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Use and Impact of Savings Services Among the Poor in Uganda

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Executive Summary

Background to the Study: There was a prevalent that "the poor cannot save", but throughout Uganda and indeed the rest of Africa, there is a vibrant and diverse informal financial sector. This report shares findings that improve knowledge and understanding of how poor people in Uganda save, how they use different savings mechanisms, the impact of those savings facilities on their household budgets/lives and suggestions on where formal and semi-formal institutions can make a contribution.

Methods: This study used qualitative research methods, in particular in-depth interviews, focus group discussions and a variety of Participatory Rapid Appraisal techniques with MFI clients and non-clients. The researchers held discussions with the management, credit officers, clients, ex-clients and non-clients of PRIDE, FINCA, Faulu, FOCCAS, and Centenary Rural Development Bank and the Cooperative Bank.

Geographic Scope included a wide variety of settings, both urban (inlcuding slums) and rural in Kampala, Jinja, Mbale, Tororo.

FINANCIAL SERVICES, THE PEOPLE THAT USE THEM AND WHY THEY USE THEM

Formal Financial Services

Formal Banks: Most of the commercial banks are concentrated in Kampala with fewer than 100 branches up-country. Most of the poor do not use formal banks because: they require high opening balances; the minimum balances are too high; they have an intimidating appearance; staff attitudes are unhelpful; the branches are usually far from the poor people's neighbourhoods; they maintain inconvenient opening hours; have relatively complicated transaction forms; and transaction costs are usually high (in terms of waiting time etc) perceive formal sector banks to be designed for middle class clients in urban areas. *The Risks of Formal Banks* have become alarmingly self-evident in the last eight months in Uganda, during which five have been shut by the Bank of Uganda on the basis of insolvency

The Insurance Industry does not provide services responsive to micro-savers because of the poor reputation the industry which has hindered the use of insurance companies as a savings service[1]. However, the insurance industry in one case has worked in partnership with an MFI to extend *life insurance to clients*. The product has been considered successful so far.

Semi-Formal Financial Institutions

Savings and Credit Co-operatives (SACCOs) range in size from a handful to several thousand members. They are, in many ways, best poised for savings mobilisation from the poor, but are fraught with historical problems ranging from management capacity weakness to fraud[2]. *The Risks of SACCOs*[3] are quite high, in that they traditionally suffer from opaque governance and poor accounting and management systems, so that the members, (and sometimes even the management), have little idea of the financial status of the institution.

MicroFinance Institutions (MFIs) mainly provide credit facilities to micro and small scale entrepreneurs who cannot obtain these services from the formal financial. There are over 50 MFIs of varying sizes in

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[1] I*nsurance*, which allows a lump sum to be enjoyed at some unspecified future time in exchange for a series of savings (premiums) made both now and in the future can be seen as a savings service (see Appendix 3).

[2] In addition, SACCOs have generally been set up and used by reasonably affluent people with salaried employment, or small-scale coffee plantations.

[3] These risks are by no means unique to SACCOs in Uganda, but are the problems and challenges that face co-operatives throughout the world.

Uganda and are by law barred from accepting deposits except forced savings. Nonetheless, as Stuart Rutherford argues these loans are *an "advance against future savings"* and therefore can be considered as a way of saving for the purposes of this report. *MFIs are used mainly by the vulnerable not-so-poor clients*. They tend to save less with MFI and more with informal groups. *Risks Associated With MicroFinance Institutions* are related to the infancy of the industry, the ease of entry into the market, inadequate systems and controls, poor management, unclear ownership, opaque governance and the zealousness of almost every NGO to engage in microfinance. These may cost unsuspecting people their hard earned savings. It is in part for these reasons that the Bank of Uganda has proved so cautious and conservative when considering the issue of the regulation and supervision of MFIs.

Informal Financial Services

The research indicates that the informal sector is far more vibrant than the formal financial sector. It draws its appeal from some of the following features (Adams and Fitchett, 1992):

- the range of services provided especially small daily deposits, short-term loans, and small loans,
- unwavering discipline because non-performance is quickly punished and borrowers have to earn their loans,
- savings is the basis of transactions and not subsidised outside cash,
- reciprocity is often a strong basis for financial transactions,
- low transaction costs especially on the part of the borrower,
- financial innovations that engender flexibility, speed and suppleness,
- speed with which services are provided, and
- proximity of the service provider to the clients.

The informal service includes, *moneylenders*, *pawnbrokers, deposit collectors, money guards, deposit collectors, informal insurance schemes (munno mukabi) saving at home, deposits with suppliers, supplier credit*, *Rotating Savings and Credit Associations (ROSCAs), Accumulating Savings and Credit Associations (ASCAs) and savings in-kind*.

Who uses the informal services? The majority of informal services are the poor and "not-so-poor" although they are used by some rich people. With the exception of in-kind savings, the largest concentration of informal services are in urban areas although they are increasingly becoming popular in rural areas. *Risks of the informal services*: Because of the private nature of the informal contracts, one cannot easily have recourse to legal protection in the event of dishonesty and theft on the part of the money guard. The risk of home-based savings includes theft, fire and destruction of the notes by insects and animals and demands by relatives and friends looking to "borrow" the fund for a while, or to simply take it to meet an emergency of one type or other. ASCAs are risky because the money is not distributed to all members immediately as in the case of ROSCAs (thus requiring a treasurer to hold the fund) and because the money is put out on loan – necessitating more complex book-keeping, and loan collection procedures which can lead to losses due to honest incompetence. In case of Saving-in-Kind (this tends to be livestock) the risks include illness/death , and theft. It is for this reason that, despite the potentially high returns that can be derived from this kind of saving (if the livestock reproduces), most poor people would prefer to have an opportunity to save in cash.

WHAT IS THE IMPACT OF SAVINGS ON INDIVIDUALS?

The research findings indicate and Robinson (1994) concurs that savings have an impact on individuals in terms of:

- ♦ wealth accumulation to finance a household's long-term goals (social, religious purposes, heritage, consumer durables);
- ♦ insurance against disability, disease, retirement, sudden income losses and other contingencies;
- ♦ safeguard against uneven income streams due to seasonal variations (savings of high income periods are used to finance consumption expenditures during low-income periods); and
- ♦ savings for future investments in such things as education and other human resource development investments.

However, it is easier to examine the needs and the ability of savings systems to meet these needs using Rutherford's (1999) three categories:
Life Cycle Needs. The poor need usefully large sums of money to deal with life cycle events such as marriage and birth, education and home-making, widowhood, old age and death, and the need to leave something behind for one's heirs.

Emergencies: In order to cope with impersonal emergencies such as theft and fires and with personal emergencies such as illness, accident, bereavement, desertion and divorce, large sums of money are again required.

Opportunities: As well as needs, there are opportunities that require large sums of money, such as starting or running a business, acquiring productive assets or buying life-enhancing consumer-durables such as TVs and refrigerators.

WHAT IS THE IMPACT OF SAVINGS ON THE VARIOUS INSTITUTIONS?
Offering savings services to the poor represent a tremendous opportunity for MFIs to increase their depth and bread of outreach. There are numerous savers who are not interested in credit.

Offering easier access to savings may also reduce drop-outs and increases the level of voluntary savings: this has certainly been the experience of one MFI experimenting with more open access savings in Kampala. In a related study by ***MicroSave***, it was clear that dropouts cost the organisation tremendously in terms of the cost of loan orientation seminars and foregone revenues in the case of mature profitable clients.

Lack of access to savings is a major disincentive for the poor to join MFIs and rather use competing informal mechanisms. It this basic principle of unlimited access to savings that partly explains the popularity of some deposit collectors and SACCOs.

Well-designed and client-responsive savings collection services can be offered at a fee thus becoming a source of revenue (based on the experience of deposit collectors). In fact, those MFI which see the provision of savings services as a drain on their profitability should consider charging a fee for the service.

Banks and MFIs that strive to reach the poor should make a deliberate attempt to study the informal sectors' systems it is arguable that the informal sector is their biggest competitor.

DISCUSSION AND RECOMMENDATIONS
Financial Service Providers
From an examination of the infinite variety of savings mechanisms is recommended that MFIs wishing to deliver demand driven, poor-friendly savings product should keep the following in mind. (Rutherford 1998):
a) design products around the poor's capacity to save and their needs for lump sums so that they can save (or repay) in small sums, of varied value, as frequently as possible.
b) design product delivery systems that are convenient for the poor:
    - that are local and frequent and quick - this may include a mobile deposit collection service
    - that are not burdened with paper work and other transaction costs
    - that are transparent in a way that is easy for illiterate people to grasp
c) investigate the possibility of charging a fee for savings services. Poor people are sometimes not interested in interest earnings as much as safety and convenience.

Policy-Makers
On the part of policy makers charged with economic development, savings mobilisation among the poor has far reaching national economic implications. Given the level of risks inherent in the informal sector into which the poor are forced in the absence of formal or semi-formal sector savings facilities, *enhancing rather than restrictive legislation governing promoters and providers of financial services for the poor should be*

pursued. This will allow MFIs to provide a better and wider range of financial services and to offer the poor opportunities that to date have denied to them in the name of "security of deposits".
Significant and constructive efforts have been made by the Bank of Uganda and the MFI community to address this issue and to develop an appropriate regulatory and supervisory environment. This shows remarkable vision since it is time for MFIs and policy-makers to recognise poor people's need for access to flexible formal or semi-formal savings services. It is time to accept that no system of supervision will secure savings deposits. It is time to empower the poor to make their own decisions about where and how to save by opening up alternative more responsive savings services through the MFIs. These services would allow MFIs to provide a better and wider range of financial services and to offer the poor opportunities that to date have denied to them in the name of "security of deposits".

Given the inflexibility and the level of risk associated with informal sector systems, it is likely that the poor will be more than willing to take the risk of *saving with MFIs that meet some basic criteria* but which are not supervised by the Bank of Uganda and not subject to the deposit guarantee scheme. Whether to accept that risk or not is a decision that poor people should be allowed to make for themselves.

Use and Impact of Savings Services Among the Poor in Uganda

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Introduction

Previously MicroFinance focused primarily on providing loans and savings remained Vogel's (1984) "forgotten half", typically extracted from clients through MicroFinance Institutions' (MFIs') compulsory systems. There was a prevalent and powerful perception that "the poor cannot save", thus compulsory savings systems often required members to deposit small token amounts each week and levied more substantial amounts at source from loans. The compulsory savings were often "locked" in (usually as loan guarantee funds) until members left the organisation. This saving "service" is viewed more as a tax or cost of borrowing and that is why most of the poor use alternative savings mechanisms.

Throughout Uganda and indeed the rest of Africa, there is a vibrant and diverse informal financial sector (Adams et al., 1992; Ardener and Sandra (eds), 1995; Aredo, 1993; Aryeetey and Gockel, 1991; Aryeetey et al., 1997; Osuntugun and Adeyemo, 1981). The purpose of this report to share findings and improve knowledge and understanding of (if and) how poor people in Uganda save, how they use different savings mechanisms and the impact of those savings facilities on their household budgets/lives.

The report:

- pays particular attention to savings services used and those not used by poor people;
- examines the perceived advantages and disadvantages of this variety of savings services;
- examines the social-economic characteristics of the people using these savings services;
- explores how savings services are used to manage household income/expenditure flows;
- explores why some people save in-kind and what financial services might induce them to start monetised savings; and
- draws lessons for MFIs seeking to develop poor-responsive savings services.

Methods

In addition to reviewing studies already completed, this study used qualitative research methods, in particular in-depth interviews, Focus Group Discussions and a variety of Participatory Rapid Appraisal techniques with a wide variety of people. Details of these methods are attached as Appendix 1.

Financial Services, The People That Use Them And Why They Use Them

There are a variety of institutions involved in providing savings services of various types in Uganda. For the purpose of this report they are arranged in three categories a) formal b) semi-formal and c) informal institutions.

The main reasons why people use these facilities is to build lump sums of money to spend on various life cycle needs including acquiring land, construction of a home, weddings ceremonies, paying school fees for children, purchasing healthcare, preparing for retirement etc.

Below is a description of the financial services available, who uses them and for what reasons.

FORMAL FINANCIAL SERVICES

Formal Banks

Formal Banks are commercial institutions licensed to offer savings accounts; current accounts; deposit accounts and loan accounts. Most of the commercial banks are concentrated in Kampala with only the Uganda Commercial Bank, Co-operative Bank and Centenary Rural Development Bank (CERUDEB) having up country branches[4]. Apart from Uganda Postal Bank, the account opening balances range from Ushs.50,000 to 500,000 while the minimum account balances range from Ushs. 10,000 to 200,000. These balances clearly serve as a barrier to the poor who find it difficult to set aside such amount at once. Co-operative Bank and CERUDEB have sought to encourage poorer savers, and have therefore set lower account opening and minimum balance requirements. Throughout the research there were scarcely any respondents that mentioned the Uganda Postal Bank as an alternative. (See Appendix 2 for details of the services available in the formal sector banks in Uganda)

Who Uses Formal Banks ?

Except when directed by MFIs that extend loans to the poor micro-borrowers through these banks, the poor rarely use formal banks because they find them unfriendly for the following reasons:

- they require high opening balances;
- the minimum balances are too high;
- they have an intimidating appearance;
- staff attitudes are unhelpful;
- the branches are usually far from the poor people's neighbourhoods;
- they maintain inconvenient opening hours;
- have relatively complicated transaction forms; and
- transaction costs are usually high (in terms of waiting time etc).

In addition there are other subtle characteristics that physically and psychologically bar the poor from using these banks. The poor perceive formal sector banks to be designed for middle class clients in urban areas. There are, however, two formal banks that make special attempts to reach the poorer segment of society. These are the Centenary Rural Development Bank and the Uganda Co-operative Bank.

The findings of this study are not that different from the Aryeetey and Gockel (1991) study. These are namely that:

- the poor feel that their incomes were too low – suggesting that they expected only those with high incomes to deal with banks;
- they feel there is too much formality at banks – related to paper work which leads to an unnecessarily extended transaction time;
- they feel that banks were uninterested in small frequent deposits of torn notes and discouraged them from making them.[5]

[4] UCB has 68 branches scattered in towns throughout the country.
CERUDEB branches in Mityana / Mubende, Kyotera/Rakai, Mbarara, Kabale, Hoima., Arua, Lira, Mbale, Kampala- Entebbe road and Namirembe road Branch.
COOPERATIVE Bank has (now had) branches in central Kampala, Owino (agency), Bwaise, Mukono, Wandegeya, Tororo, Mityana, Mbarara, Ishaka, Kayunga, Ntugmo, Rukungiri, Fort Portal, Gulu, Kitgum, Apac, Pallisa, Paidha, Lira, Soroti, Masaka, Masindi, Hoima, Kabale, Kasese, Arua, Jinja, Mbale.

[5] Given these concerns it is not surprising to find the authors concluding "Thus in the urban area," [of Accra] "it is estimated that the formal sector controls only 55 percent of financial savings mobilized in a month." [p.16]. something like this proportion is likely to be the case in Uganda as well.

Why We Prefer Not To Use Banks

Asked why they used deposit collectors and money guards instead of the banks that stand right across from where they wait for fares, the bike boys (*boda boda*) said "Banks are for people who have "learnt properly" – who can speak good English and look smart and well-dressed. The manager does not allow us into that bank. Also the policeman might want to know why we have come to the bank with small money. You see we do not have much money to deposit. The banks are for "serious" people who have bundles of money, not for people who have only Ush.1,000 or Ush. 2,000. That is why we prefer to place our money with the shopkeeper for safe-keeping. He keeps money for many bike boys and for a lot of the market women. You see, you can put money in the bank and fail to get it out when you need it. They can make you wait for a long time and later ask you to come back the next day. You cannot complain because you do not know how to complain in English, which is what the people in the banks speak. You cannot speak Dhopadhola[6] in the bank. That is why we prefer the shop keeper because he gives you your money any time you need it and very quickly. He also speaks Dhoppadhola or something else you understand".

The Risks of Formal Banks

The risks of formal banks have become alarmingly self-evident in the last eight months in Uganda, during which five have been shut by the Bank of Uganda on the basis of insolvency. Many relatively poor people used to bank with Greenland Bank (closed April 1, 1999) and Co-operative Bank (closed May 19, 1999). Clearly, despite its mandate to supervise formal banks, the Bank of Uganda has failed to do so.

BoU – You Are Not Alone …

In developing countries, central banks often struggle to regulate and supervise the urban-based commercial banking sector. In Kenya and Tanzania as well as Uganda, the central banks each have typically little more than two dozen formal sector commercial banks to supervise, and despite this apparently limited task, there has been a series of bank collapses, often due to corrupt practices or mismanagement. The record in the developed world is marginally better, but hardly the model of security. The Bank of Credit for Commerce and Industry collapsed despite being under the strict regulations and supervision of the Bank of England, the Japanese banking sector is currently in turmoil despite the best efforts of the central bank, and few need reminding of the Savings and Loan scandal in the USA.

With this recent history, together with the problems that the people of Uganda faced with the economic turmoil in the 1970s, it is scarcely surprising for the research team to find that poor people are looking for alternatives to the formal sector banks. Those who had deposited with formal banks remained unsure whether the deposit guarantee scheme would indeed allow them to recover their savings. Furthermore, they were quite clear that their liquidity and businesses had been badly hit by the freezing of their accounts.

The Insurance Industry

The insurance industry does not provide services responsive to micro-savers probably because of the poor reputation the industry has in the minds of most people. In the minds of most people insurance companies are not in the business of paying and have always successfully found ways of denying claimants their rightful compensation. This perception barrier has hindered the use of insurance companies as a savings service[7]. However, the insurance industry in one case has worked in partnership with an MFI to extend life insurance to clients. The product has been considered successful so far.

[6] The local dialect.

[7] I*nsurance*, which allows a lump sum to be enjoyed at some unspecified future time in exchange for a series of savings (premiums) made both now and in the future can be seen as a savings service (see Appendix 3).

FINCA Micro-Insurance Product

As a strategy to ensure repayment in case *injury and/or death due to domestic and outside accidents*, FINCA organised an open-ended insurance policy for its clients. This is underwritten by American International Group (AIG) and is referred to as Group Personal Accident. It is tailored to suit the needs for protection against hazards caused by accidents. In return for a premium of 1% of the loan principle, the benefits under this cover include:

- in case of death resulting from an accident (bodily injuries) AIG pays Ush 1.2 million which is used:

a) to off-set the outstanding balances and interest owed to the group on the FINCA loan
b) the balance of the Ush 1.2 is passed on to the identified beneficiaries of the deceased[8].

- in case of permanent total disability relating to an accident, whereby the client cannot perform her duties as determined in writing by three doctors in a government hospital, the AIG will pay up to the amount owed to the group on the FINCA loan (principle and interest).
- in case of partial disability due to accident, the inability to perform ones duties as determined by three doctors in a government hospital for a reasonable period (not less than two weeks), AIG shall pay the amount of the weekly payments missed up to the outstanding loan principal and interest balance.
- the insurer shall give a medical benefit in case of hospilatization due to accidents (admission to a government hospital only) of up to Ushs. 100,000. This shall be paid based on receipts and proof of hospitalisation on a refund basis.

Source: FINCA Uganda: Credit Officers' Manual

SEMI-FORMAL FINANCIAL INSTITUTIONS

Savings and Credit Co-operatives (SACCOs)

SACCOs are user owned and managed organisations registered under the Co-operative Act, and range in size from a handful to several thousand members. Most SACCOs are organised around the work place (formal employers), markets among vendors or are organised around specific produce (the most prevalent example being coffee) in rural areas. SACCOs are, in many ways, best poised for savings mobilisation from the poor, are fraught with historical problems ranging from management capacity weakness to fraud[9]. This has restricted the spread of the co-operative savings and credit associations in Uganda relative to its neighbours. The few there are operate within urban and rural areas receive technical support from the Uganda Co-operative Savings and Credit Union Limited and the Uganda Co-operative Alliance, which has registered approximately 400 of which about 60 are "functioning" in one form or other. The majority of users are net borrowers with as few as 10% being net savers in some cases. They are popular with members because:

- they are a source of easy (and cheap) loans compared to banks whose bureaucratic requirements include long complicated application procedures,
- they are accessible and located near members' workplaces or homes,
- some have mobile daily deposit collection services,
- members are encouraged to deposit whatever amount of money they have, even as little as Ush.500,
- they extend quick short-term loans in less than an hour to members,
- these loans are used for easing the cash flow pressure during the time for payments of school fees, and
- the hours of operation are sensitive to the members' hours of business operation.

Among SACCOs that work well, credit products include short term emergency loans (less than 6 months), medium term (less than one year), and long term loans (less than two years) with interest rates ranging from 5% to 18% APR.

[8] The official at AIG did not think the policy included this provision
[9] In addition, SACCOs have generally been set up and used by reasonably affluent people with salaried employment, or small-scale coffee plantations.

The Risks of SACCOs[10]

The risks associated with SACCOS are quite high, in that they traditionally suffer from opaque governance and poor accounting and management systems, so that the members, (and sometimes even the management), have little idea of the financial status of the institution. The lack of involvement of the membership in the affairs of the institution provides opportunities for the Board, management and their friends to take loans (often in excess of the amounts permitted by the rules of the SACCO) which they do not pay on a timely basis. In addition, since most of the members of SACCOs are generally net borrowers, they seek to minimise the interest rates charged on loans – resulting in inadequate incentives to save and often inadequate revenues to run the organisation. Finally, if SACCOs manage to address these issues, they often have significant problems realising their loans – whether collateralised or not. When SACCOs are linked to employment or the marketing of a commodity, outstanding loans can be collected at source as salaries or proceeds from the sale of the commodity are passed on to the borrowing members. With the liberalisation of the coffee market, farmers are no longer required to sell through the co-operative, thus depriving the SACCOs of the mechanism to deduct loan repayments at source. Without this mechanism, SACCOs are forced to depend on collateral. However, many if not all SACCOs have experienced considerable difficulty realising collateral – as community-based, community-owned and managed organisations, the officers responsible are loath to seize and sell assets from their relatives or neighbours. It is not surprising to note therefore, that the few functioning SACCOs often have very large portfolio in arrears, with overdue loan repayments stretching back into the distant past … and threatening what little savings the members have invested in the institution.

MicroFinance Institutions (MFIs)

MFIs are institutions or organisations that provide credit or savings facilities to micro and small scale business people who cannot obtain these services from the formal financial institutions because their business, saving levels and credit needs are all small. MFIs in Uganda include two banks, several companies limited by guarantee, co-operatives and credit unions (PRESTO,1998). MFIs are normally organised and operated by NGOs with initial capitalisation from "donors" interested in development through "micro-enterprise" credit to the poor. The lending methodology is typically through solidarity groups collateralising loans by cross-guarantee, although others are also have individual lending services. A pre-determined percentage of the loan value, between 25-35% is normally retained or controlled by the MFI as savings to be used as security or as a loan insurance fund.

There are currently over 50 MFIs of varying sizes in Uganda. The MFIs in Uganda are very small relative to global leaders. The largest has a little over 20,000 clients who are mainly borrowers. MFIs are by law barred from accepting deposits except forced savings (normally 25-35% of loan face value) used as collateral or a loan insurance fund. Nonetheless, as Stuart Rutherford argues, particularly in the light of the repayment schedules, the loans MFIs extend are an "advance against future savings" and therefore can be considered as a way of saving for the purposes of this report. See Appendix 3 for a very useful way of looking at the needs for financial services and how the poor meet these, largely by converting or swapping a series of small sums into a lump sum.

Loans As Advances Against Savings

When Grace bought the calf with her first loan, she knew it would be a struggle. Not only would she have to find the Ush. 2,500 for the weekly repayments, but also she would have to buy food for the calf so that it grew and fattened quickly. But by taking a little more care with the meagre household budget, and selling the eggs from their few chickens, she felt that she could manage.

[10] These risks are by no means unique to SACCOs in Uganda, but are the problems and challenges that face co-operatives throughout the world.

Rose was confident that, if by the grace of God, her husband was well enough to continue his work as a security guard throughout the year, she could pay off the loan she had used to buy jewellery for her daughter's wedding, and a few sheets of corrugated iron to replace the leaking thatch on their home. (Of course, she had told the MFI's credit officer that she was using the loan for "matooke trading" to keep her happy.)

Grace and Rose share one thing in common with millions of other MFI members throughout the world, they are making their weekly loan repayments not from income arising from the loan, but from the normal family household income. This pattern is extremely common not least of all because of the typical MFI repayment schedules. These schedules normally require weekly instalments (no grace period), and thus require investments that generate an immediate and rapid rate of return if repayments are to be made from the enterprise's income. Therefore, savings from household income are usually the primary source of the money used to make loan repayments.

Thus loans can, and indeed should, be seen as "advances against savings". And when they are seen as such, the ability of the poor to save, and the latent demand for savings becomes even clearer.

Who Uses MicroFinance Institutions?

MFIs are used mainly by the vulnerable not-so-poor clients. They tend to be married female between the ages of 30-39, sufficiently literate with an average household of 7 people many of whom are dependants. The users tend to diversify into two businesses. A typical client saves with MFI to access a larger loan while a smaller proportion of them tend to be target savers hoping to make major investments by eventually liquidating their compulsory savings/loan insurance fund. They tend to save less with MFI and more with informal groups because MFIs do not offer products responsive to their needs for liquidity in the face of crisis and opportunities. Besides many loathe the idea of losing their savings in cases where a group member defaults. A typical client belongs to more than one organisation (formal and informal) each meeting a particular need including financial, social and personal development. These include ROSCAs, *Munno Mukabi,* and religious organisations (Wright et al., *forthcoming*).

Risks Associated With MicroFinance Institutions

Driven in part by the MicroCredit Summit, and in part by the huge sums of money being made available by the Government and the donor community, there has been a push to extend MicroFinance to as many people as possible. In the resulting rush, quantity has received more emphasis than quality, and blue-print replication, without reference to the local situation and environment, is the norm. The design of MicroFinance systems requires a thorough understanding of the “financial landscape” in which the MFI proposes to operate. This necessitates research into the existing financial services available, who has access to them, and what additional needs and opportunities are present. The results of this research should have significant implications for both the design of the MFI's system and the financial services it offers. There is little or no evidence that this type of approach is being followed in Uganda. As a consequence the country is full of MFIs offering financial services and systems developed in distant lands and cultures, without reference to clients' needs or the Ugandan context.

Because of the infancy of the industry, the ease of entry into the market and the zealousness of almost every NGO to engage in microfinance there are risks that MFIs may cost unsuspecting people their hard earned savings. Despite the best efforts of organisations like PRESTO's Centre for MicroFinance and the Poverty Alleviation Project, many of the MFIs remain characterised by inadequate systems and controls, poor management, unclear ownership and opaque governance.

Eventually many of the smaller MFIs will either collapse or will be taken over by the larger ones. The latter option is, unfortunately, the less likely of the two possibilities. This is because it is easier for an MFI to induct new clients and train them in its systems and methods than to take over another MFI's clients who have been trained in, and have got used to, another system - particularly when that other system is (perhaps) less disciplined and rigorous. In the event of large-scale collapse of small MFIs in Uganda, clients could lose their savings, if the MFI has intermediated them into loans. It is for this reason that the Bank of Uganda has proved so cautious and conservative when considering the issue of the regulation and supervision of MFIs.

INFORMAL FINANCIAL SERVICES

The research indicates that the informal sector is far more vibrant than the formal financial sector. It draws its appeal from some of the following features (Adams and Fitchett, 1992):

- the range of services provided especially small daily deposits, short-term loans, and small loans,
- unwavering discipline because non-performance is quickly punished and borrowers have to earn their loans,
- savings is the basis of transactions and not subsidised outside cash,
- reciprocity is often a strong basis for financial transactions,
- low transaction costs especially on the part of the borrower,
- financial innovations that engender flexibility, speed and suppleness,
- speed with which services are provided, and
- proximity of the service provider to the clients.

Moneylenders

Moneylenders are individuals who normally offer short-term unsecured money at high interest in very local markets using intimate knowledge of customers (Adams and Fitchett, 1992). Evidence from research so far, both in rural and urban areas, indicates that there are not that many moneylenders serving the poor in Uganda. The few there are however tend to concentrate on the middle class and richer traders. Credit terms range from one day to four months loan with interest rates of around 10% per month. Some are happy to lend on open-ended terms provided the interest is paid every month.

Who Uses Moneylenders?

These are rarely used by the very poor since they usually extend between one to five million shillings to medium sized businessmen in urban areas who have collateral to pledge. In most towns these moneylenders are few and far between. The poor do not have the type of collateral they demand as this usually includes physical assets such as land and cars.

Pawnbrokers

Pawnbrokers are people who offer advances secured by an asset, collateral allows them to lend to poor strangers. This does not seem to be a very common service although in Uganda and where it exists it is not the main business of the service providers. The few pawnbrokers reported were in Nakulabye trading centre and Kawempe slums, both of which are suburbs of Kampala City.

Who Uses Pawnbrokers?

The poor who are under extreme financial pressure because of a crisis or an emergency that requires immediate financial resources use them. These people do not have access to alternative sources of financing and do not have any savings except in kind. They normally cannot run to a friend to borrow and therefore have to pawn their assets at less than 30% of the cost price. The most items most commonly pawned were music systems, refrigerators and other productive assets for which the owner gets an advance. In most cases these people are unable to retrieve the asset. The users of pawnbrokers do not have access to an MFI or any other formal financial services providers, because they are too poor or tend operate mobile businesses. Hawkers are a typical example of these.

Pawnbroker In The Slum

George is a resident of Kawempe slums, Nkere, Jambula Zone. " I have been a hawker for the last couple of years," he explains, "until three weeks ago when the City Council declared that I and a lot of other hawkers were operating illegally. After a few days I had consumed my working capital. I did not have any savings. As most people here do, I got my nice music system that cost me over Ush.300,000, and gave it to the shopkeeper whose business is to offer loans for things from people in desperate need for cash. He immediately gave me a Ush.100,000 loan payable with 10% interest within two weeks. I do not have any hope of recovering it. Anyway we are used to financing our crisis and emergencies this way".

Money Guards

Money guards are prevalent in Uganda and include shopkeepers near markets and trusted relatives like grandparents. The important factor is trust that the saver has in the money guard, but it is also usually considered important the money guard enjoys a superior economic status since this is hoped to reduce the risk to the depositor. However, it is important to note that in some cases the poor are quick to caution that they tend not to trust rich people with their money. The other important feature was the need to have someone from whom it may be difficult to withdraw the savings until such a time as the savings target has been achieved. This reflects what Shipton (1990) calls the "illiquidity preference" – and offers protection against frivolous spending or comparatively unimportant demands from relatives.

Who Uses Money Guards?

These are used mainly by the very poor and often youths and are popular both in rural and urban areas.

My Grannie - My Money Guard

Okello is 23 year old who in addition to vegetable farming operates a bicycle transport business between the county and the District Headquarters in Tororo. Asked how he was able to save Ush.70,000 to buy he bicycle he said. "I started by growing vegetables that I sold in the big town 6 miles away. During that time I noticed I could make some money as a *boda boda* (bike boy). Since I had no money I devised a saving strategy. I talked to my grandmother and she agreed to keep my small daily earnings until I had collected enough to buy a bike. "You see I wanted to keep the money away from myself because I could easily squander it as a young man. It was harder to get it from my grandmother. Besides she would always encourage me by asking me for the money. It did not take long and soon I had enough Ush.68,000 to get my own bike." Asked why he chose his grandmother to be his money guard above any body else, he said, "Old people are very trustworthy. A lot of young people used to keep their money with grandparent. The sad thing is most grandparents and grown ups have died. So it is a problem. Now most people have to buy chickens, transform them into goats and then later to cows which they afterwards sell to have a lump sum of money".

The Risks of Using Money Guards

The risks involved in using a money guard are enormous and can lead to huge loses for the depositor. Because of the private nature of the informal contract, one cannot easily have recourse to legal protection in the event of dishonesty and theft on the part of the money guard. There are countless cases where the money guard misused the money and was unable to payback. Users need more secure alternatives.

Deposit Collectors

Deposit collectors are private for-profit arrangements that take regular deposits (usually on a daily basis) of an amount determined by each client and return the accumulated sum (typically at the end of each month) minus one day's deposit or a fixed amount as a commission or service fee. These mobile bankers have a symbiotic relationship with micro-entrepreneurs especially market women protecting daily earnings from competing claims and ensuring working capital to restock supplies at the end of the month (Miracle and Cohen 1980; Aryeetey and Steel 1995; Rutherford, 1999). Deposit collectors place most of their deposits in banks for safekeeping, but they sometimes extend advances to their best clients before the end of the month.

While deposit collectors do not seem to be very common in Uganda, they do exist. The research team encountered a total of four cases of which one is still active with a clientele of over 170 clients. Three of these were located in markets and one in a bicycle shop at a street corner not too far from the market.

The deposit collectors have various delivery mechanisms. They either go to the client (mobile) and/or the client comes to them. They offer daily collection and disbursal services handling very small amounts of money during the most convenient hours of operation for the clients - typically from 8:00 am to 8:00pm six days a week. The client load observed among deposit collectors ranges from 60 to 2,200. They charge a fee of Ush. 500 to 1,000 per month. They pay no interest on deposits. The deposit collection is either on the basis of daily contractual, accumulating deposits (repayable at the end of the contractual period) or on the basis of a more flexible daily deposit and withdrawals facility. The longest serving deposit collector operated for as long as seven years before he was shut down. All deposit collectors encountered by the research team performed this function as a side business. To encourage savings one of the deposit collectors had a savings incentive scheme. The popularity of service is contingent upon a reputation of trust, convenience, unlimited access to savings and user friendliness for poor clients who tend to find formal banks intimidating.

The Deposit Collector

For seven years he kept poor people's money and at the peak of his business "Mukwano" had 2,200 clients, then local political and administrative complications forced the closure of his popular deposit collection service. In exchange for the service he deducted Ush. 1,000 per month from each client grossing Ush. 2.2 million per month in addition to his interest income on loans.

His real name is Charles Ochwo and in 1986 he established a bicycle and spare parts shop in Tororo which is about 120 miles east of Kampala. He saw a need and soon added a hire purchase service for *boda boda* boys (bike boys) who lacked the lump sums of money to buy their bicycles. Small daily repayments were made for 2 to 3 months, and a Ush. 20,000 premium (interest) was added to the loan principle, which was typically Ush.60,000. After they paid off the loan most *boda boda* boys would continue to make small daily savings deposits with him. He maintained a ledger book and invested the excess money. Savers sometimes would give loans at interest rates between 10 – 25% depending on the terms negotiated. The maximum loan size was Ush.100,000. To encourage savings there was a savings promotion for which the best 3 savers of the month got such prizes as radio cassette, bicycles, bicycle tires etc. The average savings account was Ush.20,000 - 30,000. Most of his clients were the very poor including bike (*boda boda*) boys, wheel barrow pushers, market women and others that needed to store money long after the banks was closed.

Asked why his scheme was so popular he offered an explanation, "Customers got their money any time without delay from 8:00 am to 8:00 p.m. without any excuses common with formal banks. Secondly, I helped a lot of people to save the money at the end of each day before they had wasted it on booze. Thirdly I was the only alternative for poor people because they were invisible to the banks. This is why people wanted my service".

Who Uses Deposit Collectors ?

In Uganda, this savings service does not seem to be that common, but the few there are used mainly by the vulnerable not-so-poor entrepreneurs most of whom work in markets in urban areas. The users tend to be self-employed market vendors although there are a lot working for someone else. Users are of all ages, usually do not have formal bank accounts and confess they find formal banks unfriendly to their type. Most of the informants were also clients of microfinance institutions.

The reasons why people use deposit collectors are similar to those found by Aryeetey et al (1991). People saving with informal agencies, especially deposit collectors, often have diverse reasons for doing so. The fundamental, motivation for doing so is derived from the lump sum the facility permits them to accumulate at very little cost. Other important reasons are as follows:

- easy access to the collector who comes regularly (in some cases twice a day),
- collectors accept small sums, often made up of torn notes and coins,
- easy access to credit facilities with transaction often taking less than five (5) minutes, and
- personalised relationship between saver and banker which makes the collector understand her situation when she cannot afford to meet a day’s payment on a bad day. He will come back another time without much fuss.

The savers subsequently develop high savings rate because the dominant mode of saving, while being less expensive and more convenient, is available “on the doorstep” or at their market stall.

Risks of Using Deposit Collectors

The strengths of deposit collectors are no doubt numerous but the system is not without weaknesses. Not only is it an extremely expensive service (typically costing 3% per month, and often higher), it is also a high-risk savings mechanism. Many traders in Nakawa Market have lost their working capital to the two deposit collection schemes that were set up and subsequently failed as the collector disappeared. Once again since the contracts were not legally enforceable, some of the depositors to date are still struggling to recover from the shock.

Informal Insurance Schemes

These groups, often known as “*Munno Makabi*”, are extremely common and popular in Uganda. There are a variety of ways in which contributions/premiums are made. The most popular is a one-time contribution followed by fixed compulsory contributions when a death occurs among the members. These self-help groups are composed of people with a common bond of either location, ethnicity, place of work, trade, area of origin etc. The most popular are centred on helping a member when faced with a death in his/her household or immediate family. This includes purchase of coffin, preparation of grave, serving mourners and catering for transport. Other *Munno Mukabi's* include celebrations like graduations and weddings.

The rules vary but are normally well understood by all the members. In case there is an excess collection, it is often kept in the group treasury to finance any deficit that may occur in the future if the group has another crisis to finance. *Munno Mukabi* are often found operating as part of MFI client groups - since they meet frequently, members find it convenient to run the *Munno Mukabi* activity at the same time.

Munno Mukabi – Indigenous Insurance

The most popular type of self-help groups is known as *Munno Mukabi* (which translates to "Friend In Need Associations"). Many clients of MFIs belong to one of these in addition to (and sometimes operating within) the MFI's solidarity groups.

How does a typical *Munno Mukabi* operate? At the inception a budget is agreed and split equally among the members. The proceeds are used to purchase such assets as are required for most household social functions that draw large numbers of people. These items include large saucepans, dishes, lanterns, canvas etc. The functions include burials, weddings, children's graduations, baptismal parties' etc. After the initial capital investment is made, members attend weekly or monthly meetings at which a collection is made.

One group for example, collects Ush. 200 per head per sitting, others collect up to Ush. 5,000. This money is kept and lent out whenever a crisis strikes. Members also pledge to make their labour available whenever a member faces a crisis or holds a celebration.

Who Uses Informal Insurance Schemes?

Informal insurance groups are used by the rich and the poor. They are popular with both men and women especially in urban areas. They are of increasing importance for people that come from upcountry and find it necessary to have last funeral rites at their village of birth. These are so popular because people see a decent burial as very important and yet it is expensive. In the absence of insurance products from credible organisations, the people find these informal systems to be very versatile, requiring no paper work while at the same time enhancing social assets.

Informal Micro-Enterprise Insurance Schemes

Another informal insurance arrangement that is not as popular is the insurance against business loss due to theft. These are usually made up of fairly homogeneous groups – usually people in the same trade of with businesses of relatively similar sizes. A pre-determined premium of equal amount is collected every week and is deposited with the treasurer. In the event of a fire or theft the group fund is used to re-capitalise the affected business to a certain point. The scheme runs for a year, is disbanded, the fund distributed to members and the cycle starts again. During the insurance cycle, the group fund is lent out to members at interest so that at the end, when the insurance is being cashed, members receive a profit from interest earned on loans. In this respect, these mechanisms are very similar to Accumulating Savings and Credit Associations (ASCAs) which are discussed below.

Who Uses The Informal Micro-Enterprise Insurance Schemes ?

Micro-Enterprise Insurance Schemes are used by micro-entrepreneurs in the similar lines of business. The group the research team encountered were all Pepsi Cola kiosk operators known to each other.

Soda Sellers Informal Business Insurance Scheme

Mary is a client of MFI but also belongs to an informal business scheme for PEPSI Cola vendors. It was started in order protect members and spread the risk of business losses due to fire and theft. "A couple of years ago, we started after realising that it does not take much for ones livelihood to be completely wiped out in the face of a fire or theft," she explains. "We are 15 people and each one contributes Ush.500 per day for 3 months. In the event of a loss due to fire or theft, we use the fund to re-capitalise the business to a certain level. If no one suffers a catastrophe within that period of time the fund is re-distributed with a small profit. You see the fund can be borrowed with interest by some members. A few weeks ago, this fund gave one our members a new beginning after his business was gutted by a fire".

Saving at Home

This is mainly in form of a box, clay pot, *kitta vvu*[11], *mukandala*[12], mattress, or whatever secret place within the house the saver thinks he/she can keep money for a long time. This is a very common savings mechanism whose importance seems to be increasing as indicated by the reported surge in sales of money boxes by many of the carpenters, especially in Kampala and its environs. This increase is mainly because people have increasingly lost faith in the formal sector financial system[13] and do not want to put all their eggs in one basket.

The Women's Accumulating Deposit Box

The researchers came across a group of women in Kampala who acquired a big money box that they stationed at one of their member's house. Everyday, they would come and deposit shilling notes on which they wrote their names. After a pre-determined period of time (usually after several months), they would all get together, break the box and divide out the notes and each got according to what they put in.

Who Saves At Home ?

This approach is used by all categories of poor people especially old women in rural areas although there is growing evidence of their use in urban areas in the face of the "crumbling" formal financial sector . The home savers interviewed tended to be people with excess liquidity after harvest with no access to other savings facilities and who wanted to maintain some liquidity to take care of emergencies like buying medicine for a sick child. For most people the moneybox holds only a fraction of their savings portfolio. This is mainly because they are aware of the risk of theft or fire.

The Home Based "Bank"

The research team asked a *boda boda* bicycle boy how he was able to buy the bicycle – was it through taking a loan or by saving ? He said he had saved. "Initially I worked riding someone's bicycle. I had to take back Ush.500 per day to the owner and saved Ush.1,500 each day. I kept the money in a secret place inside my parents' house until I had enough to buy a bicycle. We were many in the house and sometimes I feared someone could get to my money. I was lucky no one got to it. When I accumulated the required Ush.68,000, I immediately went to the shop and bought my own bicycle" .

Risks Associated With Saving At Home:

There are many risks associated with saving at home, all of which the people interviewed were well aware. Indeed, the research team often heard the interviewees bemoaning the fact that it was effectively impossible to save at home. In addition to the risk of theft, fire and destruction of the notes by insects and animals, one of the largest problems faced was the demands placed on home-based savings by relatives and friends looking to "borrow" the fund for a while, or to simply take it to meet an emergency of one type or other. In addition, children who know about the fund are always pestering to use it for small-scale purchases, and it is even tempting for the mother (for it is usually the women who make these small home-based savings) to spend the money on small items.

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[11] This is a type of pot used for keeping money. Inside the pot is put ashes which act as a preservative against bugs

[12] This is a type of multi-purpose belt used by market women to tighten their undergarments and also store money

[13] In the last eight months five banks have collapsed or been taken over by the Bank of Uganda, including most recently, Greenland Bank and the Co-operative Bank

The Secret Emergency Fund

During an interview one of the informants talked about another form of savings practsiced by women. It is locally (Jinja District) referred to as maintaining "*Ensawo Enzibizi"* which literally means "fill the gap" bag. This secret place contains secret funds held by a women, not known to their husbands. Normally, only one child or some trusted friend is told where it is hidden so that it can be recovered in the event of death of the mother. Women only use these only when all other avenues, including borrowing from friends have been exhausted.

Deposits With Suppliers

This is a savings method whereby small entrepreneurs deposit small amounts of money as they build up towards buying the next stock from the suppliers. They are usually given a receipt indicating the amount deposited and the purpose for which it was deposited. These deposits represent a large amount of working capital kept by suppliers. This is not only common with retailers/traders but also is common between traders and final consumers.

Who Makes Deposits With Suppliers ?.

This is a common practice among micro-entrepreneurs. This practice is very common with traders that are close to their suppliers, do not hold formal banks accounts and/or find it inconvenient to keep the working capital with formal bank before replenishing their stock. A lot these cases were found among used clothing vendors in Owino market in Kampala.

Deposits With The Supplier

Kaddu is a used-clothes dealer in Owino Market who is also a client of PRIDE Uganda. He has for long time maintained a deposit account with the supplier. He deposits the bulk of his daily sales with supplier. In exchange he is given a receipt. "A lot of us do this because we do not want to go home with working capital – just in case we lose it to thieves or problems. When we want to re-stock we do not have to take money. He just looks at his book and gives us the goods. This is very convenient and works well for a lot of us".

Supplier Credit

This is usually extended by merchants who offer advances to promote sales or purchases of goods they deal in. They often charge interest by increasing the prices of goods given on credit. This arrangement is commonest between wholesalers and retailers known to each other, and usually operating within the same geographical area although there are cases of arrangements between individuals operating in places far apart. Another variant of this is the hawkers (itinerant traders) who often supply goods on credit to their best consumers.

Who Uses Suppliers' Credit ?

This used by a variety of people coming from different social classes including poor entrepreneurs who receive advances from suppliers, usually paying a premium. Cases of these were reported especially among bike boys (*boda boda*) and hawkers and were mainly prevalent in urban areas.

Rotating Savings and Credit Associations (*ROSCAs)*

ROSCAs are referred to as "cash rounds" or merry-go-rounds in Uganda. This is arguably the most popular and fastest growing form of financial intermediation among the poor especially in urban and peri-urban areas – although ROSCAs are growing in number and popularity in rural areas too. The members take a periodic collection that is pooled and given to one member in rotation until everyone has got a chance to get the lump sum. Although this is not very common, the organiser or "chairperson" is sometimes paid a fee.

Bakusekamajja ROSCA

Alice, a client of an MFI in Jinja belongs to a 25 person ROSCA. "We are all second-hand clothes dealers. We meet twice a week and contribute Ush.4,000 per sitting. We used lottery distribution system to determine the "bride" – the person receiving the prize of Ush.100,000. During good seasons, we increase the contributions to Ush. 5,000. Because of the need to compensate the chairperson, the bride does not take the whole prize. Instead Ush.10,000 is retained and lent out to a member at 10% for 2 weeks. It is this 10% that compensates the chairperson. Each person eventually gets his or her outstanding balance. We rarely have any defaulters because the chairperson is very active and will confiscate goods from your stall for non-payment. I use my prize for whatever need I have especially re-stocking my business, but next time I will be using it to settle my arrears with FINCA.

There are variations in terms of sequencing "prize winners". Many ROSCAs determine sequencing by order of who signed up first so that the first to join gets the "prize" first. (To borrow accounting terminology this is FIFO method – first in first out).

An equally popular method is the "lottery method", and this has two variants. The first variant is where at the beginning of the ROSCA, numbers are written on pieces of papers and each member picks one paper that bears a number. This number determines the order in which the members will receive the prize or lump sum paid out by the ROSCA. The second variant of the lottery ROSCA is where it is cast at every meeting to determine whom will get the prize. Only the members who have not yet won the prize participate until the rotation ends and everybody has got the opportunity. It is not uncommon for members to make private arrangements to swap turns with members that might have a greater need for the money at the moment.

As with *Munno Makabi*, it is very common to find ROSCAs as part of the internal arrangement of the solidarity groups promoted by MFIs. In most cases members hold a larger proportion of their savings portfolio in the ROSCA than with the MFI.

ROSCA Within MFI Client Group

Mrs. Mayanja belongs to Lubimu Women's Group which is a one of the many clients of the UWFT. Ten of the eighteen members agreed to form a ROSCA. At the end of the meetings when they are done with UWFT business, they quickly move on to running the affairs of the ROSCA. Each one makes a Ush. 5,000 contribution that is given to one member in rotation until every one gets a turn. Each "prize winner" uses the prize for a variety of needs. For example the informant uses the proceeds for making domestic purchases and several times has used it to make a sizeable deposit with UWFT.

ROSCAs are set up for different purposes. Some are short term and finish quickly, while others keep going one cycle after another. For example in Jinja market the research team came across a ROSCA designed to last just a week with the aim of enabling each one of the five women members to have a hair do.

The "Hair Do" ROSCA

Jane is a FINCA client in Jinja. One day she realised she had no money yet her hair looked atrocious. "I decided to persuade my five friends in the market each of which agreed to bring Ush.1,000 per day for five days which was given to each one of us in turn. In five days we all had gorgeous looking hair. That was the end of that ROSCA".

The main reason for which ROSCAs have been established among entrepreneurs is restocking of business inventory. However, other popular purposes include buying household items, the purchase of construction materials, construction of houses, accumulating money for school fees, and even building up lump sums which are later used to open formal bank savings accounts. Other ROSCAs found by the research team in

Mbale and Tororo which were set up to help members pay their graduated tax payment and had existed for more than twenty years.

The Musolo (Graduated Tax) Group ROSCA

This ROSCA is found in Mooni, Mbale and is made up of 45 members, all of whom are men. The weekly contribution of Ush. 1,000 per sitting are given to the chairman who physically buys the graduated tax ticket and hands it to the member. The group has reached an informal agreement with the municipal authorities not to arrest any of its members for graduated tax non-payment. Since taxes are only about Ush.10,000 and the collection is Ush.45,000 some of balance is given to the "prize winner" which he is encouraged to use for domestic purposes like buying the wife a good dress. The members are encouraged to maintain some savings with the tax group as an emergency savings fund. This tax group has died and resurrected several times over the last years. No one lost money in the process.

It is not clear when ROSCAs first started in Uganda started, but several that the research team were started over twenty years ago. It appears that ROSCAs have witnessed the greatest rate of growth in the last ten years. They usually have a membership ranging from five to fifty members. They meet or collect money every day, some every week and others once a month.

Who Uses ROSCAs?

ROSCAs are used by both rich and poor people, although most seem to be among the poor. This is mainly because there are more poor people, while at the same time the few not so poor that there are have access to the more formal financial sector. ROSCAs are common as MFI client groups and the members usually use the prize for replenishing stock which is often depleted as the repayment of the MFI loan progresses. Members of ROSCAs tend to be to of relatively similar economic standing. Many people belong to more than one ROSCA with each serving different financial needs - short term ROSCAs to generate small amounts and longer term ROSCAs to yield larger prizes.

ROSCAs are more prevalent in urban than in rural areas, and the majority of users tend to be women although many ROSCAs also include men. Women's high level of participation in ROSCAs is partly explained by their forced savings function (Baden, Sally, 1996). As one Faulu client explained, "It becomes like a debt once you commit yourself. You feel the pressure to keep up with the payments and sometimes I cannot sleep until I find a way of getting my weekly contribution". Another informant explained, "I dread facing the other members with no money and only excuses". Given their relatively weak bargaining power within the household , women may not be able to resist encroachment on their reserves where these are kept in a fungible cash form, and therefore ROSCAs provide a useful way of saving money outside the home.

Other reasons for saving with ROSCAs and other informal arrangements are similar to those discussed by Robinson, Margaret (1994) who found that too much cash at home poses a security risk. Equally important, however, was the view that if one had cash on hand, it would be difficult to avoid having to lend it to kin and neighbours (Shipton, 1994).

Risks Associated With ROSCAs

The informal sector is, by definition, unregulated ... at least in the formal sense. However, it is important and possibly even instructive, to note that ROSCAs and many other types of savings clubs (for example the ASCAs outlined below) have a built-in and extremely efficient system of self-regulation. These savings and loans systems are time-bound and self-liquidating. That is to say that people (usually informally) contract to participate in the association or club for a specified cycle, and on completion of that cycle they are free to join the next cycle or to opt out. Successful, well-managed ROSCAs and savings clubs generally continue and start a follow-on cycle, but members are unlikely to re-join poorly-managed associations and clubs, and particularly not those from which they did not recover their savings.

While ROSCAs are probably the most elegant of all the informal financial systems considering their simplicity, low cost and the built-in audit system (either everyone paid and they are running, or not everyone paid and they stopped). However, while appreciating the elegance and simplicity of ROSCAs, it is important not to overlook their drawbacks. Firstly they are largely inflexible and unresponsive to emergency needs (although this is sometimes managed through auctioning or swapping the prize or by adding an ASCA component (see below) to the ROSCA). Secondly, ROSCAs make very poor long-term savings instruments … the longer the cycle, the less likely they are to complete. Incomplete ROSCAs are not uncommon, but the prevalence of on-going cycles tends to cause commentators to overlook the frequency and impact of their failure. This is mainly because their failure is not a public affair and therefore losers will suffer privately … and of course, it is more difficult to trace a failed ROSCA than one that is still in existence and running. Nonetheless, on numerous occasions, the research team came across informants who had lost or knew someone who had lost lots of money to ROSCAs. The risk of their failure is highest when a group is made up of some "morally hazardous" individuals looking to take advantage of unsuspecting members. It is for this reason that one needs to be cautious and objective in assessing the full impact of ROSCAs. And it is for this reason that the research team found many interviewees unwilling to commit themselves to saving large amounts through ROSCAs in Uganda. Those that do commit themselves to saving large amounts, even the relatively rich, well-connected individuals can lose substantially …

Money Talks – But Some Goes Without Saying

Jane was a business woman who was persuaded by another entrepreneur to make a weekly contribution of Ush.200,000 to a ROSCA being run amongst her friends. Since she occasionally needs large amount of money to re-stock her business she saw this as a good opportunity and so agreed to participate. Everybody got her "prize" promptly until her turn came. She was number nine. Then suddenly, the group disbanded and that was the last she saw of the people involved. Her loss: Ush. 1.6million.

Accumulating Savings and Credit Associations (ASCAs)

ASCAs are sometimes called "funds" and are similar to ROSCAs but lack the symmetry of ROSCAs (Rutherford, 1997). In a ROSCA everyone saves and borrows, whereas in an ASCA all save and some both save <u>and</u> borrow. Borrowers can access loans larger than their savings. Interest charges average 10% per month. ROSCAs are self-liquidating in that they end when everyone has saved, whereas ASCAs have to establish an arbitrary interval (often a year) to check on probity and distribute dividends. In return for this added complexity well-run ASCAs offer the most flexible intermediation service of all the informal sector user-owned devices. It is this complexity that makes them not as popular as the ROSCA in Uganda. ASCAs, like ROSCAs, come in differing cycles or "periodicity" of contribution so that one can join ones that required different amount of contribution on a daily, week or monthly basis. Savers who fail to keep up with the savings can withdraw their net savings.

ASCA savers deposit money at regular intervals, and the fund thus generated may or may not be lent to non-members (usually at a higher interest rate) as well as members. At the end of the period the money is returned. Participants used ASCAs because it is easier to save when there is a ritual of meeting every period to deposit a set amount, than it is trying to save alone. The ASCA's fund opens up a source of cheap credit and offers security of savings, and the meetings to make deposits are often used to exchange business information and offer mutual assistance in the technical and managerial aspects of business (Miracle et al., 1980).

In some cases ASCAs use a reiterative strategy and continue for many cycles (Rutherford, 1997). This gives users the opportunity to store savings indefinitely as the fund is rolled over into the next cycle. This is particularly important for target savers.

Accumulating Savings And Credit Associations

Apio is a market woman who belonged to a 10 member ASCA. Members contributed Ush.1,000 daily. On the fifth day the pool Ush.50,000 was lent out to one of the members. An application was completed and consideration was on first come first serve basis. Interest was 10% per week and was distributed to members at the end of the year when the fund was liquidated.

One-off contribution ASCAs or "initial investment funds" were also found by the research team in Nakulabye. These are lower-risk ASCAs in that the members make an initial, one-off contribution to the fund and then let it grow on the basis of the interest generated from lending it out amongst themselves.

Initial Investment Fund

Margaret, a client of FAULU, belongs to what is called Initial Investment Club. The group is made up of 10 people each of whom initially contributed 30,000/=. No additional contributions are made. This fund is lent to members who pay interest which is ploughed back into the fund. The fund has so far generated 500,000/= which brings the fund to over 800,000/=

The Risks Of ASCAs

ASCAs also carry substantial risks, not least of all since they are often not as clearly time-bound as ROSCAs, because the money is not distributed to all members immediately as in the case of ROSCAs (thus requiring a treasurer to hold the fund) and because the money is put out on loan – necessitating more complex book-keeping and loan collection procedures. In this respect ASCAs suffer similar problems to SACCOs, even though they are much more localised, and usually all the members are known to one another. Despite this many ASCAs fail because of members' inability or unwillingness to repay loans. And some ASCAs can grow quite large …

The "Burial" of Poverty … and the Poor.

The "burial" ASCA scheme is known in almost every part of the country because many poor unsuspecting individuals lost their life savings through this system. The story is varied. Some say it was an indigenous franchise MFI which was replicated by unscrupulous copycats, others say it was a scam to strip the poor of their money. Some say BURIAL is an acronym, while others say it was a figurative expression of what happens to household poverty when one joins – it gets buried. The truth may be hard to ascertain save the fact that lots of poor people lost lots of money.

One club the research team heard of in a village in Jinja district provides a typical illustration. The membership fee of Ush.10,000 was used as compensation for "the instructor" – some sort of a technical advisor from central office. Each group could not have more than 30 members, and each member was supposed to contribute Ush.40,000 which was deposited with the treasurer as a loan fund. To access the loan fund, one had to meet strict public health standards which (amongst other hygienic requirements) included having a decent pit latrine. In addition to the loan, the selected "bride" (one who had been selected to receive the loan and "bury poverty") was given household gifts like flasks, mattresses etc. by the other members. These gifts they were supposed to reciprocate as each member to his/her turn to "bury poverty". Sometimes instead of a cash loan the bride was given corrugated iron sheets for constructing a house since this was everybody's dream – to move from grass thatch. The "bridal" occasion involved much celebration and merry-making. This together with the shear volume and beauty of house wares attracted many to join in a hurry.

The problem was that the group, according to the teacher's instruction was not to exceed 30. Since demand was high and the teachers were not forming new groups quickly, shrewd and opportunistic people quickly seized the opportunity and formed additional groups. The new groups had their own variation each promising a heavenly return for a small investment. Many people joined more than one group in search of a dream – the burial of poverty.

"It is these variants that resulted in massive losses and gave the BURIAL such a bad reputation," said one informant, "One could not tell the real thing from the fake". The unscrupulous leaders lent the money to their friends and or took the loans themselves, and eventually defaulted. Soon there was no money for the poverty funerals. It was at this point that people realised they had been buried in a big scam. The leaders escaped from the village, and irate villagers destroyed some of their houses. Some savers lost as much as Ush.500,000 and many have not recovered from this crisis.

In-Kind Savers

In-kind savers are people that store savings not in form of money but in form of physical items. The items used include land and animals, especially cows and goats. These items are sold and "transformed" into cash when the saver needs it. Savings-in-kind assets are often held primarily as stores of wealth, such as livestock (cows, goats and chickens), dry agricultural produce (rice, maize etc.), and basic household items (utensils, furniture, radios etc.) used in the home that lose value over time (but can still be liquidated in response to crisis). These savings-in-kind are often held since they are perceived to yield higher returns than other financial savings systems. In the words of one client, "Since the bank pays such little interest on savings, it is better to keep the money in chickens. They lay eggs which you can sell and make more money".

Who Uses In-Kind Savings?

These are mainly used by poor, often illiterate, rural individuals. They are also common in communities without banking services. There are mainly found in villages although during inflationary times this mode of saving is not uncommon across the entire spectrum of society.

From A Chicken To A Bicycle

This *boda boda* boy's story was a bit different, "I used to work for someone as a hired bicycle rider. I had to take back Ush.1,000 per day and save about Ush.500 for myself." Asked how he kept these savings he said, "I would keep some in my pocket and whenever I had gathered Ush.1,500 I would buy a chicken. When I accumulated enough I would sell the chickens and use the proceeds to buy a goat. After collecting a couple of goats I sold them and bought myself a bicycle".

The Risks of Saving-in-Kind

The risks of saving in kind are high, as consideration of the most prevalent in-kind saving mechanism, livestock, clearly demonstrates. Saving in livestock carries high risk (due to illness/death of the animal) and maintenance costs (feed and veterinary bills) and results in inappropriate, indivisible savings (it is not possible to sell half a cow in response to a small scale emergency need for cash). It is for this reason that, despite the potentially high returns that can be derived from this kind of saving (if the livestock reproduces), most poor people would prefer to have an opportunity to save in cash.

In summary, the overall impression of the research team of the savings systems found in Uganda and who uses them can be summarised in a matrix as follows:

WHO USES WHAT FINANCIAL SERVICES

DESCRIPTION	RICH	NOT-SO-POOR	POOR	VERY POOR
Formal Sector				
Formal Banks	X	X		
Insurance Companies	X			
Semi-Formal Sector				
MFIs		X	X	
SACCOs		X	X	
Informal Sector				
ROSCA		X	X	
ASCA		X	X	
Savings Clubs		X	X	
Home Bank		X	X	X
Money Lender		X		
Pawn Broker			X	X
Deposit Collector		X	X	
Money Guard			X	X
Reciprocal Lending Arrangements	X	X	X	X
Informal Insurance Funds		X	X	
Burial Funds		X	X	
Supplier Credit	X	X	X	
Deposit With Suppliers		X	X	X

WHAT IS THE IMPACT OF SAVINGS ON INDIVIDUALS ?

The research findings indicate and Robinson (1994) concurs that savings have an impact on individuals in terms of:

- wealth accumulation to finance a household's long-term goals (social, religious purposes, heritage, consumer durables);
- insurance against disability, disease, retirement, sudden income losses and other contingencies;
- safeguard against uneven income streams due to seasonal variations (savings of high income periods are used to finance consumption expenditures during low-income periods); and
- savings for future investments in such things as education and other human resource development investments.

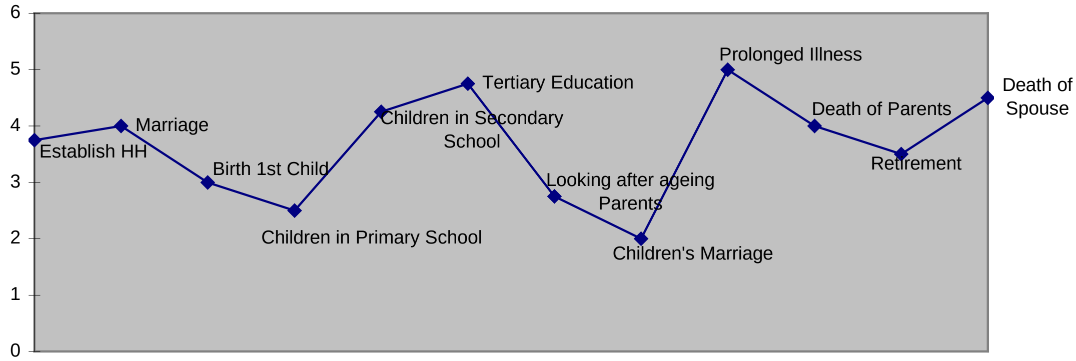
However, it is easier to examine the needs and the ability of savings systems to meet these needs using Rutherford's (1999) three categories:

1. *Life Cycle Needs.*

The poor need usefully large sums of money to deal with life cycle events such as marriage and birth, education and home-making, widowhood, old age and death, and the need to leave something behind for one's heirs.

Regular savings are important for financing life cycle/journey events. It is difficult to under-estimate the problems posed to poor people by these life-events, which require substantial sums of money, often at short notice.

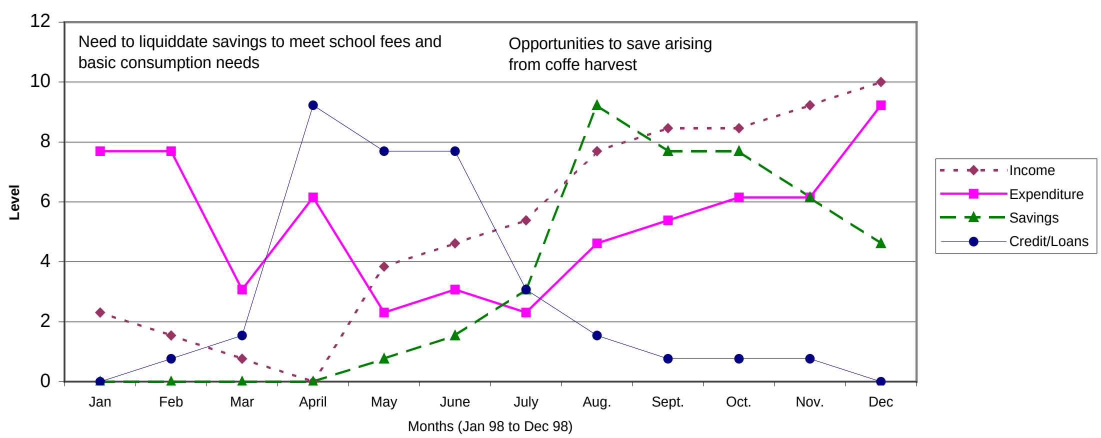
Life-cycle pressure profile (average scores for 4 women's associations) from Wright et al. *forthcoming*



It is for this reason that poor people desperately need places to accumulate long-term lump sums in preparation for these life-cycle events. In view of the high-risk and therefore short-term nature of informal savings systems available, they do not meet this need.

Savings are important for smoothing out peaks and troughs in income and expenditure. For example in the rural areas of Mbale there are marked seasonal fluctuations seasonal income flows. The months of August through to January bring in a lot of income, however, February through May are particularly hard months because people have to buy food. With the distinct seasonality of both income and expenditure flows in rural Uganda, there is a pressing need/demand for a savings mechanism to allow households to store money when they have excess income in order to meet pressing consumption and emergency needs when they have too little income.

Rural seasonality of income, expenditure, savings and credit



Despite the government's much-heralded Universal Primary Education scheme, school fees/expenses play an important and prominent part of the seasonality of expenditure for many poor households in Uganda. There is a commendable commitment to investing in children's future, but this too requires intermittent lump sums in order to meet the expenses. Such predictable and regular expenditures are almost tailor-made for small a regular "contractual savings agreements[14]", indeed these could significantly enhance the participation of the poor in the UPE scheme and follow-on secondary education.

[14] Contractual Savings Agreements (CSA), commit clients to save a specified amount, every specified period, for a specified number of periods in return for a pre-determined pay out on successful completion of the CSA. Thus for example parents could enter into a weekly CSA to save for school fees that recur every four months. If they save Ush. 3,000 a week, they could reasonably expect to receive Ush.60,000 on successful completion of the CSA. Or in a loner term agreement, a woman with a

Even in the absence of slightly more sophisticated savings arrangements like contractual savings agreements, a simple, open-access savings account can give parents two options. They can use it to slowly save over time or deposit whenever they have large surpluses (such as harvest time) explicitly for schooling costs. Alternatively, they can use a savings account as an emergency-response store that can be used when and if their other mechanisms to manage schooling expenses have failed.

How Savings Saved A Year

"Like most parents we have faced a lot of trouble with school fees," recounts Alice, "and only that savings account could come to my rescue." Her husband's business had once again hit a snag and so the children returned to school while the fees remained unpaid. It did not take long before her son was sent back home from school. This was a severe crisis since he was about to sit for his final exams was sent back. The school informed the family that it was not in the habit of offering exams on credit. Panic-stricken, they both looked around for a source of money but were stuck. "I had to think fast and the only place I could find money was on my UWFT savings account." Alice once again went to UWFT and withdrew the required amount - and was able to save a year. "You see if a child misses the final exams they have to wait for another year before they can sit again. Now that can be a real household crisis".

In addition to the seasonal variations in the flows of income and expenditure, poor people are vulnerable to what Rahman and Hossain (1995) would refer to as "Structural Risks". These are very often long-term or permanent changes in the national or international economy which impact on the ability of poor households to sustain their income. However, the reduction of government spending on bureaucracy and support for basic services such as healthcare and education coupled with widespread price and market liberalisation have had a profound and permanent impact on poor households. In the process of government retrenchments many poor households lost an important stable income source. This has forced many women to start a business or expand their existing income earning activities to make up for the lost income. Lack of experience and their limited skills base heavily restricted the options for the majority of the poor (particularly poor women) and as a result many of them focus on the same products and services, such as charcoal and *matooke* trading thus increasing competition and driving down margins. At the same time many of their potential customers face similar economic pressures. Widespread poverty and a low per capita GNP continues to affect the majority of Ugandans resulting in weak and unstable demand for the products and services provided by poor people.

2. Emergencies.

In order to cope with impersonal emergencies such as theft and fires and with personal emergencies such as illness, accident, bereavement, desertion and divorce, large sums of money are again required.

Savings are essential for the poor and enabling vulnerable households to build and maintain an emergency or insurance fund in the face of risks, crises and/or emergencies. Focus Group Discussions and in-depth interviews with households affected by crises revealed a long list of such shocks. Death or illness of a close relative was frequently mentioned. One group even commented that death is such a frequent event that they do not really perceive it as a crisis anymore possibly reflecting the devastation caused by HIV/AIDS in Uganda. The economic and social costs associated with such a shock can be enormous. Not only do they generate considerable bills, but when a major income earner or business partner is affected they can also lead to a permanent loss of revenue for the household. Women losing or abandoned by their husbands are left particularly vulnerable due to the associated loss of status and 'protection'. It is perhaps this perception of a high incidence of death that has lead to the proliferation of *Munno Makabi*, and highlights the potential of the market for a poor-oriented life-insurance services.

14 year old daughter that she expects to marry off at 19 years of age might undertake a CSA to save Ush.1,000 a week for five years in return for a lump sum of Ush.350,000 on successful completion of the CSA.

In addition, the poor remain vulnerable to crises arising from illness – and in the absence of medical insurance or free government facilities, need savings facilities with which to make provision for these.

The Tale of A Sick Child

"I was finally forced to withdraw my savings because I had a crisis on my hands," said Beatrice of Kamukamu Women's Association. Last March, their child was extremely ill to the point of death. Her husband's business was at a low point and so was hers. She went to the UWFT and withdrew more than half of the savings she had accumulated over the previous year. "It was extremely important that I meet the health care needs of my child, " said Beatrice. "All my business plans had to take second place. I do not know what I could have done had I had no savings. Most of my friends were in poor financial shape at that time. It is crucially important that I work hard to re-build my savings account just in case trouble strikes again."

Many poor people the research team talked to in Kampala seem to have been affected by fire and accidents, which often destroyed their entire belongings including productive assets and stocks. Thefts, robberies and cheating were also regular occurrences, so much so that the category of illegal appropriation of other people's property represents a permanent and pervasive risk in the environment in which poorer households earn and spend their resources. Once again, these threats underscore the importance of savings facilities to help poor provide and prepare for such unfortunate events. While some have set up informal insurance schemes, these are exceptions rather than the norm, and a more formal arrangement is required to help poor people in this regard.

Semi-formal or formal saving services are also needed to provide security and illiquidity. One reason for not wanting too much cash at home was the risks arising from theft, fire or insects, which are considered a major problem. Equally important, however, was the view that if one had cash on hand, it would be difficult to avoid lending or giving the fund to kin and neighbours.

3. Opportunities.

As well as needs, there are opportunities that require large sums of money, such as starting or running a business, acquiring productive assets or buying life-enhancing consumer-durables such as TVs and refrigerators.

Savings or regular swapping of savings for lump sums enable clients to acquire physical assets especially that needed for establishing or expanding a business. These swaps, among the poor are often provided by ROSCAs. However, as noted above, ROSCAs are not very efficient at assembling larger sums of money of the magnitude that are generally necessary to start a business. In Uganda poor people are unwilling to put large amounts into ROSCAs and indeed they prefer to take a loan from an MFI and repay it in weekly instalments at high interest. This illustrates a very simple principle, in order to build up larger lump sums for investment, the poor need a formal or semi-formal institutions with which they can make regular, small savings in relative confidence.

Small Regular Payments Made Me "Rich"

In addition to being a client of the UWFT, Imelda Walugembe, a market vendor is also a member of the *Nakawa Market Savings and Credit Association*. "I like the Association because it has made it possible for me to acquire a stall. It works so well for others and me without much money because the cashier comes to my stall, twice a day, collecting small notes which most of us do not find worth taking to any bank everyday. Sometimes I give Ush.2,000, sometimes more or less. It all depends on how much I have. The advantage of this is that they come to me and therefore help me to save small money that could easily be wasted on numerous competing demands. It is now a habit for me. I am sure I would not have saved as much as I have to date. I do not think I would have been able to buy this market stall. As the saying goes: "One by one makes a bundle". The second reason why I like this is I can get money from my account anytime six days a week from 9:00 am to 7:00pm. When I have a problem I simply run to the Association and in no time I draw from my savings".

Regular swapping of savings for lump sums can stabilise an existing business by ensuring that its stock is repeatedly refreshed. This service is offered by MFIs through their small-scale loans, which can be seen as "advances against future savings"; by ROSCAs as cyclical swaps; by ASCAs as withdraws from savings and as advances against savings; and by reciprocal lending arrangements.

The asset most sought after by poor people is land and housing, and they go to extraordinary lengths to access these. ROSCAs are not generally seen as a feasible way of generating such large sums – the numbers of people, the length of the ROSCA and amounts of money involved are seen as too high and therefore too risky. As a consequence, those that can afford to do so use MFI's compulsory savings systems or formal sector banks to save up towards these important assets.

Dreaming of Home …

One man is on his second loan with a face value of Ush.220,000 of which Ush.182,000 is outstanding, while Faulu holds his compulsory and voluntary savings of Ush.142,000. He told us that his ambition in joining Faulu is to save up a total of Ush. 3 million: 1 million for a plot of land, 1.5 million for a house, 500,000 for working capital. Although his primary motivation is saving, he says the loans are also very important, since careful use of them can enhance his capacity to save. Similarly a woman sitting nearby wants Ush. 2 million for a plot and a building.

Once the land is purchased, many also save in kind in building materials, slowly building their houses, brick-by-brick over time. As one woman said to the research team, "When I got some money, I made bricks, when I got some more money I built up to the window level. I have now roofed the house and God willing I will get more money and finish the house."

In addition, poor people need savings services to accumulate the lump sums to acquire consumer durables – and much of this is performed through ROSCAs operating in Uganda. However, as noted above ROSCAs can only facilitate the acquisition of relatively low cost consumer durables since the poor have inadequate faith in larger ROSCAs completing.

Conclusion

From the discussion above, it is clear that the poor have many needs for savings services that are not currently being met, even by the remarkable and sophisticated array of informal sector systems available to them. There are several reasons for this, largely revolving around the trade off between the duration and the security of savings in the informal sector: the longer the "cycle" or the time the savings are tied up with the informal sector provider, the more likely they are to be lost. This fact gives rise to a fundamental and important difference between informal and semi-formal or formal sector savings schemes.

Two Strategies and Two Outcomes

Stuart Rutherford differentiates between the two strategies pursued by outside agencies (be they development or private sector) and poor people themselves as they seek to design and deliver financial services. The former tend to use a strategy of permanence and growth and look to create sustainable institutions that deliver financial services to an ever-increasing number of clients - MFIs, banks, co-operatives etc. By contrast poor people themselves generally use a strategy of replication and multiplication and look to create many small self-contained, often self-liquidating schemes - ROSCAs, ASCAs etc.

There is another important difference between these two strategies and the types of schemes they spawn. The permanence and growth institutions tend to encourage the long-term build-up of funds through relatively slow, but steady, saving (and are therefore extremely well suited for addressing longer-term savings needs such as house building, pensions etc.). The latter replication and multiplication schemes tend to encourage the rapid accumulation and disbursement of funds (and are therefore better suited to meeting shorter-term savings needs such as purchasing small assets or financing festivities or rituals etc.).

These differences explain why the poor will often hold accounts in permanence and growth institutions while enthusiastically participating in a variety of replication and multiplication schemes - the different schemes are fulfilling very different needs. Furthermore, it is because of their differing roles that ROSCAs and other shorter-term schemes often attract markedly more savings than secure, interest-bearing accounts with financial service institutions

WHAT IS THE IMPACT OF SAVINGS ON THE VARIOUS INSTITUTIONS ?

One of the most important short-comings of MicroFinance services in Uganda, as in many places elsewhere, is the absence of poor-friendly savings facilities. World-wide, in view of the clear evidence that the poor can and want to save, there are moves away from loan-linked, compulsory, locked-in savings systems to open-access, voluntary savings services that are available irrespective of whether the client is borrowing or not. MFIs in Uganda have not been able to offer facilities that allow the poor to save in a way that would help them to meet their current needs and opportunities, as well as to save for the future. The large MFIs have instead concentrated on providing credit facilities and on insisting on compulsory savings in order to secure the loans they provide.

Offering savings services to the poor represent a tremendous opportunity for MFIs to increase their depth and bread of outreach. There are numerous savers who are not interested in credit as has been demonstrated by Bank Rakyat Indonesia where there are 14 savers for every one borrower. Even those that will eventually need credit need a safe and convenient place to hold savings before they become eligible for credit. It is now clear that voluntary, open-access savings schemes can generate much more net savings per client per year (and thus greater capital for the MFI) than compulsory, locked-in savings schemes ... and provide a useful and well used facility for clients while doing so (Robinson, 1994, Wright et al., 1997)[15].

Offering easier access to savings may also reduce drop-outs and increases the level of voluntary savings: this has certainly been the experience of one MFI experimenting with more open access savings in Kampala. In a related study by ***MicroSave***, it was clear that dropouts cost the organisation tremendously in terms of the cost of loan orientation seminars and foregone revenues in the case of mature profitable clients.

Lack of access to savings is a major disincentive for the poor to save with MFIs and rather use competing informal mechanisms. Indeed, throughout the research, many respondents expressed a desire to have a safe place to store savings that can be accessed, without limitations, whenever the client needed them. It this basic principle of unlimited access to savings that partly explains the popularity of some deposit collectors and SACCOs.

[15] A fact that is of increasing importance as donor development assistance funds become increasingly scarce.

MFIs that have poorly designed savings products (voluntary and compulsory savings products) will have dissatisfied clients. MFIs should offer demand-driven products appropriately designed to combine, security, convenience, liquidity and returns which is in keeping with the poor's savings behaviour (Robinson, 1994). These products should seek to respond to the needs and expectations of savers in terms of life cycle and emergency financial needs. This requires a deliberate effort to engage in systematic market research, product development and costing. Formal and semi-formal institutions should strive to use their comparative advantages to offer what informal mechanisms are unable to offer or to improve upon what informal systems are currently offering.

There are several important components to this that are worth noting:

- Most MFIs do not realise that well-designed and client-responsive savings collection services can be offered at a fee thus becoming a source of revenue. Based on the experience of deposit collectors, clients are willing to pay for savings services and do not necessarily need interest on deposits. In fact, those MFI which see the provision of savings services as a drain on their profitability should consider charging a fee for the service.

- Transaction costs play and important role in a poor person's decision to deposit savings with a formal, semi-formal, and informal institutions. What might look like positive returns on savings may turn out to be negative from the client's point of view if their transaction costs are imputed into the analysis.

- Some MFI officers see unlimited access to voluntary service as a reduced security/collateral and increased risk for the MFI. It is therefore important that the product development, staff training/development and promotion exercises are sensitive to this problem and address it appropriately or else it will cripple savings mobilisation strategies.

- It is arguable that informal sector is the biggest competitor to the formal and semi-formal financial sectors. Therefore banks and MFIs that strive to reach the poor should make a deliberate attempt to study the informal sectors' systems and the perceived advantages and disadvantages of these.

DISCUSSION AND RECOMMENDATIONS

Financial Service Providers

From an examination of the infinite variety of savings mechanisms, the message is clear that the poor save in a variety of ways, (especially in the informal sector) and that this represents a unique opportunity for MFIs committed to broad and deep outreach. Also savings mobilisation will generate addition funds for MFI intermediation. The challenge is to learn from the informal sector and transform those lessons into sustainable and profitable products and delivery mechanisms.

To accomplish this successfully MFIs must pay attention to systems and processes that influence the poor's saving behaviour and the practices of successful formal and informal service providers. This will enable MFIs to design and poor responsive products with poor-friendly delivery systems that meet the needs and expectations of the poor. It is therefore recommended that MFIs wishing to deliver demand driven, poor-friendly savings product should keep the following in mind through the product development and management stages (Rutherford 1999):

1. MFIs must design products around the poor's capacity to save and their needs for lump sums so that they can save (or repay) in small sums, of varied value, as frequently as possible.
2. MFIs must design product delivery systems that are convenient for the poor:
   - that are local and frequent and quick - this may include a mobile deposit collection service
   - that are not burdened with paper work and other transaction costs
   - that are transparent in a way that is easy for illiterate people to grasp
3. MFI should investigate the possibility of charging a fee for savings services. As demonstrated by

the deposit collectors and managed savings clubs, poor people are sometimes not interested in interest earnings as much as safety and convenience.

Better Financial Services for the Poor
(Rutherford, 1999)

Better financial services for the poor recognise the principles of personal financial intermediation:

1. accept the **right kind of pay-ins:**
- allow *small* sums to be paid in
- allow *variable* sums o be paid in
- allow sums to be paid in *frequently*

2. allow clients to take out the **right kind of lump sums:**
- provide a *savings bank service* (save and withdraw)
- provide an *advance against future savings service* (loans)
- allow *short-term, mid-term and long-term* swaps
- place no restrictions on how the lump sum is *used*

3. make it **convenient** to pay-in and take-out
- allow sums to be paid in and taken out *locally*
- allow sums to be paid in and taken out *quickly* (on demand and with minimum delay)
- recognise that clients may accept group formation as a price worth paying for a service, but would prefer an *individual service*
- make services open to *all poor people* (not just women, or just adults, or just one person per household)

Policy-Makers
On the part of policy makers charged with economic development, savings mobilisation among the poor has far reaching national economic implications in terms of domestic savings mobilisation. Given the level of risks inherent in the informal sector into which the poor are forced in the absence of formal or semi-formal sector savings facilities, a enhancing rather than restrictive legislation governing promoters and providers of financial services for the poor should be pursued.

Uganda is currently preparing to introduce legislation to govern the regulation and supervision of MFIs, the organisations explicitly dedicated to serving the poor, and thus has a tremendous opportunity.

"The primary reason for … covering microdebt institutions with regulation and supervision is to allow them to mobilize deposits. Now I'm all in favour of expanding the opportunities for more poor people to increase deposits, but I continue to be uneasy about an industry that is dominated by altruistic motives getting into deposit-taking. … Allowing many NGOs to start mobilizing deposits may delay the collapse of many of these organisations, but it will also augment the costs of the ultimate collapse, especially the costs imposed on poor depositors".

(Dale Adams on the on-line *DevFin* Discussion Group at Ohio State University 1998).

Conventional wisdom has dictated that the Central Bank design and administer the regulation and external supervision systems under which MicroFinance Institutions (MFIs) operate, in order to offer state-backed deposit insurance. However, evidence from both developing, and indeed developed, countries suggest that it is naively optimistic to think that a system of central bank regulation and supervision will secure poor people's deposits. This is particularly so in the context of large numbers of MFIs running a business for which central bankers usually have scant regard, and of which they have less understanding.

Furthermore, this overlooks the fact that external regulation is but one of several important elements to create well-managed and permanent financial institutions. Elements of "self-regulation" are probably even more important as they are permanently imbedded within the institution's systems. The main instruments of regulation and supervision are the Executive Committee/Board of Trustees, the Board of Directors, the internal controls and internal audit, the external auditors and external supervision.

Several commentators have proposed an interesting variety of unconventional alternatives for supervising MFIs that accept deposits. These include a savings guarantee foundation to which MFIs would subscribe; a rating agency that grades and certifies MFIs; a market-driven savings deposit insurance scheme; and a voluntary register[16]. In addition, a system based on ownership, governance and management systems in preference to central bank-driven supervision has been proposed. None of these systems would be perfect, but nor would any. These systems would not ensure that no poor people lose their savings, but they would recognise that central banks have neither the capacity nor, as often as not, the will to supervise MFIs. That recognition might just allow the microfinance industry to wake from its dream of finding the perfect system of regulation and supervision, and the inertia that has resulted.

Perhaps the time is to learn from the anarchy of "benign neglect" in Bangladesh where hundreds of unregulated and unsupervised NGOs are offering savings services with impunity. In this environment many poor people have lost their savings either to incompetence or fraud (as they have in many regulated and supervised environments) … but they still keep looking for safe MFIs which will offer them savings services. As this report has shown, the alternative savings systems for poor people are even more risky.

The argument that savings services that are not backed by deposit guarantees and central bank supervision are dangerous for the poor and therefore should be discouraged is akin to arguing that cars are dangerous and therefore should be banned. We are all willing to take risks when we believe that the potential benefits make the risk-taking worthwhile – this is a decision that the poor need to be allowed to make for themselves. The challenge is to develop a system that is not repressive but that helps poor people evaluate the risks associated with the various savings schemes on offer to them. Approaches offering accreditation plaques/certificates or a voluntary register further empower poor people with information on which to make their own decisions – on whether, where and how to save, and with a chance of understanding the associated risk. They are then in a position to evaluate the risks and compare them with those that imperil savings held in the home.

There are at least two middle ground options available to the authorities. The first is to permit MFIs to mobilise but not intermediate savings. Under this option, the MFI would be able to provide a savings service, but would be required to place the savings mobilised in formal sector banks for safe-keeping. This would also be relatively easy for the Bank of Uganda to supervise (were it so inclined) since using surprise visits, they could review the amount of savings mobilised and then ensure that the MFI had at least this amount in its account(s) with the formal sector banks. An additional advantage of this system would be that it would provide an excellent intermediate "learning" step between loan-driven microcredit organisation and becoming a full-fledged financial service microfinance organisation. During this phase the MFI could learn about the challenges of providing savings services (re-orienting staff, developing systems, managing liquidity etc.). At the same time, the central bank responsible for supervision could become acquainted with the MFI's staff and systems before moving to the more complex stage of supervision deemed necessary for full-fledged financial intermediaries.

The second option is that of permitting financial service MFIs with a certain level of external capital/equity[17] as well as user-owned and managed financial service organisations to mobilise deposits without being covered by the Government-backed deposit guarantee scheme. In addition, organisations under these two categories could be required to fulfil certain basic stipulated standards concerning their

[16] See Wright, *forthcoming* for a more detailed discussion of this.
[17] Around $250,000 - $500,000 would probably be appropriate.

governance, management and accounting systems prior to receiving permission to mobilise savings deposits. Under this option, these organisations could provide deposit mobilisation services and intermediate these savings, but would have to clearly state on each document (deposit/withdrawal slip and loan application form etc.) that the MFI operates without the supervision of the Bank of Uganda, and outside the umbrella of the deposit guarantee scheme. This in turn would allow their poor clients to make their own decisions regarding whether they want to assume the risk of depositing with the MFI, or whether they would prefer to continue with the risks inherent in the informal sector.

As the Bank of Uganda and the Ministry of Finance move to complete their Policy Statement and draft the legislation that will govern MFIs, they must be aware of the larger picture … the diversity of options available and the plethora of risks associated with each. It is in the interest of the poor of Uganda and the country as a whole that the regulations allow a broad range of institutions to provide savings services to the poor within some basic prudential requirements. Once such an enabling framework has been established, the MFIs and user-owned and managed institutions will face the challenge of designing and implementing savings products that meet the wide variety of needs of their clients.

CONCLUSION

The needs of the poor are not being met by the savings systems available to them. The formal and semi-formal sector systems largely exclude the poor, and certainly exclude the very poor living in remote rural areas. As a consequence the poor are driven in to using high-risk (and often high-loss) informal savings mechanisms in an attempt to somehow manage the financial resources they have.

The poor are forced to rely on (unregulated) cost-ineffective, often insecure and unreliable, systems to save. These include deposit collectors who often charge 3% a month to provide the service; livestock that must be fed, housed and protected from illness; hidden stores of money held in the home that must be secreted from thieves and marauding family members; ROSCAs that provide an efficient but inflexible, limited and short-term savings mechanism and ASCAs that are complex to run and are often lost to defaulting members.

The consequences of this are that poor people regularly lose their savings to fraudulent schemes, to dishonest “friends” and neighbours, to thieves, to unnecessary spending or (in the case of in-kind savings systems such as livestock) to illness.

Significant and constructive efforts have been made by the Bank of Uganda and the MFI community to address this issue and to develop an appropriate regulatory and supervisory environment. This shows remarkable vision since it is time for MFIs and policy-makers to recognise poor people’s need for access to flexible formal or semi-formal savings services. It is time to accept that no system of supervision will secure savings deposits. It is time to empower the poor to make their own decisions about where and how to save by opening up alternative more responsive savings services through the MFIs. These services would allow MFIs to provide a better and wider range of financial services and to offer the poor opportunities that to date have denied to them in the name of “security of deposits”. Given the inflexibility and the level of risk associated with informal sector systems, it is likely that the poor will be more than willing to take the risk of saving with MFIs that meet some basic criteria but which are not supervised by the Bank of Uganda and not subject to the deposit guarantee scheme. It is a decision that poor people should be allowed to make for themselves.

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APPENDIX 1

METHODS USED

The research team used a variety of quantitative and qualitative methods to examine this complex issue.

Quantitative Methods

- The quantitative methods involved analysing the computerised drop-out records of MFIs participating in the study to look for trends, season variations, variations by cycle etc.
- In addition the team used Excel spreadsheets to model compulsory savings:loans ratios, repayment instalments, APR interest etc.

Qualitative Methods

- Key informant interviews were conducted with the managers and front-line staff of the participating MFIs.
- In-depth interviews were conducted with clients, drop-outs and non clients of the MFIs and in the catchment areas where the participating MFIs were operating.
- The team conducted extensive Focus Group Discussions with clients, drop-outs and non clients of the MFIs and in the catchment areas where the participating MFIs were operating.
- The team also used a variety of Participatory Rapid Appraisal techniques including:
  - ⇒ Seasonality calendars
  - ⇒ Wealth ranking
  - ⇒ Lifecycle-lump sum analysis
  - ⇒ Money management systems matrixes

A total of around 500 people were interviewed in about 75 different sessions.

APPENDIX 2
Sample Survey on Savings Services Provided by Different Banks In Uganda.

Bank Name.	Requirements / Conditions.	Costs or Rate.
Nile Bank Limited.	Two referees. Two passport size photos Identity card or Passport. Initial deposit. Minimum balance. Interest rate on monthly min. bal of Shs. 50000/=. Regular statement. Additional / Duplicate statement (per page). Interim Statement. Certified Balance. Ledger fees. Minimum Deposit. Cheque book!!!-For a savings accounts?	 100,000. 50,000. 3%. Per annum. Free. 1,000. 1,000. 3,000. 200 per entry quarterly min. 2,000. 100,000. 350 per leaf.
Post Bank Uganda Ltd.	Interest rate. Min. Deposit for account opening. Minimum balance at any time. Minimum balance to earn interest. Minimum cash deposit. Minimum cash withdrawal. Charge for a new passbook. Charge for a continued passbook. Charge for passbook replacement. Closing fee. Premature fee. Salary payment service fee. **Others** Minimum balance. Two-passport size photos. Copy of identification. Pass book	4.25%. 10,000. 10,000. 20,000. 5,000. 5,000. 1,500. 1,500. 2,500. 2,000. 500. 2,000. 10,000. Not indicated.
Uganda Cooperative Bank Ltd.	Opening Deposit Amount Four-passport size photographs. Two referees –their customers. Minimum balance on account. Valid identification document. Interest rate. Pass book. Locked up savings (for MFI)	100,000. 50,000. 4% on balances above Shs. 100,000. Not indicated. 25 % of required loan
Greenland Bank Ltd.	Opening Amount. Ledger fees. Pass book. Minimum balance. Interest rate.	50,000. 1,000 per month. 10,000. 10,000. 4% p.a. on min. bal. Of 25,000

Bank Name.	Requirements / Conditions.	Costs or Rate.
		throughout the month. 6% p.a. on min. bal. Of 100,000 throughout the month.
Suubi Investment Bank.	Interest rates. Suubi Children's Savings scheme. Deposit above 10,000,000. Bank Charges and Tariffs. **Others requirements.** Three-passport size photos. Identity Card. Introductory letter from LC or Employer. Opening balance Shs. 25,000/= Minimum balance	4% p.a. up to 400,000/= 7% p.a. over 400,000/= 8% p. a. Negotiable interest. Min. 2000. Max. Shs. 10,000. 10,000/=.
National Housing Finance Corporation		
Uganda Commercial Bank		
Tropical Africa Bank		
Centenary Rural Development Bank		
Transafrica Bank Limited		
Bank of Baroda		
Crane Bank		
Orient Bank		
Allied Bank	Initial Deposit 102,000/= Min Balance 100,000/= Interest 4%, larger amounts negotiable 3 Photos 2 references who are current clients Photo ID	
Barclays Bank		
Cairo International Bank	Initial Deposit: 50,000/= but can be 20,000/= Minimum balances 3,000/= Interest: 5% Passport Photos: 2 References: none	
Diamond Trust Bank	Initial Deposit: 100,000/= Min. Balances: 10,000/= Interest Rate: 4%, no ledger Photos:3 Introducer 2: must be a/c holder References 2: current a/c holder ID:	

Bank Name.	Requirements / Conditions.	Costs or Rate.
National Bank of Commerce	Initial Deposit: 50,000/= Min. Balances: 50,000/= Interest Rate: 7%, no ledger Photos:3 References: current a/c holder ID:	Other products:
Trust Bank	Initial Deposit: 100,000'= Min. Balances: 50,000/= Interest Rate: 5% Photos:2 References: current a/c holder ID: passport/ID	1,000,000/= 10%

APPENDIX 3

"The Poor and Their Money": a framework for thinking about financial services for the poor ***from Stuart Rutherford***

Throughout their lives, the poor experience many occasions when they need sums of money larger than what is immediately available to them.

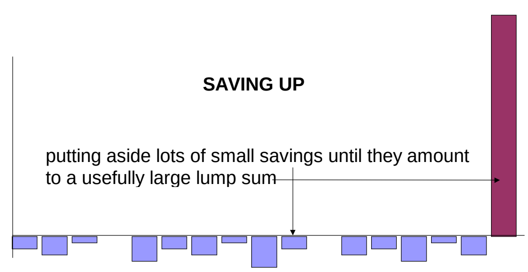
There are three categories of such occasions:

- ***Life cycle needs***. The poor need usefully large sums of money to deal with life cycle events such as birth, death and marriage, education and home-making, widowhood, old age and death, and the need to leave something behind for one's heirs.
- ***Emergencies***. In order to cope with impersonal emergencies such as floods, cyclones, and fires, and with personal emergencies such as illness, accident, bereavement, desertion and divorce, large sums of money are again required.
- ***Opportunities***. As well as needs and there are opportunities that require large sums of money, such as starting or running businesses, acquiring productive assets, or buying life enhancing consumer durables such as fans, televisions and refrigerators.

The only reliable and sustainable way open to the poor to get hold of these large lump sums of money is to build them from their savings[18].

The poor themselves recognise the need to build savings into lump sums and contrary to popular belief the poor ***want*** to save and ***try*** to save, and all poor people except those who are entirely outside the cash economy ***can*** save something, no matter how small. When poor people do not save it is for lack of opportunity rather than for lack of understanding or of will.

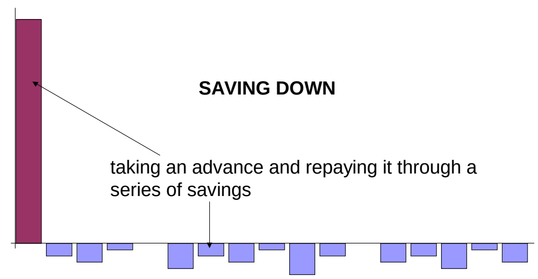
There are several ways in which savings can be built into usefully large sums of money, but they fall into three main classes, as follows:



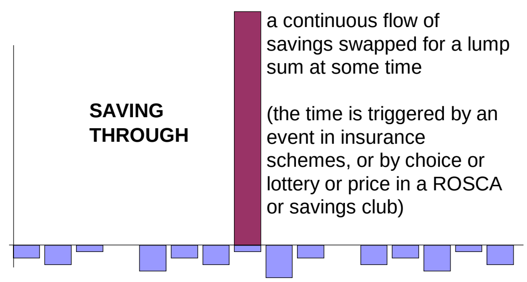
1. ***Saving up***. This is the most obvious way. Savings are accumulated in some safe place until they have grown into a usefully large sum. Many poor people lack a safe and reliable opportunity to save up. As a result, they may be willing to accept a negative rate of interest on savings, in order to be able to make deposits safely. We see this in the case of the deposit collectors that work in the slums of Asia and Africa.

[18] Occasionally the poor may be on the receiving end of charity. They may also sell or pawn assets. However neither of these methods is reliable nor sustainable. Charity may cease at any time, and asset disposals are limited to the meagre number of assets that the poor hold. To replace assets sold or pawned the poor will have once again to turn to savings.

2. ***Saving down***. In this case the poor manage to persuade somebody to give them an *advance* against future savings. Many urban moneylenders offer this service at high cost. Bangladesh's famous MFIs, including BRAC, offer a similar service but do so at reasonable cost and with greater reliability. The recipient of a BRAC or Grameen Bank general loan makes a large number of repayments at short intervals and these repayments can be sourced from the borrower's capacity to save. The advance can therefore be spent on any of the uses in the three classes listed above[19].



3. ***Saving through***. In this third case savings are made on a continuous and regular basis, and a matching lump sum is made available at some point in time during this flow of savings deposits. The services offered by insurance (in which case the savings take the form of premium payments) are of this type, though the poor are very rarely offered formal insurance services. "Saving through" is also offered by many forms of savings club, including, notably, rotating savings and credit associations, or ROSCAs (known in Bangladesh as *loteri samities*). 'Saving through' therefore constitutes the most common class of device that the poor are able to provide for themselves.



Definitions of financial services for the poor:
Thus, ***financial services for the poor*** are services that help the poor ***turn savings into lump sums.***
Good financial services for the poor are a matter of doing this:

- In as many ***different ways*** as possible (saving up, saving down and saving through)
- Over as many ***different periods*** (varying from very short term for quick needs, to very long term for old age or widowhood, for example) as possible
- In ways that are ***convenient, quick, appropriate, flexible*** and ***affordable***

[19] That is, it is not necessary to spend the advance on 'income generating activities' that produce an immediate stream of additional income.

APPENDIX 3

KEY INTERVIEW ONE:
LUMPSUM-LIFECYLE INTERVIEW WITH INFORMAL FOCUS GROUP DISCUSSION 28/4/99

BACKGROUND: The FGD was held in Mooni, Wanale Division, Mbale. This was suggested by the PRIDE officer in charge because it is an area that had a lot of dropouts considered to be very poor and incapable of making the weekly repayment. The lump-sum life cycle tool was administered which included 15 adults and lots of youths and teenager plus three aged men. Three of the participants were dropouts and others were clients of FOCCAS.

What are the important events in a person's life from birth:
-birth, going to school, circumcision, wedding, obtaining/buying a plot, raising children (a continuous event), retirement and death.
Which of the above events require lump-sum amounts of money?
-Marriage, buying a plot of land, building a house, raising children (seen as a recurrent event from one child to another), preparing a child's wedding (male), retirement, and death
Discussion – On Severity Of Financial Stress And Need For Lumpsum

Marriage:
Not very expensive unless one chooses to make it expensive by going for a big church wedding and reception which is done by rich people. For poor people, all they need are 3 goats and 2 cows, which can be paid in instalments. This is usually contributed by parents and so bears a light burden on groom. (score 3)

Acquiring A Plot of Land
Although some plots are inherited a lot of young men have to save for them and build a lump sum. "One starts by buying chickens, when they become many they are sold and the money used to buy a goat as the goats increase they are sold and the money is used to buy cows. When the cows accumulate they are sold and the money is used to buy a piece of land. (score 8)

Construction Of A House
This is a major event but does not cost much. Most youths belong to a young men's club in which they pool labour to construct a house for one member in turn (labour ROSCA). "In our area there is a group of about 45 young men that calls itself "Italian Job". All that the member has to do is prepare a meal for the group and have his materials ready. Most of the members use grass but those that use corrugated iron sheets use save the money by either buying one iron sheet at time and keep it somewhere or they convert birds to livestock which they later liquidate into cash" said one participants. In some cases some members are able to save this money by belonging to a ROSCAs and savings clubs. [Labour ROSCAs have existed in most African communities for such tasks as cultivation and house construction. This concept of pooling labour resources might be the background to the proliferation of financial resource ROSCAs especially since in most cases most people indicate that they invented the idea of ROSCAs without any exogenous knowledge they are aware of] (score 5)

Raising Children:
This was viewed as a continuous process that is considered to impose unrelenting financial pressure until death brings one freedom. (average household has 7 children). This includes school fees, health care, feeding, clothing etc. All these needs for children are met by a combination of savings mechanisms, which include using secret places (under the bed, tins), storing wealth in animals and belong to ROSCAs. There are over 20 ROSCAs in the community ranging from those of 5 members to 45 members. The famine months are particularly challenging for those raising children. (score 10)

Preparing Children's Weddings
The pressure is acute especially since the poor parents are normally required to contribute to wedding of 3 to 4 sons in rapid succession. Parents therefore have to start saving very early. The savings are made in form of birds and animals using the conversion chain. (Score 6)

Retirement
Pressure is high because energy has waned while there is an accumulation of grand children under the care of grand parents. [the increase in grand children is probably due to HIV/AIDS killing people between the ages of 18 to 35 living grand parents stuck with children]. In the absence of savings , which is more often the case, grandparent find themselves under unbearable pressure. They cannot even borrow because they do not have a source of income. How do they survive? It was not clear how they do! (Score 7)

Death
This does not cost much because the community chips in. [one however has to store up a lot of social capital to deserve a descent burial]

THE FGD DISCUSSED THE ISSUE OF DROP-OUTS AND THOSE THAT DO NOT JOIN
The following are the ideas they shared
- A lot of fear borrowing because they fear losing their property in case of failure to repay.
- Other fear the brevity or lack of grace period which does not match their cash flow since most are involved in agricultural projects. [need to revisit product design to respond to client needs.]
- The weekly repayments are too close together which imposes pressure considering that many are already participating in ROSCAs. [This is probably indicative of the preference for savings over loans for many people in this area]
- Some fear paying for defaulters: Within the group were some FOCCUS clients who are in a Credit Association that was started over 1.5 years ago with 50 people. So far 3 have dropped out of which 2 repaid and 1 completely failed. The later had a lot of problems including the loss of a husband.

SUPPLEMENTAL ISSUE SORROUNDING MONEY MATTERS AMONG THE POOR IN MOONI
- Borrowing is mainly reciprocal although shopkeepers normally lend at interest because "everybody knows their money should be working and making a profit while one has borrowed. So everybody knows they must pay something" said a participant. The interest rate averages 10% per month.
- ROSCAs: - there are over 20 ROSCAs of various types: Below is an account of some of them
  - *Malwa ROSCAs*: There are three (3) of this type in Mooni, Mbale. They are centred on a local brew called Malwa which people drink in one big pot. It is usually membership based with contributions being made in ROSCAs style. This type of social drinking is very common in Eastern Uganda. In addition to drinking contributions, members are required to make weekly financial contributions that are pooled and given to one member on a rotating basis until everyone gets. One of the groups which started over 20 years ago contributes Ush.4,000 per week which is pooled and given to one individual. Sequencing is determined by lottery. During bad times members agree and reduce the weekly contribution to Ush.3,500 for some rounds especially around the month of April. The lucky draw is usually used by members to take children back to school, buy building materials, buy goats or hire labour for cultivation.
  - *The Tax Group*: All 45 members are men. The contribution of Ush.1,000 per sitting is given to the chairman who physically buys the graduated tax ticket and hands it to the member. This is a year round collection. The group has reached and informal agreement with the municipal authorities not to arrest any of its members for graduated tax non-payment. Since taxes are only about 10k and the collection is Ush.45,000 some of balance is given to the drawer which he is encouraged to use for domestic purposes like buying the wife a good dress. The members are encouraged to maintain some savings with the ROSCAs as an emergency savings funds. This tax group has died and resurrected several times over the last years. No one lost money in the process.

- *Physical Assets Accumulation Group*: - Although this one is not a financial management system, it's interesting because of it peculiar design. It comprises of 10 women and the number has been limited to that. They buy items for the "member of the day or the bride". They all make effort with the help of the secretary to buy things that are different and things that the "bride" does not have. One is required to reciprocate and to aid this the secretary maintains a record of who bought what for whom. Reciprocating with a cheaper items is frowned upon. This causes problems because it causes people to get trapped in an escalating spiral of competitiveness, which gets members to stretch themselves beyond their means.
- *Big Day Savings Clubs*: There is several of this type in Mooni varying from 4 to 10 members. One participants illustrated with the one she belongs to. They are 4 women who start contributing Ush.10,000 twice a month for 4 months beginning June. A cow or bull is bought in October while the prices are still good, fattened and sold around Christmas. Some of the meat is eaten by family members and the surplus is sold at a handsome profit because Christmas prices are much higher. Among the different group that save for big days there are variations in amounts, frequency and mode of sharing. Ultimately, when the animal is slaughtered, members share them based on how much contribution they made.

KEY INTERVIEW TWO:
FOCUS GROUP DISCUSSION WITH TORORO MARKET VENDORS ASSOCIATION – 29/4/99

DESCRIPTIONS:
The team did not a very detailed description of the badges of wealth or the lack of it for lack of time but the following are some of the characteristics mentioned
The Rich: Have cars, houses, have excess money, fear being attacked
Not So Poor: They have unstable sources of money. Have just enough money to essential things. They work for government, fishmongers etc
Poor: They have small stalls selling small stock of greens
Very Poor: very small stock with sells of less than Ush.2,000. They are not self confident. They do not have own piece of land.

METHODOLOGY: Participants were asked to use beans to indicate the extent to which different financial services on the matrix were used by different people in the different categories of wealth. The score range between 5 and 0. Those services that were unknown were left out. The participants were asked to give and discuss reasons why they had assigned the scores. Below is documentation of the reasons provided.

BANKS: HOW ARE THEY USED BY THE DIFFERENT WEALTH CATEGORIES:
RICH: (score 5)
The rich use banks because they have profitable businesses that generate cash. They fear thieves invading them so they have to leave their money at the bank. They always have large deposits. They have both savings and deposit a/c
THE NOT-SO-POOR: (score 3)
They do not use bank that much except for giving the impression that they too are sophisticated and have a banks account. It is prestigious. They do not always have large amounts of money to put in the bank. Some do not use the bank because they are illiterate.
POOR: (Score 1)
They do not use banks. They use tins, *mukandala* and pots etc. They have little business and lack confidence to enter into a bank. "If you go to the bank" said one participant, "you do not know what to do. You do not know where to line up or what to write on. It is a scary place because you can make a big mistake and the policeman sees you. It can make one tremble especially we the poor." The poor instead store money in secret places or buy goats and other things they understand.
VERY POOR (SCORE 0)
The have no business with a bank. They can barely have food for the day. They have too many needs. How can they have what to take to the bank. However, one person in the group thought the very poor sometimes

have some small amounts. She gave an example of the poor woman who died with 30k on her even though she was starving before she died.

MICROFINANCE SERVICES: HOW ARE THEY USED BY THE DIFFERENT WEALTH CATEGORIES?
RICH: (SCORE 0)
They do not use these because the loans are too small. They cannot even use them to buy lunch
NOT SO POOR (SCORE 5)
These use them the most because they have small businesses that are short of capital and they sometimes have domestic problems that needs money.
POOR (SCORE 3)
Not many use them because loan officers do not approach them. They are unknown because of their appearance. They fear being members of groups because they fear getting in trouble with loans and so sometimes just observe what is going on before they ask for a loan. They are fear losing. Many that want to join cannot because they cannot find anyone to guarantee them because everybody knows they are very high risk. They have too many problems. The few that join drop-out because of weekly repayments.

ROSCAs: HOW ARE THEY USED BY THE DIFFERENT WEALTH CATEGORIES:
RICH: As far as the participants are aware, the rich do not participate in ROSCAs. However, they were quick to add that they do not know the ways of the rich. “May be they have their own ROSCAs amongst themselves as rich people” said one of the participants.
NOT-SO-POOR: These use ROSCAs of varying types ranging from daily to weekly to monthly with collections ranging from Ush.500 to 10,000 with memberships ranging from 5 to 50 members. Several market women belonged to more than one. The oldest group started in 1983. Most people present used ROSCAs for re-stocking businesses and other domestic and personal expenditures. Others deposit the prize with the banks. Sequencing of “bride” is based on need, or lottery or seniority (i.e. fast in first out). The groups tend to exclude civil servants because they are unable to make payment . Their pay is always late and so messes up everybody. So they are a disaster when they are allowed into a group. They do not have daily income like traders. Some ROSCAs limit membership and new applicants have to wait until a current member gets “tiered”. What are the characteristics of groups that last. A) the very poor are not allowed to handle money b) the cashier has to be economically better off than the rest c)cashier collects and pass on the money immediately to avoid temptation. The oldest ROSCA started in 1998 with mixed membership from different trades with location as the common bond. People belong to multiple ROSCAs to diversify their savings portfolios to match their cash flow needs ranging from long term to short term objectives.

THE POOR: (score 5)
The poor have their own groups that collect smaller amounts of money and try to fit their circumstances. There are a lot of groups like above with rules that fit the capacity of the poor.
THE VERY POOR: They do not have any. They live hand to mouth. Sometimes will join ROSCAs that make very tiny contributions.

ASCA
RICH: unknown to the respondents
NOT SO POOR: Not common although one member reported had been a part of one that folded up after one year. It had 10 members who made a 1,000/= daily collection. On the fifth day the pool (50k) would be lent out to one of the members. An application was completed and consideration was on first come first serve basis. Interest was 10% per week and was distributed to members
POOR: Unknown to respondents
VERY POOR: unknown to respondents

MONEY GUARDS: *HOW ARE THEY USED BY THE DIFFERENT WEALTH CATEGORIES:*
(RELATIVE, FRIENDS ETC)
THE RICH: They do not use money guards because they have access to banks. “the only things that the rich can keep with other people are animals with their poor relatives in the village”

NOT-SO-RICH: (3)
These use money guards. There are several in Tororo town. People will keep money with people who look like they are doing better that them and seem to have their own things.- Shop keepers with big stock tend to be used by a lot of people especially the poor and not-so-poor. Trusted mothers tend to be very good money guards
THE POOR:
The poor tend to use money just as much as the not-so-poor and keep it especially with their rich relatives and shop keepers. They mainly get a deposit box they keep with a rich relative into which they keep dropping small money periodically. The poor do this because their homes are not safe, have weak doors and fear losing savings. Some the poor in Tororo have died with savings in the *mukandala* because they were not eating or going to hospital. This is very common among old poor women. An example of a very poor woman who kept 600k ($400) secretly on a waist band (*mukandala)* until it fell out and met with the eyes of one of the grandchildren. He told the sons (his father) about what had fallen out of grandma. The son immediately extracted the bundle of savings from the weak old woman and that was the last the woman ever saw of it.
VERY POOR: They use this same system with relatives who appear to be slightly better off economically.

HOME BANKS (tins, mukandala, pots, and mattress) : HOW ARE THEY USED BY THE DIFFERENT WEALTH CATEGORIES:
THE RICH: The rich do not use these. Even money for daily use is put in the banks. Even the illiterate rich get advisers who introduce them to banks.
THE NOT-SO-POOR: It is used but not so much. They tend to use the bank and other people to keep their money. Others buy animals and other in-kind items.
THE POOR: They are major users of home bank/boxes because they tend to be illiterate and fear to go to the bank/lack confidence to go to bank. They usually have very tiny and dirty amounts of money that are not worthy of taking to the bank.
THE VERY POOR: This is a major store for money for the poor

DEPOSIT COLLECTORS: HOW ARE THEY USED BY THE DIFFERENT WEALTH CATEGORIES:
RICH: Unknown but probably not because they have access to banks which are managed by their friends.
NOT-SO-POOR: A few of the market women used a deposit collector (mukwano) who folded up. T hey liked the convenience in terms of time and fact that he took small amounts and was always gave one access to their money.
POOR; These were the most loyal customers of the deposit collectors. These type make daily deposits of Ush.1,000 to 2,000 per day. These people feared the bank because most are illiterate and lack confidence to transact in a bank but felt very comfortable at the deposit collectors bicycle shop. They also liked the quick and instant access to cash without any excuse. They also liked the incentive system.
VERY POOR: These also used the service of the collector because he accepted any small amount.

KEY INTERVIEW THREE:
The following is the story as narrated by Mrs. Baliike Scovia of Nabitambala, Busedde who was member and also instrumental in establishing a BURIAL club in her village.

"In 1995 one of the young men having travelled to Bunya, Iganga came back with the news for his parents that he had heard of a revolutionary group that might transform the village for good if their teachings were followed. The parents listened intently and shared the news with a few of there close friends.

It did not take long after the preliminary investigations and they invited the teachers as they are called. They taught the people about the mission of BURIAL and how to organize members for social and economic transform. Not long after a committee was formed. Having completed the training and group formation was successfully completed with the appointment of an executive committee. It included a chairperson and secretaries for security, health, hygiene, economic development and allocation and each had a committee charged with implementation of the respective missions. BURIAL had a hierarchy which included a "Headmaster" who was said to be based in Kampala. Although they said he would make a visit the organization did not survive long enough to receive him in our village.

Membership fee was 10,000/= which was taken by the teacher as compensation for his service. The people felt this was fair enough. Members were supposed to contribute 40,000/= which was deposited with the treasurer as a loan fund. It was accessible to those that had fulfilled the strict public standards which included having a latrine and other hygienic requirements. In addition to the loan the selected bride (one who had buried poverty) were to get contributions from members in form of household items like flasks, mattresses etc which they were supposed to reciprocate. Sometimes instead of a cash loan the bride was given corrugated iron sheets for constructing a house. This was everybody's dream – to move from grass thatch. The fun fare and the amount of housewares at surrounded the "bridal party" was so big that attracted many to join in a hurry. The problem was that the group, according to the teachers instruction was not to exceed 30. This was a problem to others that wanted to join.

Since demand was high and the teachers were not quickly forming new groups, the shrewd and opportunistic quickly seized the opportunity and formed groups. Each group had it own variation each promising heaven for little money. Some provided "imaginary" or "air" loans which members were repaying. For example, the informant was loaned Ush.40,000 for which she had to repay Ush.4,400 every ten days. Ush.400 was interest. Initially people were given the promises and more joined in drones. Others joined more than one group in search of a dream – the burial of poverty. It is these variants that resulted in massive losses and gave the BURIAL such a bad reputation. The leaders lent the money to their friend and themselves. They eventually defaulted and their was no money for arranging poverty funeral. It as this point that people became impetient are realized there was a big problem. The leaders escaped from the village, some of their houses were destroyed by irate loosers. Some people lost as much as Ush.500,000 and up to this point a lot have not recovered from this crisis. Many are still very cautious about groups including MFI. It will be a long time before they trust "foreign" groups with there hard earned savings.

KEY INTERVIEW FOUR:
30/4/99 INTERVIEW WITH MR. CHARLES OCHWO (NICKNAME – MUKWANO) IN GWARAGWARA VILLAGE, TORORO DISTRICT

CAN THE POOR SAVE? EVIDENCE THAT DEMANDS A VERDICT
THE TALE OF A DEPOSIT COLLECTOR

Charles Ochwo, nicknamed Mukwano, was born in Gwaragwara Village 40 years ago. He is about 51/2 feet and of a humble disposition. In 1986 Charles established a bicycle and spare parts shops in Tororo which is about 120 miles east of Kampala. He saw a need and soon added a hire purchase service of *boda boda boys (*bike boys) who lacked a lumpsome of money to buy his bicycle. They operated a very popular type of transport in Kampala. He charged a premium of 20k on bicycles on hire purchased bikes that would ordinarily cost 60k with a term of 2 to 3 months. He allowed them to make small periodic payments. After they paid off most *boda boda* boys would continue to make small daily deposits with him. For that service he charge 1,000/= per month which he used to cover his operations. At one point he had as many as 2,200 clients with a savings balances of 4 to 5 million shillings. He maintained a ledger book . He invested any excess money. Savers sometimes would get loans (One informant borrowed Ush.10,000 which he repayed back after a week with 2.5k interest). The maximum loan size was Ush.10,000. Repayments were managed by deducting from savings. He introduced a savings competition for which the best 3 savers got such prizes as radio cassette, bicycles, bicyle tires etc. The avarage savings account was Ush.20,000 to 30,000. Most of his clients were boda boda boys, wheel barrow pushers, poor market women that needed to deposit money long after the bank was closed.

Asked why his scheme was so popular he replied, "The customer could get his money any time without delay from 8:00 am to 8:00 pm without any excuses as given by banks. Secondly, I helped a lot of people to save the money at the end of each day before they had wasted it on booze. That I was the only alternative the poor people because in the eyes of the bank they were invisible. This is why people wanted my service"

The business stopped when the Municipal council sensed that he was making a lot of money and they wanted a piece of the action. They introduced a daily tax of 200/= which he was required to pay which meant added to 6,000/=. This was not only going to eat into his business profits but he was required to collect it. In addition to this there were a few complications that forced him to close down the business. He repaid everybody and is sure no one lost money. "I am not ready to re-open" he says although judging from some his former clients, his service is deeply missed because he was meeting a crucial need that made a big difference in the lives of the poor who daily face an invisible barrier to using the formal financial service. He is talked about with nolstalgia and many of his former clients wish someone could help him re-establish the service they valued so much. "Will you come to our aid" asked one former client. "What can I say?" I said.