Six follows on from the types of financial services and examines who accesses these different types of financial services and how they are accessed. Using the livelihood framework it is apparent that social networks and labour are the key factors in accessing financial services. The ultra poor tend not to access any type of financial service. Gender is the key social determinant for accessing different types of financial services. Many of the group-based financial services are single sex. Men dominate trade associations, whereas women dominate MFIs. Cash rounds are the most common group-based financial service used.

Chapter Seven discusses the positive role of financial services and money in managing and developing livelihoods. The poor are able to accumulate livelihood assets as well as protecting livelihood assets either as a form of insurance or in times of crisis. The analysis presented is drawn together and compared to the literature review findings.

Chapter Eight discusses problems with using financial services by using the livelihood framework. The limitations and constraints of financial services within Bwaise are also discussed. Proximity and social networks limit the diverse range of informal financial services and many are reliant on a regular flow of money, which can be difficult to sustain in a vulnerable environment. Group-based informal financial services are prone to failure due to the lack of legal and regulatory framework to protect participants.

Chapter Nine is the concluding chapter and the research findings are discussed in relation to the key themes highlighted throughout the thesis. The thesis concludes by suggesting that the livelihoods approach is a useful holistic framework to use when attempting to understand the urban poor and analysing the role of financial services for livelihood management. Informal financial services were diverse and have multiple uses, it was found that the main use was to secure and manage livelihoods through risk management strategies rather than through developing livelihoods.

The thesis contributes to knowledge by challenging some of the assumptions about microfinance. It extends the knowledge on livelihoods and informal financial services in an urban setting. It also challenges the role of microfinance programmes. There are several reasons beyond enterprise development why people access financial services. Managing poor urban livelihoods is complex and requires a deeper understanding than simply that of income and credit. The poor are focusing on managing livelihoods through different risk management strategies, and financial services play a big role in these strategies for the cash-dependent urban poor. There is a need to look more holistically at livelihood management rather than just at enterprise development, if we want to obtain real benefits in the use of financial services for managing and developing livelihoods.

CHAPTER TWO

AFRICAN URBAN POVERTY, SURVIVAL STRATEGIES, LIVELIHOODS AND FINANCIAL SERVICES: AN ANALYSIS OF CONCEPTS AND LITERATURE

2.1 INTRODUCTION

Urban poverty, household strategies and livelihoods are all concepts that have developed to analyse the urban poor and have developed over time. Urban poverty has distinct characteristics that recognise the reliance on the cash economy, reliance on labour markets and precarious environments. It is now recognised that poverty is highly complex and dynamic with the concept of vulnerability also applicable (World Bank, 2000). The poor are no longer seen as passive recipients and the assets of the poor are vital in managing livelihoods and risk inherent for those living in vulnerable conditions. Credit has been seen as one of the key factors in reducing poverty and thus governments and development agencies have used financial services to reduce poverty and to empower women. This Chapter will discuss the relevant literature and developments of the concepts of urban poverty, household strategies, livelihoods and financial services. The final section will discuss how these concepts combine to become the overall approach used for the research.

2.2 CONCEPTS OF URBAN POVERTY IN AFRICA

2.2.1 Introduction

There is no reason to suppose that the concept of poverty must be clear-cut and sharp (Sen, 1981).

The discourse of urban poverty in Africa is relatively recent, with the majority of poverty studies focusing on rural poverty. This section will seek to examine the characteristics and causes of urban poverty before defining poverty. Although this research focuses on the characteristics and processes of poverty and not the measurement of poverty, the analytical concepts behind each measurement are useful and have influenced livelihoods analysis.

The concept of poverty, and definitions of '*the poor*' vary in accordance with the perspective and objective of those doing the defining. Iliffe (1987) argues that a precise and consistent definition of poverty is not feasible. Perceptions about the nature of poverty are central in measuring and analysing the characteristics of poverty (Wratten, 1995). The concept of poverty has expanded considerably since the 1950s; from an early focus on income, to a broader definition where income poverty is just one of a range of aspects of deprivation and vulnerability (World Bank, 1990 & 2000). Poverty is now recognised to be dynamic and complex. Recognition that defining poverty in traditional consumption and expenditure terms is insufficient on its own to address the needs of the poor themselves has led to the inclusion of human and social welfare indicators in development indices and poverty alleviation programmes. Further, self-descriptions of poverty gathered from the poor themselves, and the analysis of the poor's own resources, have become increasingly central to urban poverty analysis. Participatory poverty and asset-based concepts have become popular ways to analyse poverty, which recognise the '*voices of the poor*', the multi-dimensionality of poverty and the complexity of the context within which the urban poor live. The renewed focus on urban poverty since the 1990s is attributable to increasing urbanisation, the negative impacts of structural adjustment programmes (SAPs) in urban areas and the growth of urban poverty (Bryceson, 2005). It is estimated that a quarter to a third of all urban households live in poverty with African cities having the highest levels of poverty at over 40% (UNCHS, 2005). Poverty is becoming increasingly concentrated in urban settlements.

2.2.2 Scale and Characteristics of Urban Poverty

There are a limited number of representative and comparable surveys of urban poverty in Sub-Saharan Africa (SSA). Since the 1960s development and research agendas have prioritised rural poverty and development. This is appropriate as traditionally the poor have resided in rural areas and Lipton's urban bias (1977) further pushed the agenda to the rural areas. This rural poverty literature is where the majority of concepts of poverty have been founded and can be applied to urban poverty. Urban research was still carried out, which in the 1970s targeted the urban informal economy and later in the 1980s developed into a survival strategies literature. The growth of urbanisation and SAPs have led to an increase in urban poverty. In 2000, approximately 35% of Africa's population lived in urban areas and over 70% of this urban population were estimated to be poor (UNCHS, 2005).

There have been several typologies of the poor. The World Bank disaggregates the poor into three groups: new poor, borderline poor, chronic poor. A major research programme which focuses solely on chronic poverty uses these definitions (CPRC, 2005). Concepts of severity and chronicity help to disaggregate the poor (CPRC, 2005). Poverty chronicity is a longitudinal concept and severity is a static concept and analyses the lack of resources the poor have, either in income or consumption terms. People who are chronically/structurally poor are likely to have a combination of capability deprivation.

SAPs in the 1980s renewed an interest in urban poverty, and SAPs will be discussed in the context of survival strategies. Urban poverty literature pays more attention to the living conditions of the poor than its rural poverty literature equivalent (Satterthwaite, 1997). Housing, water and sanitation have been the main focus for many urban development programmes and are seen as fundamental indicators of urban poverty (Nunan & Satterthwaite, 1999). Income poverty measures should seem more appropriate in cash-based urban economies, but urban agriculture, home production and the barter economy are important aspects of the means of survival for the urban poor, which are ignored in income poverty measures (Maxwell et al, 2000).

It has also been recognised that labour markets are central to urban poverty and vulnerability (Amis, 1997; Harriss, 1989). Urban vulnerability is a function of where a person is situated in the urban labour market. Harriss et al (1990) identified six categories in the labour market: protected regular waged work; unprotected regular waged work; unprotected irregular waged work; independent waged work; capital owning self-employment and marginal self-employment. These categories show the high levels of segmentation and some categories are more vulnerable to poverty than others. People engaged in self-employment are more likely to have irregular incomes and thus experience higher levels of vulnerability. Female labour force participation can be seen as an important characteristic of poverty. Several studies have shown that female labour force participation was higher in lower income households and was an important part of household strategies (Amis, 1997; Noponen & Kantor, 2004; Rakodi, 1991 & 1995).

Urban poverty can be summarised as:

- Precarious participation in the labour market (Amis, 1995a & 1995b; Harris, 1992, King, 1996).
- Lack of assets to help cope with shocks or stresses (Moser, 1996 & 1998; Beall, 2002).
- Lack of resources to secure political advantage (Noponen & Kantor, 2004).
- Lack of safe, secure and adequately sized housing with basic services (Amis, 1990 Wratten, 1995).
- Lack of social resources (Moser, 1996; Mitlin, 1999; Beall, 2000).
- Lack of access to education, health care and emergency services (Satterthwaite, 1997).

How one defines poverty governs the characteristics that are analysed. It is important to analyse the concepts of poverty to gain a better understanding of its causes and effects.

2.2.3 Defining Poverty

This section focuses on the attempts to define the characteristics of urban poverty. Since the 1980s there has been an extensive body of literature on the definition and measurement of poverty. The definition of what is meant by poverty, how it might be measured and who constitutes the poor has been fiercely contested. One of the key issues surrounding the debate has been whether poverty is simply a lack of material needs or a broader set of other needs including well-being. Chambers (1983 & 1995), Greeley (1994) and Ravallion (1992) provide detailed discussions of the definition of poverty. The first focus of concern when analysing the concept of poverty is to determine what poverty is.

Although defining poverty is difficult, attempts at absolute and more relative definitions have been made. Wratten (1995) states there are two main approaches: either conventional indicators which use a range of economic definitions, or social indicators against a common index of material welfare and relative measures which focus on deprivation. Absolute definitions of poverty focus on the notion of physical need and provide measurable outputs. The first instrument to establish a minimum standard was the Gross National Product (GNP). It compounds all goods and all services produced by all people in a society. It was recognised that this indicator was inadequate to assess poverty within a nation, and many people had become poorer with national economic growth. Income absolute measures and human development indicators (HDIs) have been developed in attempts to measure poverty. Baulch (1996) has proposed the following pyramid to usefully schematise the range of poverty concepts (Figure 2.1). Line 1 on top of the pyramid represents the narrowest definition of poverty while line 6, or the base of the pyramid represents the broadest. Referring to this pyramid, De Haan and Maxwell (1998:4) liken the World Bank's definition of poverty to the top of the pyramid and UNDP's to the base because of the latter's emphasis on human development (UNDP, 1997).

Figure 2.1 Six-Level Poverty Pyramid

PC					
PC	CPR				
PC	CPR	SPC			
PC	CPR	SPC	Assets		
PC	CPR	SPC	Assets	Dignity	
PC	CPR	SPC	Assets	Dignity	Autonomy

PC = private consumption
CPR = common property resources
SPC = state-provided commodities

Source: Baulch, 1996.

Quantitative poverty measures have dominated the poverty literature and provide useful descriptions of poverty characteristics and scale and focus on basic needs and income measurements. Since Sen's entitlement theory (1981) and Chambers '*Putting the Last First*' (1983), though both rural in focus, there has been a steady rise in more qualitative approaches to poverty analysis, which recognise that poverty is complex, dynamic and cannot easily be quantified nor is it just an income and food measurement. A simple comparison of aggregate household consumption can be misleading about the welfare of individual members of the household, as is shown in the intra-households literature (Folbre, 1986a&b; Kabeer, 1994 & 1998, Haddad et al, 1997). Satterthwaite (1997) believes that income-based measures ignore the social and health dimensions of poverty and also fail to involve the poor. The human development approach to poverty was the first attempt to include other indicators aside from income in poverty analysis.

Rakodi (1994 & 1997) and Wratten (1995) provide useful critiques on urban poverty measurement and the inadequacies of poverty lines. Chambers' (1995) is also a critic of poverty lines and argues that poverty lines which divide the population into poor and non-poor are inaccurate, as they try and simplify what is complex and dynamic. Rakodi (1994 & 1997) compares the poverty line approach with household strategies. Chambers' and Sen's concepts were developed further and the concepts of vulnerability and assets were used to analyse and describe poverty, initially in rural areas (Bebbington, 1999; Scoones, 1998), but were used to comprehensively analyse the urban poor (Moser, 1996 & 1998; Rakodi, 1999; Wood & Salway, 2000). In the late 1990s, utilising human development, survival strategies, vulnerability, intra-household, assets and entitlements literature, the livelihoods approach was developed as a more encompassing framework to analyse poverty and vulnerability. Alongside this framework, participatory poverty assessments have given a '*voice to the poor*' (Chambers, 1995) and have defined poverty from the poor's perspective.

Although it is now recognised that poverty is not just lack of income, income is still an important factor especially for the urban poor. Increasing incomes may be one of the most effective ways of decreasing other deprivations, by allowing the poor to build up their own assets. The more monetarised and commercialised an economy becomes the more important income becomes in determining poverty. This transfers the emphasis onto the poor themselves. Income is an assumed capability to access other assets for survival and livelihood development (Sen, 1999c). This ignores the fact that other the forms of assets open to the poor affect how the income is utilised. The human development and the basic needs approaches were the next stage of understanding the concept of poverty. The wider dimension of needs reflects a deeper understanding of poverty and is more relative, which is missing from the basic needs approach and also ignores people's choices and priorities. This section will discuss each of the main aspects of literature that have contributed to defining urban concepts of poverty and livelihoods.

2.2.4 Entitlements and Capabilities

While absolute and relative poverty indicators provide an indication of unmet needs, they fail to capture the dynamic aspects of poverty, its processes, risk factors and vulnerability (Nussbaum, 2000). Amartya Sen has been one of the most influential thinkers in re-thinking the nature of development and poverty (Gasper & Cameron, 2000). Sen (1981) through his study of famine was one of the first to highlight the importance of entitlements and capabilities. Sen's entitlement approach focused on the ability of people to obtain food. His comprehensive theory stipulates that each person's commodity bundle is dependent on their endowment and the exchange entitlement mapping. In simple terms, it is the endowments that a person has which can be used to obtain any given commodity bundle and this process is via exchange entitlement. The commodity bundle a person achieves from this exchange is also dependent on legal, political, economic and social characteristics of society. A person's own endowments and these external factors combine to govern and command resources within society. Entitlement relations include:

- ***Trade-based entitlement:*** entitled to own what one gets by trading something one owns with a willing set of parties.
- ***Production-based entitlement:*** entitled to own what one gets by arranging production.
- ***Own-labour entitlement:*** one is entitled to one's own labour power and this is related to the trade and production based entitlements.
- ***Inheritance and transfer entitlement:*** one is entitled to own what is willingly given by another who legitimately owns it (Sen, 1981).

Thus a decline in exchange entitlement increases vulnerability and poverty. Livelihoods depend on entitlements to function; in fact entitlements and assets are the two main aspects of livelihood analysis. Power, deprivation and vulnerability are also central to the concepts of entitlements and capabilities.

Power is an important aspect of entitlements, vulnerability and gender and will be briefly discussed. Power is a complex issue and is dependent on many factors. There are competing definitions of power. Lukes (1974) influential essay, *Power: A Radical View,* argues that power is subjective, tied to a set of value-laden assumptions and inevitably involves endless disputes about its uses on the part of their users. Power is dependent on the social context, because people's choices are limited by the social context they inhabit (Scott, 1994). There have been several theories that try and explain why people behave in certain ways: role theory, motivation theory and leadership theory. Power and influence are key components of these theories. Influence is the process whereby one person seeks to modify the attitudes or behaviour of another person. Power is what enables the person to change a situation (Handy, 1993).

Relative deprivation provides a useful framework for analysing poverty. The measurement of poverty is more useful as a descriptive tool rather than understanding the causes and symptoms of poverty. It is from this approach that the livelihood approach stems. Deprivation, as Chambers (1989) argues, is a product of a set of interlocking factors including physical weakness, isolation, vulnerability and powerlessness, not just material poverty. This complexity can be applied equally in the urban environment.

<u>Box 2.1 Hierarchy of Needs</u>
<u>Chambers' Hierarchy of Needs</u>
***Poverty Proper*:** This is the more tangible form of poverty, connected to the World Bank's definition, concerning lack of assets. It is where 'the stocks and flows of food and cash (within the poor household) are low and unreliable, seasonal and inadequate,' (Chambers, 1983:109).
***Physical Weakness*:** There is a high ratio of dependants within the household. This is either through death, illness, disability or large number of small children. All these groups lead to a low household productivity, which leads to further physical weakness.
***Isolation*:** Physical, social and economic isolation leaves the poor on the periphery of society with lack of access to knowledge, services and goods.
***Vulnerability*:** Risk aversion is difficult because of the lack of contingency measures available. This precarious situation means that social, environmental and economic demands can lead to the poor becoming even poorer.
***Powerlessness*:** The poor's low social, economic, political and usually environmental status results in the poor having very little negotiating power and being exploited by the powerful, which in turn worsens their situation.
Source: Chambers (1983).

<u>Maslow's Hierarchy of Needs</u>
Physiological needs (hunger, thirst)
Safety needs (security, protection)
Social needs (love, sense of belonging
Esteem needs (self esteem, recognition, status)
Self actualisation needs (self development and realisation)
Source: Maslow (1954); Maslow & Lowery (1998).

A wider dimension of poverty was developed further in the 1980s and Chambers' (1983) hierarchy of needs is a useful guide to the wider dimensions of poverty (Box 2.1). He found that the poor experience five aspects of deprivation. Minimum basic needs are associated with *poverty proper*, whilst wider needs provision is associated with the other dimensions of poverty: physical weakness, isolation, vulnerability and powerlessness. Chambers (1997) further develops the idea of a hierarchy of needs, whereby the most basic needs have to be met first before *powerlessness*. Although absolute poverty measures do not encompass the multi-dimensionality of poverty, both Chambers (1997) and Sen (1981) argue that there is an irreducible core of absolute poverty. Chambers' hierarchy of needs directly relates poverty with deprivation and expands on Maslow's hierarchy of needs (1954). Both argue that as the lower needs are met, individuals move onto higher needs, although Maslow's hierarchy of needs is individualistic and does not recognise collective and reproductive needs. Differential power relations or trade-offs may result in household members sacrificing their personal needs for the needs of other household members, thus not resulting in a sequential flow of needs being met by individuals.

The concept of vulnerability has come to the forefront in the conceptualisation of poverty. *'Vulnerability is a composite of the states of past and current events'* (Borton & Shoham, 1991) and measures the resilience against a shock (World Bank, 2000). Therefore vulnerability is a function of livelihood assets and the characteristics of the shock. The poor are exposed to a wide array of risks making them vulnerable to income shocks and losses of livelihood assets. Within the context of the livelihoods framework, vulnerability is a dynamic notion, which captures the sense of a threat posed by adverse events. These events can take several forms, and include shocks as well as long-term trends or shifts relating to environmental and natural resource, economic, social and health conditions (World Bank, 2000). It helps to analyse the shocks and trends that the poor face and that may lead to asset depletion. These shocks and trends determine the ability of the poor to access and utilise assets (Amis, 1997).

Low levels of assets are characteristics and causes of poverty and access to state interventions and markets affect returns on assets. The vulnerabilities at any level of society make a person more susceptible to being poor. The inability to accumulate assets is a characteristic of poverty. Vulnerability and powerlessness are the most neglected aspects of Chambers' deprivation trap. Chambers' and Sen's concepts of poverty overlap and view poverty as a dynamic process dependent on a range of resources and the ability to access. Vulnerability prevents risks being taken to stimulate development and leads the poor to become risk-averse, whereas powerlessness weakens entitlements to access resources. Moser (1996 & 1998) believes that vulnerability captures the dynamic nature and processes of poverty. Vulnerability has expanded from food security and disaster management to a range of elements and situations of livelihood security including exposure to risks, shocks and stresses and is linked to resources available. This builds on Sen's entitlement theory, which Moser (1998) includes in her study; she defines vulnerability as *'insecurity and sensitivity in the well-being of individuals, households and communities and implicit in this, their responsiveness and resilience to risks'* (p.3). These concepts have been used to assess poverty and also include the poor's own perceptions.

2.2.5 Conclusion

Although the poor tend to live in highly vulnerable environments, it has now been recognised that the poor are not passive nor without resources. Sen's capability approach has been developed further and recognises that the poor have capabilities and resources to use. Moser (1998) argues that vulnerability is linked to asset ownership and analysing vulnerability should include the resistance or recovering from the negative effects of a changing environment. Several studies of the poor in the 1990s have used these concepts as the basis for understanding coping and survival strategies.

2.3 HOUSEHOLD SURVIVAL STRATEGIES

Urban poverty research had traditionally focused on definitions of the poverty line to determine symptoms and causes of poverty. Since the 1990s several poverty studies have sought to understand the process of impoverishment, rather than view the poor as passive and poverty as a static concept. Even so information for the lives of urban low-income households, especially in Africa, is patchy and inadequate. There have been relatively few studies on poor urban households in Africa. The household strategies literature built on Sen's entitlement theory and Chambers' deprivation shows poverty as a set of relationships and processes, which also recognises its complex and dynamic nature. Rakodi (1995 & 1997) provides a useful comparison between poverty lines and household strategies. Relative poverty studies help to develop a better understanding of the determinants of poverty rather than static poverty lines.

Several studies have applied the concepts of rural coping strategies to urban poverty analysis. The initial coping strategies literature focused on rural areas, but since the adverse effects of SAPs on urban areas, there has been an increased focus on urban poverty. The household strategies literature uses different terminology for strategies. Davies (1993) disaggregates between coping and adaptive strategies; coping strategies are *'the bundle of poor people's responses to declining food availability and entitlements in abnormal seasons or years'* (p.60). Davies describes coping strategies as a short-term response to an immediate decline in access to food, whereas adaptive strategies are a permanent change of ways in how food is acquired, essentially a vulnerable household using coping strategies as standard behaviour. WFP (1989) provided a useful distinction of strategies that can be applied to an urban environment: accumulation and diversification strategies. Accumulation strategies are aimed at increasing a household's resource base, whereas diversification strategies aim to develop a variety of income sources to diversify risk and include insurance strategies; these strategies are similar to Ellis' (1988) risk-averse peasants. All of the household strategies literature focuses on how the poor manage uncertainty and its consequences, typically in times of economic crisis or famine.

For rural poverty analysis, the famines in the 1980s developed an interest in how people survived in times of crisis. Sen's (1981) work was a seminal study of famine and poverty, explaining why access to resources and entitlements influenced who survived. Coping strategies have become a useful tool in analysing food security (Davies, 1993; De Waal, 1989; Swift, 1989). The conventional wisdom is that people will always meet food security needs first, whereas De Waal (1989) found that people chose to go hungry in the Darfur, Sudan 1985 famine to preserve their assets. This is why people's behaviour and poverty is more complex than a poverty line measure. Davies (1993) argues that coping strategies are not necessarily sustainable and there is often a trade off between immediate and long term needs. Adaptive strategies are longer term and people are seeking to preserve assets for future production.

A useful study of the economic behaviour of the poor in rural areas in normal conditions was by Ellis. Ellis (1988) devised five theories of peasants' economic behaviour, which were a helpful analysis of poor rural household strategies. These were:

- Profit maximising peasant.
- Risk-averse peasant.
- Drudgery-averse peasant.
- Farm household peasant.
- Sharecropping peasant.

These different strategies emphasise the goal of productive efficiency with the profit maximising peasant being the most productive. Similar to entitlements theory these strategies recognise the importance of external factors for livelihood strategies; in fact the peasants' behaviour is driven by external factors. Profit-maximising peasants can only function in competitive markets; whereas risk averse and drudgery-averse peasants are operating in inefficient markets with natural and social hazards. The most useful theory for this thesis was the risk-averse peasant theory. Risk-averse peasants are unwilling to adopt new technologies and are operating in risky environments either in terms of natural disasters or uncertain markets. People subjectively assessing the likelihood of a risk event occurring is rooted in utility maximisation. This is where people will strive to maximise their personal welfare and gives rise to risk analysis and an economic decision theory. A risk-averse person is prepared to pay an insurance premium to ensure security. Davies (1993) describes insurance strategies as activities undertaken to reduce the likelihood of failure of production. These protective strategies are important to the urban poor.

Dercon (2000) disaggregates between risk management and risk-coping strategies. Risk management focuses on the income smoothing process and includes diversification activities, whereas risk-coping strategies include building up assets for consumption smoothing purposes and also act as insurance mechanisms. Risk-coping strategies deal with the consequences of income risk and seek to smooth consumption and the main ways are self-insurance (savings and asset accumulation); group risk-sharing and earning extra income. Similar to Dercon's (2000) risk coping strategies, Dunn et al (1996) analyse loss management strategies, which include insurance mechanisms, liquidation of assets, borrowing, and increased employment.

Chen and Dunn (1996) provide a similar analysis, splitting strategies between response strategies and precautionary strategies. Precautionary strategies include diversification to protect against the predictability of recurrent risks. These combined form the overall strategies for the poor. In a similar vein, Rakodi (1995) believes there are three types of strategies:

1. Strategies to increase resources.
2. Strategies to mitigate or limit a decline in consumption.
3. Strategies to change household composition.

Elson (1992) suggests that transformational strategies, which meet both women's practical and strategic gender needs, are more likely to be beneficial, especially for women. In terms of the research it is not overly useful to focus on the differences in the definitions, but combined these are useful strategies to analyse how the poor live. All definitions of household strategies agree on the importance of external factors and that strategies are context bound (Roberts, 1995). External factors can be constraining or can provide opportunities to develop and manage resources. Strategies imply that the poor have a choice in how they respond to a decline in income, but they are severely constrained by external factors and the term *strategy* may underemphasise the severity of their situation. Decisions are influenced by wider economic, social and political constraints, familial constraints and responsibilities, individual skills and preference. Strategies imply deliberate planning ahead with decisions taken on a tactical basis in the light of long-term goals. This is often not the case and frequently survival strategies in times of crisis may be detrimental to resources over time (Dercon, 2000; Bebbington, 1999). This is where the distinction between coping and adaptive/transformational strategies may be useful.

Transformational strategies are likely to be beneficial over the longer term, compared to coping strategies, which are designed to meet short term needs in times of crisis. Roberts (1995) recognises that for the poor these strategies are not easily distinguishable from one another. Roberts (1991) provides a more encompassing definition of household strategies as:

> *A set of activities consciously undertaken by one or more members of a household over a period of time, directed toward ensuring the longer-term survival of the household unit* (p.139).

This is a wider definition, which allows for a set of activities that combine the risk management and risk-coping strategies. All these descriptions are useful concepts to analyse how the poor manage their livelihoods. The most useful distinction is between strategies employed in times of crisis and those long-term strategies in vulnerable environments. It is necessary to discuss the factors that help to understand survival strategies.

Iliffe (1987) argues that historically there have been three means of survival:

1. Institutions to care for the poor.
2. Informal and individual charity.

3. Organisation by the poor.

In Africa there is a scarcity of formal institutions and the majority sought survival in two main avenues, the family and their own means. Cornia (1987) states that the existence of survival strategies may be used as an excuse for policy inaction. Survival strategies show that people living in marginal environments in rural or urban areas are able to live with risk and have a portfolio of options they use either in times of crisis or as part of their daily lives. Fluctuations in income and consumption are a sign of poverty. Income and consumption smoothing is a goal of all poor households.

The concept of urban survival strategies arose during SAPs and several studies focused on how households cope in times of economic crisis. Despite huge criticism of the informal sector being a place of last resort for some, especially in times of recession, the informal sector does play the role of last resort (Gilbert & Gugler, 1999). In times of economic crisis the informal sector expands hugely. This expansion occurred during times of SAPs in many urban areas. This was because of the decline in formal employment and the decline in wages; so more household members had to enter informal employment to survive. This heavily affects women, who increase their workload whilst continuing with domestic work and also children who may not attend school in order to work. For example, PRELAC figures report that informal sector employment in Latin America rose from 25.6% in 1980 to 30.8% in 1990 (De la Rocha, 1994).

Economic crisis usually leads to an increase in females involved in income generating activities (IGAs), alongside carrying out household chores. Children are often taken out of school either to work or help with household chores. The burden of work on particular household members increases. Elson (1995) argues that some household survival strategies may lead to a deterioration in the position of women and lead to an increase in female-headed households.

Women continue to take responsibility for the household's basic needs. The role of hawking as a survival strategy for low income households is important, especially for women (Mitullah, 1991). Economic crises and SAPs have led to a new examination of the potential of the small-scale indigenous economy (Elson, 1991; Elson & Evers, 1996). Several survival strategies studies have focused on the role of women as a result of worsening conditions following SAPs. Women's survival strategies have altered by increasing their workload. Elson (1995) argues that this leads to worsening women's health, increases stress and domestic violence, decreases female education and increases the number of female-headed households. The effects of SAPs have led to the feminisation of poverty in many poor countries (Chen 1994).

Moser's (1996) study of household responses to poverty and vulnerability analyses the impact on women's workloads as well as assessing household coping strategies. She uses the term *'expenditure-minimising'* strategy, which was a three-pronged response to a decline in income. These *'prongs'* were cutting total spending, changing dietary habits and reducing purchases of nonessential goods (Moser, 1996: 29). Overall the literature highlighted the following main types of strategies in times of crisis:

1. Altering the quantity and quality of food purchased.
2. Decreasing household expenditure.
3. Increasing self-provision and reciprocity.
4. Labour market-oriented strategies, these include:

    Increasing the number of household members earning an income.

    Increasing the amount of time spent earning an income.

5. Aid from external sources.

(Source: De la Rocha, 1994, Mingione, 1991, Moser, 1996, Rakodi, 1995; Roberts, 1995).

How households cope varies demographically, spatially and temporally. Chambers' work on rural poverty argues that households aim at sustainable livelihoods. This is by using a portfolio of assets and making decisions how to use these assets. The strategy used is dependent on the portfolio of assets and the household's capability to make use of livelihood opportunities. Chambers (1989) argues that the strategies aim to cope with shocks and stresses by protecting, depleting or diversifying the portfolio of assets. Rakodi (1995) argues that a lack of choice of coping strategies contributes to poverty. Poverty can be characterised by a lack of assets and the inability to accumulate and use the assets productively. There are certain factors that are necessary to understand survival strategies, which are social relations of production and power within the household, life cycle changes, external economy, and social and political systems. The most commonly cited external factors are economic, technological, environmental and social conditions (Agarwal, 1990). The influence of external factors, concepts of survival strategies and poverty have all influenced the development of the livelihoods framework, which will be discussed in the next section.

2.4 LIVELIHOODS FRAMEWORK

2.4.1 Introduction

Since 2000 there has been a huge increase in livelihoods literature. The majority tends to focus on rural livelihoods. Livelihood framework is a recent concept and combines debates on asset vulnerability (Moser, 1996 & 1998), deprivation (Chambers, 1989) and entitlements and capabilities (Sen, 1981; Nussbaum, 2000), as well as the survival strategies literature (Roberts, 1995; Rakodi, 1995). The framework is a collection of assets that gives people capability, is dependent on the external environment, can be exchanged for commodities and make livelihood strategies possible. The framework also allows the relationship between individuals, households and institutions to be analysed. Maxwell and Smith (1992) classified five sources of entitlements as productive capital, non-productive capital, human capital, income and claims. Swift (1989) analyses vulnerability and security as a function of assets, which he classifies as investments (human and physical), stores (food, money) and claims on others for assistance (friendships, kin, community and government).

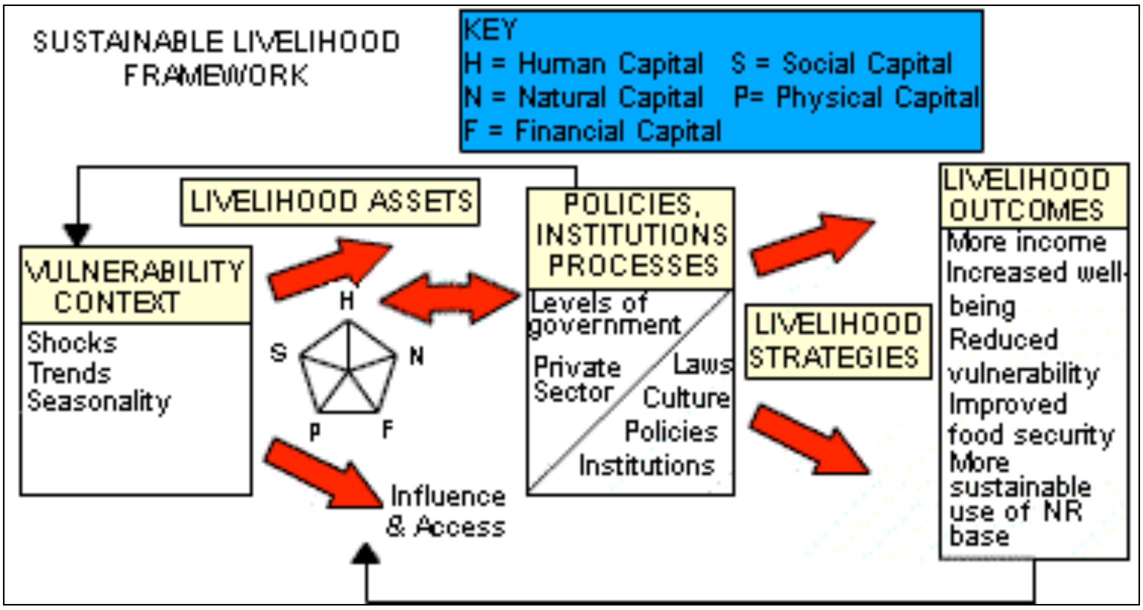
The livelihood approach cuts across the two opposed views on the nature of poverty: qualitative and quantitative (Moser 1998; Bebbington, 1999). Livelihood analysis attempts to combine the more measurable aspects of poverty in terms of expenditure or income with more subjective methods including participatory poverty assessments (Chambers, 1989; Chambers & Conway, 1992). Livelihoods analysis is a way of thinking about the priorities for development to enhance poverty elimination (Ashley & Carney, 1999). Income, expenditure and quality of life are all implicit within livelihoods (Bebbington, 1999). Much of the terminology of livelihoods was developed by Chambers and in an urban context by Moser (1996) and Rakodi (1999).

Livelihood analysis attempts to understand the complexity and processes of poverty and draws on the participatory concepts of poverty. Moser's (1996 & 1998) seminal urban study was one of the first to comprehensively research poor urban communities and develop an asset-framework for examining household responses. Similar to much of the survival strategy research it focused on responses to deteriorating macroeconomic and labour market conditions.

Ashley and Carney (1999) developed a livelihoods framework drawing heavily on Chambers' work with a rural focus for UK Government's DFID and this is now the most commonly used livelihoods framework (Murray, 2001). Following the acceptance of the DFID's livelihoods framework, one of the first studies to use the livelihoods approach in an urban setting was Wood & Salway (2000), based in urban South Asia. The livelihoods framework is similar to the household economic portfolio put forward by Chen and Dunn (1996), which includes household resources (assets) and household activities (livelihood strategies and outcomes). Figure 2.2 and 2.3 show the assets and components of the framework for DFID and CARE.

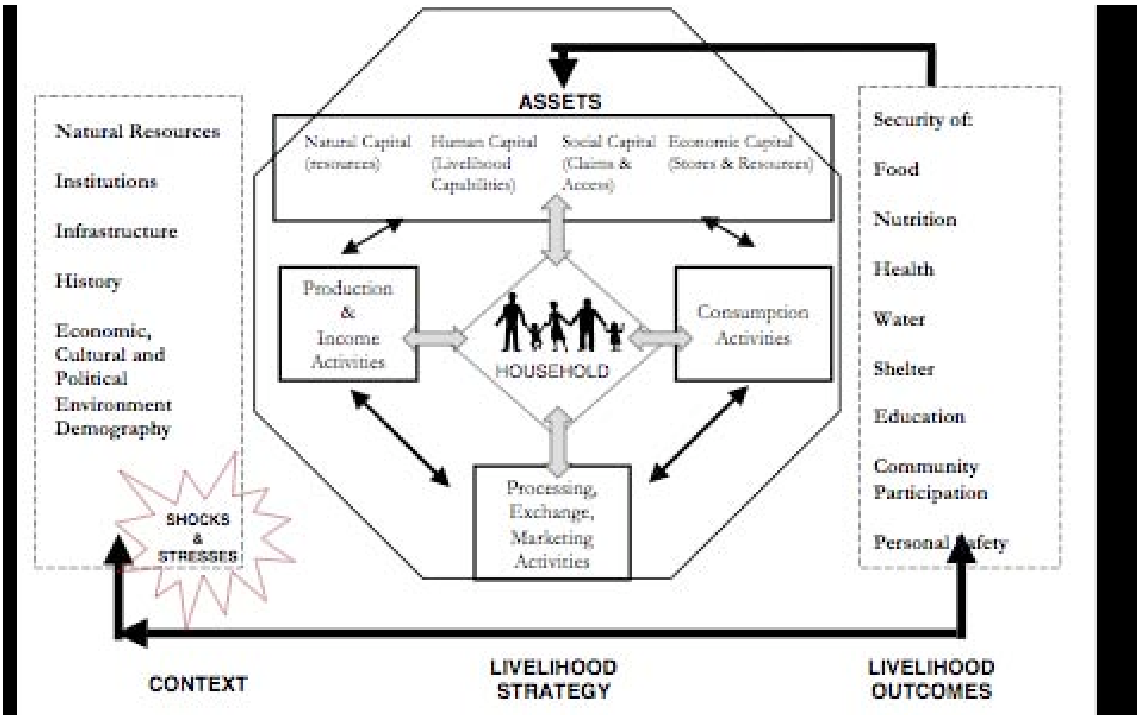
Livelihood strategies can be viewed in terms of access to types of capital, and the assets people utilise are different across social groups within the context and wider institutions. Livelihood strategies aim to improve the factors that govern transactions to increase people's entitlements and thus resources generated. Individuals use their own resources (assets) to exchange into more resources. This may seem a circular argument but it recognises that assets are inputs to livelihood strategies but are also livelihood outcomes. From participatory poverty assessments the overriding issue was livelihood security (Norton & Foster, 2001). The types of livelihood strategies have already been discussed in the household strategies section. These concepts will form the basis of the research, which will analyse how the poor access money (what assets they use to access) and why the poor access money (what assets they seek to develop). For the research purposes I have developed a livelihoods framework, which encompasses Ashley and Carney's livelihood framework, Moser's asset vulnerability framework and Rakodi's capital framework, to reflect the environment within which the urban poor in Kampala operate. The assets framework used for the research will include labour, housing, human, intra-household and social capital. These types of assets will be discussed in the following section. Financial capital will be discussed separately in Section 2.5.

Figure 2.2 DFID's Sustainable Livelihood Framework



Source: Ashley & Carney, 1999: 47.

Figure 2.3 CARE's Livelihood Security Model



Source: De Haan et al, 2002: 5.

2.4.2 Assets

Assets are central to coping with shocks and reducing vulnerability of the poor (World Bank 2000). The asset pentagon shown in DFID's livelihoods framework equates assets with capital and sources of wealth for the poor. This pentagon can be interpreted as a five-axis graph, where access by different households to each different type of asset can be plotted. The rationale of this pentagon is to show a holistic analysis of people's wealth rather than needs (Wood & Salway, 2000). There are complementarities across assets; the synergies between capital assets have been documented (Ashley & Carney, 1999; Meikle, 1999 & 2002). Assets are a source of survival and also a source of power to be used to gain more assets. The livelihoods framework places poor people at the centre in building their own assets, '*the wealth of the poor*' (Helmore & Singh, 2001). Asset accumulation is constrained by external factors as well as lack of income. Lack of income is still a key factor in livelihood analysis, especially for the urban poor. Increasing incomes allows the poor to finance health, education and shelter, but increasing incomes is dependent on several factors especially the assets owned and used by the poor. Each of the assets to be used in the livelihood analytical framework will now be discussed.

2.4.2.1 Labour

Labour is one of the key assets for the urban poor (Moser, 1998), because the majority of the urban poor are reliant on the cash economy for subsistence. As labour is a non-physical asset it is more difficult to conceptualise. Labour can be seen as an asset. The labour power available to a household depends on the number of individuals available to work, partly on reproductive tasks but especially on income generating activities, as well as their human capital (their knowledge and skills). Its availability and use influences the ability of an individual and household to generate an adequate, reliable and secure income. Thus the urban labour market context, especially the availability of wage employment, is a key determinant of the opportunities available to poor people to generate income. In practice, opportunities for formal wage employment are limited and the majority are engaged in informal sector activities. The informal economy will therefore be discussed in depth below.

Informal Economy

Household strategies and the informal sector have been depicted as the basis for economic survival for the urban poor (Roberts, 1994; Porters & Schauffler, 1993). The informal economy and household strategies are linked and both are embedded in a local context (Leonard, 2000). The literature on the informal economy is extensive and similar to the survival strategies literature and is generally focused on Latin America and Africa. After the informal sector economy was '*discovered*' by Hart in Ghana 1970 and by an ILO study in Kenya, 1972, there have been several studies that have attempted to conceptualise the informal economy. These studies highlight the importance and dynamism of a sector traditionally viewed as marginal to the economy, but their definitions have conceptual problems.

Since the 1970s there has been a growth in the informalisation of the urban economy with the rise of urbanisation and rural-urban migration. The rise of the informal sector led to a recognition that a large and growing number of people engaged in non-enumerated activities (Gugler, 1996).

> *The informal sector is like an elephant: we may not be able to define it precisely, but we know it when we see it* (De Soto, 1989).

Following research in Accra, Ghana, Hart (1970) emphasised a great variety of legitimate and illegitimate income opportunities via self-employment open to the urban poor and he introduced the terms informal and formal economies. The ILO (1972) argued that the informal sector should be promoted and defined the informal sector as a wide range of low-cost, labour-intensive, competitive jobs providing goods and services, with the defining characteristics as ease of entry; own resources; family enterprises, small-scale; labour-intensive; tradition technology and unregulated markets and competition (ILO, 1972: 6).

Geertz (1978) in the 1960s coined the term the '*Bazaar Economy'*, which had similar characteristics to the informal economy identified by Hart (1973), which were risk minimisation not maximisation of profit; labour-intensive; family labour; large number of small firms; survival strategies. The risk management strategies were also similar to the household strategies discussed in the previous section. Sethuraman (1981) classified the informal sector in relation to enterprises rather than to activities; he believed that informal enterprises were likely to be found in: manufacturing, construction, transport, trade and services. PRELAC in Latin America focused on the labour market and the informal sector was seen as an alternative to unemployment in the absence of state benefits and safety nets. Moser (1978) provides an excellent discussion on the alternative views of the informal sector. Portes and Schauffler (1993) provide a more recent review of the conceptualisation of the informal sector and described it as *'the various forms of precarious or subterranean employment concentrated in urban areas, chiefly in the developing world'* (p.33). Charmes (1998) believes there are four actors identified: home-based workers; street traders and vendors; itinerant, temporary or seasonal workers; and those that work in between the streets and home. Mead and Morrisson (1996), using a comprehensive data set in Africa, analysed the concepts of informal sector, mainly: legality, enterprise size and level of capital intensity. Similar to De Soto (2000), they argue that legality has been a central concept to the informal sector. It is not that all of the activities are illegal; government officials are aware of the majority of the informal sector. The enterprises may be too small to be registered, do not pay taxes, lack regulations of working conditions and legally binding transactions. The dualist dichotomy between the informal and formal sectors was untenable (Thomas, 1992 & 1995b).

There were several linkages between the two sectors, which were explored in several studies in Latin America (Roberts, 1989; Castells & Portes, 1989; Beneria & Roldan, 1987; Beneria, 1992).

The phrase '*petty commodity production'* was used by Moser (1978) and Birbeck (1979) to describe the informal sector. Petty commodity production focuses on the relationships between production and distribution with a continuum of economic activities rather than a dualist economy. Bromley & Gerry (1979) argued that a generalisation about the informal sector was not useful. There have been several studies that researched the role of the informal economy (De Soto, 1989; Tripp, 1990 & 1997; Feige, 1990; Gilbert & Gugler, 1992; Thomas, 1995; Portes et al, 1989; Moser, 1978)..

Viewing the informal sector as '*atypical*' (Valodia, 2001) masks that it is universal and an integral part of the economy. It is useful to discuss the concepts of the informal sector, even if the concept cannot easily be defined or separated from the formal sector. The studies are useful because the heterogeneous activities within the informal sector are where the majority of the urban poor make their living. Following the retrenchment of public sector employment, this sector has been even more important. Mead and Morrisson (1996) believe it is the heterogeneity of the informal sector that is one of its defining features. King's studies (1977 & 1996) of the J*ua Kali*[2] sector in Kenya saw how the informal sector was heterogeneous and in the 1980s was seen to be a productive part of the private sector economy, with Government support for small enterprise development. The views on the informal sector have changed and have embraced De Soto's view with MSE development now being promoted by donor agencies and Governments. Since the 1990s the focus has shifted from the informal sector to actively promoting MSE development.

[2] *Jua Kali* literally means hot sun and is used to described people working out in the hot sun, typifying informal sector/MSEs working out in the open.

> *In the last twenty years, urban, small-scale, artisan, residual/casual and home production have expanded considerably in African nations. Their relative importance varies considerably across countries, in accordance with economic structure and public policy. Nonetheless, the main informal activities include carpentry and furniture production, tailoring, vehicle and other repairs, metal goods' fabrication, restaurants, construction, transport, textiles and apparel manufacturing, footwear and miscellaneous services* (Becker et al, 1994: 159-60).

The size of the informal sector in Africa has been growing from 66% of the economy in 1980s and 75% in 1990s (Charmes, 1999). Since the 1990s the acceptability of the informal sector has grown with the emphasis now on MSE development as described in King's *'African Artisan'* (1977) and '*Jua Kali Kenya'* (1996).

Micro and Small-Scale Enterprise Development

Since 1993 there has been an international definition of the informal sector by the ILO, and it is within this context that MSEs that have been of special interest for government and donor intervention addressing poverty alleviation (Charmes, 1999). Since the late 1990s, the informal sector literature has largely been replaced by a focus on MSE. King's (1996) extensive study of *Jua Kali* in Kenya shows the acceptance of the informal sector by the Government and a move towards MSEs taking centre stage in economic policy development. The small enterprise policy environment was supported in the SAPs 1980s era and with the push for *'better Government'* in the 1990s, several African countries have policies specifically to develop this sector (Steel, 1995). The informal sector concept was mainly in response to analysing the degree of legality, but MSEs were included in the types of activities within the informal sector (De Soto, 1989). A focus on MSE allows for enabling factors to be considered, rather than just the constraints of the legal and regulatory environment (King, 1996; Mead & Morrisson, 1996). It also recognises that this focus was in line with a shift towards pro-poor policies after nearly two decades focusing on SAPs and macroeconomic growth (Tokman, 1989; De Soto, 1989).

Many African states are now promoting MSE development. MSE development has been a focus for state and donor intervention since the late 1990s, especially as fiscal pressures constrain the growth of public sector employment, and because large enterprises are declining largely because of market liberalisation: MSEs are seen as a source of economic salvation for Africa (Mead, 1999; Marsden, 1992). Manu (1999) takes a more critical approach and does not believe that the MSE sector can absorb the growing numbers of new job-seekers within Africa and contribute to poverty reduction. He believes the focus should be on larger small and medium sized enterprises, but these enterprises need to be participating in competitive and international markets.

Most MSEs are very small, with 99% of all MSEs with ten or fewer employees and 48% are women-owned in Eastern and Southern Africa (Mead, 1999: 62). In Mead's (1999) study just under half of the MSEs were owned by women and the majority of the MSEs were the sole source of income or contributed up to 59% of the household income. King's (1996) *Jua Kali* economy was intrinsic to the household economy for the urban poor, and poor residential areas had become sites of multiple commercial activities. Snyder (2000) highlighted the diversity of MSEs involving women in Uganda. Although MSEs are seen as a source of economic salvation in Mead's study the majority had low or very low returns. A large proportion of MSEs fall out of existence either because they fail or the owners find others ways of obtaining a living (Harper & Finnegan, 1998). Only a minority of enterprises have been able to move beyond the constraints facing MSEs to earn higher incomes or to significantly expand (Mead, 1999; King, 1999).

Survivalist or subsistence micro-enterprises are seen as the haven of the poor and have attracted a lot of donor attention (McGrath & King, 1999a&b).

It is, however, not helpful to describe MSEs as either survivalist or growth enterprises, because there is a continuum between these types of enterprises. Similarly to the informal sector, this continuum recognises the diversity within MSEs. There are huge differences between enterprises at the top and lower ends of the *Jua Kali* economy (King, 1996), including income, capital stock and technology employed within the enterprise, but King agrees with the ILO that it is unhelpful to distinguish between *'dead-end survival activities'* and *'small-scale activities with the potential for growth and technical upgrading'* (ILO, 1995: 92).

Human capital factors (see Section 2.4.2.3), such as education and skills were key in being able to deal with fluctuating economic circumstances, developing MSEs and accessing the labour market. Daniels's (1998) Zimbabwe study indicated that MSE owners that had completed primary school education were better able to grow their enterprise, regardless of the economic environment. Other studies also found positive relationships between training and enterprise profitability in Kenya and Zambia (Daniels & Mead, 1998; McPherson, 1996; King, 1996). Business skill development and credit have become the two most common policy and development interventions for MSE development. Business skill development is viewed as one of the key enabling factors needed to develop MSEs (McGrath & King, 1999a; Harper & Finnegan, 1998; Carr, 1989; Gibson, 1997). Similarly skills and education were key factors in accessing the informal economy in Nairobi (House et al, 1993). The role of women in MSEs is crucial and the most common constraining factors for women to work in MSEs are skills and training (Awori, 1995; WWB, 1995; Tinker, 1995; Carr et al, 1995; Obbo, 1991). These factors show the inter-linkages between labour and human capital.

Barr (1999) examines the role of social networks for enterprise owners in Ghana. Barr (1999) indicates that networks assist in the reduction of uncertainty, especially MSEs with restricted access to formal institutions. Lack of contract discipline and access to formal institutions are seen as constraining factors and are discussed extensively by North (1990) and De Soto (2000). Risk sharing, maintaining contracts and informal credit arrangements are more efficient the larger and more diverse the group (Alderman & Paxson, 1994). Barr (1999) believes that small cohesive networks assist with information asymmetries and reduce uncertainty but do not necessarily promote growth, as uncertainty is a much larger factor. McCormick's (1999) study of enterprise clusters in Kenya, South Africa and Ghana, defined as geographical and sectoral agglomerations of enterprises, showed the benefits of joint action. Horizontal joint action was evident within all of the clusters studied, with the most basic form being borrowing of tools. For example, *Jua Kali* artisans had grouped together as an association to enter into negotiations with the Nairobi City Council. Schmitz (1998) believes that enterprise clustering should be developed to help MSEs expand.

Another enabling factor is credit and the majority of MSE literature refers to micro-enterprise credit, which will be discussed in Section 2.5.3. Housing is another important factor to assist in the function of many MSEs. In the Mathare Valley, residential areas had multiple uses, with many used for MSE activities as well as homes. The importance of housing for the urban poor will now be discussed.

2.4.2.2 Housing as Capital

Housing is said to be one of the most important assets for the urban poor (Moser, 1998; Amis, 1995b). Security of tenure is key to securing livelihoods in urban areas (Beall & Kanji, 1999; Amis, 1995b). Security of tenure involves perceptions of risk, as much as legal status (Payne, 2002). Generally owners have more security than tenants, as well as an incentive to invest in their houses, thus increasing their value as assets. Tenants are more vulnerable to eviction and the dwellings they occupy are not assets in which they can invest or of which they can dispose. Nevertheless, the more secure a household's tenure, the increased likelihood that the dweller is able to utilise housing as a productive asset (Moser, 1996). Perceived security may stimulate improvements and economic activity (Payne, 2002). Housing as a productive asset has received far less attention than other assets. Yet several studies have shown that the urban poor, both owners and tenants use their housing for enterprises (Amis, 1997, King, 1996; Moser, 1996). House owners rent out part of their residence to earn extra income. There is a relationship between the use of housing to reduce vulnerability and the security of tenure, which is contingent upon the operation of the land market. Secure tenure for owners can be an incentive to invest in the upgrading of the housing. An appropriate legal and institutional framework would assist the urban poor in securing tenure and housing would become a productive asset (De Soto, 1989; Moser, 1996). Much of the housing literature has focused on the issues of legality and upgrading of settlements (Amis & Lloyd, 1990; Gilbert & Ward, 1984; Varley, 1989). Security of tenure is a key aspect to developing housing as a productive asset (Amis, 1990 & 2002). Payne (2002) argues that where the number of households reach a critical mass, they begin to enjoy de facto security if not legal security.

Home-based enterprises were able to increase household earnings and were particularly common for women (Tripp, 1992 & 1997; Okelo, 1989). The success of these enterprises was also dependent on access to capital, skills and a market for the goods produced (Moser, 1996). Although not discussed, to a large degree it is apparent that there are significant inter-linkages between livelihoods assets; for example productive use of labour and housing is dependent on human capital.

2.4.2.3 Human Capital

Human capital arose from the human development arena advocated by Sen and developed by UNDP into Human Development Indices (HDIs). Sen (1997) argues that it is more than human capital, which focuses on its contribution to productivity but also on how it can enhance influence within the household, community and wider institutions; therefore human capability is a more appropriate terminology. Sen (1997 & 1993) believes that human capability is a better term rather than human capital, because human development is also a process of enlarging people's choices. UNDP believes there are three essential elements to achieve human development: to lead a long and healthy life, to acquire knowledge and to have access to the resources needed for a decent standard of living (UNDP, 1997). The human development index reflects these three indicators: life expectancy, education attainment and real Gross Domestic Product (GDP). It is also the ability to make use of these acquired capabilities; thus human development brings together the production and distribution of commodities as well as the expansion and use of human capabilities. In contrast, basic needs focuses on providing material goods and services, and economic poverty focuses on increasing income. Nussbaum (2000) builds on Sen's approach and suggests how human capabilities and development should be sensitive to gender differences. For the research purposes human capital will focus on health, education and nutrition, which allow for the capability to function (Nussbaum & Sen, 1993). Education and skills, as discussed earlier are also important factors for developing labour as an asset.

2.4.2.4 Household Structure and Intra-Household Relations

Analysing urban poverty has shifted to the analysis of household income and subsistence. The concept of the household is difficult to define as the composition of the household changes over time and resources and income are unevenly distributed (Bruce, 1989). The unified concept is the ideological underpinning but a household can comprise competing economies with inadequate sharing of information and incomplete pooling of income. The household is an important area of any research; it is often used as a single unit of analysis. This view stems from the neo-classical economics model, where the household is a natural, undifferentiated utility optimising unit (Beall & Kanji, 1999). It is argued the family is the unit for consumption rather than the individual. Therefore when analysing poverty it is necessary to assess the size of the household. Sen (1981) recognised that mal-distribution within the family may occur so one cannot assume that a household is a cohesive unit.

Some have even questioned the validity of the concept of the household (Roberts, 1991). Several academics have challenged the amalgamation of units of residence, reproduction and production into one unified entity: '*flexible structure in which boundaries are difficult to discern, diversity of family and household composition and social relations, mediated through marriage and kinship, creating a variety of conjugal and residential arrangements'* (Evans, 1991: 54). Guyer believes that the household *'has a locus, resources, and a labour force, and is universal enough kind of unity to be worth making a model of'* (Guyer, 1986: 98). Folbre's (1986a) seminal article was one of the first to challenge the conventional economic concepts of households, family and sexual division of labour. These concepts overlap to form a sense of the domestic sphere (Moore, 1988).

Seaman et al (2000) define the household as the smallest coherent economic unit. It is a group of people, each with different abilities and needs, who contribute to a common economy and share the food and other income from this. The household economy is the sum of ways in which the household gets its income, its savings and asset holdings, and its consumption of food and non-food items. (Seaman et al, 2000). This definition recognises the diversity of household members, but this definition assumes pooling of total household income, which often does not occur in Africa (Doss, 1996; Fapohunda, 1988; Guyer, 1988).

Similar to poverty analysis, how the household is defined determines its characteristics. Whatever the definition, the household has remained a pervasive unit of analysis and will be used for this research. This is not ignoring the complexity of intra-household economics and relations, but recognising households are inextricably linked to livelihoods. Households are generally defined as a task or activity-based unit (Beall & Kanji, 1999).

Income Pooling and Resource Management

Most theories on the household assume that household resources are pooled, either for utility maximisation or as part of the bargaining model. Fapohunda (1988) shows that there are gender-specific expenditures in Africa. She argues that an individual is an economic actor within a household and is confronted with risk and uncertainty, so will assess the resources required to meet expenditures. Income would rarely be pooled and consumption patterns reflect the contribution of each gender to total expenditure (Doss, 1996; Guyer, 1986). Budget surveys have been carried out in Africa since the 1950s and were developed as a means of assessing the implications of wages and to determine absolute poverty. Guyer (1988) provides a useful review of these studies and argues that it is just as important to document an individual's income and expenditure patterns, as it is a household's. Generally household members had limited knowledge of each other's financial resources and a wife's decision not to pool her resources, a *'rational decision to avert risks or to invest in indigenous insurance'* (Fapohunda, 1988: 150). Women tend to place allocational priority to their children's welfare (Bruce, 1989).

Intra-household Relations as a Resource

It has been recognised that African households do not act as consensual, cohesive conjugal units. (Kabeer, 1994). Women and men are assigned responsibilities for separate aspects of household provisioning and have separate resources to enable them to complete these activities. She argues that in general households in SSA do tend to co-operate for collective subsistence needs and then use their residual time to pursue own-account activities.

Household members can be a resource or a burden. Moser (1996) is one of the few to suggest that household relations may be a livelihood asset. Changes in household structure can strengthen support network and collective security, acting as a safety net. Household members can also be a cause of vulnerability as household dependency is one of the key factors of urban poverty (Illiffe, 1987). Poor households tend to be larger, with high dependency ratios, and female-headed households also tend to be poorer. AIDS and conflict have lead to an increase in female-headed households and family breakdown. AIDS widows make up between 24% and 60% of all widows (UNDP, 2005). In times of crisis and economic need, the number of household members that engage in activities tends to increase (Beneria & Roldan, 1992). This has been discussed in more detail in the survival strategies section. For the urban poor, one of the characteristics of the informal sector is the assistance of household-members in enterprise activities (King, 1996; Tripp, 1997). It is commonplace in urban Africa for household members to assist family or household enterprises, especially on an unpaid but also on a paid basis (King 1996; Charmes, 1999; Mead, 1999).

It is apparent that gender plays a large role in intra-household relations and power within a household is key to accessing resources. Hart (1997) goes as far as saying that *'the household is the Achilles' heel of economics', because it forces confrontation with gender and hence power'* (p.22). It is recognised that the household is a fluid and dynamic concept and it will be used in the same way for research purposes. For many, though, the household is still the basic living unit (Rakodi, 1991) and will be used as a concept for the research. This is why I have included intra-household relations as an asset, which can be depleted or accumulated, as well as being potentially detrimental, depending on circumstances. This recognises that the household may not be a cohesive pool-sharing unit, but is nevertheless a focus for reproductive and productive work. Beall and Kanji's (1999) task and activity-based household definition will be used as the basis for the research. The final livelihood asset discussed in the Chapter will be social capital.

2.4.2.5 Social Capital

Social capital, while not all things to all people, is many things to many people

(Narayan & Pritchett, 1997: 2).

Woolcock (1998) provides a comprehensive review of the earlier social capital literature and identifies seven different fields of application for social capital: families, education, community life, work and organisation, democracy and governance, collective action and intangible assets. Social capital can be a consumption good, an investment and a public good (Coleman, 1990).

Grootaert (1998) suggests there are three main definitions of social capital, which each in turn expand the definition of social capital. Putnam's (1993) study of civic traditions in Italy developed the concept of social capital. Putnam narrowly views social capital as a set of horizontal associations between people and social capital consists of networks of civic engagement and associated norms that have an effect on the productivity of a community. Social capital facilitates co-ordination and co-operation for the mutual benefit of the association. This is why he makes the bold statement that social capital is a vital ingredient in economic development around the world.

Coleman (1988) put forward a wider definition, which includes vertical and horizontal associations: '*a variety of different entities, with two element in common: they all consist of some aspect of social structure, and they facilitate certain actions of actors- whether personal or corporate actors- within the structure*' (p.598). Coleman (1990) seeks to demonstrate how individual attainment is affected by family and other aspects of micro-social environment. Another view draws on the new institutional economics and microeconomics literatures, advocates that social capital includes formal institutional relations and structures, such as government and political liberties, as well as informal relationships (Olson, 1982; North, 1990; Ostrom, 2000).

Fine (1999) argues that the informational imperfections and asymmetries of markets, including transaction costs, affect economic outcomes for an individual, household, community and state. Social capital, by increasing information flows can increase productively and reduce the transaction costs of doing business. Social capital and trust can make economic transactions more efficient by giving people access to more information, enabling them to co-ordinate activities and reducing opportunistic behaviour through repeated transactions (Dasgupta, 2000 & 2002). Thus, the information-sharing role of social capital is of key importance (Grootaert, 1998). Fukuyama (1996) suggests that a microeconomic approach is mostly correct, but ignores that behaviour is deeply embedded in social life and cannot be understood separately from the customs, morals and habits of the society. Granovetter (1995) believes that all economic behaviour is embedded in networks of social relations. Social capital is often more important in societies without a legal framework and trust is a key element in developing social capital.

There are costs to producing social capital, especially time. The amount of social capital produced is a function of the opportunity cost of time and the expected return from the social capital (Grootaert, 1998). The majority of the literature focuses on the benefits of social capital and how it can be developed. There is relatively little research focus on the costs of social capital. Portes and Landholt (1996) argue that social capital has downsides. Networks or groups who are not working for society's interest can hinder economic and social development, for example drug cartels and corruption rackets. Access to social capital, like any other resource, is not equitable and can be costly (Mayoux, 1998b; 1999; 2001). Wood and Salway (2000) use the term *adverse incorporation*, which is the quality of social capital to meet immediate practical needs in highly imperfect market and patriarchal norms. The majority of the studies on the costs of social capital in relation to microfinance will be discussed in Section 2.5.

Several academics have argued that urban areas do not readily provide a suitable environment for creating social capital, because of high levels of mobility (Grootaert, 1998); but social capital is an important component of the asset portfolio of the urban poor (Moser 1998). Social networks are important sources of support for the urban poor. Dershem and Gzirishvili (1998) argue that households with good social networks are less likely to consider themselves vulnerable. Social networks are important as through them one can access different resources such as the labour market, education, skills and bank loans (Opel, 2000).

The terminology of social capital may have only developed since the 1990s, but even in the 1880s poverty was seen as '*not having many kinsmen, being alone and powerless… the role of kinship as a system of social security is clear*' (Vansina, 1973 cited in Iliffe, 1987). In several African languages the common word for *'poor'* implies lack of kin and friends, which shows the importance of social capital. Although not a new phenomenon, social capital provides a useful framework to recognise the importance of kin, personal networks and support for livelihoods and poverty. Since the 1990s, the literature on social capital has grown exponentially (Dasgupta & Serageldin, 2000).

2.4.3 Vulnerability and Risk

There is a danger that the actor-oriented perspective advocated by the livelihoods approach does not take sufficient account of the constraints on the poor (Wood & Salway, 2000). Low-income households are vulnerable to the effects of risk and a large loss could have a devastating long-term effect on livelihoods (Dunn, et al 1996; Dunn, 1996). Vulnerability is a core concept within Sen's entitlements and Chambers' hierarchy of needs approaches. Amis (1995a) argues that overall socio-economic development factors are the most important for poverty reduction and thus livelihood security. Wratten (1995) argues that promoting urban-rural dichotomies in analysis and policies ignore the structural elements of poverty that cross-cut all sectors. She challenges the usefulness of treating urban poverty as a separate conceptual category. Any definitions of '*urban*' are arbitrary and structural causes of poverty are interlinked with poverty having national elements (Wratten, 1995). Households manage risk within the context of the overall economy (Dunn et al, 1996) and the intensity of vulnerability is greatest when structural and conjunctural events coincide. A person or household's ability to mitigate this vulnerability is contingent upon either their capacity to adapt or the assets that they are able to utilise. The livelihoods literature tends to represent vulnerability as a stochastic phenomenon rather than a chronic condition keeping people in a vulnerable state (Wood & Salway, 2000).

2.4.3.1 Risks

Risk is a barrier to innovation because of lack of information and imperfect markets (Lipton 1979). Risk refers to uncertain events that can damage well-being. The uncertainty influences the behaviour of individuals. Risk can be viewed as the chance of the loss and both the probability and impact of the loss should be considered when assessing risk. The likelihood of a loss will influence the behaviour taken by individuals and households. Risk can also be conceptualised as the dispersion of possible outcomes (e.g. variance) and this forms the basis for the theory of expected utility maximisation. This concept suggests that the decision-maker will seek to maximise their expected utility given the probabilities associated with each of the possible uncertain outcomes. This theory assumes that the decision-maker knows all the outcomes and will make a rational decision. It is not the intention to test these theories or to examine them in depth. It is important to note that risk is complex and dependent on the external context, assets available and an individual's understanding and acceptance of risk. How an individual perceives risk will affect the livelihood strategies employed. Either way, in the context of the urban poor, risk can be seen as a one-off event or as a chronic state of vulnerability, which has to be managed to secure a livelihood.

Risk is either defined as the variance in outcomes, such as income changes, or it is defined as the probability of a negative outcome (a loss). The chance of a loss (probability) and the size of the loss (impact) are inherent characteristics of risk. The theory of risk is extensive and derived from probability distributions, either subjective or objective.[3] Risks can be distinguished between recurrent, which are usually more predictable and less severe, and periodic, which are less predictable and more severe (Chen & Dunn, 1996). The predictability of recurrent risks is likely to lead to risk management strategies. Similarly, Sebstad and Cohen (2000) disaggregate between structural risk, such as seasonality or inflation, and unanticipated crises and emergencies, such as fire, loss of employment, death and ill health. This is similar to the distinction used in the shocks and trends literature (Amis, 1995a).

Income risk results from idiosyncratic and co-variate risks and is a cause of persistent poverty (Dercon, 2000). Idiosyncratic risks are shocks that are specific to an individual or household, whereas a co-variate risk is common across geographical areas, such as climate or market-wide

[3] The role of risk and its statistical impact on economic behaviour has been widely studied (Binswanger, 1980; Rothschild & Stiglitz, 1970; Scandizzo & Dillon, 1979). The research will make use of qualitative techniques to provide a deeper understanding of risk and risk management.

risks. This distinction is useful to a certain degree because it assumes that idiosyncratic risks can be shared, in the form of assistance from social and familial networks (Dercon, 2000). This again highlights the importance of social and household relations as important assets to manage livelihoods. There are several sources of risks that are prevalent in poor urban areas.

Sources of Risk

A typology of risks and shocks can be used to determine the level of the risks and nature of the events. Dunn et al (1996) organise risks into six general categories: market, natural, technological, strategic, political and personal. This highlights the diversity and complexity of risk and vulnerability can de defined as the ability to manage risk (Sebstad & Cohen, 2000). Low-income households make their economic and social decisions in environments that are uncertain and risky with risks coming from a variety of sources (Dunn et al, 1996). Economic and social insecurity are key factors in continuing poverty (Beall, 2000). It is these risks and shocks that affect the levels of poverty and vulnerability and these are key drivers in becoming or staying poor. In considering the role of financial services, it is useful to consider risk in terms of shocks and trends that require people to spend large sums of money (Rutherford, 1999). The nature of the shocks, in terms of depth, breadth and sequencing, and the assets a person/household has to respond to the shock, affect the outcome of that shock. Sudden and unpredictable shocks, such as natural disasters, tend to be community-wide, which makes it difficult for intra-community networks and social capital to be used. Precarious employment, ill health, insecure tenure, fires, flooding, high density, disease, violence, corrupt officials, crime and high inflation are all examples of shocks and trends that increase levels of vulnerability for the urban poor. Unexpected expenditure arising from a variety of events, such as ill health and social obligations, impede the poor's ability to manage their livelihoods (Chambers, 1995).

Risks can also be spatial. The poor are more likely to live in the poorer quality areas of a city with precarious environmental conditions, poor access to services and a high concentration of low-income households (Nunan & Satterthwaite, 1999). These conditions can lead to other risks having a greater impact and frequency. Violence, theft and ill health are key sources of risk in poor urban areas. Moser (1996) highlighted that violence was a key factor in urban vulnerability. Crime, violence, deterioration of personal safety and corruption were ranked as some of the most pressing problems trends in her urban study. These factors can negatively affect social capital, especially if combined with economic crisis.

The critical importance of illness as a shock that worsens poverty or causes households to become poor is shown in India and Bangladesh (Pryer et al, 2000; Kabir et al, 2000). AIDS has been a major factor of poverty in Africa (Wallman, 1996). Ill health and poverty are mutually reinforcing, as the poor are more vulnerable to ill health and the sick are more likely to become poor. A comprehensive study by Pryer et al (2003) found that adult illness was a major contributor to chronic poverty. The common responses to illness are found to often have negative implications for the human, material and social capitals of households, thus making them more vulnerable (Kabir et al, 2000).

Economic shocks are also powerful drivers of poverty. International economic changes have an impact on the poor; one of the most widely used examples is the effect of SAPs. It is not just shocks *per se* that characterise poverty, it is also how the poor are able or unable to respond to these shocks, such as violence, death and ill health.

Informal economy places an invisible ceiling on the poor's enterprise growth because of the lack of access to capital, regulatory environment and poor infrastructure. The paucity of economic opportunities and severe demand constraints imply the need to surmount survival barriers, which may limit the potential for entrepreneurial behaviour. The risk of failure increases the closer to basic survival (Buckley, 1997). All these risks combined with fluctuating income and consumption, which can be expressed in terms of vulnerability, are a cause of persistent poverty. The nature, severity and frequency of a risk influence the risk management strategies available to the poor and impact on levels of vulnerability. These risk management strategies are key to securing livelihoods and decreasing vulnerability.

2.4.3.2 Risk Management and Livelihood Strategies

As a result of the development of the livelihoods framework and the focus on vulnerability rather than poverty in the literature, there has been an increasing focus on risk management strategies as part of how the poor manage their livelihoods. Livelihood systems have developed that focus on long-term survival and well-being; risk management flows from the household strategies research, as discussed in Section 2.3. Poverty is related to resource endowments, labour force position and coping mechanisms. Poverty can be viewed as a lack of choices and the inability to use risk management and coping strategies, either through lack of resources or external constraints. Alderman and Paxson (1994) distinguish between risk management and risk coping strategies. Risk management strategies can be classified as risk reduction, mitigation measures and coping strategies. Risk reduction aims at reducing the likelihood of a shock, whereas mitigation aims to reduce the severity of the shock for livelihood outcomes. Coping strategies/loss management aim to save assets after the shock has occurred (Dunn et al, 1996; Dercon, 2000). Loss management strategies were discussed in relation to survival strategies in an earlier section. However, Wood and Salway (2000) argue it is not always helpful to disaggregate risk into a series of events when in reality the urban poor are in a state of chronic vulnerability, i.e. risk and these two types of strategies become blurred for the urban poor.

Income Smoothing: Diversification

The main type of strategy used to smooth income is by income portfolio adjustment or more simply diversifying the sources of income (Dercon, 2000). These are important strategies and the research will analyse how financial services input to these strategies. A household with a higher level of risk aversion will select low risk activities to engage in. This may lead to a possibility of a poverty trap, with a causal chain from the selection of low risk activities to the generation of lower incomes (Dunn et al, 1996). However, it can be argued that income and consumption risk reduction can lead to lower incomes but may protect assets in the long-term, especially in cases of high levels of vulnerability (Dercon, 2000).

The ability to diversify livelihood strategies decreases a household's vulnerability. Diversification of activities is seen as one of the most vital tools for households to survive (Ellis, 1998; Dercon, 2000; Roberts, 1995; Chen & Dunn, 1996; Dunn, 1997; Moser, 1998; Alderman & Paxson, 1992). Rakodi (1995) believes that households who are able to diversify their incomes are more resilient. Diversification can be defined as '*the presence of multiple IGAs and sources of wage employment within the household economic portfolio'* (Dunn, 1997: 3). Dunn (1997) believes there are four possible motivations for diversification: poverty, risk, expansion and intergenerational motivations. The most frequent explanation is to reduce and manage risk, which is what most survival strategies are focused on, whatever the definition. Households in risky environments have developed sophisticated risk-management and risk-coping strategies (Dercon, 2000). It is argued that although these strategies may make a household more resilient it will be less profitable. Risk not only affects livelihood outcomes but also affects the livelihood strategies employed (Dunn et al, 1996). Rakodi (1995) argues that poorer households are likely to aim at using survival strategies to achieve a basic level of security. It is only once this has been achieved that people will engage in more risky but potentially more profitable enterprises.

Consumption Smoothing

Households will build insurance mechanisms to be used in the time of a crisis. This is principally the accumulation of savings and assets. Access to credit is also a critical mechanism for consumption smoothing (Dunn et al, 1996). It is these types of mechanisms that will be examined in more detail in the research. Risk-sharing is achieved through group-based mechanisms and is popular through trade associations and burial schemes, which will be discussed in Section 2.5. Households will build insurance mechanisms to be used in times of crisis. This is principally the accumulation of savings and assets. Access to credit is also a critical mechanism for consumption smoothing (Dunn et al, 1996). It is these types of mechanisms that use financial intermediation, which will be discussed in more detail in the research.

Survival strategies are useful in determining how the poor behave in times of crisis, but it is necessary to determine how they develop the assets they use in times of crisis and strategies employed in a vulnerable environment, in which the majority of the poor live. These strategies can be viewed as livelihood strategies in times of high vulnerability (Wood & Salway, 2000). Livelihoods analysis provides a framework for analysing these strategies, which are predominately called risk management strategies in the literature (World Bank, 2000). Strategies do not rely on wage incomes, but have a range of activities used to increase or limit a decline in resources. The research will analyse whether this strategy is employed and the likely consequences of this strategy. Livelihood outcomes are dependent on social axes of difference as well as livelihood assets and risks; gender is the key factor contributing to differences in livelihood outcomes and management.

2.4.5 Conclusion

The livelihoods framework is a way to analyse poverty, which understands the dynamism, vulnerability and assets of the poor. The poor are heterogeneous and are disaggregated by their assets, context and social axes of difference, with gender being one of the most important differences. There are a range of assets that the poor seek to develop and utilise through a range of strategies to smooth income and consumption. An overriding factor is the external context and risks that are inherent to the urban poor. This framework uses quantitative, qualitative and participatory techniques to analyse poverty, which leads to an increased understanding of the concept of poverty and livelihood management of the urban poor. Some of the important factors of risk management strategies have been identified as credit, savings and insurance mechanisms. The types of financial services available to the poor will now be discussed.

2.5 FINANCIAL SERVICES FOR THE POOR

2.5.1 Introduction

Changing conceptualisations of poverty and who the poor are have shaped debates about finance development programmes. In the 1950s to the 1970s financial services for the poor were first characterised by Development Finance Institutions (DFIs) giving state-subsidised agricultural loans to aid rural development. The poor were seen as small-scale male farmers, whose poverty could be reduced by credit-funded increases in productivity. From the 1970s onwards micro-credit programmes were directed to female micro-entrepreneurs with no traditional collateral, designed to increase their incomes, with the aim of reducing poverty and increasing women's empowerment. These programmes were also subsidised and usually combined with social development interventions.

Since the late 1990s poverty analysis has moved towards understanding the complex livelihoods and varied needs of the poor. These require a wider variety of financial services, thus moving towards a new demand-led micro-financial services era (Matin, 1999). This microfinance revolution with a focus on institutional sustainability has dominated development programmes since the late 1990s (Robinson, 2001). A recent survey by the Microfinance Information eXchange – the Bloomberg of microfinance – shows that the 163 African microfinance lenders provide loans to 2.5 million customers and deposit services to 6.4 million more, which comes to $713m in deposits and $742m in loans (Littlefield & Holtman, 2005). Microfinance or micro-credit has a wide variety of clients, delivery systems and institutional structures that are all known as microfinance, which generally focus on credit and to a small extent on savings.

Providing financial services to the poor has been viewed as uneconomical. The poor generally want to save and borrow small sums, this often leads to high transaction costs for the financial institutions. The poor generally do not have valid proof of residence or business account details to provide details for credit rating purposes. It is therefore difficult to screen these clients to decide whether or not credit should be given. The lack of information on poor clients has led to a misconception that the poor do not and cannot save and are unreliable borrowers (Rutherford, 2000). The formal banking sector in Africa is generally weak, with the poor distrusting or unable to access this sector.[4]

2.5.2 Development Finance Institutions

DFIs were the first credit programmes set up by either Government-owned banks, private rural banks, NGOs or co-operatives. They were predominantly financial intermediaries that were state-led and provided subsidised, targeted credit to rural farmers (Hulme & Mosley, 1996). The

[4] Chapter Three will detail the financial sector in Uganda.

main aim of these DFIs was to increase agricultural output and increase the use of new technology in rural areas (Adams & Vogel, 1986). There was a uniformity of agricultural credit policies across all developing countries from the 1950s until the 1970s, with virtually no urban credit programmes being implemented.

The Ohio School became a vocal critic of these traditional views of financial services (Von Pischke et al, 1983; Adams et al, 1984; Adams & Vogel, 1986; Yaron et al 1998). DFIs experienced loan repayment problems and high default rates. The credit was supply-led with a small number of rich farmers ('*borrowers with clout*') obtaining most of the cheap, subsidised credit (Adams & Vogel, 1986: 480). The key principles coming from the Ohio School critique of development finance were:

- Credit plays a facilitating role and not a leading role in the development process.
- The efficacy of informal financial services.
- Importance of savings mobilisation for financial institutions.
- Opposing targeted loans.
- No subsidies.
- Scepticism regarding the ability of Government to provide loans without high default rates (Hulme & Mosley, 1996).

High default rates are more common when patronage and politics are endemic within state-owned banks or programmes. There are few incentives for employees to reduce loan delinquency (Adams & Vogel, 1986). The credibility and financial viability of these subsidised credit schemes were further weakened by the use of public money to waive outstanding and overdue loans at election times (Adams & Von Pischke, 1992).

Targeted loans ignore the fungibility of money and make it impossible for credit allocation plans to be successful. The belief in the market over the state was the foundation behind these criticisms, in line with other development theories at the time, especially SAPs (Todaro, 1997). In line with the move away from state-led programmes and to market-based solutions in the 1980s, micro-enterprise finance programmes set up by NGOs became popular.

2.5.3 Micro-Enterprise Finance

Following the Grameen Bank model set up in the 1970s, since the 1990s there has been a plethora of microfinance institutions[5] (MFIs) set up by donor agencies in developing countries, including many African countries. At the time of the research, these MFIs tended to focus on giving loans for micro-enterprises, using group liability as the form of collateral.

2.5.3.1 Key Characteristics of Micro-Credit Projects

There have been several studies that have researched a range of MFIs and provided useful summaries of the key characteristics and typologies of these MFIs (Hulme & Mosley, 1996; Dichter 1999; Rhyne & Rotblatt, 1997; Harper, 1998; Robinson, 1954; Rhyne & Otero, 1994; Nelson, 1999). Hulme and Mosley's (1996) study of MFIs in seven developing countries and Otero and Rhyne's edited book were both comprehensive analyses and seminal works on microfinance in the 1990s across several developing countries; whereas Wood and Sharif's publication was a comprehensive review of micro-credit in Bangladesh. One of the few African focused book was a study of West African MFIs in West Africa (Webster & Fidler, 1996). There were many similarities between all these MFI programmes. The microfinance programmes ranged from minimalist credit lending to integrated programmes with social and economic

[5] Microfinance Institutions (MFIs) are the collective term for organisations that provide mainly credit to the poor. These organisations cover a wide variety of institutions and financial services, but usually micro-enterprise credit. I will use the term MFIs for organizations that provide credit and savings facilities to the poor and will use the terms microfinance and micro-credit interchangeably.

projects. At the time of the research FINCA, Food for Hungry, Opportunity International, Grameen Bank all focused on minimalist credit lending, with a view to expand into wider financial services.[6]

The Grameen Bank, a credit minimalist bank that started as an NGO, offered a limited number of non-financial services and some organisational support, but did include a moderately flexible savings programme (Hashemi & Morshed, 1997). Multipurpose international and national NGOs, such as ActionAid and Plan International, have microfinance components alongside other development projects. The minimalist credit approach was developed as a reaction to the low repayment levels and highly subsidised nature of many donor and state-assisted credit programmes. It supports the provision of financial services in an institutionally sustainable manner. It advocates that more costly forms of assistance (e.g. business development services and literacy) should be provided by other institutions. This has become the dominant paradigm, which has been developed into microfinance best practices by Consultative Group to Assist the Poorest (CGAP), which the World Bank set up for donor co-ordination in microfinance. CGAP distils microfinance best practices and communicates to key microfinance players. These best practices are designed to promote financial sustainability as well as outreach to the poor (www.cgap.org).

The overriding characteristic of micro-enterprise finance was the use of some form of group liability, which enabled the lenders to overcome the lack of physical collateral and high transaction costs associated with lending to the poor. The Grameen Bank model is the most popular type of MFI and is used by many MFIs in Africa. There has been research that has assessed the replicability of the Grameen Bank model in other countries (Thomas, 1995; Gibbons, 1996; Todd & Gibbons, 1996; Hulme, 1993). There have been some degrees of

[6] Many of the MFIs in Uganda now provide a wider range of financial services, but at the time of the study these MFIs were only providing working capital loans and limited savings facilities.

success, but it has to be recognised that for the model to be successful, a process of adaptation to the local environment should occur (Hulme, 1993). Box 2.2 describes the characteristics of the Grameen Bank model. The success of the Grameen Bank model has led to the majority of MFIs following a similar pattern. As Hulme and Mosley conclude:

> *Ironically it is the success of the 'first wave' finance for the poor schemes, and particularly the Grameen Bank, that is the greatest obstacle to future experimentation. Most designers and sponsors of the new initiatives have abandoned innovation, and replication is leading to a growing uniformity in financial interventions* (1996: 135).

Box 2.2 Grameen Bank Model

- Groups of five individuals self-select themselves.
- Membership is restricted to those with assets worth less than half an acre of land.
- Savings remain compulsory throughout membership.
- Loans are made to two members at a time and repaid in equal instalments.
- A borrower must pay 5% of the loan amount into a group fund.
- The group is responsible for repayment if the individual defaults.
- Attendance at a weekly group meeting is compulsory.

Source: Khandker, Khalily & Khan, 1995.

One of the main components was the group-liability aspect of the model, which will now be discussed.

2.5.3.2 Group-Liability

Micro-credit programmes through group liability usually disburse loans for micro-enterprise development. The majority of micro-credit programmes rely on group liability to be able to provide loans to people who have inadequate forms of traditional collateral. A group of, usually, women get together and cross guarantee each other to obtain a loan. The loans are normally for individual use, but use peer group monitoring to ensure non-default. The group veto who is able to join, thus decreasing the screening costs of the NGO by utilising the information base of the group. If one member fails to repay then firstly their savings are used; if this is not enough then the group have to pay the amount of loan outstanding. Future loans are dependent on the ability to repay and to save. A client graduates to a larger loan amount after each cycle. Many NGOs use '*savings*' as a form of collateral, where a client has to have a certain percentage in the bank before they can obtain a loan. Group liability and forced savings are forms of collateral that help to overcome the lack of information on clients (Wenner, 1995).

2.5.3.3 Information Asymmetries

Joint liability transfers many of the transaction costs associated with micro-lending to the group and overcomes imperfect information constraints. The transaction costs of lending and borrowing are a major barrier to providing access to microfinance services for the poor, especially on a sustainable basis (McGuire & Conroy, 1997). Group lending has been seen as a way to improve loan repayment and overcome the lack of information on poor clients. Financial intermediation is based on transaction costs and asymmetric information (Allen & Santomero, 1998)[7]. Financial intermediation depends upon trust between the borrower and lender that contracts be honoured (Von Pischke, 1991). This trust is normally gained by the lender obtaining information on the borrowers. MFIs use social capital to gain this information through group liability. Harper et al's (1998) thorough study on group lending across several MFIs recognised that these groups are needed to offset the costs of providing credit to the poor. However, they argued that although group activity is everywhere in poor communities, it is not necessarily of the long-term nature required for micro-credit groups. Therefore it cannot be assumed that all poor communities have the necessary social capital to develop group lending. Edgcomb & Barton (1998) provide a comprehensive review of social intermediation and microfinance programmes.

[7] See Allen & Santomero (1998) and Scholtens & van Wensveen (2000) for a thorough analysis of financial intermediation theory.

It has traditionally been difficult for formal lenders to obtain information about poor clients. Information asymmetries in developing countries are endemic in credit markets and group lending is a way of overcoming these asymmetries. From a new institutional economics perspective the work of Stiglitz and Hoff (Stiglitz & Weiss 1981; Hoff, 1983; Braverman & Guasch, 1986) has demonstrated how credit markets are subject to information, monitoring and enforcement problems due to the inter-temporal basis of their transactions. These features give rise to moral hazard and adverse selection in credit transactions. Moral hazard is the situation in which lending (or more often insurance) affects the behaviour of the borrower in that s/he may take less care or take more risks if the funds at stake are not their own, and this helps explain the use of collateral as a feature of credit markets. The main problems of giving credit to the poor are screening, monitoring and enforcement (Besley, 1994), which the group guarantee system helps to overcome. Screening costs are lowered for the MFI as the group assesses the creditworthiness of members, using their own knowledge to screen and select their own members to form a relatively homogeneous group (Montgomery, 1996). Members of joint liability groups are unlikely to accept likely defaulters into the group (Wenner, 1995).

Group credit also helps with monitoring or incentive to repay problems, because the group members usually live in close proximity and meet on a regular basis, which encourages repayment (Stiglitz & Weiss, 1990). Group credit also improves the enforcement capacity, but this depends on the degree of social cohesion within the group and the total loan amount outstanding (Besley & Coate, 1995). Joint liability relies on moral persuasion, mutual insurance and social ostracism for repayment, which is why repayment is high within these groups. Repayment is also high because members' savings or group fund loan instalments are used to make up shortfalls in payments in the short-term (Matin, 1997). For example, ROSCAs and MFIs are able to operate due to the degree of '*insider*' knowledge they have about each member and their ability to enforce compliance through the use of local social sanctions, such as non-cooperation in other aspects of daily life. Tougher social sanctions and weeding out of weakest members lead to higher repayment (Marr, 2002). Group liability allows for risk to be shared across the group, but also should still ensure the willingness of borrowers to repay loans (Levitsky, 1993). Individuals or the whole group may default if the loan repayments are too high (Besley & Coate, 1995).

Although the joint liability model cuts down on the transaction costs of the lender as well as ensuring high repayment, the transaction costs for the borrower are high (Matin, 1999; Montgomery, 1996; Adams & Nehman, 1979). Bhatt and Tang (1998) provide a useful description of all the transaction costs incurred by borrowers. There is the time spent at meetings, interest rates charged and savings lost to cover non-payment by the group members. Default comes at a price for group members and often means exclusion from further lending, loss of savings and social exclusion or social sanctions by the group. The loss of social capital can have hugely detrimental effects on an already vulnerable household.

2.5.3.4 Impact Assessment

The main focus of micro-credit/microfinance literature and research has been the impact of microfinance programmes[9] (Cheston & Reed, 1999). There have been several publications, which discuss the impact of microfinance programmes in developing countries (Johnson, 1998; Khandkar, 1998; Osmani, 1999; Wright, 1999; Hulme, 2000b; Hatch & Frederick, 1998). One of the most comprehensive has been the AIMS[10] study sponsored by USAID, which has developed

[9] This doctoral research is not to assess the impact of MFIs but to analyse the role these MFIs play, within the context of other financial services, in livelihood management.

[10] The Assessing the Impact of Microenterprise Services (AIMS) project was implemented by Management Information Systems as a technical resource for USAID between 1995-2002. The goal was to gain a better understanding of the processes by which micro enterprises services strengthen business and improve the welfare of micro-entrepreneurs and households (AIMS, 2002).

a tool for assessing impact and is largely donor driven (Barnes, 1996). Impact is usually measured by outreach (number of clients, repayment rates, loan size) and financial sustainability of the MFI itself. These studies have highlighted the success of microfinance programmes because the poor have been able to repay the loans; although high loan repayment rates only indicate the borrowers' ability to repay rather than the impact on enterprise activities and livelihoods (Buckley, 1997). Since the field research was carried out in 2000, impact assessment has moved forward, away from donor-commissioned studies and to understanding the clients in order to designing better programmes (Simanowitz, 1999 & 2000).

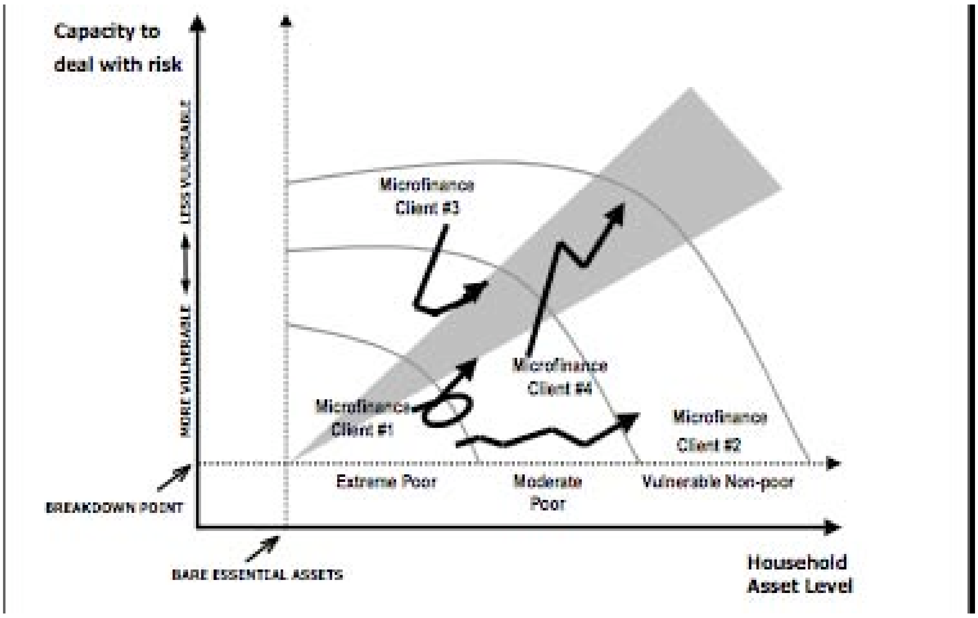
Impact assessments that focus on the intended beneficiary (i.e. the poor) are to justify the intervention and review MFIs within a project cycle approach of a donor intervention (Johnson 1998). USAID's AIMS Project uses the household economic portfolio model and assets to assess the impact at household, enterprise, individual and community levels (Chen & Dunn, 1996; Barnes, 1996). A comprehensive review of practices used at the time of the research was analysed by Hatch and Frederick (1998) focusing on the Microenterprise Best Practice Project.

Hulme (2000b) provides an extremely useful analysis of the different types of impact assessment methodologies. He discusses the different units of assessments –individuals to institutional – as well as arguing that there are three paradigms of impact assessment methodology, namely scientific, humanistic and participatory learning and action (PLA). The method used is dependent upon your view of poverty, discussed in Section 2.2. There are broadly two dimensions of poverty: the income dimension and a more fluid dimension. The income-based poverty focuses on income levels and increased productivity (Holcombe, 1995). Greeley (1997) also, however, advocates the use of the poverty line to assess the impact of micro-credit projects and uses the scientific approach to assess micro-credit programmes. Participatory approaches are moving more to the centre stage, although at the time of the research were in their infancy (Mayoux, 1998a; Hulme, 2000). The most popular method used encompasses a broader set of approaches, which recognises the difficulty of causality and mainly uses qualitative techniques (Wright, 2000; Rutherford, 1999; Ardener & Burman, 1995). Although the research is not an impact assessment, but an analysis of the role of financial services within livelihoods, the impact assessment tools are useful to input into the analysis. The impact tools are also used to discuss the role of microfinance for poverty reduction and women's empowerment.

Poverty Reduction

There are several studies that have argued for the positive economic and social impacts of microfinance (Khandker, 1998; Otero & Rhyne, 1994; Hashemi et al, 1996). There are researchers who are more cautious and highlight the darker side of microfinance (Hulme, 2000; Wood & Sharif, 1997; Montgomery, 1996; Mayoux, 2000). Holcombe (1995) focuses on the implementation and management process of Grameen Bank. She argues it is not the model *per se* that is important, but the implementation process that can adapt and improve models based on experience to alleviate poverty. There is a middle ground that identifies increasing beneficial impacts for the moderate and non-poor, but acknowledges that MFIs rarely reach the poorest, as shown in Figure 2.4 (Mosley & Hulme, 1998). Most MFIs have failed to reach the poorest and it is now agreed that microfinance does not reach the poorest, but that other interventions may be more appropriate for the poorest (Wood, 1997). There is a significant difference between raising incomes and reducing poverty, which assumes a more complex and dynamic definition of poverty. To reduce vulnerability the poor focus on diversifying income rather than seeking to increase their income overall (Wright, 1999; Wright, 2000). Just because microfinance may not reduce poverty (promotional strategies), it does not mean that it has not played a significant beneficial role in cushioning and decreasing income and expenditure shocks faced by the poor (Wright, 2000).

Figure 2.4 The Impact of Microfinance Services on Reduced Vulnerability



Source: Sebstad & Cohen, 2000: 110.

Since the 1990s, poverty reduction has become central to the development policy agenda (World Bank, 1990; World Bank, 2000) with microfinance being one of the most popular development intervention tools used by donors. This stems from a belief that poverty is caused by market failures and financial market imperfections often prevent the poor from borrowing (Stiglitz, 1994). It is believed that improving access for the poor to financial services will increase productive assets, enhance productivity and thus help to achieve sustainable livelihoods (World Bank, 2000).

Micro-enterprise finance programmes have received substantial donor assistance since the 1990s. Small businesses are seen as a critical means of inclusion in economic activity, to earn an income to survive, and to grow out of poverty, by being able to obtain better nutrition, healthcare and education, and improved access to infrastructure. Increasing the assets of the poor to raise their income potential and their ability to withstand shocks is the key to poverty reduction. This has led to attention being focused on the role of finance for poverty reduction in developing countries. The *'new world of micro-enterprise finance has the potential to do in finance what the green revolution has done in agriculture-provide access on a massive scale to the poor'* (Otero & Rhyne, 1994:1). Microfinance is seen as a vital input reducing poverty, once called the *'magic bullet'* (Johnson & Rogaly, 1997). There is a growing body of evidence that financial services can reduce poverty by increasing access for the poor and that financial-led development has an impact on poverty reduction (Kirkpatrick, 2001; Kirkpatrick & Green, 2002; Jalilian & Kirkpatrick, 2001; Rhyne & Otero, 1994; Marr, 2002; Sebstad & Chen, 1996).

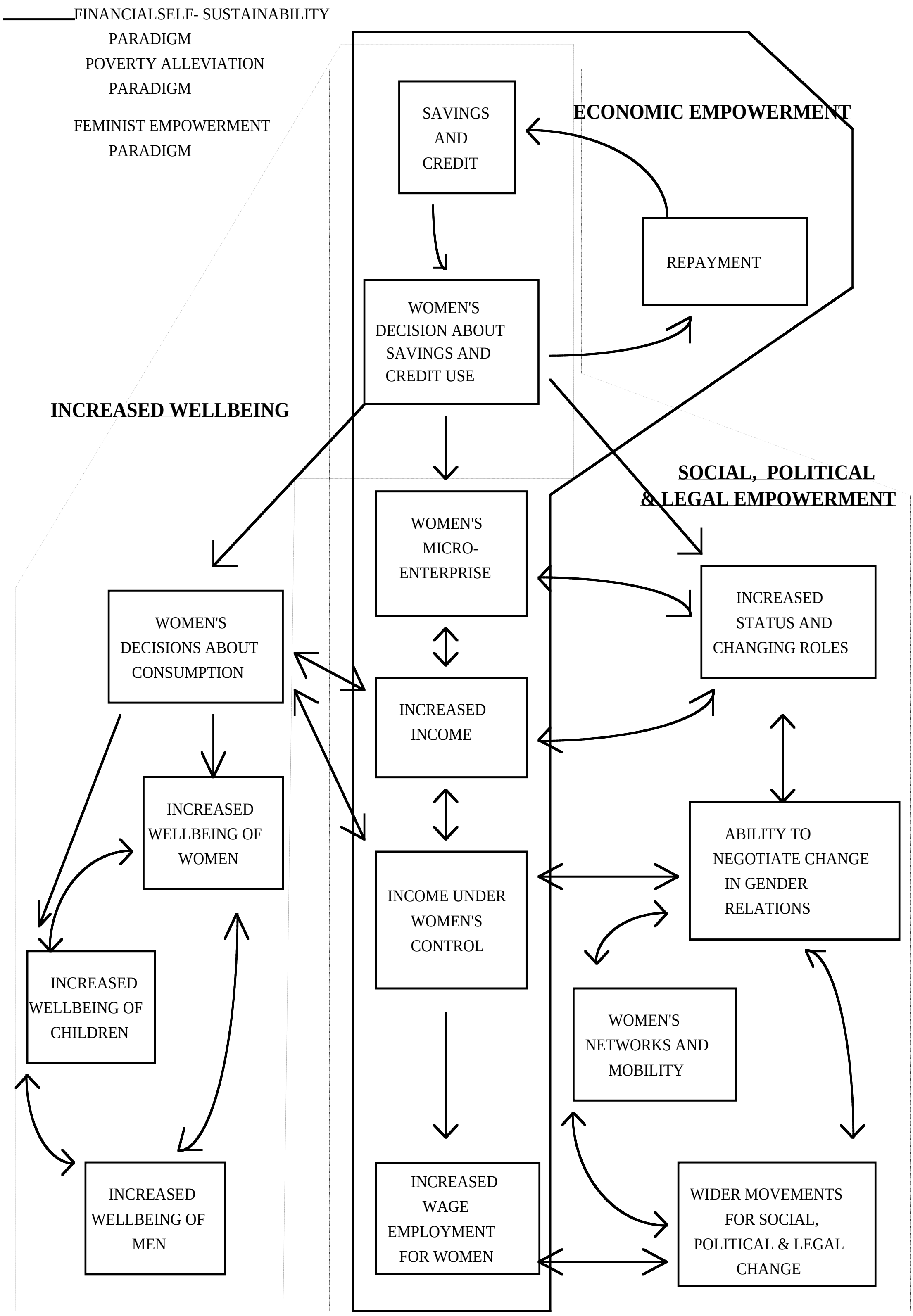
It is assumed that micro-credit, through a promotion process, will allow the poor to graduate out of poverty by breaking the vicious cycle of low investment, low income and low investment. It also assumes that lack of capital is the key constraint to higher incomes and increasing productive employment (Montgomery, 1996). This view of poverty concentrates on income poverty, which is associated with promotional process raising persistently low incomes (Dreze & Sen, 1989). It is interesting to note that if a broader view of poverty is taken, to include livelihoods analysis, risk management strategies become important and financial services tend to focus on savings, emergency consumption loans and low risk income generation activities (Hulme & Mosley, 1997). At the time of the research in 2000, relatively few MFIs were focusing on risk management strategies, but all were advocating promotional strategies through income-generating loans aimed at increasing productivity. This is a key argument in the thesis and needs to be understood to highlight the role of financial services for the urban poor. Aside from poverty reduction, another focus for microfinance programmes was women's empowerment.

Women's Empowerment and Social Indicators

Microfinance programmes targeting women have been promoted since the mid-1990s as a key strategy for simultaneously addressing both poverty reduction and women's empowerment. Many of the programmes are targeted solely at women. Those promoting microfinance programmes for women argue that female-targeted microfinance services are an important contribution to household level poverty reduction. Women are on average poorer than men. The vast majority of the poorest households are those headed by women. Within households women are generally poorer than men, with unequal control over resources and receiving a lesser share of household expenditure. Increasing resources under women's control is also an essential element of household poverty reduction, particularly reduction of child poverty. Evidence overwhelmingly indicates that where women have control over income, a greater proportion of this is spent on the nutrition, health and education of children. Women have been shown to spend more of their income on their households; therefore, by helping women increase their incomes, you are improving the welfare of the whole family (Cheston & Kuhn, 2002).

Arguments have been made for and against targeting women on the grounds of efficiency and sustainability. Proponents of targeting women for sustainability reasons cite women's repayment records and cooperation. Collective wisdom has emerged that women's repayment rates are typically far superior to those of men. Lower arrears loan loss rates have an important effect on the efficiency and sustainability of the institution. Many programmes have also found women to be more co-operative and usually more compliant, especially in repaying loans, which utilises women's subordinate status (Mayoux, 2000). These reasons for targeting women have resulted in many studies analysing the impact of microfinance on women's empowerment (Mayoux, 1998 & 2001; Goetz & Sen Gupta, 1996; Ackerly, 1995; Hashemi et al, 1996; Kabeer, 1998 & 2001; Osmani, 1998).

Figure 2.5 Virtuous Spirals



Source: Mayoux, 1999: 5.

2.5.3.5 Microfinance Critique

Mayoux (1999) provides a useful diagram to compare the different paradigms associated with microfinance: financial self-sustainability, poverty alleviation and women's empowerment. She acknowledges that some microfinance programmes can make a significant contribution to poverty reduction and women's empowerment. But at the same time the majority of microfinance research does raise serious questions about any automatic contributions of microfinance per se to any of the links assumed in the '*virtuous spirals'* outlined in Figure 2.5. Microfinance is only a tool for assisting in improving well-being. It is not credit that alleviates poverty; it is the poor's ability to save from the income generated by the credit (Buckley, 1997).

It is interesting to note that some of the key criticisms of DFIs from the Ohio School may be applied to micro-credit programmes. So much so that Adams and Von Pischke (1992) wrote an article entitled *'Micro-enterprise credit programs: déjà vu'*. They argued that the assumptions surrounding giving credit to small farmers were virtually identical to micro-enterprise credit. It was assumed that the poor were too poor to save and require technical assistance to develop. These programmes were justified on the basis of expected increases in production, assuming also that borrowers would graduate onto commercial loans. The loan characteristics were similar to subsidised, targeted loans to micro-entrepreneurs. Similarly to small farmer credit programmes these targeted credit programmes would not lead to the enterprise development proposed. *'Many of the targeted borrowers will not be materially assisted in the long run through programmes that increase their debt'* (Adams & Von Pischke, 1992: 1468). The fungibility of money makes it impossible for MFIs to track the use of micro-enterprise loans, which is the most common reason for loan disbursement. These programmes are generally supply led and ignore the financial needs of the poor. There appears to be little evidence to suggest significant and sustained positive impacts for the supposed beneficiaries, especially in terms of micro-entrepreneurs graduating to more established and larger enterprises (Buckley, 1997).

The focus on solely promotional strategies and income generation is unlikely lead to empowerment or poverty reduction. A range of flexible financial services is needed to meet the variety of needs of the poor (Wright, 1999; Johnson & Rogaly, 1997; Rutherford, 2000; Matin, Rutherford & Hulme, 1999). The overemphasis on credit is often to the detriment of other interventions. PROSHIKA, in Bangladesh had two types of field workers: Economic Development Workers and Development Education Workers. Most field workers preferred to be EDWs because it was easier to show success in credit administration and gain promotion as a result. Most time was spent providing credit and other services were neglected (Ahmad 1999).

Sobhan (1997) argues that micro-credit has had limited impact on the macro society and economy. There is no evidence that structural-based constraints on the demand for the products and services are likely to be removed by credit-induced activity, rather, they are dependent on changes in the wider economy (Hulme & Mosley, 1997). Entrepreneurs still have to sell their goods in an unfavourable market environment. Inequitable production and gender relations still occur and social mobilisation has not happened, because of the focus on raising incomes. Micro-credit is unlikely to lead to a decline in structural poverty if other poverty issues have not been dealt with. Montgomery (1996) suggests it is too simplistic to focus on credit as the solution to poverty, as a range of factors other than investment lead to poverty. Credit can create sustained enterprise growth but given the prevalence of barriers and the macro-economic environment, its effect is likely to be muted and may undermine the micro-credit goal of poverty reduction through enterprise development (Greeley, 1997; Buckley, 1997). Nevertheless given the right economic conditions, well-designed microfinancial services can reduce poverty and produce a positive impact on women's empowerment (Wright, 1999; Mayoux, 1999).

Buckley (1997) believes there are six main factors for credit not returning the expected yields. Firstly enterprises are generally an impermanent portfolio of activities. There is not one business activity to develop which is the assumption of most MFIs. Secondly, the purchase of land and housing is a popular form of insurance and diverts income, which can stifle enterprise growth. Similarly extended family and kinship networks can have positive and negative influences. Employment for kin fits into life-cycle planning strategies and shares income and wealth. These networks can aid with start-up funds or they can deplete resources for funerals, medical fees or school fees. Fourthly, insecurity of tenure is a major difficulty facing most informal workers in Africa and increases the risk of doing business (De Soto, 2000). This has been developed extensively by De Soto in his theory of capital. The prevalence of weak, transitory or corrupt governments tend to generate macro-economic instability, which increases the risks of doing business and reduces the incentive structure needed to promote an entrepreneurial culture. Finally, entrepreneurs diversify into a variety of enterprises and avoid growing into formality. Few informal enterprises employ many people on a constant full-time basis. The employment of kin or close friends lowers the transaction costs and increases the degree of social cohesion. This employment practice is an alternative to formal contract law and to vertically integrated firms, labour inputs are normally the fulcrum on which enterprise activity exist. Informal activities use small quantities of labour input, which is particularly adaptable to the low purchasing power of most consumers.

Despite the drawbacks and criticisms of microfinance, it has become one of the most popular development interventions for aid agencies. The limited nature of credit with some savings facilities has expanded to include a wider array of microfinancial services, which utilise the characteristics of informal financial services already available to the poor. There is a much wider range of informal financial services available to the urban poor that are analysed in the next section.

2.5.4 Informal Financial Services

Informal finance is multifarious and ubiquitous to informal sector economies in Africa and most entrepreneurs make use of informal sector financial intermediation (Buckley, 1997). Although informal finance is vastly more common than credit programmes, there is relatively little detailed research being carried out in Africa. This is because informal financial activities are difficult to measure and often very localised. However, a significant range of financial institutions usually exist in any context, including banks, savings and credit co-operative societies (also known as Credit Unions), para-statals, NGOs offering credit, moneylenders and informal savings groups such as ROSCAs (Johnson, 2001). A comprehensive study in Bangladesh found that households used at least four forms of financial services to manage money (Rutherford, 2002). Adams and Fitchett's (1992) edited book provides a very useful analysis of the informal financial services in developing countries. The research carried out on informal financial services, which will be discussed in this section, has been sporadic and scattered across all developing countries.

Informal finance can be defined as the antithesis of the formal sector. Similar to the formal and informal economy dichotomy, there are degrees of formality, especially as more MFIs become licensed. The lack of regulation and legal contracts are important factors for defining informal finance, as virtually all informal financial transactions are reliant on trust.

> *The formal financial sector is seen to include all financial transaction taking place within the framework of established financial institutions, covered by the banking law or other financial regulations of government, thus the informal financial sector absorbs all other financial transaction not covered by the above* (Aryeetey & Gockel, 1991: 1).

2.5.4.1 Types of Informal Finance

> *Instead of a simple dichotomous definition, it may be more useful to think of financial transaction as lying along a continuum that ranges from casual loans among friends and relatives, through loans made by merchants and traders, through loans and deposits handled by various types of informal credit and savings groups, through pawnshops that may operate with government license, through finance companies that have a corporate charter but are not regulated, through credit unions ..and to banks that are closely regulated by a central bank* (Adams & Fitchett, 1992: 2).

Similar to the continuum from the informal to the formal economies there is a continuum of financial services, which has been shown by one of the few edited books analysing informal finance (Adams & Fitchett, 1992). There have been few African studies of the informal financial sector, and one of the few urban studies was in Malawi (Bolnick, 1992); but there is an increased need to understand informal forms of financial services (Sharif & Wood, 1987). Rutherford (1996) provides a useful description of 58 varieties of financial services for the poor.

> *The informal sector in particular will often provide important indicators of the types of financial services and products that the poor needs, as well as some options for providing these: after all the informal sector is there because there is a market for it* (Wright, 1998: 4).

It has been found that there are a wide variety of informal sector sources of loans including moneylenders; relatives, neighbours and friends; rotating savings and credit associations; wealthy households; merchants, landlords and traders and pawnbrokers (Dunn, 1996). Dunn (1996) was one of the few studies to recognise the interaction of informal financial services and social networks. Borrowing within social networks can act to solidify long-term, reciprocal relationships and is one of the most common forms of informal finance used (Rutherford, 2002). These relationships can make additional contributions to a household's economic security and help it to cope with risks over time.

Buckley (1997) found that sources of micro-enterprise start up funds were from self-generated savings, supplemented by gifts or flexible loans from friends and family. Loans from formal credit institutions, government and NGO projects were a small minority. This shows the importance of informal financial services even for micro-enterprises. Placing restrictions on the purpose of formal loans, which are normally for productive use, has led poor borrowers to still need access to informal financial services. Information on the characteristics and terms of debt will be useful in developing microfinance (Dunn, 1996).

Rutherford's (1996) analysis of financial services for the poor remains the most comprehensive typology of informal financial services across developing countries. The types of services identified by Rutherford included:

- Informal user-owned devices: neighbours, ROSCAs and savings clubs.
- User-owned devices: insurance, co-operative business finance.
- Private informal services for profit: deposit takers.
- Private informal services for profit: lenders.
- Formal user-owned devices.
- NGO-assisted schemes.

Although focusing on micro-entrepreneurs, Buckley (1997) studied the range of informal finance in Kenya, Malawi and Ghana. He found that informal finance is similar to the informal sector economy in that there is a continuum of intermediation from casual loans from family and friends to formal sector bank loans. Buckley (1997) identified five broad avenues of financial intermediation, similar to Rutherford's typology, in his research. There were: formal institutions, moneylenders, merchants and traders, friends and relatives, and ROSCAs. Formal institutions included commercial banks and NGO credit/savings projects.

Rutherford (2000) developed and simplified this typology further when examining classes of basic personal financial intermediation services by analysing user-owned mechanisms and managers and providers of informal financial services. Managers are *'permanent organisations whose main business does not involve providing financial services may nevertheless manage savings clubs on behalf of their members'* (Rutherford, 2000: 61). Whereas, providers offer loans or deposit facilities, generally prefer to deal with individuals and mostly charge for their services. Rutherford (2000) classifies providers into four categories: deposit collection; moneylenders -advances against a flow of cash; pawnbrokers - advances against assets; and traders- advances against sale of produce. The characteristics of the key types of urban informal financial services, which include ROSCAs, trade associations, reciprocal lending, associations, providers of finance and savings, will be described.

<u>ROSCAs and Savings Clubs</u>

> *The ROSCA is intricate, yet fundamentally simple and elegant. It is state of the art intermediation, as well designed to finance as a Bach fuge is to classical European music*
>
> (Von Pischke, 1992: 330).

The ubiquity of ROSCAs and savings clubs has been well documented (Fuglesang & Chandler, 1994; Ardener & Burman, 1995; Buckley, 1997). ROSCAs are popular among the poor and offer a self sufficient, voluntary framework to save and borrow. Ardener's seminal work on ROSCAs in 1964 was one of the first to research and defined a ROSCA as *'an association formed upon a core of participants who agree to make regular contributions to a fund which is given, in whole or in part, to each contributor in rotation'* (Ardener, 1964: 201). This definition has become the definition of a ROSCA. ROSCAs are generally user-owned, but can be managed by other people- religious and welfare organisations are common managers.

In South Africa, there have been several studies of urban ROSCAs, which show their popularity (Burman & Lembete, 1995; Lukhele, 1990; Thomas, 1989; Scott-Wilson & Mailoane, 1990). Over 25% of urban adults in South Africa were members of ROSCAs, burial societies or communal buying groups (Scott-Wilson & Mailoane, 1990).

Thomas (1989) divides ROSCAs into three main categories, found in his Cape Town fieldwork. Firstly, those that had small membership and operated as a savings group; secondly, those that saved for a particular purpose. The final category was the high budget, rotating credit associations, which have over 100 members, have large amounts of funds and on-lend with interest. These have also been classified as community credit and savings associations or facilities run by trade associations, as they are generally non-rotating (Rutherford, 1996).

Criteria for membership is varied and primarily influenced by the requirements of trustworthiness, the ability to pay and physical locality (Burman & Lembete, 1995). Many groups are homogenous, either by gender, age or occupation, although physical proximity is the overriding criterion. There are degrees of formality within each ROSCA; some have set meetings with payment records kept, whereas others can be more informal with no records kept. The size of contributions varies widely; a more formal and defined purpose generally leads to higher contributions. ROSCAs may have specific purposes, for example to obtain a rickshaw in South Asia. Those who are at the start of the cycle, and thus receive a rickshaw earlier, have to contribute more, which shortens the cycle and compensates the members at the latter stage of the cycle (Rutherford, 2000).

There have been detailed studies of specific ROSCAs in Africa, which have local names, *susu, tontines, njangi, stokvel* (Niger-Thomas, 1995; Bortei-Doku & Aryeetey, 1995; Burman & Lembete, 1995): for example, Nelson (1995) analysed a successful women's ROSCA in Mathare Valley, Nairobi. The ROSCA had a continuous presence from 1971 to the time of the research in 1995. Nelson (1995) believes this is because membership was socially and economically homogenous sharing links of friendship, a neighbourhood, lack of mobility and a common belief in the importance of maintaining a reputation for reliability and honesty. The members were also established businesswomen in the area, who had a clear purpose for the ROSCA. The ROSCA was able to adapt over time to become a ROSCA and a co-operative, which benefited from a well-organised group. These characteristics were found to be common factors in explaining the increased longevity of ROSCAs (Bortei-Doku & Aryeetey, 1995), although the majority of ROSCAs tended to be short term.

The aim of membership was, in simple terms, to obtain *'a usefully large sum of money'* (Rutherford, 2000). This could be to pay for a household item such as a fridge, school fees or special events. Urban ROSCAs in Africa are more likely to finance consumer durables (Aryeetey, 1997). A study in rural East Africa found that the funds from ROSCAs were used to raise school fees, meet medical expenses and buy food, as well as to develop start-up businesses (Kiko-Kimuyu, 1999). It has been found that ROSCAs facilitate the accumulation of small-scale capital (Besley & Coate, 1995).

ROSCAs have been seen as the most efficient and cheapest intermediary mechanism in the world (Rutherford, 2000; Kan, 2000; Ardener, 1995). ROSCAs have no running costs and are transparent. The money is passed to one member at the time of collection, so there is little risk of misappropriation or theft, and the system is highly efficient. ROSCAs have proved to be very innovative and dynamic. In several developing countries, urban ROSCAs have spread with the rise of urbanisation or have risen in popularity since the shift from traditional agricultural society to an urban trading economy (Ardener, 1964). Successful ROSCAs can also help members to move from the informal economy, for example in Nairobi, brewing beer illegally, to the formal economy, for example,investing in property (Nelson, 1995). It can also increase the security of an enterprise by purchasing a key enterprise asset (Rutherford, 2000).

However, there are disadvantages of ROSCAs, for example, there need to be incentives for members to keep contributing after they have received their lump sum. In times of high inflation, the members at the end of the cycle are worse off than those at the beginning. Thus, low inflation is critical for the success of ROSCAs (Nelson, 1995). Many ROSCAs are short term in nature and failure to continually contribute is an issue. Even though ROSCAs are often short term, they are the most prolific form of user-owned informal finance and enable the poor to obtain lump sums of money.

Reciprocal Lending: Neighbours, Family and Friends

Reciprocal lending by family and friends is one the most common forms of informal financial intermediation used by the urban poor (Buckley, 1997; Rutherford, 2002), but it is the least researched. Small loans or cash in kind from households or kin are endemic (Zeller, 1991). Unlike other loans, these are usually interest free and repayments often include the obligation to reciprocate in the future, rather than exact cash repayment of the loan. However, Jodhka (1995) examined the repercussions of reciprocal lending and found this can be detrimental in the long-term.

Associations: 'Managers of Informal Finance'

Associations can be set up for non-financial purposes, although they are commonly used for financial intermediation. Some examples include the annual savings clubs of Cochin in Kerala, India. Each person saved a set amount on a weekly basis for a year. They may take a loan priced at 4% per month, which must be repaid before the year-end. These clubs are owned and managed by local churches. They may have a specific purpose, for example marriage or burial funds, which are a form of insurance. Rutherford (2000) uses an example of Cochin fisherfolk co-operative societies that offer burial funds. These funds can either be time-bound or not. The non-time bound funds will pay out when a death occurs regardless of the amount deposited; whereas time-bound funds, usually a year in duration, will pool the deposits and any burials during the year will receive a fixed amount. At the end of the year, any remaining money will be distributed back to the members. These funds were likely to have 300 or more members, which enables the managers to manage the cash flows.

One of the oldest providers of financial services and a famous trade association is the Self-Employed Women's Association (SEWA), a NGO based in Ahmedabad, India. This organisation was originally a trade union/association set up in 1972 for poor women who were economically active, mainly working in the informal sector as hawkers or casual labourers (Rose, 1992). SEWA was the first and largest trade union of informal sector workers in India. In 1999, it had a membership of 250,000 women (Chen & Snodgrass, 1999). SEWA Bank was a sister institution set up as a co-operative bank to provide a wide range of financial services in 1974. The overriding aim was to provide a safe place to deposit savings, as a well as a source of loans.

Each member contributed a small sum as share capital. SEWA Bank provides secured and unsecured loans for housing, old debts and consumption, as well as the traditional fixed and working capital enterprise loans. (Chen & Snodgrass, 1999). SEWA provides a wide range of services including housing, childcare, legal aid, education and training services, as well acting as a trade union. This is one of the most successful organisations set up by the poor to provide a wide range of financial services and includes meeting women's needs as its overall aim (Rose, 1992).

Chits are also very popular in urban India. The system is similar to a ROSCA but is usually externally managed or managed for a profit. These chits are usually by auction and are used by the poor and the middle class. Chit houses are run under licence from the State Government in India.[11]

Susu groups are popular in Ghana; these are savings groups, where group members arrange for collection and payment. Almost all the *susu collectors* in Ghana are male. Acting as mobile mini-bankers, they accept an agreed-upon amount from a saver at regular intervals when they come to a village. This money is meant to be securely deposited for a specific period of time. At the end of this period, the deposit, less a small commission for services, is returned to the depositor. At times, women have emergencies and need to withdraw the funds earlier. *Susu* collectors usually deposit the money with a bank. Sometimes they invest the funds in their own businesses or lend them to others. There are reports of fraud among *susu* collectors. The Ghana Cooperative Susu Collectors Association (GCSCA) has been formed to regulate the activities of the *susu* collectors, but it did not in the early 1990s have Chapters in all areas of the country. In the north, they were

[11] For an in-depth explanation of auction ROSCAs see Rutherford, 2000. These types of ROSCAs are uncommon in Africa and were not found in the research area in Bwaise, Kampala.

confined to the three regional capitals and a few urban district capitals (Bortei-Doku, & Aryeetey, 1995).

Rutherford (1997) argues that ROSCAs adapt to the local environment and will eventually move towards professional management in an enabling environment. Unlike user-owned ROSCAs, these managed clubs tended to be more longer term, due to the increased institutionalisation. The research will show that trade associations are a popular form of savings associations in Bwaise, Kampala.

Moneylenders: 'Providers of Informal Finance'

The moneylenders in Ghana are usually the wealthier farmers or traders who have either their own funds to lend or access to credit from banks. Moneylenders know their borrowers, which encourages repayment. The moneylender lends for anything – weddings, funerals, urgent medical expenses, the purchase of extra food, or for more productive uses in farming or off-farm activities. They are not concerned about savings and the loans extended are based solely on the capacity of the borrower to repay (IFAD, 2000). Moneylenders are used for consumption loans, mainly for what Buckley (1997) called distress consumption, funeral or medical expenses. Moneylenders are more common in Asia than in East Africa and there is a vast array of literature on moneylenders in Asia (Patole & Ruthven, 2001; Wood & Sharif, 1997).

Traders

Credit-in-kind from suppliers is a form of moneylending. Relatively little research has been carried out on credit systems for traders. Two studies have been conducted - Rutherford (1996) in Bangladesh and Graham (1992) in Niger. Credit helps to facilitate of the trading system and commits producers to selling to traders. Rutherford (1996), in Bangladesh. gives a detailed example of the *dadon* credit system for prawn cultivation for export. In this case, commission agents buy the prawns on behalf of the processing companies. These agents provide credit to the depot owners who supply the prawns from the local traders. The depot owners have a similar relationship with the local traders, who own the ice-boxes and who buy from the farmers. This chain of credit in return for a supply of goods is a common way for traders and producers to do business and overcome the lack of capital at key stages during the process of purchasing goods. Although research on this is scarce, it is an important source of finance for micro-enterprises and will be examined in the research.

Pawnbroking

Pawnbrokers are common the world over. Assets are given as collateral in return for cash. Unlike many other forms of informal finance, the pawnbroker does not need to know his client well, as he has secured physical collateral before the transaction takes place. In India, jewellery and gold are common forms of assets used (Bouman & Bastiaanssen, 1992). Pawnbroking is one the simplest ways of getting money in a hurry without the need to build up trust or a social relationship (Rutherford, 1996).

<u>*Savings*</u>

Savings were the '*the forgotten half*' (Vogel, 1984) of many microfinance programmes and, as already discussed, were often only required as compulsory forms of loan collateral locked-in until the loan had been repaid. Individuals and households do save and the importance attached to this is seen in the number of informal organisations that have been set up to meet this need, including ROSCAs, *munno mukabi*[12], SCSs and trade associations. Savings are extremely useful and are used for insurance against emergencies, for religious and social obligations, for

[12] *Munno Mukabi* is the local Ugandan name for a traditional insurance scheme.

investments and for future consumption (UNDP, 1999; Mutesasira, 2000). MicroSave-Africa was set up by the UNDP to promote secure, client responsive savings facilities for the poor (Micro-Save Africa, 1999). Saving at home is one of the most common forms of financial services used by the poor (Wright et al, 1997); either in cash form or in-kind in the form of corrugated iron sheets or jewellery. Wright and Mutesasira's (2001) study of savings in Uganda showed that poor people want to, need to and do indeed save. A safe place to save is paramount, as the above study found that 99% of respondents saving in the informal sector reported that they had lost some of their savings, as opposed to 15% in the formal sector.

2.5.4.2 Critique of Informal Financial Services

One of the biggest drawbacks of informal finance is the lack of security and regulation. Virtually all informal finance services are dependent on trust and social capital; therefore physical proximity is key to successful financial intermediation. This can be an effective way of obtaining finance without the need for physical collateral, but social collateral is needed. Also similar to when physical collateral is used, if the trust is broken (i.e. non repayment) then the social collateral is often lost or highly diminished as well. This can have huge consequences for a person's livelihood as a whole. The reliance on trust and physical proximity makes it difficult for these financial services to develop without a formal regulatory environment. Beyond the local boundaries, informal finance is *'prohibitively expensive'* and the information costs for screening and monitoring borrowers become too high (Chavez & Gonzalez-Vega, 1995).

Buckley's (1997) research found that the more established entrepreneurs appeared to be more integrated with formal and informal financial intermediaries. The most prevalent source of micro-enterprise credit was from suppliers. These loans were usually short-term, flexible and dependent on a close relationship between the borrower and the lender. Just over two-thirds of respondents gave credit to their customers. The incidence of formalised credit was minimal compared to the relationship-dependent lending between suppliers, customers, family and friends. The most common form of formalised credit was from NGOs rather than commercial banks. The vast majority of credit takes a non-monetary form including labour and goods (Buckley, 1997).

There have been few studies that have compared the use of different types of urban informal financial services in Africa. One of the few studies found that ROSCAs and arrangements with traders were very common, but moneylenders were less prevalent. Very few people had a relationship with the formal financial sector and this was normally in relation to savings, rarely as credit or other forms of financial intermediation. The most common forms of financial intermediation were from friends and family (Buckley, 1997).

There are few studies on traders, neighbours and shopkeepers as suppliers of credit. Informal financial services are market-focused and can be sustainable, but are fraught with risks and mismanagement (Ferrand, 2004). Informal financial arrangements are competitive mostly within small market segments, for financial transactions among agents who are in close proximity (Gonzalez-Vega, 1995). Buckley (1997) argues that ROSCAs are highly efficient because transaction costs are kept low, no interest rates are levied and tangible forms of collateral are required.

Valuable financial services are provided by informal arrangements. Economic development will require, however, the provision of additional (also valuable) formal financial services (to replace or complement the former). While understanding and appreciating the role of informal finance, the real challenge is to discover the appropriate combinations of technologies, organisations, and policies needed to develop these into formal financial systems at the national level (Gonzalez-Vega, 1995).

Lessons can be learnt from the informal financial services sector, as advocated by the Ohio School, for MFIs and can help to develop formal financial services for the poor. Christen et al (1992) identifies six major lessons of informal moneylending, which include: get to know your borrowers, do not supervise loans, take loans to the clients, provide appropriate credit, charge commercial rates of interest and be tough on defaulters.

2.5.5 Conclusion

In summary, informal financial services have certain advantages over formal financial services, such as good knowledge of the local economy, intimate knowledge of their clientele and their businesses; low transaction costs; very little bureaucracy and good outreach to clients, and flexibility to adjust to changed circumstances. There are also recognised disadvantages, such as over-dependence on trust, risk of theft, losses as a result of inflation, late collection or non-payment; no legal recourse to deal with default, low volumes of capital available, high rates of interest by moneylenders and having to wait one's turn to receive money in a ROSCA (IFAD, 2000). It is argued that the segmentation of financial markets between formal and informal sectors impedes the process of liberalisation in enhancing competition and efficiency (Aryeetey et al, 1997). It has been shown that there are a wide variety of informal financial services but these are restricted to localities and thus are not available in all areas. Although there is generally a wide variety, as Rutherford (2000) argues, poor people save via three main mechanisms to access lump sums of money, by either saving up, down or through. The type of financial services that used these mechanisms are:

- Savings Up: deposit collectors, savings associations.

- Savings Down: moneylenders, pawnbrokers, supplier credit.
- Savings Through: ROSCAs.

These mechanisms and types of informal finance have been adapted to develop the second wave of micro-financial services, which reflect the wider needs of the poor.

2.6 LIVELIHOODS, RISK AND FINANCIAL SERVICES: CONCEPTUAL APPROACH

2.6.1 Introduction

Livelihoods is a concept which examines poverty and vulnerability, and includes broader set of factors, which takes account of well-being, not just material needs. However, the livelihoods literature has not contributed substantially to an understanding of the role of financial services for the urban poor. Similarly the microfinance literature has traditionally focused on micro and small enterprise development rather than livelihood development and management. The urban poor's dependence on a cash economy means that money is essential to survive. The mismatch of income and expenditure, combined with small and irregular cash flows creates a need for basic financial services for managing livelihoods. Using a livelihoods perspective allows us to understand the frequency and intensity of demand for financial services. It also allows us to understand the importance of financial services for securing and developing the range of livelihood assets, including labour, human, physical/housing and social capital. The urban livelihoods approach shows there is a need for financial management to manage risks, expenditure needs and opportunities, not just for enterprise development. There is a small but growing body of literature that focuses on microfinance as a tool to manage livelihoods rather than for micro enterprise development (Rutherford, 2000 & 2002; Rutherford et al, 2002; Wright, 2000; Matin et al, 1999).

> *Given the economic condition in which many respondents live, it would not be unreasonable to believe that with the cash (credit) in their hands, respondents would have found many more pressing household and personal consumption needs that they would have prioritised above credit for business needs* (Buckley, 1997: 1087).

The provision of credit by micro-credit programmes has been outlined in the previous section, showing that the poor would use and repay the credit. There is a growing awareness of the diverse credit needs of the poor and that these needs are not all addressed by productive loans (Wright, 1998). Increasingly, it is recognised that not all the poor can be expected to be entrepreneurs (Sharif & Wood, 1997). The working capital loans provided by MFIs are seen to be supply driven and in recognition of their growing awareness of the diversity of credit needs, MFIs are seeking to diversify the type of credit they offer to their clients (Robinson, 2000). In the mid-1990s it was believed that '*we have the products, demand is unlimited and clients will come',* but competition and dropouts have focused attention on becoming client-driven (Cohen, 2001). A useful approach to take is to assess a client's portfolio of financial services and this will help to assess the role of microfinance (Cohen, 2001). A financial landscape approach analyses the financial services available, which will help to understand the roles these services play (Simkhada et al, 2000).

Unlike the micro-credit initiatives of 1980s and 1990s, demand-led microfinance initiatives actively embrace informal financial services.

> *Our main finding is the need for the designer of financial services for poor people to recognise that the poor are not a homogeneous group with broadly similar needs… recognising the heterogeneity of the poor clear complicates matters for scheme designers* (Hulme & Mosley, 1997).

Many researchers and practitioners have seen the need to utilise the characteristics of informal finance (Vonderlack & Schreiner, 2002). For example, Rutherford (2000) developed SafeSave from an awareness of the informal financial services available and why the poor need money.

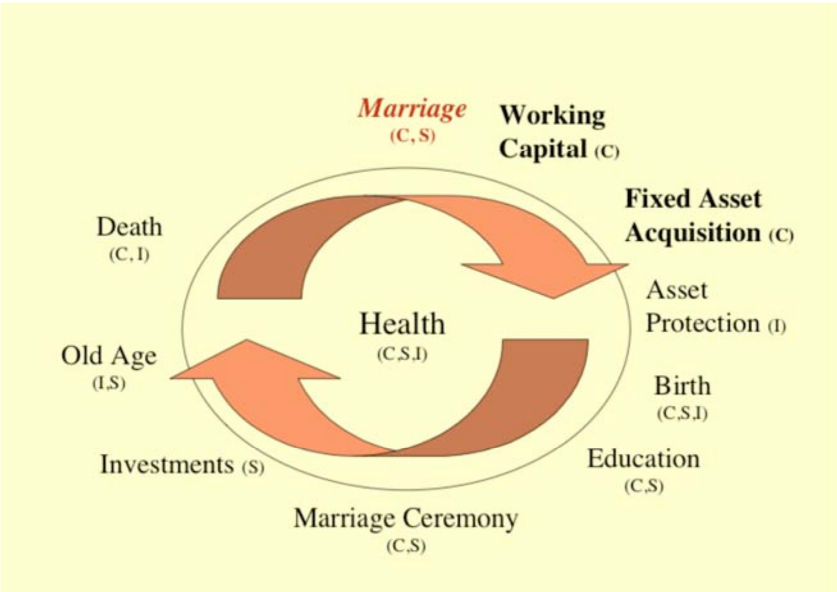
Not only does microfinance today propose a wider range of credit instruments but it also emphasises other financial services including savings and insurance (Vonderlack & Schreiner, 2002). Microfinance thus normally refers to small-scale financial services *'primarily credit and savings, provided to the economically active poor'* (Robinson, 2001: 9). Microfinance is a development of micro-credit but offers a wider range of financial services. The emphasis is on demand-led services rather than supply-driven credit. It is now recognised that the poor have a need for a wide range of financial services, evidenced by the use of informal financial services (Johnson & Rogaly, 1997). The second wave of microfinancial services has started to be developed since 2000. This shift in terminology from micro-credit to microfinance reflects the acknowledgement that a range of financial services is needed to improve the well-being of the poor and women (Vonderlack & Schreiner, 2002). The shift in the provision from credit for income generation towards a range of financial services, emphasising flexibility and savings, is also consistent with an understanding of poverty that encompasses vulnerability and livelihoods (Johnson & Rogaly, 1997; Rutherford, 2002, 2000a & 2000b; Wright, 2000; Rutherford et al, 2002).

2.6.2 The Function of Financial Services: Risk and Money Management

The poor use financial services to manage the unequal flows of expenditure and income (Wright, 2000), as well as to convert past and future savings into usefully large lump sums of money (Rutherford, 2000). There are three main reasons why the poor need large lump sums of money: life cycle events, emergencies and investment opportunities (or more simply promotional and protectional risk management strategies). Life cycle events include marriage, deaths and births.

Emergencies derive from shocks and trends such as ill health, theft and low sales. Investment opportunities are less frequent but include opportunities for investing in an enterprise, housing etc. Although this a simplistic way to categorise why the poor need large sums of money, it is a useful way of understanding which financial services may be appropriate. Figure 2.6 shows when a household may need financial services and whether there is a need for savings (S), credit (C) or investments (I). The centrality of health to managing household needs is paramount.

Figure 2.6 Household Financial Lifecycle Needs



Source: Cohen, 2001: 23.

It has already been discussed that poor households need to cope with the vulnerability of economic stresses either due to structural dimensions of the economy, life cycle factors or shocks. These factors normally lead to a loss of income and/or an increased need for expenditure. Savings are an effective, although imperfect, strategy for dealing with income risk (Deaton, 1991). The urban poor's savings are high frequency and mainly used for consumption smoothing rather than life-cycle events (Deaton & Paxton, 1999; Rosenzweig, 2001).

Montgomery (1996) is one of the few researchers to explicitly discuss coping strategies in relation to micro-credit. He suggests that micro-credit is likely to be more successful if households' coping strategies are effective, especially as credit is debt, and advocates flexible financial services. Therefore repayment flexibility, savings and consumption loans are also needed as part of coping strategies. It is the need to strengthen coping strategies that is paramount for poor vulnerable households. He believes that being a member of a group can enhance poor people's influence over how services are controlled and managed.

A major research project, AIMS, although focusing on micro-enterprise services analysed the interaction of household risk management, assets, microfinance and poverty. This study recognised that consumption borrowing is needed to deal with unexpected crises or to cover seasonal variations in cash flow and is also needed for household risk management (Dunn, 1996; Barnes, 1996; Dunn et al, 1996; Cohen & Sebstad, 1999; Sebstad & Cohen, 2000).

> *Thus when integrated into a strategy for the financial management of risk, consumption borrowing can assist the household in retaining its given stock of fixed and working capital* (Dunn, 1996: 18).

This research project was a comprehensive analysis, using the household economic portfolio approach, to examine household risk management and microfinance, whilst placing microfinance within the total financial landscape (Sebstad & Cohen, 2000).

It is important to note that credit and thus debt is an important factor in livelihood vulnerability. The financial needs of the poor in order of importance are: income generation, savings, transfers and borrowing. The last resort is often seen as borrowing, which is why credit programmes have not fully addressed the needs of the poor (Nelson, 1999). Churchill (2002) argues an expansion of microfinancial services is long overdue, which are client-led rather than supply-driven and includes credit, savings and insurance.

2.7 CONCLUSION

There have been significant advances in understanding the needs of the poor and financial services for the poor. This has been shown by the changing perception of who the poor are and concepts of poverty, with a move towards a livelihoods framework rather than income poverty and an increasing understanding of risk, vulnerability, gender and assets (Kabeer, 1991; Sen; 1981 & 1993; Chambers, 1989 & 1995; Dercon, 2000; Dunn et al 1996; Sebstad & Cohen, 2000; Cohen, 2001; Wright, 2000). This has also led to an increased focus and understanding of urban poverty and livelihoods (Rakodi & Lloyd-Jones, 2002; Moser, 1998; Beall & Kanji, 1999; Wratten, 1995; Amis, 1995; Wood & Salway, 2000).

When credit interventions were first initiated the poor were seen as small-scale, marginal, male farmers with credit administered through DFIs, which were heavily criticised by the Ohio School (Von Pischke et al, 1983; Adams et al, 1984; Adams & Vogel, 1986; Yaron et al 1998). Micro-credit programmes followed DFIs, where the poor were seen as largely female micro-entrepreneurs with no collateral, were pioneered by the Grameen Bank. Both these interventions believed that credit was needed to increase productivity. Alongside these credit interventions, the informal economy and financial services were being used by the poor to manage livelihoods and money (Rutherford, 2000 & 2002; Wright, 2000; Cohen, 2001; De Soto, 2000). Now a new understanding is emerging that the poor are a diverse group of vulnerable households and individuals with complex livelihoods requiring a full set of microfinancial services. A better understanding of the financial service preferences and behaviour of the poor is still needed and is important for expanding the scope of microfinance initiatives (Matin et al, 1999; Wright, 2000; Rutherford, 2001 & 2002). This research uses a livelihoods framework to examine the nature and the role of informal financial services including microfinance programmes for the urban poor in Kampala.

CHAPTER THREE

UGANDA AND KAMPALA:

POVERTY, POLICIES AND FINANCIAL SYSTEMS IN 2000[1]

3.1 INTRODUCTION

Sir Winston Churchill once referred to Uganda as the *'pearl of Africa'* whilst, in the 1970s and early 1980s, Uganda became synonymous with state terrorism (Mamdani, 1999), political instability, social and physical insecurity, repression and violence, as well as economic collapse. Bernt Hansen and Twaddle (1988) summarised the atrocities that have afflicted Uganda:

> *Famine; tyranny; widespread infringements of human rights, amounting at times to genocide; AIDS; malaria; cholera; typhoid; and a massive breakdown of government medical services; corruption; black marketing, economic collapse; tribalism, civil war, state collapse – think of any one current Third World affliction, and probably Uganda will have suffered it* (Bernt Hansen & Twaddle, 1988: 1).

Uganda was in an advanced state of collapse when the NRM under Museveni took political power in 1986. Income levels were very low and there had been a large scale *'retreat into subsistence'* (Collier & Pradhan, 1998); social capital was seriously eroded in many areas due to ten years of conflict; and the provision of education and health by the Government was almost non-existent, while private provision was patchy and not accessible to the poor. Uganda also faced the AIDS/HIV pandemic, while the political process and Government institutions were deeply damaged and traumatised from a prolonged period of authoritarian rule and civil war (Twaddle & Bernt Hansen, 1998). Finally,

[1] This Chapter will focus on Uganda in 2000, when the field research was carried out.

physical infrastructure, especially roads, was in an advanced state of decay. Even in comparison with other poor countries in SSA, few have recently faced such a rehabilitation challenge.

By the mid 1990s, Uganda's politics had been democratised at the local level through the Resistance Council system, which developed during Museveni's bush war. The system of Local Councils (LCs) helped to improve communication and governance at the local level. Golooba-Mutebi (1999) provides an in-depth analysis of the LC system in Uganda. This decentralisation process had increased the involvement of women and improved the quality of governance at the local level (Regan, 1998). In the late 1980s, Uganda was one of the first to have an affirmative action programme for women, attempting to increase the number of female parliamentary seats (Tamale, 1999). Although one of the most successful local governance systems in Africa, corruption, especially by the police and Government officials, was viewed as an inhibitor to development and contributed to the unwillingness of people to pay taxes (MFPED, 2000d). A comprehensive political, economic and social analysis of Uganda in the post colonial period until the late 1990s is provided by Bernt Hansen and Twaddle's edited books (1998; 1991; 1988).

Since 1986 under the NRM Government, the economy has stabilised and started to recover. Uganda has been cited as being a model adjuster in Africa, and the World Bank (1996) believes it is growing out of poverty. The macro-economy has achieved sustained growth between 1986 and 1996, averaging a growth rate of 6.5%, after decades of economic mismanagement and war. During the same period, inflation was brought down from 240% per annum in 1986/87 to 6.7% in 1996/97; an achievement which is largely accredited to the Government's commitment to macro-economic stability and the liberalisation of the financial system. The Ugandan economy achieved an impressive 7.2% annual growth during the 1990s. This was the result of the re-establishment of law and order and macro-economic stability, the rehabilitation of major infrastructure, market liberalisation including opening up the economy to external trade, the liberalisation of input markets, and the liberalisation of export markets in coffee, cotton, and tea (Bigsten & Kayizzi-Mugerwa, 1999).

Uganda was the first country to qualify for limited debt relief under the Highly Indebted Poor Countries (HIPC) initiative. GDP growth and HIPC relief have been translated somewhat slowly into improvement in social indicators. Although poverty decreased between 1992 and 2000, an examination of poverty reveals a much less positive outlook. Uganda has made some headway in the fight against poverty (Appleton, 1999), but it is generally agreed that poverty in Uganda is extensive and in 2000, at least a third of the population lived below the poverty line (Appleton, 2001). Individual indicators illustrate the scale of the problem; the fertility rate (6.7 children per woman), as well as infant and maternity mortality remain very high. Poor sanitary conditions only 34% of the population has access to safe water lead to frequent outbreaks of localised epidemics such as cholera in some urban centres (AAU, 2000a).

Since 1992, however, access to essential services has increased steadily, especially in education, health care, water and sanitation. Compared to 1992, when only about 65% of primary school age children actually attended school, the net primary school enrolment in 2003 stood at about 85%, in large part due to the Government's provision of Universal Primary Education (UPE). In the health sector, abolition of user fees in the public health care centres in 2001 may have contributed to dramatic increases in the number of patients seeking outpatient facilities: from 9.3 million new cases in 1999/2000 to 17.7 million in 2002/03, equivalent to an increase from 0.4 to 0.7 visits per person per year. Access to safe drinking water in 2004 stood at about 62%, with access in rural areas having increased from 20% in 1991 to 55% in 2002 (Miovic, 2004).

In 2000, Uganda had an estimated population of 24 million with over 50% aged less than 16 years. Life expectancy fell from 48 years in 1980 to 41 years in 2000 (UNDP, 2000); this is largely due to the impact of the AIDS epidemic, which also impacts negatively on the economy. It has left an economy with a '*missing generation',* where a rising number of relatives are taking on the responsibility of orphans, leading to increased dependency ratios within households (Wallman, 1996). The Government has declared the fight against AIDS as one of its top priorities and there are clear signs that the rate of new infections has been significantly reduced (MFPED, 2000e). However, the poor continue to be heavily affected by the devastating impact of the virus striking close relatives and/or economically active members of their community. In 1999 it was estimated that 1.9 million people were infected with HIV in Uganda. Uganda, despite this, is considered a success story in terms of HIV/AIDS, although with national prevalence rates estimated at 4.1%, it still faces many challenges on this issue (USAID, 2004).

Since 2000, the annual GDP growth rate dropped from an average of 6.3% in 1998-2003 to 5.8% in 2003/2004. This slowdown has been reflected in poverty indicators. According to the latest figures from the 2002-3 National Household Survey, the population in poverty increased from 34% in 2000 to 38% in 2003, or nine million people today living on less than $1 a day, compared to 7.8 million in 2000 (Miovic, 2004). Uganda's 3.4% population growth rate continues to erode economic gains, deepen poverty, and negatively affect other achievements in the social sectors. The following section will analyse the poverty status.

3.2 UGANDA'S POVERTY STATUS IN 2000

3.2.1 Poverty Status

Since 1986, Uganda's economic recovery and macro-economic stabilisation has been successful (World Bank, 1996), but there are still major challenges. Income levels have arguably returned to the income levels achieved in the early 1970s (Appleton, 1999). It has been recognised that the macro-economic growth experienced since the late 1980s has only slowly been transferred to the poor and Uganda remains one of the poorest countries of the world. Appleton's (1999) study of changes in poverty from 1992-1997 uses data from the Integrated Household Survey (IHS) of 1992 and the follow up Monitoring Surveys. Another IHS was carried out in 2002, which inputted into the PEAP 2004 (MFPD, 2004). These surveys are the first nationally representative source to provide micro-level data on income in Uganda and represent some of the most comprehensive data available in Africa. The study used household private consumption by calorific equivalence as the welfare measure. The absolute poverty line used (Ravallion & Bidani, 1994), consisting of a food and non-food poverty line, shows that after adjustments, consumption rose by 11.4% per capita during 1992-1997 (Okiira Okwi, 1999).

Appleton (1999) constructed an absolute poverty line reflecting the monetary cost of meeting certain basic needs. This constructs a food basket based on the actual consumption patterns of the poor in Uganda. The total cost of a food basket, the food poverty line was 11463/=USh[2] shillings per month. The analysis reflects the higher food prices of urban areas. In nominal terms the poverty line for the central urban area was 106% than that of the Western rural area.

[2] 2,500/=USh (Ugandan Shillings) was equal to £1 in 2000.

In 1992, 54% of people were estimated to be below the poverty line and 36% below the food poverty line. Poverty rates were lower in urban areas, with 28% of urban people living below the poverty line and 11% below the food poverty line. In 1997, total absolute poverty was 40% and the proportion below the food poverty line was 25%; thus the poverty rates had fallen; although the mean rise in consumption per adult was higher in rural areas than urban areas (Appleton, 1999). Appleton (1997) argues that the rise in urban living standards is unsurprising given the strong economic performance of non-agricultural sectors.

The World Bank (1996) also provided a comprehensive analysis of Uganda's growth and the challenges still faced. The study focuses on macro-economic growth, and the investment required in infrastructure, human capital and local government institutions. Per capita production declined by 13% between 1971 and 1986. The decline in output was partly explained by the emigration of the most productive and skilled part of the labour force during this period. This output loss has been reversed since 1986 and between 1986 and 1992, GDP grew by 37%; however this was still below the 1971 GDP level of per capita production (Twaddle & Hansen 1998). Post-1986 there was a reversal, with a shift of the tradable sector, resumption of aid flows and thirdly repatriation of private capital flows. Although there has been macro-economic growth, this has not directly transferred to the poor (Collier & Pradhan, 1998). The GoU (Government of Uganda) compiled an extensive annotated inventory of poverty related research in 2000 and 2002 (MFPED, 2000a & 2004a). This highlights the plethora of research carried out on economic development and poverty in Uganda.

It is interesting to note that since 2000, headcount poverty has increased. Between 1999/2000 and 2002/3 the headcount poverty figures increased from 34% to 38% (Miovic, 2004; Amis, 2005). Table 3.1 shows the poverty headcount in Uganda between 1991 and 2002.

Table 3.1 Poverty Headcount and Gini Co-efficient for Uganda 1992-2002 by Region

Headcount	**Population 2003 %**	**Poverty% 1992**	**Poverty% 1997/8**	**Poverty% 1999/00**	**Poverty% 2002/03%**
National	100	55.7	44.4	33.8	37.7
Rural	86.2	59.7	48.7	37.4	41.7
Urban	13.8	27.8	16.7	9.6	12.2
Central	29.6	45.6	27.9	19.7	22.3
East	27.4	58.8	54.3	35.0	46.0
West	24.7	53.1	42.8	26.2	31.4
Northern	18.2	72.2	59.8	63.7	63.3
Gini					
National		0.36	0.35	0.40	0.43
Rural		0.33	0.31	0.33	0.36
Urban		0.40	0.38	0.43	0.48

Source: Miovic, 2004: 21.

Although the GoU has a MSE policy (MFPED, 1999a), the main focus of the PEAP was improving basic service delivery (MFPED, 2000e). It is believed that one of the reasons why poverty reduction strategies have not led to a decline in headcount poverty is the lack of focus on income generation and employment growth (Miovic, 2004). Government measures have led to overall macro-economic stability and improved human development services. Miovic (2004) argues that Uganda needs to focus on job growth to increase incomes among the poor.

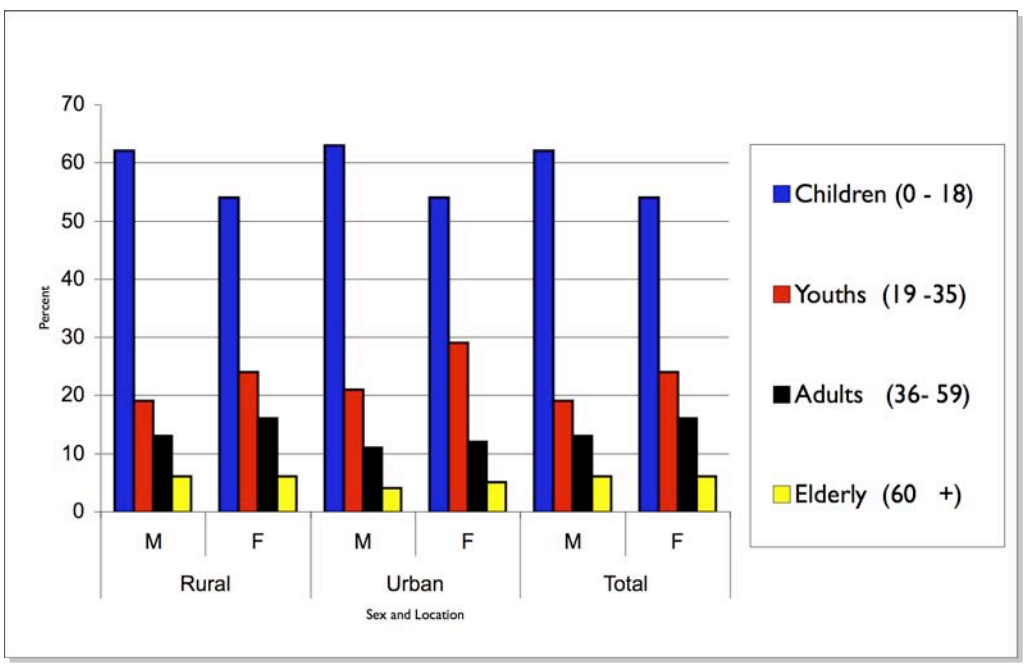
3.2.2 Micro-Enterprise Sector

The private sector has been weak in Uganda since the 1970s, which the GoU and donors are trying to amend (Livingstone, 1998). Nearly 90% of non-farm, private sector workers are involved in micro-enterprises, mainly in trade. Micro-enterprises are defined as businesses employing less than five people and are not normally registered (DFID, 1998). The constraints on micro-enterprises are believed to be lack of savings and credit facilities; little access to training and extension facilities; inadequate information on business opportunities; lack of organisation and poor physical infrastructure (MFPED, 1999a). The Government, via the MSE policy, recognises the need to establish an infrastructure of communication networks, water supply, reliable power sources, access to land/building and efficient marketing facilities (RoU, 1999). Income earning opportunities are difficult in Uganda. Finding a cash income is even more challenging for women than men, although the former comprise the majority of the MSE sector, because of traditional culture and owning less assets (Snyder, 2000). The difficulty in earning a living in the MSE sector is a factor in the poverty profile.

3.2.3 Poverty Profile

A poverty profile was derived from the 1997 IHS, which was derived from consumption expenditure as a proxy for income (RoU, 2000). Figure 3.1 shows the distribution of the poor by age, sex and rural-urban split in 2000. Children make up the majority of the poor in rural and urban areas.

Figure 3.1 Percentage Distribution of the poor by age, sex and rural-urban location.



Source: MFPED, 2000d.

The Uganda Human Development Report in 1998 (UNDP, 1999) provided a comprehensive analysis of and useful statistics on the status of poverty and human development. The main findings were that there was a modest decline in absolute poverty as access to safe water, sanitation and health services had improved since 1986. The introduction of UPE is providing opportunities for enhanced educational attainment. Uganda registered the fastest growth in HDIs in Africa in the 1990s. The report recognises there are still challenges, with 60% of the population without access to clean drinking water and 50% of the population surviving on less than $1 per day (UNDP, 1999). Table 3.2 shows the HDIs for Uganda and Kampala in 1998. The overall HDI is better in Uganda than the rest of SSA. Unsurprisingly, Kampala has higher indicators than the rest of Uganda, which is predominantly rural.

Table 3.2 Human Development Indicators in 1998

	Income index	Education index	Life expectancy index	Human Development Index
Africa				0.39
Uganda	0.2098	0.6050	0.4323	0.4046
Kampala	0.6452	0.8920	0.5550	0.6471

Source: UNDP, 1998.

Another in-depth analysis of poverty was the Uganda Participatory Poverty Assessment Process (UPPAP), which was carried out in 1998-1999 and aimed to inform the GoU about poverty from the perspective of the local people in selected districts, and assist in the PEAP development (MFPED, 2000c). A further UPPAP was carried out in 2002 to update the findings for a revised 2004 PEAP. The definition of poverty went beyond lack of income and material assets and included the absence of social aspects that support life, including a feeling of helplessness. Individual or household poverty was seen as a perpetual need for daily necessities of life, with an irregular or low income livelihood; whilst community poverty was the absence of basic physical infrastructure (MFPED, 2000d & RoU, 2000). Well-being and vulnerability trends were associated with key events within a household or community. The trends included dependability of the climate, disease prevalence, civil strife and insecurity, service coverage and availability of sufficient cash. People's needs for cash, especially for education, medication, toilets, water and transport, were increasingly outstripping incomes.

A lack of participation in the governance process, poor health, alcohol consumption, low productivity due to lack of education and skills, limited access to financial services, large family sizes, poor access to markets and information, insecurity and dependence on a single source of income were all identified as indicators or causes of pervasive poverty (MFPED, 2000d).

Another UPPAP was carried out in 2002 that showed a different focus for the perceived causes of poverty (MFPED, 2002). Table 3.3 compares the responses in 2000 and 2002 when asked about the causes of poverty. The biggest difference is the shift in concern from services and health (poor, health, alcohol) to a focus on income generation and employment. This may reflect the focus in the PEAP 2000 to improve service delivery, which has been implemented.

In 2000, donor and NGO interventions were prolific in all sectors in Uganda and are attempting to fill the gap in reaching the poor. The World Bank, DFID, GTZ, DANIDA, USAID, EU, UNDP, ActionAid, Oxfam and Plan International all had major programmes in Uganda. After an appraisal of NGOs in Uganda, the NGOs' promises of poverty reduction have remained elusive and Dicklich concludes that *'NGOs are not the panacea that they have been made out to be'* (Dicklich, 1998:4).

The District Resource Endowments Profile Survey (DREPS) was also carried out in 1999 as part of the Government initiatives for eradication of poverty, under the Private Sector Development

Programme. The findings would contribute to the implementation of the PEAP (UNDP/RoU, 2000).

Table 3.3 Perceived Causes of Poverty in 2000 and 2002

Cause of Poverty	2000	2002
Lack of jobs/employment	29%	84%
Limited income/funds	33%	62%
Limited access/land shortage	29%	54%
Lack of education/vocational training	50%	54%
HIV/AIDS	33%	46%
Lack of market access	44%	46%
Large family/household dependents	42%	46%
Low prices	17%	38%
Ignorance/lack of information	44%	38%
Death	38%	38%
High taxes	25%	38%
Poor health/disease	67%	38%
Laziness	44%	38%
Similar business activities	N/A	31%
Oppression of women	13%	31%
Poor planning at the household level	25%	31%
Lack of credit facilities	50%	23%
Casual/poorly paid	21%	23%
Excessive alcohol consumption	56%	
Insurgency	40%	

Source: MFPED, 2000d and 2002.

3.3 POLICIES FOR POVERTY REDUCTION AND MICRO-ENTERPRISE DEVELOPMENT

A comprehensive sociological poverty study argued in 1995 that Uganda needed to make poverty reduction an integral part of its long-term economic strategy (Bevan & Sseweya, 1995). Since the implementation of the PEAP in 1997, the GoU has been committed to reducing the extent of poverty in Uganda. The revised PEAP 2000 emphasises that the poor must be able to participate in economic growth, both by expanding smallholder agriculture and by expanding employment in industry and services. The PEAP aims to eradicate mass poverty by 2017 (MFPED, 2000E). The Government also developed a MSE policy in 1999 and a Medium Term Competitive Strategy (MTCS) for private sector development in August 2000 (MFPED, 1999 & 2000b). The GoU continues to be heavily donor-subsidised with donors supporting about half of the budget, of which the IMF and World Bank accounted for about a third in the late 1990s (PRESTO, 1999).

3.3.1 Poverty Eradication Action Plan

The PEAP is the guiding framework for the achievement of poverty eradication in Uganda. It adopts a multi-sectoral approach to reflect the multi-dimensionality of poverty. Within the context of macro-economic stability, the PEAP 2000 aimed to:

- Create a framework for economic growth and transformation.
- Ensure good governance and security.
- Directly increase the ability of the poor to raise their incomes.
- Directly increase the quality of life of the poor (MFPED, 2000e).

The implementation of the PEAP is through the Medium Term Expenditure Framework, which integrates policy-making with expenditure based on strategic priorities. Primary health care, education, water and the modernisation of agriculture are the main priorities. The PEAP recognises that credit and financial support services to MSEs are potential tools for reducing poverty and achieving broad-based economic growth (MFPED, 1999a). In May 2004, the GoU formally launched its third PEAP (2004-2008). The PEAP 2004 describes the participatory process underpinning the development of the PEAP strategy, provides a poverty diagnosis, and presents policy measures, sector plans, costing, and a results-oriented policy matrix for sustainable economic growth and poverty reduction over the 2004-2008 period (MFPED, 2004b). The PEAP 2004 argues for a shift of the policy focus from recovery to sustainable growth and structural transformation, and presents specific Government policies to accelerate poverty reduction (IMF, 2005).

3.3.2 Medium Term Competitive Strategy 2000-2005

Since the NRM came into power in 1986, many economic reforms have been implemented. The first phase was the stabilisation and rehabilitation of the economy and the second phase was the implementation of reforms to remove structural distortions in the economy. The third phase is in the recognition of the challenges still inherent in the economic system. These have been defined as poor delivery of public services and impediments to the growth of the private sector. The MTCS 2000-2005 identifies the key constraints and attempts to outline a way to remove the impediments to private sector growth (MFPED, 2000b). The manufacturing sector has grown steadily since 1986, with a growth rate of 4.7% to 9% in 1997. The medium-term growth rate for the manufacturing sector in the PEAP 2004 was set at 7% (IMF, 2005).

3.3.3 Micro and Small Enterprise Policy Unit

The MSE Policy Unit started in 1996 and is linked with other ministries to develop a framework for MSEs.. The Government wanted to look at small-scale businesses because they have a central role in employment and are central for poverty reduction in the private sector. There are sector-wide constraints that have to be addressed. The GoU has recognised a need for an enabling policy, which focuses on enabling infrastructure; improving the level of skills; improving access to financial services (particularly credit); higher levels of organisation and co-ordination of MSEs. A policy paper on MSE development was drafted in 1999 in recognition that the sector employs about 90% of non-farm private sector workers (MFPED, 1999a). Although the GoU did recognise the importance of

MSE, the focus since 2000 has been on service delivery. Miovic (2004) argues that the Government has focused much less on income generation than on service delivery and the PEAP 2004 also needs more focus on employment to ensure that the PEAP goals and improved service delivery are sustained: *'in general the growth part of Uganda's poverty reduction model is much less developed than the service delivery (human development) part'* (p.35).

3.3.4 Private Sector Development

The Business Uganda Development Services (BUDS), launched in 1996, is designed to improve the competitiveness and productivity of enterprises. It is a component of the Private Sector Foundation, which is a GoU and World Bank funded programme; in 1999 it started a micro-enterprise training component (BUDS, 1999).

Under the Government's UNDP-supported Private Sector Development Programme, the Business/Entrepreneurship Skills Development training Programme (BSDP) was introduced in November 1997 to enable people to develop skills to start their own micro-enterprises. By June 2000, 4075 people had undergone BSDP training and 63% of these had started their own business. The Youth Entrepreneurship Scheme provides BSDP trainees with start-up capital loans (PSD, 2000a). The financial sector will be discussed in the next section.

3.4 FINANCIAL SECTOR IN UGANDA

3.4.1 Introduction

Access to financial services is crucial for economic development and poverty reduction. Lack of access to credit was identified in the PEAP as one of the barriers to more equitable and sustainable economic development (MFPED, 2000e). Finance and trade are cornerstones for stronger growth and mitigation of exogenous shocks. The PEAP 2004 assigns an important role for financial deepening, but the IMF (2005) argues that the PEAP's analysis and coverage are weak, identifying only a few policy actions related to microfinance institutions and pension reform. A competitive and regulated financial system will be responsive to credit needs and safeguard the public's deposits. This will mobilise domestic savings and improve investment, which will in turn lead to economic development. A sound and stable macro-economy, legal system and cost-effective regulation are required for a working financial system. The BoU (Bank of Uganda) and GoU have made it one of their priorities to foster conditions and create mechanisms to encourage financial intermediation (MFPED, 2004b). Donor interventions were also being used to develop the financial system and make it more inclusive of the majority of the population. This Chapter examines the formal and microfinance sectors in Uganda.

The domestic savings rate is one of the lowest in the world. Although the rate increased from 1% of GDP in 1990 to 6% of GDP in 1999 (World Bank, 2000), this is still much less than the SSA average of, in 1999, 14% of GDP. The GDP in 2005 was 9.9% (IMF, 2005b). Increasing the domestic savings rate of the country was an objective for the Government, to improve domestic resource mobilisation and to encourage participation in the banking sector. This would increase the amount of resources available for financial intermediation. The formal financial system will now be briefly discussed.

3.4.2 Formal Financial System

The BoU was established in 1966 and the majority of banks in Uganda were foreign when it was established. In the 1970s Amin declared that all banking business and accounts of the Government, parastatals and co-operative unions were to be transferred to the Uganda Commercial Bank (UCB).

The foreign banks closed their rural branches, which were mainly taken over by UCB. UCB controlled the main share of domestic banking because it enjoyed a virtual monopoly. UCB branches increased from 28 in 1973 to 191 in 1990 (Bohnstedt et al, 2000).

From the mid-1980s to the early 1990s, the financial sector mainly consisted of foreign institutions that were internally well managed. In the late 1980s, the two large indigenous banks that controlled 70% of the financial sector were insolvent. The macro-economy was characterised by high interest rates and high inflation. In 1987 the GoU undertook a number of reforms to strengthen competition and efficiency within the banking sector, improve the capacity of the BoU and liberalise interest rates. A new BoU 1993 statute was enacted to enhance the formulation of monetary policy. After 1987 there were significant reforms in the financial sector, but in 2000, the financial system remained narrow and shallow (Brownbridge & Gayi, 1998) and *'malpractices in the formal lending systems discourage those who have meagre savings'* (Snyder, 2000: 108).

In 2000 the formal financial system was in a transitional phase from controlled to liberalised market operations. The formal financial market was segmented, urban based and inefficient due to information asymmetry and high operation costs. The formal financial sector included the BoU, 18 commercial banks, seven credit institutions, three development banks, 26 insurance companies, one leasing company, a savings and credit union with over 2000 members, a post office savings bank and the National Social Security Fund (Katimbo-Mugwanya, 2000). The Government's financial sector reforms privatised two large commercial banks, restructured a number of banks, enhanced banking supervision and was attempting to transform the culture that was conducive to non-payments of loans. Savings (quasi money or private time deposits and savings) increased by 87% per annum between 1987 and 1991 (Bohnstedt, 2000).

3.4.2.1 Bank of Uganda: Regulation and Supervision

The BoU is responsible for the regulation and supervision of the formal banking sector, as well as lending to commercial banks, keeping treasury funds and ensuring foreign exchange reserves are kept at acceptable levels. Regulation is the set of clear and fair rules for financial intermediation while supervision is the monitoring of compliance with them. In 2000 the BoU derived its powers and mandate from the Financial Institutions Statute (FIS). The Banking Act of 1969 was replaced by the FIS in 1993 and the BoU Act 1966 was replaced by the BoU Statute 1993. There were no controls and regulations for MFIs in the FIS 1993. The 1993 Statute gave the BoU the power to fulfil its regulatory and supervisory functions. The minimum paid up capital requirement for local banks was 500 million/=USh and 1 billion/=USh for foreign banks (Bohnstedt, 2000). The inadequacies in the current system led to a new Statute being implemented in 2000, which increased the minimum capitalisation level to 2 billion/=USh for all banks, local and foreign. This was in response to bank closures due to insolvency.

3.4.2.2 Bank Closures

In 1993 Teefe Bank was closed by BoU; the state and perception of the banking sector was further undermined by the closure of four banks between 1998 and 1999. These were mainly indigenous institutions, International Credit Bank, Greenland Bank, Co-operative Bank and Trust Bank. The main cause of the bank closures was insolvency due to imprudent banking practices and lack of internal governance. Non-performing assets and staff fraud were at high levels (Brownbridge & Gayi, 1998).

These banks accounted for 12% of the total bank deposits at that time for the country. This was costly to the taxpayer and the GoU, because the GoU decided to reimburse all of the private sector deposits of the first banks closed, including UCB, Greenland Bank and the Co-operative Bank. It was decided in the 1999/2000 budget that the Government would only reimburse deposits covered by the Deposit Insurance Fund in the event of any further closures, although in 2000 many depositors still had not received their money (MFPED, 1999c). The bank failures showed serious weaknesses in the accounting standards of these banks. Some of the financial statements submitted to the regulators misrepresented the actual financial condition of the banks. These statements indicated that they were adequately capitalised when in reality they were massively insolvent. This, coupled with the reluctance to close insolvent banks, has been at the expense of the depositors and taxpayers, furthering the distrust in the banking sector. Intervention rules need to be clear and mandatory benchmarks need to be set for closing banks. This leads to the moral hazard of bank bailouts, because of the failure by the BoU to close insolvent banks and instead giving these banks cheap long-term loans. This undermines incentives for sound and prudent bank management. The Permanent Secretary to the Treasury recommended that it is necessary to strengthen the capacities of the regulators and bank's external auditors in examining banks' financial records (Hannig & Katimbo, 2000).

The BoU's Governor concluded in 2000 that the banking sector was concentrated in the urban areas and these areas were over-banked. The BoU was committed to deepening the financial sector across

Uganda. The reasons cited for low deposits were low monetisation of the economy and lack of outreach of financial institutions. This may be true for Uganda as a whole, but less so for the urban areas, especially Kampala. The research will show that in Kampala people were reluctant to deposit money in banks, where it is cumbersome and inconvenient to withdraw money. There was also deep mistrust of the banking institutions and many feared they would lose their money. Weak contract enforcement contributes to low foreign direct investment, bad debt portfolios and stifles enterprise development.

There were many reasons for the virtual exclusion of the poor from the formal bank sector; these included high minimum loan and account balance requirements. Traditional collateral requirements, of which the most common was a legal land title, were often not available to the poor. High pre-disbursement costs were too costly for the poor. There is a need for the financial system to offer appropriate services for the whole population, which needs to be dynamic to changing and differing needs. This requires co-ordination between all stakeholders within the financial system, including MFIs, commercial banks, BoU and clients. The current formal financial system is mainly for the urban elite, where the urban and rural poor are excluded. This is not compatible with the PEAP, which is pro-poor and seeks to extend credit to the poor. In 2000, GoU schemes and donor MFIs were also aiming to bridge this gap.

MFIs were negatively affected by the banking closures; many poorer people and MFI groups had bank accounts with these banks. Prior to 1999, FINCA (Foundation for International Community Assistance) clients deposited their savings in the Co-Operative Bank. These savings were lost and FINCA had to limit lending due to their reliance on Co-Operative Bank. The Co-Operative Bank was one of the few banks that had a micro-enterprise programme in six of its branches, with one of them being in Bwaise. Aside from the informal sector, microfinance is becoming a key avenue for the poor to access financial services.

3.4.3 Microfinance in Uganda

3.4.3.1 Microfinance Characteristics

It has been shown that formal financial institutions do not meet the financial services demands of the low-income sectors of the population. NGOs and other MFIs are hoping to fill this gap. Microfinance refers to financial services provided to the economically active poor. In 2000, there were approximately 40 MFIs and 624 savings and credit co-operatives registered in Uganda (Okumu & Opondo, 1999). MFI is a term used to denote any organisation that delivers financial services to the poor. They accept savings or deposits and/or provide credit to clients as individuals or within groups, which are generally not regulated by the FIS 2000. These can be NGOs, commercial banks, companies limited by guarantee, trade associations and SCSs. In Uganda the financial products are mainly working capital loans to micro-enterprises. The loan size is generally small and disbursed, using the group joint liability methodology. CEEWA (Council for Economic Empowerment for Women In Africa-Uganda) carried out a baseline study on lending methodologies of MFIs in Uganda and found that the majority (CEEWA, 1999a) are highly dependent on donor funding and are offering short-term business loans, with 50% offering savings facilities. CEEWA and PRESTO provide a comprehensive directory of MFIs and their methodologies in Uganda (CEEWA, 1999b; PRESTO, 1997).

Member-based MFIs, which sell shares, are allowed to use this share capital to on-lend to their members; for example, Financial Services Association and Bwaise Poverty Reduction (Jazayeri, 1996

& 2000). Other MFIs currently are not legally allowed to on-lend the savings deposits of their clients. The key exception is Commercial Micro-Finance Ltd (CMF), which was licensed under the FIS 2000. The majority of MFI clients' savings are deposited in commercial banks. MFIs either borrow from commercial banks or have secured grants or loans from donors. This is the most common form of financing for MFIs, because the majority are registered as NGOs. Standard Chartered has given credit lines to FINCA, through the facilitation of the EU/SUFFICE programme. The semi-formal MFIs all adhere to the *best practices* principles. These were to meet clients' needs and to seek institutional sustainability.

Most of the semi-formal MFIs have dual objectives. They aim firstly to achieve self-sustainability (business objectives) and secondly to reduce poverty (social objectives), as discussed in the previous Chapter. The issue of achieving the double bottom line objective is high on the agenda of many MFIs. Many NGOs have taken up microfinance, because it was a window of opportunity for accessing donors' funds. This is now changing, as the majority of donors are reluctant to give grants to NGOs for capitalising unsustainable microfinance programmes. Donors are devising a collective policy on funding microfinance and are moving towards soft loans and grants for capacity building of the MFIs. This is to stop the distortion of the financial system through capitalisation grants. This leads to a belief that NGOs should stick to their social mission, because of the problems they encounter when trying to set up sustainable microfinance programmes.[3] The larger MFIs are moving away from their social missions in order to achieve operational and financial sustainability. When MFIs start to access commercial funds and mobilise savings, credit ratings become important. In 2000 the microfinance market size did not justify the investment of overseas ratings companies.

[3] Interview with [redacted], Uganda Institute of Bankers 16/11/00.

MFIs have different features, which are unique compared to traditional banks. This justifies, at the moment, having a separate microfinance regulatory law and having a law to regulate deposit-taking MFIs. The majority of MFIs are registered as NGOs and so have unclear ownership structures, which may lead to difficulties in times of financial crisis and raises concerns of accountability. The law may stipulate that an organisation or person can only own a maximum of 20% of deposit-taking MFIs. In 2000 there was little product diversification; short-term, working capital loans were the main and virtually only product offered. The use of unconventional collateral, mainly character-based lending and group liability, has allowed poorer people to access loans, but may prove difficult to use for larger loans and individual loans. This also leads to limited contract enforcement powers, which may lead to liquidity problems if many clients default. These characteristics lead to MFIs having to ensure adequate capitalisation requirements to cover the risks of financial intermediation to poorer clients, whose transactions are small and frequent. In 2000, most of the research carried out on microfinance in Uganda had been donor-led impact assessments (Wright, 1999a &b).

MFIs were found not to be designing products that were responsive to their clients' needs and providing very limited short-term business loans (Wright et al, 1999; Wright, 1999; UNDP/RoU, 2000; Hannig, 2000; Okumu & Opondo, 1999). Wright (1999a & b) recommends that MFIs should offer a wider variety of loans, voluntary open-access savings and insurance mechanisms. Okumu and Opondo (1999) found that the three main reasons people did not use MFIs were product design and diversification; service delivery system; and cost of the services. Similarly, GTZ (Hannig, 2000) carried out a review of FINCA and found that a fifth of the clients had used the loan to pay school fees, a high proportion overall had been used for non-business purposes, and that there was a large untapped demand for savings services. A study on dropout rates found that the MFIs preferred '*sticks over carrots'* (Wright, 1999a: 17) approach to ensure repayment, which in the long-term will discourage clients (Okumu & Opondo, 1999).

These studies showed that in 2000 the microfinance industry was in its infancy in Uganda and needed to move away from just micro-enterprise credit to wider microfinancial services in order to be beneficial to the poor. One of the few studies to research assets, vulnerability and financial services (focusing on Uganda Women's Finance Trust, a MFI operating in Uganda) found that *'financial services as a whole reduce the vulnerability of poor individuals and households by providing access to chunks of money to protect against risk and cope with shocks'* (Wright et al, 1999: 40). This is recognised by the microfinancial services and livelihood literature discussed in the previous Chapter, which will form the basis of the research. Currently donor activities dominate the microfinance industry in Uganda.

3.4.3.2 Donor Activities

There are many donors and organisations that were involved in microfinance in Uganda in 2000. Donor focus was mainly on micro-enterprise finance rather than financial services as a whole. For example, the BoU had a World Bank funded programme that started in 1998 to build the capacity of MFIs; 50 MFIs have been identified and supported; logistical support and training had been given. The DREPS survey carried out an extensive survey of microfinance activities across Uganda (UNDP/RoU, 2000). The main findings were the *'explosion'* of MFIs (mainly informal) in the 1990s; the inadequacy of the regulatory and policy framework for MFIs; the inadequacy of oversight and peer supervision; and the complete absence of a regulatory and policy framework for MFIs.

AMFIU

The main objectives of the Association of Micro-Enterprise Finance Institutions in Uganda (AMFIU) are an advocacy role within the financial sector, Government and aid agencies; capacity building of MFIs; establishing a strong database for members; and maintaining prudential industry standards. It was set up in 1996 and is an umbrella/network organisation, which also encourages the establishment of an appropriate regulatory framework for MFIs. It obtained funding from membership subscriptions, World Bank-CGAP and PSDP/UNDP. A small resource centre was set up in 1999 with literature on microfinance, management information systems and Micro-Enterprise Best Practices (AMFIU, 1999). The focus was on micro-enterprise finance, rather than inclusive financial services.

UNDP/PSDP Village Banks

PSDP's Micro-Finance programme intends to slot into existing financial system to reach out to those excluded from banks. It is to form user-owned institutions who PSDP will train, and these will be linked to banks. These village savings and credit institutions will be designed to respond to financial needs of the poor. PSDP will encourage empowerment and participation in the decentralised financial service sector. In 2000, PSDP had established 17 savings and credit institutions working at different levels. PSDP, however, did recognise there was a lack of capacity and skills to run savings and credit institutions on a sustainable basis.[4]

PRESTO/SPEED

The Private Enterprise Support, Training and Organisation Development Project (PRESTO) was funded by the US Agency for International Development (PRESTO, 1999). The Support for Private Enterprise Expansion and Development (SPEED) project will address the needs of micro,

[4] Interview with [redacted], Director of PSDP 18/09/00.

small and medium sized enterprises in Uganda. It will replace the PRESTO project and will focus on MSE access to finance and business skills development. The programme was being designed at the time of the research towards the end of 2000. The Centre for Micro-enterprise Finance, set up by PRESTO, achieved its goal to help address the lack of adequate microfinance services by providing training for MFIs (PRESTO, 1999). PRESTO also designed the microfinance best practices for Uganda, which are outlined below:

Meeting needs of clients: What works	**Loan polices and procedures: What works**	**MFI Institutional Sustainability: What works**
• MFI clients need financial institutions that will be there now and in the future to meet their financial needs. • Economically active people in urban, peri-urban and rural areas all need financial services. • MFI clients need a secure place to keep their savings. • MFI clients need access to their savings for emergencies, investment and domestic expenditure. • MFIs should deliver loans to the economically active poor: credit can't solve the problems of the poorest. • Transaction costs of obtaining loans should not outweigh the value of the loan. These costs include the time, effort, and transport costs of clients. • Women have proved to be better borrowers of MFIs than men and more likely to spend their profits on family welfare. • MFI clients need easy access to services at a convenient location and without complicated and time-consuming processing requirements. • Credit history, experience, absorptive capacity and available business opportunities in a locality are important considerations in	• Urban lending policies and procedures need adaptation before they can be sued to serve rural clients efficiently and effectively. Similarly, policies of microfinance programs elsewhere should not be replicated without adaptation to suit specific circumstances. • MFI undertakes a variety of enterprises simultaneously. MFIs should be concerned with repayment capacity of the borrower rather than with selection of a particular activity. • MFI borrowers need manageable loan sizes and loan periods: not too long, not too short. • Group lending is appropriate for MFIs working with poorer micro-entrepreneurs. • Individual lending is appropriate for clients with larger businesses. • Loan sizes should optionally become progressive larger as business needs of clients increase and as they gain borrowing experience. • For group lending programmes, the group should take responsibility for loan appraisal with guidance from the credit officer.	• Microfinance is a business. • MFIs missions must include sustainability. • MFIs should adopt a businesslike or private sector approach. • MFIs that operate social welfare programmes must resolve potentially conflicting images either by spinning off the microfinance programme or creating a separate company. • MFIs must have comprehensive savings and credit policies and procedures, business plans to direct their operations, and good accounting, loan tracking and management. • MFIs must have staff and clients that are well trained in the MFI's policies and procedures. • MFIs must charge a full cost covering interest rate to eliminate dependence on donor funds. • Subsidised credit attracts non-poor borrowers and encourages default. • MFIs must adopt a policy and culture that does not tolerate late loan repayment or default. • Borrowers supported by the MFI must generate sufficient cash flow to meet repayment

determining loan sizes that are manageable by MFI clients. • MFI clients need to grow their businesses. Therefore, interest on loans should be reasonable.	• For group lending programmes, loan repayment, savings deposits and record keeping should be done during the group meeting to enhance transparency. • Ascertaining that group funds have been properly banked should also be done during the group meeting by a team of group officials, and anomalies rectified promptly. • The credit officer should attend all group meetings and guide the group in record keeping. The MFI must enforce guarantees promptly and track past dues if repayment is not forthcoming on time. • The MFI must analyse the quality of its loan portfolio and classify its overdue loans based on how long the payments have remained over due.	conditions. • The repayment rate must not be below 95%. Higher delinquency (late or no repayment) rapidly reduces the value of the loan portfolio. • An incentive scheme to reward good borrowers and punish poor performers should be enforced. • The MFI should work closely with other MFIs to break the network of defaulters who move from one MFI to another. • For group lending, the credit officer should supervise about 300 clients (caseload). For individual lending programmes, the caseload will be less than this. • All costs should be planned and rationalised based on zero-based budgeting principles. • MFIs should have a large outreach to maximise income and meet the needs of the poor. • MFIs should operate in locations where services can be delivered efficiently, effectively and profitably.

Source: PRESTO, 2000 Microfinance Best Practices.

SUFFICE

SUFFICE is a European Development Fund funded programme, which started in 1999, to provide Support to Feasible Financial Institutions and Capacity-Building Efforts (SUFFICE). The main aim is to support the strengthening of the microfinance industry in Uganda. It takes a financial systems development approach, which emphasises institutional sustainability and focuses on long-term viability to protect clients' investments in enterprises. The goal is to achieve a sustainable and efficient system of financial institutions offering diversified financial products and service to the economically active poor. It supports access of clients to financial services delivered by sustainable microfinance institutions, by enhancing the institutional capacity of MFIs. It also disseminates information and liaises with the main stakeholders. It provides a credit line to MFIs, this is because the majority of MFIs cannot obtain credit lines with formal banks. The rate is 16%, which is below the 22% current prime lending rate. SUFFICE wants to encourage this and will offer partial guarantees with commercial banks who are willing to on-lend to MFIs. This has enabled FINCA to obtain a credit line with Standard Chartered. SUFFICE adheres to the Microfinance Good Practices and wants flexible demand-led financial products.[5] SUFFICE is to provide interim facilitation to get the financial system working with sustainable MFIs. Hansen (2000) says this is a paradigm shift from development objectives to financial sustainability. Previous donor programmes would provide credit lines or grants to unsustainable MFIs. She believes this is the way forward and will move away from supply-led microfinance programmes that solely focus on enterprise loans.

Micro-Save

Micro-Save Africa, a UNDP/DFID initiative, had become an important institution for research and information on micro-finance in Uganda. Micro-Save's focus was *'promoting secure, high quality savings services for poor people'.*[6]

Uganda Institute of Bankers (UIB)

UIB is concerned with capacity building financial institutions through training and professionalism. It has set up a credit reference bureau for licensed banks. There are discussions to extend this to MFIs. Mukweli, the UIB director, believes microfinance to be banking, but at the lower end of the market. He considers that are three key microfinance issues for the UIB to be concerned with. Firstly, whether microfinance should become an accepted part of the banking sector and for UIB to accept MFIs as members. Secondly, to design training packages to strengthen MFIs to enable them to offer banking services in a profitable manner; and finally to facilitate the linkage between MFIs

5 Interview with [redacted], SUFFICE 10/10/00.
6 Interview with [redacted], MicroSave 16/10/00.

and formal banks. This is being done through UIB training programmes and the regulatory framework. UIB has 17 banks, including the central bank, and 800 individual members. The BoU initiated the UIB. The UIB obtained a loan from the BoU for property and refurbishment.

The Microfinance Competence Centre is a division of UIB, and was set up in November 2000. It was established to provide professional skills and knowledge to the microfinance industry by linking microfinance best practices and experiences from the field with professional banking knowledge. It focuses on the design and implementation of targeted training programmes, provision of appropriate information and provision of technical assistance for the microfinance sector. Its aim is to link solid financial knowledge and practical skills for a vibrant microfinance industry. It is partly funded by GTZ's Financial Systems Development Programme. The table below shows the main financial sector donor activities in Uganda:

Donor	Programme
ARB	Improving the Framework for the Financial Sector FINCA
Danida	Rural Finances Services Component of Agriculture Sector Programme Support
UNDP	District private sector promotion MSE Policy Unit
USAID	BoU Bank Training PRESTO SPEED 3 years, $15million
DFID	UGAFODE Financial Services Association MICROSAVE
EU	SUFFICE programme
GTZ	Supporting financial systems development in BoU

Source: Interviews with [redacted] SUFFICE 10/10/00; [redacted], GTZ 03/10/00; [redacted], UNDP 18/09/00.

3.4.3.3 Government Interventions

GoU has recognised that the majority of the population have very limited or no access to the formal financial sector and have set up policies for financial services to be more inclusive. These Government interventions have tended to be supply driven and largely unsuccessful. Government initiated credit schemes were implemented with the aim of ensuring political support rather than setting up efficient, appropriate institutions (PSDP, 1997). The Ministry of Gender, Labour and Social Development (MGLSD) is in charge of the Entandikwa and YES programmes.

Uganda Microfinance Bill 2000

In 1999, a microfinance policy was also drafted (MFPED, 1999b; BoU, 1999) and in order to implement the policy the GoU set up the Micro-Finance Forum, which met monthly. The forum included the Government, BoU and practitioners. They discussed concerns around regulation, capacity building, training and how best for MFIs to co-ordinate themselves.[8] The policy advocated a regulatory framework for microfinance (MFPED, 1999b). The MTCS also outlined the need to increase the scope for micro-enterprises to access financial services through microfinance, by mobilising MFIs and providing a sound legal framework, rather than through direct intervention (MFPED, 2000b).

The BoU issued a policy statement on microfinance in July 1999, in response to the growth in MFIs in Uganda and, the paper discussed how and whether to regulate these organisations (BoU, 1999). The FIS 2000 does not cover microfinance regulation directly, because the vast majority of these

[8] Interview with [redacted] MFPED 10/02/00.

organisations are not commercial banks. The BoU regards the microfinance sector as a line of business.

In 2000, GTZ's Financial Systems Development Programme has been assisting the BoU to develop the legal framework and supervision policy for the microfinance sector. The Microfinance Bill has been developed through a consultative process with key stakeholders through the Microfinance Forum meetings held monthly at the Ministry of Finance. One of the BoU's priority tasks is to foster conditions and to create mechanisms that encourage financial intermediation, and to bring the broad sectors of the population into the financial system. The Microfinance Bill serves to clarify the regulation and supervision of financial institutions in Uganda. It supports the view that microfinance is a line of business. The objective is to bring microfinance into the financial sector, which therefore requires adequate regulation and supervision. Regulation allows for the financial system to grow because of the increased confidence of savers and borrows. It helps to protect depositors' funds and maintain a sound and stable financial sector. The BoU argues that the nature of MFIs make these institutions highly vulnerable, because of their clients and poor management. Limited contract enforcement powers, unclear ownership structures, and often unclear distinctions between social and financial objectives make deposit-taking risky. These characteristics of many MFIs make deposit mobilisation risky. The key issues for the BoU are the liquidity levels and ownership structure of the MFIs. If MFIs on-lend the BoU wants to ensure the protection of deposits through adequate capitalisation and a clear ownership structure. This is especially important for MFIs, whose clients require frequent, perhaps daily access to their savings. MFIs currently rely on the quality of loan portfolio.

The rationale for regulating the MFI sector is that it will increase the confidence of this emerging financial service and encourage the development of a safe financial sector. It will also maintain the stability of the financial system and encourage sustainability of MFIs who are deposit-taking, so these MFIs are able to cover the risks of intermediation and maintain operations and liquidity to meet clients' withdrawal demands.

The BoU intends to regulate the microfinance industry under a tiered system. A 4 tier system has been recommended. The BoU will regulate those institutions that can legally take deposits. A deposit has the following characteristics (BoU, 1999):

- Made by either the public or members.
- Payable on demand or notice.
- Used in financial intermediation.

Tier	**Deposit-taking**	**Regulated and Supervised by**
1 Banks	Yes	BoU
2 Credit Institutions	Yes	BoU
3 Microfinance Deposit-Taking Institutions	Yes	BoU
4 Non BoU regulated institutions	No	Umbrella Body

Poverty Alleviation Project

The Poverty Alleviation Project (PAP) is a microfinance programme under the Office of the Prime Minister (OPM) that the GoU started in November 1994. It was set up to extend financial resources through NGO and CBO financial intermediaries and access to financial services to the poor.[9] It was funded by a loan from the African Development Bank (US$13.5 million) and a GoU contribution (US$1.5 million) and spans the country. In 2000, 60 NGOs had been recruited to implement PAP in

[9] Interview with [redacted], PAP. 10/02/00

Uganda. PAP uses the group-based lending methodology as well as using traditional forms of collateral. The majority of the loans were for the agricultural sector and were enterprise loans. The interest rate was 22% for the loan term. In 1998 it was believed that PAP supported nearly 20% of the total 125,000 clients served by the MFI industry in Uganda and provided more than 30% of total $28 million loan portfolio (OPM, 1999). Bagazonzya argues that this Government programme is demand-driven, unlike previous Government programmes, which were supply driven because of political interests, for example, Entandikwa.[10] PAP had a rural micro-enterprise and agricultural focus, although there were three NGOS operating in Kampala with 2310 clients and 1,069,556,000/=USh loan portfolio (OPM, 1999). Most of the Kampala-based loans were for commercial trade purposes. PAP was concentrating on identifying new CBOs to increase outreach in Kampala. PAP had presumed that NGOs were already present and understood the best practices of microfinance; they found that no NGOs had the capacity or could move into micro-finance as a sustainable intermediary entity. [redacted] from BoU admitted that PAP had not been very effective, as the credit has not been used for income generation.[11] In 2000, it was agreed that the government should divest itself from PAP and transform it into a corporate entity. This was a change in emphasis and the aim of the Government was to create an enabling environment with the private sector implementing financial initiatives.

<u>*Entandikwa*</u>

Entandikwa was one of the first Government finance schemes for the poor and was set up in 1994 to rehabilitate viable economic activities at the household level. It was supply driven and only managed to recover about 40% of the 9.92 billion/=USh ($9.92 million) loans disbursed. The

[10] Interview with [redacted], PAP 22/02/00.
[11] Interview with [redacted], BoU 04/02/00.

Government stopped disbursement in June 1997. One of the reasons for the poor recovery rate was the poor revenue collection system from the Government. But the main reason was because of elections and the politicisation of the scheme, it was seen as a way to obtain votes with recipients believing the loan to be a gift from the politicians.[12]

Youth Entrepreneurs Credit Scheme

The Youth Entrepreneurs Credit Scheme (YES) was initiated in 1997/98 by the Government to facilitate unemployed graduates to effectively participate in economic growth. Mobilisation, sensitisation, and education were essential activities for successful implementation of the YES. The Entandikwa Secretariat (ES) of the MGLSD liaises with the National Youth Council (NYC) and district Youth Councils to sensitise and mobilise the youths. Youth MPs and district authorities were expected to publicise YES. After training, the participants are given a start-up loan. The funds released by the Treasury for YES were deposited in the Standard Chartered Bank on the Operations Account managed by the MGLSD. From this account, funds are released to the district through the appointed Intermediary Agency (IA) for that district. In turn, the IA delivers the YES loan to the youths. The maximum loan size was 1 million/=USh per individual. However this depends on the availability of funds from the Treasury. All YES-BSD loans attracted a 16% interest rate per annum. Loan repayment schedules and grace period were negotiable between the client and the IAs. In any case, the grace period does not exceed two months and the loan size may be less than USh one million.[13]

One of the intermediary agencies was the PSDP, who provided much of the training and through their SCSs administered the loans. The loans were normally 500,000/=USh in urban areas. PSDP

[12] Interview with [redacted], MGLSD 21/09/00.
[13] Interview with [redacted], Commissioner for Department of Poverty Eradication, Economic and Civil Rights 21/09/00.

recognised that the majority of youths were using their own start-up capital (from savings, relatives and friends). PSDP believed this showed that the trainees were committed and confident of obtaining funding.[14]

3.5 CONCLUSION

This Chapter was a review of the political and economic characteristics of Uganda, its poverty status and financial sector in 2000, when the research was carried out. Despite impressive macro-economic statistics since 1986, Uganda was still one of the poorest countries in the world with a per capita income of US$320 in 1999 and 44% of the population below the absolute poverty line (MFPED, 1999c). These factors influenced the type of livelihoods and the socio-economic context within Bwaise, Kampala, discussed in the next Chapter.

[14] Interview with [redacted] YES Training Co-ordinator 05/10/00.

CHAPTER FOUR

LIVELIHOODS IN BWAISE

4.1 INTRODUCTION

The livelihoods framework, which was outlined in Chapter Two, will be used to describe and analyse the resources and vulnerability context of the people residing in Bwaise in 2000. Chapter Three gave the wider institutional and policy context of Uganda. Livelihood resources are the means of resistance against crises, and vulnerability is closely linked to asset ownership, where assets are the range of livelihood assets, including labour, housing, human, intra-household and social capital (Dercon, 2000; Moser, 1998). It is also essential to understand the livelihood assets and the vulnerability context within which livelihood activities take place. This will allow us to understand the role that financial services play in reducing vulnerability and developing livelihoods.

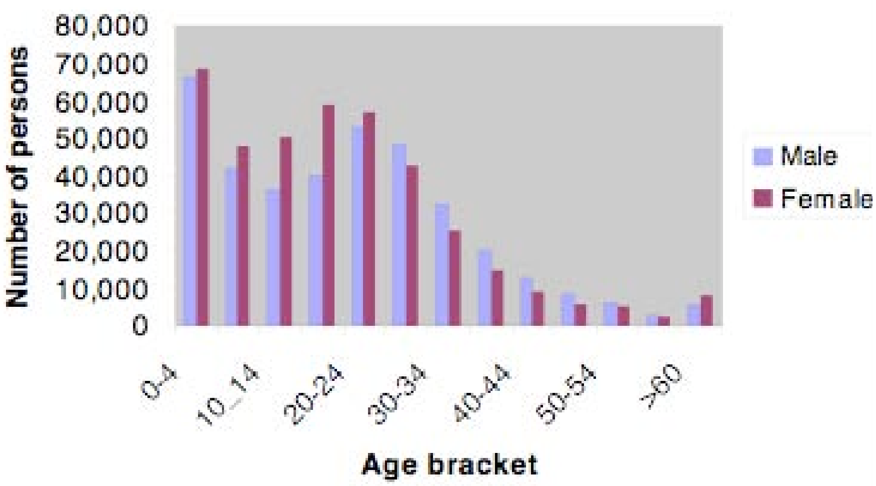
This Chapter outlines the livelihoods assets and context in Bwaise and Kampala, analysed predominantly from the research survey, FGDs and in-depth interviews. The context of Kampala and Bwaise will be discussed first. Secondly, people's perceptions of poverty showed the causes and effects of poverty and also showed the livelihood assets that were important in managing livelihoods in Bwaise. Human capital components such as education and health were highly important in Bwaise. Thirdly, the nature of livelihood assets in Bwaise will be shown to be complex, with labour being the most important asset. The labour market and IGAs were similar to some of the characteristics of the informal sector discussed in Chapter Two. The characteristics of all the livelihood assets will be discussed. The importance of social axes of difference, especially gender, will also be analysed. Finally, the characteristics of poor urban livelihoods reflect the vulnerability and institutional context within which they operate. Bwaise as whole had a high-level vulnerability context with huge livelihood constraints and risks. These constraints had a massive influence on how the urban poor managed their livelihoods.

4.2 KAMPALA

4.2.1 Introduction

Kampala is the commercial and administrative capital of Uganda. It lies on a plateau, spread over more than 20 rolling hills. In 2001, it had a population of 3.5 million and 93% of the urban population were residing in slum areas (UNCHS, 2005). Figure 4.1 shows the population of Kampala divided by age and gender.

Figure 4.1 Population Graph of Kampala



Source: UPPAP, 2000: 3.

4.2.2 Historical Origin

In 1890, Kampala was declared the headquarters of Uganda's colonial administration. The Buganda Kingdom formed the foundation of the colonial, and Kampala, lying near the Kabaka's palace, was declared Uganda's capital. This is why 60% of Kampala's population are Mugandan. The growth of Kampala between 1959 and 1969 was made up of natural increase, rural-urban migration and reclassification or boundary changes in urban areas (Mwesigwa, 1987). Net migration decreased significantly during the 1970s and increased again from the 1980s. This is explained by the political events of 1970s, with the expulsion of the Asians and the flight of professional and educated people. The expulsion of the Asian community in 1972 triggered the collapse of the formal economy and employment in Kampala. The urban physical infrastructure had deteriorated from neglect, looting and warfare. Governmental services had also broken down and an informal economy grew rapidly after the mid-1970s. The decline in real wages in Kampala led to an informalisation of work; diversification of income; increased participation of women in paid labour; urban agriculture and participation in illegal economic activities in the *magendo* economy (Maxwell, 1998). These are similar household survival strategies to those discussed in Chapter Two and because of these the informal economy grew and *Toninyira Mukange*[1] emerged in Kampala.

The 1900 Buganda Agreement regularised British rule in Buganda, which established a landed class among chiefs of the Buganda Kingdom, where land was held under *mailo* tenure, a modified form of freehold. In Kampala, landholding breaks down into five categories of ownership: private *mailo*, 49%; Kampala City Council (KCC) owned, 30%; Uganda Land Commission, 10%; freehold, 7% and institutional leases, 4% (NEMA, 1997). According to the 1995 National Constitution, Uganda's

[1] *Toninyira Mukange* was the local name for evening markets that started in the 1970s in urban areas for people to buy raw and cooked foodstuffs.

political system is organised on a LC system, which includes Local Government and administrative units. KCC is the administrative Local Government body for Kampala and the mayor serves as the political head of the city (Kirega-Gava, 2000).

4.2.3 Urban Growth and Poverty Status

In 1992 approximately 12.5% of the population were urban (MFPED, 1994), which increased to 13.5% in 1997 (Appleton, 1999). The urban population in 2000 had grown to nearly 15% of the population. The 1990 wage was only 30% of its value in 1964 (Jamal, 1998). Whilst, since 1990s urban incomes have risen (Collier & Pradhan, 1998) poverty is still endemic in Kampala. In 2000, only 50% of the population had access to piped water, 72% used shared pit latrines, and 65% rented accommodation, with 54% of people living in tenements (UNDP, 2000a). Finally, nearly 30% of the households were female-headed, which tend to be poorer (Bevan & Ssewaya, 1995).

95% of the economically active in Kampala were involved in trading - wholesale, small-scale retailers, market vendors, street vendors (MFPED, 2000c). Livelihoods are complex and diverse within Kampala. '*We can no longer speak of a wage earner household because the average urban household becomes multi-occupational, straddling the formal as well as the informal sectors and the rural as well as the urban*' (Jamal, 1998: 83). Urban farming and food remittances also contribute to the survival strategies of the urban poor (Maxwell, 1998). The poorest 20% of the urban population suffer from acute under-employment (MFPED, 2000e). Labour productivity and micro-enterprise development were seen as important focuses for the alleviation of poverty and the development of livelihoods.

A participatory poverty assessment was carried out in Kampala in 1998/9 as part of the UPPAP project. There were no major discrepancies between the participatory findings and the trends reported in the IHS. The coping strategies being used included child labour, remittances, informal associations, regulating meals and borrowing money. Children were an important source of help within the household, either by fetching water or assisting in family businesses. People with family in rural areas, especially during harvest, were given food by their rural relatives. *Munno mukabi* associations were an extremely popular form of social support in Kampala. These informal associations and their importance in Bwaise will be discussed in detail in later Chapters. Similar to the coping strategies in times of crisis or reduced income, the amount of food eaten would decrease, along with a switch to cheaper food. Finally, borrowing money or goods from family, friends or neighbours was common in times of crisis and also around the time of large events, especially weddings and burials, as well as in times of crisis (MFPED, 2000c).

The results of the Kampala UPPAP 2000 fed into the PEAP 2000 and the resulting priorities for poverty reduction were to improve: roads, the land management system, food security, markets, labour productivity, micro enterprises, health care, water, education, and environment (MFPED, 2000e). Markets were considered by the poor to be their most important source of food supply and income. Lack of finance to start up enterprises was seen as a constraint, along with markets being saturated. Nepotism was seen as the main way people obtained jobs, which inhibited equitable distribution of resources.

The urban poor said they lacked money to meet basic needs, start-up businesses or for spending on luxury items, including alcohol, dresses and hairstyles. Ill health, lack of education and skills, lack of basic services, unemployment, lack of markets (especially cold storage), high density-strain on services and limited land were major causes of poverty. Limited land had left many dependent on markets for food and reliant on cash. '*In urban areas, everything is monetised and hence survival revolves around money*' (MFPED, 2000c: 15). Urban agriculture and rural food remittances, though, remained important survival strategies for the poor (Maxwell, 1998).

The range of economic opportunities open to women was one of the most important determinants of female poverty. In Kampala, trade was virtually barred to '*respectable*' women (Iliffe, 1987: 182). By 2000, more women were income earners and approximately 40% of the labour force was female in Kampala. The allocation of resources at the household level was detrimental to women and children. Despite an increase in women's employment, women had limited economic opportunities because of their low social status, lack of ownership and access to productive assets, limited participation in decision-making within the household and community and a heavy workload (RoU, 2000; Kyeyune & Goldety, 1999).

Poverty reduction and development are likely to be significantly adversely affected by the AIDS epidemic. HIV prevalence was higher in urban areas, which was detrimental to the urban labour force (World Bank, 1996). It is estimated that 10% of the population are infected with HIV (Lyons, 1998) and this has a detrimental impact on income generation and household dependency (Obbo, 1998). Several development and health programmes were being implemented in Uganda to tackle the AIDS crisis. Bwaise was one of the poorest areas in Kampala, where the poverty factors were endemic. The area of Bwaise and its context will now be discussed.

4.3 BWAISE CONTEXT

Bwaise is a sub-centre in Kawempe division, LCIII level, Kampala (Map iii). It is situated three miles north of the city centre. Bwaise is divided into three parishes, called Bwaise I, II and III. Each parish is a LCII level and within each parish are several zones, which are LCI level. Bwaise is made up of 23 zones. The three areas of Bwaise had a collective population of 90,000, making it one of the most densely populated areas of Kampala.

In the 1960s and 1970s Bwaise was a peri-urban area of Kampala, but with its high levels of population growth it is now an urban suburb. Most of this population was believed to have migrated from the Luwero triangle during the 1982-86 civil war and eventually settled in the area. Baseline surveys carried out by ActionAid Uganda (AAU) show the majority of the population in Bwaise are poor. Women head 20% of households and most of these heads are single parents with young children (AAU, 2000b). Less than 50% of this population have attained primary school education and 80% live in single rooms. 10% have no access to latrines and 65% have access to piped water and 1% fetch water from ditches. On average, each household has three school-age children (AAU, 1998).

Bwaise is in a low-lying swampy location with poor drainage. Most of the drainage system is fully silted, which results in flooding and mosquito breeding. Plan International have funded the development of a concrete drainage system (Photograph 4.1). The area is subject to seasonal flooding during the rainy season. The El Niño rains of 1998 caused a cholera epidemic in the area. AAU undertook a '*Cholera Emergency Response*' programme during January-February 1998 (AAU, 2000b). Poor infrastructure in the area means that Bwaise suffers from poor sanitation, sewage disposal and drainage, which are worsened by the swampy physical conditions. The road network connecting the different zones in Bwaise area was poor except for the main Gulu-Kampala highway. Most of the roads become almost impassable during the rainy season. Apart from the main road, Bombo Road, all the roads are *marram*.[2] One of the major challenges for poverty reduction is a high population growth rate, which has led to unplanned settlement in wetland areas, furthering the problems of flooding and poor health (KCC, 1999).

Photograph 4.1 Concrete Drainage System

Bwaise is both a residential and commercial / industrial area. It is dominated by small-scale economic activities including hawking, *boda boda* driving, food selling, industrial establishments. It is predominantly a commercial centre for MSEs; it also has a few small to medium scale industrial firms. The area is characterised by the majority of the population living and working in Bwaise. The majority of the population is involved in some form of small-scale activity. There are problems of

[2] *Marram* is the local name for dirt track roads.

unemployment and drug abuse with male youth. AIDS, malaria and ill health were major economic constraints in Bwaise area (MFPED, 2000c).

The Buganda monarchy and a few landlords mainly own the land under the *mailo* land tenure system. Some parts, however, like the industrial area, are owned by KCC. The residential areas were a mixture of high to medium density residential areas (Photograph 4.2). The majority of people rent houses, which ranges from permanent concrete buildings to mud dwellings. The majority of households had no electricity or running water and shared toilet facilities and water pipes with other households.

In summary the area was characterised by:

- Poor drainage system and seasonal flooding.
- Frequent epidemics like cholera, diarrhoea, malaria and dysentery due to flooding.
- Poor quality housing facilities and overcrowding.
- Poor quality and unsafe water.
- Poor sanitary conditions.
- Poor garbage disposal.
- High levels of underemployment.
- Low education and literacy levels.
- High level of household dependency ratios, because of AIDS and ill health.
- Lack of adequate social services and amenities in the area, as in the past KCC had not planned any social amenities in the area, it being swampy and reserved as a natural wetland drainage area. Most of the schools and health units were privately owned.

Photograph 4.2 Residential Housing

Photograph 4.3 Rubbish Problem

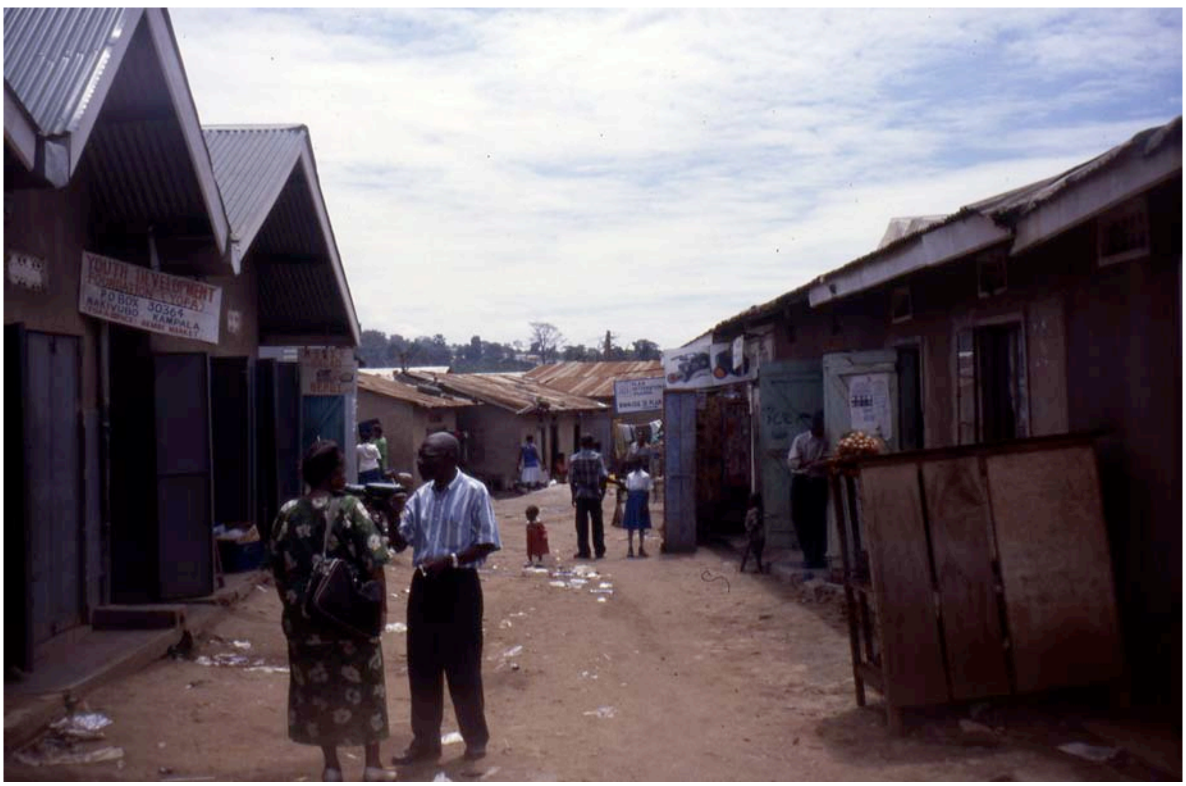
4.3.1 Physical Structure and Services

Urban planning and land management were dealt with at the divisional level. There was no well laid out planning scheme for the area. Planning has tended to follow development, which resulted in a difficulty in providing minimal physical infrastructure, social services and public utilities. Planning is constrained by a lack of resources and land ownership. Almost all the land is *mailo* land or *Kabaka's* land. Each parish is supposed to prepare a parish structure plan, which corresponds to the Kampala Structure Plan 1994-2004. Bwaise, because of the density of activities, will be the focus of infrastructure development and identification of user zones to develop a focal point of business, services and employment for the area. Kawempe Division plans to carry out regular inspection to ensure that illegal or unauthorised activities/ constructions are not carried out. This is to inhibit further development in slum areas, especially in wetland /swampy areas. The major constraints are the high cost of obtaining land titles, lack of detailed of plans and developing low-lying areas (KCC, 1999).

Bwaise is a mixed area with a range of housing, shops, schools, religious buildings, markets, workshops, banks, and health clinics. It is a trading centre where lorries from up country distribute raw goods and animals (Photograph 4.4). The physical structure and services reflect the multiple use of Bwaise area. Kawempe Division LC has an office in Bwaise. Kawempe Division has two police stations in Kawempe and Wandegeya; each are headed by a District Police Commander. There is a police booth at Bwaise Trading Centre. Photographs 4.4 and 4.5 show some of the different amenities within Bwaise.

<u>Photograph 4.4 Trading Centre</u>

<u>Photograph 4.5 Bwaise Street</u>



4.3.2 Markets

Photographs 4.6 and 4.7 show the two main markets in Bwaise. The unplanned nature of Bwaise has meant that no land had been officially designated a council market area. There were three markets in Bwaise: Bwaise market, Ddembe market and the smaller Kawaala Road market. Bwaise market and Ddembe market were *Kabaka* markets, which did not remit any revenue to the Council. The Buganda Land Board collected market dues through market masters whose contracts were tendered out. In 2000, these were contracted out to the Bulagani Tender Board. Bwaise market was mainly covered, larger than Ddembe and has had no funding from the Government or NGOs. There were approximately 300 stalls/lockups within the market. Each stall paid 3,450/=USh per month to the market master as rent. Carriers and bicycle vendors had to pay for an identity card and a uniform to trade in or around the market. Each carrier paid 200/=USh per day to work in the market, which was situated next to the Bombo Road and the main Bwaise taxi stage. It had a market vendors' association, which had 12 departments, reflecting the types of activities within the market.

<u>Photograph 4.6 Ddembe Market</u>

<u>Photograph 4.7 Bwaise Market</u>

Ddembe market was a covered market, which has received funding from AAU to build market stalls. Shops on the outer edges of the market also pay rent to the market masters. A variety of activities are carried out including vegetable selling, cooking food, and laundry. In February 2000, KCC banned street vendors and wanted them to become official vendors in official markets, where they would have to pay rent for a market stall (New Vision, 2000). Many vendors said they couldn't afford the dues. Kawaala Road is a more open informal market.

4.3.3 City Council

Bwaise I, II and III are three administrative units called parishes within Kawempe Division, KCC. These parishes are made up of nine, eight and six zones respectively. The Divisional LC is local government and has legal status. According to the Local Government Act, 1997, divisions were required to formulate a three year Development Plan as a guide to implement their new planning and resource allocation roles under decentralisation. The Kawempe Division 1999/2001-2002/2003 Three Year Development Plan mission is to provide and facilitate the delivery of quality sustainable and customer-oriented services efficiently and effectively (KCC, 1999). The Division is made up of two main sections: the policy making/political function and the implementing/technical section. The policy-making organ of Kawempe Division is Kawempe Division LCIII, which in 2000 had 40 directly-elected members (Councillors), and was headed by an LCIII Chairperson. To try and ensure a more representative council, women, youths and the disabled had set representation on the Council. There were five sectoral policy-standing committees: education; finance; public health; planning and transport; and gender, welfare and community service. These committees were to assist in the performance of the main functions of the Council. Each committee reviewed the budget and development plans.

The executive committee was responsible for performing executive functions: to resolve problems from the parishes; was the communication channel for the community; initiated and encouraged projects; and monitor and supervised projects undertaken by the government and NGOs in the area. The technical organ of Kawempe Division had eight main departments that implemented the policy decisions. The Principal Assistant Town Clerk headed the organ and was responsible to the Division Council through the executive committee.

The major sources of council revenue are listed in the table below. The lack of revenue was a major constraint for the division. The poor performance of privatised revenue collection, high costs of collection and the unreliability of data to use for collection of graduated tax, trading licences and rates, exacerbated poor revenues in KCC.

Table 4.1 Major Sources of Revenue in Kawempe Division

Major Sources of revenue	% Total revenue
Graduated tax	73.6%
Trading licences	15.4%
Property rates	4.4%
Market dues	0.9%
Building plans	1.7%
Advertising/ sign posts	0.6%
Other	3.4%

Source: Kawempe Division Council, 1999.

Every business was required to have a licence to operate. The problems with licensing included lack of data on business enterprises, lack of large scale industrial establishments, high costs of collection, unsuitability of the Trading License Act of 1969, and the small-scale petty trading nature of most businesses make it difficult to identify and monitor enterprises. 58% of survey respondents with businesses had a business licence. Collecting revenue within the division was an issue for KCC and was one of the reasons why the division did not have enough funds to provide good services within Bwaise. The lack of funding allowed Kawempe Division to qualify for access to the Local Government Development Programme fund in 2000. This was a capital development fund established by the Government and World Bank to boost grassroots development. The Division was set to receive US $215,635, with 10% co-financing from the Division. A Capacity Building Plan has been made and submitted to the Ministry of Local Government Capacity Building Fund (UNCDF, 1997). Although the Local Government structure was active within the area, there were several NGOs operating within Bwaise.

4.3.4 NGOs in Bwaise

The lack of services and poverty led to a number of NGO projects in Bwaise. Many of the projects focused on the physical environment, because of the environmental conditions in Bwaise and most urban projects were focused on slum improvements (Satterthwaite, 1999). In the section which follows, I shall now discuss the two major NGO projects operating in Bwaise in 2000.

4.3.4.1 Plan International: Garbage Collection and Latrines for Slum Area

With help from the Foundation for African Child Support, Uganda (FACS-U), Plan International began a solid waste management pilot project in Bwaise, donated over 70 garbage boxes and helped to decentralise garbage collection. Each reinforced steel box (cost 45,000/=USh) is shared among six households and has two compartments: one for banana peelings and the other for general garbage. The peelings are sold to livestock owners, while the rest is emptied into KCC bins. Each house contributes 100/=USh on a rotational basis for daily garbage collection by FACS-U employees. In Bwaise, Plan International has also built two schools and over 15 ventilated improved pit (VIP) latrines. VIP latrines were also provided to the Bwaise Parents School (250 pupils). Plan International also sponsors several children in the area (Plan International, 2000). This money is normally used to pay school fees.[3]

4.3.4.2 Bwaise Urban Development Programme, Action Aid

AAU set up the Bwaise Urban Development Project (BUDP) in 1995. Between 1995 and 2000, the BUDP project established linkages with a number of community-based organisations (CBOs) and groups through extending credit facilities and training to them. The BUDP project, however, was due to close at the beginning of 2001. To further build the capacity of the CBOs that BUDP has been supporting and consolidate the experience and learning that AAU has acquired over time through supporting these CBOs and groups, AAU saw the need to explore the possibilities of establishing long-term development programmes in partnership with some of the CBOs and groups

[3] Interviews with Plan International staff, various dates.

in the area (AAU, 2000b). BUDP has supported several skills development initiatives through local CBOs.[4]

4.3.5 Conclusion

Bwaise was one of the poorest and densest areas within Kampala. Several NGOs were operating in the area to try and improve the environmental conditions. That said, Bwaise was a vibrant mix of residential and commercial activities. The assets needed to earn an income and manage livelihoods were diverse. The assets available to households and individuals within Bwaise will now be discussed.

4.4 LIVELIHOOD ASSETS IN BWAISE

4.4.1 Introduction

Households and individuals do not have only one source of income and one means of securing their livelihood. It is not enough when analysing the vulnerability and poverty status of individuals and households to look only at income levels (Beall, 2002; Rakodi, 2002; Moser, 1998). A livelihoods analysis approach, as outlined in Chapter Two, is more appropriate for analysing the urban poor, where a combination of assets, which include income, is used. It has been shown that individuals and households do not rely on income alone to develop and maintain their livelihoods, but a range of resources is used (Moser, 1996 & 1998; Beall & Kanji, 1999; Dunn, 1996; Rakodi, 1999 & 1995; Dercon, 2000). The resources that are analysed follow the same structure as those discussed in Chapter Two and include labour/IGAs; housing capital; human capital; household structure and relations; and social capital. Finally, the social axes of difference within Bwaise are also discussed.[5]

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[4] Interview with BUDP Project Manager, 03/02/00 & various AAU reports.

[5] The analysis in this Chapter is derived from a survey of 200 economically-active persons in Bwaise, as well as several in-depths interview, observations, documents and FGDs carried out during 2000. Appendix One describes in more detail the research methods used.

4.4.2 Labour and Enterprise: Income Generating Activities

In the urban cash-dependent economy, the urban poor heavily rely on labour and IGAs to secure their livelihoods (Moser, 1996; King, 1996). Therefore the nature of the IGAs accessible to the urban poor is vital. The research found that in Bwaise, most of the enterprises were in reality survival/subsistence IGAs rather than successful enterprises. Survivalist enterprises are those most synonymous with the '*informal sector*' and the poor (McGrath & King, 1999). Therefore it is more suitable to examine the IGAs of the urban poor rather than examine enterprise development. There are similarities with the characteristics of the survivalist aspects of the informal sector and the IGAs in Bwaise (Charmes, 1998 & 1999; Mead & Morrison, 1996; King, 1996). The dominance of IGAs for urban livelihoods is also shown in a KCC study, which found that men spent 65% and women 60% of their time doing income generating work (Table 4.2).

Table 4.2 Range of Activities

Range of activities	Men	Women
IGAs	65%	60%
Domestic	7%	30%
Leisure	15%	0%
Community	13%	10%

Source: KCC, 1999.

The labour market is key to survival in urban areas (Amis, 1995; Opel, 2000); the key factors of the IGAs and labour market will now be discussed.

4.4.2.1 Types of Income Generating Activities in Bwaise

The range of IGAs that was accessible to the urban poor was diverse. The main types of IGAs perceived by the urban poor themselves are described in Box 4.1.

<u>Box 4.1 Types of IGAs in Bwaise</u>
Women - poultry, hotels (cooked food), selling food and other edibles in shop, market or road side, salons, hair braiding, waitresses, evening markets, traders, clothes, poultry.

Men - trading vegetables and produce, taxi drivers, work in the industrial area as porters, black smith, selling cement, carpentry/furniture making, making coffins, mechanics.

Young females - messengers, waitresses, bar maids, cleaners, salons, shop attendants, tailoring, poultry, school/work canteens.

Young males - taxi conductor, *boda boda,* land brokers, selling popcorn, selling ice and passion fruit, soda, hawkers, make bricks, car washing, carrying loads from trucks, pushing wheel barrows, builders, hawkers, road business, taxi operators, butchers, shoes.
Source: FGD data.

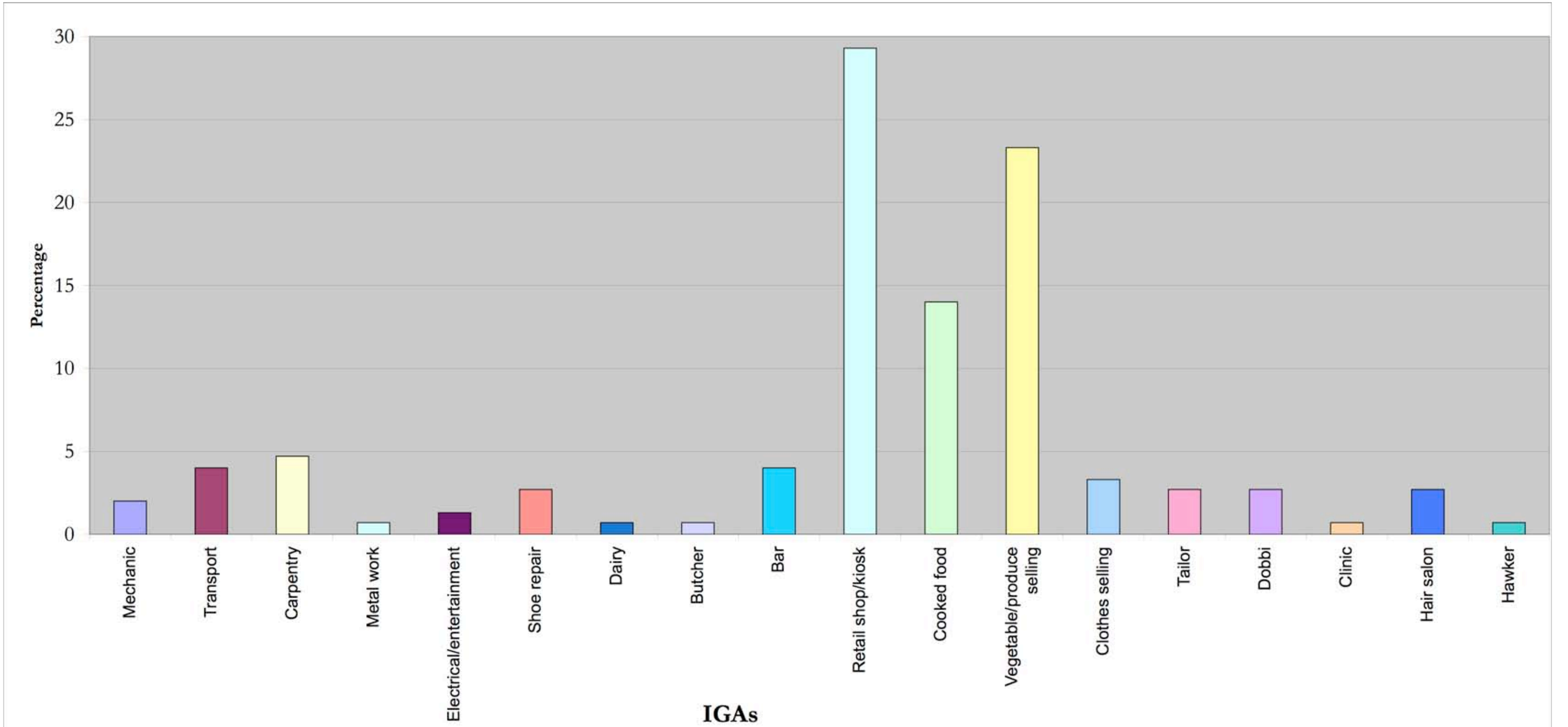
The diversity of IGAs reflects the number of IGAs that people engage in at one time and during their lifetime. However, the overall picture was of IGAs operating in the petty trading sector in a survivalist manner. Only 5% of survey respondents worked in salaried formal employment. These jobs were working as teachers or in the civil service. The vast majority of people have had several IGAs in their lifetime. A typical pattern would be to work as an employee or apprentice in a family enterprise, then set up their own business once they have gained enough skill and capital. *'If you are employed and you are paid, you save and later start a business of your own'* (FAULU FGD, 14/04/00). This is also reflected in the type of IGAs that young females and males are engaged in. Younger men and women were more likely to be employed by a family member or another employee.

Nearly 30% of survey respondents were engaged in selling/trading in vegetable or fresh produce including animals as one of their IGAs. Nearly 25% of people were involved in selling in retail shops and/or kiosks. Cooked food selling was the third most popular type of IGA at 15%. If these three main IGAs are combined with clothes selling, hawking, and selling in bars, over 70% of IGAs were involved in selling goods of some kind (Figure 4.2). The predominance of these low-skilled retail IGAs reflects the low skill and education levels of the urban poor.

24% of men and 31% of women were involved in selling/trading vegetables and fresh produce, including animals (Figure 4.5). For men this was more likely to be a second IGA than for women. 10% of men were engaged in transport activities; either driving a taxi, special hire or *boda boda*. No women were involved in the transport sector. A small percentage of men, a total of 10% were involved in more skilled activities including working as mechanics, metal workers and carpenters. Again no women were involved in these manual skilled activities. The only more skilled IGA that women were involved in was tailoring; 6% of women were engaged in this activity. This can be explained by gender constraints in entering the labour market, including skills, capital and networks. Women were more concentrated in a smaller variety of IGAs than men (Figure 4.4). Figure 4.3 shows that men had a wider range of income-generating opportunities accessible to them, mainly in transport and manual skilled IGAs (for example, mechanic, carpenter, butcher, shoe repairer). Only 12% of IGAs could be considered skilled.

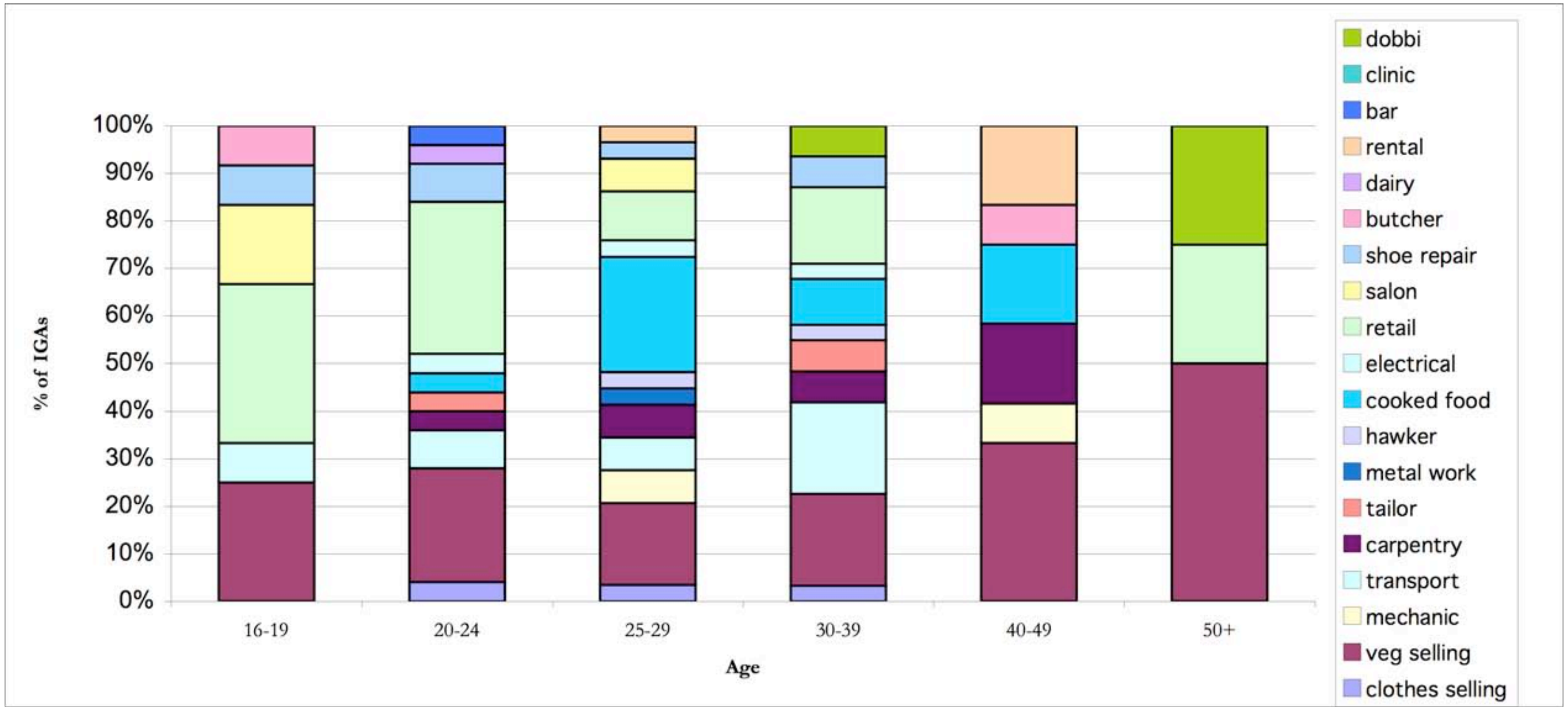
The youngest and oldest survey respondents were engaged in a narrower range of IGAs, which mainly focused on retail and vegetable selling. Similar to gender differences this was a function of access to skills, capital and networks.

Figure 4.2 Types of IGAs



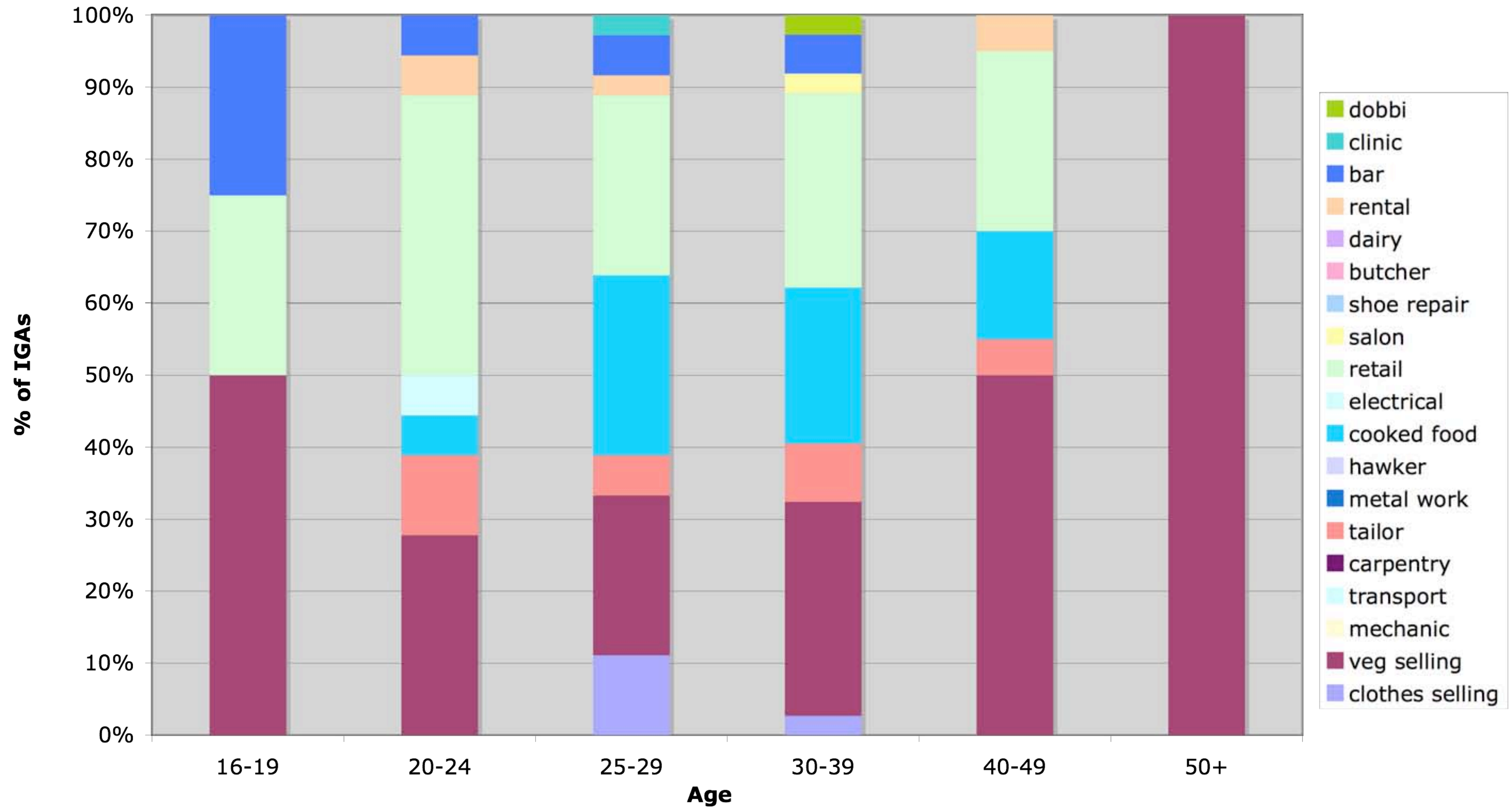
Source: Survey data.

Figure 4.3 Male IGAs In Bwaise



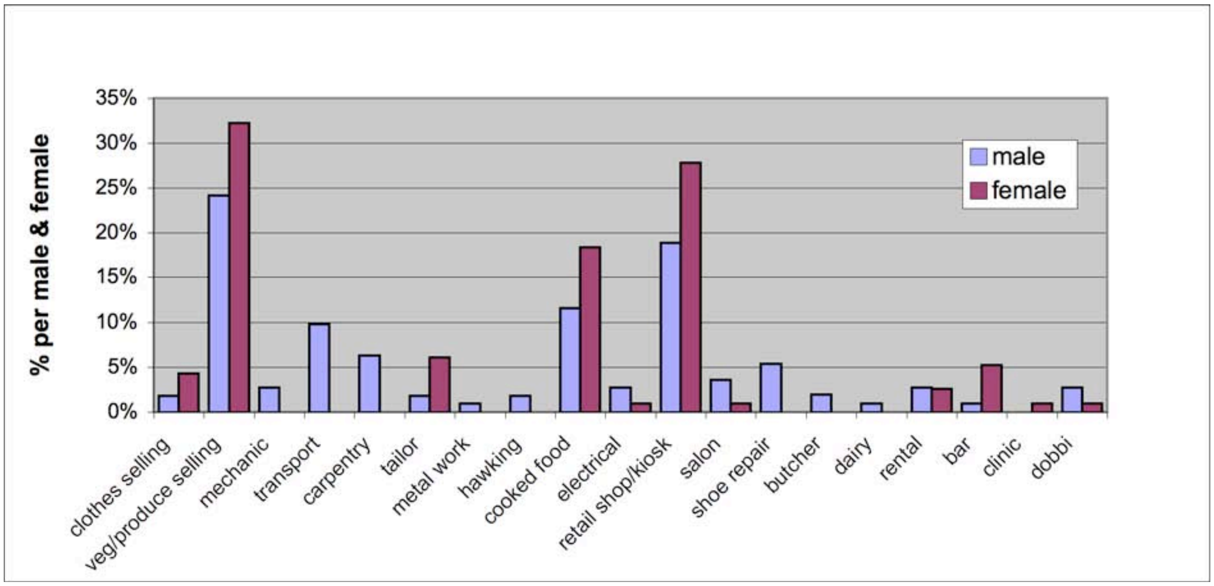
Source: Survey data.

Figure 4.4 Female IGAs in Bwaise



Source: Survey data.

Figure 4.5 Male and Female (%) IGAs



Source: Survey data.

Retail shop and kiosk owners engaged in several activities such as selling cooked food, sodas, alcohol, cigarettes and water to ensure they were able to cover their household expenditure. Therefore it was difficult to obtain accurate figures on the number of IGAs the urban poor were engaged in from survey data.

The research showed the complexity of IGAs. The majority of people had more than one IGA. Men were more likely to engage in several IGAs than women were. This reflected the domestic pressures faced by women, who were more likely to engage in domestic or non-income generating household activities. Several small businesses operated at once to off-set the risk of low sales and insecurity of most types of IGAs; this was an important livelihood strategy. Women who were engaged in vegetable/produce selling would often sell cooked food as well. Renting out rooms was a second or third IGA for approximately 10% of the survey respondents. This shows the importance of housing as a productive asset for the urban poor. The excessive diversification of business activities was a risk management strategy for the majority of the urban poor. This is similar to loss management and coping strategies discussed in Chapter Two (Dercon, 2000; Dunn et al, 1996; Chen & Dunn, 1996; Moser, 1998; Rakodi, 1995).

Actual education levels did not affect the type of IGA the survey respondents engaged in. For the majority, age differences in the type of IGAs were also not hugely significant. The older and younger respondents were engaged in a more limited range of IGAs. But a higher percentage (20%) of 40-49 year olds derived an income from rental units. People in their twenties and thirties were engaged in the widest range of IGAs (Figure 4.3). This reflected the narrower opportunities open to younger adults, who often lacked the skills, experience and capital. Older women were less likely to be skilled, as they had entered the cash economy much later in their lives. Many of the older women had started earning when their husbands had died, or become infirm or when they had separated. Most were engaged in vegetable selling. Women that had become separated from their husbands, or whose husbands had several wives also started to engage in IGAs to meet household needs. For example:

> *In 1977, I got married and was for sixteen years living in Bugolobi and was doing business in Nakawa market. I was trading matooke and clothes for some time, my father was here (in Bwaise) so I would just come here to see the home…when I failed in my marriage, then I came back here (Bwaise) in 1990* (BPR member, Female, 19/10/00).

*I was first selling clothes in 1977-1980 and then started selling matooke until 1987 (*Matooke seller, Female 31/10/00).

A key finding was that over two-thirds of the IGAs had started between 1997-2000, and over 15% of businesses had started in the previous twelve months. The short-term nature reflects the insecurity of these survival or micro-enterprises and the need to obtain a daily income:

> *You change business time and again depending on what is more profitable at the time, especially the traders in agricultural produce, you sell what is on season or most profitable at the time, when school is beginning, you sell school stuff…not all are able to change, e.g. hotels and restaurants…some just expand when you have more capital but not changing completely, in a salon, you may buy a drier, steamer, etc* (Ddembe Market Mixed FGD, 14/09/00).

Part of the reason why less than a third of IGAs were over three-five years duration was because the majority were more likely to close one IGA and open another IGA. They may re-open a similar business depending on investment opportunities, capital and skills. The main reason for closure of IGAs was low profits. '*I am a taxi driver. I started driving in 1993. Before becoming a taxi driver I was a photographer and when it collapsed due to lack of money, I left it*' (Taxi driver, Male, (20/10/00). Businesses that were relatively easy to start up were also relatively easy to close. Other reasons for closure included harassment from landlords, theft of stock and migration. Some women had closed businesses when they married, because of moving away or at their husband's request. Those who were more likely to stay in the same business were those types of IGAs stipulated above, which had more permanent places of business, such as a salon or restaurant.

4.4.2.2 Reasons for Setting Up an IGA

The type of IGAs carried out was dependent on the need to generate a daily income, the amount of capital, skill levels and the supplies available. When discussing which businesses were the most profitable, there were disagreements. Some argued that it is difficult to say which businesses were more profitable because all have low profits. This reflects the general uncertainty as to what a successful IGA is. For example, *'It is hard to say which business is more profitable because you may think someone has profits and yet they do not make a lot of profits, and also there are so many people in some businesses'* (FAULU FGD, 12/04/00).

Whilst others believed that there were profitable businesses, but it was difficult to engage in these IGAs, because of lack of start-up and working capital and skills. *'It is the business that one can afford that one engages in. It depends on the amount of money you have, then you engage in a particular business, you may know another one, which has high profits but you do not have the capital and skills to start that business'* (UGAFODE FGD, 16/08/00). This highlights the importance of capital in determining the type of IGA accessible to the urban poor. This helps to understand why lack of capital was a key cause of poverty in the UPPAP findings (MFPED, 2000c). A key argument was that the level of skill, capital and income-earning opportunities available influenced the type of activity that a person undertook. The influence of capital will be discussed in more detail in later Chapters.

The businesses that were seen as the most successful were those that generated a daily income, as this was the overriding risk management strategy. This reflects the pressures affecting securing livelihoods, to ensure a regular cash flow to meet expenditure needs. The common response was *'we do whatever we can to earn a living,'* (MED-NET FGD, 07/09/00). The lack of skills, lack of capital, high levels of competition and lack of knowledge to engage in more successful businesses were major reasons that affected the type of IGAs people worked in. These constraints led to earning a daily income as the overriding concern in engaging in IGAs. The choice of the type of IGA was mainly determined by the need to secure a daily income; therefore the type of IGAs reflected the need to ensure a daily income by engaging in activities required everyday; for instance selling food and drink or basic necessities. Some of the reasons for particular IGAs were:

> *Selling edibles, as everyone has to eat*
>
> *Charcoal because everyone eats*
>
> *Bars: they sell alcohol everyday* (FINCA, FGD, 06/09/00).

Most IGAs are set up because of ease of starting up that particular activity and an expectation that it will generate a daily income. Most of the IGAs required little capital and skill to start the business. The lack of formal sector employment opportunities forced the majority of the urban poor into setting up survival IGAs or assisting in an IGA. Either way, through push and pull factors, the urban poor were engaged in survival IGAs or micro-enterprises within the informal self-employed sector.

The reason most IGAs were started was to earn an income, pay school fees and/or to increase the household income. Over 50% of survey respondents were engaged in IGAs to earn an income and 20% to increase their income. 5% of survey respondents were engaged in IGAs to pay school fees. Nearly 10% of survey respondents started a particular enterprise because it was easy to start. They had the necessary skill, knowledge and capital to start up the IGA. This was because the majority of the survivalist IGAs required little skill and capital, or because the limited skills and capital that was required were provided by family and friends.

Several of the women were engaged in IGAs because of separation, lack of financial contribution from their spouse or the death of a spouse. Women in the in-depth interviews cited decreasing acceptance of financial responsibility by their partners as common. Some women also wanted to start up their own business as a way to ensure that household expenditures, especially school fees, could be met, without obtaining the money from their husbands. '*I do not need to disturb him now to pay school fees; I can use my own money if he does not pay. I don't need to take the children out of school or disturb my husband*' (Vegetable seller, Female, 16/10/00).

The necessity of earning a daily income combined with limited skills, education and financial capital, mean that low profit survival micro-enterprises were the type of IGAs engaged in. An important finding was that these IGAs were part of a risk management strategy by the majority of the urban poor, who focused on protective, risk-averse rather than promotive business strategies, to ensure a regular, if small, income. Several of the informal financial services, discussed in Chapter Five, were designed to meet the risk management needs of the urban poor. The level of skills was an important determinant for the type of IGAs the poor were engaged in.

4.4.2.3 Skills

The majority of people learnt their skills from their friends' and family's businesses, by working as informal apprentices and employees:

> *…If a friend or relatives in a business, you can go and inquire from them on how the business is doing, on the risks and the advantages, if you want then you start off…. a friend may take you and show you how to do the business and then you learn and when you feel that you can start on your own then you do the business…* (Bwaise Mixed FGD, 20/09/00)

This allowed them to earn a minimal income and develop skills to set up their own IGA. This shows the inter-connectedness between the different livelihood assets. Social capital and intra-household relations were vital for obtaining skills for business and income-earning opportunities, especially in the light of low education levels and saturated labour markets. The importance of social resources to enter the labour market has been recognised in other urban studies (Opel, 2000; Beall, 1999; Moser, 1996). Developing business skills has been viewed as one of the most important factors to developing IGAs (McGrath & King, 1999; Harper & Tanburn, 2005; Mead, 1999). The lack of skills constrained the development of IGAs from survivalist IGAs with low levels of income in Bwaise.

4.4.2.4 Income

In most activities workers earned less than 2000/=USh per day. Cooked food sellers earned 1000/=USh per day and a cooked meal. An overwhelming majority of people earned an income daily regardless of their social axes of difference; over 85% of survey respondents received a daily income (Table 4.3). Only 2% of survey respondents earned regular monthly incomes. The remainder earned irregular incomes. Although it is impossible to obtain actual income levels, average daily incomes can be estimated. Employees of IGAs were paid on a daily basis; the actual rate depended on sales for each day, but was generally lower than owners of IGAs. From the in-depth interviews, daily incomes ranged from 2,000 to 50,000/= USh per day. Men were more likely than women to obtain an irregular income, nearly 20% compared to 7% of women. Nearly 90% of women obtained a daily income, compared to 80% of men. The irregular income came from the more skilled IGAs, including carpentry, metal work, mechanic, tailoring and transport, which had lumpier inflows of revenue. This explains the higher percentage of men who received an irregular income, because they are more concentrated in these skilled IGAs.

Table 4.3 Frequency of Income (% of male, female and total)

	Daily	Monthly	Irregular
Female	89%	4%	7%
Male	80%	2%	18%
Total	86%	3%	11%

Source: Survey data.

Very few people could differentiate between income and total business sales. This shows the lack of basic bookkeeping skills of the enterprise owners. However, many were able to estimate whether their sales had changed over time, through the amount of stock sold and bought. Thus only 3% of survey respondents did not know if their profits had changed. 41% of survey respondents believed that their income had decreased in the last two years (Table 4.4).

Table 4.4 Change in Income in the Last Two Years (% of respondents)

Increase	Decrease	No change	Don't know
31 %	41%	25%	3%

Source: Survey data.

A quarter of survey respondents said that their income had not changed. The reasons for the increase in income were because the businesses had expanded, stock had increased or sales were good. The main reasons for a decrease in income were high prices of supplies and low sales. *'Prices often change so I can only afford to buy small amounts of supplies when I go into town'* (FAULU member, Male, 04/09/00).

The importance of the amount of working capital and start-up capital was seen as major factor in determining profits: *'When you have capital, then you can do any business, that is profitable and what is high on demand…most businesses are profitable if there is enough capital'* (YOFA member, Female, 01/09/00). This supports the arguments cited earlier that there were more profitable businesses, but one can only engage in these IGAs if you have enough capital.

4.4.2.5 Ownership

80% of survey respondents owned the IGA they worked in. This reflected the low level of skill and capital required for most of the IGAs, which the respondents were involved in. It also reflected the lack of formal sector jobs accessible to the urban poor. Men were more likely to work for a relative or another unrelated owner, whereas unsurprisingly women were more likely than men to work in an IGA which was owned by their spouse. These IGAs were more likely to be retail shops.

4.4.2.6 Labour

Over 60% of survey respondents said they had no formal assistance in their IGAs, with nearly 40% having one person to assist them. Nearly all assistance was derived from household or family members that work unpaid or for a minimal daily salary. Although the majority said that they did not have any assistance in their IGAs, from the in-depth interviews it emerged that the actual level of informal support was much higher. Virtually all respondents had some form of assistance from neighbouring enterprises, friends or family; for example, when a person had to obtain medical treatment, supplies or food etc. The reliance on other people was to ensure that the business stock was not stolen and to retain customers. The majority of IGAs were not carried out in permanent lockable buildings, but on market stalls, in the open air, at the side of a house or in a small shop. This was a factor in the high incidence of theft within Bwaise and increased the level of insecurity within the area. Therefore the majority of assistance was informal, reflecting the support from other livelihood assets to engage in IGAs similar to skills learnt, this was mainly from intra-household relations and social capital.

4.4.2.7 Supplies

The most popular IGAs required a range of supplies, which was flexible in quantity, quality and type. Retail shop and kiosk owners and vegetable/produce sellers sold a range of goods. The supplies obtained were dependent on the available capital, seasonal needs, availability of supplies and quality of supplies. For example:

> *With the amount of money I have, I buy what I can. I choose from the supplies available and what I think will sell, depending on the season and what customers have asked for. For example, if it is near the start of term I buy pencils, exercise books* (Kiosk owner, Male, 08/11/00).

Fresh produce sellers and second hand clothes sellers complained of the quality of the supplies, especially those that were dependent on supplies being delivered. They had to accept the supplies that were delivered. For example:

You wait for the taxi to arrive and the chickens are small and some are sick. It is difficult to sell those. You lose money (Chicken seller, Female, 25/10/00).

Some of the vegetables are spoilt and you have to sell at a loss (Vegetable seller, Female, 16/10/00).

Table 4.5 shows the frequency of purchasing supplies. The majority of survey respondents purchased supplies daily (37%) or whenever needed (33%). Vegetable and fresh produce sellers usually obtained supplies daily, because of the lack of cold storage. This reflected the limited capital available to the urban poor. Most could not afford to buy in bulk, which would have been cheaper but required a larger capital outlay. It also reflected the lack of storage facilities available and the risk of theft, which limited the amount of stock the urban poor were able to keep.

Table 4.5 Frequency of Purchasing Supplies

Daily	**Weekly**	**Monthly**	**Whenever Need or Can Afford**
37.3%	24%	5.3%	33.3%

Source: Survey data.

Similar to income, the majority of survey respondents said that their quantity of business stock had decreased (Table 4.6). This is partly because most saw a positive relationship between the amount of stock and income. A successful business was regarded as one that had a large stock of supplies.

Table 4.6 Change in Quantity of Business Stock (last two years)

Larger	Smaller	No change	Don't know
28.7%	38%	26%	7.3%

Source: Survey data.

4.4.2.8 Licences and Rent

The majority of people paid business rent of some kind; 85% of survey respondents paid rent. 65% paid rent monthly mainly to a private landlord and a market master. Over 45% paid to a private landlord and 15% paid to a private landlord and/or a market master. The market masters were contracted out to collect rent for the Buganda Land Board, which owned the land where the market stalls were situated. The vegetable or produce selling IGAs that did not pay a separate business rent were home-based enterprises. 65% of survey respondents paid rent on a monthly basis. Only 40% of respondents had a business licence, although in theory every business was required to have a business or trading licence purchased from KCC. Most people did not have a licence because they considered it to be unnecessary. In practice, they reported that if they worked in a market place and paid rent to the market master, they were not harassed to obtain a licence. The licensing collection and recording systems were not rigorous. The majority of vegetable or produce selling/trading IGAs did not have a licence. This was because most of these were situated within a market place or were home-based enterprises; whilst most of the retail shops/kiosks had business licences.

4.4.2.9 Conclusion

The characteristics of these IGAs were similar to the definitions of the informal sector given by Geertz (1963) and Hart (1973). There were a large number of small firms which were predominantly owned by the individual or another family member. They employed very few or no paid employees, because the low, unreliable earnings could not generally support a regular paid assistant. This was why intra-household resources were so frequently used, because they were unpaid or paid intermittently. Respondents adopted risk minimisation and survival strategies whilst engaging in IGAs, similar to those seen in the household strategies literature during times of crisis, which reflects the high levels of vulnerability in Bwaise (Rakodi, 1991 & 1997; Moser, 1996). Although obtaining a daily income was the overriding influence for the majority of the urban poor, they were also seeking to increase their profits. However, the large number of constraining factors, such as high supply costs and low sales, inhibited this and made it impossible for many of the urban poor to engage in profit maximisation strategies. Diversification of IGAs, rather than investment in one IGA, was seen as a safer strategy due to the insecure nature of most IGAs in the area and was a key part of the livelihood risk management strategies in Bwaise. The constraining factors will be discussed in more detail in Section 4.5.

In conclusion, these IGA characteristics reflected the need to obtain a daily, immediate cash flow. The insecurity and low profits of these types of IGAs meant that providing for immediate needs rather than future investment was paramount. Therefore these types of IGAs were more oriented towards livelihood risk management strategies (Dercon, 2000; Dunn et al, 1996) than promotive investment-led livelihood development. The overriding factor was to secure a regular income to meet basic necessities in a vulnerable context. The limited skills, capital and income-earning opportunities also inhibited the development of IGAs in Bwaise. These factors influenced how and why the poor utilised financial services, as discussed in Chapters Six and Seven. They also constrained the nature of financial services to relying on daily or weekly payments, as shown in Chapter Eight. The importance of other livelihood assets, especially social capital and intra-household resources, were apparent in Bwaise. Housing was also one of the key assets to secure a livelihood in Bwaise.

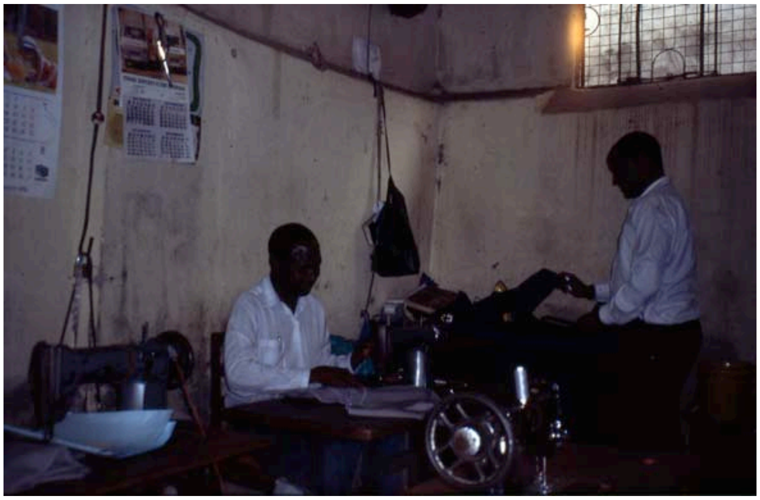
Photograph 4.8 Vegetable Seller

Photograph 4.9 Carpenters

Photograph 4.10 Shop

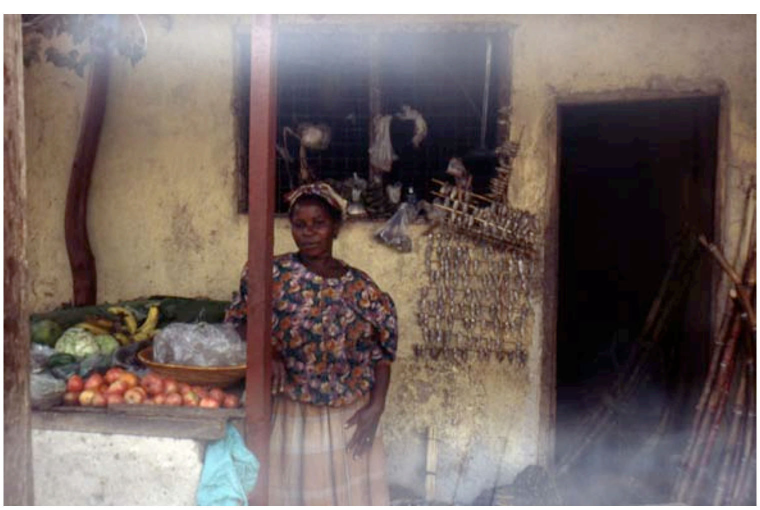
Photograph 4.11 Metalworkers

<u>Photograph 4.12 Tailor</u>



<u>Photograph 4.13 Kiosk</u>

<u>Photograph 4.14 Cooked fish-seller</u>



4.4.3 Housing and Physical Capital

The majority of the physical assets that were used by the local population were not owned by the urban poor. The existence of physical infrastructure is not enough if the urban poor cannot get access to these resources. The role of living space as an asset meant that access was more important than ownership of physical infrastructure resources. Access was dependent on social/political capital and money, highlighting the importance of entitlements and capabilities (Sen, 1981). Many of the resources required a payment to use them. Toilets and water taps both required a payment. Access to physical capital did not guarantee the quality of these services. Water and sanitation were accessible, but generally were of low quality in the area, whereas, because of the cost, transport was less accessible. The availability and accessibility of housing, physical infrastructure and transport will be discussed.

4.4.3.1 Housing

The majority of dwellings were small rental units (Photograph 4.15). There were usually several small units in one place, which shared a standpipe and had no electricity. They were basic dwellings made from brick, with roofs made from corrugated iron, wooden doors and bars for windows. The simple structures of these dwellings made theft a problem. Secure doors were expensive; most dwellings had a wooden door with a bolt lock. Some poorer rental units only had curtains instead of a door. There were no defined boundaries around most houses, only much larger houses were surrounded by a gate and fences. The threat and reality of theft in Bwaise discouraged investments in household assets and led to investments in sturdier, more secure structures, such as locked storage facilities for IGAs and increased security for houses, such as more padlocks.

<u>Photograph 4.15 Rental Units[6]</u>

<u>Photograph 4.16 Taxi Stage[7]</u>

[6] Note the material for the door- high risk of theft.
[7] Stage was essentially a bus stop/taxi rank so buses, *boda bodas* and special hire could congregate within an area.

The majority of the local population rented their dwellings. 66% of survey respondents were tenants. Security of tenure was not regarded as a problem. The majority had good relationships with their landlord. It was only if prolonged non-payment of rent occurred that tenants were forced to leave. This security allowed for some kind of stability for the poor to engage in local IGAs and develop local social capital. There were a few landladies who had inherited the land through the Buganda *mailo* system. Tenants paid rent on a monthly basis. The majority of tenants paid 30,000/=USh or below per month. Just over a quarter of tenants paid more than 30,000/=USh per month. These were usually rental units that combined house and business rent. This was a considerable part of a household expenditure.

Housing was shown to be an important livelihood asset as it added an extra income stream for those that owned their dwelling and rented out part of their property. 37% of owners rented out part of their property. This was usually in the form of rental units built on the plot of land. This would bring in a regular extra monthly income of between 10,000-20,000/=USh per rental unit. This was a popular type of secondary IGA for the local population who were property owners. Renting out to family members was rare. They would usually be able to stay in the house for free, due to traditional familial obligations. Buying a plot of land to build a house was a long-term goal for the majority of the local population. They recognised the importance of building their own property, as it would considerably decrease expenditure and form an income-earning opportunity.

Approximately 40% of survey respondents used their house for IGAs and living space was a key asset. There was little distinction between owning and renting the property. This was unlike other research that implies ownership is key to using housing as a productive asset (Moser, 1996; Amis, 1990). 25% of men used their house for their IGAs, whereas over 40% of women used their house for IGAs. This reflects the gender differences regarding paid work. It was more acceptable for women to work if they were engaged in home-based enterprises or IGAs near to where they lived. Attitudes have changed towards women engaging in non-farming paid work. Since the 1980s it has become more acceptable for women to engage in paid work, this has been a slow process and has partly arisen out of economic necessity. During times of economic crisis, civil war and because of the rise of AIDS women have had to engage in paid work to ensure that household needs are met. Whereas previously men would not want their wife to carry out paid work, it was not only seen as acceptable, but also in many cases promoted. This was similar to other research findings in urban areas (Moser, 1996; Beall, 2002; Wood & Salway, 2000).

4.4.3.2 Water

Virtually all of the local population had access to some type of water. Two-thirds of the survey respondents had access to some type of piped water, the majority through shared or public taps. The other third accessed water from a protected spring or well. Although access to water was not a problem, the water quality was more questionable. The local population were aware that the water should be boiled before it was safe to drink, but fuel was expensive and many drank the water without boiling it first. The poor quality water would help to explain the cited frequency of water-borne diseases such as typhoid and chronic diarrhoea. Pipestands had been installed by NGOs and KCC. Plan International was one of the NGOs that had installed several piped stands. These would then be allocated to members of the community who would pay the water bill and charge users for the service. This was open to corruption and it was the more powerful members of the community who acted as gatekeepers to those who were allocated those pipestands. Those that obtained water from pipestands had to pay for this service. The cost was usually charged per jerry can of water. This was normally 50/=USh shillings per 20 litre jerry can of water, or tenants were charged a set fee per month. Those that used wells or protected springs obtained water for free. These results are similar to an AAU survey that found that 65.3% had access to piped water (AAU, 1998).

4.4.3.3 Sanitation

Sanitation was a huge problem in Bwaise. Although the majority had access to a latrine, between 5 and 10% of the local population had no access to any kind of latrine. Again these results were similar to the AAU study that found that 10% had no access to latrines. The majority were mud pit latrines. The high water table and lack of latrines had led to raw sewage accumulating in the drainage channels. Many respondents complained of having to pay to use latrines, which was why even though the vast majority of the local population had access to a latrine, they were not regularly used because use was governed by the ability to pay for the service. There were some latrines built by NGOs, for example, Plan International had built several concrete pit latrines above the water table near a primary school. Building pit latrines in the area was expensive because of the high water table. Tenants were unlikely to build pit latrines near their rental dwellings. This was because of the expense, but also because of the reluctance to spend money near a property that they did not own.

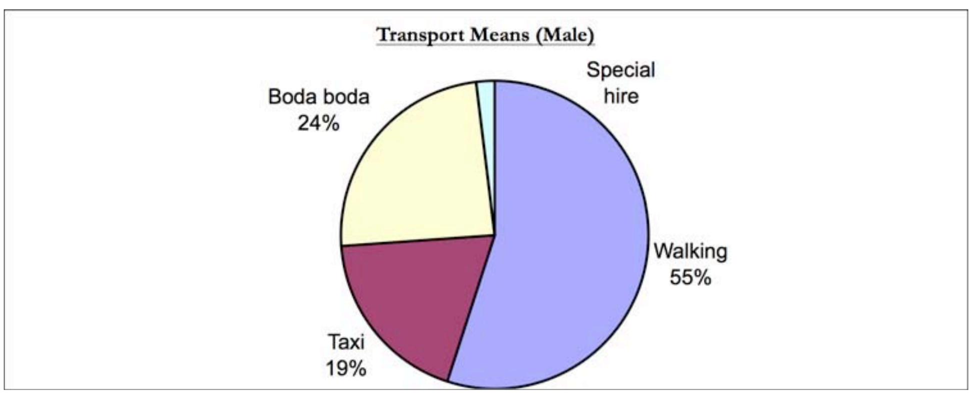
4.4.3.4 Electricity

The lack of electricity was cited as a major livelihood constraint in Bwaise. Approximately half of the local population did not have access to electricity. The lack of power affected the ability to use certain forms of machinery for productive and domestic use. Most relied on kerosene lamps and candles for light in the evening and charcoal for fuel. The lack of refrigeration led to poor food hygiene and wastage of perishable food items. Those that had access to electricity did not have it constantly. Load shedding of electricity occurred every other day and electricity would cease at any time. This unreliability again negatively affected IGAs. It was only larger and wealthier businesses that used generators, which were frequently breaking down and expensive to run.

4.4.3.5 Transport

Predictably the majority of people used walking as their main form of transport, mainly because of cost, but also because most livelihood activities were carried out locally and the road network was poor in Bwaise. 55% of survey respondents walked as their main form of transport. Bwaise had several types of transport available, which enabled people to move around within Bwaise and to travel to and from the towncentre. Taxis[8] and *boda bodas*[9] navigated the dirt track marram roads within Bwaise. Taxis, *boda boda*s and special hires[10] more commonly used the tarmac Bombo Road that ran through Bwaise from the city centre to Luweero. *Boda boda* and taxi stops or *'stages'* were situated on several corners in Bwaise (Photograph 4.16). Unlike in rural areas, availability of transport was not a problem, although access was constrained by cost.

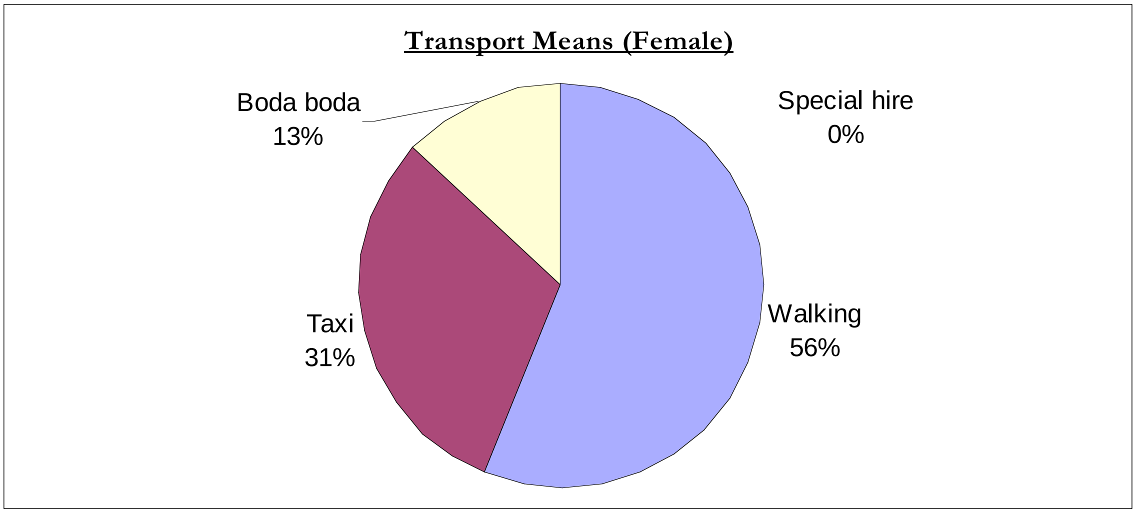
Figure 4.6 Transport Means (Male)



Source: Survey data.

[8] Taxis are the local name for the privately run local minibus services. They are called *matatus* in Kenya.
[9] *Boda boda* are the motorcycles or bicycles that one can use like a taxi.
[10] *Special hire* was the local name for privately run taxis.

Figure 4.7 Transport Means (Female)

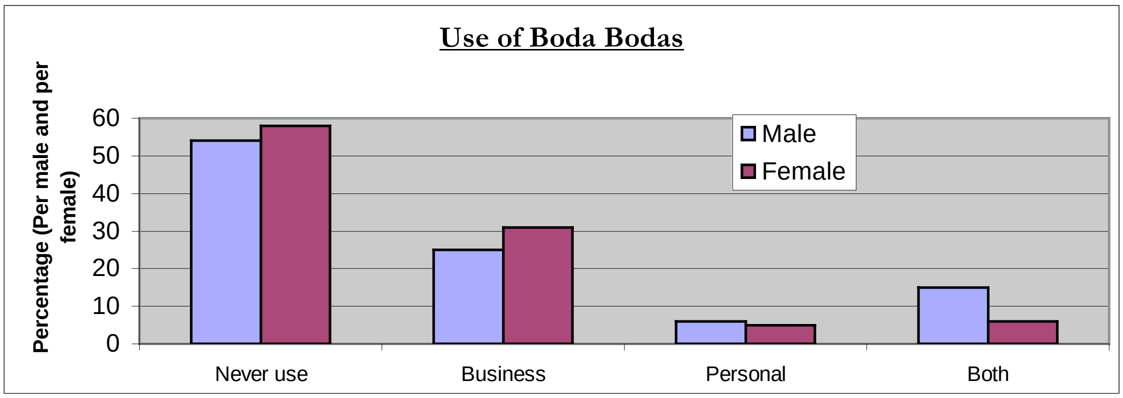


Source: Survey data.

The main gender difference was between the use of taxis, *boda boda* and special hires. A similar majority of men and women walked as their main form of transport, approximately 55% (Figures 4.6 and 4.7). The second most popular form of transport for women was taxis, whereas it was *boda boda*s for men. *Boda boda*s were more expensive and were generally used by men. *Boda boda*s included bicycles, as well as motorcycles. These were generally solely owned and used by men. No female in the survey used special hires, as this was the most expensive form of transport.

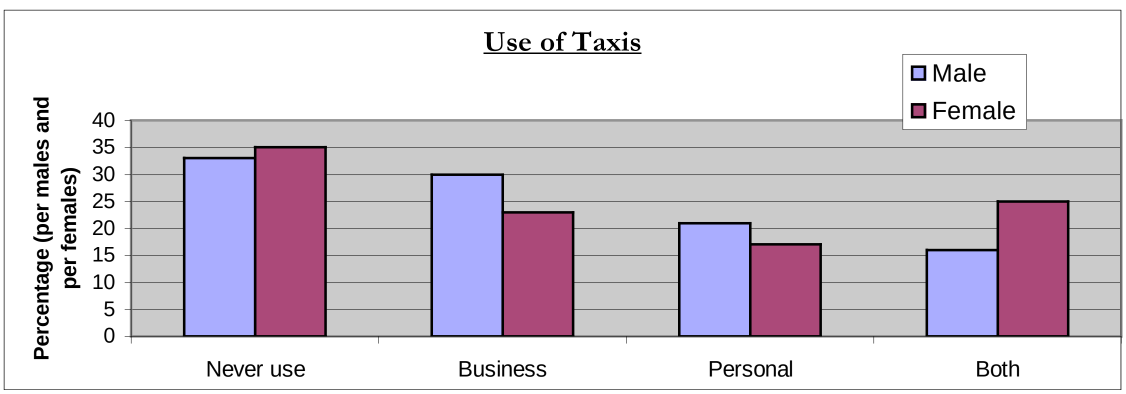
Men were much more likely to regularly use *boda bodas* and taxis than women. Over half of women never used *boda bodas*, and just over a third never used taxis. *Boda bodas* were used mainly for business by women. Men were more likely to use *boda bodas* for both personal and business use. Younger men were more likely to use *boda bodas*. Over two-thirds of the survey respondents used taxis. Similarly for *boda boda* use, it was mainly for business. Although, approximately 20% of respondents used taxis for personal use, which included visiting family in rural areas, all ages use taxis. Taxis were more commonly used than *boda bodas*. This is because the taxis were cheaper, frequent and were able to use the dirt track roads within Bwaise. There were not huge gender and age differences between taxi use, unlike *boda boda* use.

Figure 4.8 Use of *Boda bodas*



Source: Survey data.

Figure 4.9 Use of Taxis



Source: Survey data.

4.4.3.6 Conclusion

Housing was cited by Moser (1998) as one of the most important assets for the urban poor, and this proved to be the case in Bwaise. However, in Bwaise the majority of people rent. It was security of tenure rather than ownership that was more important in being able to utilise the dwelling. Security of tenure allowed for dwellings to be used productively and allowed people to build up other types of livelihood assets, such as political and social capital. Security of tenure was good in Bwaise, as long as rent was paid, people felt secure in their rental units. These dwellings could then be used to access and develop other livelihood resources. Physical infrastructure, transport and services affected the ability to use labour and affected the levels of human capital. It has been shown that low standards of water and sanitation were detrimental to health (Pyrer et al, 2003). Poor quality infrastructure and expensive transport were cited as livelihood constraints, especially in developing IGAs. Different types of transport were available within Bwaise, but were not used by the majority of people, mainly because of cost. This stifled the mobility of the majority of the urban poor, who were then restricted to local markets, health and education facilities, which might have been of low quality, expensive or scarce in number.

4.4.4 Human Capital

Human capital includes the acquisition of skills, knowledge, health and nutrition that allow a person the ability to develop a livelihood (Nussbaum & Sen, 1993). These are required to develop other livelihood assets, mainly labour. This section will examine the health, nutrition, family planning, education and vocational skills of the local population.

4.4.4.1 Health

Health is a major factor in securing livelihoods and ill health is a key constraining factor (Pryer et al, 2002). Medical fees were one of the most common types of expenditure (see Chapter Seven) and ill health was a major risk for all ages. Low nutrition levels and poor sanitation were factors in increasing ill health, and these were problems in Bwaise. Malaria, diarrhoeal and respiratory diseases were common problems, due to swampy location, poor drainage and sanitation. Nearly all of the local population had experienced some kind of ill health in the last two years that led to a loss of income. Ill health was extremely costly in terms of medical fees and time lost in which to earn an income. Caring for sick relatives and household members was also a major consideration, especially for women. Women took time out from IGAs to take children to a clinic or hospital, and to care for sick relatives. As shown in Section 4.5 of this Chapter, ill health was one of the most common risks experienced and a major livelihood constraint. The main health problems were preventable and synonymous with poor living conditions and poor nutrition. Ill health affected people's ability to work and was one of the most debilitating and common factors for the vulnerability of urban livelihoods.

AIDS/HIV was a significant factor in Kampala. 20% of survey respondents reported that they were caring for someone with AIDS. Over 80% of those carers were women. These women were at risk from HIV, as well as having the time and cost burden of caring for AIDS sufferers. This was confirmed by Obbo's study (Obbo, 1998). A large number of the dependants who were being supported suffered from HIV or other health problems. The number of AIDS and HIV sufferers was unknown, but Uganda had one of the highest rates in the world. HIV increased the susceptibility to and severity of other types of diseases, for instance respiratory diseases, malaria and diarrhoeal diseases. The GoU has actively been campaigning against the spread of AIDS, through a major awareness campaign. This has led to the increase in Uganda's rate of prevalence slowing down (Miovic, 2004).

4.4.4.2 Nutrition

One of the main differences between rural and urban Uganda is the access to food. Urban agriculture has been one of the strategies used to secure food in urban Africa, especially in times of crisis (Maxwell, 1998). Although urban agriculture did occur (Photograph 4.17) the land available was increasingly scarce; this led to the urban population being reliant on purchasing food. Interestingly the UPPAP 2002 highlights land scarcity as a key cause of poverty, which may also reflect the growing urban population (MFPED, 2002). The quantity and quality of food eaten have traditionally been indictors of poverty (Greeley, 1994). This research is not determining levels of poverty but analysing the characteristics of urban livelihoods. The majority of people did eat two meals a day plus breakfast. Breakfast was not regarded as a meal, most people ate a bun or bread and drank tea for breakfast. A meal usually consisted of *matooke*[11], beans and possibly some meat and greens. 20% of the survey respondents only ate one meal plus breakfast; of these over 80% were female. The women said that they were likely to forego a meal to ensure that their children had enough food.

<u>Photograph 4.17 Urban Agriculture</u>

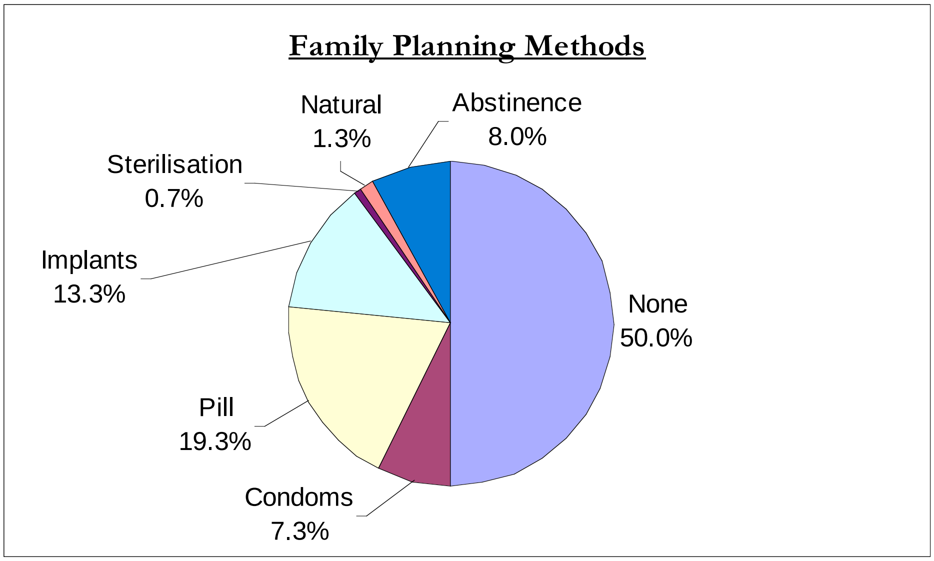
Although the majority of people did have either two or three meals a day, the quality of food was highly variable. Most of the food consumed was low in nutrition. *Matooke*,[12] *posho*[13], rice, sweet potatoes and beans were the staple foods, which were high in carbohydrates and low in nutrients. Milk, meat, fruit and vegetables were not eaten every day by most people. The quality and quantity of food would decrease in times of income decline. For example, milk and meat were regarded as luxury items and were eaten only when circumstances allowed.

4.4.4.3 Contraception

Figure 4.9 shows the types of family planning methods used by the survey respondents. The contraceptive pill was the most popular, alongside implants. Only 7% of survey respondents said they used condoms, which is the only form of contraception that protects against HIV infection. Only half of the survey respondents used some form of family planning method and this was reflected in the high population growth in Uganda (Miovic, 2004). The number of dependants in a household affects the ability to secure livelihoods. Although children were highly regarded and most people wanted a large family, the reality was changing. Large families were seen as a sign of wealth but it was recognised that high numbers of children were detrimental to securing livelihoods for themselves and their children. Parents cannot afford the school fees for several children. Attitudes may have shifted because adults indicated a preference for three children instead of the traditional five or six.

[12] *Matooke* is the local name for cooked plantain.
[13] *Posho* is the local name for cooked maize meal.

Figure 4.10 Family Planning Methods



Source: Survey data.

4.4.4.4 Education

Lack of education was linked to the ability to develop a secure livelihood. Low education levels decreased the opportunities available to the urban poor and poverty continued through generations. In general, virtually everyone had received some form of basic education and this was likely to increase with the introduction of UPE. The majority of survey respondents had received Primary Four-Seven level of education (45%, shown in Table 4.7). Only 7% of survey respondents had under Primary Four education. These findings, shown in the Table below, only reflect the grade of education reached at school, not the quality of education received.

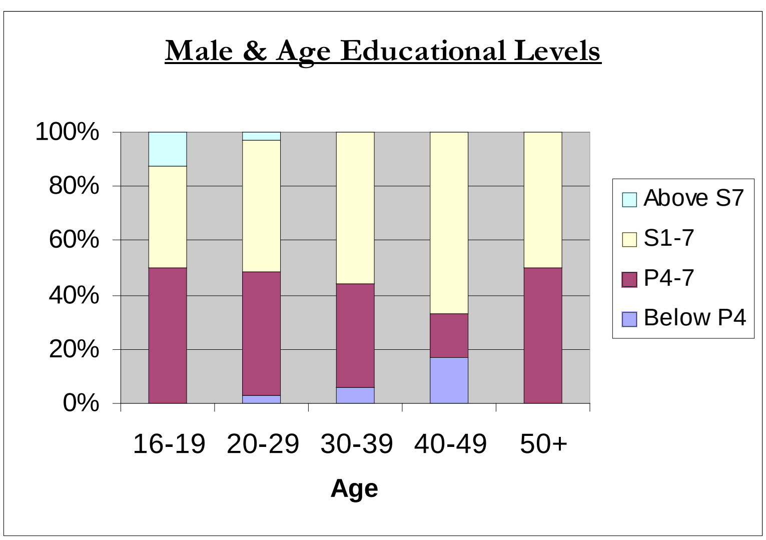
Table 4.7 Educational Levels (Percentage of Respondents)

Under P4	P4-7	S1-S7	Above S7
7%	45%	43%	5%

Source: Survey data.

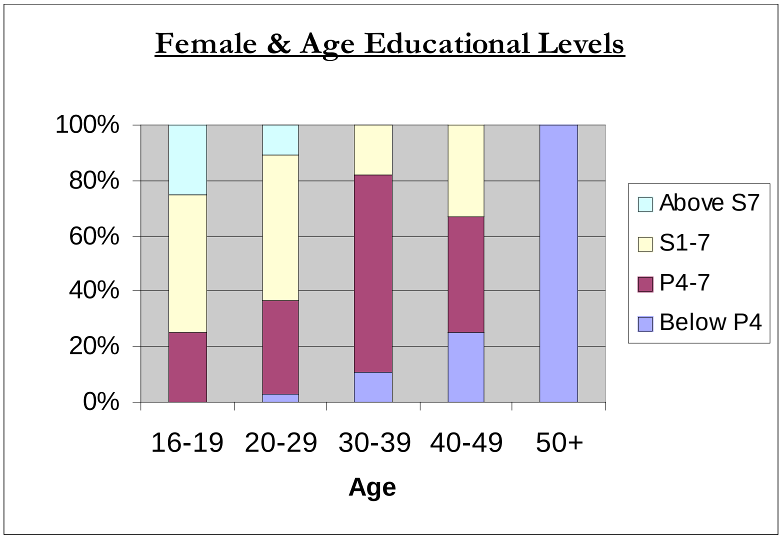
Older people were more likely to have only attended the lower primary education levels. Only those under 30 years old had any form of further or higher education. In general the grade of education attained decreased in relation to the age of the person; the older a person, the lower the grade attained. The only anomaly was that over 60% of males in their forties had attended S1-7. Females in the survey were generally less educated than the men. Figures 4.11 and 4.12 clearly show the gender differences. The majority of female respondents aged in their thirties had between P4 and 7 education; whilst the majority of men in their thirties had received senior level education. This reflects the historical gender discrimination apparent in the education process in Uganda as a whole. The starkest difference was for the over 50 year olds, where all the female survey respondents had below P4 education. 50% of male survey respondents aged over 50 had attended between P4-7 and the other 50% had attended between S1-7.

Figure 4.11 Male Educational Levels



Source: Survey data.

Figure 4.12 Females Educational Levels



Source: Survey data.

Although the vast majority of people had received some type of education, the quality of the education they had received was questionable. Over half of the survey respondents had only completed some kind of basic primary education. The majority of those that they had received some form of senior education were at the basic levels S1-3. Most felt that the quality of the education was low and had only gained basic literacy skills. Many were not able to carry out basic bookkeeping tasks and only knew a few words in English. Therefore most of the local population had a low standard of education, only 5% of survey respondents had achieved any formal qualifications.

Although education levels were low, formal education was highly valued by the local population. The majority of people recognised the lack of education as a cause of continuing poverty. The ability for children to attend school was a livelihood priority for all adults. Education was viewed as a way to improve the lives of their children, it was thought that secondary and above education especially would lead to the children being able to obtain a regular, well-paid job. The main concerns were the quality and cost of the education. The respondents worried about the quality of education, because of the lack of text books, teachers and because of overcrowding. The major concern was not being able to obtain the money for school fees and extra costs. UPE, introduced in 1997, provided free education in the Government-run primary schools. The cost of uniforms, lunches and scholastic materials were not included in the free education. These costs were a problem for most adults. In Bwaise, like many other areas in Kampala, Government primary schools were scarce. The majority of the primary schools in the Bwaise area were privately owned and this meant school fees and extra costs had to be paid.

The linkage between poor nutrition and education became apparent from the research findings. Adults complained of not being able to afford to pay for school meals. The lack of free school lunch provision was a problem for children who could not afford to buy meals. The lack of food reduced their concentration and led to poor performance in school.

An AAU household survey (1998) found that less than 50% of this population had attained primary school education. Kawempe Division had a high rate of illiteracy. 45% of men and 65% of women were illiterate (Kawempe Division, 1999). The Government Policy of *'Education for All'* advocated adult literacy. The Functional Adult Literacy programme was run by the Ministry of Gender, Labour and Social Services and KCC. The division started adult literacy classes with trained Functional Adult Literacy supervisors to try and combat the problem. [14]

Education was regarded as a key factor in being able to improve their children's livelihoods. It is seen as the avenue towards more prosperous and secure livelihoods. The importance of education in

[14] Interview with [redacted], Ministry of Gender, Labour and Social Services 21/09/00.

human development has been widely recognised (Sen, 1997; Nussbaum, 2000). It will be shown in Chapter Seven that education was one of the most important and most common investments for all urban households. Literacy and basic numeracy were essential for the development of labour as an asset. It was also necessary to develop more vocational skills outlined below.

4.4.4.5 Vocational Skills

Vocational skills were learnt through apprenticeships and informal on-the-job training. Very few people had obtained formally recognised vocational training. This was because of the cost and lack of access to such training institutions: *'I acquired the skills, I was trained and I qualified for it, but I did not get a certificate. I paid the trainers 30,000/= USh per month for four years'* (Mechanic, Male, 23/10/00). The type of skills learned were varied, ranging from the more technical activities like tailoring, carpentry and mechanics to basic business skills for selling vegetables, cooking and trading. The importance of social capital and intra-household relations was highlighted in developing vocational skills. Most had learnt vocational skills through friends and relatives, either directly or through a contact. For example:

I learnt (tailoring) and worked with my sisters (Tailor, Female, FINCA member, 04/09/00).

My father trained me in the dobbi business, because he was a dobbi (Dobbi, Male, 19/10/00).

Before I started the chapati business I used to help my brother in selling fish; whilst selling fish I saw a friend of mine who was making chapati, and he taught me how to make chapatti (Chapati maker, Male, 31/10/00).

There were few formal avenues for business and/or vocational skills development in Bwaise, although these types of skills are recognised as having a beneficial influence in developing livelihoods

(McGrath & King, 1999). It was more common to engage in the types of informal skills development shown above.

Human capital is a vital asset for securing livelihoods (Sen, 1990). Good health, skills and education are necessary to develop a secure livelihood. These are all required to effectively utilise the most important urban livelihood asset, labour. The inter-connectedness between the different livelihoods assets was apparent. Much of the existing human capital was developed through intra-household relations and social capital. Human capital was also the asset most valued by the local population, who aimed at developing this asset, through education for future generations; believing it necessary for the success of their children's livelihood strategies.

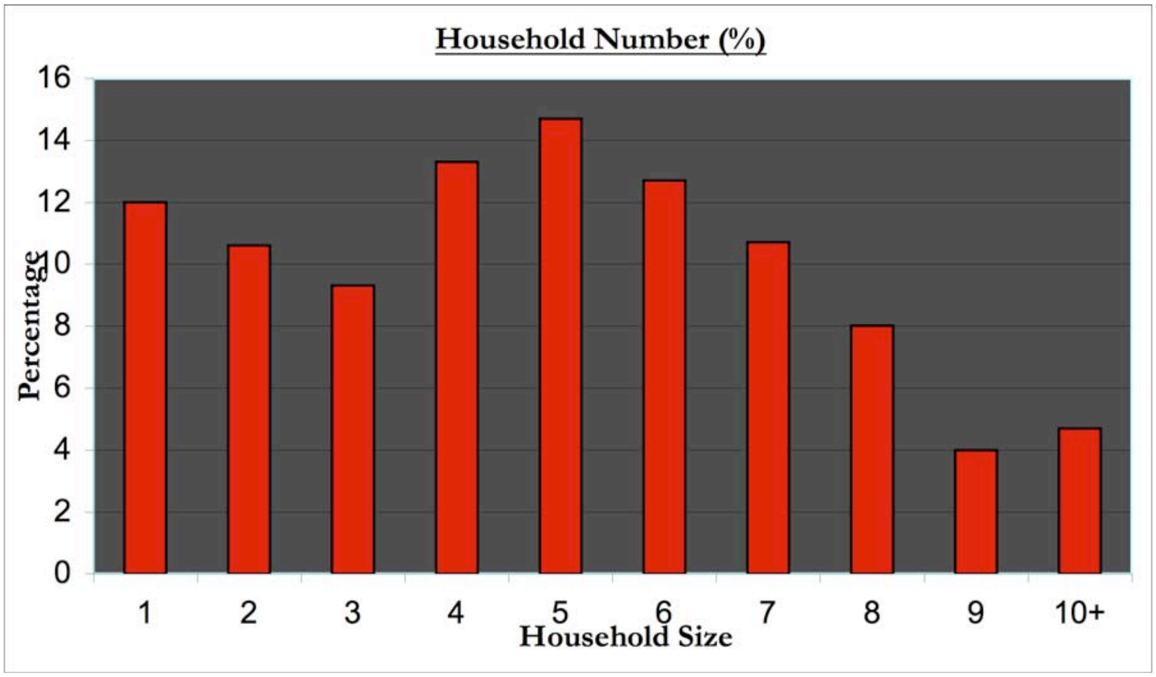
4.4.5 Household Structure and Intra-Household Relations

The composition of the households influenced the ability to develop livelihoods. A high number of dependants in a household will generally increase that household's vulnerability to shock, and this vulnerability is further increased if the household head is female (Beall, 2002).

4.4.5.1 Household Number

The majority of people lived in households with four or more members. 52% of survey respondents lived in households with between four and seven members. Figure 4.13 shows the percentage spread of household sizes of survey respondents.

Figure 4.13 Household Number



Source: Survey data.

About 10% of survey respondents lived by themselves. This reflected the mobility of many young, male urban residents. The majority, over 80%, of these single dwellers were male. They would normally rent a single room within a unit. The actual number residing in a household was often fluid. Relatives, mainly from rural areas, would stay for a length of time if they were looking for employment opportunities. Adult children often moved in and out of the family home depending on their economic circumstances. For example, one household had a woman as the main income earner, who lived with her daughter and grandchildren and orphans (eight children in total). Children may also live elsewhere, normally with family in the rural areas.

4.4.5.2 Household Heads

60% of survey respondents said that themselves (if male) or their spouse (if female) headed the household. The household head was defined normally as the person who was responsible for providing the majority of household necessities, such as food. The female-headed households (15%) were mainly those without an adult male.

4.4.5.3 Marital Status

58% of survey respondents were married. 12% of survey respondents were either divorced or widowed. Although the majority of the local population were married, it cannot be assumed that the couple would live permanently in the same dwelling and would have joint responsibility for the household needs. This would affect the ability to meet household needs and secure individual livelihoods. Many men had more than one wife and therefore would have several households to nominally be responsible for. Therefore household needs would have to be provided for by the female in the household. For example:

> *I was not getting good money from the matooke and yet I had a family, at that time my husband was not able to maintain me appropriately, so all the money I could earn, we used it all for feeding and other house needs. My husband at the time was working in the post office, but he had a big family, so he could not look after us all, because we were more than 50 people that he looked after* (Landlady, FINCA member, 06/09/00).

The type of household structure and intra-household relations affected the ability to secure livelihoods. A nominal male household head who could not provide for a household was not a resource in providing for the main household needs. This would negatively affect the ability of the female-head to secure a livelihood.

4.4.5.4 Children

In the survey, 55% of households had between one and four children. Nearly a quarter of households in the survey had no children. The number of children, though, does not indicate the total number of dependants in the household. The majority of people looked after a dependant of some kind, excluding their own children. 63% of survey respondents had at least one dependant, with nearly half, 47%, caring for between two and four persons. There were several types of dependants: parents, orphans, siblings, and other family members. Nearly one-third of dependants were orphans, mainly nieces or nephews. This reflected the low life expectancy, partially due to the high number of people with AIDS.

4.4.5.5 Responsibilities

This section focuses on three key aspects of household responsibilities: income, food and water. It was recognised that households were complex (Doss, 1996; Bruce, 1989; Beall & Kanji, 1999). There were usually two earners who contributed to the household. 50% of survey respondents said that two people contributed to the household earnings. 37% of households only had one income earner. This reflects the high dependency numbers within each household: generally those caring for children, orphans or adults who did not contribute. Children were mainly responsible for fetching water; nearly 50% of survey respondents said that children within the household fetched water. 15% of households paid someone else to collect water. This was a popular job for children, who earned small amounts of money from it. Both men and women were responsible for obtaining food. 19% of survey respondents said that they were jointly responsible with their partner for obtaining food. The variety of food and difficulty in obtaining food was reflected in the joint efforts in obtaining food. 36% of survey respondents believed they had problems in obtaining enough food for the household. Food is often given in kind for work, especially *matooke,* the staple diet. Unsurprisingly, women were mainly responsible for preparing food.

4.4.5.6 Decision-Making

Only 24% of survey respondents jointly planned for household expenditure. The majority of households only had one person who was predominantly responsible for household expenditure. From the survey, in 82% of households only one person was mainly responsible for household expenditure. Although there was more than one person working in the household, responsibility would primarily fall onto one person. This did not mean that income was pooled. Income was viewed as an individual's and rarely pooled for the household. Similarly, 80% of survey respondents said they decided which investments to make in the IGAs they engaged in. This corresponds to the majority of households, which did not pool incomes or make joint decisions regarding household expenditures. This was similar to other research findings in Africa, which found that incomes were separate (Fapuhonda, 1988; Guyer, 1988; Kabeer, 1994). Non-pooling of income has implications for managing household livelihoods, especially if expenditure is higher than income. In urban areas social capital was as important as familial relations in managing livelihoods

4.4.6 Social and Political Capital

The majority of people were not members of a formal non-trade association, but utilised personal networks as the most common form of social capital. Only 10% of survey respondents were members of a formal association. Lack of time and access to these types of associations were cited as the main reasons for lack of participation. Informal groups were set up for *munno mukabi* and cash rounds.[15] A small minority were members of religious organisations, such as the Mothers' Union or Church Youth groups, and CBOs or NGOs. In Bwaise YOFA, Plan International and COMBRA were the most popular local associations. Microfinance groups were becoming popular as more MFIs were working in the areas. All the microfinance users were members of a Micro-Finance Institution, such as FINCA, UGAFODE, MED-NET, FAULU (see Chapter Five). Those that were members of an association were trade-associated.

4.4.6.1 Trade Associations

People who worked in a market were members of a market association. People working in certain trades had set up associations, such as shoe-shiners, metal workers, tailors, hawkers and transport. The majority of these associations were set up as a safety-net for the workers, to disseminate information and/or to collect rents and taxes. Markets associations enabled rent to be collected more easily, allowed for communication and for workers to set up savings and credit schemes. Transport associations had been set up to protect workers when they were sick, to allow members to operate freely in the area and to collect daily taxes due. Many of these trade associations collected savings from members and had a *munno mukabi* group. These trade associations, however, were nowhere near as powerful or well established as SEWA; similarly to SEWA though, several of these associations had set up financial service provision (Rose, 1992).

Bwaise Market Vendors Association

This association was set up to obtain market stall rent from the vendors. The main activities were to ensure the discipline of the market vendors, help members when they were sick and enable the

[15] Chapter Five discusses the MFIs, trade associations and other group-based financial services in Bwaise.

communication of information to the market vendors.[16] The associations mainly gave advice and support to workers in the market; they also had a savings group.[17] There were 12 departments, each with an elected leader, who represented the specific interests of the particular occupation. The departments included butchers, vegetables, fish, restaurants, chapatti making, potatoes, *matooke*, finger *matooke,* bicycles, shops, chickens and carriers. These departments reflect the wide variety of interests within the market.

Ddembe Market Association

Ddembe market association was similar to Bwaise market association, although it had received funding from BUDP to construct some market stalls. The Ddembe market association was attempting in 2000 to obtain a lease for the market area from the Buganda Land Board. There were ownership problems because of land issues; many markets were illegal and difficult to control; resistance by market vendors to pay dues; and low levels of service delivery.[18]

4.4.6.2 Local Associations

There were 22 CBOs and NGOs operating within Kawempe (AAU, 2000). Most CBOs were registered by the registrar of companies and fully recognised by the LC system. In Bwaise III, the two main CBOS were Bwaise Disabled And Elderly Association (BADEA) and Youth Development Foundation (YOFA).

[16] Interview with Bwaise Market Vendors' Association Chairperson, 16/11/00.
[17] See Chapter Five for more detail.
[18] Interview with Ddembe Market Association Secretary, 16/11/00.

YOFA

YOFA was a youth organisation, which was set up to promote the emancipation of the youth in the Bwaise area through general awareness of development issues and promotion of enterprise development among the youth. YOFA had an elaborate management structure, which took decisions for the organisation. It had benefited from a savings and credit programme supported by BUDP and had also in the past been engaged in cholera emergency programmes, drainage clearance and community pit latrine construction. Many of its members were youths who were involved in several other economic activities outside the group. The members were easily mobilised for economic activities such as savings and credit and other social development activities. The members were also easily used for child sponsorship administration and some of the members had been used by Plan International in mobilising communities for child sponsorship in Bwaise III.[19]

ActionAid (AAU, 2000b) believed that one of the weaknesses was that though there was a management structure in place, the leaders needed to be trained in order to develop their capacity in leadership skills, financial resource management and development of systems and procedures that would ensure transparency and accountability, especially in financial management. Only the savings and credit section had any financial records. The presence of technically skilled members had allowed the CBO to handle projects like the cholera emergency project, garbage collection and disposal, masonry and brick laying.

BADEA

BADEA is a local CBO, which aimed at working with the disabled individuals in Kawempe to enable them acquire skills in different fields and also to influence change of the community's attitudes

[19] Interview with YOFA Committee members, 03/03/00.

towards the disabled. The CBO was started by COMBRA as a pilot project in Bwaise but over the years it has grown into a fully-fledged local NGO. It has a management structure and the staff are committed to serving the poor in Bwaise. The staff also showed willingness to take on additional responsibilities and to implement other development activities if a partnership was formed. One of the envisaged challenges once the partnership is formalised is how BADEA will maintain its profile as a CBO mainly working with the disabled, without being perceived as one that deals with general poverty problems. It had office premises, staff and some basic equipment. If a partnership was formed it was thought that it would be easy and less costly to use the offices, to train the existing staff and also utilise their wealth of knowledge about Bwaise area for programming purposes.[20]

4.4.6.3 Political Capital

The LC system was decentralised to small zones in Bwaise. Those zones each had a committee, which could be accessed to discuss local issues. This highly decentralised form of local government increased access to local council committee members. Many people, though, said that KCC harassment was a livelihood constraint and did not believe that the local council was beneficial to them. *'What does the local council do for us? It harasses us for licence fees and taxes. It doesn't provide us with electricity or toilets or tarmac roads. It is only beneficial to the LC members who take the money,'* (Bwaise, Male FGD, 19/09/00).

The LCs were usually the first access point to the local community for NGOs, as well as for the Government. Therefore many NGO projects included local council members as key local participants. For example, an LCI chairman in Bwaise was a committee member of a Plan International group and a committee member of a FAULU MFI group. This gave him preferential

[20] Interviews with BADEA members, 04/03/00.

access to local infrastructure projects, such as pipe stands and garbage facilities, as well as microfinance services. LC members were gatekeepers to many resources and information, as they were influential in who gained access to key resources. The collection of taxes and fees was also subject to corruption by local officials. Local councillors were able to govern who did or did not pay business licence fees. For example:

My husband is on the LC committee, so I don't have to pay the licence fee (Female, Plan International member, 28/08/00).

Similarly to other studies (Mitlin, 1999; Rakodi, 1999), political capital was a valuable resource for the Local Council members and their personal networks. It enabled these people to gain access to extra resources and power within the community. They were gatekeepers and had the power to stop others from accessing resources, reflecting the downside of social capital (Mayoux, 2001). Although, through the decentralised system, many people had access to this political capital, the majority of the local population had low levels of political capital. Aside from the LC members and their personal networks, few members of the local population believed they received any benefit from the LC system. The lack of participation in the LC system, for the majority of the local population, inhibited their access to knowledge, benefits and resources gained from KCC and NGOs working in the area (AAU, 2000c).

4.4.6.4 Personal Networks

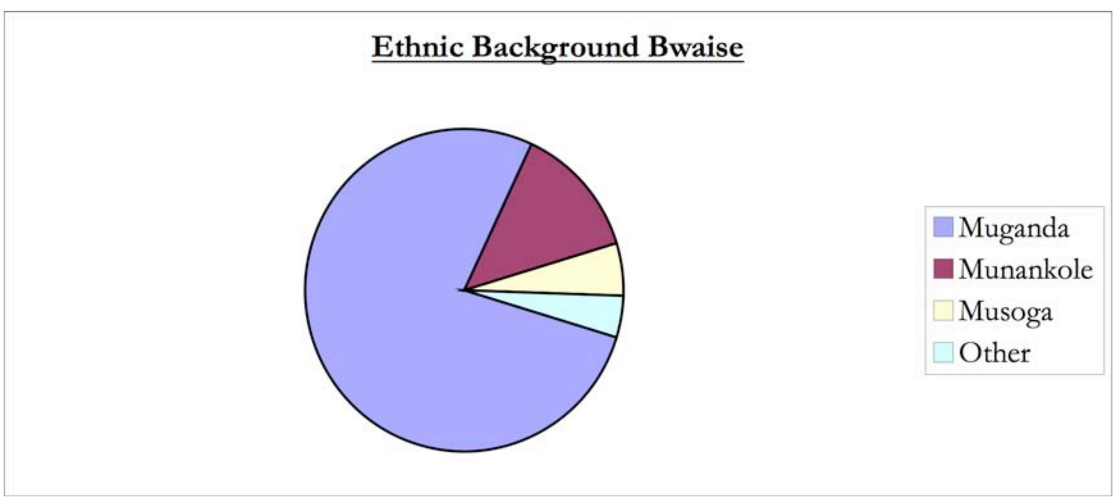
Personal networks were the most difficult to quantify, but one of the most important livelihood assets available to the urban poor. Respondents believed having lots of friends and good communication mechanisms were characteristics of being wealthy, as noted in Section 4.5.2. Friends were used to gain access to knowledge and resources. As shown in Section 4.4.2, skills and labour use were developed through personal networks. Personal networks can be defined as contacts that can be used to facilitate managing and securing livelihood assets. They were an intrinsic part of managing livelihoods in Bwaise. From the variety of FGDs and interviews it was found that personal networks were used to obtain food, a place to rent, savings groups, general advice, childcare, health care and household items. All aspects of poor livelihoods required personal networks to function. They were also one of the most important factors in utilising and accessing financial services. When most livelihood activities are carried out in an informal way, personal networks are vital to gain access to information, advice and resources. The importance of personal networks should not be underestimated and has been recognised by several studies (Opel, 2000; Wood & Salway, 2000; Moser, 1998; Narayan & Pritchett, 2000). It can be argued from the research findings that personal networks were required to access and secure virtually all other types of livelihood assets. Also that human capital was developed through skills learnt from personal networks. Access to housing, especially for tenants, was mainly through personal networks. Chapters Six and Seven will expand in more detail on the role of personal networks in accessing informal finance and securing assets.

Aside from being a member of a trade association, most IGAs needed personal networks to function. Personal networks were needed to obtain the skills and contacts to set up and run IGAs. Personal networks were used to obtain supplies, a place of business, customers, to learn the skills of a particular trade and to decide on a particular trade. For example: '…*a friend advised me to come to Bwaise market and get an omudala (stall), a place where I started to make tea for sale'* (Cooked food seller, Female, 16/10/00). Labour skills were mainly learnt in an informal way through personal networks. Obtaining a place of business was also dependent on personal networks and in some cases political capital. Renting a place of business often required proof of identification, which was obtained from the LC1 chairperson. Places to rent were not formally advertised, so getting access to this information was dependent on personal networks. This helps to explain why communication and friends were important characteristics of wealth for the urban poor.

4.4.7 Social Axes of Difference

The four main axes of difference are gender, age, ethnicity and religion. The most important factors in Bwaise were religion and gender. Surprisingly, ethnicity was not an important factor. This section describes the composition of Bwaise area; how these social axes of difference affect access and use of finance services will be discussed in Chapters Six and Seven. There were ethnic differences, but the number of tribes was high, with two dominant groups, and Bwaise and MFI interviewees believed this was not seen to be a factor in obtaining livelihoods. High levels of migration into Bwaise had made the number of tribes present in the area too numerous to be of any significance for obtaining resources. This is in contrast to Uganda as a whole and in neighbouring Kenya and Nairobi where tribal differences have relevance for obtaining resources and employment (House et al, 1993). In the survey over 70% of survey respondents were Mugandan (Figure 4.13).

Figure 4.14 Ethnic Background



Source: Survey data.

The population of Bwaise according to the 1991 census was about 52% female. A lot of women's time was spent in performing domestic needs because of the lack of infrastructure and services in the area: lack of health centres, sources of safe water and few schools. Women were more likely to become infected with AIDS because of poverty-related issues, cultural beliefs and lack of information (Obbo, 1991). Most IGAs were gender-related, with the higher-earning jobs predominantly male-dominated. Approximately 15% of households were female-headed. The population in Bwaise reflects the general population of Uganda, it has a high percentage of young persons. The low life expectancy of 41 years for females and 43 years for males in Uganda in 2000 (UNDP, 2000) skews the demographics towards the young.

Unlike in small towns and rural areas, Kampala and Bwaise had a mixture of Christian and Muslim populations. Survey respondents were equally mixed between Protestants, Catholics and Muslims. Again this reflects the high degree of migration into the area. Some of the trade and informal associations were segregated by religion. This will be discussed in Chapter Six.

Social axes of difference were influencing factors in how the poor managed their livelihoods; with gender being the most important factor. However, the risks and vulnerabilities in Bwaise had a pervasive influence on securing livelihoods and were one of the most influential determinants for livelihood strategies in the area.

4.5 LIVELIHOOD CONSTRAINTS AND VULNERABILITIES

Livelihoods are developed within a vulnerability context. These are the trends, shocks and seasonality constraints that inhibit the poor in developing their livelihoods (Amis, 1995; Chen & Dunn, 1996; Dercon, 2000; Dunn et al, 1996). The nature and severity of the constraints can lead to temporary or permanent increases in vulnerability. The types and nature of constraints are context-specific, either to individuals, households or a geographical area (Sebstad & Cohen, 2000). The ability to withstand these shocks and trends is dependent on the type and amount of livelihood assets open to the urban poor outlined earlier in this Chapter. The types of constraints and risks affecting the urban poor in Bwaise will now be analysed. This will be followed by the poor's perceptions of poverty and shocks/trends experienced by individuals and households.

4.5.1 Perceptions of Poverty

4.5.1.1 Community Constraints

The vulnerability context for a geographical area has different causes and effects than an individual's or household's livelihood constraints and reflects structural risks (Sebstad & Cohen, 2000). This was shown in the research findings and is summarised in Box 4.2. The general community problems focused on the physical environment, including flooding, drainage, and sanitation. The main reason, as described earlier, was because part of Bwaise is built on a wetland area, which makes the area prone to flooding during the rainy season. The convergence of natural drainage channels occurs in the Kawempe Division area. This was exacerbated by lack of and poor quality drainage channels. The drainage channels were often blocked with silt and waste (Photograph 4.18). The high water table level makes constructing an adequate sanitation infrastructure expensive. Pit latrines have to be built more than a metre above ground to avoid the high water table. This has led to poor quality and inadequate sanitation, which further exacerbates the drainage channel problems, through dumping of human waste in the drainage channels. This makes the area vulnerable to water-born diseases and malaria, which causes more health problems. Lack of regular maintenance of drainage channels by KCC and the lack of collaboration between neighbouring local authorities increases the problem of flooding and drainage.

Photograph 4.18 Poor Drainage

Box 4.2 shows that employment, poor health and education problems were the perceived causes and effects of poverty for community constraints. Low income levels, lack of employment, lack of skills and lack of start-up capital were also believed to be the main causes of poverty. These factors led to poor feeding, low standards of living, poor health, low life expectancy and general insecurity of livelihoods. The FGD respondents also believed that the low tax base resulting from the low incomes inhibited KCC and central Government in developing the infrastructure further. Illiteracy, low education levels, lack of employable skills and a poor quality education system were also cited as causes of poverty in the area. Low education levels and illiteracy were believed by respondents to lead to unplanned children and early marriages. These constraints were believed to be inhibiting community members from developing their livelihoods and keeping the vulnerability context at a high level leading to continuing poverty. Box 4.2 summarises the community constraints as perceived by YOFA members.

Box 4.2 Constraints in Bwaise Area

Issue	Causes	Effects
Flooding	Building in wetlands Flat topography and low-lying areas Convergence of natural drainage channels in Kawempe Division Blocked drainage channels and silt congestion in channels Lack of drainage channels Dumping solid waste in channels Poor road planning Lack of regular maintenance Poor collaboration between neighbouring local authorities	Diseases and vulnerability to health problems Soil erosion Contamination of safe water Damage to properties, infrastructure and can cause death Land degradation Diseases Disruption of business activities Blockages
Poor Drainage	Poor urban planning and drainage systems Lack of law enforcement by technocrats and local authorities Ignorance of local leadership on sector policies, laws and regulations	Diseases Flooding Damage to buildings
Poor Sanitation	Expensive infrastructure development required High water table Poverty Landlords don't stay within the same localities (lack of ownership of problems) Lack of law enforcement by local authorities Ignorance of local leadership on sector policies, laws and regulations Emptier waste vehicles are inadequate Building on wetlands and swamps Congested homesteads	Vulnerability to health problems and diseases Inadequate toilet facilities Unsafe drinking water Diseases Bad habits (using *buveeras* as waste disposal items and dumping it in drainages and public places)
Poverty	Unemployment Illiteracy and poor education systems Low-income levels and inequalities in income distribution Lack of employable skills Lack of start-up capital Poor policy planning Theft and corruption	Poor feeding, standards of living and infrastructure Marrying off premature girls, unplanned families, immoral habits Low incomes Low taxable base High death rates and low life expectancy Poor health condition Insecurity of property and lives Environmental destruction Low incomes Lack of business Low profits Corruption

Source: FGD with YOFA, 08/05/00.

Box 4.2 shows the perceived inter-causal relationships between different factors of poverty. and their effects It also shows the connectedness between structural and idiosyncratic risks (Sebstad & Cohen, 2000; Dercon, 2000); with shocks becoming so common they were now trends in a vulnerable environment. For example, poor environmental conditions, alongside poor nutrition, led to ill health, which led to the inability to gain an income. All these factors combined show the magnitude of constraints facing the urban poor. A community's perception of poverty is a useful insight into the causes and effects of poverty and livelihoods. Individual perceptions are a useful insight into how the poor manage their livelihoods.

4.5.1.2 Individual Constraints

The poor's perspective on poverty highlights the livelihood strategies and resources that are important to the poor. Participatory perceptions of poverty view income as just one aspect of a person's wealth status and have important contributions to make towards understanding poverty (Crawley, 1998; Welbourn, 1998b). This reveals the many different factors that influence a person's poverty status and well-being and reflect the resources within livelihoods analysis and Chambers' different dimensions of well-being and Baulch's pyramid (Chambers, 1993; Baulch, 1996). The FGDs highlighted the importance of being able to care for the household. Good quality education, medication and nutrition were the most important aspects of well-being for Bwaise and MFI interviewees, similar to human development capabilities (Nussbaum & Sen, 1993). These interviewees also believed that this was achieved by having successful businesses and a regular income; however all of the livelihood assets influenced well-being and were inter-linked. There were similarities between the community constraints and individual perceptions of poverty. This shows the high levels of inter-linkages between vulnerabilities of the urban poor. This is not forgetting that the urban poor were not a homogeneous entity and this was reflected in the different types of livelihood assets accessible to an individual.

Box 4.3 Individual Perceptions of Poverty[21]

	RICH 5%	NOT-SO-POOR 15%	POOR 60%	VERY POOR 5%
Labour and enterprise	Has booming business Has tenants Earns every month Owns animals Owns a shop Many businesses Owns lots of land	Earns an income Owns a good business Able to sell crops Owns land	Lack of employment Daily income Little income Work hard to get small amount of money Small plot of land to grow crops	Street children Beggars No business No job No land
Housing and physical capital	Permanent house Electricity Water at home Telephone Has a car Develops the area where they stay	Has fuel for family Built a house Has motorcycle or some means of transport- special hire Have toilet	Renting house Has a bicycle Small residence Taxis Some fuel Shared toilet/no toilet	No house Nowhere to stay No transport No toilet
Human capital	Good health Able to have medical and hospital treatment Well-educated Educated children Eats well All family well-dressed	Fair education They educate their children They take care of their children Medical care Usually eats well Children dress well	Children in poor schools Medical treatment is poor, but able to get some Poor/less balanced diet Poor clothing	No good clothes Poor health No medical treatment No school fees paid
Social and political capital	Wealthy friends Many friends Able to look after extended family	Able to cater for accommodation of people Has friends Good contacts and communications	Little choice No leisure Some communication	No one to care for them No helpful friends No communication No family Disassociation from society No say in public
Finance	Bank account Able to get large loans Savings	May have bank account	Little savings	No savings

Source: Research data.

[21] Research data is defined as analysis from all sources of data including survey, interviews, FGDs and observations.

Box 4.3 shows the different perceptions of poverty as derived by the FGD respondents themselves. It is possible to divide up the responses into the different livelihood assets. The respondents in all of the FGDs were more receptive to discussing their perceptions of poverty when it was depersonalised. They were reluctant to describe their situations, but they believed that the vast majority of the population of Bwaise were poor. As shown in Box 4.3, FGD respondents believed that the key indicators of poverty were levels of health; ability to obtain medical treatment; access to education; access to food. Transport and communications also featured frequently in responses. Unsurprisingly income and jobs featured very frequently. The poor were more likely to earn a daily income and have less job and income stability, unlike the richer people who had good businesses with the richest earning a salary. Ownership of physical assets was an important factor, especially for housing, enterprises and transport. Lack of access to a toilet was also an important indicator of poverty. This reflected the problem of sanitation in Bwaise.

The importance of social capital was highlighted; the poorest people were deemed to have no friends or family and were thought to be isolated from society. The ability to look after family and friends and to access good communications were indicators of wealth. The relationships between assets and causes of poverty were shown in social capital. Richer people were deemed to have much higher levels of social capital and to be able to assist friends and family members. This in turn, it was considered, would improve their access to assets and, especially, enable them to improve their enterprises. Therefore low levels of social capital were an indicator of poverty, but also a cause of poverty.

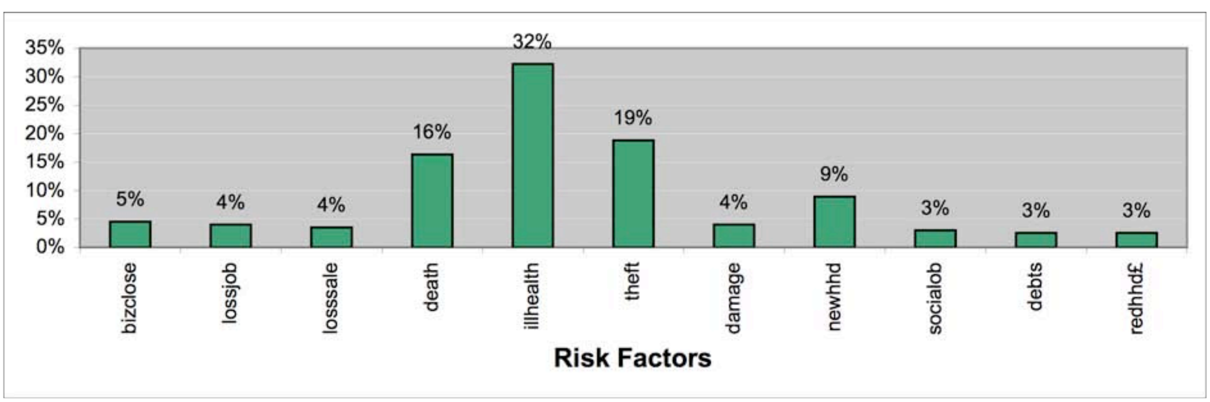
All these results show the urban characteristics of poverty and livelihoods. Those who were vulnerable to becoming poorer were those without the important resources to cope with problems.

The ability to access some kind of income, education, food, friends/family and medical treatment, for example, were considered, by interviewees, to help the poor to cope with the shocks and trends they experienced.

4.5.2 Shocks and Trends Experienced

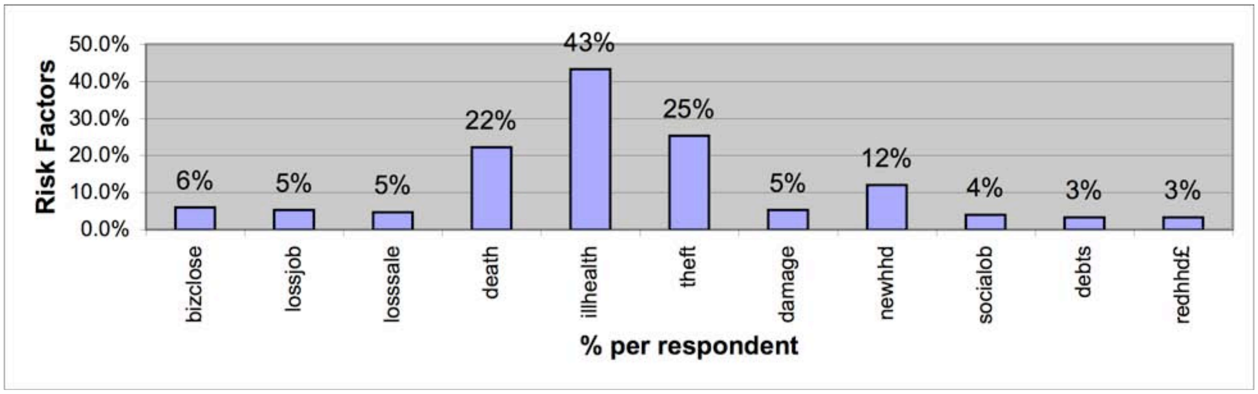
As discussed in Section 2.4.3.1, risks are uncertain events that can damage well-being and are also viewed as the chance of loss. Risks can either be recurrent and when manifested become trends and more predictable, whereas shocks are more unanticipated (Sebstad & Cohen, 2000; Chen & Dunn, 1996; Amis, 1995a). The types of shocks/trends experienced by the total respondents reflected livelihood risks in Bwaise. Ill health, theft and death were the main sources of shocks/trends experienced in the last two years. Figures 4.15 and 4.16 show the shocks/trends experienced by the total respondents in the previous two years. Total respondents denote the aggregation from Bwaise survey respondents (200 interviewees) and in-depth interviews (30 interviewees).

Figure 4.15 Shock/Trends Factors Experienced (% Per Respondent)



Source: Survey and In-depth Interview data. Survey and in-depth interview data denotes the aggregation from Bwaise survey respondents (200 interviewees) and in-depth interviews (30 interviewees). The sample was systematic, no respondent could be included in the interview and survey; therefore the aggregation does not lead to double counting or invalidate the survey.

Figure 4.16 Shock/Trend Factors Experienced (% of total responses)



Source: Survey and In-depth Interview data .

4.5.2.1 Ill Health

The main source of risk was ill health, either experienced by the respondent or a household or family member. An overwhelming 43% of total respondents had experienced some kind of ill health in their household or family in the last two years, which was detrimental to their livelihood in some way. This showed the huge vulnerability and the importance of health for effectively managing livelihoods (Pryer et al, 2003 & Pryer et al, 2002). Ill health not only impeded utilising productive livelihood assets, such as labour; medication was also costly and thus increased expenditure. The costs of ill health were hugely detrimental to an individual's or household's livelihood; the cost of medical fees was frequently cited as a constraint. If it was an income earner affected then the medical fees were incurred alongside the decrease in income earned, which further increased the vulnerability of an individual and/or a household. Ill health included AIDS, which in almost all cases led to death. Many of the respondents who had experienced ill health in the last two years had also experienced death of a household or family member. Burial costs were expensive and one of the most popular types of informal finance, *munno mukabi*, was used to overcome this frequent shock.

4.5.2.2 Theft

The second main type of shock/trend was theft. Over 25% of total respondents had experienced theft from their house or business in the last two years. Violence was not cited as a shock experienced in the last two years. Petty theft of household and business assets was the most common type. Poor quality housing and places of business, common in Bwaise, were highly vulnerable to theft, with little, if any, security. The high level of theft shows the insecurity of developing livelihoods and tangible assets in Bwaise. This was a serious impediment to managing livelihoods and financial services. A secure place to store money was vital for the majority of informal financial services, especially savings at home. This will be discussed in Chapter Eight. A corrupt and an inadequate police service made it difficult for most people to reclaim the assets stolen, which is an issue highlighted in other urban research (Moser, 1996).

4.5.2.3 Household Structure

12% of total respondents had had a new member in their household in the previous two years. This was either a newborn, children from relatives or adult relatives. Children from relatives usually joined a household because of the ill health or death of a parent. Although income earning household members may appear to be a lower burden, that person was supposed to contribute to basic household expenditures such as rent and food, which often did not happen. It was unusual for relatives to contribute anything towards the house. Household relations are complex and incomes often remain private, as shown in Chapter Two (Doss, 1996; Kabeer, 1994, Sen, 1990; Munachonga, 1988). Children were regarded as more time-consuming, as they required more care. This burden usually fell on the woman/women in the household. School fees were expensive and were regular, predictable costs. A new household member was always accepted, even though their inclusion would often lead to increased vulnerability and cost. The increased vulnerability could be both to the financial and human capital resources of the household. High household dependency was also seen as a cause of poverty in the UPPAP findings (MFPED, 2000c; RoU, 2000).

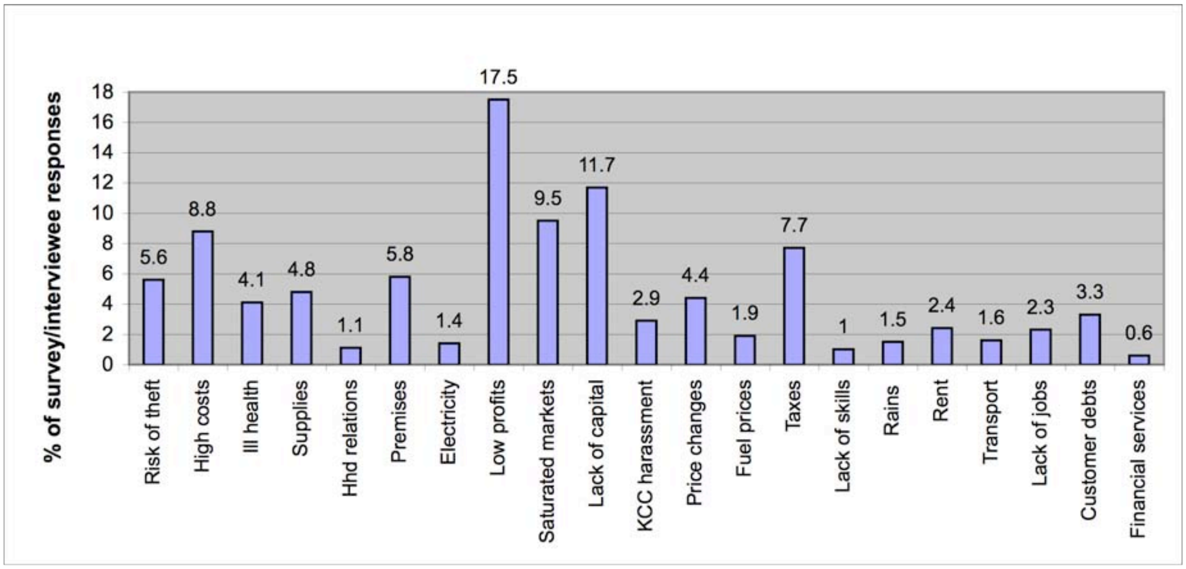
4.5.2.4 Significant Loss of Income

15% of total respondents had experienced the loss of a job or closure of a business in the previous two years. This reflects the general insecurity of the labour market and micro-enterprises/ survival IGAs at this time. Many respondents had set up and closed several businesses in their lifetimes. A significant loss of supplies and sales (through death of stock (chicken sellers), fish ban, cholera outbreak (cooked food sellers) and flooding) had been experienced by over 10% of the respondents in the previous two years. The EU placed a ban on fish from Lake Victoria in 1999. As previously mentioned, there was a major cholera epidemic in 1998 after the *El Niño* rains in January-March 1998. During this time, KCC imposed a ban on cooked food selling to stem the outbreak. It was at these times that livelihood risk management as paramount to protect against the loss of productive livelihood assets. Chapter Seven will discuss the livelihood strategies used by the urban poor in Bwaise.

4.5.3 Livelihood Constraints and Risks

Shocks and trends experienced and risks perceived alongside the livelihood assets available affect the vulnerability of the urban poor. The risks and constraints ranged from the personal level to the macro level. Combining all the responses from the 30 in-depth interviews and 200 survey respondents, Figure 4.17 shows the risks and constraints affecting livelihood security and development.

Figure 4.17 Livelihood Constraints/Risks



Source: Survey and In-depth Interview data.

4.5.3.1 Low Profits and Saturated Markets and High Prices

The major constraints for IGAs were low profits and saturated markets. 27% of responses were concerned with low profits and lack of customers. Low and insecure income levels were major vulnerability factors. Saturated markets were a major problem in every economic activity. IGAs, as described earlier, were at the marginal end of self-employed status; many are survival businesses (King, 1996). This makes these types of businesses more susceptible to low profits and saturated markets. IGA employees were either paid a low wage, 1000/=USh per day is the average for cooking food, or pay is dependent on sales for that day. For example, a male hairdresser employee said he was usually paid 2000/=USh per day depending on whether or not there were any customers.

Price fluctuations were a common problem. Over 4% of responses were concerned with the change in prices of supplies. Supply costs increased, but customers did not believe they had done so and were not prepared to pay increased sale prices. The highly competitive, saturated markets that most people worked in forced them to sell at the previous lower prices to keep their customer base. This reduced the already low profit margin of these IGAs. These were also problems identified by the UPPAP study and have been recognised as a key factor which Uganda should focus on (Miovic, 2004; IMF, 2005). Durable goods were imported and were subject to the changing value of the Ugandan shilling against, mainly, the US dollar. In 2000 the Ugandan shilling's exchange rate value depreciated over 6% against the US dollar (BoU, 2001). This, alongside fuel price increases, led to a decrease in profits and sales, thus increasing the vulnerability of many micro-enterprises and employees. Fuel prices and the high costs of transport received 3.5% of responses. In October 2000, the cost of oil increased worldwide. This directly affected those working in the transport industry, the *boda boda* drivers, special hire drivers, taxi drivers and conductors. Customers were reluctant to pay more for a service they already perceived to be expensive. UTODA, the taxi drivers and conductors' association, agreed to standardise and publicise the increased taxi fares to try and allay the complaints the conductors were receiving. The increase in fuel prices also affected other enterprises, which incurred transport costs in obtaining supplies. The cost of supplies increased for vegetable and fruit traders, and milk sellers. These goods were produced and transported from areas outside Kampala, mainly Masaka and Mbarara.

Successful entrepreneurs assessed price and income elasticities. The widespread use of bargaining to sell goods was detrimental in times of price fluctuations. Customers often refused to pay for goods at a higher price than they paid the last time, even though supply costs had increased. To retain their customer base, businesses were forced to sell at a loss or with little profit. This also happened because of excessive competition. Successful businesses required access to well-functioning product and supply markets. Fluctuating prices affected the ability to plan for a business. Poor quality and quantity of supplies were also a problem in Bwaise. *'It is untenable to consider small and micro-enterprises in isolation from either macroeconomic trends or the health of larger enterprises'* (McGrath & King, 1999: 214). It was apparent in Bwaise that wider economic constraints affected the ability to manage IGAs and livelihoods. Price fluctuations, saturated markets and supplier costs all heavily influenced the functioning of IGAs in Bwaise.

4.5.3.2 Lack of Business Skills

The respondents who had limited formal education considered that lack of education was a major problem. The skills they had learnt were mainly basic retail and trading skills, which were learnt from friends and family. From the interviewees, the analysis I believed showed that the knowledge of business planning and profit analysis was weak in the majority of the urban working poor. This helped to explain, and further exacerbate, already saturated shallow business markets. Business development services are at an embryonic stage in Uganda, but have been recognised as one of the components of the PEAP (MFPED, 2000e) and for enterprise development (MFPED, 1999a).

4.5.3.3 Lack of Infrastructure, Physical Markets and Storage Facilities

The type of IGA affected the type of facilities that were required. Petty traders in fresh produce had to sell their goods on the same day because they had no storage facilities. This affected their business and they had to sell goods at a much cheaper price in the evenings. Unreliable electricity constrained the type of activities open to the poor who could not afford to purchase generators. It forced businesses to be more labour intensive and to use low level technology that did not require electrical equipment.

4.5.3.4 Ill Health and Death

Ill health was a key crisis factor for increasing vulnerability and led to a further cycle of poverty. MFI and Bwaise interviewees thought that the poor were likely to eat poor quality food. In my view, this may then lead to poorer health and a decreased likelihood of finding or keeping a job; which would then lead to less income and further indebtedness; due to lower productivity and payment for medical treatment (as shown in Figure 2.6). An inability to afford good quality housing, which affected health, and poor health would further exacerbate the situation. Poor health was one of the main inhibiting factors on productivity and is a major problem for the urban poor, who live in poor quality conditions, where malaria and diarrhoeal diseases are prevalent. In my view, the death of an income earner was a major contributing factor in increasing the vulnerability of a household. Bwaise and MFI interviewees reported that death was common in Bwaise, so much so that one of the most popular forms of informal finance that developed was to help meet the costs of burials.

4.5.3.5 AIDS/HIV

Bwaise and MFI interviewees reported that AIDS/HIV was becoming a long-term trend that negatively affected the long-term vulnerability of households in many aspects, including: the decrease in productivity of an income earner within the household due to ill health, cost of health care, caring for sick household members, loss of an income earner, indebtedness and a higher dependency ratio within households. It was becoming increasingly common for grandparents and other family members to look after AIDS orphans, because of the *'missing generation'* who have died because of AIDS. All these factors led to a gradual decrease in assets within the household and a lower ability to cope with future shocks. Women are medically more susceptible to contracting HIV and are at risk as they are the main carers for patients.

4.5.3.6 Debts

High levels of unsustainable indebtedness can heavily increase the levels of vulnerability of livelihoods, as productive assets may have to be sold off to repay debts. For example, in my view, this could have a detrimental effect on business assets, or lead to having to take children out of school (human capital assets), as also purported by MFI and Bwaise interviewees. This may occur when expenditures are incrementally higher than incomes, investment opportunities fail or shocks become long term or are very severe.

4.5.3.7 Insecure Housing, Theft and Flooding

Many of the poor in Kampala live in environmentally unsafe areas. Environmental conditions were seen by FGD respondents as a key constraint for the community. As discussed earlier, Bwaise is a swampy area, which is prone to flooding. Destruction of businesses and housing in the rainy season was common. Theft was a major problem, this was partly because of insecure housing and business structures. As described in Section 4.5.2, 25% of total respondents had experienced theft.

4.5.3.8 KCC Harassment, Taxes and Licence Fees

All businesses were supposed to obtain a license. Street vendors were supposed to obtain a permit. MFI and Bwaise interviewees believed that both of there were subject to a high degree of corruption, where officials confiscated goods and bribed businesses to extract more money. Fear of being chased away from a market stall or place of business detrimentally affected business activities. High licence fees and taxes were nearly 8% of total responses (Figure 4.17). The concern over licence fees was not just connected to their cost. Business licences were supposed to be paid in one lump sum. This amount was too much for many IGA owners to pay and often resulted in confiscation of business assets and bribery by KCC officials. KCC harassment accounted for nearly 3% of all responses (Figure 4.17). The harassment usually entailed KCC officers accepting bribes instead of the full licence payment. Collection of business licences was haphazard and was also subject to corruption; as one respondent explained: *'I have not got a business licence for my shop, my husband is a LC councillor, so I request them to hold off'* (UMFSD member, Female, 06/11/00). Street vendors received the most harassment. *'I am moved away from selling on the main roadsides by KCC officials, but I cannot afford the licence fees at the moment. I want to join Uganda Joint Hawkers Association and pay licences because KCC does not want us (mobile hawkers) to sell here'* (Hawker, Male, 13/11/00).

Those working in an established market paid dues, *boda boda* drivers and taxi drivers also paid daily fees to their respective associations, which were not seen to be a problem. However, respondents believed that the collection of graduated tax was arbitrary and the amount paid did not reflect a person's earnings. This was further exacerbated by the way that tax payment did not translate into infrastructure and services supplied by KCC (Ddembe Male FGD, 13/09/00). Corruption was a recognised impediment for firms in Uganda (Svensson, 2001) and has been a focus of the revised PEAP 2004 (Miovic, 2004). Despite the focus on anti-corruption measures in Uganda (Collier & Reinikka, 2001), bribes were common and stifled profits, as well as leading to the closure of businesses in Bwaise.

4.5.3.9 Lack of Capital

Shortages of capital were almost universally cited as a major problem for IGAs. This was also recognised as a key cause of poverty in the UPPAP (MFPED, 2000c). It was the type of capital that is required that is important. The majority of microfinance clients divert at least part of their working capital loans for consumption use, which implies that lack of working capital is not the problem but pressing household needs are the issue,[23] as recognised in other studies (Rutherford, 2000; Wright, 2000). 12% of the total responses (Figure 4.17) were concerned with the problem of lack of capital for businesses. This was either the lack of available credit, lack of collateral, or lack of capital to obtain supplies and to invest in fixed assets. Inadequate financial services only received 0.6% of the total responses. MFI interviewees said they were dissatisfied with the loan products offered by the MFIs and, in my view, this was detrimental to their livelihood security. The problems included, too short a loan repayment schedule, too small a loan and weekly meetings that were too long. These constrained people from making certain type of investments, lowered their profits and lost business sales time. Weekly loan repayments forced some MFI clients to sell goods at a loss or more cheaply to ensure they had enough money for the weekly repayments. Smaller loans inhibited some clients from buying supplies in bulk, which lowered their profits. Clients that did not have anyone to look after their business during the weekly meetings lost sales time and their stock was at risk of being stolen. Taking into account that over a quarter of the total respondents had experienced theft in the previous two years, the risk of theft when away regularly from their place of business was high.

4.5.3.10 High expenditure vis-à-vis Income

High expenditure costs accounted for 8.8% of total responses and referred to school fees, medical fees, food and rent. These corresponded with the frequent occurrence of ill health and death, a high number of children in each household and high levels of rent in Bwaise. Food, school fees, medical fees and rent were major forms of expenditure for the urban poor. These have to be met first before business investment can take place. Household and business needs were integral for poor urban livelihoods and were not easily separated. Poor service provision had resulted in higher living costs.

4.5.3.11 Conclusion

The types of livelihood risks and constraints differed from the actual risks experienced. This was partly because many of the risks were not shocks but general constraints that negatively impacted on livelihood security. Many of the constraints identified focused on wider economic trends, the lack of various resources and the labour market. As discussed in the literature review section, Amis (1997) argues that urban vulnerability is a function of where the main income earner works in the labour market and the level of livelihood assets. Higher level of security in the type of work engaged in has been associated with lower levels of vulnerability (Noponen, 1992). Unprotected irregular work and the marginal self-employed are associated with the highest levels of poverty and vulnerability. Although from the field research it was cited that protected regular work often paid a lower wage, the security of this regular income enabled a household to cope with shocks such as ill health and theft, and was a key factor in successful livelihood risk management. Some of the households had a household member who had a regular protected wage, often working for the Government, along with another household member who was self-employed.

4.6 CONCLUSION

People's perceptions of poverty reflect the multiple dimensions of urban livelihoods and poverty. They emphasise good education and health as indicators of well-being as well as secure incomes. Having your own house is an important factor in being rich, which correlates with the importance placed on housing as a productive asset for the urban poor (Moser, 1998). Also the strength of friendships and personal networks, hence social capital, was seen as important for being '*rich'*.
The characteristics of poor urban livelihoods reflect the vulnerability and institutional context within which they operate. IGAs reflect the insecurity, low profits and low skills associated with the informal sector. As Bromley & Gerry (1979) argue, casual work is *'any way of making a living, which lacks a moderate degree of security of income and employment'* (p. 5). This helps to understand the risk management strategies for IGAs and urban livelihoods. Bromley and Gerry's (1979) '*casual work'* definition and King's (1996) *Jua Kali* had similar characteristics to the IGAs in Bwaise in that the

IGAs incur high risks, and their proprietors have unstable incomes with no formal Government safety-nets, which are the key characteristics of poor urban livelihoods in general. This was similar to the informal sector discussed in Chapter Two (Hart, 1970; Moser, 1978; House et al, 1993; Tripp, 1997).

The livelihoods of the urban poor in Bwaise were complex. It was apparent that many people sought to diversify their IGAs, because it was unrealistic to have only one source of income to effectively manage livelihoods in a vulnerable environment. The range of livelihood resources used to secure a livelihood was wide. It has been shown that the capabilities and entitlements to which the urban poor had access was varied and included labour, housing, intra-household resources and personal networks; although it should be noted that these resources were not equally distributed within the community. Asset accumulation was disaggregated by the main social axes of difference. Bwaise as whole had a high level vulnerability context with huge livelihood constraints and risks. It was prone to flooding, had poor quality infrastructure and services, and saturated labour markets. Chapter Seven will discuss which assets were the most important in securing livelihoods and which the poor sought to develop. The livelihood assets were varied and reflected the vulnerability context in which they operated. The structural, crisis and life-cycle risk factors were functions of the vulnerability context that depleted livelihood assets. The vulnerability context and external constraints can be understood as pressures on livelihoods and increase the need for risk management strategies. These factors inhibited the development of livelihoods and affected the livelihood strategies of the urban poor. The financial services that were used reflected these livelihood constraints and the need for the urban poor to protect themselves against these risk factors.

CHAPTER FIVE

THE FINANCIAL SYSTEM IN BWAISE

5.1 INTRODUCTION

Financial services are a livelihood asset and part of the processes and institutions that influence livelihood opportunities and outcomes. Bwaise, like many urban economies is mainly cash dependent; thus access to financial services and therefore income and expenditure management is a vital part of being able to secure a livelihood. The GoU believes that access to financial services is crucial for economic development and poverty reduction (MFPED, 2000e). The formal financial sector, microfinance and government/donor interventions in Kampala were discussed in Chapter Three. Partly due to the lack of formal financial services, several different types of informal financial services and microfinance schemes have been developed in Bwaise and they respond to a need for some kind of financial services. This leads to many types of informal finance being highly localised, though they have similarities with other systems globally (Rutherford, 2000; Ardener & Burman, 1995). Table 5.1 shows the types of financial services in Bwaise characterised by the level of formality and group-based activities.

Table 5.1 Level of Formality and Reliance on Group-Based Activity

↑ FORMALITY ↑						
	H	Bank account				
	MH					CMF, MFIs
	M				Trade Associations	Savings & Credit Schemes
	ML		Suppliers Landlords		Munno Mukabi	
	L	Savings at home	Friends Neighbours Family		Cash rounds	
		L	ML	M	MH	H
	→ GROUP-BASED →					

Source: Research data.

This Chapter examines the nature of financial services used for managing inflows and outflows of monetary requirements in Bwaise in 2000. The term financial service will be used to denote any type of financial support ,used to manage money. The informal financial services can be divided into managers, and providers of financial services, as used by Rutherford (1996). One of the most important findings was the diversity of financial services used by the urban poor in Bwaise. These financial services included savings, credit and insurance mechanisms. There were also high levels of inter-linkage and nesting of use within these different types of financial services. The types of financial services to be discussed include formal banks, NGO MFIs, local associations and informal financial services.

5.2 FORMAL BANKS

The only formal bank in Bwaise was the Co-operative Bank. There were branches of other local Ugandan banks located nearby, including UCB. Only a very small minority (less than 5%) of survey respondents had a bank account. The following Chapter will discuss who accesses each type of financial service. Virtually all the MFI groups and associations had bank accounts with a formal bank. This was to ensure safe deposit of the savings and loan repayments. As the MFIs were not regulated deposit-taking institutions, they were not allowed to use deposits for lending purposes. The majority of MFIs did not take deposits and their clients deposited their savings in a local bank. The loan officer would collect the loan repayments on a weekly basis from the MFI group. This does mean that the MFIs were reliant on the formal banking system to operate, which can be an issue if the bank closes, like many did in 1999, as already discussed in Chapter Three.

5.2.1 Co-Operative Bank

Co-Operative Bank was started in 1962 by the co-operative movement. It became a commercial bank with twenty-four branches. Co-Operative Bank was one of the many formal banks that closed down in May 1999. A Co-Operative Bank branch was situated within Bwaise and was an important source of finance for many small enterprises. Many of the MFI groups at the time held accounts with the Co-operative Bank. The closure of the bank was a major set-back to the microfinance sector; firstly, because it was a major avenue for people to deposit savings. Secondly, it decreased the trust poor people had with banking in the formal sector. The Bwaise branch was re-opened as Commercial Microfinance Ltd (CMF) in June 2000. The minimum requirements for a savings account were 22,000/=USh, three passport photos, an introductory LC letter and an identity card.

5.2.2 Commercial Microfinance Ltd

CMF, a private limited company, was set up after the Co-Operative Bank closed down. It used a mixture of money from USAID ($1.2 million) and 21 private investors from seven countries and had 2 billion/=USh equity. It was licensed by BoU and regulated under the FIS 1997 as a Tier 2 bank/credit institution. In 2000 it was the only formal MFI in the country. It has individual savings accounts, individual loans and group loans. For the group loans it uses a similar system to the Grameen Bank, discussed in Chapter Two. Normally five clients formed a sub-group and ten sub-groups form one group. There were no fees to withdraw savings. CMF did not allow arrears and because of the group cross guarantee had a 100% repayment rate. The groups met every week at the branch with a loan officer to repay their loan. For the majority of group members, loans were between US$30 and $100. Each member was given eight weeks training on loan use and savings. All loans were intended to be used for working capital. There were 21 groups in Bwaise in 2000.

Each group was assigned a loan officer, who assessed the businesses for the purpose of the loan.[1] Box 5.1 shows some of the characteristics of the CMF. Many of these features are similar to the other MFIs operating in Bwaise.

Box 5.1 CMF Characteristics
Interest rate: 10% per quarter.
Grace period: No.
Savings/collateral required for loan: Yes for 8 weeks. 25% savings after first loan.
Minimum savings: 10,000/=USh plus 2000/=USh for passbook.
Guarantees: group cross-guarantee.
1st loan max: 108,000/=USh.
Loan period: 12 weeks.
Repayment: weekly at group meetings.
Source: Interviews with CMF staff and various CMF literature.

5.3 MICROFINANCE INSTITUTIONS

NGO MFIs had been increasingly playing an important role in credit delivery and formal savings mobilisation for the rural and urban poor (Hulme & Mosley, 1996; Otero & Rhyne, 1992; Robinson, 2001). The BoU had developed a policy on microfinance business to support approaches that whould widen and deepen the financial sector (BoU, 1999; MFPED, 1999b), as discussed in Chapter Three. This section focuses on the MFIs that operated in Bwaise. There were five NGO MFIs that operated in Bwaise in 2000. They were FINCA, FAULU, MED-NET, Plan International and UGAFODE; only UGAFODE was an indigenous NGO. The characteristics of each NGO operating in Bwaise will now be discussed.[2]

[1] Interviews with CMF Staff, (various dates).
[2] The source of information for this Chapter was derived from field observations, interviews with MFI staff and clients and documentary analysis from the MFI's literature.

5.3.1 FINCA

FINCA Uganda is an affiliate of FINCA International, which is a global network of locally managed institutions.[3] It was one of the more established and larger NGOs operating in Bwaise. FINCA provides financial services to the world's poorest families so they can create their own jobs, raise household incomes, and improve their standard of living. FINCA uses the village banking methodology. This approach emphasises the development of community-run credit and savings associations (http://www.villagebanking.org). The mission statement for FINCA Uganda was to provide empowering micro-credit and monetised savings to women. Initially, FINCA lends to groups of women who come together to guarantee one another's loans. The idea was similar to many other MFIs where the group members utilised the group network and group and MFI support to set up and develop enterprises. The main difference to many other MFIs operating in Bwaise was that these groups, after several loans, are supposed to develop into self-sufficient village banks. However, none of the groups in Bwaise were near reaching the goal of the self-sufficient village bank model.

All the groups elected their own leaders, designed their own bylaws, kept the books, managed the funds, and were fully responsible for loan supervision, including enforcing penalties for non-compliance. All loans were supposed to be used for working capital for an enterprise. Loans were the main service provided by FINCA for women. Each group was assigned a credit officer, which visited the group on a weekly basis to monitor repayment of loans and savings; as well as to answer any questions. FINCA had written authority to transfer loan money from a group's bank account or the loan money was paid directly into a FINCA account, which the credit officer checked afterwards.

[3] Since December 2004, FINCA Uganda has been a Micro Deposit Taking Institution after being given a licence to operate by BoU.

This improved the personal safety of the credit officer who therefore did not have to carry large sums of cash when meeting the groups. The credit officer role was important; the objective of each credit officer was to better understand his/her role in moving the group towards self-sufficiency, as well as meeting the needs of clients; obviously the role also included ensuring repayment of the loans. This person carried out the training for the group during the initial start-up phase and was an important source of advice during the weekly meetings. It was normal for a particular issue to be discussed at meetings, which were normally educational in content; for example, discussing hygiene or security tips. The credit officer compiled a report for each group, which was submitted to FINCA head office in Kampala.

Each member had to save a mandatory amount each week. These savings were essentially collateral for the loan. Each member was encouraged to save above the mandatory amount. These voluntary savings could be withdrawn at any time, although obtaining the cash was dependent on the committee members withdrawing the amount from the group's bank account. Each member had a passbook which recorded loan repayments, voluntary and mandatory savings (see Appendix Seven). Members had to verify their identity via the LCI and have a passport photograph. A member had to be Ugandan, female, between 18 and 60 years old and own an enterprise.[4] Each member was categorised between A and D for credit risk assessment and each group was also given a rating. Both ratings would determine the loan amount the group and individual members received. Table 5.2 shows the credit risk definitions.

[4] Interviews with FINCA Credit Officer and FINCA groups (various dates).

Table 5.2 Credit Risk Categories for Groups and Individuals

Category	Client Credit Risk Definition	Group Credit Risk Definition
A	Client has made full weekly payments	All clients must be A average attendance >80%
B	Client missed 1-2 payment but ended with no overdue	3-6 in B, 1-2 C, rest A >70%
C	Client missed 3-4 payments but ended with no overdue	7+ A and B, 3-6 C, 1-2 D >60%
D	Client missed 4+ but ended with no overdue Must get permission from group and CO to continue	<4 below D and rest D <30%
E	Finished loan term with overdue balance after application of savings, client dropped.	All clients D group closed

Source: FINCA documents.

The group, or at least some of the members within the group had to know a new member. The group should have also inspected the business of each new member. Each member therefore had to have a business in order to be eligible for a loan. The credit officer and the committee members would also examine the business. The credit officers recognised it was difficult to ascertain whether the person owned the business that had been inspected. The business could be owned by another family member or spouse, but it was the group member that was responsible for the loan repayments. The business had to generate weekly earnings in order to repay the weekly loan instalments. This was one of the largest constraints on MFI loans. Taking further loans from other sources was discouraged by the MFIs, but this was also difficult to monitor, according to the credit officers.

A loan was given to the group, with each member receiving their appropriate share. After a successful loan cycle, each member was eligible for a larger loan. A loan agreement was given to the group when a loan cycle began. The guarantors were within each group in order to encourage repayment. The group visited the FINCA office to receive the loan and to ensure the safety of the credit officer. Box 5.2 shows the characteristics of FINCA loans.

Box 5.2 FINCA Characteristics
Interest rate: 4% per month.
Grace period: None.
Savings/collateral required for loan: 10% of loan.
Loan: members given loan at same time.
Minimum savings: 13,050/=USh.
Training: 4 weeks.
Guarantees: guarantors within the group.
1st loan max: 100,000/=USh.
Loan period: 16 weeks.
Repayment: Weekly at group meetings.
Fines: 500/=USh if late to meeting.
Members: Business owners, female only.
Loan use: Working capital.
Source: Various FINCA interviews and documents.

To mobilise new groups and members, the credit officer reported that he/she contacted the LCIs to obtain information. The credit officer would move around an area, looking for female businesses. When he had met about 25 women he would inform them of the benefits of setting up a FINCA group. The credit officer would then begin training those new members before a loan was given. The training would include how to save, book keeping, running a group, enterprise skills, loan use etc.

FINCA was one of the first MFIs to operate in Bwaise in the late 1990s. Its remit was developmental and connected to women's empowerment rather than the provision of comprehensive financial services., similar to the supply-driven MFI programmes discussed in Chapter Two (Adams & Von Pischke 1992; Johnson & Rogaly, 1999; Cohen, 2001). There were 16 groups in the Bwaise area with between 18 and 48 members. In 2000, the groups had been running for between zero-twelve cycles. One of the founding groups in Bwaise was Bwaise 2A, which had 27 members and was on its twelfth cycle in 2000. The group, according to the credit officer, was organised, cohesive, had a good repayment history and had accumulated savings. The credit officer did not have much involvement in the running of this group. The group had an elected committee that consisted of a Chairperson, Vice, Treasurer, Assistant Treasurer, Secretary, Assistant Secretary, Loan committee members and *askari*[5]. There was a Secretary Book, which contained the by-laws, guarantors and business details.[6]

5.3.2 FAULU

FAULU was a programme of Food for Hungry International. It started as an independent operation in 1991 in Mathare Valley, Kenya and then spread to Uganda. It was largely an urban NGO. In 2000, there were three branches in Kampala, the first of which opened in 1996. The three branches were in the densest business areas in Kampala. It also used the Grameen Bank methodology with adaptations for East Africa. Each member was given their own loan, which was cross-guaranteed within a sub group. FAULU did not disburse to the whole group. Each group had approximately 40 members, with sub-groups of five members. In 2000, there were nine loan officers, a branch manager and one supervisor. There were 400 clients with 300 active loans. Each loan officer produced a computerised report each week on loan repayments and savings amounts. FAULU was one of the few MFIs that used a computerised system to monitor loan repayment and savings. Box 5.3 shows the main characteristics of the FAULU services.

Box 5.3 FAULU Characteristics

Interest rate: 3% per week.
Grace period: No.
Savings/collateral required for loan: 1% in loan security fund.
Mandatory savings: Yes.
Training: 8 week training period.
Guarantees: sub-group cross-guarantee.
1st loan max: 200,000/=USh.
Loan Max: 1.5 million.
Loan period: 16 weeks.
Repayment: Weekly.
Members: Business owners, male or female.

[5] *Askari* monitors the arrival of latecomers, collects fines and maintains discipline.
[6] Interviews with FINCA staff and members (Various dates).

Loan use: Working capital & start- up loans.
Source: Various FAULU interviews and documents.

Unlike FINCA, FAULU collected the savings and the money was deposited in a FAULU bank account. Due to regulatory restrictions, the savings were not on-lent. During the eight week training, each member was encouraged to save. A Loan Security Fund was set up, which was 1% of the loan amount. Any savings above this amount could be withdrawn on a weekly basis at the meetings, providing all loan repayments had been made. Both men and women could join the groups. There were seven groups in the Bwaise area; 70% of group members were women. FAULU allowed one person within each sub-group to be a start-up business; the other members must have had a business operating for at least six months. The loan was for working capital. Each member had to produce a basic business plan to show how the loan would be used and how he or she expected the business to grow. The loan officer inspected the plans. Similar to other MFIs, the group had a committee which ran the group. The loan officer was there to ensure that the clients were keeping on track, to clarify any issues and to assess businesses.[7] Appendix Seven shows some of the forms required to receive a loan.

5.3.3 MED-NET

Med-Net is an affiliate of World Vision NGO. Similar to the other MFIs, Med-Net used the group lending methodology. The group was given a loan, which was collected from the bank. It was the group's responsibility to deposit the savings and loan repayments into a formal bank. The group met weekly to collect loan instalments and savings for the week. Some of the groups were already established prior to Med-Net. In 2000, there were five groups in the Bwaise area. Yotchi was a Christian group with fifty members; it was set up in 1998. In general, the majority of members were women. Med-Net also charged insurance fees of 1000/=USh per loan cycle. The loans and savings

[7] Interviews with FAULU staff and members (Various dates).

were deposited in the group bank account at a local formal bank, for example, UCB. Similar to UGAFODE, fixed assets may be used as collateral. It was the group's responsibility to obtain the assets if a default occurred and to sell those assets to repay the outstanding loan amount. Each member was encouraged to save 1000/=USh per month; this was voluntary. The mandatory savings were put in a Med-Net bank account as collateral for the loans.[8] Box 5.4 highlights the key characteristics of Med-Net services.

Box 5.4 MED-NET Characteristics
Interest rate: 3% per month.
Grace period: None.
Savings/collateral required for loan: 20% put in Med-Net bank a/c.
Voluntary savings facility: Yes.
Guarantees: cross group.
1st loan max: 200,000/=USh.
Loan Max: 1,000,000/=USh.
Loan period: 16 weeks.
Repayment: Weekly.
Members: Male and female, economically active poor.
Source: Various MED-NET interviews and documents.

5.3.4 Plan International

As discussed in Chapter Four, Plan International's main activity was direct assistance through sponsoring children and environmental projects. Unlike the other MFIs, Plan International's microfinance work was just a small part of their aid work in Bwaise. Plan International did view the microfinance services as part of the aid the organisation gave to the community. In 1998, Plan International decided to give loans to families for micro-enterprise development. The loan recipients were all sponsor families and were involved in the other Plan International work. Plan International would also assist with medical fees and water standpipes.[9]

[8] Interviews with MED-NET staff and members (Various dates).
[9] Interviews with Plan International staff and members (Various dates).

There were three groups in the Bwaise area. Each group had between 10 and 30 members. Each group would meet weekly to repay loans and deposit savings. The groups were concentrated in Bwaise III zone. The scheme started after Plan International received requests from the community to operate a grant system for small businesses. In 1998, the Foster Family Group Fund was set up. The intention was to help provide funds for the members' businesses and to create a revolving fund scheme. Each member was given training on business development and running a revolving fund. Each group had a bank account with three signatories. In 2000, 11 groups in Kampala had been given grants. Each member had to contribute 20% of the loan deposit. Even though the group was given a grant, the loan officer decided who received a loan and gave five people per cycle a loan. Box 5.5 gives the key characteristics of Plan International's microfinance services.

Box 5.5 PLAN INTERNATIONAL Characteristics
Interest rate: 3%.
Grace period: None.
Savings/collateral required for loan: 20% out in Loan Insurance Fund.
Mandatory savings: No.
Training: Yes, several work shops.
Guarantees: group.
1st loan max: 100,000/=USh+.
Loan Max: N/A.
Loan period: 16 weeks.
Repayment: Weekly.
Members: Plan International members.
Source: Various Plan International interviews and documents.

Unlike the other MFIs, Plan International provided other services apart from microfinance to its clients, which were free. This included school and medical fees for the sponsored children, water standpipes and latrines (Plan International Plan). Probably because the group members were both microfinance clients and donor recipients of other Plan International initiatives, the default rate was higher in these groups than any other MFIs in Bwaise. The recovery rate was about 70%.

5.3.5 UGAFODE

UGAFODE was the only Ugandan MFI operating in Bwaise. UGAFODE stands for Uganda Agency for Development Activities in savings and credit. UGAFODE was started by its board members to alleviate poverty and to offer economic empowerment. In 1995, it was set up with help from Opportunity International, a US NGO, which finds partnerships with Third World organisations to set up indigenous NGOs, in order to build capacity for micro-enterprise development, and DFID. They initially offered individual loans, but found that the group-based lending methodology was the more appropriate tool.

Groups were set up via the loan officer who contacted a person in the community and the loan officers introduced the organisation and asked if anyone was interested in joining. A group was set up with a committee. The clients were defined as the poorest economically active people, as the loans were to be used for enterprise development. UGAFODE was aware that loans were used for other purposes, but stipulated that each member had to be economically active. UGAFODE is a Christian organisation, which did lead to some restrictions on loan use. UGAFODE would not finance any production or trade of any product that was considered contrary to Christian principles; for example, alcohol brewing or selling, tobacco production or trade. UGAFODE also stipulated that the businesses must be legal, environmentally friendly, acceptable in the community and viable. The groups were given eight weeks training, in which they were introduced to the lending methodology, started to save, opened up a bank account, and learnt basic skills in business management.[10] The loan officer gave the training in weekly one-hour group meetings (UGAFODE business plan).

[10] Interviews with UGAFODE staff and members (Various dates).

<u>Box 5.6 UGAFODE Characteristics</u>
Interest rate: 3% per month.
Grace period: Up to two months.
Savings/collateral required for loan: 10% of loan.
Mandatory savings: Yes.
Training: 8-10 weeks.
Guarantees: Cross group guarantee/ fixed assets.
1st loan max: 50,000-300,000/=USh.
Loan Max: 500,000/= USh.
Loan period: 16 weeks.
Repayment: Weekly.
Members: Business owners, male or female.
Loan use: Working capital or fixed capital loans, no start-up loans.
Source: Various UGAFODE interviews and documents.

In 2000, UGAFODE took deposits for compulsory and voluntary savings. The deposits were not used for financial intermediation, but were put into accounts set up by the groups. Each group had a separate bank account, which was held with a formal bank, similar to the FINCA method. The main difference was that the loan officer was needed as a signatory to prevent corruption within the group. The savings formed part of the collateral; clients could withdraw any amount of the savings up to 10% of what was borrowed. Savings were used to repay loans if defaults occurred. Fixed assets could also be used as collateral. Where a borrower had a fixed asset s/he could cede to UGAFODE or where the loan had been used to acquire a fixed asset, that asset could be ceded to the group as security for the loan. In case of default, the group took possession of the asset and had to liquidate the asset into cash to repay the loan.

One loan cheque was deposited in each group's bank account. It was the responsibility of the group and the loan officer to distribute the loan amongst the group members. The repeat loan amount was based on repayment performance, assessed business growth, active involvement in group activities and accumulated savings. The maximum repeat loan amount did not exceed 50% of the previous loan amount on the first three cycles. Thereafter, loan size could not exceed 20% of the previous amount. UGAFODE and AAU established a partnership to provide microfinance and enterprise development services in Bwaise. YOFA was one of the local CBOs used.

5.3.6 Conclusion

Bwaise had several NGO MFIs operating in the area, but they were all supplying very similar products, mainly small working capital loans combined with compulsory and voluntary savings. These were supply driven, with similar limitations to those discussed in Chapter Two (Cohen, 2001; Wright, 2000). Since the research was carried out in 2000, the Uganda Local Authorities Association (ULAA) commissioned a baseline study on the MFIs that were operating in Kawempe Division of KCC, which confirmed the NGO MFI characteristics (ULAA, 2001).

5.4 SAVINGS AND CREDIT SCHEMES

There were more formalised SCSs available in Bwaise, beyond the MFIs who were operating. There were three savings and credit associations in Bwaise: YOFA, Bwaise Poverty Reduction Limited (BPR) and Uganda Microfinance Scheme for Development (UMFSD). These were set up in the mid-1990s by the local community and had up to 220 members in each association. Membership had grown substantially, but still SCSs were not common. Individual loans were given to members for IGAs and smaller loans were given for emergencies.

5.4.1 YOFA

YOFA was a youth organisation that has had assistance from AAU and many members were UGAFODE clients. Although it was a UGAFODE group, it viewed itself as an independent SCS with a wider community remit. Its mission statement was to ensure the collective responsibility of stakeholders to the environment and development, by building community capacities which would sustain and develop resources that would enhance productivity of the physical environment and human resource base. The organisation started on savings mobilisation as one way of collectively raising investment funds to on-lend. It was not necessary for a YOFA member to have a UGAFODE loan. By the end of 2000, they had a bank balance of 476,500/=USh with Centenary Rural Development Bank and 941,300/=USh with the closed Uganda Co-Operative Bank Limited, Bwaise branch. They did administer group loans with funding from AAU-BUDP that was being implemented by UGAFODE. In 2000, they had received loans totalling 8,000,000 USh/= which had been fully paid up. They had been in partnership with this project since 1998.[11]

5.4.2 Bwaise Poverty Reduction Limited (BPR)

Ddembe Market Association set up BPR in 1990 and it was initially a savings group within the Ddembe Market Association (see Chapter Four). In 1995, it was given a 14,000,000/=USh grant by BUDP to be used for a revolving loan fund. There were 70 members when BUDP became involved in the association. It had been registered as a limited company since 1998, with a committee of eight members. They had an office in Ddembe market with a fulltime paid worker, who managed and took care of the transactions. In 2000, there were 226 members, 20 of whom had paid membership dues but never opened an individual savings account and 140 had received loans. Many of the members rented stalls in Ddembe market. Table 5.3 shows the three grades of membership, which determined the loan amount the member was entitled to.

[11] Interviews with YOFA staff (08/05/00) and members (01/09/00 & 09/09/00) and YOFA documents.

Table 5.3 Bwaise Poverty Reduction Membership Grades

Membership grading	Maximum Loan Amount
1. Ordinary member 10,000/=	200,000/=
2. Preference member 30,000/=	300,000/=
3. Premium member 50,000/=	500,000/=

Source: BPR records.

Each member became a shareholder and each share was worth 10,000/=USh and more could be bought. Members could then open a savings account with a minimum of 5,000/=USh. A member had to have 20% of the loan value in their individual savings account and a letter from the LC where they stayed or worked. Their type of business, personal character and previous loan history was taken into consideration for each loan. The loan term was usually four months with a two week grace period, with a 4% per month interest rate, with monthly repayments. The first loan was a maximum of 300,000/=USh. Repayments could be made at any time and another loan could be given whilst still having an outstanding loan. Unlike the MFIs operating in the area, loans could be as little as 10,000/=USh. BPR has one bank account with Centenary Rural Development Bank. Savings could be deposited at the office anytime, and can be withdrawn at anytime, if the withdrawal was under 10,000/=USh. If the withdrawal was more than 10,000/=USh, the executive committee needed to sign to withdraw the money from their bank account. The committee and staff member approved the loans.[12] This association was one of the most established and most formalised in Bwaise and focused on providing flexible savings and credit facilities.

5.4.3 Uganda Microfinance Scheme for Development (UMFSD)

The other SCS was UMFSD. Local community members formed this association in April 1999. It was a CBO and was in the process of registering as an NGO. Its mission was to provide credit and savings services and train people at the grassroots level in order to improve on the management of

[12] Interviews with BPR staff (21/08/00) and members (27/11/00 & 19/10/00) and BPR records.

micro-enterprises, in order to make these become profitable and self-sustaining. It wanted to improve the culture of savings within the Bwaise population. It regarded microfinance as the *'availing of financial services to low-income individuals and groups under security arrangements different from those of the conventional commercial banking and other financial institutions'* (UMFSD Secretary, 20/08/00). These services included small loans to improve the performance of small-scale enterprises, whilst encouraging savings. They had 36 members (20 women and 15 men). The membership fee was 10,000/=USh and 10,000/=USh was needed as a deposit for individual savings. They met every Saturday and gave between 3000-5000/=USh in savings. They had their own bank account at CMF. Individual savings and loans transaction records were kept for each member. They started to give out loans, once a week and to one member at a time, provided that the member to whom the loan was given had 500,000/=USh in their account. They gave out loans to the members in order of priority. The committee would get the loans last. The interest was 5% per loan; in December 2000, 12 people had received loans of 100,000/=USh each, on a 16 week fixed loan term. This was a similar approach to the MFIs operating in the area. Each member had to contribute 2,000/=USh each week to their personal savings account. All the members lived in Bwaise; the majority also worked in Bwaise too - only six members worked elsewhere.

The Uganda National Small Business Association trained four of the UMFSD members. The savings and credit scheme was just one aspect of their association. There were two other related programmes, these were:

- Business training and management.
- Small-scale manufacturing and design.

The business training and management included some seminars in Bwaise for micro-entrepreneurs, and the trainers also held individual business sessions. These programmes were in their early stages in 2000 and the aim was to charge for these services. This was a developing SCS that had received no external funding. This was similar to many of the trade associations in Bwaise.

5.5 TRADE ASSOCIATIONS

Trade associations were used by both men and women and were usually formed through occupational links, including metal-working, *boda boda* drivers, taxi drivers, hawkers, street vendors, and market traders. They served a variety of purposes: business advice, help in times of sickness, savings groups, loans, and provided a useful horizontal network (McCormick, 1999b; Barr, 1999). The variety of functions performed by the trade associations in Bwaise was similar to other associations, such as SEWA, which had been set up for the urban poor (Rose, 1992; Chen & Snodgrass, 1999), although the associations based in Bwaise were smaller and less formal than SEWA. There were several trade associations in Bwaise and membership was common for the working urban poor. Most required an initial membership fee and then regular contributions. Some of the trade associations in Bwaise are discussed below.

5.5.1 Bwaise Vendors Association (BVA)

BVA was started in 1999 and had eight sections, butchers, *matooke* sellers, fish sellers, *boda boda*, load carriers, hotels/cooked food, vegetable sellers and chicken sellers. BVA was also a savings and credit association and had 52 members who contributed regularly with savings, normally 500/=USh. In 2000, this association had just started to give out loans to members. The loans were derived from members' savings. The loans were given to members who were beginners in their businesses in order to buy stock or equipment. They normally lent out between 30,000 and 40,000/=USh. There was also a *munno mukabi* collected if someone died. There was an executive committee that met twice a month that kept a record of savings and loans and took the money to the bank. The association also had its own bank account with UCB. This was one of the more established associations offering, savings, credit and insurance facilities. Unlike the transport associations, this association had both men and women members and a range of market traders, rather than one trade, as members.[13]

5.5.2 Munakukaama Metal Work Association – CMF clients

The Munakukaama Metal Work Association (MMWA) had 20 members and was formed in 1997. The members met twice a month, even though 11 of the members worked in the same workshop. Each member had to pay 60,000/=USh to join the association. This money was used to buy hardware to sell in a shop. Each member also contributed to a *munno mukabi* on a weekly basis. The money was used when there were problems and some of the profits were distributed back to the members. The association was also a client of CMF, and each member had received loans from CMF.[14] One of the members describes the association below:

> *'I am a member of an association called Munakukaama. You pay 60,000/= to become a member. We use the money to buy hardware to ensure we have our supplies. We contribute every week to assist in domestic problems. If there are no problems then we invest it in the hardware supplies. We have a munno mukabi as well. We are planning on giving loans to members soon'* (Metalworker, Male Member of MMWA, 09/11/00).

5.5.3 Merewoma Tailoring Institute-CMF clients

Similar to the MMWA this group was also a client of CMF. It was also a training school, accredited by the Ministry of Education and, similar to UMFSD, was providing skills development. The 4association started in 1995 and in 1998 it received a loan from the Co-operative Bank. The

[13] Interview with BVA committee members (16/11/00)
[14] Interview with MMWA Secretary (09/11/00).

chairperson owned a tailoring business and set up the association. All members contributed savings on a weekly basis. The money was deposited in a bank account with Centenary Bank. In November 2000, the association had re-joined as a CMF client group to obtain loans.[15] Unlike the transport trade associations described, this association had both male and female members.

5.5.4 Bwaise New Park Boda Boda Association

Bwaise New Park Boda Boda Association was set up in March 2000 and was started by a man who gathered together other *boda boda* drivers to start the group. There were 45 members, all men. They had registered as an organisation with KCC and had a license. The initial membership fee was 30,000/=USh; each member paid 500/=USh per day. This money was to help repair the bikes and also to help a driver if he was sick and could not work. The majority of the drivers did not own the bikes, so the association gave them more financial security if they could not work, because the owner had taken the bike. This association was therefore an insurance mechanism for the *boda boda* drivers.

5.5.5 Bwaise Veterans Transport Association

Another transport association was started in 1994 for *boda boda* drivers and in 2000 they had 200 members, all men. The registration fee was 5000/=USh and a 25,000/=USh development fee. There was a daily fee of 500/=USh for motorcycles and 200/=USh for bicycles. They also paid 500/=USh each to KCC everyday. The association won the tender to collect KCC fees for *boda boda* drivers in 1999. This association was similar to the Bwaise New Park association, but had expanded into loans for motorbikes. They had arranged a deal with a motorcycle supplier for forty motorbikes on a hire purchase basis. They had to repay 200,000/= per month over a six month period. The

[15] Interview with Chairperson Merewoma Tailoring Institute Association (08/11/00).

company owned the bike until all repayments had been made. In terms of financial services, this was one of the most sophisticated associations in Bwaise.[16]

5.5.6 Ddembe Motorcycle and Bicycle Association

This association started in 1998 to solve problems for its members and allow them to expand their businesses. Members of the association were identified by a uniform, and were usually situated at the same *stage* in Bwaise. All of the *boda boda* associations were based in a specific location in Bwaise. The association negotiated the right for only their members to use the specific *stage*. The association negotiated with the Landlord to be able to use an area. They also had to pay KCC to reserve a road space. The landlord rent and KCC rent were each 10,000/=USh. There were 80 people in the association; 50 with bicycles and 30 with motorcycles. Each member contributed 200/=USh (bicycle) or 500/=USh (motorcycle) to the association. This money was used to help the members when they were in need. The association also gave loans to its members, with a maximum of 30,000/=USh per loan. In 2000, there had never been a default. The association saves with the BPR association. The committee was responsible for the running of the association.[17] This association, with its links to BPR, highlights the inter-linkage between financial services.

5.5.7 Special Hire Association

The Special Hire association started in 1990 to help each driver in the group. There were 40 members, with 20 owning their own cars. There was a collection fee for each vehicle of 10,000/=USh per month, which the owner of the vehicle paid. The association controlled who was able to work at the special hire stage in Bwaise. There was a KCC license fee of 30,000/=USh.

[16] Interview with Bwaise Veterans Transport Association Chairperson (16/11/00).
[17] Interview with Chairman Ddembe Motorcycle and Bicycle Association (15/11/00).

Each driver was compelled to save between 3,000- 5,000/=USh per day. This money was then used in case of future problems, thus acting as a form of insurance. The association would also give loans to its members for work purposes. The maximum the association lent out to its members was 60,000/=USh. The association was able to pressurise vehicle owners not to take a car away, or not to stop a driver from working. The association also tried to ensure that drivers were not misusing the cars.[18]

5.5.8 Kawaala Motor Vehicle Boda Boda Association

This association started in 1996 for *boda boda* and bicycles and was officially registered in 2000. The association had a bank account with CMF Ltd. In 2000, there were 20 members. There was a daily collection of 500/=USh and a membership fee of 50,000/=USh. They also collected 500/=USh per day for KCC fees. This money ensured the drivers had the right to work in that area. The money was used if there was a problem, for example ill health, accident and repairs. As many members did not own their own vehicles, the association also negotiated between a boss and a driver. There was a committee, which was responsible for the bank account and giving the money to KCC.

5.5.9 Uganda United Hawkers Association

This association was started for hawkers in 1990 and had 100 members in Kawempe Division. There was a committee with nine members. Each hawker paid 35,000/=USh for a licence and 5,000/=USh registration per year to join. They obtained licenses from KCC, which stopped harassment from KCC and being imprisoned as a *wayaye*.[19] To avoid confusion with other hawkers, they were given a uniform and a license to hawk. This was very similar to the reason why trade

[18] Interview with Secretary, Special Hire Association (15/11/00).
[19] *Wayaye* is the local name for a useless loiterer.

associations like SEWA were set up, to give informal workers legal recognition (Rose, 1992). The association also helped hawkers to purchase new stock through loans. No loan exceeded 100,000/=USh. Each person had three months to repay the loan. They also had a *munno mukabi* to which each member contributed 1000/=USh per month. In June 2000, twelve members of the association started a cash round to which they gave 500/=USh per day.

In conclusion, the majority of the transport trade associations were male-dominated. They were also specific to a particular location within Bwaise, which enabled the members to work in that location. These associations were set up normally as insurance and savings mechanisms. They were also important sources of skills development, for assistance in securing regular income in a vulnerable environment and as a voice to negotiate with KCC and landlords, as per other studies of enterprise clusters (McCormick, 1999a&b). This also highlights the multiple uses of trade associations for managing livelihood assets, which will be discussed in Chapter Seven. Some had developed into giving loans to members. There were inter-linkages between the different types of financial services, for example, some of the associations were clients of CMF. Several of the associations were reliant on formal banks to deposit their fees. Many of these associations also formed *munno mukabi* groups and cash rounds, which will be discussed in the next section.

5.6 CASH ROUNDS[20] 'Managers of Informal Finance'

Ardener (1996) defined a ROSCA as an '*association formed upon a core of participants who make regular contributions to a fund which is given in whole or in part to each contributor in turn.*' Cash rounds did not become common in Kampala until the late 1980s to early 1990s. The rise in prominence of cash rounds in urban areas indicated the increased need for lump sums of cash for expenditure, and also

[20] Cash round was the term used in Bwaise for ROSCAs.

the political stability that followed the end of the civil war in 1986. A group of neighbours, or people of the same occupation or religious group, normally started cash rounds. A cash round was dependent on having a small regular inflow of cash to save, and many failed, as incomes were irregular. Each member regularly contributes a set amount of money and one member receives a lump sum, which is normally the total contribution for a pre-determined period. This continues until all members have received a lump sum of money. This was a popular method of obtaining lump sums of money. Box 5.7 explains how and when cash rounds were started in Bwaise. Alongside *munno mukabi*, cash rounds were the most popular form of group-based financial services used in Bwaise. They were used alongside trade associations and MFIs.

Box 5.7 Quotations from cash round members:

They started because we saw that with one person, if four other people contributed, she can use that money for something profitable in one go and yet the money for one person cannot accumulate, you can collect slowly by slowly and then you have lots of money without knowing how you got it.

We formed a cash round in 1988-1990. It declined because some members died, we formed it to assist us. We used to contribute each week and save 500/= per day. I got 35,000/= which I used to pay school fees.

We started a cash round, but we failed because we do not earn everyday.

Cash rounds were not common because it was difficult to trust anyone. You would never know if someone would just disappear. Now it is easier to trust someone.

Source: Various in-depth interviews.

5.7 MUNNO MUKABI

Munno mukabi is a traditional insurance/savings scheme and means a '*friend in need'*. Similar to cash rounds, a group was formed and regular contributions were made. Some groups, but not all, had an initial set-up fee, which was normally held by one member. The contributions were used if a group member is sick or when someone needed to pay burial expenses. For example, *'if a member's child dies, we give the member 5000/=USh, if it is the father, we give 10,00/=USh'* (Shoe Repairer, Male, 23/10/00).

Munno mukabi were usually time bound and any money not used in the given period would be redistributed within the group. This was a very common practice and was essential for the poor in obtaining a large lump sum of money for burial expenses, as was found by other studies (Wright & Mutesasira, 2001; Wright et al, 1997; Ardener & Burman, 1996). These groups were often combined with cash round groups. The amount contributed differed with each group. MFI groups often had *munno mukabi* groups within their MFI groups. For example, '…*on every loan cycle when we get money, each member is required to contribute 1500/= to the munno mukabi bag*' (FINCA MFI member, 04/09/00). Similar to the trade associations, this highlighted the nesting of financial services use in Bwaise. Aside from group-based financial services, individual intermediation to obtain credit was also common.

5.8 CREDITORS 'Providers of Informal Finance'

5.8.1 Moneylenders and Pawnbrokers

Bwaise and MFI interviewees said that pawnbrokers were commonly used by the poor to obtain small amounts of cash, for example up to 20,000/=USh. A household item, like a radio, would be put down as a deposit. If the loan and the interest had not been paid then the pawnbroker will keep the deposit. These usually operated out of hardware/ electrical stores. Pawnbrokers were less widespread than cash rounds, *munno mukabi* and loans from family and friends. In 2000, the poor did not usually use moneylenders in Bwaise, unlike in other urban areas in Africa and Asia (Patole, 2000; Rutherford, 2000; Wood & Salway, 2000). This was because in Bwaise moneylending generally required land titles as collateral and lent out large sums of money; although smaller-scale moneylenders were used. It was interesting that it has been said by Bwaise and MFI interviewees that moneylenders were more common in the 1970s and early 1980s. The need for credit was still apparent in the 1970s, but lack of social capital and civil unrest meant that it was impossible to rely on reciprocal arrangements, which required trust and stability. Social capital was one of the key factors in increasing the diversity, accessibility and utilisation of financial services in Bwaise. Moneylenders actually preferred it if borrowers did not pay, so as long as they had taken some collateral they did not care who they lent money to. A woman from Bwaise explains:

> *A long time ago there were moneylenders, they operated like banks in that if you wanted credit you had to put in security, like if you wanted a large loan you had to give in a land title, with these individual moneylenders you could give a radio as security and when you failed to pay, then they would sell your asset. They asked for big interest and would do tricks so that they would sell or take away your asset. There are some around now, but few people go to them because of MFIs and you can borrow from friends and family or be in a cash round* (Shopkeeper, Female, 06/11/00).

5.8.2 Suppliers

MFI and Bwaise interviewees said that suppliers gave credit to their regular customers. This was a common way for IGA owners to obtain a stock of goods without the money being available beforehand. Suppliers did not usually charge interest. It is a way for suppliers to ensure a regular customer base, by tying repayments to goods purchased; this also helped the flow of goods into the market (Graham, 1992). The money was repaid either after a few days or when another purchase of goods was required. According to Bwaise and MFI interviewees, suppliers only gave credit to customers with a proven history of repaying. Therefore it was difficult for those who had just moved into the area and who were starting a new business to obtain credit-in-kind from suppliers. It also tied in customers with certain suppliers, so suppliers could often take advantage and charge higher prices.

5.8.3 Shopkeepers and Landlords

Shopkeepers were also a common source of credit-in-kind for the poor, especially women, to obtain basic foodstuffs. Shopkeepers complained of high levels of customer indebtedness. They only gave credit to those that they could trust. But the need to keep customers led to shopkeepers being forced to give credit, as they knew their customers would go elsewhere. A shopkeeper explained this situation:

> *Some I give credit, some few customers I give, when they have money they pay, but when they do not have, I give them whatever they want and they pay in a short time…I do give credit worth more than 10,000/=. Most people repay after 1 or 2 days* (Kiosk owner, Male, 08/11/00).

Respondents reported that the poor also used landlords as a source of credit. After negotiations, rental payments could be deferred with no extra interest.

5.9 FRIENDS, FAMILY AND NEIGHBOURS 'Reciprocal Lending'

Neighbours, friends and family were the most common route for accessing different kinds of informal finance used by the poor (Rutherford, 2002). How the urban poor access financial services will be discussed in more depth in the next Chapter. As found from the research data, friends were used to borrow money or credit-in-kind. Friends were increasingly more important in informal finance than family in Bwaise. Friends were a more common form of intermediation, especially for the urban poor. '*Most people go to their friends…most people borrow little money'* (Hairdresser/Salon, Male, 20/10/00). Family members were an important source of gifts and loans that often became gifts. Gifts from relatives were often used to start up businesses. Loans were often larger than from friends, but were more likely to turn into gifts due to non-payment. This, it was reported by Bwaise and MFI respondents, was why friends were becoming a more important source of loans than family. Family were more likely to refuse to give loans that became gifts, because they could not afford to give money away; although loans from family were still common, which reflected the longer term reciprocity between family members. Neighbours, as reported by Bwaise and MFI interviewees, were more likely to be used by women for credit-in-kind exchanges, such as borrowing foodstuffs.

5.10 SAVINGS AT HOME

Keeping savings at home was the most popular form of finance that the urban poor used (Mutesasira, 2000); thus reflecting their lack of access to formal bank accounts and the importance of savings for managing livelihoods. 95% of people said they kept savings at home. Some people saved regularly from their income at home for emergencies, school fees etc; others saved whenever they had money left over. The money was kept in a safe place, and usually only that person knew about it. This type of finance was vulnerable to one of the main livelihood constraints, theft. The high minimum requirements needed to open a bank account prohibited the majority of the Bwaise residents from opening a bank account. Money in a bank account was also not readily accessible in times of emergency.

5.11 CONCLUSION

The multiple financial services available reflected the hugely diverse ways the urban poor in Bwaise sought to manage and accumulate money and also their limited access to formal financial services. The informal financial sector lacked an appropriate regulatory and legal framework and was highly localised, which made expansion of this sector difficult. De Soto (2000) argues that many assets are under-utilised because of their reliance on local transactions, due to the lack of regulatory and legal frameworks to enforce transactions and contracts. The limitations of the financial services in Bwaise will be discussed in Chapter Eight. The majority of the poor saved in the informal sector, which has its own risks. The risks include theft and embezzlement. The urban poor in Bwaise wanted to, needed to and did save. The expenditure requirements of the urban poor, which will be discussed in Chapter Seven, show that the urban poor required financial services to meet demands and opportunities. The ways of obtaining lump sums of money sometimes included selling assets, as reported by Bwaise and MFI interviewees. The sale of assets to meet unproductive (emergencies and lifecycle needs) financial needs led to asset depletion. The lack of formal financial services led to the development of a range of informal finance mechanisms, which to a certain extent are integrated and have become a system. These can be classified by the level of formality and whether or not they were dependent on group activity (Table 5.1). Rutherford's (1996) classification was helpful in distinguishing between providers and managers of informal finance. Many of the informal loans given were on an individual one-to-one basis between friends, family and neighbours, often based on reciprocal lending patterns. Associations offered the highest level of formality, aside from MFIs and banks. These have been divided into SCSs and trade associations; next were less formalised group financial intermediation mechanisms in the form of cash rounds and *munno mukabi*. Moneylenders, suppliers and shopkeepers offered more formalised types of individual financial intermediation for credit. Family and friends were the least formalised individualised forms of financial intermediation for credit. These required reciprocal financial intermediation to be sustainable; default or not giving a loan resulted in the loss of that source of finance. Savings at home required no intermediation with others and this was the most common form of informal financial service used by the urban poor; although this method was highly susceptible to theft. There were a variety of informal finance mechanisms, but they were not open to everyone. Different sectors of the population were excluded through lack of access or through self-exclusion. The next Chapter will examine who accessed the different types of financial services discussed in this Chapter and how they were accessed.

CHAPTER SIX

HOW ARE FINANCIAL SERVICES ACCESSED AND BY WHOM?

6.1 INTRODUCTION

The poor were required to have an array of livelihood assets in order to access the huge diversity of financial services discussed in the previous Chapter. The informal financial services encompassed a wide range of sources of financial support in Bwaise. There was an interrelationship between the different assets required to access the financial services. Social axes of difference also affected access to financial services. It was mostly the frequency of use of the financial services that differed between social groups. The first section discusses who accessed the different type of financial services discussed in the previous Chapter. The following section discusses the types of livelihood assets that were needed to access financial services.

Chapter Four discussed the types of livelihood assets available to the urban poor; all these types of livelihoods assets were used to access financial services. To gain access to financial services it was often necessary for more than one livelihood asset to be used. The three most important livelihood assets needed to access the majority of financial services were labour, housing and social capital; however all livelihood assets were used to gain access to financial services. Accessing one type of financial service assisted in accessing other forms of financial service; this cumulative nesting of financial services was also important. There was a complex interrelationship between the livelihood assets that allowed the urban poor to access the diverse range of financial services available in Bwaise. The ability to develop livelihood assets was also dependent on the social axes of difference, previously discussed in Chapter Four. This helps to explain why social axes influenced access to financial services.

6.2 WHO ACCESSES FINANCIAL SERVICES?

6.2.1 Social Axes of Difference

The main types of social axes of difference to be discussed are gender, age, religion and marital status. The types of livelihood assets available to the poor also determine who accesses financial services. Wealth, as determined by the poor's perceptions, will also be discussed. This will help to explain how financial services were accessed. Social axes of difference and perceptions of poverty in Bwaise were discussed in Chapter Four. This section will discuss how these factors influenced who were able to access financial services. The most important factors were gender, age and wealth. Table 6.1 shows who was perceived to access different types of financial services. How and why these groups of people access financial services is discussed in Section 6.3 and Chapter Seven, respectively.

Table 6.1 Financial Services and Social/Wealth Axes Matrix[1]

	Rich	Not-so-poor	Poor	Very poor	Youth	Adult	Men	Women
Friends Loan	*	**	***		**	*	***	**
Friends Gift[2]	***	**	*		***	**	*	***
Family Loan	*	**	*		**	*	**	**
Family Gift	***	**	*	*	**	***	**	**
Neighbours		*	**		**	**	*	**
Savings at home	**	**	***		**	***	**	**
Shopkeepers		**	***		**	**	**	***
Munno mukabi		*	***		*	***	**	***
Associations		**	***		**	*	**	*
Savings groups		**	***		*	**	**	***
Cash round		*	**		*	**	**	***
Suppliers	*	**	***		**	*	**	**
Savings in bank	***	**	*		*	**	***	**
Landlord			**		**	*	**	*
MFIs		*	**		*	**	**	***
Moneylenders	***	**	*		*	*	**	*

No star= do not use *= use rarely **= use occasionally ***=use frequently

Source: Focus Group Discussions.[3]

[1] The Focus Group Participants were asked to define what they perceived to be a rich, not-so-poor, poor and very poor person. The participants described youth as anyone under 30.

[2] Gifts from family and friends were included in the FGDs because gifts were viewed by the respondents as something you should repay. As they are not technically a financial service they will not be discussed in depth.

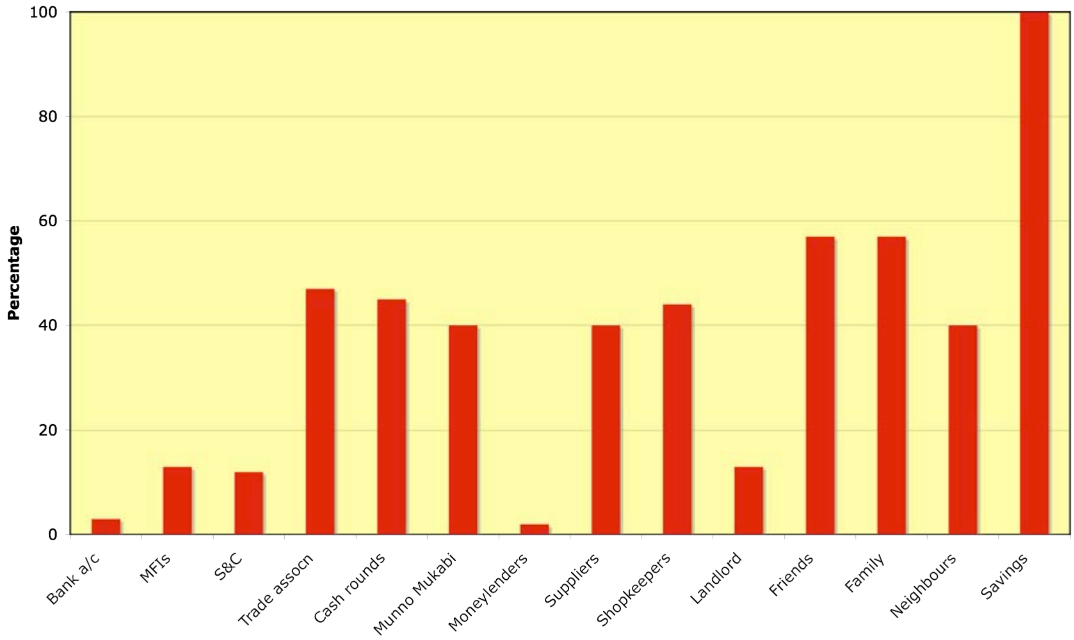
[3] Aggregated from 27 MFI FGDs and 6 Bwaise Resident FGDs.

What was apparent from the research findings, as shown in Table 6.1, was that there were very few financial services that excluded a certain group of people. There was no type of financial service that was exclusively for a particular social grouping. However, the very poor were excluded from virtually all types of financial services. This correlates with the argument that the poorest are generally excluded from accessing financial services (Wright & Dondo, 2001). Table 6.1 shows that the urban poor, including all ages and genders, use all types of financial services with differing degrees of frequency. It was wealth that was a key determining factor in accessing financial services. This will be discussed in Sections 6.2.2 and 6.3, as wealth determined how financial services were accessed. The rich, from choice, tended not to use certain financial services, such as credit from neighbours and shopkeepers. Also, the rich did not generally use group-based financial services. This can be explained because they were able to access formal bank accounts, which was a much less common form of financial service for the urban poor. However, a small minority of Bwaise residents did access formal financial services; less than 5% of total respondents had a bank account. Only one respondent had obtained a loan from a bank.

Apart from the very poor, all types of people saved at home and this was the most common form of financial service used. The use of these savings varied with different social factors. The rich tended to use these savings for emergencies, whereas savings at home were the only form of savings for the poor. The reasons for accessing financial services will be discussed in Chapter Seven. For this research, wealth is determined by the development of livelihood assets. How the wealthier accessed financial services is discussed in Section 6.3. There was a key difference between those who chose not to use certain types of financial services and those that were excluded from certain types of financial services. An increasing amount of entitlements and capabilities increased the choice to use financial services, similar to accessing other assets (Sen, 1993).

It is possible to show that certain types of financial services were more popular in certain social groupings that others, as shown in Table 6.1. These findings show the perceptions of access to different types of financial services. Wealth was perceived as the most important factor in determining who accessed financial services in Bwaise. The perceived use (Table 6.1) was overall similar to the financial services actually used in Bwaise (Figure 6.1).

Figure 6.1 Financial Services Used in Bwaise



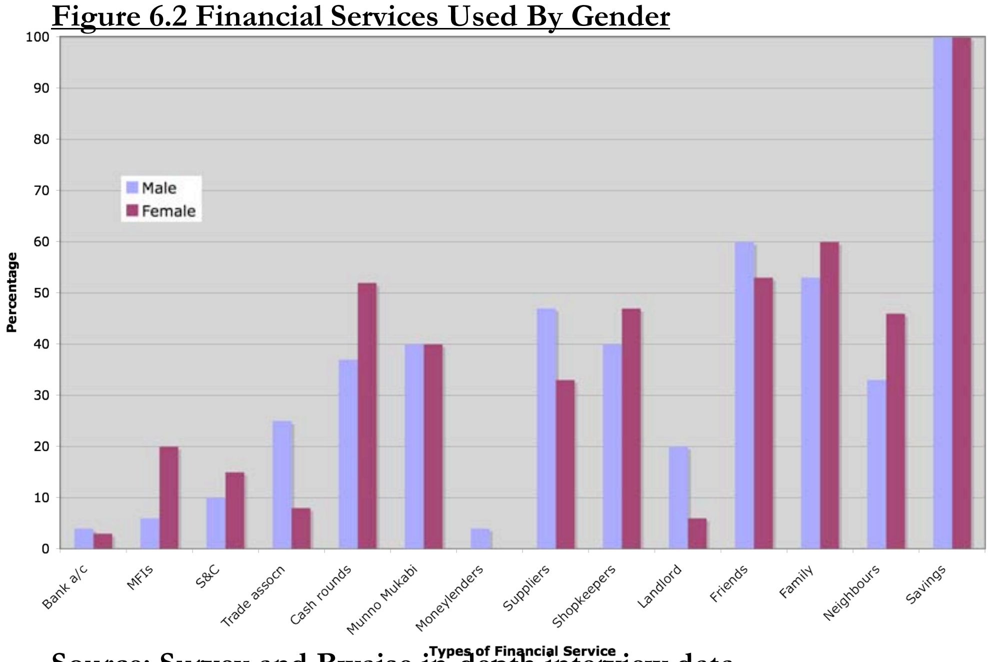
Source: Survey and Bwaise in-depth interview data.

As shown in Figure 6.1, the most common forms of financial services were savings, loans from family and friends, cash rounds, *munno mukabi*, trade associations and credit in kind from shopkeepers. Virtually all respondents used multiple financial services, similar to Rutherford's findings (2002). Cash rounds, *munno mukabi* and trade associations were popular group-based financial services; approximately 45% of respondents used these types of services. Savings at home were by far the most common form of financial services used, as this would require only a safe place to store the money and no intermediation. Loans from friends and family were the second most popular form of financial services. These loans were the most flexible forms of loans and varied from very short term loans for a small amount to larger long-term loans. More formal types of financial services such as bank accounts and moneylenders were rarely used in Bwaise, and MFIs and SCSs were only used by approximately 15% of respondents. The rich predominantly used formal financial services. Gender was the key social factor for determining access to financial services, though age, marital status and religion were also factors.

6.2.1.1 Gender

Savings were the most frequently used financial service in Bwaise, with 100% of all respondents saving at home. Apart from savings other types of financial services tended to be gender-biased. Men used more formal financial services. Group-based financial services were more popular with women. Figure 6.2 shows who used which type of financial service, disaggregated by gender.

Figure 6.2 Financial Services Used By Gender



Source: Survey and Bwaise in-depth interview data.

As Figure 6.2 shows, men were much more likely to obtain credit from suppliers, loans from friends, use moneylenders and have a bank account. The vast majority of respondents with a bank account were men. There was a similar finding in the use of moneylenders/pawnbrokers. One male respondent was a pawnbroker who gave loans to local residents. It was also men that were more likely to have heard of moneylenders, whereas the vast majority of women had not even heard of any moneylenders in the area. Men were also more likely to use associations. This is not surprising, as the previous Chapter showed that associations were usually trade based, and were predominately found in male-dominated trades.

Women were more likely to access group based financial services such as cash rounds, *munno mukabi* and MFIs. *'More women use cash rounds and MFIs because they are seen as being more trustworthy and need the support'* (Fishseller, Male, 15/11/00). MFIs were not commonly used in Bwaise, only approximately 15% of all respondents used or had used MFIs. Women were more likely to use MFIs than men, 20% of female respondents as compared to 10% of male respondents had used an MFI. This was partially explained by the fact that some of the MFIs were only for women and the majority targeted women in particular, as discussed in Chapter Five. This is similar to other MFIs in other areas (Carr et al, 1996; Johnson & Rogaly, 1997; Edgcomb & Barton, 1998).

Cash rounds were very common for both genders. They were one of the most popular form of financial service used in Bwaise; 55% of respondents had either used or were part of a cash round. These cash rounds tended to be single gender oriented. Only a small minority of the cash rounds in operation in Bwaise were mixed gender. It is interesting to note that although cash rounds were very popular, the lifespan of a cash round was short-the majority lasted less than one year. The reasons for the high popularity but short-term nature of cash rounds are discussed in Section 6.3 and the following Chapters. Cash rounds that became more formalised with associations were reported to be more likely to be successful, and this is similar to other research findings (Burman & Lembete, 1995; Nelson, 1996).

Loans from family and friends were used by both genders but with differing popularity. Overall, loans from friends were slightly more popular than family loans; 57% of respondents had obtained a loan from family versus 64% of respondents who had obtained a loan from friends. Men were more likely to use friends to obtain a loan. 70% of male respondents compared to just over 50% of female respondents had obtained a loan from friends. Women were more likely to use family to obtain a loan. However, the difference was less marked than for friends; 60% of women had obtained a loan from family, whereas 53% of men had used family. Considering this finding, it may be surprising to find that women were more likely to use financial services from or with their neighbours. Women were more likely to start accessing financial services via their neighbours. It was common for women to start cash rounds, *munno mukabi* or loans with their neighbours. Women tended to be less mobile than men, with their IGAs located near to their place of residence. This may explain the popularity of women accessing finance with or via their neighbours. The type of social capital and intra-household assets that were developed influenced the usage of loans from family and friends between genders. There were complex reasons why there were gender differences in who accessed financial services; the differences arose because of the differing livelihood assets available to men and women, which will be discussed in the next section. Age was another factor that influenced access to financial services.

6.2.1.2 Age

Age was not a major factor in accessing financial services. There were no financial services that were solely for any age group, although there were some differences in usage. In general those under 30 years of age were less likely to use group-based financial services, with the exception of savings.[4] Apart from savings, loans from family and friends were the most popular type of

[4] During the FGDs '*youth*' was defined as persons under 30 years old.

financial services used by young adults. 65% of survey respondents who had obtained a loan were under 30.

Older adults were more likely to use group-based financial services such as MFIs, cash rounds and *munno mukabi*. *Munno mukabi* was the most popular form of group-based financial services for older adults. 70% of survey respondents who used *munno mukabi* were over the age of 30. This was reiterated in the FGDs, where participants said that the old were more likely to join *munno mukabi* to help with family problems. '*Older people use munno mukabi more than us young*' (Tailor, Male, 20/10/00). The responsibility for dependents generally rested on the older members of the household.

Credit in kind, from shopkeepers and neighbours, was popular for all ages. However, older adults were more able to access credit from suppliers than the young. This may be because their businesses were more established and they had been able to build trust with their suppliers. Younger adults were more likely to access credit in kind from landlords. The majority of homeowners were older adults, which helps to explain why the young were more likely to obtain credit in kind from their landlord. Marital status was a more important factor than age in determining access to financial services.

6.2.1.3 Marital Status

Marital status was a factor in determining who accessed financial services, especially for women. Female-headed households with children were much more likely to use financial services than other women. These women were more likely to be engaged in income generation and to be the main income earners. This allowed them more access to financial services, and it also increased the need for financial services. Women were more likely to access financial services if they were the main income earner. Women who were the main income earners were generally widows or separated from their husbands. Married women were more likely to use family loans, because the majority of these types of loans were from husbands. Some married women did not access financial services, due to the disapproval of their husbands. Group-based financial services were popular with married women, whereas, single men and women were less likely to join group-based financial services.

6.2.1.4 Religion and Ethnicity

Unlike in other areas (House et al, 1993), religion and ethnicity were not major factors in accessing financial services in Bwaise. There were some residents who accessed financial services via religious groups. For example, one man was part of a cash round with a group of people from his Catholic Church. UGAFODE was the only religious-based MFI in Bwaise. The only type of financial service that differed by religion was moneylenders. Respondents cited Muslim moneylenders in operation within Bwaise. There had also been two Christian moneylenders in operation in the 1970 and 80s. However, the research findings did not show any clear distinction by religion or ethnicity.[5] This corresponds to the limited influence of religion and ethnicity on the development of livelihood assets in Bwaise (see Chapter Four).

Disaggregating who accesses financial services by social axes of difference was a good indication as to how people access financial services. This was because the livelihood assets available to the urban poor are partially determined by social axes of difference, as discussed in Section 4.4.7. The type of livelihood assets available to the urban poor therefore, helps to determine the type of financial services they were able to access. A person's livelihood assets also determined who used

[5] Neither FGDs and interviews nor the survey found that religion was a significant factor in accessing financial services in Bwaise.

financial services. The following section discusses the livelihood assets of people in Bwaise who use financial services.

6.2.2 Wealth

The type of livelihood assets available to a person may mean they are able to access certain types of financial services. How livelihood assets were used is much more subjective and is discussed in Section 6.3. This section explores how wealth influences who accesses financial services by assessing the poor's perceptions of poverty. The definitions of poverty and wealth were discussed in Chapter Four. Wealth was one of the most important factors in determining who accessed financial services. An analysis of the poor's perception of poverty allowed for who uses financial services to be disaggregated by wealth; findings from the in-depth interviews and survey reinforce these findings.[6] This is not wholly surprising given the linkage between the amount of livelihood assets and wealth. Also, as discussed in Chapter Four, the attributes assigned to the rich were not confined to money, but also the range of livelihood assets discussed in Chapter Four. The larger number of livelihood assets available to the poor the greater the likelihood that they could access financial services. This was because all livelihood assets were used to access financial services, and this will be discussed in Section 6.3. This also highlights the complexity of accessing financial services when formal mechanisms, such as large amounts of physical collateral, were unavailable. Unsurprisingly, it was the wealthier individuals that had individual bank accounts. All respondents with bank accounts were homeowners and had more successful enterprises, whereas the very poor had virtually no access to financial services.

6.2.2.1 Rich

Wealthier people were more likely to use bank accounts and moneylenders. *'They are trusted that they will pay back'* (Ddembe Mixed FGD, 14/09/00). Wealthier people had more formal assets to

[6] I did not attempt to classify respondents by wealth, as the factors that determine wealth in Bwaise are subjective and too difficult to quantify.

use as collateral to access the formal types of financial services. These assets can also be used to access moneylenders who usually required collateral to make a loan. One of the more interesting findings was that the wealthier were more likely to use moneylenders. The moneylenders in the area only tended to lend larger amounts of money and required legal titles to be shown in order to provide their services. The assets used as collateral were unavailable or deemed to be too precious to be lost by the majority of the poor. Therefore, the majority of the poor did not want to risk accessing moneylenders, whereas the rich had more physical assets to use. This is in stark contrast to Asia, where moneylenders were a common form of financial service for the urban poor (Rutherford, 2000; Wood & Salway, 2000). This reiterates the importance of the social and economic context when analysing livelihoods and the role of financial services. Moneylenders were the least used financial service in Bwaise, which is unsurprising as the majority of people in the area were poor.

6.2.2.2 Not-so-Poor and Poor

The majority of Bwaise residents classified themselves as not-so-poor or poor. As shown in Table 6.1, all types of financial services were open to the poor. Bank accounts and moneylenders were the least common financial services used by the poor. All other forms of financial services were commonly used by the poor, especially cash rounds, shopkeepers, loans, landlords and neighbours. Group-based financial services were very common, unlike for the rich and very poor. Personal networks were one of the most important livelihood assets of the urban poor and were used to develop and access many types of financial services. MFIs recognised this and it explains the development of the Grameen Bank joint liability model (Matin, 1997; Harper, 1998; Todd, 1996), which was used by all MFIs in Bwaise. The poor were the most frequent users of most types of informal financial services. This was because these types of financial services were developed by the poor to assist in livelihood risk management.

6.2.2.3 Very Poor

Similarly to other studies, the very poor were excluded from all types of financial services (Hulme & Mosley, 1997). As Table 6.1 shows, the very poor were unlikely to access any type of financial services. Gifts were the only type of financial service available to the very poor. Gifts were not very common either, as gifts were viewed as reciprocal and the very poor were unlikely to be able to reciprocate. The lack of livelihood assets available to the very poor inhibited their access to financial services. The differential access to financial services by wealth shows the importance of livelihood assets in the ability to access financial services. The definition used to describe a *'rich'* person (see Box 4.3) included a variety of livelihood assets; it was seen as essential to have a range of livelihood assets in order to access financial services.

6.3 HOW THE URBAN POOR ACCESS FINANCIAL SERVICES

6.3.1 Introduction

Unlike formal financial institutions, informal financial systems utilise a wide array of assets in order to function. To access formal financial services, traditional forms of collateral such as land titles and high levels of income were required. It was difficult to accurately ascertain how a person accessed financial services, especially when a variety of assets were used. Using the analysis mainly from the FGDs and in-depth interviews, this section will discuss the type of assets used to access the range of financial services available in Bwaise.

Box 6.1 Livelihood Assets Used for Accessing Financial Services

Assets	How Access Financial Services?	What Financial Services were Accessed?
Labour/ Enterprise	Income Profits Collateral	Trade associations Savings *Munno mukabi* MFI Cash rounds Loans Credit in kind suppliers
Physical/ Housing	Rental income Used as a place to save Collateral –including household assets Physical base for enterprise Neighbours	Cash rounds Loans Savings *Munno mukabi* Landlord
Human	Increase knowledge base to access information	No direct relationship but increases likelihood in accessing all types of financial services
Intra-household and household structure	Mobilising household members for paid work Sending children to relatives especially in rural areas (decreases expenditure) Allowances	MFI Loans Cash rounds
Social	Trust Neighbours Friends Community Knowledge of IGAs available and financial services available.	Cash rounds *Munno mukabi* MFI Credit-in-kind from shopkeepers, suppliers, landlord Loans from family, friends and neighbours

Source: Research data.

The most important assets which influenced the access to financial intermediation for the urban poor were personal networks and a regular income flow, derived mainly from labour and household relations. The rise of social capital in Bwaise has allowed many of the informal finance mechanisms to develop. The majority of the poor were involved in petty trading, which did allow small inflows of cash, suitable for saving, cash rounds and loan repayments. The predominance of petty trading led to certain types of financial services being developed, which reflect the frequent small inflows of money derived from this type of IGA. Box 6.1 summarises the assets used to access financial services and disaggregates the assets used to access the different types of financial services. It was apparent that the assets used were inter-linked, were often mutually dependent, and that one type of asset could reinforce another. The level of inter-connectivity was high, but it was still useful for analytical purposes to disaggregate the type of livelihood assets used.

6.3.2 Labour and Enterprise Capital

6.3.2.1 Labour

Labour was one of the key resources the urban poor used to develop their livelihoods and survive, and these results are similar to other studies (Moser, 1996; Amis, 1997). Work enables the poor to earn an income so they can purchase necessities. Through the use of their labour, the urban poor accessed different types of financial services. Directly, the income was used to contribute to cash rounds, associations and *munno mukabi*. Cash was required to contribute to these types of financial services. It was also used to repay loans and to save. More profitable IGAs therefore increased the income of a person, who was then more able to access all types of financial services. The use of labour, and the social capital developed through fellow work colleagues, enabled the poor to set up cash rounds with work colleagues, *munno mukabi* and participate in trade associations. '*I joined a cash round; we were eight people. We trusted each other because we were all taxi drivers. Each day we contributed 10,000/=USh'* (Taxi driver, Male, 20/10/00). The assessment of a member's ability to repay or contribute was partly achieved by assessing their labour and income generating ability. These information exchanges were beneficial and enabled the poor to engage in financial services with each other. The majority of the urban poor did earn a small income, which allowed for small inflows of cash to be used for financial intermediation, and this was why the urban poor were able to access several types of financial services. Due to the importance of money in managing urban livelihoods, it was not surprising that labour was one of the most important assets in accessing virtually all types of financial services.

One of the main criteria for all MFIs in operation was for a participant to be engaged in an IGA, preferably to own an IGA. It was therefore essential to be engaged in income generation in order to access MFIs in Bwaise. Labour was the most accessible way to generate money, which was used for all types of financial services. The most prolific financial service used from income generation was home-based savings.

The ability to work enabled the poor to obtain an income, but it also allowed access to work-related financial services. The most obvious work-related financial service was associations. As discussed in Chapter Five, associations were generally trade-based. These associations had savings schemes, and some had loans and *munno mukabi* attached to them. It was not only the more formal types of financial services that were developed through work. Many of the group-based financial services were accessed with work colleagues. Many of the cash rounds, *munno mukabi* and loans were accessed with work colleagues. This shows the linkages between social capital and labour, which, as previously discussed in Chapter Four, was important for accessing the labour market and skills; also similar to other studies (Opel, 2000). It also showed the cumulative use of financial services; accessing one type of financial service, such as a trade association, would lead to developing a *munno mukabi* and cash rounds.

For most types of financial services used in Bwaise, the frequency and regularity of income generation was the key to accessing these financial services. Most types of financial services required a regular income. All group-based financial services, MFIs and associations required a regular inflow of cash to operate. Regular income generation was also important to access and sustain credit-in-kind from suppliers and shopkeepers. It was unsurprising that these types of financial services had developed and were popular in Bwaise, as the most popular form of income generation was petty trading, which normally produced a daily income (over 85% of survey respondents relied on a daily income). *'We started a cash round with four friends, but it failed because we do not earn enough daily money and even none at times and then we can't contribute'* (Hairdresser, Male, 20/10/00). Apart from bank accounts and moneylenders, the amount of income was less important than the frequency and reliability of the income. Most group-based financial services only needed a small amount of regular inflows of money, including repayment of MFI loans and supplier credit-in-kind

Labour and income were good indications of the ability to repay loans or credit and to regularly contribute to group-based financial services. Having a successful and/or stable IGA increased the likelihood of accessing financial services, such as loans, credit, and group-based financial services. This was because financial service providers, however informal, engaged in assessing the potential of the IGAs that the recipients were engaged in. This occurred even in group-based financial services. Access could be denied to those that were unable to provide a regular inflow of cash, either for repayments or contributions to group-based schemes. Frequent transactions in a dense urban area led to good information flows, which were utilised as an informal means to assess whether or not to grant access to a financial service. *'It is easy to get credit from people you know and see on a regular basis'* (BPR member, Female, 19/10/00).

MFI loan officers used a more formal mechanism to assess the enterprise assets. This was reinforced by informal assessments carried out by fellow MFI clients, which was similar to the process carried out by informal financial providers. Friends were less likely to give out loans to those who had unreliable IGAs, as this decreased the likelihood of repayment. Cash round participants were unwilling to engage in a cash round with people who were unable to regularly contribute. The potential for income-generation was used to assess and therefore permit access to several types of financial services. Physical enterprise capital was also used to directly access financial services.

6.3.2.2 Enterprise Capital

Physical enterprise capital was used in the same way as household assets to access financial services. Similar to household assets, these physical assets could be used as collateral for loans. Loans were more likely to be given, if they could be secured on physical enterprise capital, even if obtained from friends and family, because if default occurred those assets could be used for repayment. As physical enterprise capital was income-generating collateral, it was a popular means of accessing financial services. Physical enterprise capital was also used to assess the amount of supplies given on credit by suppliers. The amount of fixed assets and working stock an enterprise had was the main criterion used by suppliers and associations to assess loans given. This method was used by MFIs and was a common part of the Grameen Bank model (Harper, 1998).

6.3.3 Housing and Physical Capital

For the urban poor, housing was a major asset (Moser, 1998). It could be a source of income, by either renting out to tenants or by operating water taps near to the house. It could be a physical base for an enterprise, which then would utilise the labour to access financial services. It was more common for women to be involved in home-based enterprises, because of the mobility constraints of meeting household responsibilities and the gendered expectations to stay at home. It was socially accepted in urban Uganda that women could engage in paid employment, but movement outside the local and kin environment was still contentious. These enterprises formed a vital part of women's income earning ability, providing a cash flow that could be used to access financial services. This helps to explain why women were more likely than men to use neighbours as a source of credit.

The physical location of the house was important for accessing financial services. Being resident in an LCI area, with written proof of their residency from the LCI chairperson, formed part of the collateral necessary to access many types of financial services. It made the person more accountable to the community and tried to overcome the problem of the high levels of mobility of the urban poor. This increased the ability to access group-based services and loans. Many houses were built in compound units. The spatial location of a place of residence was important because this enabled the development of social capital with other tenants and residents to form cash rounds and obtain loans etc. As already shown, because virtually every person saved at home, having a place of residence owned or rented was a physical place to store personal savings, and this was the most common form of financial service used by the urban poor. '*I save at home, I worry about it being a safe place to keep my money but I do not trust the banks nor do I have enough money to open a bank account'* (Shopkeeper, Female, 06/11/00). Security was key to being able to access many financial services. People were unlikely to save if their residence was unsafe. As discussed in Chapter Four, theft was a major problem in Bwaise.

If the house was legally owned, it could be used as the traditional form of collateral for accessing loans. Moneylenders, for larger sums of money, usually required land titles. It is important to highlight that ownership of a house was not an important factor in accessing other financial services. Unlike other studies, having a physical location to reside in was more important than ownership (Amis, 1997; Moser, 1996; Rakodi, 1999). Therefore, security of tenure, rather than ownership, was more important for Bwaise residents in accessing financial services.

Homeowners were more likely to access a financial service, but this was determined by their wealth rather than their collateral they possessed. Respondents did not view ownership as an important factor in how Bwaise residents access finance.

6.3.3.1 Household Assets

Tangible household assets were used as collateral for loans with friends, family, moneylenders and MFIs. These were an important source of assets to be used for accessing financial services. They were also sold off to repay debts, when cash could not be found from elsewhere. Household assets were signs of wealth accumulation and recipients with those assets were perceived as being more able to repay or contribute. Therefore providers were more likely to engage in financial transactions with participants who had accumulated household assets, which they could be used as collateral in case of default, in a similar way to enterprise capital. The more household and enterprise assets available, the more able a person was to access financial services. They also increased the loan amount a person could receive. Loan sizes given by pawnbrokers/moneylenders and MFIs were often in direct correlation with the amount of collateral available. Land ownership was not common in densely populated Bwaise. Therefore enterprise and household physical capital were the most common forms of tangible assets available to the urban poor in this area.

6.3.4 Human Capital

Human capital did not directly allow for access to financial intermediation, but allowed other assets to be developed. Ill health was one of the major causes of depleted livelihood assets. Health status affected the levels of labour productivity and therefore impacted on the ability to develop enterprise capital (Pryer et al, 2003). Ill health decreased the ability to utilise labour effectively and could also lead to indebtedness due to medical bills. Education levels and skills also affect the ability to earn an income (Charmes, 1999; McGrath & King, 1999). A higher education and skills level increased a person's income earning capability, widened their knowledge base and increased their access to information. This enabled them to utilise more effectively opportunities that arise. It also widened their personal networks to access income generating opportunities and financial services. Human capital allowed the development of other livelihood assets permitting access to financial services.

6.3.5 Household Structure and Intra-Household Relations

'*When I need money I usually borrow from my brother. I know if I am in real need I do not have to repay'* (Chapati-maker, Male, 31/10/00). Families generally were the main sources of support. This helped to explain the popularity of family loans and gifts. Household structure could have a positive effect on the ability to access financial services. Household members had access to different types of networks and sources of financial intermediation that could be utilised to access financial services. They could also be direct sources of finance for loans. Household members were important source of loans for women. 60% of women accessed loans from a family/household member. Allowances given by a household member were used to access financial services. Several women used allowances to join cash rounds and *munno mukabi*. 50% of female respondents used allowances to access at least one kind of financial service. It was common for women to have an MFI loan to be used for an IGA owned by another household member. '*I am a member of MED-NET, I do not have a business but I give the money (loan) to my husband for his business. It was the only way to get a loan for his business'* (MED-NET member, Female 15/08/00).

There was a link between the type of household structure and the ability to secure livelihood assets, and this could have a positive or negative effect on livelihood assets and the ability to access financial services. Women were occasionally denied access to financial services because their husbands prohibited their participation. However, this had become less common, as it had become more acceptable for married women to work, through changing social forces and through economic necessity (Maxwell, 1994). Women also wanted their own income stream to control (Fapohunda, 1988; Kabeer, 1998). A household with a high number of dependants, either sick, elderly or children, had a lower level of assets than a household with able-bodied, economically active members. High household dependency was seen as a cause of poverty (RoU, 2000). This was a cause for concern in Bwaise, where AIDS was a huge problem, leaving households with high number of dependants. This decreased the likelihood of accessing financial services. This was an influencing factor in the informal assessment providers carried out of participants because such households tended to have less income available to contribute to groups or repay loans.

6.3.6 Social Capital

Social capital and labour were the most important assets used by the urban poor to access informal finance. As outlined earlier, many of the informal finance mechanisms were reliant on group formation or social interaction. Therefore it was essential to have a high level of personal networks in order to be a member of a group. All of the informal financial mechanisms (apart from moneylenders using land titles) were reliant on informal means of contract and enforcement. *'There is a need for those who give loans to trust people, people who are well known are given loans'* (Butcher, Male, 23/10/00). Individual intermediation was also reliant on personal networks, including suppliers, shopkeepers, kin, friends and neighbours. *'Some shopkeepers give credit once you are their regular customer'* (Shoe Repairer, Male, 23/10/00). Therefore trust was the vital element in informal financial transactions. It does mean that informal finance had to stay localised and is difficult to expand unless legal contract enforcements mechanisms was devised

(De Soto, 2000). The reliance on informal contracts led to the poor having very good levels of information about each other, including the quality of their livelihood assets.

As previously discussed, access to personal networks was dependent on gender, religion, and social and economic status. This explains why the poorest were excluded from informal financial mechanisms. The *'dark side'* of social capital (Mayoux, 2001) including the exclusion of sectors of the population from networks, was an issue in obtaining access to informal finance, especially for new migrants to the area. The lack of friends, and therefore personal networks, was one of the key characteristics of the poorest in Bwaise. Women were seen as more trustworthy so were more likely to start up and join cash rounds with fellow women. However, having many personal networks, similar to household relations, could lead to increasing obligations and indebtedness. *'I used to lend money to friends because I felt I might one time borrow from them but I have stopped because they do not pay me back'* (Hotel worker, Female 30/10/00). These negative elements of financial services will be analysed in Chapter Eight.

Trade associations were more formalised and were not so reliant on trust between all members. However, it was essential to trust the committee who handled the money transactions. Normally trade associations allowed the members to deposit savings and required a regular contribution for administration and insurance. It was only when the associations starts to lend out money that the association committee must trust the member to whom the loan is given.

The research has shown that Bwaise residents would only engage in cash rounds, *munno mukabi*, loans, and credit in kind with known participants. *'Most people who are trustworthy obtain credit from their friends'* (Mechanic, Male, 23/10/00). The same principle was used for MFIs (Hulme & Mosley, 1996). The use of social capital as a form of collateral for financial services was common and was discussed in Chapter Four. Social capital was one of the most common assets used, as virtually all informal finance required some sort of intermediation with others. Social capital, defined as personal networks, was a prerequisite for group-based financial services. '*I started a cash round with friends and my wife because it's difficult for individuals to save money. We selected the group members according to their job and as our friends'* (Dobbi, Male, 19/10/00). This highlights the importance of social capital as well as the inter-linkages with labour and household relations. Some form of social capital was required to access cash rounds, MFIs, SCSs, trade associations and *munno mukabi*. Social capital was also an important asset in accessing loans from friends and neighbours, as well as credit from suppliers and shopkeepers. With no formal legal framework in place, the urban poor had to rely on social capital to access many types of informal finance.

6.3.7 Financial Capital

There was a cumulative nesting effect when accessing financial services; financial services were also used to access other types of financial services. MFI members were more likely to access other types of financial services. 10% of MFI members had bank accounts, as compared to fewer than 5% of other respondents. Several MFI members had used the MFI group members to access cash rounds and *munno mukabi*. Therefore the original purpose of accessing particular financial services might be overshadowed by the other financial services that could be accessed via the original service. Many of the MFI groups had an active *munno mukabi* operating within the group. Similarly, membership of an association increased the likelihood of accessing cash rounds and *munno mukabi*. '*I am a member of Bwaise Market Association where I save; we have set up a munno mukabi and are assisted if we are sick. Since joining the association, seven of us have joined together to form a cash round'* (Chicken-seller, Female, 25/10/00). 50% of cash rounds and *munno mukabi* were developed within an MFI or association. Many of the financial services, such as loans, cash and *munno mukabi*, were accessed via MFI and association members. Savings were also used to access MFIs and associations.

The development of livelihood assets through accessing financial services increased people's ability to access other types of financial services. It also increased the contributions made or loan amounts available. Overall, the more livelihood assets that were available to the urban poor, the more financial services were accessible and the amount of finance available also increased. People with more assets were more likely to use financial services.

6.4 CONCLUSION: THE IMPORTANCE OF LIVELIHOOD ASSETS FOR ACCESSING FINANCIAL SERVICES

The ability to repay was a major determinant of whether and how people in Bwaise accessed several types of financial services. This ability was usually signified by trust and a regular income flow. Regularity of income was important in accessing cash rounds and associations, and in obtaining loans. Housing was also an important asset in accessing several types of financial services, especially the most common type of financial service, savings. Obtaining credit-in-kind from suppliers was developed over time after several transactions had already taken place. Obtaining credit from friends, family and neighbours was dependent on trust, but an informal assessment was made before the credit was given. Shopkeepers used a mixture of repeat transactions, proximity of residence to the shop and trust, which was similar to suppliers, although with a lower threshold. Many financial services were dependent on membership of an association or having a group of people to trust. Social capital was a key determinant in being able to access financial services. Several of the financial services were group-based and a low-level of social capital inhibited access to these services. Stability of tenure was also important in developing social capital and accessing finance, as it helped to develop trust. Physical proximity was an important factor. High geographical mobility was detrimental to accessing financial services. Several respondents had had to withdraw from group-based financial services because they had moved away from an area. Virtually all financial services, especially those reliant on groups, were geographically specific, because these types of financial services were dependent on trust. The access to financial services being dependent on social capital should not be underestimated. Box 6.2 highlights the array of livelihood assets needed to access MFIs in Bwaise and the importance of gender in accessing these services.

Box 6.2 Setting up FINCA in Bwaise

'We started as a group of women in the community of Bwaise 2 in 1995. There were five women councillors and they went around campaigning and calling upon the women who lived ***(Housing)*** *in the community who they knew* ***(Social Capital)****, so we met at the KCC headquarter, we were about sixty, my sister also joined* ***(Intra-household relations)****. They told us about togetherness, how to work together in groups, to learn and they also promised us that the organisation would be giving us loans. The women councillors made arrangements and they went to FINCA. We were told when you have a business, and then FINCA comes in and adds to your business. So the women who had no business went and found businesses* ***(Labour)****. It is good because we have had several loans and we have also developed a munno mukabi* ***(Financial Capital)****.'*

Source: Interview with FINCA Bwaise II C Chairperson, 30/08/00.

It is important to emphasise the popularity of financial services for all people in Bwaise, apart from the very poor. Excluding the very poor, all types of financial services were available to Bwaise residents. This Chapter has shown that certain types of financial services were more readily accessible, according to social factors and the livelihood assets available. Women were more likely to engage in group-based activities and the young were more likely to obtain loans from family. Bwaise residents were able to access a diverse range of financial services, because of the variety of livelihood assets required, which were not solely reliant on income. Most financial services required a range of livelihood assets to be used. For example, cash rounds required a regular income (labour asset), secure place to store cash (housing asset) and trust between members (social capital). The ability to access financial services could lead to further development of livelihood assets. The reasons why people access financial services and the beneficial role financial services can play in livelihood protection and development is discussed in the next Chapter.

CHAPTER SEVEN

THE USE OF FINANCIAL SERVICES TO SECURE LIVELIHOODS

7.1 INTRODUCTION

This Chapter will analyse why the urban poor in Bwaise used financial services and how they were used to enhance and protect livelihood assets, mainly derived from the various FGDs and in-depth interviews. Many of the informal financial services had developed in response to a particular need, for example, *munno mukabi* for burial duties and purchase of medication. The previous Chapter showed that a range of livelihood assets was required to access the diverse range of financial services available and Chapter Five discussed the type of financial services in Bwaise. In general, there was a positive relationship between the amount and range of livelihood assets available to a person and the types of financial services a person was able to access. This Chapter focuses on why people accessed financial services and the types of financial services used, either by choice or because there were no alternatives available.

The research found that the main reasons for accessing financial services were to protect and secure livelihood assets. The larger the number of financial services and livelihood assets available, the more likely the financial services used were able to secure and develop livelihoods; whereas those who were excluded or inhibited from using certain types of financial services were less likely to secure or develop their livelihoods. The limitations of financial services available in Bwaise will be discussed in Chapter Eight. Finally, this Chapter examines the main benefits of accessing financial services, and whether access to financial services further developed and/or protected livelihood assets.

The reasons for using financial services were as diverse as the types of financial services accessible to the urban poor. Chapter Four showed that the urban poor were reliant on the cash economy to secure their livelihoods. Therefore meeting most types of expenditure required some form of cash or financial intermediation, because the inflow of cash rarely reflected expenditure requirements. This made financial management and financial services an implicit requirement for securing urban livelihoods; in essence to transform small inflows of cash into usefully large sums of money (Rutherford, 2000). The reasons for using financial services reflected the insecurity and vulnerability of urban livelihoods, discussed in Chapter Four. In general the urban poor accessed financial services to secure and protect their main livelihood assets, and to manage differential expenditure outflows (expected and unexpected). This Chapter will analyse why financial services were accessed, the poor's responses to different risks and expenditures and in conclusion what the main benefits were in securing urban livelihoods.

Chapter Two showed that the development of enterprise assets was believed to be the most important aspect of micro-credit initiatives (Otero & Rhyne, 1994; Buckley, 1997). This Chapter will show that financial services were important for enterprise development, but this was not the only livelihood asset that was developed through accessing financial services, and not the most important reason for accessing financial services. Being able to respond to risk was an important way of protecting livelihood assets (Dercon, 2000); and financial services played a key role in protecting livelihood assets. This role was the most important reason for accessing financial services. The type of assets that were protected showed which assets were valued by the urban poor. This Chapter will analyse which assets were seen as important by virtue of the poor's responses to risk and show how financial services were one of the coping mechanisms used to protect these livelihood assets. Section

7.4 discusses the main responses to protecting assets and also discusses the role financial services could play in protecting livelihood assets.

A comprehensive understanding of financial service usage requires an understanding of why financial services were needed. In simple terms it was because of the mismatch between inflows and outflows of money (Rutherford, 2000). Chapter Four discussed the livelihoods of the urban poor in Bwaise (the inflows of money), whilst this Chapter focuses on the outflows and management of money. Income and consumption smoothing were intrinsic parts of livelihood risk management strategies (Alderman & Paxson, 1994; Dunn at al, 1996; Dercon, 2000). Firstly, it is necessary to understand the main types of expenditure. The use of financial services to meet these expenditure needs will be discussed in the following section.

7.2 EXPENDITURE AND FINANCIAL SERVICES

The assets the poor were seeking to accumulate and protect showed their livelihood priorities. The main types of expenditure were food, rent, medication and school fees. Investments in household assets and enterprise assets would only be made after other expenditures had been met. These developmental strategies were limited for the majority of the poor.

7.2.1 Main Types of Expenditure

The types of goods and services were food, rent, school fees, health care, household assets, clothing, enterprise assets and transport. The main forms of expenditure were focused on meeting basic needs. Table 7.1 shows the types of expenditure that survey respondents made. The vast majority were purchasing basic requirements, which were rent, food and clothes. There were signs of livelihood assets being developed through the purchase of business assets, household assets, plots of land and school fees. The most common expenditure that can be defined as a promotional livelihood strategy was school fees; 50% of survey respondents were paying for school fees for their child or a relative. Two other common forms of expenditure highlight the vulnerability of life in Bwaise; 45% of respondents were regularly paying for medication. A smaller but significant percentage (20%) of respondents were also paying for replacing household and/or business assets. The reason for the replacement was generally because of theft or damage, for example from flooding. Business assets were also a popular purchase and reflected the high proportion of self-employed people within Bwaise, as described in Chapter Four.

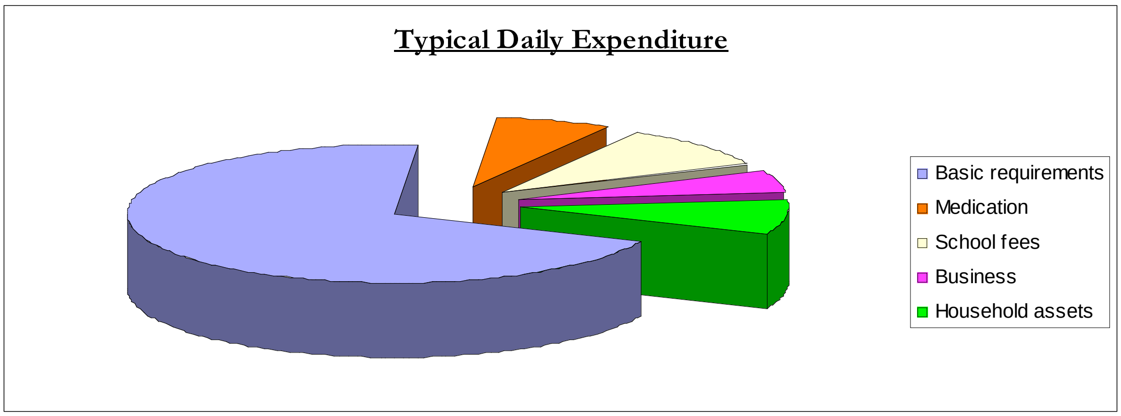
Table 7.1 Types of Expenditure

Expenditure	% Respondents Purchasing
Food	90%
Clothes	70%
Rent	55%
School fees	50%
Household assets	45%
Medication	45%
Business assets	40%
Replacing household/business assets	20%
Build houses	15%
Transport	15%
Alcohol	10%
Taxes	10%

Source: Survey data.

It was not surprising that the majority of respondents were purchasing basic requirements, but it was the very high proportion of income that was spent on meeting these basic requirements that was surprising. Figure 7.1 shows that a very high proportion, or all of a household's income was spent on meeting basic requirements. Figure 7.1 shows what a person in Bwaise would spend their daily income on. This highlights that the amount of daily income was generally insufficient to meet expenditure beyond basic requirements. Approximately 70% of daily income was spent on meeting daily requirements. This was divided between food (45%), rent (45%) and clothes (10%). For the majority, this only left a minimal amount to spend on developing their livelihoods, by investing in an enterprise, or buying household assets, or for meeting emergencies. For some, the daily income was almost 100% utilised for basic requirements.

Figure 7.1 Typical Daily Expenditure



Source: Survey data and Bwaise in-depth interviews.

The prevalence of health risk events led to between 5 and 10% of income being spent on medication. Although several risk events were expected by the majority of respondents, if more than a small sum of money was required at short notice, the majority of respondents would not be able to meet the requirement. The reliance on a daily income to meet expenditure requirements, for the majority of Bwaise residents, highlighted the need for financial services in order to be able to meet larger or unexpected expenditure requirements and the mismatch between income flows and expenditure outflows. For example, 65% of survey respondents paid rent on a monthly basis, whereas nearly all respondents earned on a daily or irregular basis. All the types of expenditure described in this section influenced the reasons for using financial services. This helps to explain why so many respondents used or wanted to use financial services. The next section, which starts with MFIs, analyses why people used certain types of financial services and the key benefits derived from utilising those financial services.

7.3 FINANCIAL SERVICES AND LIVELIHOOD ASSETS

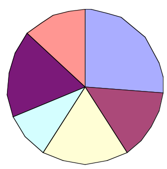
Box 7.1 visually shows the livelihood assets that the respondents were seeking to develop and/or protect when accessing the different types of financial services. It was derived qualitatively from the research findings, after analysing the use and perceived benefits of financial services and then aggregating these results into the livelihoods framework.[2] This subjective analysis is a useful visual representation of the role of each financial service for securing livelihood assets. It is apparent that the uses of financial services were varied, fungibility was high and developing enterprise assets was just one aspect of the perceived benefits of accessing these financial services. Human capital, social capital and housing were also very important assets to be secured and developed. *Munno mukabi* and shopkeepers were important for securing human capital; whereas trade associations and suppliers were important for enterprise capital. The role of each financial service as per livelihood assets, as shown in Box 7.1 will be discussed in this Chapter. MFIs were important for all livelihood assets; this will now be discussed.

[2] This qualitative analysis approach was first used by DFID (1999).

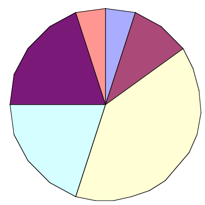
Box 7.1 Role of Financial Services for Livelihood Assets

Labour/Enterprise		Intra-household	
Physical/Housing		Social	
Human		Financial	

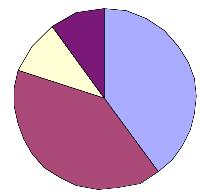
Microfinance Institutions



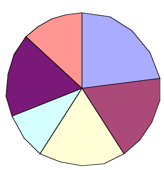
Shopkeepers



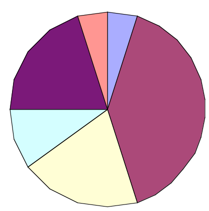
Moneylenders



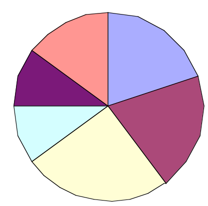
Savings & Credit Schemes



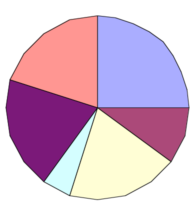
Landlords



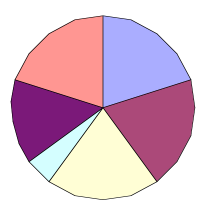
Savings



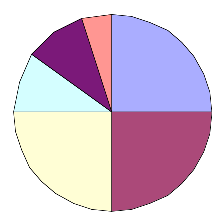
Trade Associations



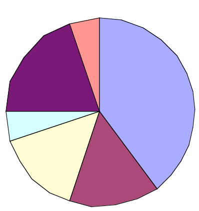
Cash Rounds



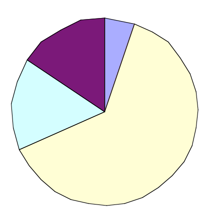
Loans



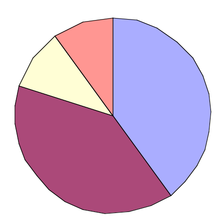
Suppliers



Munno Mukabi



Bank Accounts



7.3.1 Microfinance Institutions

The positive role of MFI membership was greater than the reasons cited for accessing financial services, as shown below. The reasons for accessing MFIs mainly focused on enterprise development. This was unsurprising because all MFIs in Bwaise stipulated that loans should be used for developing enterprises, mainly for working capital. However, the benefits were much wider and impacted on all aspects of livelihood assets. As the MFIs were so similar in structure and services, the uses of MFIs and CMF have been amalgamated together. There were no significant differences in uses or benefits. Box 7.2 shows the main reasons for joining an MFI. Box 7.3, at the end of this section, shows that joining an MFI was one of the best examples of the wider benefits of accessing financial services. The primary purpose of MFIs was to provide loans for micro and small enterprises, though the benefits were diverse. These benefits will be discussed in more detail in the next section. This section mainly focuses on MFI loans, as the majority of MFI clients saved at home, which will be discussed later.

<u>Box 7.2 Reasons for Joining and Benefits of MFI Membership</u>

Reason for Joining MFI Group	
Male	**Female**
• Start up capital • Build house/plot of land • Expand business • Working capital	• Start up capital • Build house/plot of land • Expand business • Working capital • Business materials for relatives

Source: Various MFI FGDs and in-depth interviews.

7.3.1.1 Enterprise/Labour Capital

For all the MFIs operating in Bwaise, the purpose of microfinance loans was to obtain working capital, which was designed to develop existing enterprises. All clients were supposed to use the loan to purchase a fixed asset or supplies for an existing enterprise. The majority of respondents did say the loan was used primarily for an enterprise. However, 75% of MFI respondents said the reason they wanted a loan was to start a business. MFI clients' enterprise/labour assets benefit from obtaining a loan. The main benefit was to be able to purchase more stock: *'we have been able to get money to our businesses'* (UGAFODE member, 25/08/00). This enabled MFI clients to diversify their businesses, buy supplies or try different supplies, and obtain supplies in bulk. The shortage of working capital was a constraining factor, which a MFI loan was able to overcome for several respondents. The loan enabled respondents to buy a larger amount of supplies. *'…with the loan we have been able to expand our business and we have been able to increase on the capital in the business, where you bought ½ a bag of sugar, now you can buy a bag and generally there are more supplies in the shop'* (MED-NET FGD, 05/04/00).

A few respondents were able to buy in bulk, obtaining supplies more cheaply and thus making more profit, as well as having more stock to sell. *'When you have a big loan, you are able to buy supplies cheaper as you are not just buying a little at a time. This is better for business'* (CMF FGD 19/08/00). A FINCA client, who was a tailor, was able to obtain a tender for making school clothes, due to an MFI loan. This increased the income from her business. Several cited improvements in their businesses, though as none of the businesses kept proper accounts it was impossible to validate their claims that the loans had developed their businesses. Many chose to purchase different supplies, which enabled them to diversify their enterprises. This resulted in the main positive direct role of the loan, which was for MFI clients to be able to manage and thus sustain their enterprises. The majority of the respondents had been involved in several enterprises that were easy to start but also easy to fail. The enterprises of MFI clients tended to be older and longer lasting. As most MFIs were in their infancy, it was impossible to assess whether or not MFI loans would have a longer term role in sustaining enterprises, although the majority of MFI respondents (52%) believed that their enterprises were more likely to be sustained because of the MFI loan. The reason given was mainly because they were able to buy a regular supply of stock and thus have a regular income flow. Many of the respondents recognised that the loan had had a limited influence on the development of their enterprises.

There was a perception that more stock led to a more successful, thus developed business. *'The loan has helped us to expand our businesses'* (MED-NET FGD 06/04/00). 37% of MFI respondents said that the loan had increased their incomes. Many MFI clients believed that the MFI loans had had a positive impact on their incomes. When discussed further, it was not that the MFI loan necessarily led to an increased income or increased profits, but that as a result the enterprise was more likely to generate a more secure and regular income. *'The business is better with the help of the loan, the business moves well with the loan' (*CMF FGD 20/08/00). This meant that the business had regular sales, because of a regular supply of stock; this ultimately led to a regular income flow. Over a period of time, the income flow from a business might not have increased drastically, but the perception of improvement of income was regularly cited.

Regularity of income was the most important factor for MFI clients, rather than development of their enterprises. The increased ability to purchase supplies on a regular basis and/or purchase a fixed asset increased the likelihood of a regular flow of income. It was this regularity and thus increased certainty of an income flow that led to many MFI clients being able to manage and sustain their businesses. As one female MFI client stated '*my business is now permanent, I am now not in fear of having enough stock to sell'* (FINCA member, 09/09/00). This sense of permanency was derived from an improved supply of business stock and hence income flows. For some, the sense of permanency came from being able to pay business rent and business licences. A physical location and legality for the enterprise halted the confiscation of enterprise assets by the KCC. Many of the enterprises expanded into other areas of business, which also increased the likelihood of a regular income flow. The main priority was to obtain a regular income to meet the household requirements. This allowed for MFI loans to play a positive role for other livelihood assets, rather than solely focusing on enterprise development. It is however important to note that, aside from being able to purchase stock, very few MFI clients believed that the loan had significantly improved their business.

Several respondents believed that the MFI loan had a positive role in using their labour more productively: *'Now with the loan we are encouraged to work, all the time you want to work, you do not want to sleep or just be lazy. You do not want to lose any minutes and you always do not want any money opportunity to pass by without you taking advantage of that. We have become more responsible'* (UGAFODE, FGD, 12/04/00). Here too, the main reason for the productivity was because of the ability to obtain a regular supply of working capital. It was also because of the peer pressure inherent in being a member of a MFI group. The consequences of default were more far reaching than the loss of a credit supply for MFI clients and were most dramatic for social capital, as will be discussed in Chapter Eight.

7.3.1.2 Housing/Physical Capital

Some of the most visible benefits of joining an MFI were the purchase of household items, or land, or the building of a house and these were the most common physical assets purchased: *'We have developed, some have built houses or bought household goods'* (FINCA FGD 13/03/00). This development was either directly from the loan use or from the proceeds of the loan and/or savings. Land ownership and owning a house greatly assisted in increasing livelihood security, especially in urban areas where rent was a large proportion of expenditure requirements. For those that did not own a house, a regular income flow allowed MFI clients to pay rent, which also gave them security of tenure. Security of tenure was one of the most important factors in being able to manage urban livelihoods, found elsewhere (Amis, 1995; Moser, 1996).

Many MFI respondents preferred to purchase household assets rather than invest in their businesses. Household assets were outward signs of wealth, which were coveted in Bwaise. The most common types of household assets bought were beds, furniture and, if one had a source of electricity, a fridge. One MFI client purchased a water tap for the household's use and then was able to develop a business from selling water.

7.3.1.3 Human Capital

Similar to the impact on social assets, MFI membership had a positive role on a person's human capital. In fact, enhanced levels of social capital also played a part in developing human capital. MFI members were able to learn from other members either from formal training sessions in MFI meetings or from exchanging ideas. '*We have been exposed to a number of ideas'* and *'we have learnt training in different fields, for example book keeping, poultry etc'* (FAULU FGD, 05/04/00). Several of the MFIs carried out formal training alongside providing loans and savings facilities. This training was designed to enhance their members' business skills and normally included basic bookkeeping. FINCA also extended this programme to wider training on health and caring for a family: *'We have learnt hygiene, how to care for children, homes, nutrition'* (FINCA FGD, 24/03/00). As the majority of MFI clients had been members for less than a year, it was impossible to ascertain if MFI membership had had a definite positive impact on a household's nutrition or education levels. The majority of the respondents had learnt more skills after becoming an MFI member. This was shown by their ability to carry out basic bookkeeping and new trades they had learnt.

These skills were not only learnt from the formal MFI training but from the other MFI members, thus utilising the social capital available. *'We have learnt different trades, businesses or jobs. We learn from one another how to deal in other trades or products, for example matooke, clothes'* (FAULU FGD, 12/04/00). This was viewed very positively and many respondents felt that this informal training and knowledge sharing was more useful than the formal MFI training. Barr (1999) also found that social networks for enterprise owners assisted not only in times of uncertainty but also in facilitating knowledge sharing.

One of the most common benefits described was the ability to pay for necessities, which was derived from having a regular income source, the establishment of which had been helped by the loan. The regular income assisted in the provision of food, clothes and water for the whole household. Before a person was able to start developing his or her livelihood they had to be able to meet the basic necessities discussed in the previous section. It was found that MFI members were able to regularly obtain these basic necessities. MFI respondents believed they were more likely to have a regular supply of food than non-MFI members. MFI respondents also believed they were more capable of meeting their basic expenditure requirements as a result of becoming an MFI member. MFI respondents also believed they were also more able to purchase medication in times of ill health.

Being an MFI member had led to a positive change in behaviour or mentality, for many this was due to the positive influence of being a part of a group. *'We have learnt how to behave well, we meet and see how others behave and change behaviour.'* For others actively engaging in the loan process, for example assessing businesses, collecting money and bookkeeping, had developed their confidence. *'We have learnt to speak in public because we have come out of the mentality of I can't to I can'* (FINCA FGD, 22/03/00).

Although not an official reason for obtaining a loan, many MFI members used the loan to pay school fees which, as discussed in Section 7.2, were one of the most common larger expenditure requirements. This was especially true if the loan timing coincided with paying for school fees, when a much higher percentage used the loan directly to pay for school fees. *'FAULU loans are at times given when the school term is almost beginning and I pay the fees'* (FAULU FGD). The MFI loan could also be used indirectly because the loan freed up capital that would have been spent on purchasing business supplies. The MFI savings were also used to pay for school fees.

7.3.1.4 Household Structure and Intra-Household Relations

Aside from assessing the role of MFIs in enterprises, studies have also researched the impact on intra-household relations and women's empowerment (Mayoux, 1998b, 1999 & 2001; Goetz & Sen Gupta, 1996; Ackerly, 1996; Hashemi, Schuler & Riley, 1996; Kabeer, 1998 & 2001; Osmani, 1998). Several of the female MFI clients perceived that one of the benefits of MFI membership was being able to support their children and themselves, which meant they no longer had to '*disturb their husbands'*. This meant that the women could provide for the household and were not reliant on their husbands. *'We no longer beg money from our husbands'* (Plan International FGD, 21/03/00). *'As a result of the loan, we are able to support our children and our homes and ourselves. We are able to sustain ourselves at home'* (FINCA FGD, 31/03/00). This was seen as a benefit, as it gave those women more independence and control of household expenditure. These findings are similar to Kabeer's (1998) study, which found that women's priorities focused on immediate needs and household security, especially for their children.

It was not necessarily the case that the loan increased household income overall, but it meant that women had more control over ensuring that basic household needs were met. This was similar to

Rahman's (1999) findings, where loanees had higher consumption standards. As Chapter Four showed, over 75% of households did not jointly plan for household expenditure. Therefore it should not be assumed that any increase in an individual's income translated into an increase in household income. The respondents did not believe that receipt of a loan had increased their overall household income, but considered that it had helped to improve the likelihood of being able to meet expenditure requirements, needed because the women found they were not able to rely on their husbands to provide for the household, as money for household expenditure was often delayed due to unreliable income sources. Conversely, male MFI clients believed that their MFI loan had a minimal impact on household relations.

Several MFI clients said they were able to assist relatives with the proceeds from the loan and savings. The most common forms of assistance were purchasing cows and plots of land; and many said they were also able to assist relatives that wanted to stay in their household.

A minority of the female MFI respondents used the loans directly for a relative's business. It was difficult to ascertain how common this practice was, as the MFI stated that the MFI client should own the enterprise. Officially the MFI clients would say that they owned the enterprise, but informally many women would admit this was not the case; usually their husband or a close relative would own the enterprise. Women who obtained a loan in this way said it had a positive influence on their household relations. *'My husband is happy we are able to get a loan for his business, if not we would not be able to get more supplies'* (FINCA member, 08/09/00). The majority of the MFIs either gave loans solely to women, or were made up of women-dominated groups. Women were happy to take the responsibility as it helped their husbands, and they believed it led to better nutrition, medication and school fees being paid for the whole household and this led to a more harmonious household.

7.3.1.5 Social Capital

The vast majority of MFI clients obtained a loan for an enterprise, though one of the most common perceived benefits was increasing levels of social capital. All MFI clients had to have a level of social capital in order to be able to join a MFI, as all the MFI loans were dependent on some form of group guarantee system: '*We know whom to trust with money, who they can give a loan and sure they will pay back'* (FINCA FGD, 28/02/00). As Chapter Six showed, it was necessary for MFI clients to have a network of friends or family in order to join a group. MFI clients needed to be known by members of the group and considered to be likely to repay the loan to be allowed to participate. It was therefore unsurprising that social capital was one the major requirements and benefits of accessing microfinance. From the findings it can be concluded that MFI membership had a positive role for social capital, especially personal networks. 80% of MFI respondents discussed the better quality of existing friendships and new friends being made within Bwaise. 70% of MFI respondents believed that they had developed social capital because of being an MFI client. This is a higher percentage than those MFI clients who believed their enterprises had developed since MFI membership.

Not only had MFI members developed new friends and networks, they had also enhanced existing social capital. For example, *'we have been able to know each other better and are able to help each other when we have problems'* (UGAFODE member, 25/08/00). The level of friendship increased and enabled MFI members to use fellow MFI members in times of emergencies or to obtain information or employment; they did not have this support before joining a MFI group. *'We used to know each, but we are like sisters now, a member cannot leave you in problems, they always help and we know each other's home and place of business*' (FINCA FGD, 22/03/00). This had positive effects on several areas of livelihoods. It was an important way of sustaining or developing their businesses. *'As group members, we help each* *other in business, for example if I want to build and there is a group member who is a builder, I give him business and if someone has a party, I have chickens they will buy from me'* (YOFA member, 01/09/00).

7.3.1.6 Financial Capital

Another perceived positive outcome of being a member of an MFI was improved access to other financial services. This highlights the nesting and integration of financial services in Bwaise. It was compulsory for MFI clients to save, and this money would either become collateral for a loan or be avialbale for use. The MFI clients found the actual discipline of saving useful in managing their income and expenditure requirements. Several respondents believed that being a member had taught them the discipline to save and this had had a positive influence on their spending habits: '*We have learnt how to save money and not spend recklessly'* (Plan International FGD, 24/03/00). This encouraged them to save more, 40% of MFI interviewees believed they were able to save more money than previously.

Being a MFI member also increased the financial services they utilised. MFI respondents believed they were more able to access credit from suppliers as a result of the loan. If the loan was used to purchase supplies, this enabled the clients to build up a relationship with the suppliers, who were then more likely to give credit for future supplies purchased. Supplier credit was helpful in managing income flows, as it lowered outlays before sales were made.

MFI groups were likely to form other group-based financial services, for example cash rounds and *munno mukabi*, with the latter being the most common. As the MFI group, with its defined meeting times, was already formed, it was far easier for members to set up other group-based activities than non-MFI members. This nesting of financial services was an important mechanism in allowing the urban poor to access other financial services. Cash rounds were more common in groups where it was time-consuming to access MFI savings. These cash rounds did not generally include all MFI group members, especially in larger groups; the cash rounds usually had no more than five members. *Munno mukabi* groups, however, tended to include all members of a MFI group and was the most popular form of financial service to be developed from MFI group membership. Similar benefits were also seen in other group-based financial services.

7.3.1.7 Conclusion

To summarise Box 7.3 shows the key benefits of MFI membership. Aside from having a positive role for members' on enterprises, the main benefits were being able to pay for school fees, medication and household assets. There were also other benefits that impacted on human, social and intra-household relations. Several MFI members cited learning new skills, being independent and knowing more people as some of the benefits of MFI membership. Several female MFI members cited being able to provide for the family and not having to ask their husbands as a major benefit.

The majority of MFI studies focus on the impact of savings and credit on poverty reduction in relation to either enterprise development or women's empowerment (Hulme, 2000b), rather than on livelihoods as a whole. The positive impact on enterprise development has been shown in several studies (Kirkpatrick & Green, 2002; Jalilian & Kirkpatrick, 2001; Rhyne & Otero, 1994; Marr, 2002; Sebstad & Chen, 1996). However, these studies focused on the expansion of one enterprise rather than diversifying income sources and securing an income, which were common livelihood strategies adopted by the poor in Bwaise. Wright (2000) , however, recognised the importance of diversification of IGAs to reduce vulnerability and the positive role that MFIs and informal financial services, such as SCSs, could play in reducing the poor's vulnerability.

Box 7.3 Key Benefits of MFI Membership

	Male	Female
Enterprise	• Able to buy stock • Pay business licence • Learnt to run business • Increase income	• Increase business customers/stock • Permanent business • Increase income • Work for yourself • Learn business skills
Physical/housing	• Build house • Buy *boda boda*	• Buy plot of land • Household assets-e.g. fridge • Purchase water tap • Pay rent • Buy necessities for household
Human	• Pay school fees • Buy medication • Improves diet • Learnt to run business	• Pay school fees • Buy medication • Improves diet • Taught us to save • Learn accounts • Learn different skills- • Not afraid to enter offices
Household relations	• Able to care for family	• Do not need to 'disturb husband' • Able to pay medication and school fees if husband delays with money • Independence • Able to take care of children
Social	• Assistance from friends • Work together as a group	• Know more people • Friends able to assist you • Work together as a group
Financial		• Discipline of saving • Able to access supplier credit • *Munno mukabi*/cash rounds

Source: Various MFI FGDs and in-depth interviews.

7.3.2 Savings and Credit Schemes

As discussed in Chapter Five, BPR, UMFSD and YOFA were the three SCSs operating in Bwaise. These associations tended to be used by market traders who worked in the vicinity of the associations' offices.

7.3.2.1 Bwaise Poverty Reduction Ltd

BPR had an office in Ddembe market and members could access up to 10,000/=USh of their savings on a daily basis. Larger amounts had to be signed for by the committee and withdrawn from the bank account with Centenary Rural Development Bank the next day. 60 members used the association purely for savings and had not taken out a loan. This savings facility had virtually the same flexibility of saving at home, combined with the security of a formal bank account, which was why it was popular with members. As all the members either worked and/or lived nearby it was very convenient for them to access their savings. The range of uses for the savings was extremely diverse and included school fees, rent, household items, market dues and business rent. Due to the accessibility of their savings, several members deposited their income on a daily basis. This *'savings up'* facility (Rutherford, 2000) was much safer than saving at home, much more accessible than a formal bank account and more flexible than MFI savings facilities. This was one of the most convenient , flexible and safest ways to save in Bwaise.

BPR had received a grant from AAU, which allowed them to give loans to members. In a similar way to MFIs, a certain percentage of money had to be saved before a loan could be obtained. The majority of members, 70%, had received at least one loan. The larger loans were used for the same purposes as MFI loans and had very similar benefits. However, the loan system was much more flexible than the MFI system and allowed multiple loans to be received, which could vary from as little as 10,000/=USh up to 500,000/=USh. In contrast to MFI loans, this flexibility allowed the loans to be used directly for school fees, medication and household assets, rather than just focusing on enterprise assets. The loans were not reliant on group-based lending, and because of this there were no significant social capital benefits. The members did however, report that they benefited from improved money management skills through the loan repayment and saving processes.

One of the main differences between MFIs and BPR was that BPR did not hold group meetings and anyone could join the association as long as they had a minimum of 10,000/=USh to become a shareholder. It was therefore harder to meet other members than in a MFI group, which resulted in less social capital benefits and financial nesting with other association members. However, the majority of members were market traders within Ddembe market and so more than likely knew each other already. In addition, this did allow newcomers to the area to access this type of financial service and allowed many members to build up new social networks rather than just enhancing existing ones. This was, for the majority of members, a basic savings scheme and the rationale for using it was the security of the service so that the threat of theft could be overcome, unlike using UMFSD, which primarily disbursed loans and did not offer the same security.

7.3.2.2 Uganda Micro Finance Scheme for Development (UMFSD)

UMFSD was the only SCS that had not received external funding. The scheme was reliant on using deposits taken by members to on-lend as loans. The loans were supposed to be used to improve small-scale enterprises in Bwaise. As the association was reliant on receiving enough deposits, it stipulated that a member could not receive a loan unless they had deposited 500.000/=USh, which essentially acted as collateral. As not every member could receive a loan at the beginning, the members decided who should have a loan first. This was in effect a more sophisticated and formalised cash round. This permitted members with increased need to receive their loan earlier and assisted them in more effectively managing their livelihoods. Membership was again dependent on a level of social capital, as well as being able to contribute on a regular basis. The association met every Saturday to disseminate loans, collect payments and savings, and this assisted in deepening personal networks within the association. Similar to YOFA, this SCS had a wider remit than savings and credit. Members had found the business skills training very useful. This was one of the most formalised training programmes in Bwaise, as the Uganda National Small Business Association had trained four of the members. Many members believed that this training and the loan had improved their businesses. They were able to buy more stock and diversify their businesses. *'I am a member of UMFSD, we started the association in order to bank our money to use for expanding our business and meet other expenses'* (UMFSD member, 20/08/00).

7.3.2.3 YOFA

YOFA had a similar structure to the MFIs, but was organised by the group members. It was also a UGAFODE MFI group, due to the AAU-UGAFODE partnership. It had a very broad remit, which was mainly to promote the emancipation of the youth in Bwaise area through general awareness on development issues and the promotion of enterprise development. The focus on enterprise development had led to a partnership with AAU to disseminate business skills training and at a later date to set up a savings and credit scheme through UGAFODE. The human capital and enterprise capital benefits were greater for YOFA members as they were given formal training on business skills and on the setting up of an enterprise and this was not reliant on having an existing enterprise. As the savings and loan structure was the same as for the MFIs, the benefits were the same.

7.3.2.4 Conclusion

BPR and YOFA had both received assistance from AAU and so were able to give loans to all their members at the same time. Apart from the smaller loans given by BPR, the loan use and benefits were similar to MFI loans. Savings in all the SCSs were more readily accessible than with MFIs. This was because the members ran the association and were physically located in Bwaise, unlike most of the MFIs, whose loan officers only visited each group once a week. The savings could either be accessed that day or the following day. This resulted in savings playing a larger role in managing livelihoods than for MFI members. Similarly, trade associations focused on savings. However, they also provided insurance facilities.

7.3.3 Trade Associations[3]

Aside from *munno mukabi*, trade associations were the only other form of insurance available in Bwaise. Members of Bwaise New Park Boda Boda Association, Kawala Motor Vehicle Boda Boda Association, Special Hire Association and Ddembe Motorcycle and Bicycle Association contributed on a regular basis to the association to which they belonged. This money was then used when a member was sick and was unable to work. This was one of the most common reasons for people to belong to a trade association. This was a vital source of welfare for members and enabled them to continue to meet basic expenditure requirements without depleting their livelihood assets. This fund was also used for repairs to motorcycles, which helped to sustain the member's business. Unlike *munno mukabi*, these contributions were not refunded if no member used the money in a given time; thus this was the only true form of insurance in Bwaise.

Being a member of one of these associations also guaranteed a *boda boda* or *special hire* to use and a physical location to work from. These contributions therefore helped the men to obtain a regular business income flow and to sustain their enterprises in Bwaise. The associations also acted as informal trade unions and paid business licences and fees they collected to the council. This helped to legitimise the enterprises of their members and provided a much needed degree of stability. This was most noticeable in the hawkers association; hawkers that were not members of the association were routinely removed from Bwaise and/or had their goods confiscated by KCC. Trade

[3] Analysis derived from various interviewees with trade association members, listed in Appendix 3, Section 3.3.

associations provided an insurance for labour and enterprise assets, which led to an increased likelihood of securing a regular income flow (income smoothing) so that livelihoods could be more effectively managed.

Bwaise Veterans Transport Association was the only association that had agreed a hire purchase arrangement with a motorcycle supplier. This was the most direct form of financial service, with the most targeted outcome. Several members, through the loan, were able to purchase *boda bodas* and earn higher incomes.

Similar to MFIs and SCSs, financial nesting was common and additional types of financial services were used as a direct result of being an association member. In addition to the insurance given by the association, many members set up *munno mukabi* and also cash rounds with other association members, such as the Uganda United Hawkers Association and Munakukaama Metal Work Association. The Ddembe Motorcycle and Bicycle Association had decided to join BPR SCS.

All associations helped with the development of personal networks, and these networks were needed to develop group-based financial services. Some associations, such as Bwaise Vendors Association and Merewoma Tailoring Institute, had also started saving schemes. The money was deposited in a collective formal bank account and was accessible on a daily basis. The savings were used mainly to pay for school fees, medication, business supplies or household assets. Bwaise Vendors Association had also dispersed its first loan at the time of the research. Uganda United Hawkers Association was the only association that had regularly been giving loans to members. All of these loans were used to purchase stock and the association monitored this. Merewoma Tailoring Institute was the only association that had received a formal loan from a bank. This was used collectively to purchase sewing machines. The Special Hire Association gave loans up to a maximum of 60,000/=USh and these could be used for any purpose and were mainly used for purchasing household assets or paying school fees.

These associations were important ways of accessing business skills and knowledge as well as developing new friends. They were more flexible than MFIs and served a variety of purposes. Unlike with an MFI, a potential member did not have to have large amounts of social capital in order to join an association, as membership was more reliant on their labour. A prerequisite was to already be engaged in the IGA linked to the association, or to work in a particular market place. Therefore a higher level of enterprise capital was needed to join these associations than to join MFIs. These associations were an effective way for members to increase their social capital. They were especially useful for enterprise purposes, but also led to the development of new friendships. Aside from being able to achieve a stable enterprise with a regular income, the members cited exchanging ideas and learning new skills as some of the most beneficial aspects of being a member (see also McCormick, 1999a&b).

7.3.4 Munno Mukabi

Munno mukabi was another targeted financial service and was one of the most popular types of financial services used. Although the reasons for use were very narrow, the benefits were broader. People engaged in *munno mukabi* for limited reasons, mainly as an insurance mechanism in times of severe ill health or death. Therefore the main benefit from the service was at the time of these types of unexpected events. This allowed for other livelihood assets, mainly physical and enterprise assets, not to be depleted at those times, thus the service allowed the poor to continue to manage their livelihoods. Due to the popularity of *munno mukabi*, the benefits were seen in all social and economic groups in Bwaise, except for the very poor, and were the only form of insurance for the majority.

Similar to MFI membership, accessing *munno mukabi* required a level of social capital and also helped to enhance social capital. The group members would provide assistance in times of crisis, mainly through caring for children, cooking meals etc. This process bonded group members and enhanced friendship levels. Those who used *munno mukabi* were more likely to assist and be assisted by fellow group members. It also allowed for human capital not to be further depleted at times of crisis by enabling basic requirements, such as food and water, to continue to be provided. As shown in Box 7.1, human capital was the dominant asset secured due to *munno mukabi.*

Unlike formal insurance products, at any time the money contributed could be distributed back to members. So, if no crisis occurred, then the *munno mukabi* effectively became a cash round. Similar studies in Uganda have highlighted the importance of *munno mukabi* for managing assets and as a useful source of finance for burial fees or medication (Wright et al, 1999).

7.3.5 Cash Rounds

Cash rounds were also very common within Bwaise and again were reliant on group membership. *Munno mukabi* and cash round groups did not have the formality of MFI groups but were equally beneficial to group members. They were also used by all types of social groupings in Bwaise, except for the very poor. Cash rounds were one of the most important sources of capital accumulation within Bwaise. Nearly 50% of respondents had been a member of a cash round. The reasons for participating in cash rounds were diverse, just like the benefits, as found in other studies (Bouman, 1995). The widespread use of cash rounds highlighted the huge benefits that were available. Each group set the amount each member contributed, and this flexibility allowed for a diverse range of benefits. The reasons for use included larger expenditure items (including school fees, start-up capital, purchase of business supplies and household assets); as well as smaller requirements (food, rent and medication). For women, it was an important source of start-up capital; 15% of respondents had obtained capital to start a business from a cash round. For all respondents it was a useful way of expanding their enterprises, by either purchasing more stock or buying a fixed asset.

Several FINCA MFI interviewees had used the money accumulated from a cash round to become a MFI member. Therefore cash rounds could play an important role in accessing other forms of financial services. The diversity of benefits is reflected in the benefit to all aspects of livelihood assets. 12% of the cash rounds were formed by tenants. The money might then be used to pay rent, which was generally paid monthly. Many found cash rounds a very useful way of regularly building up small amounts of capital to pay for school fees, business supplies and household assets. They reported that participation had taught members how to save and improved their financial management skills, which then helped them to manage their livelihood assets more effectively.

Similar to other group-based financial intermediation, cash rounds helped to enhance friendships and personal networks. Several were started up with work colleagues, neighbours, MFI members or close friends. Proximity or a regular meeting place were therefore important for many cash rounds and were important as they helped to ensure that the members were physically available to contribute.

7.3.6 Creditors: Suppliers 'Providers of Financial Services'

Suppliers were used not only to obtain business stock, but also as a source of enterprise credit for trusted customers. Enterprise owners were given credit after they had built up a relationship with their supplier, the overriding role of supplier credit was unsurprisingly for enterprise capital (Box 7.1). 40% of respondents used supplier credit and found that it was very helpful in managing their businesses. Lack of access to formal credit meant it was difficult for enterprise owners to obtain credit and suppliers were one of the few sources available to them. The credit was solely for supplies purchased, but similarly to MFI loans, this helped to secure a regular income flow for the household. It allowed many respondents to obtain larger amounts of supplies and to benefit from economies of scale: *'I can now buy more stock at one time at a cheaper price'* (Tailor, Male). Many also chose to diversify or improve the quality of stock purchased. These all had beneficial effects on enterprises and thus income flows; especially as the supplier credit was interest free. Regularly obtaining supplier credit also improved a person's reputation and demonstrated their trustworthiness, which led to improvements in a person's social capital.

7.3.7 Creditors: Shopkeepers and Landlords

Shopkeepers and landlords were two more examples of creditors providing targeted financial services, as shown in Box 7.1 for human capital (shopkeepers) and physical capital (landlords). MFI and Bwaise interviewees reported that similar to suppliers, they only gave credit for items they sold. Credit from shopkeepers was an extremely popular form of financial intermediation, especially for women. Local shops were used frequently to obtain credit for basic foodstuffs, which helped to assist in the immediate needs of the household and helped to save time and labour. This was because it saved time trying to obtain food when no money was available. A frequently cited benefit, by interviewees, was building good relationships in the local community. Again this type of service was dependent on a level of trust in order to access it, but repeatedly repaying this type of credit developed better relationships with the local community. This was mutually beneficial, as it meant that shopekeepers retained customers and customers were able to purchase basic foodstuffs even if their daily income was insufficient to do so. Access and continual use of this form of financial intermediation required a degree of stability in a person's physical location, and landlords giving credit helped to achieve this.

Given that 65% of respondents rented, landlords were an extremely useful source of credit in order to pay rent. It was one of the most important means of securing tenure when it was difficult to pay rent. This allowed tenants to retain their dwellings, which was paramount in managing their livelihoods. A place of residence was important to all aspects of livelihood assets, especially enterprise and social capital. The majority of financial services available were dependent on personal networks and physical proximity; moving out of an area would be detrimental to a person's livelihood assets.

7.3.8 Creditors: Moneylenders and Pawnbrokers

Moneylenders were the least common form of financial intermediation used in Bwaise, although they were apparently more common in the 1970s and the 1980s. Loans from moneylenders were large and tended to be used for enterprises. This was one of the most risky forms of financial service, as the interest could be high and a significant amount of collateral was required. However, it was one of the few financial services available through which large amounts of capital could be obtained. The riskiness and large amounts of capital involved may explain why the vast majority of Bwaise residents did not use moneylenders. Pawnbrokers were more common than moneylenders. Collateral was required, which was usually a household item (for example, a radio), so the monetary amounts received were smaller. The reasons for accessing both pawnbrokers and moneylenders were very similar to MFIs, to create and/or develop enterprise and physical assets, as found in another study (Bouman & Bastiaanssen, 1992) and shown in Box 7.1. This allowed recipients to purchase business supplies, which could be used to either expand or diversify the business. This would then have the same secondary benefit of improving the ability of users to meet basic household requirements.

7.3.9 Reciprocal Lending: Neighbours, Friends and Family

Loans from neighbours, friends and family were another very common form of financial intermediation in Bwaise, similar to studies elsewhere (Rutherford, 2002). MFI and Bwaise interviewees reported that loans from family members were commonly used as start-up capital or to purchase more enterprise assets; loans from friends or neighbours tended to be used for smaller household items, such as food, medication or rent. Box 7.1 shows that the main assets secured were enterprise, physical and human. The Bwaise and MFI interviewees believed that the main reasons for using this type of loan were because it was normally interest-free, the poor had time to repay and it also created good relationships. Friends and neighbours saw lending as a reciprocal arrangement and this was dependent on having a level of trust before any transaction could take place. It built further trust and created good working and community relations. Family loans were less dependent on trust and many became gifts rather than loans, although this was also seen as reciprocal. All of these loans were believed to assist in solving immediate problems, such as paying school fees, medication and burial. As the majority of lenders were of a similar situation in wealth status, the loan amount was relatively small, as large levels of capital accumulation were difficult for virtually all Bwaise residents. Family members were more likely to give larger loans, which helps to explain why these loans were more likely to be used as start-up capital or to buy fixed assets for an enterprise, which tended to be more expensive.

The most common benefits cited for loans obtained from neighbours were being able to develop trust and friendships, as well as being able to solve problems. These were also commonly cited benefits for all types of loans received from friends, family and neighbours. Again, these loans were an important source of developing social capital and helping to increase the security of livelihoods.

7.3.10 Savings at Home

As discussed in previous Chapters, savings at home was the most common form of financial service used, as virtually all respondents saved at home. It was the easiest type of financial service to access and was not reliant on external sources of financial intermediation. The reasons for use were varied and Bwaise and MFI interviewees said that this included helping to meet basic requirements and solving problems quickly/ for emergencies; the ease of access was a major factor in choosing to save at home; the money could be accessed any time of the day and could be used to meet any expenditure requirements. Savings at home were used in times of emergencies: *'You never know when you will need extra money, I save at home so I have some money available for emergencies'* (Tailor, Female). It helped to develop and maintain human capital, as school fees, food and medication were the most common items the money was spent on. The money was also used to purchase household and enterprise assets. Savings played a vital role in protecting all livelihood assets and helping to meet basic requirements. Saving was the most fungible form of financial service, which was reflected in the spread of savings use across most livelihood assets. In summary, savings played a role in meeting domestic expenditure requirements, rather than being used to accumulate enterprise assets or larger household physical assets. However, security was an issue with saving at home and this inhibited the accumulation of large amounts of money, unlike using bank accounts, which were safer.

7.3.11 Bank Accounts

Less than 5% of respondents had a bank account. The number of people with bank accounts dropped after several bank closures in 1999. Many people were reluctant to open a bank account, as they distrusted the formal system. Although few people used bank accounts, many saw the benefits of accounts and would have liked to have had one. The amounts saved were usually larger than savings at home and therefore generallywere used to purchase higher value assets, such as plots of land, fixed assets for a business and materials to build houses. One of the major reasons for opening a bank account, as opposed to saving at home, was the security it offered. It was much safer than saving at home, which helped in higher levels of capital accumulation. Due to the lack of accessibility of funds, bank accounts were not generally used for emergencies or when small sums of money were needed. This explained the money being used for larger items and these sums had a positive impact on enterprise and physical assets. People with bank accounts also believed they had learnt how to handle money better and not waste it.

7.3.12 Conclusion

The perceived benefits of all financial services were far reaching, including a much wider positive influences on all types of livelihood assets, especially social and human capital, not just enterprise development. All of the financial services available were used to protect and develop livelihood assets, as shown in Box 7.1. There was fungibility of use within the financial system for securing livelihood assets and a diverse range of services was used by individuals. Similar to Rutherford's (2002) findings, individuals used more than four forms of financial services to manage money. As discussed in Chapter Two, they adopted risk management strategies to protecti and develop their livelihood assets. The following section will summarise how financial services were used to enhance livelihood assets.

7.4 ENHANCING LIVELIHOOD ASSETS

7.4.1 Introduction

The section above discussed why financial services were used and the overall potential benefits from this use. I will now analyse the relative importance of each financial service for each livelihood asset and examine how livelihood assets might be developed after accessing financial services. Box 7.4 summarises the financial services most commonly used to enhance livelihood assets, although still recognising the fungibility of financial service use. All of the financial services were useful for capital accumulation and this was used to enhance all livelihood assets available in Bwaise, most commonly for school fees, medication (*human capital)* and enterprise development. They were also used indirectly for enhancing personal networks *(social capital)* and for access to other forms of financial services *(financial capital)*.

Box 7.4 How Financial Services Were Used to Enhance Livelihood Assets

Assets	Enhancing Assets	Financial Services
Labour	Purchase more stock Purchase fixed assets Expand business Diversify businesses Start-up business Provide credit-in-kind to customers	Cash rounds Loans MFIs Trade associations SCSs Bank accounts
Housing	Securing tenure Improving household structure Buying household assets	Cash rounds Family loans Bank accounts MFIs SCSs
Human	School fees paid Vocational training Investing in skills training Skill development Health improvements	MFIs SCSs Trade associations Cash rounds
Intra-household	Increase power in household by contributing to household expenditure Secure household for old age Utilise labour for diversifying businesses	MFIs
Social	Contributions to social obligations Loans and gifts to neighbours and friends Improve status in community Increase size and quality of personal network Improve trust Pay off debts Obtain access to other services through increased personal networks	Cash rounds MFIs SCSs Trade associations
Financial	Accessing munno mukabi, cash round, loans from group members, supplier credit in a group-based financial service.	MFIs Trade Associations SCSs

Source: Research data.[4]

[4] Research data is defined as analysis from all sources of data including survey, interviews, FGDs and observations.

7.4.2 Labour/Enterprise Capital

7.4.2.1 Labour

One of the common responses was that financial services allowed respondents the opportunity to enter the labour market or to participate more productively. Opportunities were created by: obtaining start-up capital from a family loan; cash rounds; savings or more rarely, bank accounts and moneylenders. Increasing enterprise assets enabled respondents to be more productive. Being more productive and working harder were two of the positive consequences of using financial intermediation. Loans and cash rounds, especially those with defined repayments, instilled discipline, which were said to increase the likelihood of working harder, as well as provide the opportunity to productively engage in the labour market.

7.4.2.2 Start-Up Capital

The amount of start-up capital was one of the key determining factors for the type of business set up by the poor. The sources of start-up capital highlighted the utilisation of the range of assets open to the poor. 76% of respondents were employees before they were self-employed. Personal savings were the most popular source of start-up capital. This was followed by gifts from family members and husbands. For women, saving money from the regular food allowance given to them by their husbands was the second most important source of start-up capital. This was usually done within a cash round, whereby a group of women would each contribute every week or day, then every woman in turn would receive a lump sum at the end of an agreed upon time. Selling assets and loans from friends were the least popular sources. Women's start up capital was consistently lower than men's. Men had started with a minimum of 20,000/=USh, whereas women had started with as low an amount as 2,000/=USh. This explains why men were involved in IGAs that required a higher level of capital, which were generally more profitable.

7.4.2.3 Enterprises

As mentioned previously, profitability was often viewed in terms of increased stock of supplies or diversification. For many, financial services, especially the use of supplier credit, loans, cash rounds, and savings, played an important role in managing livelihoods. For MFI members, MFI loans were a very important way of accumulating enterprise assets, especially supplies. For non-MFI members, cash rounds, friends/family loans and supplier credit allowed for larger sums of capital to purchase supplies. A higher amount of capital accumulation was needed to obtain most enterprise assets, especially fixed assets. The majority of respondents said that it was necessary to use some kind of financial service to obtain larger assets. The amount of capital available was limited, though and many respondents were unable to purchase higher value assets; thus the majority of respondents were confined to petty trading activities and so had been unable to significantly enhance their enterprise assets overall. Also, even if more capital was available several types of IGAs were working in saturated markets, and wider institutional and economic changes would have been needed to assist enterprises, before they could become hugely successful (Harriss et al, 1995).

7.4.3 Housing/Physical Capital

Housing was an important productive asset which allowed the poor to further their economic opportunities. Home-based enterprises were important for women, who were confined to the home because of reproductive duties. One of the main reasons that people saved larger amounts was to enable them to buy land and build their own houses. Loans from family and friends were used to purchase smaller household assets. Cash rounds, loans, savings at home and bank accounts were all used to acquire plots of land and/or house-building materials, and these vastly enhanced housing capital and increased the security of tenure for urban dwellers. House ownership could also be a regular source of income, 37% of respondents who owned properties rented out rooms. These financial services were also used to purchase water taps, which were used as an income source as well as enhancing physical and human capital by enabling recipients to receive a regular supply of water. A very important financial service for tenants was credit from landlords. Although this did not enhance physical assets, it did vastly improve secure of tenure, which enabled other types of livelihood assets to be enhanced.

7.4.4 Human Capital

There has been development in our homes- we can now pay fees, buy food, clothes for the home

(Bwaise Mixed FGD, 20/09/00).

Many MFI respondents believed that their loans had developed their homes and thus assisted them in enhancing human capital. The majority of respondents believed that access to financial services increased the likelihood of managing expenditure outflows and thus meant that they were able to enhance human capital, by being able to afford school fees, food and medication. This did not mean that these human capital factors were significantly improved, but accessing financial services increased the likelihood of paying for these types of expenditure on a more regular basis.

Financial services that were group-based were more likely to develop the skills of their users. There were three main reasons why financial services helped to enhance skills. Firstly, trade associations imparted knowledge on skills related to their given trade. Secondly, MFI and SCSs in the area gave formal training in business skills. Thirdly, members of all types of group–based financial services were able to learn different types of skills, both domestic and business, from other members in an informal way. Respondents found these enhanced skills very useful and this enhancement was one of the most important indirect positive influences on livelihood assets. Respondents believed that they had developed more skills and were able to engage in new business activities or had better skills to manage existing businesses.

For urban residents, their ability to purchase food was the most important aspect of effectively managing their livelihoods. Unlike the rural population, they had to earn money to obtain food. Respondents were able to improve the quantity and quality of food by improving the likelihood of a regular income flow. Indirectly, this was achieved by utilising supplier credit, loans, and MFI/SCSs loans. 18% of MFI respondents believed that they had better quality food than before they became members. Directly, cash rounds and shopkeepers were used, mainly by women, to purchase food. These financial services helped to manage expenditure outflows more effectively and enabled a regular food supply for the household. Savings were also used for this purpose.

7.4.5 Household Structure and Intra-Household Relations

As previously discussed, it appeared that MFI membership had the greatest positive influence on intra-household relations, as a result of a loan taken out, because female members did not have to '*disturb their husbands'* for basic expenditure requirements. Cash rounds, shopkeeper credit and savings were used in a similar way, but MFI members believed that it was being part of a group as well as the loan itself that gave them confidence in the household. Many respondents cited being able to send remittances to their families, especially parents, as a major benefit and this enhanced intra-household and wider family relations. This was achieved through capital accumulated from savings, cash rounds or, more indirectly, from trade association membership, MFI/SCS loans and supplier credit.

7.4.6 Social Capital

The group-based financial services, including SCSs, associations, cash rounds and MFIs all helped to accumulate social capital. Although a level of social capital was needed to engage in those financial services, the majority of respondents believed the size of their social network and the quality of that network had increased. This was most marked for MFI, SCS and association members. Social capital was an asset that the Bwaise residents did not actively seek to develop via utilising financial services, but it was one of the most beneficial aspects of membership. This was because of the positive influence of social capital on other livelihood assets. A high level of personal social networks allowed people to rely on mutual trust, mutual obligations, reciprocity, mutual respect and mutual help to survive and develop their livelihoods. The transaction costs of doing business with people one trusted were lower than with the people one distrusted. Suppliers and shopkeepers only gave credit to regular, reliable customers. Skills were developed from informal apprenticeships set up through kin and friends. All of these factors helped to develop enterprise assets and skills. Social capital also developed human capital through improved knowledge, ideas and advice, and these were gained by being a member of a SCS, trade association, cash round or MFI. The majority of MFI respondents said that one of the main benefits of joining an MFI was the advice and support the members received from one another.

7.4.7 Financial Capital

Group-based financial services were useful in increasing access to other forms of financial intermediation. Members used MFIs, trade associations and SCSs to access cash rounds, *munno mukabi,* supplier credit and loans from friends. Members of these group-based financial services were 25% more likely to use other financial services. Many respondents believed this was because of enhanced levels of social capital obtained from these financial services. Cash rounds and savings were also used to access MFIs, trade associations and SCSs. If enough capital accumulation occurred, savings at home were used to open up a bank account. This did not happen frequently, but for the few respondents with bank accounts, this was a common way of obtaining a bank account.

7.4.8 Conclusion

Overall, it has been shown that all financial services can enhance livelihood assets. Cash rounds and savings were good ways of accumulating capital over a longer period of time. Supplier credit, loans (trade associations, SCS, family, friends and MFI) and shopkeeper credit allowed for capital to be accumulated over a shorter time period, although they had to be repaid. *Munno mukabi* and trade associations were especially useful for enhancing human capital. Nevertheless, livelihoods assets could be enhanced, the constraining factors within Bwaise meant that it was more likely that most residents were practising adaptive strategies to protect their livelihoods, rather than truly developing them.

7.5 PROTECTING LIVELIHOOD ASSETS: RESPONDING TO RISK

7.5.1 Introduction

Protecting livelihood assets was the most common form of livelihood strategy within Bwaise. The shocks and livelihood constraints within Bwaise were such that most residents were protecting assets rather than developing them. Protecting assets meant being able to prevent a depletion of assets during a shock and/or day-to-day living through risk management or coping strategies. As discussed in Chapter Four, theft, ill health, low sales and other factors that resulted in a loss of income were commonplace in Bwaise. If financial services are to provide security to livelihoods then they must be able to assist people in protecting their livelihoods during these events. This section will show how financial services were used to protect the range of livelihood assets developed within Bwaise. The relative importance of each type of financial service to protect livelihood assets will now be discussed.

The urban poor were vulnerable to several types of shocks, as discussed in Chapter Four.
The ability to cope with livelihood constraints and shocks is dependent on the livelihood assets and risk management strategies available to the urban poor (Dercon, 2000; Chen & Dunn, 1996; Moser, 1996). This section will show that financial services played a positive role in protecting assets during times of risk. The most common forms of risks and constraints were decline in income, theft, ill health and low sales; paradoxically the high frequency of many of these risk factors meant that to some extent the urban poor were able to plan for these shocks. The poor were seeking to reduce their vulnerabilities, whether or not this was achieved was dependent on a variety of factors. Financial services were one of the ways that the urban poor sought to protect their assets during times of risk. There were no pre-determined plans for how to get by in Kampala (Wallman, 1996), but there were patterns that were often conditional on the opportunities that arose.

To understand why the urban poor accessed financial services, it is necessary to understand their livelihoods and survival strategies (Matin et al, 1999). As already discussed, financial services could be used to enhance livelihood assets; but in practice they were more important as a mechanism to secure and protect livelihoods assets. There were several ways that the urban poor sought to secure and protect their livelihoods. Using the livelihoods framework, the following section highlights the key protective strategies used, how Bwaise residents responded to risk, and the role financial services played in protecting livelihood assets.

7.5.2 Protective Strategies In Times of Reduced Income

Decreased income could arise as a result of several risks, by either decreasing the income inflow (low sales, theft) or increasing outgoings (ill health, death). In times of reduced income the most popular and primary responses were increasing self-provision and decreasing household expenditure. Box 7.5 shows the range of responses in times of reduced income. This helps to explain the types of livelihood assets that Bwaise residents sought to protect and thus reveals those they valued in managing their livelihoods. These types of strategies were responses to a decrease in income; many of these strategies were also used on a daily basis to overcome the constraints of living in Bwaise; and were similar to strategies found in other studies (Rakodi, 1995; Roberts, 1994; Mingione, 1987).

Box 7.5 Protective Strategies In Times of Reduced Income

Livelihood Assets	Responses
Enterprise	Increasing amount of time spent earning an income Diversifying income-generating activities Selling enterprise assets
Housing/Physical	Selling household assets Renting out rooms Delay paying rent-credit from landlords
Human	Decreasing quantity and quality of food purchased Taking children out of school Delay any medical treatment
Intra-household	Increasing number of household members earning an income Moving in with relatives Loans from family
Social	Increasing reciprocity-including loans from friends and neighbours
Financial	Using emergency savings Obtaining loan from family, friends and neighbours Munno mukabi Credit from shopkeepers and suppliers

Source: Research data.[5]

[5] Research data is defined as analysis from all sources of data including survey, interviews, FGDs and observations.

7.5.2.1 Enterprise Capital

Due to the importance of income for the urban poor, enterprise assets were one of the most important for a household's and an individual's livelihood. An income was vital for survival in urban areas, where the opportunities to produce food were limited and emphasis was placed on obtaining a regular income flow. This was partly achieved by diversifying an IGA or expanding an existing business. Similar to enhancing enterprise capital, this could also include accessing supplier credit or using loans to purchase supplies.

7.5.2.2 Housing/Physical Capital

Enterprise and household assets were only sold if other measures did not work. A household asset could be used as collateral with a pawnbroker, or sold, but Bwaise residents were reluctant to sell physical enterprise and household assets. This was especially the case for enterprise assets, as they were needed to generate a future income. Rooms were rented out to increase household income. This was either used as a permanent strategy to protect livelihood assets and generate income, or it was used as a temporary solution.

7.5.2.3 Human Capital

In terms of the order of responses, the first livelihood asset to be affected, at times of risk was human capital - by reducing the quantity and quality of food consumed. The poorer an urban household was, generally the higher percentage of expenditure was spent on food. On the other hand, delaying medical treatment, especially for children, was one of the last responses. For Bwaise residents, paying school fees was one of their highest priorities and taking children out of school was seen as the last resort in times of crisis. Investment in human capital was seen as the way to develop urban livelihoods.

7.5.2.4 Household Structure and Intra-Household Relations

Once an individual's labour had been fully utilised, the next step would be to increase IGAs within the household. This included children assisting with current enterprise activities, or adults starting up a new business or increasing their contributions to household expenditure. It was common in times of decreased income for the number of household members engaging in productive labour to increase. This was an extremely common livelihood strategy, as shown in other studies (Moser, 1996; Mingione, 1987; Roberts, 1995).

7.5.2.5 Social Capital

Many friends who help in time of trouble (Ddembe Motorcycle and Bicycle Association member (15/11/00)

Reciprocity was also commonly used to obtain assistance from friends and neighbours. This was in the form of giving food, looking after children or using financial intermediation and obtaining loans. One of the indirect benefits of many financial services was the enhanced levels of social capital. As previously discussed, MFI membership, rather than the loan itself, has had a positive influence on social capital. This had allowed the majority of members to develop their social capital by increasing the number of their friends and increasing the quality of friendships. As well as enhancing social capital, these enhanced levels of social capital were said to help protect other forms of livelihoods assets.

In addition, social assets allow people to develop mutual support and reciprocity-based systems that pool resources and allow them to better manage risk:

> *We have been able to come together as people, and we know each other. On the way you and greet and you are happy, if you have a problem we help each other, if you are stuck on the road with no transport*

> *the member will find you and help you, which would not happen if you are alone and not in a group. You get more benefits when you are in a group than when you are alone* (MED-NET FGD, 06/04/00).

After being an MFI member, MFI respondents said they were more likely to give assistance to and receive assistance from other MFI members. Assistance could be in the form of a loan, an asset, advice or physical labour. All these played an important role in times of vulnerability and could allow for the protection of livelihood assets. For the urban poor, social capital was one of the most important assets in protecting all of their livelihood assets. All respondents said they were more able to respond to unexpected events, because of a strong personal network.

7.5.2.6 Financial Capital

Since *munno mukabi* was limited in focus to providing for ill health and death, precautionary savings services could be a valuable insurance substitute for the urban poor. The reasons the majority of respondents gave for saving was predominantly for emergencies and to solve problems. If the risk event was an increase in expenditure, then emergency savings would be the first financial service used, if the savings were available. Credit from shopkeepers allowed income to be used for the risk event and credit from suppliers allowed the person to continue to generate an income. In the case of ill health or death, *munno mukabi* was frequently utilised.

Similar to other studies, it has been shown that financial services played an integral role in the response to risk (Dercon, 2000; Mosley & Verschoor, 2005; Sebstad & Cohen, 2000; Wright et al, 1999). The following sections analyse how financial services were used in three types of common risk events: low sales, theft and ill health/death.

7.5.3 Low Sales

A significant number of risks were experienced in Bwaise; loss of supplies and sales through death of stock, fish ban, cholera outbreak and flooding was experienced by over 10% of the respondents in the previous two years; however low sales in general were endemic for the majority of people in Bwaise and this was one of the hardest risks to protect against. 50% of respondents said they were unable to meet basic monthly expenditure requirements at least twice a year, because of low incomes. The wider constraints discussed in Chapter Four inhibited most enterprise owners from developing highly successful enterprises and resulted in the vast majority being engaged in petty trade business activities. This heavily influenced the livelihood strategies in Bwaise, which focused on risk management to lower the negative impact of these risks on households' assets. These characteristics were similar to those described in the informal sector literature in Chapter Four (Portes & Schauffler, 1993; King, 1977& 1996; Roberts, 1994).

Diversifying IGAs was an important risk-averse strategy and was a response to low sales and the insecurity of most IGAs. The majority of the poor were involved in multiple IGAs, in order to overcome the risk of operating just one business and to ensure a regular income: *'I started off as an apprentice in a brick-making business, once I had learnt the skills and had saved up some money I started my own brick-making business. This started to develop so I used the money to expand and to start selling fish in the evenings. I have just started my wife in a charcoal business at home'* (Fish-seller, Male, 15/11/00). This had important implications, as it meant that businesses could not expand hugely. This helps to understand the apparent lack of medium-sized enterprises in Kampala at the time of the research (BUDS literature), a gap which the PEAP is now aiming to fill (MFPED, 2004b).

Financial intermediation was used to diversify IGAs, including cash rounds, loans, MFIs, SCSs and savings. Loans and cash rounds were commonly used to purchase supplies and/or as start-up capital. This enabled a person to diversify their IGA or to purchase more stock; both actions had a positive role on helping to achieve a regular income, which was the primary goal. A strategy to protect against the risk presented by low sales was to try and have a regular income, so basic expenditure requirements could be met regardless of sales on a particular day. This was the most popular underlying reason for MFI clients accessing MFI loans. The skills learnt through accessing trade associations, SCSs and MFIs also helped to protect against low sales and increased the likelihood of a regular income flow. Diversification of IGAs was a popular income smoothing risk management strategy, which has been shown in other studies (Dunn et al, 1996; Dercon, 2000). Savings were the most common financial service used to accumulate capital in times when income was lower than expected. Saving or contributing to a cash round on a daily basis increased the likelihood of being able to protect assets and meet basic expenditure requirements, as these strategies helped to both protect against future low sales and allow for basic expenditure requirements to be met.

7.5.4 Theft

Over 25% of respondents had experienced theft from their houses or enterprises in the previous two years. As discussed in Chapter Four, poor quality housing and places of business, which were common in Bwaise, were highly vulnerable to theft, as they offered little, if any, security. The lack of secure places to store physical assets and money made it difficult for residents to protect these assets and to save large sums of money. Savings were the most common form of financial service used, but were also stolen if the theft occurred at home. Some trade association members were able to use funds from the association to replace business stock. If the assets were essential and needed replacing and if the above sources of financial services were unavailable or inadequate, the responses were to access loans from friends, family and neighbours, cash rounds and on rare occasions, pawnbrokers. Cash rounds were commonly used to replenish stolen assets. This took time, however, and loans were normally used if the asset was needed immediately. For larger items, a combination of financial services was used, for example savings, cash rounds and loans. Financial services were able to play a positive role in replacing stolen assets without further depleting livelihood assets. Many respondents said they were able, through accessing financial services, to replace essential productive assets more quickly than they otherwise would have been.

7.5.5 Ill Health and Death

The prevalence of ill health and death as major risk factors was outlined in Chapter Four. Although it was difficult to predict when ill health or death would occur, many households and families faced these risks frequently. Therefore there was a need to plan for these types of common and unpredictable but expected events (Dunn et al, 1996). This helped to explain the high number of *munno mukabi* groups within the area. These shocks were so frequent that they became a trend that constrained the majority of livelihoods in Bwaise, similar to other studies (Kabir et al, 2000; Pryer et al, 2003). Household savings, loans from friends and family and *munno mukabi* groups were commonly used as strategies to fund these types of expense without losing vital livelihood assets. *Munno mukabi* was the only form of insurance available in Bwaise that could be used if ill health and death occurred. The few that were members of a trade association were able to use the funds available. Savings and *munno mukabi* were the preferred forms of financial services used in these situations, as they did not require any repayment. Respondents found these financial services very useful in times of ill health and/or death, which was why they were the most common forms of financial services used in Bwaise.

7.6 CONCLUSION: THE POSITIVE ROLE OF FINANCIAL SERVICES

We can plan better, continue our businesses and are able to survive (Ddembe Mixed FGD 14/09/00). This summarises how this Chapter has highlighted the importance of financial services in developing and securing a livelihood for the urban poor. Accessing financial services influenced all aspects of livelihoods and had much wider benefits than the narrower reason for accessing them, with the overriding factor being protecting assets. Box 7.6 summarises how financial services were used to protect livelihood assets. MFI, SCSs and trade association members benefited from being able to purchase a regular supply of stock and were also able to vastly improve their social capital, and this had a positive influence on all other aspects of livelihoods management. More importantly, virtually all financial services assisted in managing livelihoods and protecting assets, partly because of their endemic use but also because of the fungibility of money derived from financial services. However, this also means that it was difficult to ascertain the exact use of each financial service. Livelihood assets were enhanced due to accessing financial services, particularly in relation to diversification of enterprises, increased labour productivity and increased social capital. However, it was harder to demonstrate how these assets had been significantly developed, especially given the contextual constraints inhibiting livelihood development. The blurring of promotive and protective strategies by the majority of respondents meant that management of livelihood assets was achieved through a combination of both strategies, which thus became adaptive strategies. It was therefore more helpful to examine risk management strategies as a whole (Wood & Salway, 2000). Income and consumption smoothing strategies, as discussed in Chapter Two, were commonly used in Bwaise (Dunn et al, 1996; Dercon, 2000; Dunn, 1997). Similar findings to Rakodi's (1995) study were found: poorer households were more likely to focus on survival strategies in order to achieve a basic level of security, rather than use riskier developmental activities, such as attempting to develop more profitable enterprises.

Box 7.6 Utilising Financial Services: Protecting Assets

Assets	Protecting Assets	Financial Services
Labour	Replace stock/fixed assets lost through theft or flooding Gap if low sales or price fluctuations Pay bribes to KCC Provide regular income flow	Loans Savings Trade associations SCSs
Housing	Replace physical assets lost through theft or flooding Pay rent	Landlords Savings Cash rounds
Human	Pay medical fees Pay burial fees Provide food and basic expenditure requirements	Cash rounds Munno mukabi Trade associations Savings
Intra-hhd	Increase number of income contributors to household	Supplier credit Loans
Social	Pay off debts Reciprocity to use in times of crisis	Loans Munno mukabi MFIs SCSs Trade associations Cash rounds
Financial	Accessing munno mukabi, cash round, loans from group members, supplier credit in a group-based financial service.	SCSs MFIs Trade associations Cash rounds

Source: Research data.[6]

The research has shown that the poor were engaged in a wide variety of financial services, the most common being savings and cash rounds. For many, these financial services played vital roles in managing their livelihoods. Expenditure requirements were often lumpy and could not be met through daily income, similar to Rutherford's (2000) findings. This made it necessary for the poor to accumulate money and the most common way to achieve this was via savings and money management (Rutherford, 2002). Savings were mainly used for consumption smoothing, as found elsewhere (Deaton & Paxton, 1999; Rosenzweig, 2001). Cash rounds were also common because they instilled discipline; also, the money could not be readily taken for other uses and often allowed

[6] Research data is defined as analysis from all sources of data including survey, interviews, FGDs and observations.

for larger capital accumulation. Although the poor wanted ease of access to their money, they wanted this access restricted to allow for capital accumulation. The holistic nature of the benefits of loans was summarised in an excerpt from a FGD: *'We are able to make profits, pay off the loan and meet other expenses, such as being able to take our children to school'* (UGAFODE FGD, 18/08/00). These benefits were also seen with smaller loans from friends, family and neighbours.

The vulnerability of life inhibited the development of livelihoods within Bwaise. The very high proportion of income spent on basic requirements, replacement of goods due to theft or flooding and medication fees all stifled the development of livelihoods. Financial services did however, play an important role in helping to protect livelihood assets and thus enabled Bwaise residents to more effectively manage their livelihoods. *Munno mukabi,* loans from friends and neighbours, trade associations, savings and cash rounds were all important mechanisms in protecting vital livelihood assets. Bwaise residents valued human capital and this was the most common type of livelihood asset that was protected and the last to be used in times of crisis. This was similar to other research findings (Moser, 1996; Roberts, 1995; De la Rocha, 1994).

In Kampala, effective livelihood management required a regular income, which was why enterprise assets and labour were highly valued. Loans and cash rounds were commonly used to purchase supplies or as start-up capital. This was also the reason why supplier credit was so widely used and why money management was so important. Understanding income and expenditure flows helps to explain the type of financial services needed to manage livelihoods. To effectively manage livelihoods, financial services, by enabling effective money management, should help to meet all expenditure and livelihood needs. The next Chapter discusses the reason why livelihoods are not developing fully because of the limitations of financial services within Bwaise.

CHAPTER EIGHT

THE LIMITATIONS AND DRAWBACKS OF FINANCIAL SERVICES FOR SECURING AND DEVELOPING LIVELIHOODS

8.1 INTRODUCTION

Financial services are an important avenue for helping the urban poor to manage their livelihoods (Rutherford et al, 2002). Even though financial services may help to manage livelihoods, they may also be detrimental and have limitations (Hulme, 2000; Wood & Sharif, 1997; Montgomery, 1996; Mayoux, 1999; Johnson & Rogaly, 1997; Montgomery et al, 1996). Informal financial services were not without risk (Castillo, 1999) and the use of financial services may deplete livelihood assets. This Chapter analyses the livelihood assets that have been depleted and why this may have occurred. Debt was a vulnerability and debt-based financial services were more likely to deplete livelihood assets than savings-based financial services. This Chapter will also examine why financial services have had limited influence on developing livelihoods, as opposed to their more positive role in managing livelihoods, as discussed in the previous Chapter. One of the main reasons why financial services may have depleted assets was because of the limitations of the financial services available. The majority of the financial services available were very localised and offered limited services; several were often temporary in nature. The limitations of all the financial services are discussed in Section 8.3.

8.2 DRAWBACKS OF FINANCIAL SERVICES FOR LIVELIHOOD ASSETS

8.2.1 Introduction

Several respondents believed that using financial services may be detrimental to livelihood assets. This was believed to occur by assets being directly or indirectly depleted because of using financial services. Indirect depletion was where a shock, such as those discussed in Chapter Four, had occurred and indebtedness, through the use of financial services, had increased the likelihood of assets being depleted. Livelihood shocks were the most common reason for loan/creditor default or failure to contribute to savings or insurance schemes. This then led to further depletion of livelihood assets, especially enterprise, physical and social capital. The lack of a regular income and a high frequency of shocks increased the likelihood of financial services indirectly or directly depleting livelihood assets. Direct depletion was more likely for debt-based financial services such as MFIs, SCSs, trade associations, supplier, shopkeeper and landlord creditors and loans from family, friends and neighbours. How each livelihood asset was depleted or how financial services played a negative role will now be discussed.

8.2.2 Enterprise/Labour Capital

One of the most direct ways that financial services depleted assets was through loan default. Failure to repay a loan or creditors led to a loss of enterprise and physical assets. It was difficult for many to repay loans and creditors because of the vulnerability of the livelihood context in Bwaise, which made it difficult for the majority to obtain a regular income flow. There were also regular constraints and shocks that impinged on income flows or expenditure outflows, such as low sales and ill health. 30% of total respondents had defaulted on a loan and residents said it was common for loans, especially from family, to become gifts. Also, repayments of loans from friends, neighbours and family were often delayed and intermittent, because of the difficulty of obtaining a regular income flow and the uncertainty of expenditure outflows. This had a detrimental effect on enterprise assets.

> *Currently businesses have been paralysed. There are not much profits at the moment, if business was moving smoothly, there would be no problem in paying the loan. For example, those who sell edibles,*

> *when it is holiday, it is hard for them to get the money. There are those who sell charcoal and firewood and yet it is the rainy season; there are no profits and the season is bad. More so, our friends who had roadside businesses have been sent from the road* (FAULU FGD, 14/04/00).

As the quotation above shows, the economic and labour market context made it difficult for people to repay loans and credit. For loans with regular repayments, many respondents sold goods at a cheaper price to ensure they could repay the lender or supplier. Suppliers would stop credit or not give any further credit if they were not repaid in full. This was detrimental to enterprises and income flows. Some proprietors would even sell at a loss to repay loans or to ensure they could continue with a line of credit. This inhibited enterprise development and eroded enterprise assets and labour productivity over time. Accessing credit was not regarded as the major constraint for businesses; there were several other constraints, discussed in Chapter Four, which were also found in other countries (Bigsten & Kayizzi-Mugerwa, 1999).

Most of the group-based financial services had regular meetings to collect contributions. These meetings were at inconvenient times for some members, which was detrimental to their businesses, especially if the meetings were at peak times. *'A member has a school canteen and students come out of class at 12.00, she has to lock the canteen to come for the meeting and she therefore loses business and then the edible perishables go bad and she will not make any profits that day'* (FINCA member, 04/09/00).

Many of the financial services were set up to reflect livelihoods in Bwaise. The majority of residents were involved in petty trade, which gave a daily or maybe a weekly income, and this was reflected in the payment structures for the financial services. Cash rounds, *munno mukabi,* MFIs, trade associations, SCSs and loans were based on regular daily or weekly contributions. This was useful but it also meant that people were reliant on petty trade to pay back loans and to save in cash rounds etc. It was difficult to expand the enterprises, to invest in longer term enterprises or to purchase higher value fixed assets, as there were no financial services to assist in these types of activities. Loans were short term, low value and were expected to be repaid quickly. Cash rounds and *munno mukabi* were reliant on regular contributions in order to function. Therefore the nature of the financial services reflected the livelihoods in Bwaise, but using these financial services also inhibited people from significantly developing enterprise assets or utilising labour for activities other than petty trade.

8.2.3 Housing/Physical Capital

Household assets were the most common assets depleted in times of default; these were smaller physical items, easily confiscated or sold to repay loans and credits. Radios, TVs and furniture were commonly taken because of default, in preference to enterprise assets, which would be more damaging to labour productivity. 18% of total respondents said that they had had to sell household assets because of debts. *'I do not have loans because if you fail to repay they can take your things'* (Matooke-seller, Female, 31/10/00).

Those who failed to repay credit from landlords were at direct risk of losing their place of residence. A high debt burden meant that a small minority had had to move residence to escape their debts. This would lead to depleted social capital as well as physical/housing capital.

There was a perception in Bwaise that those using financial services, especially MFIs, trade associations and SCSs, were wealthier. This was said to increase the risk of theft because it was perceived that they had more assets to steal. This was considered a real threat because theft was common in Bwaise and one of the most common risks. Membership of financial groups did not always lead to individuals becoming wealthier, but it was common for members to purchase household assets from loans, savings or cash rounds.

8.2.4 Human Capital

Similar to the positive role that financial services played for human capital, the drawbacks were indirect. Income was redirected to repay loans and credit or contribute to cash rounds and *munno mukabi* instead of providing food, water, clothes and school fees. On the whole, people paid for school fees with loans, although there were occasions where school fees were not paid because of the need to make loan repayments. 15% of total respondents had delayed paying school fees or taken children out of school to repay debts. If enterprise productivity was reduced, because of the inability to access or the need to repay loans, then the ability to provide for basic household expenditure also decreased, which diminished human capital. Failure to repay shopkeeper credit directly impacted on the ability to obtain basic necessities, if income was not available. Due to the importance of locality, failure to repay one line of shopkeeper credit was likely to be known by other shopkeepers and thus the defaulter was denied access to other sources of shopkeeper credit. This was hugely detrimental to managing basic expenditure and was likely to lead to households decreasing their food intake. Failure to contribute to *munno mukabi* on a regular basis inhibited people's ability to obtain medication and burial fees. Information exchange and personal networks within Bwaise were vital for financial services and livelihoods to function, but these mechanisms worked in reverse and excluded persons if transactions failed or non-payment occurred.

Members of MFIs, trade associations and SCSs valued the skills learnt informally and formally from other members. Defaulters or those that failed to contribute had to leave these groups, which then denied them access to an extremely useful source of skill development and knowledge accumulation. Over a period of time this inhibited the skills that could have been accumulated. This was a common phenomenon given that membership was fluid and many members left because they could no longer make the regular contributions. The trade associations said that on average 15% of members left each year.

8.2.5 Household Structure and Intra-Household Relations

A detrimental change to intra-household relations was the hardest to identify. MFI female members said that since becoming members they had increased their household responsibilities. This may have had a positive effect, but had also led to an increased workload within the household, which sometimes put a strain on household relations. 25% of total respondents said that engaging in financial services increased their workload. This was more common for MFI respondents, of whom 40% said their workload had increased. Many respondents said the increased workload had led to increased productivity, but for some, especially women, it proved very tiring, as they still had to carry out household tasks. Similar results have been shown in other studies which researched the impact of MFIs on women's empowerment (Ackerley, 1995; Kabeer, 1998; Montgomery et al, 1996; Rahman, 1999; Ahmed et al, 2001; Goetz & Gupta, 1996). Similar to the reasons for selling goods at a cheaper price, many felt pressurised to work longer hours to repay loan and credit commitments, which was detrimental to their labour productivity overall. This impacted on household relations.

Many women obtained financial services without telling their husbands. One MED-NET member had not told her husband that she was a member and had taken out a loan and this put a strain on intra-household relations. It was not just MFI loans that were kept a secret; shopkeeper credit, SCSs and cash round membership were also concealed. If a household member found out, especially if default had occurred, this could lead to conflict and violence. Domestic violence was rarely spoken about, but did occur. If household members defaulted, other household members were likely to be affected and their assets could also be taken. *'My wife was angry when I had to use the savings to repay my suppliers after I failed to pay'* (Tailor, Male, 20/10/00). MFIs tend to focus on women, but this increases female indebtedness and does not necessarily improve livelihoods, because they are considered a better credit risk. As Rogaly (1996: 106) succinctly puts it, it is not *'access for women, rather women are accessible'*.

Similar to theft of household assets, an increase in wealth (perceived or real) increased claims from household members and family. *'Since becoming a member of Bwaise Poverty Reduction and getting a loan, two family members have asked to stay at my house and more family members have asked for loans'* (BPR member, Male 27/11/00). This led to depletion of savings and increased the number of household members, which in turn increased the pressure on household assets and expenditure outflows.

Failure to repay debt burdens could lead to family separation, either because of default with respect to family loans or other forms of debt. This could have a detrimental effect on intra-household assets, as family members were a vital source of support for the majority of livelihoods in Bwaise. Separation was regarded as an extreme outcome; humiliation was more common, but was still a negative, and depleted social capital as well. Continually asking for loans could be seen as begging, which created conflict and led to humiliation.

8.2.6 Social Capital

The majority of the financial services available required a level of personal networks in order for them to be accessed; it was therefore unsurprising that financial services could have a large negative role for social capital (Mayoux, 1999). Failure to repay debts or to contribute to savings schemes or *munno mukabi* was reported to have a huge negative impact on social capital. Some of the most common negative aspects of financial services were that people lost friends and relationships were destroyed. Most financial services were reliant on trust, developed through personal networks; this could be lost because of default or failure to contribute. Failure to contribute had a lesser negative role on social capital, but did lead to conflict or loss of trust if contributions were stopped. Failure to contribute to cash rounds if a person had received their round was a risk, but was common, as the majority of cash rounds failed; 33% of total respondents had been in a failed cash round. This did lead to the loss of friends and trust between friends. Defaulting on a loan had a much higher negative role than failure to contribute. Default on loans and credit could lead to loss of friends and lines of credit, court appearances and imprisonment. The importance of social capital for managing livelihoods and utilising financial services should not be underestimated and losing any form of personal networks can be hugely detrimental. Similar findings were found by Mayoux (1998; 1999; 2001) in her studies of microfinance and social capital. The social costs of utilising financial services have been recognised and should not be underestimated (Montgomery, 1996).

The positive aspects of group based financial services can also have drawbacks for social capital (Smets & Bahre, 2004). Continually providing assistance to friends and family was reported to be a drain on precious resources and could strain relationships. Increased wealth, either perceived or real, increased the claims from friends and family for assistance. Lenders were often pressurised into giving more credit, which erodes social capital, especially if default occurs. *'Any time you are seen, people think that you are going to borrow, this is humiliating and people avoid you'* (Ddembe Mixed FGD, 14/09/00).

8.2.7 Financial Capital

One of the most common drawbacks of default was the loss of opportunities for borrowing elsewhere. This highlights the inter-linkages between financial services and the cumulative effect of utilising financial services. Flows of information were important in accessing, and also inhibiting access to, financial services; groups were a good way to transmit information, as found elsewhere (Wenner, 1995; Matin, 1997). If a person got a bad reputation because of failing to repay or contribute, it was reported to inhibit access to other financial services, including becoming a cash round and/or *munno mukabi* member. A large debt burden inhibited accessing other forms of financial services because any extra income was diverted to debt repayments rather than accumulating financial capital.

Many respondents believed that increased access to loans led to them spending carelessly, which decreased the likelihood of accumulating financial capital, especially savings. 22% of female MFI interviewees said they bought an outfit with the loan. *'I bought a gomesi (traditional dress) with some of the loan money,'* (Med-Net member, Female, 07/09/00) was commonly cited by MFI respondents. As well as household assets, contributions from cash rounds and *munno mukabi* were prone to being stolen, because several people would be aware of the accumulation. Savings were also prone to being stolen and 16% of total respondents had experienced money at home being stolen.

8.2.8 Conclusion

The importance of locality, information exchange and linkages between financial services help in understanding why repayment for all financial services was fairly high. Default in one financial service had a knock-on effect on access to other financial services and personal networks in Bwaise, which were vital for managing livelihoods. It is easy to forget that, although financial services create capital accumulation; they also create a debt burden which, as shown, can be detrimental to all livelihood assets. The importance of information exchange, personal networks and linkages between financial services for managing livelihoods lead to an increased incentive to repay; the downside of losing these important assets is reduced ability to effectively manage livelihoods. It is important to note that *munno mukabi* and cash rounds were the least detrimental group-based financial services with respect to livelihood assets. They were generally short-term and very large sums were not accumulated, as the money was disbursed to members. Financial services that led to debt were the most likely to lead to assets being depleted. This is because having the lump sum of capital upfront was a risk, as it required increased productivity or income flow to repay the debt. Debts arose from MFIs, trade associations, SCSs, supplier and shopkeeper credit and family, friends and neighbour loans. Failure to repay supplier, shopkeeper or landlord credit led to losing that source of financial services; it also decreased the trust that had been built with important sources of finance for managing livelihoods. Not only that but this could have a negative influence on enterprise, human, social and physical assets.

The drawbacks of financial services highlighted the interconnectedness of livelihood assets and how the negative aspects of financial services could impact on all livelihood assets. Loan default could lead to depletion of enterprise productivity, and loss of household assets, which as a result could lead to failure to meet basic expenditure, household conflict, loss of friends and reduced access to other sources of financial services. Social capital and physical assets were most likely to be depleted. If a shock occurred, financial services, especially loans and credit, were likely to play a negative role, as default was likely to occur and could lead to more assets being depleted. The limitations of the financial services in Bwaise, to be discussed next, also reveal the drawbacks of using financial services for developing and managing livelihoods.

8.3 THE LIMITATIONS OF FINANCIAL SERVICES IN BWAISE

8.3.1 Introduction

Although there was a diverse range of financial services in Bwaise, they all had limitations. The scope of the majority of financial services was limited to enterprise loans and savings. Most were dependent on trust mechanisms, which can only function within a confined locality and are reliant on markets functioning (De Soto, 2000; Yaron et al, 1998). Few of the financial services were transferable outside Bwaise, unless new trust mechanisms were set up. Although financial services enabled capital accumulation by the participants, for the majority of financial services, the amount of capital available was dependent on the amounts deposited by participants. This limited the amount of capital available to be used and only MFIs, moneylenders and banks had extra capital available.

Access to the majority of financial services was dependent on the level of resources available to an individual; an income source (enterprise capital) and personal networks (social capital) were vital. As discussed in Chapter Six, accumulation of these assets was dependent on social axes of difference for participation. New residents in the area found it very difficult to access the majority of the financial services available. The limitations of each financial service will now be discussed.

8.3.2 Microfinance Institutions

MFIs were the only semi-formal financial services available in Bwaise. The benefits were diverse and were especially important for developing enterprise, human and social capital. MFI membership did not depend on having traditional forms of physical collateral, which allowed larger proportions of Bwaise residents to access this type of financial service. Although livelihood assets were still required, membership was dependent on social capital and having a regular income to repay the loan. Only those with daily or weekly incomes were able to use MFIs.

8.3.2.1 Collateral

It was not strictly true that MFIs did not require any form of physical collateral. All the MFIs required members to save before they were allowed a loan. Normally, a certain percentage of the loan value was needed in savings. This in effect became collateral, as these savings were compulsory and were not allowed to be withdrawn if a loan was outstanding. Table 8.1 shows the savings required to obtain a loan by the MFIs operating in Bwaise. FAULU and Plan International were more transparent and called this money '*Loan Security/Insurance Funds'*. This money would be used if a member failed to repay. Med-Net and Plan International had the highest percentage, 20%, which was required for this purpose. For a member to obtain a loan of 100,00/=USh they needed to set aside 40,000/=USh, which was not accessible unless they had left the MFI and had repaid the loan. Med-Net, FAULU and Plan International all kept this collateral in their own MFI bank accounts.

<u>Box 8.1 MFI Collateral Required</u>

	Collateral required	**Maximum 1st Loan**
CMF	10,000/=	108,000/=
FAULU	1% of loan Loan Security Fund	200,000/=
FINCA	10% of loan	100,000/=
MED-NET	20% of loan	200,000/=
Plan International	20% of loan Loan Insurance Fund	100,000/=
UGAFODE	10% of loan	300,000/=

Source: Interviews and observations with MFI groups.

UGAFODE was the only MFI that allowed physical assets to be used as collateral instead of, or as well as, savings. This gave a greater flexibility for those MFIs that relied solely on savings as collateral. Even so, all MFIs confiscated household assets if a member failed to repay.

8.3.2.2 Savings

Loans were the main products provided by MFIs. Savings were encouraged, but in reality were compulsory and often had to be used as collateral for loans. Mandatory savings that could not be accessed were seen as burdensome and were not viewed as savings by the MFI clients. *'We were told we were using the group as collateral, why can I not use my savings?'* (UGAFODE member 16/08/00). Med-Net and Plan International members did not have this confusion, as this money was called Loan Insurance/Security Fund.

Accessibility of the savings was an issue. One of the key benefits of keeping savings at home was the accessibility. MFI savings were never immediately available, and most of the MFI members had to wait until a meeting to obtain permission to retrieve the savings. UGAFODE loan officers were signatories on the bank account, to stop corruption. The members would normally have to go to a formal bank to withdraw the money. This was time-consuming and costly if the members had to use transport to reach the bank. Aside from FAULU, all the other MFIs were reliant on formal banks to open a savings account. FAULU was the only MFI that kept the clients' money and disbursed it from the FAULU office. CMF was able to operate as a bank, because it was the only MFI-style financial service to have a banking licence. Other MFI clients had to open a group bank account. This meant that some of the limitations associated with formal bank accounts were also apparent for MFI members. *'We saved our money and kept it in the Co-op Bank, which closed. We feel insecure banking money. FINCA should have its own bank'* (FINCA member 01/09/00).

Savings were used to repay the loans of defaulters within the group. Many felt this was unfair and was a major disincentive to save large amounts in the MFI. *'Forced savings are high; this discourages you from getting a bigger loan'* (FINCA member, 30/08/00). This may explain why several members set up cash rounds with each other, rather than deposit the money in the MFI account. It was also because this money could be more easily accessed.

8.3.2.3 Loans

The major criticism of loans was their inflexibility. As Chapter Five showed, the loan characteristics for all the MFIs were very similar and followed the Grameen Bank model. Many MFI members felt that the inflexible loan terms were detrimental to their livelihoods and this was seen as the most important limitation of MFIs. The loans had no grace periods, which meant that the MFI members had to start to repay the loan back immediately. This limited the type of enterprises that could use the loan and helped to explain why so many of the MFI members were petty traders, as they had to have at least a weekly income. It also limited the loan size: *'the lack of grace period for bigger loans is insufficient and it makes it difficult for you to repay'* (Plan International member 30/08/00). The timing of enterprise cash flows was not always compatible with loan repayments and many found it difficult to repay on a weekly basis. Many members felt that the weekly repayments were too rigid and did not allow any flexibility in the use of the loan.

This inflexibility is a problem with supply-led programmes that replicate existing models used elsewhere, which lead to financial services not reflecting the financial needs of the poor (Biggs et al, 1991; Thomas, 1995; Kesterton, 1993; Gibbons, 1996; Gibbons & Todd, 1996; Hulme, 1993). Loan size was also an issue; some felt loans were too small, but they would only want larger loans if the loan terms were more flexible, loan periods were longer and there was a grace period. The small loan size also limited the loan use to purchasing lower value working capital goods rather than larger fixed asset goods, which might have been more productive for an enterprise in the longer term.

Loan use was supposed to be limited to enterprise capital. This was extremely limiting and the majority of members wanted loans for other uses, especially school fees, house building and small emergency loans for medication. None of the MFIs offered loans for these purposes. In reality many members used loans for other purposes, but the short loan term and weekly repayments did limit the loan use. The MFIs recognised that it was difficult to monitor loan use and were more concerned with loan repayments than loan use. *'As long as the loan is being repaid, that is what is important. They* (the clients) *must be using the loans for some good if they are able to repay'* (MED-NET Loan Officer). MFI loans were designed to expand businesses, but stability of income was more important to the urban poor. Therefore the loans were not wholly appropriate for the livelihoods needs of the poor; this conclusion is similar to McKee's (1989), who argues that:

> …*microentrepreneurs are often seeking modest improvements in the stability and level of earnings, and do not give high priority to business expansion through reinvestment of profits at the expense of consumption.*

The length of time it took to obtain a loan was an issue. Many MFI members felt that the two months it took to get the first loan was too long. Also, the system of continuous loans did not fit with most people's livelihoods in Bwaise. If a member was not continuously a member of a group, it was difficult to re-join the group when he or she needed a loan. Some members only continued to have loans to stay part of the group, in order to obtain a loan when they needed one.

FINCA, Med-Net and Plan International disbursed loans for all members at the same time. This was also inflexible and meant that members had to wait a long time to obtain a loan. The timing did not often match with their ability to use the loan, which was an issue when it came to weekly repayments. *'I had to wait two months for a loan, and when it came the rainy season had started, which is a hard* *time for me to sell and made it difficult for me to repay. I wish I had been able to get the loan earlier when I needed it'* (CMF member, 09/11/00).

High interest rates were also cited as a limitation of MFIs. The maximum interest rate was 4% per month, although this was still below the rates charged by moneylenders and pawnbrokers. The members were also concerned about the other charges they had to pay to become a member. Fees had to paid to obtain a loan and savings passbook; two photographs and verification from the LC 1 chairperson also needed to be obtained. These cost between 3,000-8,000/=USh, but they were only required when a person joined a MFI. Med-Net had the highest fees at 8,000/=USh and a 1,000/=USh fee for each loan.

8.3.2.4 Cross-Group Guarantee

The group guarantee system was one of the key characteristics of MFIs that had allowed people with few physical assets, the traditional form of collateral, to access financial services and lowered the MFI costs of providing financial services (Hulme & Mosley, 1996; Yaron, 1994). The system relied on MFI members having a level of social capital, which could exclude people, especially those who were new to an area and did not have a large personal network of friends or family within Bwaise. As mentioned earlier, MFIs did not use the group guarantee system as the only form of collateral; in reality savings and physical assets were also used as collateral. It was the responsibility of group members to acquire the household assets after default had occurred, which was time-consuming.

The group guarantee method was popular with MFIs, as most of the transaction costs were transferred to the group members instead of the MFI. This was more cost-effective for the MFIs and was one of the reasons why these institutions were able to provide small loans to their clients, as recognised elsewhere (Besley & Coate, 1995; McGuire & Conroy, 1997). The MFI clients recognised it was an extremely useful way to obtain credit, but many members felt the reliance on social capital as collateral was detrimental to obtaining larger loans, especially for longer term members who had accumulated more traditional forms of collateral.

It has been recognised that the poorest rarely have access to MFIs (Simanowitz, 1999; Simanowitz & Nkuna, 2000; Zaman, 1997; Rogaly, 1996; Evans et al, 1999; Navajas et al, 2000). This was true in Bwaise because the screening process carried out by MFI members excluded those that were least likely to repay. Chapter Six showed the poorest had difficulty in accessing most types of financial services in Bwaise as they required the ability to make regular payments.

One of the major downsides of using MFIs was that all members lost money when another member failed to repay, due to the use of group savings for repayment; except if the non-paying member's collateral was enough to repay the loan, which was uncommon. This helps to explain why MFIs had virtually 100% repayment rates, as the loan was repaid either by the individual or by the group. If default occurred, the loan repayments were obtained initially from the member's savings and then, when these had been depleted, from the rest of the group's savings. This was a risk that MFI members were prepared to take, but several non-members did not want to join because they feared losing their money through no fault of their own. The group members could try and acquire physical assets from the defaulter, so they did not have to use their own savings. However, it was the responsibility of the group to obtain and liquidate the household assets to repay the loan. The members felt this was time-consuming and some did not understand why they had to do this. The costs of lending were high and similarities were found in other studies (Smets & Bahre, 2004;

Montgomery, 1996; Bhatt & Tang, 1998). There were many other aspects of engaging in MFI activities that were time-consuming.

8.3.2.5 Meetings

All the MFIs held weekly meetings, and all members were expected to attend. In fact, latecomers and non-attendees were penalised. The meetings lasted for an hour and during the meeting loan repayments and savings would be collected. FINCA had a group credit risk rating system, as well as a client credit risk rating system. The group credit risk rating system (shown in Table 5.2) was dependent on the clients' individual rating as well as attendance records. A higher rating meant that members were more likely to obtain larger loan amounts.

Each MFI group had a committee; the committee members were responsible for organising the meetings, ensuring repayments and record keeping. This was a lot of work and responsibility for those members. Many found the skills they learnt very valuable, but did say it was very time-consuming for no pay. It was the responsibility of the committee to assess the businesses of new members and chase members who had not repaid. The treasurer would have to deposit the loan repayments and savings into formal bank accounts. This was risky for the treasurer as well as being very time-consuming. The committee members said they spent three hours a week working on MFI activities.

Many members found that the meetings were too long and often at inconvenient times for their businesses. *'Some people have hotel business and the meeting time is one pm which is the peak time when they should be at the hotel serving food, so they may lose customers, the members prefer to pay 1000/=USh fine'* (FINCA member, 01/09/00). When they were at the meetings they had to arrange for someone to look after their business or close it; if the meetings were at the busiest time of the day, this was very costly for the members. Many members felt they wasted a lot of time obtaining the loans and savings. FINCA clients received their loan cheques at the FINCA head office in Kampala, which would take several hours to disburse. This was costly, in terms of time spent and transport costs; similar activities were prevalent in all MFIs in Bwaise.

'We are treated like young kids; when you are late you pay, to speak you have to put your hand up; there are so many regulations' (FAULU member, 04/09/00), was cited by several MFI members. They disliked the frequency of the meetings and the way the loan officer treated them. Many of the loan officers agreed that sometimes they had to teach the group the importance of savings and repayments. *'It depends on the nature of groups and group dynamics how I work, whether it is fine-tuning or pressurising'* (FAULU Loan Officer). Many members felt the time spent on meetings, assessing businesses and ensuring repayments was extremely burdensome and led to high transaction costs. The time spent engaging in MFI-related activities was time when the members were not earning. It is therefore not surprising that 70% thought that their workload had increased since joining the MFI.

8.3.2.6 Products

One of the major limitations of MFIs was the limited range of services and products available; the MFIs in Bwaise only provided working capital short term loans and savings. The majority of the members said that they did not just want loans for their businesses. They needed loans for other purposes, mainly school fees and house building. The lack of insurance products was also an issue. *'There is no provision if I get sick, I lose all my savings as well as my friends'* (CMF member, 09/11/00). This is what the mandatory savings were used for to ensure loan repayment. There were no insurance products to protect against the three most common sources of risk: ill health, death and theft, which was a major limitation. Several of the MFI staff recognised this and many MFIs intended to develop more products.

There were several constraints on the use of MFIs in Bwaise, but most members acknowledged they were one of the few ways to obtain loans and accumulate savings without fear of theft. The reliance on trust and high transaction costs limited the expansion of groups, and prevented people from obtaining larger loans. The MFIs were limited in range; to develop enterprises and livelihoods as a whole requires a range of financial services. In 2000, the MFIs in Bwaise were in their infancy, but they had plans to develop more products that met the financial needs of the clients, rather than being a supply-led financial service.

The rigidity of MFI loans and savings created a liquidity mismatch, and this was what other financial services were designed to overcome. To overcome this, some of the members were members of more than one MFI,[1] even though MFI members were only allowed to be a member of one MFI, restricting flexibility and access to multiple loans. This does highlight that several MFI clients were prepared to incur the high transaction costs associated with multiple membership.

Lack of flexibility and flexible savings facilities was a major impediment to the expansion of MFIs in Bwaise. Savings facilities and the characteristics of informal finance should be taken into account when providing financial services. It is only when these services are demand-led that they become embedded into the financial system (Johnson, 2001; Cohen, 2001; Rhyne & Otero, 1994; Rutherford, 2000). MFIs in the area, similar to other studies, have ignored the local financial system (Hollis & Sweetman, 1998; Abugre, 1993).

[1] A small number of women observed as part of the field research were members of three different MFI groups.

8.3.3 Savings and Credit Schemes

There were many similarities between MFIs and SCSs. All schemes required access to formal banks in order for members to deposit their savings and they also had a limited product range. These groups were reliant on local information, had little knowledge of financial services and utilised the MFIs in the area. This was why the three main schemes provided such similar products to MFIs in the area. Aside from BPR, all committee members worked for the organisation on a voluntary basis; this was very time consuming.

YOFA was a savings scheme prior to becoming a UGAFODE group and decided to forego the flexibility of being its own scheme to obtain funding for loans. All the schemes were reliant on deposits from members, which limited the size of loans disbursed. To overcome this, YOFA had become a UGAFODE group. It was reliant on donor funding to obtain the money to on-lend, which did allow for regular loan disbursements, but had all the limitations of the other MFI groups.

BPR was only the scheme that had a paid employee to look after its organisation. It had acquired funding from AAU, which allowed the group to give out more loans and increase their flexibility. It was more flexible than MFIs and other SCSs; there were small loans available for any use and it did not rely on the group guarantee system as loan collateral. Savings were more readily accessible, but there were extra security risks for BPR, as large amounts of money were kept in the office. There were still no insurance products available and loan terms were rigid and fairly small, the largest loan size being 500,000/=USh.

UMFSD was the only scheme that was totally reliant on members' deposits and the skills of its members. This was extremely time-consuming for the committee members. The products were limited to the same as those offered by MFI loans and savings. The scheme was dependent on the formal banking system for depositing savings. Unlike other schemes and MFIs, the loan sizes were totally dependent on the amount of deposits, which was why members had to wait to get a loan and only one loan was given per week, and why large amounts of savings were needed to obtain a loan. Similar to MFIs, these loans were supposed to be for enterprise use only, which was not very flexible. Another similarity was the need to deposit savings and the use of the group guarantee system. All members' savings would be used if a member failed to repay. As there was no external loan officer, there was an increased likelihood of corruption on the part of executives. This had not occurred; the scheme tried to limit corruption by executives having to counter-sign to withdraw savings and keeping records of all transactions. The lack of any legal framework or external intervention was a risk with this scheme and was also a similar risk for trade associations. Functioning markets and a regulatory framework assist in embedding financial systems and allow for breadth and depth within a system, thus improving the quality of services (Yaron et al, 1998; Bennett & Cuevas, 1996; Rhyne & Otero, 1999).

8.3.4 Trade Associations

Trade associations were only open to those who worked and only to those carrying out particular trades. This limited the number of people that were able to belong to trade associations. Male-dominated trades were far more likely to have developed associations, which meant that women were effectively excluded. It was usually the more skilled trades that had developed associations, such as metal workers and tailors; or those that were transport-related and so required a larger amount of fixed capital. It was therefore difficult to access the type of financial services on offer within a trade association, unless a resident was working within one of these trades. Ddembe *Boda Boda* Association was the only the source of financial service in Bwaise that offered hire purchase agreements to its members for buying motorcycles. Although extremely useful for its members, it was not open to the majority of Bwaise workers and residents. Aside from *munno mukabi*, trade associations were the only other financial service to provide insurance. This was compulsory as part of membership and non-refundable. These services were only for members, who benefited if they were sick or equipment was stolen or damaged. However, they were limited in focus and did not extend to other household members.

8.3.5 Cash Rounds

Alongside *munno mukabi*, cash rounds were the most popular group-based financial service. 50% of total respondents had been a member of a cash round at some stage. One of the advantages of cash rounds was that they were relatively easy to set up, but they also failed easily. Cash rounds were reliant on regular contributions by all members in order to function. If there were too many incidents of non-contribution, even long-standing cash rounds would fail. Cash rounds lacked longevity and the average cash round lasted for less than six months. They were reliant on regular income, which as discussed, was difficult to achieve in Bwaise. This partly explains why cash rounds lacked longevity.

Similarly to other group-based financial services, cash rounds were reliant on trust mechanisms in order to be set up. This limited the number of people that were able to access these types of financial services. Those with low levels of social capital were less likely to be able to utilise cash rounds, as shown in Chapter Six. Cash rounds were dependent on physical proximity; members that moved away were not able to contribute any more and the group would disband. This proximity prevented people new to the area, from being able to join cash rounds, as it took time to develop trust within the community and this was necessary before access would be granted. As is true with any trust-based organisations, cash rounds were also open to corruption. The more successful cash rounds had few members, which allowed for the process to remain manageable, but this inhibited the expansion of the cash round. The capital accumulated was dependent on the amount contributed, which was normally a small amount within a small group. Therefore it was difficult for members to obtain large amounts of capital. This helps to explain why capital from cash rounds was generally used for school fees, rent and small household items and not for investment. Many respondents reported that it was difficult to obtain the money in emergencies. There was little evidence of cash rounds becoming SCSs or being long-term in nature, unlike in other studies (Nelson, 1995; Burman & Lembete, 1995).

8.3.6 Munno Mukabi

Munno mukabi was a targeted collective insurance mechanism, which was an effective way for Bwaise residents to pay for medication and burial duties. It was only effective if the money was available; there was no guarantee that sufficient capital would be available when needed, especially if the event occurred at the start of contributions or several members needed money at the same time which, given the prevalence of ill health and medication, happened frequently. The contributions were made collectively and given out collectively. Even if a person contributed regularly, if they needed money it might not be available, as other members might have already used the money for other events. This was a major limitation, but a risk that the majority of respondents were prepared to make, as *munno mukabi* was one of the most popular forms of financial intermediation and the only insurance mechanism open to virtually all residents. It was very reliant on trust mechanisms and groups developing to operate. The money had to be stored, which was difficult in an area where theft was prevalent. The members who looked after the money were at an increased risk from theft; it was also time-consuming to collect contributions and disburse funds in times of ill health and death. This was part of the reason why a *munno mukabi* did not last for a long period of time. As there were few places to store cash safely, if the money contributed became too large, then the members preferred that the funds be returned, thus highlighting the prevalence of theft and its impact on managing livelihoods. The *munno mukabi* in effect became a cash round. This stifled the accumulation of large amounts of money within a *munno mukabi,* and therefore it was reported that the *munno mukabi* system was not likely to meet the needs of those who required a significant amount of medical treatment.

8.3.7 Creditors: Suppliers, Shopkeepers and Landlords

There were three main types of creditors in Bwaise, all reliant on developing trust mechanisms to function and lacking fungibility. Supplier credit was an extremely useful form of financial intermediation used by enterprise owners. It was limited in its fungibility, as it could only be used to obtain business supplies. Although useful for this purpose, as discussed in the previous Chapter, it did not cover all expenditures that needed financial services. It was also difficult to develop trust with suppliers to obtain this kind of credit. Enterprise owners had to develop a relationship with suppliers before credit was given; this took time and there was still no guarantee the credit would be given. This tied entrepreneurs to particular suppliers and the prices they offered. Supplier credit could be stopped at any time. Some respondents said that if they obtained credit, they were less likely to achieve a cheaper price for their supplies. They were restricted to the stock that these suppliers sold. Similar to other types of financial services, this financial intermediation was limited to a physical locality, because it was reliant on trust mechanisms. *'I need to stay in one place to be able to get credit'* (Vegetable seller, Female, 16/10/00). This was limiting for entrepreneurs, who were only able to trade in one area if they wished to obtain credit. Suppliers tended to only provide credit for one type of supply, a person that wanted to diversify their business or sell different stock would have to develop similar relationships with several different suppliers, which was very time consuming. Women commonly used credit from shopkeepers. This was an extremely useful way for households to obtain basic foodstuffs, but was dependent on physical proximity and developing trust. Respondents who used shopkeeper credit said it was limited to one or two shops, because it was difficult to develop trust with several shopkeepers. Landlords were also used to obtain credit-in-kind for rent, which was very useful for tenants and assisted them to secure tenancy. This intermediation was reliant on trust and developing a relationship with a landlord, but there was a significant risk of losing the place of residence if the tenant failed to repay or if the landlord refused to give credit-in-kind.

8.3.8 Creditors: Moneylenders and Pawnbrokers

Moneylenders were not commonly used, which was in part because of the limitations in using them. Moneylenders could be unreliable and required large levels of collateral, in the form of physical assets or land titles, which limited the majority of Bwaise residents from using them. Corruption and unreliability were other reasons why few people used this type of financial service. Threat of violence and confiscation of physical assets were deterrents for the majority of people. The high interest rates were also a limiting factor, as it was unlikely that the majority of Bwaise residents were able to invest the money in highly profitable activities to meet the high transaction costs. Pawnbrokers were more common, as smaller physical assets, such as radios, were used as collateral. The interest rates of pawnbrokers were lower and smaller amounts of money could be accessed. The pawnbrokers were likely to operate from a shop and this provided stability to clients. They were also more widely known in the area, whereas moneylenders were feared and many respondents did not know of a moneylender operating in the area. So, even if residents wished to use a moneylender, it would be difficult to locate one. Pawnbrokers did not lend out large amounts of money, due to lack of physical security and capital available. *'I am afraid to keep lots of money in the shop…I only lend out small amounts of money, up to 100,000/=USh, I fear thieves will steal from me'* (Pawnbroker, Male 10/11/00). This was a huge limitation that was common to most financial services in the area.

8.3.9 Reciprocal Lending: Friends, Family and Neighbours

Unlike the loans described above, these loans were normally interest-free. The main limitation was the small amount of capital available. Family, friends and neighbours were generally of similar wealth status and did not have large amounts of capital available to lend. Family loans often became gifts, which made it even less likely that large amounts of capital would be lent out. These loans were again dependent on trust mechanisms and had no other collateral to use. It was expected that loans given would be reciprocated and the knowledge of this limited the number and size of loans sought. There was no legal framework in place to protect the lenders. The lack of collateral and legal contracts also inhibited the amount of money lent.

8.3.10 Savings at Home

Saving at home was the most common type of financial service used in Bwaise, which illustrates the underlying importance of savings (Vonderlack & Schreiner, 2002; Rutherford, 2000; Wright, 2000). It was not reliant on many livelihood assets and any form of financial intermediation, also any amount of money could be saved. It was reliant, though, on having a place to store the money. This was not a major issue for most Bwaise residents, but few residents had access to a ***secure*** place to save money. Savings at home were easily stolen and frequently were. One of the main reasons for using this type of financial service, was that the money was readily available to be used for any purpose. This was also one of its limitations. The money was more likely to be used for other purposes or because household members wanted to use the money; for example: '*Several want to lay* *claims on it'* (Vegetable-seller, Female 16/10/00); *'It takes more discipline not to spend the money when you know the money is at home' (Boda boda* driver, Male 20/10/00). This was a very real limitation when there were so many claims for money in a poor urban area. Partly because of this, and because of the amount that most were able to save, it was difficult to accumulate large amounts of capital. Bwaise residents were also unlikely to save large amounts of money at home because of the threat of theft. Theft was a major issue because of the lack of safe storage facilities for businesses and within the home. This made it very difficult for the urban poor to save large amounts of money in their houses. If extra money was available it was more likely to be put in a cash round or used to purchase household assets. Savings at home were also at risk of being eroded because of inflation and there was no exchangeability of savings for other functions. This was unlike savings in kind, such as cows, machines or furniture that had another function. The main benefit of savings, namely accessibility and a wide range of uses, also meant they were too liquid and thus too easily available to be used. Savings also lacked any other productive uses.

8.3.11 Bank Accounts

Access to the formal banking system was very limited in Bwaise. The majority of residents did not have bank accounts nor had they accessed a loan from a bank. A few had used Co-operative Bank or were using CMF. The formal banks had a poor reputation within Bwaise because of the closure of banks in 1999. This stopped many people from using the formal banking system, because they feared that their money would be confiscated. Large amounts of money were required to open a bank account and normally 500,000/=USh had to be kept in the bank account in order to keep the facility. This inhibited the majority of Bwaise residents from accessing bank accounts, as they did not have large amounts of money to deposit in an account. It was also necessary to have forms of formal identification to open a bank account, which many Bwaise residents did not have. The Co-operative Bank was the most common bank used in Bwaise. Those that did use formal banks stated it was difficult and time-consuming to withdraw money. The banks were only open for a short while and there were long queues to withdraw money, which wasted lots of time. The costs of intermediation were high and in real terms the deposit interest rates were negative. Many bank account holders felt threatened after they withdrew money from a bank, believing that this money would be stolen.

8.3.12 Conclusion

Lack of capital within the financial system was an issue; only formal banks, moneylenders and MFIs had access to more capital than the deposits available. This inhibited the amount of money available to be on-lent. For the other forms of financial services, the low levels of capital available was an obstacle to obtaining large loans. This lack of available capital limited investment in developing assets, especially enterprise assets. Reliance on trust mechanisms limited financial services to a physical locality and the services were not widely transferable, unless new trust mechanisms could be set up. All other financial services were informal and were mainly reliant on trust mechanisms, which were susceptible to lack of repayment, theft and failure; these vulnerabilities were compounded by the lack of a legal framework backing the informal financial services. It was apparent that for the financial system to be fully functioning there was a need to address both market failures and structural issues (Yaron et al, 1998; Besley, 1994; McGuire, 1999). Fungibility of some types of financial services was limited, especially creditors. MFI loans were supposed to be used as working capital, but were used for several other purposes, because of the lack of a wider variety of financial products provided by MFIs.

8.4 CONCLUSION: THE NEGATIVE ROLE OF FINANCIAL SERVICES

In summary, supply-driven financial services, such as MFIs, underestimate the risks inherent in (Castillo, 1999) and financial needs of (Rutherford, 2000) managing livelihoods; thus MFIs were limited in scope. The majority of the poor focused on income stability rather than business expansion, as reiterated by other studies (McKee, 1989). Debt was a vulnerability that sometimes led to further depletion of assets, especially in times of risk. Theft had a huge impact, as did limited accumulation of capital for the majority of financial services, including savings at home, cash rounds, *and munno mukabi* - effectively no financial services were able to deposit funds in a formal bank account. In times of default, social and financial capital, as well as physical assets, were likely to be depleted, due to the good flows of information exchange, reliance on proximity and nesting of financial services in Bwaise. Due to the importance of social capital to function within local labour markets, depletion of personal networks due to default also negatively influenced enterprises. This demonstrates why repayment was high and was so important for securing livelihood assets.

The limited nature of the financial services and the vulnerability context within Bwaise were constraints on livelihood development, and the use of financial services was focused on securing livelihood assets. Due to the limitations of financial services, it was vital for Bwaise residents to have a range of protective strategies. Although financial services could be helpful in managing vulnerable livelihoods, most of the financial services available were reliant on having a regular income flow in order to play a positive role in securing livelihoods and to protect against vulnerabilities. Lack of a regular income flow led to a failure to contribute, to repay debts or to accumulate savings, which led to a further depletion of all livelihood assets. It was a combination of the livelihood context and the limitations of the financial system in Bwaise that inhibited livelihood asset development and could lead to assets being depleted.

CHAPTER NINE

CONCLUSION: THE ROLE OF FINANCIAL SERVICES IN MANAGING POOR URBAN LIVELIHOODS

9.1 SUMMARY

This Chapter is a summary of the research findings, with particular attention paid to identifying the key findings thematically (Sections 9.1 and 9.2), followed by a critical reflection on the use of a livelihoods approach as a conceptual and analytical framework or tool (Section 9.3), and finally, briefly how microfinance environment has changed since the research was carried in 2000.

> *I was given 3000/=USh from a relative to buy a dress, but I went and bought cookies and asked a shop attendant to help me sell the cookies and I gave him 100/=USh per pack and I got a profit of 200/=USh. Then the business expanded and I had 150,000/=USh. Then my sister and I bought a bale of second hand clothes, but I failed to sell, so I started to hawk the clothes as well as the cookie business. But I failed, some of the clothes were stolen, so my uncle took me to a friend's shop (he was from the same clan) where I could work and earn 6000/=USh, he also gave me a space to sell cookies. I worked there a long time and my business expanded. I left when he was too sick to run his business. I then contributed to a burial scheme, but we were cheated and I lost all my money. The little I had I rented a shop with my sister for 25,000/=USh. Then I joined FINCA, a cash round and a munno mukabi. They have really helped me pay for my house rent, school fees and medical treatment, as well as continue with our business. I can now sustain my home and feel more secure* (FINCA Member, 09/09/00).

This quotation encapsulates several of the key arguments of this thesis: the complexity and vulnerability of livelihoods; the diversity of financial services available; the nesting of financial intermediation; the overriding importance of livelihood security vis-à-vis livelihood development for the urban poor; the vital role financial services play in managing livelihoods; and the huge influence of personal networks in accessing and utilising financial services. On a more negative note, it also shows some of the limitations of informal finances, which are reliant on trust, frequent transactions and physical proximity, and are vulnerable to failure. It also highlights the fungibility of money, because although the MFI only provided working capital loans, the money was used for a variety of purposes including education and medication.

Many of the risks that the urban poor faced had become endemic and this had led to security rather than development being the overriding driver of livelihood strategies in Bwaise in 2000. Financial services were important tools for livelihood security but were not a panacea. The variety of financial services available had the flexibility to reflect the complexity and vulnerability of poor urban livelihoods that was needed for effective livelihood risk management. The poor had already developed a huge diversity of financial services, but there were still limitations. The services were reliant on trust mechanisms and a regular inflow of money to be sustainable, which in an insecure environment were difficult to sustain. The complexity and variety of livelihoods and financial services and the focus on livelihood security for the urban poor highlights the rigidity of the MFI products and their characteristics.

Their lack of personal networks inhibited the poor from accessing many forms of financial intermediation; this was because social capital was one of the key mechanisms for utilising intermediation. Financial intermediation was crucial for creating and securing livelihood assets. It was also important that a variety of assets were used to access financial intermediation, including personal networks, labour and housing. The diversity of the types of financial intermediation used by poor people reflects their preferences, the range of assets available and external factors. The outcomes of financial intermediation were varied and it was difficult, due to the fungibility of money, to isolate causal linkages between financial intermediation and livelihoods. This was because many assets were used to manage livelihoods.

The concept of urban poverty has developed from a static income-based absolute approach to a holistic dynamic and complex state, and is now embedded in livelihood assets and a vulnerability context (Rakodi, 2002a&b; Beall, 2002). The importance of a variety of livelihood assets, including labour, housing, human capital and especially social capital, has been acknowledged (Moser, 1996; Rakodi, 1999). Donor-led financial services have focused on short-term loans for micro-enterprises, based on the joint liability model provided by MFIs. Several studies have focused on assessing the impact of these MFIs on poverty reduction and women's empowerment. Strategies for managing and developing livelihoods have been examined in a variety of contexts. The majority of studies have been researched following times of crisis and analyse the poor's response to these crises (Chen & Dunn, 1996; De la Rocha, 1994; Mingione, 1987; Rakodi, 1995; Roberts, 1995). Income smoothing and consumption smoothing have been identified as key strategies for protecting and managing livelihoods (Dercon, 2000).

The influence of external factors in Bwaise was high and significantly affected how the poor managed their livelihoods. Theft, ill health and lack of stable employment were key factors contributing to a highly insecure environment. Ill health and labour markets were found to be important factors for poverty and vulnerability (Amis, 1997; Grant, 2005, Kabir et al, 2000; Pryer et al, 2002 & 2003). The complexity of urban livelihoods had created the need for diverse financial services because expenditure requirements often outstripped income flows, which was why financial services were so important in managing livelihoods, as they converted small sums into useful large sums of money (Rutherford, 2000; Rutherford et al, 2002). Financial services played a key role in residents' livelihood risk management strategies, because they reflected the nature of livelihoods in Bwaise. It has been increasingly recognised that microfinance can be part of the solution to develop livelihoods and reduce poverty, but it is not the panacea (Mayoux, 1999).

A summary of the research findings in Box 9.1 shows the financial services available, how and why these financial services were used and who by, and finally the problems with using each financial service. It was apparent that social capital and labour were the two key livelihood assets used to access financial services. The fungibility of use of the majority of the financial services in Bwaise means there are huge overlaps between the financial services used and livelihood assets secured. The reasons for accessing financial services were diverse and reflected the complexity of livelihoods within Bwaise. The reasons focused on livelihood security and management rather than enterprise development. Start-up capital, medication, school fees and household items were the most common reason to use financial services. Savings at home, loans, cash rounds and *munno mukabi* were the most common forms of financial service entered into. Apart from savings, all services required some form of personal social intermediation in order to engage in these financial services, as they were group-based or dependent on a transaction with another individual. The most common problems resulted from repayment failures, which led to a loss of friends, access to financial services and loss of household assets. The limitations of the service available were: the reliance on regular instalments, physical proximity, the small amounts of money available and the reliance on trust, which increased the likelihood of theft. The next section will discuss the key themes made by the thesis.

Box 9.1 Summary of Research Findings

Types of Finance	Who accessed	How accessed	Why accessed	Problems
Loans	Men/Women (neighbours)	Intra-household Social capital Labour Housing	Start up capital Medical	Lose friends/family if fail to repay Obligation to reciprocate
Trade Associations	Skilled workers Mainly men	Labour Social capital	Insurance Skills Personal network and support	Regular payments required
Credit-In-Kind Supplier & Shopkeeper	Men (suppliers) Women (shopkeepers)	Social capital Labour	Food Supplies	Lose network if fail to repay Need to develop trust first
Munno mukabi	Men/Women	Social capital Labour	Burials	Often fails Small amounts of money Reliant on proximity Reliant on regular payments Risk of theft
Cash rounds	Regular flow of cash required Men/women Working poor	Residential tenure Social capital Labour Intra-household	Food Start up capital Household items	Often fails Small amounts of money Reliant on proximity Reliant on regular payments Risk of theft
MFI and SCSs	Female Engaged in IGAs	Social capital Labour Enterprise	Business stock Household items School fees Medication Increase personal network Use of other financial services Develop skills	Rigid loan repayments Difficult to access savings Lose friends and assets if fail to repay Meetings are time consuming
Savings	All	Physical dwelling Intra-household Labour	Rent, household items, school fees, medication, start-up capital, emergencies	Theft of savings Easy access, used too frequently

Source: Research data.

9.2 KEY THEMES

9.2.1 Diversity of Financial Services

It was apparent that there was an amazing array of financial services available within Bwaise. The majority of the financial services had developed to permit the accumulation of larger sums of money from regular small sums; this included *munno mukabi*, cash rounds, trade associations and savings at home. Chapter Five discussed the diversity of financial services available in Bwaise. In general, these financial services were all forms of accumulating savings or giving small loans. Several MFIs were operating in Bwaise, alongside SCSs, trade associations, cash rounds and *munno mukabi*. Several of these were group-based and each group was generally homogeneous in terms of the IGAs of members, physical proximity or gender. Lending from suppliers, shopkeepers, neighbours, family and landlords involved individual financial intermediation, but again this was reliant on trust and personal networks. Saving at home was the only financial mechanism that was not reliant on intermediation with others, but did require a secure place of residence.

The variety of financial services reflected the diverse needs and characteristics of the urban poor in Bwaise, as per other studies (Rutherford, 2002), which showed that at least four forms of financial services were used per person. The majority of the financial services had been developed within the area and so were demand-led for the activities and requirements within Bwaise. The types of intermediation reflected the livelihoods of residents, which were predominantly IGAs, and especially petty trading, and required financial services to manage inflows and outflows of money to meet livelihood requirements. They also utilised the range of livelihood assets to access financial services: labour, housing and personal networks were all key in utilising financial services.

9.2.2 Livelihood Diversification

As well as using the range of livelihood assets in order to utilise financial services, the urban poor in Bwaise used a range of assets to manage their livelihoods. The most important way of securing a regular income was to engage in several IGAs so diversifying their labour, and this was achieved through engaging in several types of petty trading activities. The range of IGAs was diverse but mainly restricted to some form of petty trading, which itself was diverse. 48% of survey respondents had more than one occupation. This strategy was less profitable than developing one enterprise but was more likely to lead to a regular income flow. This diversification was an income smoothing risk management strategy that was more likely to lead to livelihood security. There was an overriding need for a daily/frequent income over profits/livelihood development in a vulnerable urban environment. The inter-linkage between livelihood assets was evident. Overall 50% of survey respondents used their dwelling for operating an IGA. Relatives and friends were also important avenues for entering the labour market and in developing skills. Livelihoods were complex and were not dependent on just one factor. There were strong interrelationships between assets in order to secure livelihoods, as discussed above.

In the 1970s, the IGAs present in Bwaise in 2000 would have been defined as being part of the informal sector. The urban poor's economic activities ranged from hawking on the street and petty trading in markets to skilled mechanics and metal workers with their own trade associations. All of these IGAs had become formal to the extent that a licence was needed to operate as a hawker or within a physical market. Similar to the *jua kali* sector researched by King (1996), the IGAs within Bwaise ranged from the very productive skilled sectors to virtual subsistence activities. The acceptability of the informal sector and IGAs has led to several donor and Government programmes supporting micro and small-scale enterprise development, as discussed in Chapter Three.

The term *Jua Kali* described informal artisans working in the hot sun in Kenya. By the 1990s this term was used to describe any type of self-employment and a Government programme was set up to support the development of *Jua Kali* (King, 1996). The '*jua-kalification*' of Nairobi (King, 1996) was similar to the situation in Bwaise, with the vast majority of people working in micro-enterprises rather than in the public sector or in salaried employment. None of these activities offer benefits, insurance or security. The lack of secure employment is a significant factor that contributes to the highly vulnerable context in which the majority of Bwaise livelihoods reside. One of the overriding factors affecting all livelihoods was insecurity and vulnerability within Bwaise, which resulted in the key issue for the urban poor being livelihood *security* rather than development.

9.2.3 Insecurity and Vulnerability

Chapter Four discussed the high level of constraints facing livelihoods in Bwaise. This showed the riskiness and vulnerability of livelihoods for the urban poor and how these influenced the management of their livelihoods, and why they accessed financial services, as discussed in Chapters Six and Seven. The majority of shocks in Bwaise were so endemic that they had become risks that people expected to happen. A high state of vulnerability occurred in Bwaise where shocks, such as ill health, theft and low sales, were so frequent they had become trends. Livelihood assets were depleted through both shocks and trends. The main livelihood risks were: theft, ill health, environmental factors and market saturation of petty trading businesses. Theft was one of the overriding vulnerability factors in Bwaise and impacted on all aspects of livelihood management. The high incidence of theft meant that it was extremely difficult to secure a safe place to store savings, to accumulate household and enterprise assets and it also led to a depletion of productive assets. The influence of ill health as a risk was similar to a Bangladesh study, which found that those who had illnesses had lower incomes and were less likely to have loans and be members of SCSs

(Pryer et al, 2003). This may occur either through self-selection or because other members deny a sick person access to financial services, due to their likely inability to repay.

Although financial services had been developed to assist the poor in managing these events, mainly *munno mukabi*, shopkeeper credit, trade associations and savings, using financial services, especially those that led to debt, further depleted livelihood assets. Failure to repay debts was predominantly because of a loss of income through ill health, theft or low sales. At these times, physical livelihood assets, such as business stock and household assets, were sold or taken to repay debts. The protective livelihood strategies, including financial services, discussed in Chapter Seven were used in times of risk and had been incorporated into daily life for the majority within Bwaise.

9.2.4 Livelihood Management Strategies: Financial Services for Consumption Smoothing

Similar to Rutherford's (2000) findings, the most important use of financial services was to transfer small sums of money into usefully large sums of cash. This money was then spent on education, medication, enterprise assets and household assets. This enabled one of the most important aspects of livelihood management strategies to be used: consumption smoothing. Consumption smoothing included effective financial risk management and allowed the poor to manage their expenditure requirements in efficient and effective ways, which increased the security of their livelihoods and meant that they were less likely to deplete important productive assets to meet consumption requirements. Financial services were an important part of these consumption smoothing and loss management strategies, either in times of crisis or for general livelihood management. The insecurity of livelihoods meant that the majority experienced a state of long-term vulnerability, where loss management had become part of their general livelihood management strategies.

The expenditure requirements of the urban poor, which were discussed in Chapter Seven, showed that they required financial services to meet both demands and opportunities. Lump sums of money were obtained through financial services. Without financial services, the sale of productive assets to meet unproductive monetary needs (emergencies and lifecycle needs) leads to asset depletion. The lack of formal financial services and the need for managing cash flows led to the development of a range of informal finance mechanisms. Similarly to what has been found historically, the inability to borrow was an indicator of poverty in many parts of Africa (Iliffe, 1987: 155). The ability to borrow, either in times of crisis or for general livelihood management, was a key factor in securing livelihoods within Bwaise. Financial services were used to fund start-up capital and on-going business requirements, physical household assets, money for relatives, school fees, food and medication.

The high levels of vulnerability in Bwaise constrained the development of livelihoods and informal financial services had been developed to help secure and manage livelihoods rather than to support livelihood development. The majority of the informal financial services available assisted in increasing security of tenure, food supply, medication provision and IGA operation. As well as being important livelihood risk management strategies, they were important in times of crisis to protect against further depletion of productive assets. *Munno mukabi* and trade associations were especially important for providing funds in times of death and ill health. Cash rounds and savings at home were frequent sources of money for school fees, household assets and start-up capital. Credit from suppliers was vital for IGAs to purchase stock and landlord credit assisted in securing tenure; similarly shopkeeper credit was a vital way of purchasing food when needed, especially for women and was not dependent on income flows. The livelihood assets most protected by financial services were human capital (education, medication and nutrition), labour for IGAs and housing. Financial services were used either to purchase larger than normal requirements or to assist in meeting regular normal requirements such as rent and food.

The risk-averse peasant (Ellis, 1998) and risk management strategies described in Chapter Two (Chen & Dunn, 1996; Dercon, 2000; Rakodi, 1997; Alderman & Paxson, 1994) were similar to strategies in Bwaise because of the high levels of risk and uncertainty in an urban cash economy. The livelihood management strategies were summarised in Box 7.5, which also showed the inter-linkages between livelihood assets.

9.2.5 Inter-linkage of Livelihood Assets in Managing Livelihoods

It was apparent that there were huge inter-linkages between livelihood assets. Labour was the most important asset for managing a livelihood, but engaging in the labour market required skills (*human capital*) usually gained from relatives or friends (*intra-household relations and social capital);* a place of residence (*housing*) was also used as an important source of income and security to manage livelihood. As most livelihood activities were carried out without a legal framework, personal networks (*social capital*) were essential to manage livelihoods by increasing information flows and enabling reciprocity. Personal networks were also essential for accessing and utilising financial services. Boxes 7.4, 7.6 and 9.1 showed the use of assets in managing livelihoods and the dependencies between assets in achieving livelihood outcomes. Several factors were also important in accessing and utilising financial services; personal networks, labour, skills and a place of residence played important roles in accessing and utilising financial services.

9.2.6 Personal Networks and Trust

In their struggle to survive the urban poor drew upon many relationships and institutions

(Iliffe, 1987: 176).

The reliance on trust to sustain and access the majority of the financial services in operation meant that personal networks had an overriding importance. The importance of social capital for accessing financial services was paramount. Friends, family and work colleagues were essential for financial intermediation. They were also an important source of knowledge and skill development. One of the most interesting aspects of the analysis of social capital in Bwaise was the development of personal networks as a result of external political and economic factors. This also impacted the use of financial services and livelihood strategies. During the 1970s and 1980s, the use of moneylenders was fairly common. At this time, there were high levels of political insecurity and high geographical mobility in urban areas. Since the late 1980s, greater stability has meant that trust and physical security have developed and so too have the number of group-based financial services, which are reliant on trust to be sustained. Cash rounds only started to become common in the 1990s, when the political environment and mobility were more stable in urban areas. Trust also developed in urban areas, partly because the poor needed to engage in transactions and acts of reciprocity in order to manage their livelihoods. Therefore the use of reciprocity and intermediation developed both because of political stability and because of the need to use those mechanisms to effectively manage urban livelihoods. This was similar to Moser's (1996) findings, where economic crisis had eroded trust and co-operation in all the urban communities in her study.

The majority of the financial intermediation mechanisms in Bwaise required trust to be developed first, usually by entering into small frequent transactions beforehand. One of the few livelihood assets to be enhanced because of using financial services was social capital. This was partly because trust and personal networks were so important in utilising financial services. Social capital enabled the enhancement of human capital, financial capital and income generation. It was evident that the function of other livelihood assets was dependent on the primacy of social capital. Personal networks helped to sustain the labour market and IGAs; transactions between wholesalers and IGAs ensured the flow of trade and sustaining IGAs. These rely on informal relationships and accumulation of trust to give supplies on credit to retailers.

Most informal financial mechanisms were dependent on some form of social capital. People will seek to increase their range of networks, by joining informal groups and engaging in forms of reciprocity. Also, several members of group-based financial services, mainly MFIs and trade associations, entered into financial intermediation so that they could manage or enhance other livelihood assets. For example, being a member of a MFI, SCSs or trade association were found to have increased a person's personal networks, which in turn increased their access to skills development and other forms of information vital in managing livelihoods. Reciprocity was vital in order to sustain several financial services, to access the labour market and also to sustain personal networks. This is illustrated in the quotations below:

I joined YOFA to share skills and experience amongst members (YOFA Member, 27/11/00).

I now get help from friends in the group, which I did not have before and they can assist you if you have problems and you can learn from one another. This is important to help me live in Bwaise (FAULU Member, 12/04/00).

Although social networks allowed businesses and communities to function at the local level, a reliance on trust without enforceable contracts meant that businesses remained at the local, personalised level. In FGDs, those who were poor were defined as those who had no friends and limited access to information. Social capital led to the generation of more financial resources, by increasing access to a wider range of financial services

9.2.7 Nesting of Financial Intermediation

There was a cumulative use of financial services in Bwaise; accessing one type of financial service often led to the use of another financial service. Group-based financial services such as MFIs, SCSs and trade associations led to cash rounds and *munno mukabi* being used by the same group members. This nesting of financial services was important for increasing the range of financial risk management strategies available to the poor. The more formal nature of the trade associations, SCSs and MFIs enabled a larger group of people to join together, and also widened the networks of the group members. It also allowed for trust mechanisms to be developed through the functioning of the group-based financial services. Regular payments provided real opportunities for members to show that they could trust their fellow members. Personal social intermediation, which was vital for accessing financial services, was enhanced by examples of trust being played out in practice. These examples of reciprocity and trust increased the likelihood of members engaging in further financial transactions with other members. As well as being able to manage productive assets, such as labour, human capital and housing, more effectively, using financial services actually had a nesting role in gaining access to other sources of financial intermediation. MFI and trade association members were highly likely to engage in cash rounds, informal lending, supplier credit and *munno mukabi*. It is ironic that one of the main roles for MFIs had been to provide the framework for informal financial mechanisms to develop. This was in part explained because the factors required to access a range of financial services (namely trust and the ability to make payments) were similar to those required to access MFIs.

9.2.8 Information Exchange

Assessment of trustworthiness was necessary in order to engage successfully in financial intermediation. It also highlighted the efficiency of information flows amongst those that used financial services. The flow of information gathering was increased because of the reliance on physical proximity when financial services were being accessed. The majority of people engaging in financial intermediation lived and/or worked in close proximity to one another. They were able to gather information about individuals, informally assessing their ability to repay. Essentially every individual was making an informal credit rating assessment of the other individual. This was a similar process to that which a bank providing a loan would undertake. MFIs had also incorporated a formal appraisal of each member's business prior to disbursing a loan, but the group members would not use such a rigid criterion and would instead informally assess a person's ability to repay.

All financial services which were dependent on trust had to rely on information exchange to be sustainable. Suppliers, landlords and shopkeepers only gave credit to regular and reliable customers. Cash round members only set up a cash round with people they trusted, and it was more likely to be successful because of this. *'I joined a cash round with a group of friends, because we work near each other and I know they have regular incomes to contribute to the cash round and will not steal the money'* (Ddembe Market Trader, 16/10/00). Financial service providers and users had vast amounts of information about each other, which was gained by regular contact and experiences. This was no guarantee that the financial service transactions would be successful, and could not be used to predict future behaviour or external events, but the rich information flows did decrease the likelihood of failure. For some, however, the decision to engage in a financial transaction was clouded by familial obligations at the expense of likely repayment, which increased the likelihood of entering into a financial transaction with family members and kin. *'Since getting a loan from CMF I am pressured by family to lend money to them'* (CMF Member, 09/11/00). Although this was a common occurrence, overall good information flows assisted in sustaining a diverse range of financial services in Bwaise, which were reliant on trust and physical proximity.

9.2.9 Housing and Physical Proximity

Physical proximity was vital for accessing informal financial services and MFIs. A place of residence was a prerequisite for accessing an MFI. Security of tenure lowered mobility and increased the likelihood of individuals entering into financial intermediation with another individual or with a group, as trust could be developed. Most people also kept their savings in their homes. A place of residence or business was hugely important for accessing financial services. It was security of tenure rather than ownership that was more important for engaging in financial services. Regular communications were more likely to occur with neighbours in residence or business. This enabled trust to be developed, through regular small transactions. Neighbours were a common source of funding for loans and members for cash rounds and *munno mukabi*, especially for women.

Workers in the same trade working near each other had set up trade associations, which were an important source of support and cash rounds. Several associations provided loans and savings facilities, as well as insurance if a member was ill or had equipment damaged or stolen. The most advanced, in terms of financial intermediation, was providing motorcycles on a hire purchase basis, after a formal contract had been agreed with a motorcycle supplier. These associations were also important sources of information sharing and skill development, which were also vital for livelihood management. Most financial services were highly dependent on physical location. This was not surprising given the informality of the majority of the financial services, which were reliant on trust to work effectively.

A permanent dwelling was important for accessing the labour market and setting up an IGA. The livelihood characteristics in Bwaise were similar to Nairobi's *Jua Kali* sector (King, 1996), where residential premises were used for IGAs. 60% of female respondents and 40% of male respondents used their dwelling for an IGA in Bwaise, regardless of whether the dwelling was owned or rented.

This shows the inter-linkage between livelihood assets but also highlights the importance of a permanent dwelling for livelihood management. Security of tenure, rather than ownership, was essential for livelihood management, as it allowed access to financial services and the labour market. It also increased the likelihood of developing personal networks, as many of these were dependent on physical proximity, which could only be maintained if tenure was secure. Personal networks were also heavily influenced by gender.

9.2.10 Gender and Intra-Household Relations

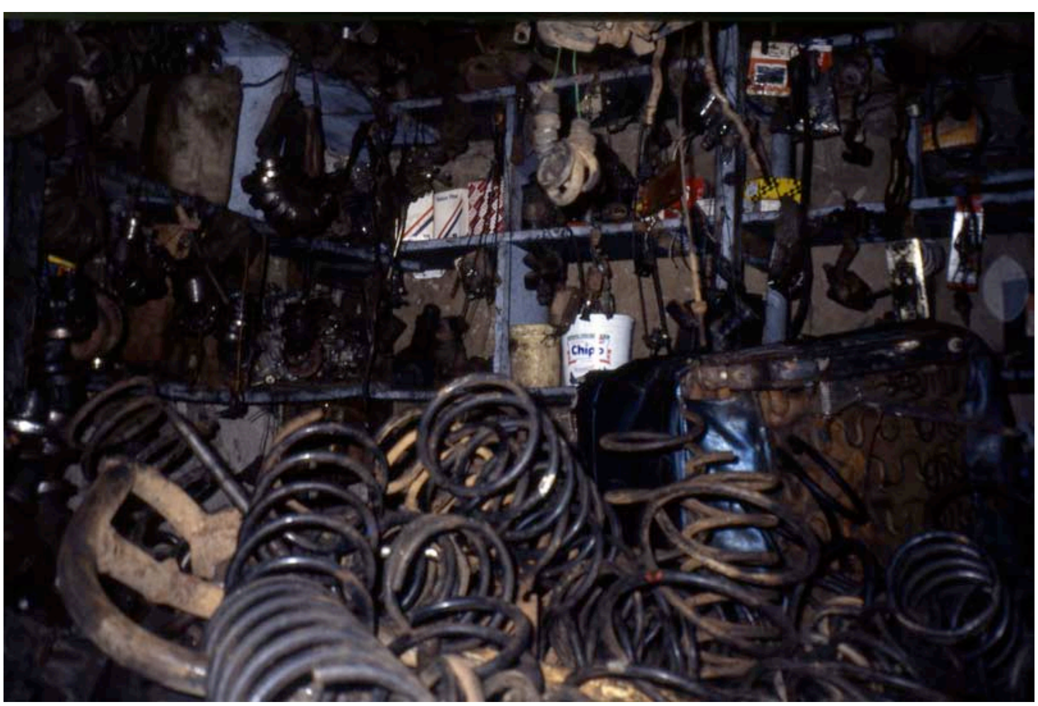
Many of the members in a group were homogeneous, which is unsurprising given that people are more likely to trust their peers. Gender was an important element in accessing and using financial services. There have been changes over time; the most important determinant of female poverty has continued to be the range of economic opportunities open to women. In the 1970s in Kampala, respectable women were virtually barred from trading activities, whereas in West Africa it was the main avenue of survival (Mandeville, 1979). It has become increasingly acceptable in Kampala for women to work, and this acceptance has corresponded with the increase of female-headed households. Since Amin's era, opportunities for women to carry out paid work have increased. This is partly due to a greater need for survival strategies in times of economic crisis. It was necessary for more household members to work as incomes became more unreliable and lower. As a response to the political and economic stability, *tonninyira mukange* were set up and the majority of sellers were female. Attitudes towards women working have shifted dramatically since the 1970s, when it used to be considered unacceptable for respectable women to work, but now husbands actively encourage their wives to seek employment, partly out of necessity.

An increase in women working has led to more assets being owned by women within households, but for several households in the research this had led to a decline in male responsibility, thus increasing the burden for women. Women were generally engaged in the less profitable forms of IGAs, where capital requirements are lower. The lower capital requirements and lower skill levels increased the ease of entry for women to participate in IGAs, but these were situated in highly competitive markets, such as selling foodstuffs; whereas, more profitable IGAs, such as mechanics and carpenters, were traditionally male and required much higher levels of skill and capital requirements. Tailoring was the obvious exception and was both a female and a male occupation. Men were reluctant to undertake traditional women's jobs. It was apparent that few households pooled their incomes and an increase in overall household income did not necessarily result in increasing household well-being or the income being spent on developing household livelihood assets. Similar to other findings, increasing women's involvement in IGAs and household income was more likely to lead to better nutrition and more regular schooling for children. This should have a positive impact on human development for children and long-term gains for livelihood development. Women were becoming increasingly responsible for household expenditure, 15% of households were female-headed, although men in two adult households were still seen as the main providers even if the female's income was higher. Women reported that they played down their levels of contribution to the household expenditure, so as not to jeopardise the man's status externally, or fundamentally change the power within the household. The high levels of female-headed households resulted from death or separation. Those households allowed women to utilise their resources more effectively. The increase in female asset ownership could have long term implications within the household and may result in the future with men being pushed out of the household if they become burdensome.

The scope of female occupations was increasing, more women were entering traditionally male jobs, such as brick making and selling spare motor parts (Photographs 9.1 & 9.2). The scarcity of income-earning opportunities lead to an increasing proportion of the urban poor being under-employed. This increased the reliance on intra-household relations and increased household dependency within urban areas.

Living with relatives in urban areas was not new; in 1965-6 in SSA, 51% of the unemployed were living with relatives, 27% with friends and 2% were sleeping rough (Iliffe, 1987: 180). Kinsmen were not infinitely generous, though, and would provide hospitality for relatives reluctantly; aid was concentrated on those with whom one lived. This was similar in Bwaise, where a downside to any increase in wealth, real or perceived was that it increased familial obligations. Intra-household relations and human development were an important source of knowledge sharing but were also a big source of consumption, mainly through medication, nutrition, education and supporting kin. A high number of dependants within households was one of the factors that inhibited livelihood development.

<u>Photograph 9.1 Spare Motor Parts</u>



<u>Photograph 9.2 Brick-Making</u>

9.2.11 Livelihood Development

I can't think about enterprise development when I fear for the survival of my business, feeding my children, paying rent and school fees (Ddembe Market Trader, 16/10/00).

The overriding vulnerability within Bwaise led to a focus on livelihood security rather than on livelihood development. This is not to say there was no livelihood development within Bwaise. It could be argued that being able to sustain and secure a livelihood was development. The real issue was limited evidence of significant enterprise development, which was the aim of many MFIs working in Bwaise. There were several reasons why this had rarely happened, highlighting that although capital is a constraint it is not the panacea for livelihood and enterprise development. Lack of economic opportunities was seen as a cause of poverty (MFPED, 2000c). Market saturation, lack of skills and high levels of vulnerability led to the need for financial services for general livelihood management, not just for enterprise development. Livelihood security through risk management was the overriding goal for the majority in Bwaise, rather than enterprise or significant livelihood development. It is crucial that although financial services were an extremely important part of the poor's financial risk management, credit was also debt, which equals vulnerability, especially in times of crisis.

9.2.12 Debt as Vulnerability

Although financial services played a useful role in managing livelihoods in Bwaise, assets were sometimes depleted because of using financial services. It is often forgotten that credit is debt and debt is a vulnerability to the poor. If a shock was too severe for existing insurance livelihood mechanisms to help, any form of outstanding credit was likely to lead to a loss of livelihood assets. Household assets were sold to repay loans, stock was sold off at a loss to reimburse suppliers and MFI loans were repaid. This would then have a negative impact on IGAs and on income flows, which decreased the quality and quantity of food available. Severe shocks could lead to loss of tenure if rent was repeatedly left unpaid, and children could be taken out of school. Aside from the loss of education, arguably the most damaging aspect of the inability to repay was the loss of social capital, which was vital for entering the labour market, for gaining access to financial services, for maintaining secure housing and for skills development. Increased use of financial services does tend to increase the levels of indebtedness.

The '*scramble for cash*' (Iliffe, 1987: 172) was intense in urban areas and could result in the urban poor engaging in unsustainable financial intermediation in order to meet immediate needs. This occurred mostly to meet expenditure requirements from shocks, such as ill health and theft. Several of the financial services were reliant on frequent payments, which for those with unreliable income flows were not sustainable. This helped to explain why group-based financial services, such as cash rounds and *munno mukabi,* regularly failed and new ones were set up. Using financial services was also a risk for financial service providers, such as shopkeepers, lenders and suppliers, who were likely to be poor as well. Many providers engaged in financial intermediation to guarantee regular custom and have a mechanism of reciprocity when needed. Even though debt was a vulnerability, it was a risk that many of the urban poor in Bwaise were willing to take, as 40% had some kind of debt. The validity of the livelihoods framework as an analytical tool will now be discussed.

9.3 REFLECTIONS ON THE LIVELIHOODS FRAMEWORK - ANALYTICAL TOOL

This section will briefly discuss the usefulness of using the livelihoods framework as the main analytical research tool. At the time of the field research in 2000, there were few urban studies that had used the livelihoods framework as an analytical tool. The most notable and extensive was Caroline Moser's study of urban vulnerability in four countries, from which the asset-vulnerability framework was developed (Moser, 1996; 1998). The framework was useful for understanding the holistic complexities and dynamic nature of urban poverty. It firstly assisted in identifying the assets of the poor rather than focusing solely on income. As long as the overall concept of each asset was recognised and not restricted to a rigid definition or an absolute measurement. This approach was useful when researching urban poverty and the role a particular factor might play. An absolute quantitative measure of each 'asset' is unfeasible and unrepresentative of the complexities and fluid nature of assets, which is a generic term to describe factors that provide the poor with tools to more effectively manage their livelihoods. The livelihoods framework (Carney, 1999) and Moser's (1998) vulnerability-asset framework were adapted for the local context in Bwaise. An adapted framework allowed the analysis of the factors governing how and why the poor utilised financial services in Bwaise, as well as understanding livelihoods and risk management strategies. Overall it sought to combine qualitative and participatory methods with some quantitative techniques, and thus to gain a broader picture and deeper understanding of urban poverty and livelihoods.

The framework acknowledges the need with recognising the wealth of the poor and unsurprisingly focusing on participatory and qualitative analytical tools. This gave a depth and richness to the research, although it resulted in a more subjective and statistically unrepresentative analysis of livelihoods in Bwaise, Kampala. The framework acknowledges the need to transcend the boundaries between conventionally discrete sectors (e.g. formal /informal). It also implicitly recognises the necessity to investigate the relationships between different activities that constitute livelihoods, which in turn requires attention both to intra-household and to external factors.

One criticism may be that, because the livelihoods framework focused so much on the assets of the poor, it underplayed the importance of external context and highly vulnerable constraints on the poor, which had an overriding influence on livelihoods. The framework also does not sufficiently acknowledge inequalities of power and conflict within communities or the household. Only Moser's framework (1998) explicitly acknowledges the importance of intra-household relations.

Nevertheless, an adapted framework was useful to systematically assess the role of financial services for livelihoods, whilst maintaining the depth of qualitative information. The livelihoods framework has increasingly been used to analyse poverty (Norton & Foster, 2001; Hospes & Lont, 2004; DFID, 1999). The overriding reason for using the livelihoods framework was to encompass and analyse the factors that interplayed in order for the poor to manage their livelihoods, and especially the role of financial services. It also assisted in identifying and understanding how and why the urban poor used financial services. Overall the livelihoods framework achieved this aim by providing a useful tool to understand the livelihoods of the urban poor through researching the assets they sought to secure and use for managing their livelihoods, as well as understanding the context for those livelihoods.

9.4 CURRENT CONTEXT-MICROFINANCE INDUSTRY

Since the research was carried out in 2000, the microfinance industry has become more demand-driven with product diversification. However, there are still research gaps and it will take time to become fully diversified, as diversification requires an in-depth knowledge of the local informal financial products and livelihoods within a given area. Livelihoods and informal financial services are diverse and the *'one-size-fits-all'* MFI model needs careful consideration and adaptation before being applied to different communities (Cohen, 2001). It is interesting to note that the criticisms of subsidised rural finance programmes by the Ohio School can be applied to supply-driven donor MFI programmes. There is a deeper understanding of rural poverty and livelihoods, but more research needs to be carried out to understand the urban poor and livelihoods. This research contributes by extending the knowledge on livelihoods and informal financial services in an urban setting. There were several reasons beyond enterprise development why people access financial services. The research showed that there is a need to look more holistically at livelihood management rather than just at enterprise development, if we want to obtain real benefits in the use of financial services for urban poverty reduction. It is inappropriate to explore in-depth here the implications for policy with respect to microfinance and urban poverty, which includes that products need to be tailor-made for the urban poor, and not modifications of the existing products without a proper conceptual understanding of the nature of the urban poor. Although time-consuming, for MFIs to become truly demand driven they need to thoroughly research the local environment including livelihood management strategies, external context and vulnerabilities and informal financial services.

APPENDIX ONE RESEARCH METHODS

1.1 RESEARCH SETTING CONSIDERATIONS

1.1.1 Introduction

> *The seminars, lectures and conferences, the obligatory number-crunching and report writing, the elaborate theoretical models, the recently published papers, journals and books – all seemed not just meaningless, but positively bizarre, next to the stark realities of life in a Third World community* (Devereux & Hoddinott 1992: 23).

Carrying out research in Africa is fraught with difficulties. It is logistically harder; gender, *mzungu,* language and culture are all considerations that influence how research is undertaken. I had carried out research in East Africa for my Masters and Undergraduate dissertations and was aware of the cultural differences and potential problems. Poor infrastructure resulted in logistical problems in carrying out research. The informal nature of businesses and housing in the research area meant it was impossible to obtain a reliable population framework, which made carrying out a statistically reliable and/or representative survey virtually impossible (Robson, 2002). Basic procedures take longer than anticipated. It is vital that the researcher accepts that patience is necessary and it takes time to carry out research in a developing country. I read *The Man with the Key Has Gone* (Clarke, 1993) with a wry smile on my face, after experiencing similar activities. The statistics department at the MoF sold copies of the Integrated Household Surveys. The first time I went to purchase the surveys I was told that the man with the key was sick and I should come back in a couple of days. When I returned the person was at lunch, so I waited for a couple of hours and was then told he was unlikely to be returning that day. I was told that no one else had a key and no-one else would accept payment. Finally I purchased the survey after four visits. Similar experiences would occur when I had arranged to meet interviewees.

1.1.2 Being a Mzungu

Whilst carrying research it is important to be reflective at all times and to be aware of your input into the research. This is of vital importance to research carried out by a foreigner. During my research in Uganda one of the major impacts on my research was being a *mzungu*. As a *mzungu* in Uganda it is impossible to be anonymous or to blend into local society; people constantly stare and comment upon your presence. The general perception is that every white person is rich and arrogant. This is made even more pronounced when the main research participants are poor people. They formed opinions of me as a *mzungu*, mainly because I was seen as a potential possible donor. This was a key consideration when observing and interviewing MFI and NGO groups who were used to being recipients of donor aid. From the outset of observing, it was constantly reiterated to the MFI groups them that I was an independent researcher, not from the MFI nor a donor, and I did not have any money to give them. This assumption cannot be avoided and is something I took into account during the interviews and general observations. However, acclimatisation to this environment should not exclude its significance to carrying out research (Denzin & Lincoln, 1998).

Being a *mzungu* was advantageous in some respects; this is because, unfortunately, in Uganda, *mzungu*s continue to be given preferential treatment. I was able to gain access to staff and documents within MoF, BoU, and MFIs that I may not have been able to do if I was a local. There appeared to be an inherent trust in me because I was a *mzungu* and therefore was in some way more important. Not only was I able to access key stakeholders and documents, I was also able to observe the discussions at the committee set up to compile the Microfinance Bill at the MoF. I was also able to present my findings to key microfinance stakeholders at the UIB. Remaining an outsider helped to obtain more sensitive and confidential information from respondents in Bwaise, as they who felt more able to discuss income and their livelihoods.

1.1.3 Gender

Similarly, another factor that is often ignored in methodology is the gender of the researcher, and this is also significant. Many research methods publications do not state the importance of gender when carrying research (Punch, 1998). Whilst researching MFI groups who were predominantly female, this was not a problem. As I had permission from the Local Councillors and MFI staff to be in the area I was viewed as a Makerere University researcher. It helped being a *mzungu* as this to some extent transposed gender stereotypes. When interviewing I did deliberately dress in accordance with the gender norms when I carried out my research. This meant dressing in long skirts and sleeved tops. Dress code in Uganda is very important, and there are many assumptions made of females who wear trousers, or who wear shorter skirts and sleeveless tops. Ugandans are also very dismissive of people who are not well groomed with clean, well-pressed clothes.

1.1.4 Language

> *Working within your own culture has many advantages besides the obvious and crucial one of language…It is easy to understand people not only by the words they used, but by their tone of voice, the way they reacted to certain subjects, their gestures and so on* (Razavi, 1992: 160).

Talking was the main method of communication used in the research, so how the questions were phrased was of vital importance. Although English is spoken, poorer people tend to have a limited knowledge of English, due to a low level of education. Therefore the research assistants carried out all FGDs and interviews in Lugandan. To alleviate any misunderstandings of word meaning, the questions were piloted, quality controlled, translated into Lugandan by one person and then translated back into English by another person. I carried out all key stakeholder interviews, including credit officers, Government officials, donors and NGO staff, in English. I conducted interviews in English by myself, and along with my research assistants we conducted interviews in Lugandan. We asked the interviewee which language they felt most comfortable conversing in, and when I did not speak the language I worked via the translation of my research assistants. It is imperative that the translator knows how to steer the conversation, and especially to know the key points to look out for. One advantage of working via a translator was that they were able to gauge the response of the interviewees through their mannerisms, because they shared a common language and culture. Carrying out research in Africa needs careful consideration of appropriate research methods, gender, culture, being a *mzungu* and the length of time it takes.

1.2 RESEARCH METHODS

Research methods are '*ways of collecting, analysing, evaluating and presenting new or existing data' (*Hussey & Hussey, 1997). The field research took place between January and December 2000 in Kampala. Data collection and analysis was mainly conducted by qualitative techniques, with quantitative techniques used to support the qualitative data. Hybrid research methods, which combine qualitative and quantitative methods within a case study, provide a more appropriate framework to study complex livelihoods and an informal financial system. Hybrid methods provide greater scope for appropriate research methods guided by the research needs rather than a narrow paradigm or methodology, which would have occurred if choosing a pure quantitative or qualitative approach. Tashakkori and Teddlie (1998) refer to this as the pragmatic paradigm that is both subjective and objective. Quantitative methods were invaluable when describing characteristics and were important for triangulation of key information derived from interviews and FGDs. Hulme (2000) and Hatch and Frederick (1998) provide useful analyses of impact assessment methodologies for microfinance; and Baker and Schuler (2004) provide a useful analysis of urban poverty methods, which was utilised for the research.

Once a case study area had been chosen, interviews formed the basis of the research methods and these were backed up with observations, FGDs and a survey. The sensitive nature of the study meant that qualitative methods were more appropriate for the majority of the research. Its suitability allowed respondents to talk in more depth about sensitive issues. Participatory techniques were used in focus group discussions to gain information on general perceptions about wealth and financial services. The purpose of the research lent itself to more qualitative research methods and the use of a case study as the main focus of research.

1.2.1 Observation

One of the main mechanisms used to gain initial information about the financial system in Bwaise was general non-participant observation. I accompanied the MFI loan officers around Bwaise to meet groups, find out how groups operated and familiarise myself with MFIs and Bwaise. I used these observations as my entry point into the case study area. It would have been also inappropriate for me to arrive in Bwaise and start interviewing immediately, partly because I needed to gain further information about the area and who I needed to interview, and also because I needed to develop trust from the local leaders. Prior to any interviews, I regularly visited Bwaise with the MFI loan officers until I was familiar with the area. I then carried out a mapping exercise of the main commercial activities and obtained permission to engage with Bwaise residents. This helped to identify the NGOs, CBOs and associations in Bwaise. Observation and documentary analysis allowed me to develop my interview, survey and FGD questions. By necessity my research had to be iterative as I gained more information on the case study area.

Key external stakeholders were those that did not live in Bwaise but influenced the livelihoods and financial systems within the area. Observation and preliminary meetings were used to determine who the key stakeholders were. Appendix Two shows the list of key external stakeholders interviewed. They included staff from MoF, BoU, KCC, NGO, MFIs and donors. A stakeholder is '*any person, group or institution that has an interest in an activity, project or programmes. This definition includes both intended beneficiaries and intermediaries, winners and losers and those involved or excluded from decision-making processes'* (Goyder et al, 1998: 54) I was also allowed to attend the Micro-Finance Forum and AMFIU meetings, which helped me to identify the key stakeholders. Once I had identified all the key stakeholders I was able to analyse their roles. Identifying stakeholders is an iterative process in an unknown field research area. There was relatively little literature available prior to carrying out the field research. Stakeholder analysis is *'an analysis of the interests of the key groups affected by an intervention, or likely to effect its outcome'* (Goyder et al, 1998: 55). Interviews were conducted with both residents of the case study areas and each external stakeholder.

1.2.3 Interviews

Semi-structured interviews are still respondent interviews (Powney & Watts, 1987), but allow for greater freedom in the sequencing of questions, their exact wording and the amount of time given to different topics. The order of the interview was flexible and could be altered so it was more appropriate to the respondent. The order of the interview questions, however, could affect the outcome of the interview. Generally interviews were funnelled in some way. Using this method, this way the interviewer could start with broader questions and funnel into detailed questions or vice versa. The first method was often more appropriate when sensitive issues are to be discussed. Generally interviewees were more at ease with giving a brief life history before speaking in more detail. Neuman (1994) argues that there are also three types of questions used in interviewing: descriptive, structural and contrast questions. At the first stage of an interview *descriptive* questions are the most frequently asked. These are questions that explore the setting and extract basic information from participants. They ask respondents for examples or experiences of certain situations. *Structural* questions follow which require prior analysis by the researcher in order to develop categories of actions or people. These questions focus on how the participants categorise people and how they respond differently to these types of people. Finally *contrast* questions follow on from structural questions and focus on similarities and differences between categories. These are useful guidelines to use and involve prior research and analysis. This structure proved useful in the research. The data obtained from the observation was used and analysed to form the basis for the topic guide. Robson (1994) believes that questions can be approximately disaggregated into questions concerned with facts, with behaviour, and with attitudes. Attitudes are the most complex and are more prone to the effects of question wording and sequence.

These different types of questions show that interviews are an important way to obtain information about people. Asking people is an obvious way of obtaining explanations to research questions. Face-to-face interviews allowed for flexibility and this allowed the interviewer to follow up interesting responses. A more complex understanding could be obtained through in-depth interviewing. A topic guide as well as questions was an appropriate tool to use in the research. The interviewer has a list of specific issues that have to be discussed, but the length of time spent on each topic was dependent on the participant's responses. Those issues form the basis of research questions. The research objectives formed the basis of the topic guides.

Qualitative in-depth interviews were appropriate for this type of research when interviewing Bwaise residents, as issues of personal income, financial services, household relations and economy were discussed. A topic guide was useful as it kept the interviewer focused on the research questions and did not allow the interview to turn into a conversation. This type of interview is usually semi-structured. It also ensures that all issues are covered and not forgotten. Therefore the topic guide will have a mixture of broad, focused, descriptive, behavioural, and attitudinal questions.

Constructing a topic guide allows the researcher to think of the style of questions that they will ask. Questions should not be long, double-barrelled, leading or jargon-filled. It is important that the questions are clear and non-threatening so the participants do not become defensive. Topic guides for semi-structured interviews can incorporate more structured parts, especially for factual questions. My interview schedule incorporated the topic guide and also had an introduction explaining the purpose and a closure (Robson, 2002). I also made certain I thanked each participant, especially those in Bwaise, for being willing to take part in the interview and for allowing me to observe their work. It was important to put the MFI members and Bwaise residents at ease, as they were not used to interviews or interaction with a *mzungu.* I clarified the purpose of the interview, which was essentially to find out how they make a living and the role of financial services they used. I reiterated that this was not a test and it was for my own research purposes. I assured the interviewee of anonymity.

In recognition of the time that interviewees were giving, interviews were carried out at appropriate times and normally at their work place. This increased the time it took to carry out the interviews. For FGDs, where people were taken from their work place, it was necessary to pay the respondents.

This reassurance was necessary because qualitative interviews are much more dependent on the skills of the interviewer than structured questionnaires. This is because qualitative interviews are in-depth, informal, respondent and semi-structured (Neuman, 1994). The focus is on the participant's perspective and experiences. Quantitative questionnaires rarely obtain in-depth information on people's attitudes. I wanted to find out the participant's reality and use a survey as supporting information. Thus this type of interviewing stems from interpretative approaches. Robson (1994) believes that interviews are conversations with a purpose and enable researchers to articulate knowledge. Interviews are a process initiated by the interviewer and communication is of vital importance. Therefore what the respondents say depends on the researcher's actions.

> *The interviewer's presence and form of involvement – how he or she listens, attends, encourages, interrupts, digresses, initiates topics, and terminates responses – is integral to the respondent's account* (Mishler, 1986: 82).

The ability of the researcher is paramount in successful qualitative research (Gillham, 2000). Therefore for the interviews in Bwaise, I had to choose a research assistant who was competent in qualitative research, fluent in Lugandan and in English. I decided that due to the high proportion of women that were to be interviewed and the sensitivity of some of the questions, a female research assistant would be more appropriate. I was very fortunate to find more than capable research assistants, who had experience of carrying out FGDs as well as in-depth interviews. They had also been trained previously in research for microfinance, so were aware of the main issues of the research. They carried out interviews where interviewees were not fluent in English and assisted me in FGDs and interviews when they could be carried out in English.

1.2.4 Survey

The wording of survey questions was even more crucially important. It was not possible to conduct a statistically random survey, because an accurate sampling frame and indeed the population size could not be ascertained. Small-scale surveys with more purposive sampling are appropriate when no statistical generalisation to any population beyond the sample surveyed is made (Robson, 2002). It was impossible to obtain an accurate population framework or map of IGAs or households in Bwaise. Practically for most social science research it is extremely difficult to carry out accurate probability sampling and statistical inference (Black, 1993). '*Thus if one took generalization to a population using statistical inference seriously, one would recommend rejecting nearly all manuscripts submitted*' (Schwab, 1985: 173).

1.2.5 Focus Group Discussions

Focus Groups were used to gather data relating to the opinions of a group who were involved in a common situation (Hussey & Hussey, 1997). It has been acknowledged that '*the explicit use of the group interaction is to produce data and insights that would be less accessible without the interaction found in a group*' (Morgan, 1988: 12) and produces rich data. This method assisted immensely in discussions regarding perceptions of poverty and wealth. Individual respondents were reluctant to discuss whether they were poor but as a discussion on a depersonalised basis I was able to gain an understanding of perceptions of poverty. FGDs were also very useful in finding out what the key informal financial services within Bwaise were.

Participatory Rural Appraisal (PRA) and gender analysis techniques were used to find out the types of businesses and problems of income generation in Bwaise, perceptions of poverty, benefits and problems of being in an MFI (Chambers, 1992 & 1997; Williams, 1994). PRA tools also have limitations, have operational challenges and should not be used in isolation (Kapoor, 2002; Leurs, 1997 & 1998; Guijt & Braden, 1999; Simanowitz, 1999). FGDs should not be assumed to be representative of the community or wider views (Misturelli & Heffernan, 2003). Smaller and homogeneous FGDs are less likely to be influenced by power relationships endemic within a community. Similar to the interviews and survey all respondents were economically active in Bwaise. FGDs were carried out with MFI groups and Bwaise residents. Each group was homogeneous either in gender; trade; being a MFI member or location. MFI groups were useful groups to carry out FGDs, as they were pre-existing groups and had weekly meetings where I could carry out the FGD. I also carried out a longer workshop that analysed the causes and outcomes of poverty with a CBO called YOFA, which was also a SCS. Outside these groups it was harder to arrange and conduct FGDs. As I was taking respondents away from their work I had to pay for their time and arrange for a venue to carry out the FGDs.

Since the 1990s PRA techniques have become common tools to assess poverty within an area or given group and were initially developed by Robert Chambers (1994a & 1994b). The reliability of participatory methods varies enormously but participatory methods can be more reliable than conventional surveys (Mayoux, 1997; Chambers, 1997). I devised a topic guide and semi-structured questions (Appendix Four) for each type of FGD. Six Bwaise FGDs were carried out as well as over 20 FGDs with MFI groups. These topic guides and questions were derived from initial observations and from existing PRA tools (Ahmed, 1999; Icitrap, 1998; Welbourn, 1998a & 1998b; UPPAP, 2000). Appendices Three and Four detail the FGDs carried out and the questions used. There is an extensive literature on using these techniques to assess poverty at the local and national levels (Welbourn, 1998; Booth et al, 1998; Leurs, 1997; Minot, 2000), including in Uganda (RoU, 2000; MFPED, 2000c).

1.3.6 Documents

I also used documents as a source of data for the research. These were mainly Government, MFI and NGO policy documents and organisational records. These were useful in understanding the wider framework of informal finance and livelihoods within Bwaise. This mixed methods approach was also inductive as the analysis of the documents, observations and interviews were used to assist in the development of the in-depth interviews, FGDs and survey questions. This iterative and mixed methods approach was vital in order to achieve the research objectives.

1.3 RESEARCH ANALYSIS

Content analysis was the main form of analysis used that was derived from the in-depth interview and observations notes. I decided not to use a qualitative analysis software package to analyse the interviews and FGDs. I devised my own framework relevant to my research objectives. This more time-consuming method allowed for greater more detailed analysis of the interviews, observations and FGDs. It also provided a systematic framework for the analysis of the vast quantities of qualitative data collected during the research. I could then interpret the information myself, interpret meanings of phrases to assign to appropriate categories, rather than just relying on pre-determined key words used if I used a software package. For the Bwaise and MFI member in-depth interviews and FGDs, after initial analysis, I analysed the data to provide information on the respondents' key characteristics (e.g. gender, age); nature of IGAs; business constraints and environment; source of financial services; risks experienced; how they accessed financial services; why they accessed financial services; key benefits of using financial services and key problems with using financial services. The content of each in-depth interview was analysed in tabular form, according to the key research questions. The FGDs were structured in a way that the initial analysis was easily done from the raw data. All FGD and interview results were then aggregated using the livelihood assets, again in tabular form. It was then feasible to ascertain the role of each financial service for a particular livelihood asset. To acknowledge the fungibility of money this could not be exact. Although the respondents were more likely to tell me, rather than the loan officer, the real reason for accessing a particular financial service. This was either because I was a *mzungu* or I was researcher independent of the MFIs operating in Bwaise. Tables A.1 and A.2 show examples of the tables I devised to analyse the qualitative data. This analysis provided a necessary structure for the wealth of information derived from these interviews and was my interpretation of the interview and some of the FGD data. The framework used for the FGDs provided the respondents' interpretation of business constraints, wealth, financial services used, their benefits and problems. These results were then aggregated in the same manner. The FGDs were useful sources of information to compare with the interview information, observations and survey results. The survey results were coded and inputted into SPSS and were used to obtain descriptive information on livelihoods, sources of risks and financial services within Bwaise. Descriptive statistical procedures were used to analyse the survey data (Black, 1993). I analysed the external stakeholder interviews, documents and observations to provide information and analysis on the external environment, policies and wider factors influencing livelihoods and the financial system in Bwaise.

<u>Photograph A.1 Focus Group Discussion</u>

Table A.1 Analysis of Each In-depth Interview

IGAs	Sex	Age	Expenditure	Key IGA probs	Household characteristics	Financial Services used	Why use FS?	How access	Keys prob

Table A.2 Aggregation on interview data for analysing role of financial services

Financial Services	Labour/Enterprise	Housing/Physical	Human	Intra-household	Social	Financial
MFI						
SCS						
Association						
Suppliers						
Shopkeepers						
Landlords						
Munno						
Cash round						
Loan						
Savings home						
Bank a/c						

APPENDIX TWO KEY EXTERNAL STAKEHOLDERS[1] INTERVIEWEES

- Not available in the digital version of this thesis

[1] Interviews carried out with stakeholders external to Bwaise.
[2] Informal discussions and observations with loan officers (anonymised).

APPENDIX THREE MFIs, SCSs, ASSOCIATIONS, BWAISE RESIDENTS INTERVIEWS AND FGDs

3.1 LIST OF MFI GROUPS FOR FGDS AND IN-DEPTH INTERVIEWS

- 27 MFI FGDs
- 30 MFI In-depth interviews

COMMERCIAL MICROFINANCE LIMITED

- 4 groups (FGDs: 17/08/00; 18/08/00; 19/08/00; 20/08/00)
    - Male (09/11/00)
    - Male (09/11/00)

FAULU

- Bwaise III (FGD 03/04/00)
    - Male (02/09/00)
    - Male (04/09/00)
- Sagala Agalamidde (FGD 05/04/00)
    - Female (19/09/00)
- Sebagala- B (FGD 13/04/00)
    - Male (04/09/00)
- Sebagala C (FGD 14/04/00)
    - Female (20/09/00)
- Vamutulo (FGD 12/04/00)

FINCA

- Agali Awamu D (FGD 30/03/00)
- Akutwala Ekiro (FGD 22/03/00)
- Bwaise II A (FGD 31/03/00)
    - Female (30/08/00)
    - Female (08/09/00)
    - Female (09/09/00)
- Bwaise II B (FGD 24/03/00)
    - Female (06/09/00)
    - Female (06/09/00)
    - Female (06/09/00)
- Bwaise II C (FGD 15/03/00)
    - Female (30/08/00)
- Bwaise Women In Development (FGD 28/02/00)
    - Female (01/09/00)
    - Female (01/09/00)
- Kimbowa A (FGD 27/03/00)
- Kimbowa B (FGD 21/03/00)
- Mwegasi A (FGD 09/03/00)
    - Female (04/09/00)
- Zibulatudde Group (FGD 13/03/00)

MED-NET

- Agaliawamu Group (FGD 29/03/00)
- God's Will Development Network (FGD 29/03/00)
    - Female (15/08/00)

- Munno Mukabi Twekembe (FGD 30/03/00)
  - Female (07/09/00)
- Suubi Development Group (FGD 05/04/00)
  - Female (07/09/00)
  - Male (07/09/00)
- Yotchi (FGD 06/04/00)
  - Male (07/09/00)
  - Female (07/09/00)

PLAN INTERNATIONAL

- 2 groups (FGDs: 24/03/00 and 21/03/00)
  - Male (30/08/00)
  - Female (28/08/00)

UGAFODE

- Kuteesa Group (FGD 19/04/00)
  - Female (18/08/00)
- Lule Women's Group (FGD 07/04/00)
  - Female (25/08/00)
- Makerere Women's Development Initiative (FGD 12/04/00)
  - Female (17/08/00)
- Tukwatire Wamu –B (FGD 18/04/00)
  - Male (16/08/00)
- Tuliwamu Bubajjwe (FGD 05/04/00)
  - Male (16/08/00)

3.2 SCSs FGDs AND IN-DEPTH INTERVIEWS

- Bwaise Poverty Reduction Limited (FGD 02/05/00)
  - Male (27/11/00)
  - Female (19/10/00)
- Uganda Microfinance Scheme For Development (FGD 04/05/00)
  - Female (06/11/00)
  - Female (06/11/00)
- YOFA (FGD 08/05/00)
  - Female (01/09/00)
  - Male (06/09/00)

3.3 ASSOCIATION AND LOCAL COUNCIL INTERVIEWS

- BADEA committee members (04/03/00)
- Bulagani Zone Chairperson (09/02/00)
- Bwaise LCII Chairperson (08/02/00)
- Bwaise LCIII Chairperson (08/02/00)
- Bwaise New Park *Boda Boda* Association committee members (15/11/00)
- Bwaise Poverty Reduction committee members (21/08/00)
- Bwaise Market Vendors Association committee members (16/11/00)
- Bwaise Veterans Transport Association committee members (16/11/00)
- Ddembe Motorcycle and Bicycle Association committee members (15/11/00)
- Ddembe Market Self Help Association committee members (16/11/00)

- Kawala Motor Vehicle *Boda Boda* Association committee members (10/11/00)
- Merewoma Tailoring Institute committee members(08/11/00)
- Munakukaama Metal Work Association committee members (09/11/00)
- Pawnbroker (10/11/00)
- Special Hire Association committee members (15/11/00)
- Tebuyoleka Zone Chairperson (06/02/00)
- Uganda United Hawkers Association committee members (15/11/00)
- UMFSD committee members (20/08/00)
- Utoda Bwaise Sub-Branch Office committee members (16/11/00)
- YOFA committee members (03/03/00)

3.4 BWAISE FOCUS GROUP DISCUSSIONS

- Ddembe Female (12/09/00)
- Ddembe Male (13/09/00)
- Ddembe Mixed (14/09/00)
- Katale Female (18/09/00)
- Katale Male (19/09/00)
- Katale Mixed 20/09/00)

3.5 BWAISE INDIVIDUAL IN-DEPTH INTERVIEWS

- Boda boda driver Male Nabweru Road (20/10/00)
- Butcher Male Nabweru Road (23/10/00)
- Carpenter Male Katale Zone Bwaise II (30/10/00)
- Chapati maker Male Bwaise Market (31/10/00)
- Charcoal Female Katale Bwaise Market (10/11/00)
- Chicken seller Female Bwaise Market (25/10/00)
- Chicken seller Male Bwaise Market (25/10/00)
- Cooked fish seller Female Bwaise Market (31/10/00)
- Cooked food Female Bwaise Market (16/10/00)
- Dairy Female Nabweru Road (13/11/00)
- Dobbi Male Ddembe Market (19/10/00)
- Fishseller Male Bulagani Zone Bwaise III (15/11/00)
- Hawker Male Nabweru Road (13/11/00)
- Hotel/Cooked food Female Ddembe Market (15/10/00)
- Hotel worker Female Ddembe Market (30/10/00)
- Kiosk Male Katale Zone Bombo Road Bwaise II (08/11/00)
- Load Carrier Male Bwaise Market (31/10/00)
- Matooke Seller Female Bwaise Market (31/10/00)
- Matooke Seller Fingers Male Bwaise Market (06/11/00)
- Mechanic Male (23/10/00)
- Metal Worker Male Jambuli Zone Bwaise II (08/11/00)
- Palm leaves Female Katale Bwaise Market (10/11/00)
- Salon Male Ddembe Market (20/10/00)
- Second hand clothes seller Female Bwaise II Katale Zone (09/11/00)
- Shoe Repairer Male KCC (23/10/00)
- Shopkeeper Female Bwaise Market (06/11/00)
- Special hire driver Male Nabweru Road Bwaise II (08/11/00)
- Tailor Male Nabweru Road (20/10/00)
- Taxi Driver Male Nabweru Road (20/10/00)
- Vegetable Seller Female Ddembe Market (16/10/00)

APPENDIX FOUR FOCUS GROUP DISCUSSIONS CHECKLIST

4.1 MFI (if applicable)

BACKGROUND TO GROUP
When did the group start?
For what purpose?
Has the group size increased or decreased over time?
How many members?
When did each member join? (clients who are in discussion)
Did you know each other beforehand?
Any relatives in the group?
Do you all live in this area?

Why did you join Faulu/Finca/Ugafode/Med-net etc?
When did you join Faulu/Finca/Ugafode/Med-net etc?

MAIN ACTIVITIES OF THE GROUP
What are the main activities of the group?
    Most important ones
(find out if any informal savings schemes, munno mukabi)
Key purpose of group

LOAN DETAILS
How many members have a loan?
Why have the other members not received a loan? 'resting,' refused by the group or Faulu,

BENEFITS OF MEMBERSHIP
What are the benefits of being in the group (e.g. sebagala 3)? (not just loan use)

PROBLEMS OF MEMBERSHIP
What are the problems of being in the group?

COMMUNITY PERCEPTIONS OF MEMBERSHIP
How does the community perceive the group? (raises status within community etc

4.2 INCOME GENERATING ACTIVITIES AND CONSTRAINTS

IGAs IN AREA
What are the main enterprises in the area?
Who by (men women, age, ethnicity?
Why do you choose certain enterprises to work in? (family, skilled in that area, no alternative)
MOST PROFITABLE
What are the most profitable businesses? When, where and why?
MONEY TO START BUSINESS
CONSTRAINTS TO BUSINESSES.
What are the major constraints facing businesses in Bwaise/ Kawempe? (do ranking)
CHANGE OF BUSINESS AS PER SEASON.

4.3 WEALTH STATUS

Wealth Status- fill out, key characteristics

RICH	NOT-SO-POOR	POOR	VERY POOR

4.4 FINANCIAL SERVICES

What are the different types of financial services in this area?
How do they operate?
Which are the most popular services? Why?
What are the important components of each service (what like and dislike)
What do people need money for?
Where do people get this money?

Credit
Where do people go to get credit?
Do this vary between different people (rich, not so poor, very poor, men, women, youth, certain business types)?
Who uses these types of credit?
Why do they use these services (loan use and that particular service)?
What are the indigenous credit practices?
What are the barriers to accessing credit?
How are these barriers overcome?

Savings Questions
Who saves in the community?
Why do they save, what purpose?
How and where do they save?
Fill out matrix

	Rich	Not-so-poor	Poor	Very poor	Youth	Adult	Men	Women
Friends Loan								
Family Loan								
Neighbours								
Savings at home								
Shopkeeper								
Munno mukabi								
Associations								
Savings groups								
Cash round								
Suppliers								
Savings in bank								
Landlord								
MFIs								
Moneylenders								
Other								

APPENDIX FIVE IN-DEPTH INTERVIEW CHECKLIST[1]

I would like to talk with you about the income generating activities you have done, sources of finance (savings and credit) and work in Bwaise. It is for a research project studying the nature of income generation and financial services (including informal means) in Bwaise at Makerere University. Your interview will be confidential. Thank you for your time.
Sex of interviewee: Date of interview: Place of interview:

MFI

Are you /have you been a member of a MFI? Which one?
If a member: When did you join the MFI? Why did you join?
How many loans have you received?
What have you used the loans for?
What have been the major problems of the loan?
What have been the major benefits of the loan?
Have you had any problems in repaying your loans?
If yes, what have you done?
Has your workload increased/decreased since joining? Give details how and why
When did you join the committee? Why did you join?
What are the problems and benefits of being on the committee?
How much time do you spend on duties?
Are you or have you been a member of another group or another MFI?
Why leave?
If not a MFI member:
Why have not joined one?
Would you like to join a MFI?
Reasons why
Have they heard of any MFIs?

EMPLOYMENT

Find out an employment history of the person:
What work do you do? Obtain details of all business activities involved in
How did you obtain the money for the business?
Where, who owns, why start, where did you get the capital to start the business?
Do you employ anyone?
Where do you get your supplies?
Are there any problems with obtaining supplies?
Do you or have you received any credit in kind or loans from suppliers? Give details
How regular is your income?
How much do you usually earn?
Do you own a business license? Get details, how much, when pay? How do they get the money to pay for the license? Any problems get details?
Do they pay any rent? Who to? How much? When pay? How do they get the money to pay rent?

[1] These questions are a guideline to be used but probe for more details at all times to obtain in-depth information on their current and past (especially changes overtime) income generating activities, how get access to money (credit in kind, savings, loans, cash rounds etc.), the importance of money, changes in Bwaise, expenditure.

Any problems in paying the rent get details?
How did you learn the skills for the particular business?
What are the main problems of your business?
What work have you done in the last ten years? Obtain same information as for the current business activities) start-up capital, why started,
Why did the business end?
How do you decide what work you do?
Is it easier to find work /obtain an income now, than 2, 5 and 10 years ago? Why?
What do you use the money you earn for?
Has your income increased or decreased in the last ten years? Why? Worst years?
When there has been a decline how have you coped?

Bwaise
What do women in Bwaise generally do?
Has this changed over the last ten years?
What do men in Bwaise generally do?
Has this changed over the last ten years?
Is it easier or harder for men or women to obtain work? Probe for income differences and types of jobs

HOUSEHOLD
Which zone do you live in?
How many people in your household? How many children do you have? Where are they?
How old are you? Education level?
Do you own or rent your house?
How much rent pay? Who to? How often? Any problems paying?
If own: do you rent out any rooms? If yes, how much and how many tenants.
How did you get the money to buy the house?
How many people earn an income and what do they do?
Who is the main income earner?
If no, who is and what do they do?
Have there been any marital problems with you earning an income?
Do receive an allowance from another household member?
What are the main forms of expenditure in the household?
Who is responsible for providing food, school fees, and household assets in the household?
How much for each main expenditure?
Has it changed how much and who contributes? How do you contribute?
Who contributes to the household? In what form and how? Include money from renting.
When there has been a decline in household income how have you coped?
Reasons for decline
Do you own any household assets? What?
How obtained? Where did you get the money to buy the assets?

MONEY
If you need money /cash in kind where do you normally go?
Probe for each of the following events: Sick, School fees, Buying household assets, Buying food, Start a business, Stock for business, Social obligations, Theft/damage

Before you joined the MFI if you needed money /cash in kind where do you normally go?
Probe for each of the following: when sick, School fees, Buying household assets, Buying food, Start a business, Stock for business, Social obligations, Theft/damage

Where do most people obtain money/cash in kind from? What do they use the money for?
For example, Storekeepers, friends
Is it different for men and women?
10-20 years ago where would people obtain money/cash in kind from?
Is it easier or harder to obtain cash/cash in kind now?
Has indebtedness increased or decreased in the community?
Is it easier or harder for women to obtain money than men?
Get details on the different types of services:
Credit in kind from shopkeepers, loans from friends, munno mukabi, joining MFI, savings, money lenders, credit in kind from suppliers,
Are there/ have been any moneylenders? Who uses them? Have you ever used one? If so why (get details)
Is money more important now than 10 and 20 years ago? Why?
Do you give loans to family, friends?
What for? How do you decide whom to give to?

ASSOCIATIONS/CASH ROUNDS
Are you a member of any associations? Give details, why in groups. Entandikwa?
Do these involve any savings or loans?
Are you part of a munno mukabi group? Give details. Have you used the money for anything?
Are you or have you ever been in a Cash round or Savings group? Get details
Reason for joining, how much contribute, when joined, benefits of cash round or group
How do you decide who to be in a group with? How can you trust them? Are the cash rounds more or less common than 10-20 years ago?

SAVINGS
Do you have any savings?
Where do you put your savings?
Why choose different places.
How often and how much save?
What do you use the savings for?
Do you have a bank account?

CHANGES IN BWAISE
When did you move to Bwaise?
How long have you lived in Bwaise?
What major changes have you seen?
Is it easier or harder to find work now? How about profits?
What have been the benefits of being in the MFI?
What have been the disadvantages of being in the MFI?
What improvements would you like to see in financial services and business in Bwaise?

APPENDIX SIX INDIVIDUAL SURVEY

INTRODUCTION: I am a researcher from Makerere University, working on behalf of Juliet Gifford, visiting people engaged in small businesses. The purpose of this visit is to better understand the lives, sources of credit and income generating activities of people in Bwaise / Kawempe. I would like to ask you questions to understand changes and continuity in your household, credit and enterprises. Do not feel shy, or compelled to reply to something you do not know. Your individual answers will be kept strictly confidential. Only the team conducting the study will see the answers which you provide. Your answers will be combined anonymously with all the other respondents to form a report. This report will be disseminated to the community at the end of the study in December. The report will be used to inform Action Aid, FINCA, MED-NET, FAULU, UGAFODE, Commercial Micro-Finance Ltd, Kampala City Council, policy makers and development planners in Uganda, with practical facts about the households and small enterprises in Kampala.

Date and Place of Interview:
Interview number:

A. PERSONAL DETAILS

a. Are you a member of a savings and credit group? Y N
b. Age:
c. Sex:
d. Household physical address: LCI zone, and LCII
e. Enterprise physical address:
f. Where born?
g. When moved to Bwaise/Kawempe:
h. Ethnic group:
i. Head of household: 1. yourself
 2.spouse
 3.both spouse and yourself
 4.other household member (specify)
j. Marital status: 1.Married/living Together
 2. Single
 3. Divorced/Separated
 4.Widow
k. Religion: 1.Protestant
 2.Catholic
 3.Muslim
 4.7th Day Adventist
 5.Other
l. How long lived at the place of residence?
m. How many children do you have?
n. How many dependants do you look after? Give details 1. Sick/disabled
 2. Orphans (state relationship)
 3. Other
o. Do you have any children that live elsewhere? Y N
p. If yes, how many?

B. HOUSEHOLD COMPOSITION

2. Give details about who generally lives and eats at the place of residence

HOUSEHOLD MEMBERS	RELATION-SHIP TO RESPONDENT	SEX	AGE	MARITAL STATUS	LEVEL OF EDUCATION COMPLETED	CURRENT MAIN ACTIVITY	LEVEL ENROLLED AT SCHOOL/ 0= not enrolled	WHO PAID SCHOOL FEES?	HOW LONG LIVED IN THE HOUSEHOLD?	WHY DID THEY JOIN THE HOUSEHOLD	EXTENT OF PRESENCE IN HH
1. Respondent											
2.Spouse											
3.											
4.											
5.											
6.											

C. SCHOOL FEES

3. Who pays the school fees for the children?
   1. Yourself
   2. Spouse
   3. both spouse and yourself
   4. Spouse (mainly) and yourself (occasionally)
   5. Spouse (occasionally) and yourself (mainly)

   6.other household member (specify)
   7.other relative (specify)
   8.other (specify)

4. How did you fund the school fees?
5. If you have a problem paying school fees what do you do?
6. Have the children been taken out of school? Y N
7. If so, when and what were the reasons.
8. Who pays for the children's school uniform and exercise books?
   1. Yourself
   2. Spouse
   3. both spouse and yourself
   4. Spouse (mainly) and yourself (occasionally)
   5. Spouse (occasionally) and yourself (mainly)

   6.other household member (specify)
   7.other relative (specify)
   8.other (specify)

9 Where do you get the money from?
10. Do you or a household member pay school fees for other children? Y N
11. Give details
12. Indicate relationship to respondent

D. HEALTH

13. Do you care for any persons with HIV/AIDS? Y N
14. How much time do you spend per week caring for the patient?
15. Does any household member suffer from AIDS? Y N
16. Please give details their relationship to you ?
17. Has this affected the household income? Y N
18. How?
19. How do you pay for medical treatment?
    1.own income
    2.other household income (specify
    3.savings
    4.borrowed from relatives
    5.borrowed from friends
    6.borrowed from moneylender
    7.sold assets
    8.other (specify)
20. Do you use any family planning methods? Y N
21. If yes, which types?
    1. Condoms
    2. contraceptive pill
    3. implants
    4. VSC sterilisation

    5.natural
    6.abstience
    7. other
22. When did you start using family planing?

E. HOUSEHOLD ASSET PROFILE

Place of Residence

23. Do you own or rent where you live?
    1.own

2. rent
24. How much rent do you pay?
25. How often do you pay?
1.weekly
2.monthly
3.other
26. What do you do if you cannot afford to pay the rent?
1.own income
2.savings
3.borrowed from relatives
4.extension from landlady
5.sold assets
6.borrowed from friends
7.other (specify)
27. Type of dwelling:
28. Number of Rooms:
29. Type of roof, doors, walls, floor, security(main locksetc).
30. What is your main source of water?
31. Who fetches it?
1. Yourself
2. Spouse
3. Children
4. various
5. other (specify)
32. Do you pay for the water you use in the household? Y N
33. If yes, how much?
34. Do you have electricity in your house? Y N
35. What means do you use to cook and to light the house?
1.charcoal
2.kerosene
3.electricity
36. Who buys the fuel, charcoal, firewood, electricity?
1. yourself
2. spouse
3. both spouse and yourself
4. other household member (specify)
5. other relative (specify)
6. other (specify)
37. Do you have your own toilet? Y N
38. If not, what do you use and where do you go?
39. Do you rent out any parts of your residence? Y N
40. Do you use your place of residence for any income generating activities? Y N
41. If so, who uses it and what type of activities?
42. Is your place of residence prone to flooding? Y N
43. Does anyone in the household own or rent any other property or land? Y N
44. If so, who and where? What is it used for?

Household improvements (include any done by a landlord)
45. Have you made any improvements to your place of residence? Y N
46. If so, what were they?
47. When?
48. How was it funded and who by?
49. Who decided the improvements to be made?

Household Asset Development and Profile

51. What items have been purchased for the household?

Asset	Does the household own	Who owns the item in the house?	Who is responsible for obtaining the asset?	How was it funded? 1.Loan 2.business3 . savings 4.gift 5. income	Has the item been fully paid for?	When was it purchased?	Have you sold any of these assets? When?	Why did you sell these items? 1.Repay loan 2.other debt 3. low income 4.pay school fees 5.medical 6. Burial other
Furniture								
Kitchenware								
Refrigerator								
Bicycle								
Car								
Radio/ Cassette recorder								
TV								
Camera								
Mobile phone								
Clothes How many special occasional outfits								
Other								

52. How do you seek to increase the household assets?
53. If you had extra money what would you purchase?
54. Is there any conflict within the household over which assets to purchase? Y N
55. Have you ever sold any assets to repay a debt? Y N

IF A MFI MEMBER (Q.56)

56. How has being a member of the MF group affected your household assets?
    1.Positive
    2.Negative
    3.No change
57. Generally have the household assets decreased /increased with time?

Time	1. Increased 2. Decreased 3. No change	Main reason
Last 12 months		
2 Year ago		
5 Years ago		

58. Do you lend out any of your assets? Y N
59. Which ones?
60. Who to?
61. Are any of the assets been used as collateral for a loan? Y N

F. Transport

62. What is your main form of transport?
    1. Walking,
    2. taxi,
    3. boda, boda,
    4. special hire.

63 How often do you use boda boda, taxi, special hire and what for?

Transport	**How often used for personal reasons?**	**How often used for Business?**	**Reason.**
Boda- boda			
Taxi			
Special hire			

G. FOOD CONSUMPTION.

64. How many meals a day do you normally eat?
    1. one a day
    2. once a day plus breakfast
    3. twice a day plus breakfast
65. Do the household members eat the same food? Y N
66. Whose responsibility is it to provide food?
    1. Yourself
    2. Spouse
    3. both spouse and yourself
    5. other household member (specify)
    6.other relative (specify)
    7.other (specify)

4. Spouse (mainly) and yourself (occasionally) 8.Spouse (occasionally) and yourself (mainly)

67. Whose responsibility is it to prepare food?
    1. Yourself
    2. Spouse
    3. both spouse and yourself
    4. Spouse (mainly) and yourself (occasionally)
    5. other household member (specify)
    6. other relative (specify)
    7. other (specify)
    8. Spouse (occasionally) and yourself (mainly)
68. How much total time is spent daily on food preparation?
69. How much money is spent on food per week?
70. Do you have problems in paying for/obtaining food? Y N
71. If yes, what do you do?
72. Do you ever borrow food items and pay back later? Y N

H. SOURCES OF HOUSEHOLD INCOME

77 How many people contribute to the household income (cash or cash in kind)? (include agriculture) (Include people who give remittances to the household)

78. Please give details of all the income generating activities that are carried out by household members.

Household member	Type of activities	Do you the income of other household members? 1. Yes 2. No	Has their income increased/ decreased in the last 12 months 1.increased 2.decreased 3.no change 4.don't know	Location of the activity 1.Home, 2.Bwaise 3.Owino 4.Other (specify)	**Please indicate the most important sources of total HH cash income for the past 12 months.**
Main income earner					

79 When did you start earning an income?

80 Have there ever been any marital problems with you /your wife earning an income? Y N

81 Give details.

82 Overall has the household income increased/decreased over the last:

Time	1.Increased 2.Decreased 3.No Change	Reason
12 months		
2 years		
5 years		
10 years		

83 Is the number of persons in this household who earn an income (from any activity) greater, fewer, or the same as two years ago?

1. same
2. fewer
3. more

Other activities

84 What are the main activities that you do in a day/ week? (Including non-paid work)
85 How much time do you spend on these activities?

DAILY ACTIVITIES	**Approximate time spent.**
Weekly activities	

I. EXPENDITURE.

86 Are you given /do you give an allowance to another household member? Y N
87 If yes, who gives allowance, how much?
88 What is the allowance used for?
89 Who is responsible for the main household expenditures?

1. ourself
2. Spouse
3. both spouse and yourself
4. Spouse (mainly) and yourself (occasionally)
5. other household member (specify)
6. other relative (specify)
7. other (specify)
8. Spouse (occasionally) and yourself (mainly)

90 What are the main forms of monthly expenditure?

Expenditure	How often purchased 1Daily, 2.weekly 3.monthly, 4.yearly, 5.whenever possible	How much spent per month / percentage of total expenditure	Whose responsibility to obtain? 1. yourself 2. spouse 3. both spouse and yourself 4. other household member (specify) 5. other relative (specify) 6. other (specify)	How is it funded, and who by?	Who uses in the household ?
Food					
Furniture					
Cooking items					
Cigarettes					
Alcohol					
Medical expenses					
School fees					
Clothes					
Rent					
Other					

91 Do you jointly plan for any forms of household expenditure or pool any household income? Y N
92 If yes, which ones? Give details.

J. ENTERPRISE

93 How many enterprises operate in the household?

94 Please tell me about all the enterprises that **YOU** have operated or worked in the past 2 years. Indicate your main business and if employed

Description of enterprise	Why did you start the business / start working there?	How often operate?	Who owns the enterprise	Location of enterprise	Physical structure of the business	Does this enterprise still exist? 1.Yes 2. No	Why did the enterprise close?	When did this enterprise begin?	Who started the business	Source of start of capital	MFI/ SCS loans? Which MFI and how much	Which enterprises generated the most profit in the last two months?

95 How often do others assist you in the main business and what for?

Employee	Frequency	Relationship to respondent	Reason for employment/ assistance	Were they paid? How often paid? Paid in cash or in kind?

96 What are the major assets of the main business? Fixed and working assets?

Fixed Assets	Stock

97 What are the major costs of operation e.g. on transport, electricity etc.? (tick all appropriate)

1. Transport
2. Electricity
3. Employees
4. Rent
5. Other (specify)

98 Have these costs increased overtime? Y N

Supplies

99 Is your stock larger or smaller than:

	1. larger 2.smaller 3.same	Reason
One month ago		
6 months ago		
Two years ago		
When business started		

100 How often do you buy supplies?

1. daily
2. weekly
3. monthly
4. other (specify)

101 Where do you get your supplies from?

102 Where do you get the capital from to buy supplies?

1. profits from business
2. other income (specify)
3. borrow from friends
4. borrow from relatives (specify)
5. savings
6. sell household assets
7. borrow from moneylenders
8. Other (specify

103 Do you obtain supplies in kind from suppliers? Y N

104 How often?

105 When do you have to repay?

106 What happens if you cannot repay?

107 How do you decide which products to buy?

108 Do you change business activities or the products you sell? Y N

109 If so, why and what?

Profits

110 Would you say your business is profitable? Y N

111 Do you know how much profit you make? Y N
112 Generally have there been any changes over time in profitability for your business?

	1.Increased 2.Decreased 3.No change	Reason
Last 6 months		
Last 12 months		
Last 2 years		

113 Are your profits for this week more or less than:

	1.More 2.Less 3.No change	Reason
Last week		
Last month		
6 months ago		
One year ago		
Similar businesses		

114 Are there more profitable months? Y N
115 Give details.
116 Are there more profitable days in the week? Y N
117 Give details.
118 What do you do if sales are low?
119 How do you seek to improve your business?
120 Who decides the investments you make in the business?

1. Yourself
2. Spouse
3. both spouse and yourself
4. Spouse (mainly) and yourself (occasionally)

5.other household member (specify)
6.other relative (specify)
7.other (specify include owner)
8.Spouse (occasionally) and yourself (mainly)

121 Has your business suffered from theft or physical damage (i.e.. flooding)? Y N
122 When?
123 How did you respond?
124 What are the constraints for growth of your business? indicate most important tick all apply

1.Risk of Theft,
2.high costs/ expenditure,
3.ill-health,
4.obtaining products /supplies,
5.interference from household/ family members,
6.lack of premises
7.lack of electricity
8.low sales
9.people selling same goods
10.lack of credit,
11.KCC harassment,
12.price fluctuations,
13.fuel prices
14.taxes
15.other

125 What do you think the Kampala City council or Government should do to improve small businesses?

RENT

126 151.Do you pay any charges or rent for the business? Y N
127 Give details.

128 How much do you pay?
129 How often?
1. daily
2. weekly
3. monthly
4. yearly
5. other

130 Who do you pay the money to?
1.Market master
2.Private landlord
3.KCC
4.Other (specify)

131 What do you do if you cannot pay or delay in paying?
132 What happens if you do not pay?

LICENSES
133 Do you have a business license? Y N
134 How do you get the money to pay the license?
1. profits from business
2. other income (specify)
3. borrow from friends
4. borrow from relatives (specify)
5. savings
6. sell household assets
7. borrow from moneylenders
8. Other (specify

135 What do you do if you cannot pay?
136 What happens if you cannot pay or delay in paying?

Business income
137 Does your business generate or get paid daily, weekly or monthly income?
1. Daily
2. Weekly
3. Monthly
4. Irregular
5. Other (specify)

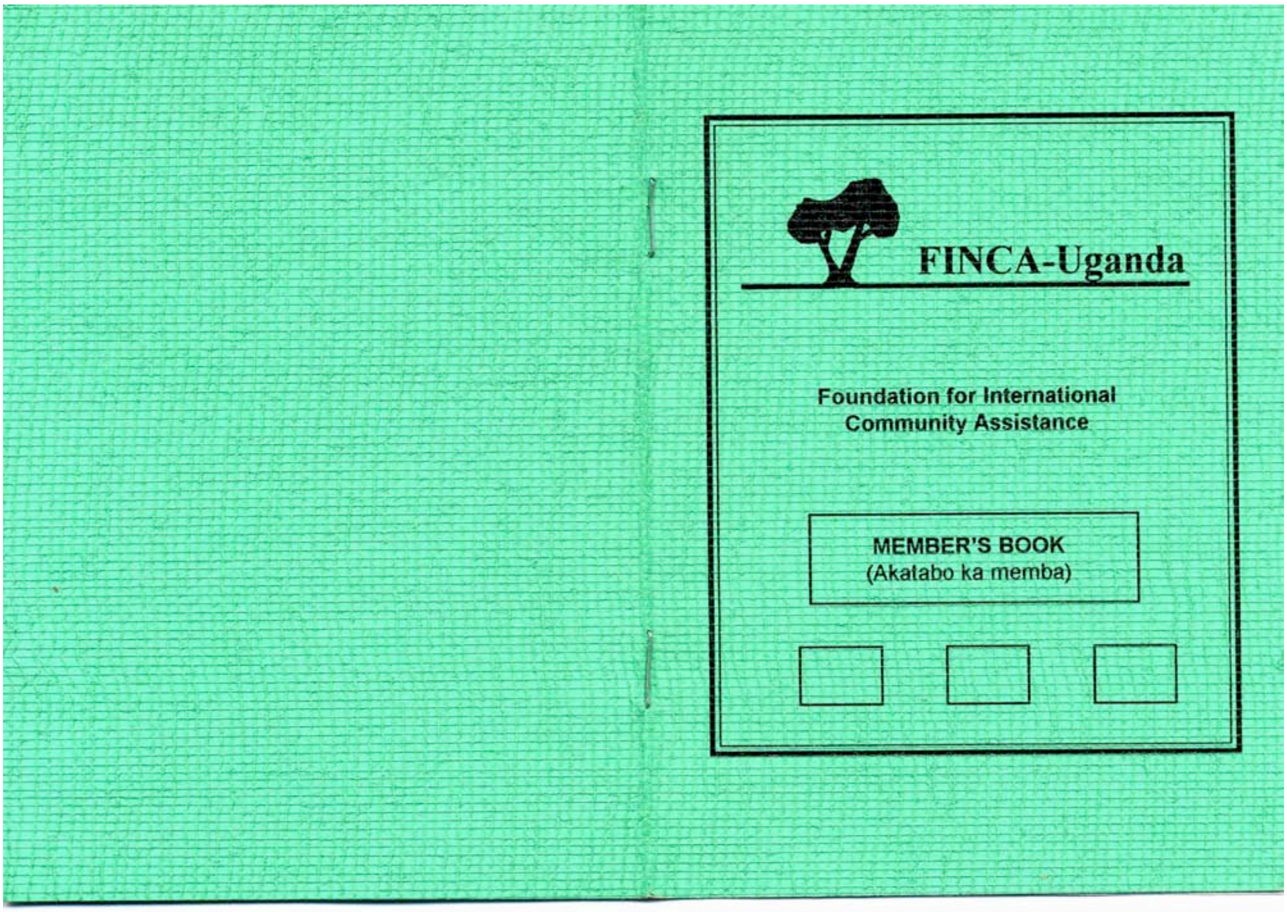
138 Who decides what the incomes from the business are used for?
1. yourself
2. spouse
3. both spouse and yourself
4. other household member (specify)
5. other relative (specify)
6. other (specify)

139 What do you use the income from your enterprise for?
Please indicate which use (tick):

Income use	**Who uses**	**What are the three main uses?**
Business stock		
School fees		
House rent		
Business rent and taxes		
Big household items		
Loan repayment		
Savings		
Food		
Small household items		
Clothes		
Hair braiding		
Alcohol/cigarettes (who for)		
Remittances		
Social obligations		
Medical expenses		
Repayment of debts (non MFI loan)		
Repayment of MFI loan		
Other (give details)		

APPENDIX SEVEN EXAMPLES OF MFI PASSBOOKS AND FORMS

FINCA PASSBOOK



FINCA PASSBOOK

WEEKLY SAMPLE LOAN PAYMENT AMOUNT................
Ebbanja elisasulwa buili wiiki

WEEK NO. WIIKI	DATE Enaku z'omwezi	TOTAL PAYMENT Omugatte Ezisasuddwa	LOAN PAYMENT Ebbanja Elisasuddwa	LOAN BALANCE Ebbanja Elisigaddewo
0				
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				

WEEKLY PROGRESSIVE SAVINGS AMOUNT................
Entereka engereke eya buli wiiki

VOL. SAVINGS Entereka	WITHDRAWALS Ezigiddwayo	BALANCE SAVINGS Entereka Awamu	TREASURER'S SIGNATURE Omukono Gw'omuwankia

LOAN FROM THE INTERNAL ACCOUNT
Amabanja Ag'omukibiina

DATE Ennaku z'omwezi	LOAN Ebbanja	PAYMENT Ezisasuddwa	BALANCE Ezisigaddeyo	TREASURER'S SIGNATURE Omukono Gw'omuwandisi

PAYMENT DUE
Ssente ezetaaga okusasula

DATE Ennaku z'omwezi	AMOUNT Omuwendo

LOAN
(Ebbanja)

Cycle: ________________

Loan:________________
(Ssente ez'ebbanja)
Interest:________________
(Amagoba)
Total due to FINCA________________
(Ebbanja lya FINCA)

PAYMENTS
(Ensasula)

Required Weekly Loan Payment________________
(Ebbanja elisasulwa buli wiki)
Minimum Weekly P/ment________________
(Zona Awamu eza wiiki)

FAULU LOAN AGREEMENT AND GUARANTEE

Food for the Hungry International
Faulu Uganda
Microenterprise Finance Programme

[redacted]

Branch: ______________________
Sub-Area: ______________________
Loan Officer: ______________________
Centre: ________________ No.: ______
Group: ________________ No.: ______
ID Card No: ______________________
Client No ______________________

LOAN AGREEMENT & GUARANTEE

THE BORROWER
Last Name (per ID card)____________________ **Other Name(s)**______________________________________

TERMS AND AGREEMENT
This loan agreement is hereby made between Food for the Hungry International (FHI) - Faulu Uganda (hereafter called FHI - Faulu Uganda and the aforementioned borrower (hereinafter called"Borrower"). FHI - Faulu Uganda agrees to advance a loan to the Borrower, and the Borrower agrees to repay the said loan and interest under the following terms and conditions:

(1)Loan amount Ush_____________
(2)Terms, in weeks: ___ (3) Interest: Ush_________________
(4)Total amount to repay: Ush____________________ [(1) + (3)]
(5)Grace Period, in weeks: ________
(6)Number of weekly payments: _________
(7)Amount of weekly loan payment: Ush___________ (Rounded)
(8)Effective date of this Loan Agreement & Guarantee (loan disbursement): the ____ day of _______________ , 19____.
(9)Loan payment shall be made at the weekly Centre meeting for the term of the loan, beginning the ____ day of _____________, 19___.
(10)This loan may be prepaid, without penalty, by paying the outstanding loan balance, plus any accrued interest or fees. If a payment is late, service charges will accrue based on the outstanding loan balance. The final loan payment amount will reflect any such adjustments.
(11)Proceeds from the loan can only be used for the business owned by the Borrower, for the purposes stated in the Loan Application.
(12)The borrower agrees to make weekly deposits of Ush_________into the Loan Security Fund (LSF) for the term of the loan, payable with the weekly loan payments, beginning the week after loan disbursement.
(13)Events of default: The following are considered Events of Default whereby the Centre or FHI - Faulu Uganda may declare the loan to be in Default and the Loan Balance to then be immediately due and payable: {a} Use of loan proceeds for purposes other than stated in term (11). {b} Death of the Borrower. {c} Missing of four loan payments or LSF deposits, either consecutively or cumulatively. {d} Movement of the business location or other substantial changes affecting the business, without prior written consent from the Centre and/or FHI - Faulu Uganda.
(14)Remedies for Default: If the loan is officially declared by the Centre and/ or FHI - Faulu Uganda to be in Default, the Borrower hereby legally agrees to immediately pay FHI - Faulu Uganda any outstand ing balance from the amount in term (1), plus any accrued interest and any costs incurred by the Centre and/or FHI - Faulu Uganda in collecting on the loan. The Borrower hereby fully gives the Centre and/or FHI - Faulu Uganda the absolute legal right and authority to draw from his or her LSF deposits, and to seize and sell any business or personal assets owned by the Borrower and his or spouse to cover said balances and expenses.
(15)The Borrower agrees to inform the Centre and/or FHI - Faulu Uganda in writing and receive consent for any changes in business location or other substantial changes affecting the business.
(16)The Borrower agrees to abide by all policies, rules and regulations of the Centre and of FHI Faulu Uganda.
(17)The Borrower reaffirms that he or she jointly and severally is liable for the loan amounts of all members of his or her Group and his or her Centre, according to FHI- Faulu Uganda policies and regulations.

I have read and understand this Loan Agreement & Guarantee, the same has been fully explained to me, and I agree to fully abide by all terms and condition SIGNED BY:

GROUP MEMBERS CERTIFICATION AND LOAN GUARANTEE
We have read and understand this Loan Agreement & Guarantee, which has been fully explained to us. We, the undersigned, certify that the Borrower is able to service the loan and confirm that the or she has complied with all Centre and FHI - Faulu Uganda policies, rules and regulations. In the event the Borrower fails to meet the weekly payments and/or defaults, we jointly and severally agree to immediately meet all financial obligations. This includes, but is not limited to, deductions from our individual Loan Security Fund deposits, according to FHI - Faulu Uganda policies. SIGNED BY:

	Name (per ID card)	Signature	Date
1.			
2.			
3.			
4.			
5.			

CENTRE APPROVAL
On behalf of the above referenced Centre members, I hereby affirm that the Borrower is a member of our Centre. We have approved this loan amount, and we agree to cross-guarantee jointly and severally, this loan from FHI - Faulu Uganda. SIGNED BY:

Name________________________Signature__________________________Position_____________________ Date _______

FHI - FAULU UGANDA APPROVAL
Loan Officer____________________ Date___________
Branch Manager____________________ Date___________

Loan		Receipt	Initials	Date
set-up	Ush ___________	_______	_______	_______
CIF	Ush ___________	_______	_______	_______

ACKNOWLEDGMENT
This is to acknowledge the receipt of cheque number___________ in the amount of Ush____________, being a loan from FHI - Faulu Uganda, payable under the Terms stated above. SIGNED BY:

BORROWER ———————————————————— Date————————

FAULU LOAN APPLICATION

Loan Application

Last name (per ID card)____________ **Other name(s)**____________ **Tel:**______

Centre____________ **No.**______ **Group**____________ **No.**______

Residence Location: City:______ Division:______ Parish:______ Zone______

Business Location: City:______ Division:______ Parish:______ Market:______ Zone:______

Number of Dependents: ______ Names of Closest Relative:____________

In case of death, who would inherit your business: Name: ____________ Tel: ______
Residence Address of Person to Inherit Business: City:______ Division: ______ Parish:______ Zone:______

Business Classification:	**Ownership:**	**Property:**	
Manufacturing	Sole Proprietorship	No. City Plots ______	No. Rooms On Plots______
Service	Partner With Spouse	No. Acres of Your Land ____	No. Acres of Family Land ____
Retail	Partern With Other		

Business Type: ____________ Year Business Started: ____________ Licensed: Yes No

Do you have a bank account? Yes No

Name of Bank:____________

Branch____________ Account No: ____________

If "Yes", indicate type of account:

Savings	Balance:	Ush____________
Current	Balance:	Ush____________
Other (specify) ______	Balance:	Ush____________
	Total:	Ush____________

BUSINESS PERFORMANCE		**CURRENT**	**PROJECTED**	**COMMENTS**
1. Value of Your Business:	Cash			Business money on hand or in bank
	Stock			Goods in inventory
	Total Working Capital			Cash + Stock
	Debt owed to your business			Accounts Receivable
	Fixed Assests			Furnit., Tools, Buildings, Land, etc.
	Total Assets			Working Capital+Debt+Fixed Assets
2. Total Amt. Business Owes Others (non Faulu)				Other than Faulu
3. Net Worth				= (1) - (2) [Business Value - Owed]
4. Average Monthly Sales:				Weekly Sales ____ x 4 wks per month
	Sales/Working Capital Turnover			=Month Sales/Work Capital (=_ x)
5. Monthly Business Expenses:	Stock			
	Transport			LOAN APPLYING FOR:
	Rent, market charges			Amount: Ush____________
	Salary, self-drawing			
	Salary, full-time employees			Term in Weeks: ____________
	Salary, part-time employees			
	Faulu Loan Payments			Grace Period: ____________
	Other			
	Total Expenses			Exact Use of Proceeds: ____________
6. Other Income Sources:	Spouses Salary			____________
	Farm Income			____________
	Other Employment			
	Other Sources			Steps Proposed to Grow Business: ____________
	Total Income			____________
7. Number of People Employed:	Full time			____________
	Part-time			____________
	Non-paid			

I verify that the above stated information is true. **SIGNED by Applicant**____________ Date______

Centre Approved Loan Terms: Amount: Ush____________ Term in Weeks: ______ Grace Period in weeks: ____
On behalf of the Centre, this Loan Application is approved. SIGNED by Centre Official ____________ Date______

FOR OFFICIAL USE ONLY : Loan Officer____________ Date ____ Centre Structure Form Date ____

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