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Where There Is No Banker: Financial Systems In Remote Rural Uganda

A Study Examining The Financial Mechanisms Used In The Absence Of Formal Financial Institutions.

Grace Sebageni, Steven Kaggwa and Leonard Mutesasira

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IMPROVING THE IMPACT OF MICROFINANCE ON POVERTY: ACTION RESEARCH PROGRAMME

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Executive Summary

BACKGROUND TO THE STUDY

Despite many programmes and initiatives to take formal financial services to every corner of the globe, many un-served areas remain. This is particularly true of Africa and indeed many parts of the developing world, where hoped for outreach has not been achieved. In the absence of formal financial institutions, questions arise as to how un-served or un-reached people meet their financial needs. What mechanisms or devices have been developed to cater for these needs?

This is the central theme of the following study. Indeed, the main objective of the study is to obtain a clearer understanding of the financial mechanisms societies or individuals may develop in the absence of formal financial institutions. The study is part of a wider study focused on examining the impact of the introduction of microfinance institutions' services on financial markets that is part of the Ford Foundation ImpAct programme.

Methods

Qualitative research tools adopted by *MicroSave* were used in the study. These included:

1. Financial services matrices
2. Financial services trend analyses
3. Wealth ranking
4. Preference ranking
5. Group analysis matrices (adapted from *MicroSave*'s competition matrices)
6. Time series of crises

These tools were used to enrich the information obtained from focus group discussions and individual interviews. The majority of respondents had no previous experience with formal financial institutions.

Geographic scope and population

The study was carried out in Mubende and Nakasongola districts in Uganda. There was no pre-determined sampling framework, all respondents were chosen randomly. In total, two hundred and sixty respondents were involved in the study.

THE MECHANISMS AND THE PEOPLE THAT USE THEM

Savings Mechanisms

The following are the savings mechanisms found in the study:

1. **Saving in the homestead**
   This method is very popular. Savings are put in boxes, tins or pots and may be buried in the ground, kept in a tree or in the rooftops of houses.
2. **Animals**
   This was the most popular savings method. The ability to grow these savings without a ceiling is attractive. Social status and self esteem also play a big role in explaining why this mechanism is popular.
3. **Savings on the person**
   This approach is common: women use savings belts and men use savings shorts.

4. **Money-Keepers**
   These are usually businessmen or the elderly, who keep money for people who do not feel secure or disciplined enough to keep their money themselves.
5. **Groups**
   RoSCAs, ASCAs, and a group mechanism (a combination RoSCA / ASCA) that falls in between the two were identified in the study. Initially, these systems was a popular mechanism for women, however more men are now getting involved.
6. **Banks and MFI's**
   The presence of these is almost non-existent in the study areas, apart from Bukuya where Uganda Microfinance Union has a (relatively new) branch. The biggest hindrance to the use of these institutions is the transport cost.

Credit Mechanisms

1. **Friends and Relatives**
   This method is still popular but has faced some challenges. People have become less trustworthy and in a few isolated cases friends and relatives now try to protect their money with a collateral requirement. As a general practice however, collateral is not usually required.
2. **Money lenders**
   As in most societies, these 'shylocks' exist in these communities. They provide a valuable service and are still one of the major credit mechanisms in the area.
3. **Credit for goods and services**
   Many services can be accessed with a promise to pay later (e.g. school fees, medical treatment etc). This mechanism is obviously highly dependant on the reputation of the borrower.
4. **Borrowing from financial institutions**
   This is limited to those who are able to trek long distances on often difficult roads. As the institutions come within easier reach, usage levels tend to increase.
5. **Groups**
   As stated earlier, some groups have a credit function even though they were started as RoSCAs

The People

A description is given of the people who made up the communities in the study areas on the basis of wealth rankings that allowed participants to describe the social-economic profiles within their two distinct - settled and nomadic pastoralist - communities.

ADVANTAGES AND DISADVANTAGES OF THE MECHANISMS AND THEIR COMPETITIVE STRENGTH

Each mechanism is described at length and the merits and demerits are analysed. It is the merits and demerits of each mechanism that determine the competitive strengths of each mechanism. The changes in usage popularity over the years are also discussed where analysed by the respondents using the financial services trend analysis, and again here, the merits and demerits of each mechanism, coupled with other factors that have changed over the years, determine the result. The study found that savings mechanism usage in order of popularity (with the first one being the most used and the last one the least used) was as follows:

1. Animals
2. Groups (ASCA / RoSCA)
3. Boxes
4. Savings on the person
5. Friends
6. Banks/MFIs

Similarly, credit mechanism can be listed in order of popularity as follows:

1. Groups (ASCA / RoSCA)
2. Friends or relatives
3. Moneylenders
4. Banks/MFIs

From the findings, it was evident that as formal financial institutions become more accessible, one can expect them to become leaders in both credit and savings service delivery.

HOW THE MECHANISMS INTER-RELATE

There is significant inter relationship between and among the various mechanisms. Some of the relationships are studied at length for example, animals, which constitute the largest, most commonly used savings method, were also the most frequently used collateral in securing credit where collateral was required. Also, RoSCAs, primarily a savings mechanism, also had a credit function. The money keeper in offering to keep other people's savings found a free source of working capital.

THE MANAGEMENT OF HOUSEHOLDS

The communities, to manage their household finances, effectively use the existing mechanisms. A flow chart is presented to illustrate how this may be done. Imaginative and creative coping strategies have been adopted, and some of these are presented.

CONCLUSIONS AND RECOMMENDATIONS

In conclusion, it is evident that the people in the study areas have developed systems that depend on social relationships that work relatively well for them and have stood the test of time. The answer for more effective impact may lie in working with or around these mechanisms, rather than attempting to replace them altogether.

Recommendations are made for the benefit of MFIs seeking to introduce services in the areas, or to consolidate already existing services. The ever-present challenge of appropriate agricultural lending still remains, since these are mainly rural communities. There is also the identified challenge of developing programmes that differentiate between the settled agricultural community and the nomadic pastoralist communities. In making effort to positively impact the communities, a multi sectoral approach, that extends beyond the provision of basic financial services, is proposed. Finally, building on the mechanisms that people already have available in traditional, local financial markets may enable MFIs to deepen their outreach beyond those they have been able to serve to date.

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INTRODUCTION

This study sought to examine financial management systems used by the poor to manage their financial needs in an environment where they have no access or very limited access to formal financial institutions. Specifically, the study examined the financial management systems in an environment where financial institutions are totally absent or an environment where financial institutions have established a presence recently (less than one year ago). The main objective of this study was therefore to obtain a clearer understanding of the financial mechanisms societies or groups of people may develop in the absence of formal financial institutions. The study also considered how the entry of financial institutions may affect these mechanisms if at all, and sought to draw lessons for the microfinance industry in general and for institutions that may seek to move into these areas or consolidate existing services, in particular.

The study is a component of a wider study, focused on examining the impact of the introduction of microfinance institutions' (MFIs') services on local financial markets, that is part of the Ford Foundation-funded ImpAct programme. This study is designed to look at financial markets before any significant influence from MFIs.

Research questions

The research questions the study sought to address were the following:

1. What local financial mechanisms (devices) have been developed?
2. How are the financial mechanisms (devices) interrelated and how do they impact each other?
3. What is the impact on the households of the use of the various financial mechanisms?
4. What are the reasons why poor people do not use the services available?

For the purposes of this study, these strategies / mechanisms / devices have been termed "local mechanisms". More specifically, the study focused on:

1. What these local mechanisms are, and how they operate;
2. The competitive strengths of each local mechanism and how they compare with each other and affect each other in the eyes of the users;
3. The perceived advantages / disadvantages of each local mechanism;
4. Any inter-relationship between the local mechanism and any newly entered formal institution if at all; and
5. How these local mechanisms are used to manage household income / expenditure flows

The study was carried out in Kakooge and Wabinyonyi County in Nakasongola District and Bukuya County in Mubende District in Uganda. The socio-economic characteristics of the people in these areas were examined for the purpose of providing background information on the type of community the study focused on. The information that was obtained will be useful in lessening the uncertainty surrounding penetration into these areas and important lessons are drawn for microfinance institutions seeking to extend financial services to these areas. The findings presented contain important lessons especially for the microfinance industry in Uganda. Lessons can also be learned by the industry in the East / Central Africa sub region.

Population and sampling.

In this study, no predetermined sampling frame existed and no specific scientific sampling tool was used. The groups were created with the assistance of local officials. In all districts in Uganda, there exists a local government network (through Local Councils or "LC"s) that can mobilise community participation to a household level. The experience of many research organisations has not only been that these councils are very effective in mobilising communities, but also that one is well advised to inform them of any kind of community mobilisation before it takes place. In many cases, the councillors directed the research team to people they thought would be very helpful in mobilising groups. Many times, these were local shopkeepers or schoolteachers. In Nakasongola, the assistance of the District Planner's office was successfully solicited. The initial contact, and identification of local council officials who helped to set up the focus groups, was carried with the assistance of this office. In Bukuya (Mubende), an officer of Uganda Microfinance Union (UMU) a micro-finance institution that is quite a new entrant in the area, was contacted to assist in the process of contacting and preparing residents to participate in the study. The UMU officer also linked the researchers to some LC officials. In the majority of cases, the researchers were looking for respondents who have lived in the area over a long period of time. One hundred and thirty people in each district were involved in this study, giving a total of two hundred and sixty people in the two districts. The reason that this sampling approach was taken was simply because of the greater likelihood of the villagers taking the exercise seriously if it was introduced by or in someway involved the village leaders.

Research tools.

A variety of tools were used in this study. These included:

1. Focus group discussions
2. Individual Interviews
3. Preference Ranking
4. Financial Sector Trend Analysis
5. Financial Services Matrix
6. Wealth Ranking
7. Time series of crises
8. Group analysis competition matrices

Research planning, field research and some experiences in the field.

The researchers took three days for planning, four days for field preparation and twenty-two days for fieldwork. Initial analysis was carried out on most evenings after the field exercises. After the fieldwork, another seven to ten days were spent in the Kampala office on final analysis. Twenty focus groups were conducted in each district. Each focus group would then take a break and regroup for the researchers to use one other tool with the same group. Individual interviews were also conducted in each district. Most fieldwork was conducted in the afternoons because in many places, people tend to their fields in the mornings.

In the field, the team met a number of challenges. Some of these challenges are highlighted below:

- Because of an element of dependence on the local leaders, a few meetings were not held on time. Late meetings sometimes ended at seven o'clock in the evening.
- Some trading centres had a suspicious attitude about the researchers' intentions. This was due to previous abuse by fraudulent businessmen who had cheated the people in the past by purporting to offer credit and mobilising their savings as a start-up procedure. These people had then disappeared with the savings they collected.
- Where there was a death in the village, meetings would not take place. Where this happened, the researchers would be forced to move to the next village, where a great deal of time would be spent before an unscheduled meeting could actually take place.
- Finally, the respondents in almost all villages visited seemed to expect a cash payment for participation in focus groups. When this did not happen, they were genuinely disappointed. The team witnessed extreme levels of poverty in many areas.

Other activities.

The researchers also reviewed related literature to aid the study – including the extensive client analysis already conducted by *MicroSave*. All audio tape recordings were transcribed. Transcripts are always useful in research analysis to avoid missing any critical detail or issue raised and should, in the researchers' opinion, as much as it is possible, always be used as a research technique. Transcripts however are probably more necessary in the analysis of a Focus Group Discussion than in the analysis of a Participatory Rapid Appraisal. They are also useful in explaining the "whys" where research findings may contradict an expected result. Of course for an institution that invests in research and development, they provide a rich source of raw data should the need for this data arise in future. Often times, they will complement future research, making it less expensive.

SOCIAL ECONOMIC PROFILE

Nakasongola District

General profile

Nakasongola district is one of the 45 districts that make up Uganda. It is located at the centre of Uganda on Bombo-Gulu road, 114 kms north of Kampala. The district boarders Apac district in the north, Lira district in the northeast, Mukono district in the east, Masindi district in the west and Luwero district in the south.

The district covers an area of 3,424.7 kms with six sub counties and forty-one parishes with a population of 141.000 (Year 2000 projection from the 1991 Population and Housing Census).

Agriculture is by far the most important economic activity and employs over 70% of the people. It is however, subsistence in nature. Vast areas of land are usually cleared by burning, on the assumption that when the rains fall, better grass will grow on which animals (primarily cattle) can then feed. For others, this is done in preparation for tilling the land for sowing food crops like cassava, sweet potatoes, millet and maize all of which are adaptable to long dry conditions.

The people keep livestock (usually cattle) and fish. Livestock keepers with large numbers of cattle often practice “transhumance” (movement with animals in search for water and grass) as dictated by the weather conditions.

Apart from a recently developed military equipment manufacturing plant (Luwero Industries), the district has no major companies but there is small scale trading going on, - primarily in milk, which is then being sold to Luwero district and Kampala. Small retail shops and vending on the roads in different trading centres constitute an important source of livelihood for the people.

Cash crops like coffee and cotton that used to be a good source of income have largely been abandoned due to the low prices they now fetch on the market. A few of the people, especially those reasonably close to the main and feeder roads, have now ventured into growing vegetables like potatoes, cabbages, tomatoes etc. since these fetch a relatively good price.

Social amenities like electricity exist in a few parts of the district with 2 sub counties and 1 town council (out of the 6 sub counties) having electricity. Apart from Luwero Industries and the nearby military barracks, there is no piped water in the whole of Nakasongola District. Boreholes do however exist in some areas.

The district only has primary and secondary schools with no tertiary and vocational schools. Most of the school going children in primary schools can only afford Universal Primary Education (UPE) schools (those built under the Uganda Central Government programme where no school fees are paid for the education of four children in every family). Unfortunately, UPE standards are considered low compared to private schools.

On the whole, the district road network is still poor with most of the areas being served by murram roads. As a result transport is sometimes difficult during rainy days. However, the murram roads are graded and passable during the dry seasons.

Financial Landscape

Formal financial service providers are few and far between, with one or two only found nearer Nakasongola Town. Certainly in Kakooge and Wabinyonyi counties where this study was conducted, there are no formal financial institutions apart from a new VEDCO presence in Kakooge and a newly established SOMED office in Wabigalo trading centre. This SOMED branch which is linked to the main SOMED centre in Masindi Town in the neighbouring Masindi District is expected to be fully operational by June 2002.

In Nakasongola Town itself, there is no bank. People in need of formal banking services travel to Luwero Town the neighbouring Luwero District where they can access The Uganda Commercial Bank (UCB), Development Finance Company of Uganda (DFCU) and Centenary Rural Development Bank (CERUDEB) as well as a very large choice of other non-bank financial institutions. Luwero Town is about a ninety-minute drive by car from Nakasongola Town (sometimes taking more than two hours on the one way trip with the frequent stops of public service vehicles). Many people cannot afford this trip on a regular basis.

Mubende District

General Profile

Mubende district is in the central region of Uganda. Mpigi, Wakiso and Luwero districts in the east, Kiboga district in the north, Sembabule and Masaka districts in the south, and Kyenjojo and Kibaale districts in the west surround it. The total area of Mubende district is 6196 square kilometres. Of this, 5,862 square kilometres is land, 154.3 square kilometres is open water and 179.7 square kilometres is papyrus swamps.

The district experiences rain throughout the year, with heavy rains in March to April and September to November. The high altitude ensures favourable climate with temperatures typically ranging from 17 degrees to 29 degrees centigrade.

The population by 1991 population and housing census was projected at 621,000 by June 2001 with an annual growth rate of 2.7% and with a population density of 96 people per square kilometre. Most people depend on subsistence farming as the main source of livelihood while a few depend on employment income, trading and cottage industries see table below:

Source of Livelihood	% of households
Subsistence Farming	74.5%
Commercial Farming	2.3%
Trading	6.9%
Employment Income	13.7%
Others	2.6%
Total	100%
Source: 1991 Housing Population Census	

Traditional cash crops grown are coffee, tea and tobacco while bananas, sweet potatoes, beans, maize and peanuts dominate the food crops though recently, people are increasingly growing cash crops. In other parts of the district, there are a substantial number of pastoralists while areas of Mityana and Busujju have farmers with improved stock of diary animals. Others stocks of animals kept include: goats, sheep, pigs and rabbits. Poultry farming is also growing especially in urban areas, this mostly on commercial basis. Limited fishing goes on in the district due to the fluctuating levels of Lake Wamala. The presence of many forests has complemented people's livelihoods (forests cover 23% of the total land area). However, rampant encroachment, charcoal burning and over-grazing are beginning to affect the environment negatively. The charcoal, increasingly a common means of earning a living, is mainly produced for sale to other districts like Kampala.

Industrial activity in the district is generally low with small-scale industries involved in the processing of agricultural products mainly coffee, tea and maize. Small-scale factories for artisans engaged in metal fabrication, woodwork, handcrafts and clay works do exist although mostly located in urban centres along the hydro-electricity grid.

The district is still characterised by low literacy levels, low school enrolment and high dropout rates. The majority of the students still attend Universal Primary Education (UPE) schools that are subsidised by the government. However, the district contains, teacher-training colleges, vocational schools and other tertiary training institutions.

Financial Landscape

Mubende District has a small but increasing presence of formal financial service providers. Bukuya County, where this study was conducted, has a branch of Uganda Microfinance Union (UMU) that opened within the last year (2001). As shall be seen in this report, this facility has greatly impacted the community.

THE PEOPLE

Before the financial mechanisms that have been developed to cope with the financial needs of the communities are examined, it is important to understand the type of people who make up these communities. *MicroSave*'s wealth ranking tools were employed in the research areas. The exercises produced descriptions of the social categories present in the research areas. It should therefore be understood that the social category descriptions presented were made by the respondents themselves. In other words, they were describing themselves and the other people who live in their communities. The three categories have been labelled as follows:

1) Upper category (rich)
2) Middle category (not so poor)
3) Lower category (poor)

The wealth ranking exercises were carried out in both Nakasongola and Bukuya and the consolidated findings are presented below.

Category	Description	Additional Comments
Upper Category	• Usually own land with permanent brick wall house. • Iron roofed house with thirty or more iron sheets. • May have many wives and many children. • Mode of transport is by motor-cycles or car (this may be ownership but also the ability to hire one). • Usually have many animals (usually cows). • Can afford three good meals a day (balanced diet). • Children go to UPE and private schools up to secondary school. • Children usually healthy and good looking and wear full uniform (including shoes) to school. • Can afford medical treatment in a hospital. • May use banks (including MFIs) because they can afford the transport costs of the long distances.	• In Bukuya (which is slightly more urban with a big trading centre) the men in this category usually married one to two wives and had a maximum of five children. In the more rural Nakasongola, especially where one was endowed with many head of cattle, the number of wives in this category could be as high as six and the number of children as high as twenty. This is because in the more rural communities, women and children were seen as measures of one's wealth. • In this category, the number of cattle possessed in the more rural setting was higher than in the more urban setting. This may have been because of availability of sufficient pasture in the more developed areas.

Category	Description	Additional Comments
Middle Category	• May rent or own iron sheet roofed house with ten to twenty iron sheets. • May have one to two wives with eight to twenty children. • May eat two to three meals a day. • Children in UPE schools and they go to school in uniform. • Sometimes inherit property. • Usually use bicycles.	• In Bukuya, the men in this category usually have one wife and up to eight children. In the more rural Nakasongola, they may have two wives with twenty children. • Deeper in the villages, it is more likely that the children in this category go to school barefoot
Lower category	• Usually mud and grass thatched houses. • Do not usually own land. Most are squatters on somebody else's land. • Subsistence living (from hand to mouth) and usually saving ability is not present. • May offer manual labour to earn a living. • Do not usually have cows. May have one or two cheaper animals. • Can only afford poor quality meals (sometimes eating food from the previous day). • One or no wife and five to ten children. • A few of the children may go to school (UPE). Where they do have uniforms these are usually incomplete (absence of shoes). • Transport by foot (a few may have bicycles).	• In Bukuya, these people are characteristically usually heavy consumers of alcohol • This category has the unique problem of unmarried or separated men. There are cases where wives have left the homes because they could not cope with the hard conditions. There are also cases where the man himself fails to raise the bride price required to marry. This however does not stop these men from producing many children.

The above rankings present a broad description of the people who live in the study areas. Though the descriptions may not be conclusive, they may be a useful guide to an institution or social programme, which aims to impact the societies to the lowest level. In the study, it was interesting to find that the lower class women complained that a lot of short term credit programmes that had come to their areas in the past, such as Central Government initiatives to help the poor through the Poverty Alleviation Programme (PAP) or the "*Entandikwa*" (Beginnings) programme, fizzled out at the top in the hands of the upper classes and the poor never really got to them. It is possible that the implementers of the programme may not have realised that the major beneficiaries were the already better off people. Alternatively, it is also possible that the upper class people being in local government administration were given the task of managing the funds, which they then proceeded to use for their own benefit or that of their peers leaving the lower classes completely un-served.

THE LOCAL FINANCIAL MECHANISMS AND HOW THEY OPERATE

As already stated, the study sought to obtain a clearer understanding of the financial mechanisms societies or groups of people may develop in the absence of formal financial institutions. In this section, we examine the savings and credit mechanisms developed, some over many generations of usage. We also look at the respondents' perceptions on the advantages and disadvantages of each mechanism and how these affect the competitive strength of each mechanism.

Savings Mechanisms

Boxes/Pots/Tins (Saving in the homestead)

Many people in both Nakasongola and Mubende districts mentioned that saving in the homestead, in places such as in boxes, pots or tins (or other containers), is a savings mechanism many people use. This container is either kept in some particular place in the house or in the compound, like underneath the house or in the rooftop. It may even be kept hidden in a tree. Sometimes the ground is dug up and the container kept under ground and covered. This method of saving is supposed to be private and confidential and in most cases, the place of safekeeping is known only to the user. In some instances however, this knowledge may be shared with a spouse. The method accommodates both coins and paper money. There seems to be an understanding that women use this method more than the men. The reason given for this was that the men in both districts have to move long distances looking for means to earn a living but the women's work is around their homes or in their fields or nearby trading centres. In the absence of formal savings institutions therefore, it's more likely that the women and elderly will save their money within or near their homes.

Savings At Home And Sheer Willpower

In Kakooge, Nakasongola, a focus group discussion participant said many people who save at home do not achieve their targets because they are lazy and unserious. He said that for the saving at home method to work well, "seriousness and sheer willpower" are necessary ingredients. He said willpower could make one save for anything. He proceeded to narrate proudly how in his job as a salesman for a small bakery, he was getting a mark-up (profit) of Ush.100 ($0.06) per loaf of bread sold. On some days however, because of the inability of most families to buy bread, which they considered a luxury, he sold a maximum of two loaves after walking around the whole day. Every other day, he decided to save Ush.50 ($0.03) in a box in his home. He never touched this money. This was so even where he spent a few days without making good sales. After saving for quite sometime, he bought a radio for Ush.40,000 ($22.86).

The advantage of this mechanism is that involves no transport costs. Furthermore, it provides a high degree of confidentiality since the user alone knows the actual place or method of safekeeping. Accessing one's savings with this mechanism causes no major challenge, and the savings can be accessed at anytime. The respondents felt that on the whole, the mechanism is quite secure and a good alternative in the absence of a formal banking institution.

However, saving with this mechanism has major shortcomings. In case of fire, one's savings in the rooftop of a grass-thatched house may be lost. This has happened to many people in both districts studied. Another shortcoming is that since this mechanism is within easy reach most of the time, it can be a source of trivial spending. Furthermore, in a situation where both the husband and the wife use this mechanism, it was said to be a possible source of conflict since each of them may have different spending priorities. True to African culture, in the areas visited it is generally agreed that a woman is not supposed to defy, disagree with or disobey her husband and yet this same woman could have more money than the man kept in the same pot, tin or box. If her opinion on how to use the money were not considered, it would probably force her to look for some other place to keep her own money.

In case of the death of the user, if the place of safekeeping is known only to the user, no one can follow up the money and the intended beneficiaries may not benefit.

Some people using this approach to saving were not skilled in conserving their money and had not learned some of the tricks to do this (see box below). As a result, their money was often eaten by termites and ants or destroyed by dampness. In Namakonkome in Mubende district, one respondent said that he had at one time lost Ush.50,000 ($28.57) to termites and ants. In an exercise ranking the level of risk of savings mechanisms, the above factors made this mechanism the most risky of all savings mechanisms.

Burying Your Money: A Practical Guide

To secure and save your the money in the ground follow these steps:

1. dig the hole in the ground,
2. pour ash in the hole to guard against ants and termites then
3. dust the money with ash,
4. wrap the money in a banana leaf or a polythene bag,
5. put it in a clay pot, box or tin,
6. pour more ash into the container,
7. put more ash on top of it,
8. replace the earth in to hole,
9. tread down the earth to compact it,
10. cover the compacted earth with leaves, sticks etc. to hide it,
11. ensure that you remember where you made the hole!

Animals

This mechanism is by far the most popular savings mechanism identified in the study. It is very popular amongst all social classes. Animals usually kept in homesteads include cows, pigs, goats, chicken and rabbits. It is regarded as a cheap way of saving because it bears no transport costs and there is abundant availability of pasture in both Mubende and Nakasongola district. In Nakasongola however, the method is popular primarily because of the cultural attachment of the Baruli (the indigenous people) to animals, especially cattle. A good number of the people (especially Bahima migrants) are pastoralists whose major occupation and means of livelihood is cattle keeping.

Among the merits of this method cited by respondents was the fact that animals can easily be converted into cash in times when cash is needed, and they can also be used as collateral for loans. In addition, animals yield high returns as they breed and thus increase their numbers. Indeed, this fact is what almost all cattle keeping communities in other parts of the Great Lakes Region teach their children when explaining the so-called superiority of the “cattle culture” to what has been termed the “banana culture” or “the culture of the hoe”. There is no ceiling to the wealth one can own in cattle but the farmers are always restricted by the size of their land.

In both districts, the rich use this method most, because they usually have large farms and it appeared like owning a farm was a sign of wealth and a pinnacle in achievement. So saving in animals is mainly carried out by the upper class with some members of the middle class and a few lower class people also saving in this way. On average, the men, save more in animals than women do. On the whole, young and middle aged men are the major users of this mechanism. Note however that because of cultural perceptions, even where a married woman buys the animal, it is normal for it to be regarded as the property of her husband

A number of disadvantages do exist with this saving mechanism. During periods of drought, water and good pasture are hard to come by. In these seasons, many animals can, and do, die. Vulnerability during these times is very high and one can lose an entire herd. Animals can even be stolen: people can even come from neighbouring districts to steal animals in Nakasongola and this is a major threat. In addition conflicts with neighbours often arise in cases where animals graze on other people’s land or destroy their crops. Some of these conflicts have culminated into loss of life. In Nakasongola district, the burning of large tracts of land is normally practiced as a measure to encourage the growth of better grass when it rains. In doing this, animals may be trapped in the fires since it is always hard to control the direction of a fire. Many people have lost their animals in this way.

***Mukandala* and *Ebikugunyu* (Saving on the person)**

A “*mukandala*” is a knotted belt worn mainly by women underneath their clothes. This method was found both in Nakasongola and Mubende districts. It is usually, or mostly, used by the elderly, the women and migrants from other districts who come to offer manual labour and do not have permanent homes. Knots are made on this belt, and the money is kept in these knots. Different knots represent different uses (e.g. one knot may contain money saved for school fees and another may contain money given by a grandson for safekeeping). This belt is discreet and is not visible to others.

"*Ebikugunyu*" are shorts worn under the clothes in which money is kept. Like the *mukandala* above, this mechanism is considered quite safe. Elderly men, herdsmen and cattle keepers practicing transhumance and migrant workers who offer cheap labour in different places normally use this mechanism. Lately, women, especially the younger ones, have started wearing these shorts. For many generations however, this method has been the preserve of men. It was considered immoral for women to wear men's clothes and shorts were considered men's clothes. One of the major reasons respondents gave for this new development was that many women felt insecure saving their money in boxes, pots, tins or even animals since socio-cultural traditions in these areas still influence people's behaviour and in general, a woman is not supposed to own wealth. The men may take away any money that belongs to their wife, most times without her permission, just to go and drink beer with their friends. It is not uncommon for a man to sell his wife's domestic animals. He would however have to use great tact to extract money she is saving on her person.

Saving with this mechanism is relatively cheap since the belts and shorts are easy to make. The mechanism offers a high degree of privacy and security. The rationale of these methods is that in the absence of formal saving institutions, or in a situation where you may have migrated to a location away from your normal home to offer labour, it is considered extremely safe to place your money on your body. When you are wearing the belt or shorts, you cannot easily lose it, as it cannot easily be removed from your person. The convenience involved in accessing money is another advantage of saving on the person.

A disadvantage with these methods is that if thieves attack a user, they can easily lose not just their savings, but even their life. By the time one has had this clothing removed, they would be able to identify their attackers and this would make them a threat. Another disadvantage with these methods is that they can only handle limited amounts of money. Where big volumes of money are involved, both coin and paper money, they are inappropriate.

Money Keepers (Sometimes Called Money Guards)

These are usually businessmen who are normal traders with retail/wholesale business in crops or animals. Saving with these people is commonly practiced in Mubende district, where people get their money usually after harvesting and selling their crops. Knowing what to do with and how to store this lump sum becomes a problem. As one lady (Namakula) confessed; "*There is always a lot of discomfort after selling crops or animals* - *one can even lose sleep if you have Ush.100,000 ($57.14) with you in the house because you are worried that thieves may break into the house and take it*". In this case having a businessman in the area always helps because one can approach the businessman and request him or her to keep one's money for him (the businessman is free to use it in his business until the time it is needed again and the saver comes to collect it). The businessman does not pay interest since it is simply a favour keeping their money for the saver. This mechanism is mainly used by middle class people.

The respondents thought that the main advantage of saving with a local businessman is the perceived safety of their money and the sense of relief this gives them. They believed that these businessmen always had money on them. They also presumed that businessmen always have sufficient security.

Unfortunately if such a businessman should die with one's savings, it becomes a problem claiming for the money since the only parties to the agreement may have been the deceased and the one saving. In such situations, one is likely to loose their savings.

In situations where a businessman transfers to another location without the knowledge of the residents, sometimes causes those who have saved with him to lose their savings. Some businessmen also pay back in small amounts and not in one whole lump sum. Where this happens, it may cause major disruption to the saver's targeted purpose.

The respondents confirmed that currently, in their communities, money keepers do not charge for their service.

Relatives and friends.

There was also reference to saving with friends or relatives. Elderly relatives are frequently used as money keepers. Respondents said that if you marked the money you wanted to keep, some of these old folk like grandmothers, may even give you the same notes you gave them to keep two years earlier. Friends or relatives would in principle act as a money guard. Where people save like this, the major advantage would be that the savings would usually available whenever the saver needs it if the person he saved the money with was trustworthy and faithful. The major disadvantage is that it is a potential source of conflict. Furthermore, if one was saving with a relative or friend as a private arrangement between the two of them (as it usually is) the untimely death of either party could result in the intended beneficiary not receiving the benefit of this money.

***Ebibiina* (Groups)**

Another way of saving the respondents gave was through groups (*ebibiina*). Most of these are RoSCAs. A few fell somewhere in between RoSCAs and ASCAs (operating usually like the former but with a credit facility from a small periodic contribution in addition to and separate from the normal rotating fund). In both in Nakasongola and Mubende district, people save their money in groups that take the form of either an ASCA or a RoSCA. In many of the areas visited, ASCAs had, on the whole, collapsed. Some of the groups found ranged from real savings groups to social saving clubs that catered for specific needs (e.g. the beer drinking associations in Mubende district).

"*Munno Mukabi*" groups (translated "a friend in need"), which are set up to help members when they are in trouble, also exist in both districts. These groups were regarded as a cheap way of accumulating big sums of money (Ush.10,000 [$5.71] to Ush.100,000 [$57.14]). Where people were involved in saving in this way, most of them agreed that this mechanism helped them avoid trivial spending. In very remote places, far away from the trading centres, this was regarded as the easiest way of saving because getting to the nearest financial institution would in some cases cost over Ush.7,000 [$4.00]. Interestingly, this mechanism is not as popular in Mubende as it is in Nakasongola district. In Bukuya, the researchers found people using a RoSCA in only one village out of ten. In other places, the mechanism was unheard of. The reasons for this difference were not clear. If one were to guess however, the reason could be related to the history of Nakasongola. This district was originally part of Luwero District. In the years following the terrible events of the civil war in Uganda (1980 – 85) that had it's nucleus in what was known as the "Luwero Triangle", many aid agencies and non-governmental organisations rushed to Luwero to help the survivors of the war. A lot of groups, particularly those to help war widows and orphans were set up. Many donor-funded projects were set up. An entire government ministry for Luwero was set up. Oftentimes, people formed groups to access the assistance provided. It is possible that the group culture was therefore given a big push in Luwero District and when Nakasongola District was carved out of Luwero, the culture had already set in.

In Kyabutaika in Nakasongola district the community revealed two surprising findings. These were, firstly, that the mechanism is mainly used by men (with a ratio of 5:4). This was attributed to the fact that they believed it was generally men who had a lot of money in the first place and it would follow that since there was a lack of formal service providers in the area, they would naturally be the main users of the informal systems. The second surprising finding was that this mechanism is used both by the upper and middle class, with higher usage in the upper class. When probed on which upper class members of the community used groups, the respondents referred to taxi drivers who they said had a successful group and some wealthy members of the community. It appeared that the community perceived taxi drivers (or indeed anyone who drove a car) as upper class people. The respondents argued that group-based savings systems were mainly used by upper class people because; many groups in the area had collapsed because of the members' inability to continue paying their contributions as economic conditions worsened. The group used by the wealthier members of the community never faced this problem. This group operated simply as a once a month get-together (social function) at one members' home where typically a meal was shared and the members discussed any need they may have had at the time. The members then prioritised the needs and used the normal cash round to meet those needs with rules ensuring that at the end of the cycle, everyone had received an equal share. This group was probably successful because the members did not have the cash flow issues that most other groups had. It is also possible that since in these communities the upper class people generally had the highest levels of education or exposure (although not always) they may have set manageable instalments. Even where an instalment was late, the other members were not depending on that instalment to survive.

Among the advantages of this mechanism was the members' share in a growing fund in those groups that accumulated funds. Group funds obviously grow, for the benefit of all members, with increasing numbers in membership. Where the group had a credit component, interest shared was an extra benefit. Groups also act as a form of insurance within the local communities (a social safety net). This was repeatedly mentioned in many areas. Where for example one lost a relative or family member, the group would come to their aid by providing essentials that might be required at the time. These could range from food, firewood, and other requirements.

Saving in this way however has its own limitations. On many occasions, people that choose to form a group agree on certain principals, rules and regulations, but the researchers found that time and time again, people failed to meet their obligations (in terms of on time payments or payment amounts, attending meetings) or, in the worst case scenarios, group treasurers ran off with group money. Such experiences have been a major cause of failure of this saving mechanism.

Many of these group-based savings systems have suffered governance problems - especially the ones in which funds accumulate. Where an ASCA existed or had existed in the past, book- and record-keeping proved to be a big challenge. This, especially the analysis of the portfolio, always required a lot of time and skill and only very few people were able to do this. It is therefore no surprise that some manipulated the figures. This record-keeping/transparency problem is probably the one factor that was the greatest contributor to the collapse of most ASCAs.

With the exception of rotating funds normally disbursed after collection, most group funds collected were kept in the banks. It was always costly and risky to travel to the nearest financial institution (which would be in another district) to bank funds for the more organised groups. On many occasions, average distances from the study locations to the nearest financial institution ranged between 35-60 kilometres depending on where the particular location was.

Banks

In Nakasongola, it is only the rich who can afford to regularly travel the distance of over 55kms to the nearest bank in the neighbouring district of Luwero. Some of these people, though very few, may be compelled to use the bank because of the nature of their jobs (e.g. teachers) who receive their salaries through the banks. The businessmen however save with the banks in the neighbouring districts by choice. In Mubende district, like Nakasongola, the cost of accessing a financial institution is relatively high. People's attitudes towards banks and financial institutions are not very positive as a result of the past experiences in the banking industry in Uganda where several banks were closed with people's deposits. The 1987 currency reform in Uganda in which the Uganda Shilling (Ush.) was restructured by the removal of two zeros from each unit also negatively impacted the people who felt that their money had been stolen. However, this notwithstanding, people would still welcome a greater presence of these institutions in their areas. They reasoned that the above were, after all, unforeseen events that happened and not structural problems with the mechanism of saving in banks itself.

The respondents noted that more men than women save in the bank. They thought that this was because men usually deal with larger amounts of money than women.

In discussing the merits and demerits of banks there was general agreement that in saving with banks, security is guaranteed. There was almost no possibility, in the minds of the respondents, that a saver's money could for example be stolen from a bank. "*Banks never die*" was the common perception among the respondents. "*It is you the person who dies, and even when you die, your passbook remains and your relatives can claim the money you leave behind. Even if the bank should close, the government will pay you back your money. And even when the bank keeps lots of money, there are no termites in the bank*".

Respondents also made the following observations about banks:

> "*Your money keeps increasing because it can get interest*."
> "*The bank is like a will, when I die, the named person in the will can claim the money*."
> "*There is high security in the bank so thieves cannot easily get to the money.*"
> "*The bank is like metal, very, very strong.*"

The respondents attributed the safety of money kept in the bank to the armed guards they see at bank entrances. They also thought that keeping savings with banks also makes it easier to obtain credit.

Among the de-merits raised for saving with banks included the following:

- They provide low interest on the money kept with them even over a long period of time (where long period of time – by which they meant over one year).
- The long distances involved had negative cost and security implications.
- The long procedures (bureaucracy) the respondents had heard are involved in opening up accounts.
- Having to first get referees who bank with banks in order to open up a savings account was regarded as cumbersome and impractical by most people since it was generally agreed that very few people use these institutions in the first place and they may be scattered all over the district.
- The long hours usually spent in banks when one wants to withdraw savings.

MicroFinance Institutions (MFIs)

In Bukuya (Mubende), Uganda Microfinance Union (UMU), an NGO MFI, has just started operations. The MFI opened its office a few months ago (less than a year before this study was undertaken). A few people save with this institution but the number is growing. One handicap is the fact that the distance from the MFI to the other villages is quite far. The respondents, however, understood that there will probably never be a time when there is an MFI in every village. A number of respondents in both districts had a perception that these types of institutions are for the more educated people because of all the forms one has to fill in. There was also some apprehension that the MFIs may close one day and leave with people's savings. Respondents seemed to think that where the word "Bank" was present in the name of an institution, their money was safer. In Nakasongola, the MFIs SOMED, FINCA and VEDCO were present in the district or neighbouring districts although there were no MFIs or banks in study areas of Kakooge and Wabinyonyi County.

In Bukuya, respondents complained about the long hours people usually spend in the UMU branch. They said that this implied that one had to put aside whatever else they would have had to do the whole day if they wanted to go to withdraw their savings from the branch.

Note. It was evident that most of the people, who gave in their responses regarding financial institutions, based their opinion on what they had heard from others. Apart from Bukuya trading centre respondents, most of the others did not have any real first hand experience of dealing with a financial institution of any type.

The competitive strengths of saving mechanisms

Ranking of the savings mechanisms was carried out specifically to measure two indicators:

1. Level of risk- measuring the most risky to the least risky mechanism.
2. Capacity – measuring which mechanism allowed one to save more money.

Preference Ranking Of Savings Mechanisms (Risk Levels)

The findings indicated the following order of ranking with the first mechanism being the most risky and the last mechanism having the least level of risk for reasons of the merits and demerits already discussed above:

1. In pots/tins and boxes (in the homestead)
2. Friends
3. On the person (*Mukandala/Ebikugunyu*)
4. Animals
5. ASCAs
6. RoSCAs
7. Banks (including MFIs)

Financial Sector Matrix (Savings)

Financial sector matrixes were also used to determine the usage distribution of the local mechanisms. In analysing the usage of savings mechanisms through vertical society classifications, it was apparent that the three mostly used saving mechanisms were the following:

1. Animals
2. Groups (ASCAs or RoSCAs)
3. Saving in the homestead.

The findings showed that men usually save using animals while women mostly save using groups. Where a microfinance institutions was within reach (i.e. at least two hours away) both men and women used it, but women tended to be the majority in usage of microfinance institutions because they already tended to operate in groups.

Preference Ranking of savings mechanisms (Capacity)

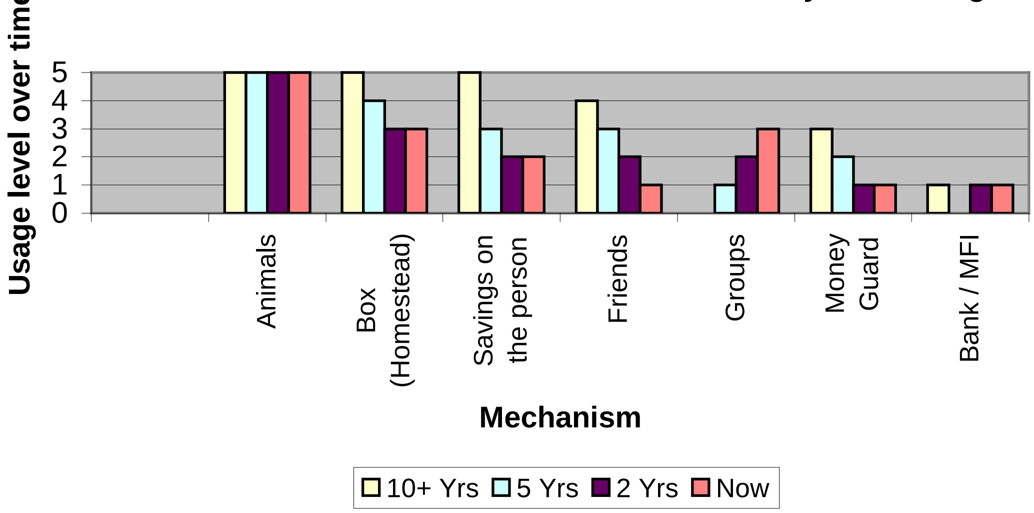
The findings also indicated the following order of ranking with the first mechanism having the least capacity and the last mechanism having the greatest capacity in terms of amounts that are saved in these mechanisms:

1. Mukandala / Ebikugunyu (saving on the person)
2. Friends
3. RoSCAs
4. Pots (Saving in the homestead)
5. ASCAs
6. Animals
7. Bank

The lowest risk and the highest capacity ranking the respondents gave to the banks again served to confirm the fact that non-usage of these institutions is more due to the fact that they do not exist at all than that the respondents and their communities had a negative perception about them as savings' facilities. This obviously presents a great opportunity for savings mobilisation.

Financial Sector Trend Analysis (Savings)
Let us now examine the trends in usage of the savings mechanisms over the last ten years. The general savings trends analysis patterns established in the study was as follows:

FIGURE 1. Financial Sector Trend Analysis - Savings



The team found that currently, the savings mechanism usage in order of popularity was as follows, with the most used mechanism at the top:

1. Animals (The most commonly used mechanism - by far).
2. Groups
3. Boxes
4. Savings on the person
5. Friends
6. Banks/MFIs (This was the least used mechanism was mainly because of prohibitive transport cost. Easier access would see this mechanism jump up the ladder).

Credit Mechanisms

Borrowing from friends
This is based on mutual trust, and normally is used between people who have some kind of blood relationship or long-term friendship. This mechanism mainly handles emergencies like death and sickness or other emergencies that require relatively small amounts of money (Ush.30,000 [$17.14] and below). Among the advantages this method provides are the fact that collateral is usually not required and a “gentlemen’s agreement” on when to pay back is normally sufficient. In the event of failing to pay by the promised date, the borrower can always re-negotiate another date upon which the payment will be made. Sometimes borrowers, on their own initiative, offer to pay back the money lent with some interest even where interest may not have been required in the first place. It should also be noted that friends do not only provide monetary assistance: non-monetary assistance such as help during funerals and burials is also sought and provided.

On the down side, though the mechanism is based on mutual trust and understanding, it is prone to abuse by people. Many have made default and inconvenience routine by failing to meet their deadlines or paying back in small piecemeal amounts contrary to agreement terms. As another negative, the mechanism can be, and sometimes is, a source of conflict between relatives and friends in case of failure to meet repayment terms.

It is lower class people that mainly use this mechanism although it is not exclusive to them.

A long time ago (i.e. more than ten years ago) people did not borrow much. They were able to meet many of their needs because they had reasonable levels of income from their main activity, which was cash crop production. Low levels of trading existed and the little borrowing that existed was for home emergencies. With time, more people became involved in trading and hence the needs for credit rose. However, recently, declining credit from this source was attributed not to a decrease in the demand for credit but to a decrease in general levels of trustworthiness. Most friends nowadays will not lend because they do not want to risk their good relationships. Where they do, lending is increasingly becoming collateralised. The good friends who can still lend without collateral remain very few indeed. (see trend analysis bar chart below).

Moneylenders

For people to be able to access credit using this mechanism, they must have assets they can put forward as security (e.g. cows, land titles, motorcycles and even crops in the field that can easily be turned into cash). This mechanism involves clarity and specified deadlines between the borrower and the lender. Written agreements witnessed by third parties are normally prepared as proof of the agreed terms. These agreements can be enforced by arbitration by LCs (local councils) or even courts of law although in reality, they will not usually go beyond the LC level. Indeed the Central Government's whole purpose in extending law enforcement powers to the local council level was to make the justice system easily accessible to the rural communities who had in the past suffered great delays waiting for the traditional justice system. The mechanism usually handles financial needs that require larger sums of money (from Ush.50,000 [$28.57] upwards). Interest charged normally depends on how long the borrower wants to keep the money. In case of default there is always room for negotiation as repayments can be postponed. However, if a borrower defaults, the assets they put up as collateral are often seized. If these assets do not completely cover the outstanding loan and interest repayments, more property can be taken from the homestead with the assistance of local leaders (village councillors elected to local government positions to serve the area). Although there may be room for negotiation, as stated above, this is not always a given. The respondents seemed to suggest that the moneylenders were quite ruthless and uncompromising in enforcing their interest. Moneylenders usually serve the middle and upper classes.

Moneylenders have some advantages. They can provide relatively large sums of money (from about Ush.50,000 [$28.57] and more) with minimal transport costs as opposed to the costs one would incur to travel the long distances to access a financial institution for credit. They can provide funds speedily and in some cases, one can renegotiate re-payment terms.

However, the mechanism attracts high interest rates. A loan of Ush.100,000 [$57.14] can attract rates anywhere between Ush.5,000 [$2.86] per month to Ush.20,000 [$11.43] per month. With this mechanism, collateral is always required and a failure to pay will always mean a loss of the asset pledged as collateral. Sometimes the borrower may even lose more than he had pledged. For example, in a situation where the arrangement was to offer a maize crop as security for the loan, the respondents said moneylenders usually cheat the borrower by harvesting more than was required to pay for the loan. They never give back the excess harvest. A default can also cause serious bad blood between the moneylender and the borrower. This bad blood can, in extreme cases even extend to their family members.

The respondents were of the view that around ten years ago, borrowing was not common, and definitely collateralised borrowing was even less common. The mechanism has gained popularity over the years, but has recently declined in the study areas because of the severe levels of poverty. People do not have the wealth or assets to pledge that compare with the need or demand for credit.

Again, a distinction should be made here between collateralised lending that has an interest accumulation component (as in the case of a moneylender) and that that does not (as could happen with a friend). The latter is preferable, although it is not very common. It appears that the "something for something" culture is slowly taking hold of these communities and threatening the traditional way of life where everybody chipped in to help a village mate through a problem. The trend analysis is shown on the bar chart below.

Supplier credit.
The ability of people to obtain goods and services on credit is usually dependant on the reputation of the borrower or the relationship of the borrower to the lender. During emergencies, for example when people need medical treatment for a family member or themselves, they can go to the nearest clinic or to a nurse who has some knowledge about medication. Here, they can get treated on a promise to pay at a later date. Parents, who have payment problems at the beginning of a school term, may approach the headmaster and request that a child be allowed to attend class until they are ready to pay the school fees. From shops, they often take essentials like salt, soap, and paraffin among others on credit. All classes of people use this mechanism. This mechanism sometimes (but not always) includes a written agreement depending on how expensive the goods or services being offered on credit are. In desperate situations like sickness, it may not necessarily matter whether you know the medical officer or not.

There were no demerits attributed to this service by respondents, most of who were recipients (users). Respondents agreed that such facility always relieves them of the pressure during times of need, especially the need for services from specialised people such as medical personnel. However, a major complaint from the people that offer these services was that people access these loans and promise to pay, but never meet their promises. In this regard, there was a strong feeling that even accessing goods and services on credit is not sustainable and the mechanism was in danger of collapsing.

Borrowing from financial institutions
Some respondents had some awareness of some financial institutions including FINCA Uganda, Uganda Microfinance Union (UMU), Centenary Bank (CERUDEB) and Uganda Commercial Bank (UCB). Most of these (apart from UMU Bukuya) had a presence in neighbouring counties or neighbouring districts. Most respondents had heard about the group lending methodology used by many MFIs but were in disagreement over the specifics. This was understandable because they had obviously received inconsistent information about (for example) the "village banking" method used by FINCA and the small group lending method used by UMU. Having stated this, the transport costs associated with the long distances to the institutions were a serious handicap. This handicap was so serious that in the majority of villages the researchers visited, respondents estimated that only 2 in a 100 (i.e. 2% of the area) people obtain credit from MFIs or banks. In Kambugu parish, Mubende District, only two people were actually known to be members of an MFI. The only exception to this pattern was Bukuya trading centre where the UMU branch is actually located. Here, respondents said that between 80% to 90% of all shop owners in the trading centre were members of UMU and that it had greatly impacted their lives and boosted their trading capacity. They were very excited about it's presence and obviously in Bukuya trading centre itself, the MFI was the leading source of credit for the community.

The main advantage that was highlighted here was that formal financial institutions have the ability to provide the largest amounts of money. No informal mechanism has the same capacity to deliver credit.

Respondents in Bukuya were of the view that the limited and defined working days of the UMU branch are a disadvantage. They suggested that financial institutions open up to late hours in the night and even on weekends since they have adequate security (personified by their armed guard). They also said their problems, and the subsequent credit-needs, do not only come on working days and do not end at 5.00p.m. High transport costs as a result of the long travel distances were also cited as a major disadvantage. The fact that financial institutions do not lend small amounts of money was also cited as a disadvantage. Respondents stated that they would welcome an institution that can also lend them a small amount of money, like Ush.10,000 [$5.71], to meet a domestic emergency because sometimes their friends do not have this money and their options are limited. Getting guarantors in order to access credit is another problem associated with financial institutions. In one village visited in Mubende district in this study, guarantors had to be acquired from a neighbouring sub-county since being closer to the MFI, that sub-county had a few more people who had joined the MFI as members. Similarly in Kyabutaika, Nakasongola district, one lady interviewed was a member of a FINCA group in Luwero district. She had to undertake long expensive journeys to attend the group meetings and all guarantors for the loan she intended to apply for were in the neighbouring district of

Luwero. Another disadvantage cited was the fact that financial institutions offer relatively short repayment periods yet most people are agricultural farmers whose take a good amount of time before they harvest their crops and make a return on the investment. Extensive and unnecessary bureaucracy, complicated paperwork, inflexible repayment terms and the ever- present risk to collateral were other disadvantages mentioned.

Over the last ten years, the very limited presence or non-existence of these institutions in the study area, have made their usage as credit sources very limited. In responding to the Financial Sector Trend Analysis tool, respondents thought that there was literally no use of this facility until the last two years. This of course is not entirely true since there were a few people who were using banks in neighbouring districts. In addition to this, the respondents seemed to have a great fear of losing collateral to these institutions. It was apparent that they preferred these institutions for saving services rather than for credit.

In Bukuya trading centre however, where the Uganda Microfinance Union set up shop in early 2001, the respondents started that out of ten shop owners in the trading centre, eight to nine were members of Uganda Microfinance Union. Whether they were borrowers or savers or both was not established.

Combination RoSCAs / ASCAs

Groups here refer to those that essentially function as RoSCAs, with a regular rotational fund, but have a lending component as well. The money they lend usually comes from a "purse" held by the group leader or other executive member. This money is separate from the normal rotational fund and can come either by direct agreed contribution or from the proceeds of some activity organised by the group

Tusuubira Group's "Purse"

Tusuubira Group in Wabigalo, Nakasongola, raised money for the group's "purse" by offering entertainment and making/selling baskets. They have a drama group that is hired to entertain people during celebrations such as weddings, official functions organised by the District Administration etc. Essentially, this purse is meant to be used by members themselves when they are in need and it is not yet their turn to receive the rotating fund; however in limited cases, they can lend to non-members at an agreed interest rate. This interest rate was not clearly fixed - the members said it was negotiable.

Most ASCAs had collapsed due to dishonest leadership but one or two still remain. A great number of respondents initially thought that all types of pooled group funds had the same level of risk until they differentiated ASCAs from RoSCAs with the interest accumulation differentiation. It was agreed that low literacy levels create problems with transparency, because very few people are educated enough to understand the bookkeeping component of the management of the fund. In addition, the growing fund size presents a growing temptation to a treasurer or anybody in charge of the fund. With accountability not always clear, the person in charge at the very least may be tempted to borrow from the fund. Many examples were given of treasurers who had ran away with accumulated group funds, and the respondents thought that had it been like a RoSCA where the fund is collected and given out at once, and does not accumulate, the treasurers would perhaps not have been tempted to take the funds because they would not have been left in their keep for along time. An ASCA may also collapse. As Rutherford (2000) states "*….ASCAs lack the clarity of RoSCAs, and so need more management skills if they are to run well. They suffer more fraud….*" As for RoSCAs, apart from a RoSCA not completing the full round because members default, the only other risk to a person is as one respondent commented, "*If I die before the money comes round to me*."

The composition of groups is usually gender specific (i.e. not mixed) and initially, it was mostly women who participated in these groups. Membership is usually made up of middle and upper class people. In most cases both members and non-members can borrow from the group but non-members can only borrow with the introduction and guarantee of a member who belongs to the group. These groups are usually not registered and not permanent. The members will usually share the profits (accumulated interest) if any after a specific period.

Operating in groups has some advantages. From some groups, one can access credit in relatively large amounts (although capacity cannot compare with formal financial institutions). Groups have an accompanying social safety net. They respond to even non-financial unforeseen calamities like death, sickness, accidents among others by providing either a service in terms of labour or even other assistance that may be required.

On the down side, the financial costs associated with loans accessed from a group fund although negotiable, is normally high, in terms of interest rates charged. Furthermore the loans are repayable within short periods of time (since other members are usually also waiting to access credit).

More than ten years ago these groups did not exist. The few groups that were created then were mainly linked to co-operative societies, whose main function at that time was to source markets for produce and negotiate good prices for farmers. Where people obtained credit from co-operatives it was usually a case of isolated assistance for a member rather than an established credit mechanism.

About five years ago, the informal groups as they are known today were being born. Even here they tended to start among the farmers e.g. coffee and cotton growers associations. It is these groups that first used cash rounds systems, especially in Nakasongola. In the last few years, these informal groups have grown mainly because more and more people now know and understand how useful they are in helping mobilise and manage finances. Although many groups had collapsed because large periodic contributions could not be maintained as economic conditions hardened and general poverty levels increased, the researchers found many attempts at reviving dead groups with smaller periodic contributions. This signifies a change in attitude amongst the population and increased recognition of the importance of these groups. They are more experienced, educated and informed about their usefulness and obviously have become more interested in participating in these groups. In short, the recognition of the perceived benefit or value of these groups has increased over the last few years.

Up to two years ago, these groups had begun to strengthen their presence but they were still very few, and not very active. But they continued to grow and at present, the situation has changed. Usage and participation has increased tremendously (see Figure 2 below). A credit component was added to some groups, which had initially started as RoSCAs. The respondents identified this component as a good source of interest income for these groups where interest is shared out among members at given intervals. However, it is probably more appropriate to describe these arrangements as RoSCAs with an "Emergency Fund" than ASCAs. This fund will grow through contributions but not necessarily from the profits brought in from money lent. Even where it does grow to an extent through these means, there is usually no strict code concerning issues such as interest rates, and borrowing periods. While some groups had some rules, there seemed to be great space for negotiation in many groups. Perhaps this is an evolution and these groups will evolve into ASCAs with time and increased sophistication. On the other hand, with the experiences told of many collapsed ASCAs and the fraud members had fallen victim to, one cannot rule out the possibility that members are unwilling to pool their funds in this way. In these circumstances, where funds will grow in all manner of ways including through the contribution or creativity of the members and not necessarily through money lent out, it may not be appropriate to regard these mechanisms as pure ASCAs.

We can summarise credit mechanism usage in order of popularity as follows:

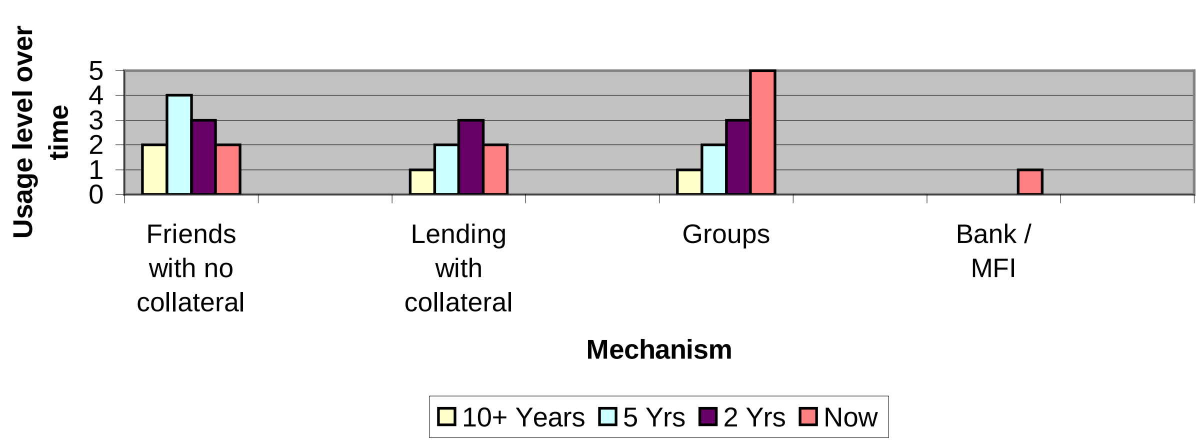
1. Groups have increasingly become the leading mechanism for larger amounts of money (around Ush.50,000 and above).
2. Friends or relatives are the leading mechanisms for small, petty amounts of money.
3. Moneylenders are also used a lot because increasingly, people have become uncomfortable to lend without collateral.

4. Banks/MFI usage is still either non-existent or of very limited presence. The usage ratio of one or two people in every one hundred (two percent) kept coming up in both Nakasongola and rural Bukuya. However, the more urbanised an area was, the higher up the scale this mechanism rose (e.g. Bukuya trading centre) Most respondents interviewed however, were still very ignorant about how MFIs work, even in Bukuya where UMU has a presence, the focus group discussions heard all kinds of speculation about how the UMU office actually works.

Future Expected Trends
From the findings, it is reasonable to assume that as the presence of first MFIs and then banks becomes greater in the study areas, one can expect these mechanisms to take lead positions as both savings and credit mechanisms. Increased levels of education, exposure and accumulation of entrepreneurial skills will also most probably lead the financial market in this direction. Improved infrastructure (including) the provision of water sources in the area) may also contribute to this trend as pastoralists become more settled.

Below is a chart tracking the trends in credit mechanism usage over the last ten years. It was generated from respondent answers and it shows which mechanism is more popular than the other and how the mechanisms may have impacted each other over time.

FIGURE 2. Financial Sector Trend Analysis - Credit



MECHANISM INTER-RELATIONSHIPS

In analysing how the mechanisms discussed above interrelate, two distinct areas of inter-relation are examined in this report. These are:

1. How the local mechanisms themselves are linked to each other (and their impact on each other) and,
2. The inter-relationship that exists, if at all, between these local mechanisms and the formal financial sector.

Linkages In The Local Mechanisms
An intricate web of linkages was identified in this study, revealing the dynamism of the financial market in this type of environment. For example, the study found that in the sampled population, like in all other societies, assets accumulated over time could be used as collateral when securing credit. It was therefore no coincidence for example that animals, which constituted the largest, most commonly used savings method, were also the most commonly used collateral item in securing credit where collateral was required.

Below, the savings and credit mechanism are re-examined again, this time, with a brief comment on how they relate to or are linked to any other savings or credit mechanism if at all.

Savings in the household

It was established that where money was given to an elderly relative to keep (money-keeper) the most likely place this elderly relative would keep the money would be in the homestead. So whereas the owner of the money could probably have used a similar mechanism, in choosing to give the money to an elderly relative, for whatever advantage he or she saw in that, the money would most likely still be kept in a homestead.

Animals

As already mentioned above, this common savings method was the most common collateral item is obtaining credit. This credit could be from a group fund, a moneylender or a friend or relative who requested collateral for a loan. The animal is not taken during the loan term, and if it bears offspring, the collateral commitment does not extend to the offspring. If an animal was put up as collateral for a loan and it was later discovered to be pregnant, the value of the animal would obviously increase. In cases where the animal was taken over after the failure to pay a debt, the debtor would have to make good the true value of the expectant animal, or wait for it to produce and take only his animal as agreed.

Savings on the person

Savings on the person were at times confused with money kept on the person to trade. The researchers many times had to draw the distinction between keeping money on your person when you are going to purchase something, and keeping it on your person as savings. It was however also established that there are some people, especially the lower class people, who kept all their money on their person and made no distinction between savings and money to use. In fact, most respondents agreed that lower class people could not save as such because they literally lived from hand to mouth. The *mukandala* (belt) or *bikugunyu* (shorts) could therefore also be used to transport money when going to purchase something or pay for something. A large number of young men, in Nakasongola, who traded far away from their homes, either in animals or charcoal, explained that the *bikugunyu* is their way of transporting the money they receive from their sales. However, because these young men had the benefit of travel as part of their means of earning an income, a few of them had managed to open accounts with the bank in Luwero, one hour’s drive away, by car. It was however, suggested that even among this group, there are those who always kept all their money on their person, not differentiating between their savings and their money for trade and not trusting anyone else to keep it for them.

Groups

The most common form of groups found in the study areas was RoSCAs. These groups usually had membership that had agreed on a fixed sum to collect over an agreed period. The agreed period was usually either weekly or monthly. The collected fund would then be given to one selected member. Lots were usually drawn to determine the order of receipt on the formation of the group. These groups were usually, although not always, gender biased (i.e. female only or male only). Less than five percent of these types of groups had mixed membership.

The credit function of RoSCAs

Although almost all the groups found were RoSCAs, a number of them had a credit function also (hence interest accumulation). In one group in Bukuya, apart from the normal cash round contribution every month, members also gave a small amount of money to a fund kept by the treasurer. Where they were using a cash round contribution of Ush.10,000 [$5.71] per month for each member, the fund for lending would also be given Ush.1,000 [$0.57] per month. This fund is then used to lend when one of the members had a problem. Loans had to be paid back with interest. Both members and non-members could borrow from this fund although a non-member needed to have a member guarantee their loan. This member would then have responsibility for the repayment of the loan and interest. The group members shared the interest earned at the end of the year. Group members typically paid a lower interest rate than non-members. Groups could also ask for the borrower to pledge security for the loan. This was typically an animal, but it could also be the proceeds from an expected harvest or a physical asset e.g. a radio, bicycle etc. If the borrower defaulted, the group could seize the collateral and sell it.

Money keepers

In many cases, money keepers who were businessmen were allowed to trade with the money. They did not have to pay the owner interest because they did not request the owner to keep his or her money with them. So what was a savings facility for the saver provided a source of free credit for the money keeper. This was quite a common occurrence. Surprisingly, the researchers did not come across any money keeper who was also a moneylender. It is possible that if money keepers lent money out, the savers did not get to know about it. It is also possible that money keepers kept money for lower or middle class people and lent it to upper class people or people in their trade circles. That way, the savers perhaps would not know that the money keeper was making money out of their own money, and the money keeper's reputation would remain unspoilt in the eyes of his suppliers of free credit.

Growing the Fund

In Tusuubira group – Wabigalo, a RoSCA, the group had ingenious ways of making their group fund or "purse" accumulate. The group bought animals and reared them as an investment. The group also organised a market and members sold their products (e.g. baskets, mats, etc). These were done with the deposits made for the group fund. This did not interfere with their monthly cash round. The group fund was kept by the treasurer who handled a group account in the bank in Luwero. Every year, a new chairperson and treasurer were elected, loans were available from the group fund and they attracted interest. Interest was shared by all members at the end of the year if they agreed to do so in that particular year.

The safety of the RoSCA/ASCA fund (a linkage with the formal sector)

Perhaps more than 90% of all groups that kept an accumulating fund, kept this fund in some formal financial institution, usually a bank. This included interest accumulated until the year-end when the interest was shared out, for those RoSCAs that had this interest sharing arrangement.

ASCAs

Although ASCAs were few and far between, a few did exist. On example was Kitokolo project in Mubende. Kitokolo project started as a self-help health project raising funds in the community to build a clinic. It started in the early 1990s. This clinic was not built in the planned time because the community could not raise enough funds to seriously start the project. Instead, the community project members realised that the fund could be grown by being used to meet credit needs in the community. So the fund was put to use in a credit scheme.

Simple Methods

Kitokolo's credit methodology is very simple. If a person borrows an amount, he deposits 20% of that amount as loan security and pays interest of 10% in 6 months. For example, if you want to borrow Ush.100,000, [$57.14] you first deposit Ush.20,000 [$11.43] before you receive the loan. You then pay an interest of 10% at the end of the loan term which is usually negotiable but not more than six months. After six months the interest would increase. If the person fails to pay, he is arrested and him or his family has to pay back the loan or his assets can be seized. Other groups can also borrow from the Kitokolo project fund. In this case, if a group defaults, group collateral can be seized or group members' assets can be seized to make good the debt. It is not clear whether the accumulated fund will finally be used for the initial intention it was collected for – i.e. building the clinic – it seems very useful to members in its current form.

Ten percent in six months seemed to be a common rate used by the few groups that had a credit function. It was not clear where the uniformity of the rate had come from.

A sample of selected groups found in the study areas is presented below: For comparisons with other informal mechanisms, see Financial Services Analysis Matrix (Appendix A).

GROUP NAME	**MunnoMukabi RoSCA *(Katuugo)***	**Basoka Kwavula Group (*Wabigalo)***	**Tusuubira Group *Wabigalo***
Membership			
Number of members	Start 6 End 12	Start 10 Current 18	Start 10 Current 38
Gender mix?	Female only	Female only	Male and Female
Age mix?	Mixed	18 – 40	18 – 50
Membership fees	No	Ush.2000	Ush.2000
Why people use this one in particular	No other system or service in the village	They believe there is strength in unity	They believe there is strength in unity
Other Detail			
When method began	2000	1998	2001
Periodic fees?	Ush.10,000 per week	Ush.1,000 per week	Ush.1,000 per week
Opening Balance	-	-	-
Other Requirements	-	Interest paid on loan.	Interest paid on loan
Deposit Policy (ie. deposit frequency)	-	Missed payments can be covered in following week.	-
Receipt of fund policy (ie. frequency)	Fund to members weekly	Fund to members in turns monthly. (Loans also available)	Fund to members weekly
Management (Who runs the method)	Group leader (ie. Chairperson)	Chairperson elected from members	Chairperson
Safety of deposits ie. where money is kept	Treasurer kept money before circulating to next recipient.	Treasurer keeps in bank account	Treasurer keeps in bank account
Benefits			
Interest or other		If short of fund to buy asset, group covers with a loan.	Profits from various group projects / interest sharing.
Development			
Current Status	Collapsed after people started making infrequent payments.	Still going strong.	Strong group. Would welcome training and working capital.

Groups and microfinance institutions

There was limited evidence that some groups, especially among the upper class women, were linked to microfinance institutions. The communities had very clear class divides and the average, ordinary women folk complained that the upper class women kept credit projects to themselves. A lot of these groups lower down the social ladder would make good entry points for solidarity group lending, but most institutions are too far away for this opportunity to be utilised.

Friends and relatives

As seen earlier, friends and relatives can be used for both saving or credit. Traditionally being cheap and reliable sources of credit, over time, they have become more dependant on collateralised lending, and interest fees, making them when they are good enough to lend their money, act more like the moneylender.

THE MANAGEMENT OF HOUSEHOLD FINANCES

Income

In the sampled areas, a typical homestead would have one or some of the following income earning activities.

1. Crop farming
2. Trading
3. Rearing animals or poultry
4. Fishing
5. Contracting their labour to a wealthier member of the community
6. Charcoal burning
7. Local beer brewing
8. Other employment

While lower class people (as described by the wealth rankings) would usually have only one source of income, middle class and upper class people had various sources of income. The likelihood was that if one had a good harvest of maize or vegetables, giving a large surplus of income they would most probably buy an animal. They would do this if the windfall had given them enough to do this alongside what they would need to ordinarily keep in the household to meet day-to-day needs.

If on the other hand a payment to the group to which they belonged was due, they would tap from their usual source of income. Where this source was not able to provide for this contribution, they would have to look to use other sources or access other savings.

The critical thing to note about income trends in these communities is that they are not regular. Even in the more exposed trading centres, like Bukuya, the people would have to wait for the traders to come from Luwero, Kampala and even as far away as Mukono (over 200 kilometres away). The crop prices keep fluctuating and this makes it critical to save in some form where one can, to lessen the shocks and uncertainties caused by these fluctuations.

Expenditure

As in most other rural areas in Uganda, the main expenditure items the respondents spent their money on are the following:

1. Domestic items e.g. kerosene, soap, etc
2. School fees
3. School accessories
4. Graduated tax (poll tax)
5. Taxes for trading (where applicable)
6. Health inspector fees (for selling produce in the market)
7. Rent in trading centres
8. Clothing
9. Entertainment (like membership of the beer drinkers' RoSCA)

These are normal, day-to-day expenditure items, which one must cater for always. There were also expenditure items that can be categorised as emergency expenditures. These are not regular but when they do come, they need to be attended to. These types of expenditures tend to draw on the person's savings pool or force him or her to access credit. Those brought up by the respondents in the study included:

1. Imprisonment (of self or a family member)
2. Sickness
3. Coping with death in a family and related funeral expenses.

Other emergency situations calling for one to draw on savings or access credit included periods of crop price crashes (price fluctuations downwards), theft, separation from a spouse or desertion.

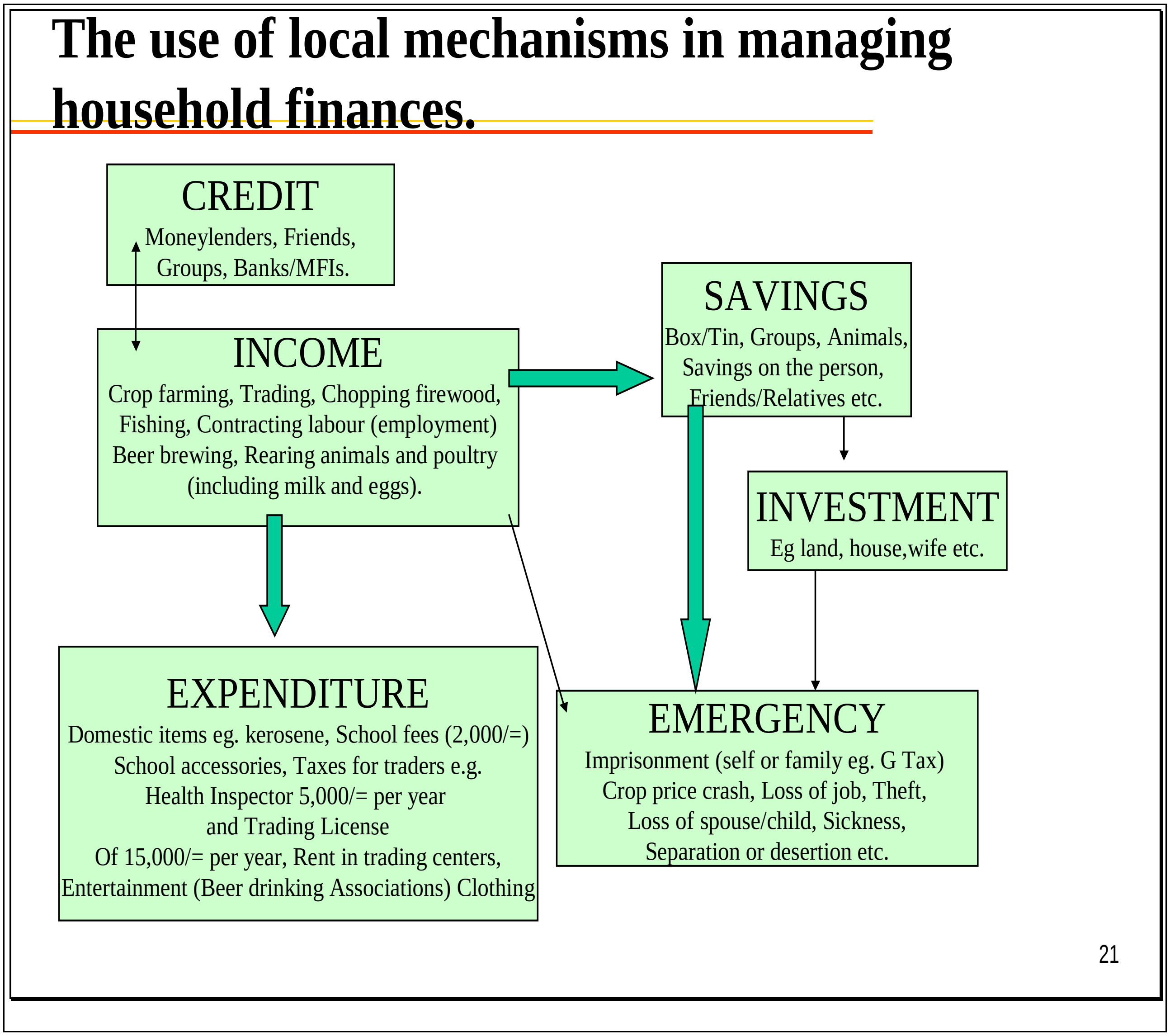
It was found that local mechanisms are used very effectively to manage household finances. The relationship between income and expenditure patterns overtime and how they have related to credit and savings mechanisms was examined.

Unusual Coping Mechanisms
Let us examine a typical solution to a typical emergency in these communities: where a child falls seriously sick, this is probably what a typical mother would do.

1. She would first try to attend to the child using local herbs if she identifies the ailment as one that needs this type of treatment. Note that the pastoral communities, in particular, are well informed about the medicinal properties of herbs and plants and this would be a first reaction for the great majority of people from these communities.
2. If the situation did not improve, she would probably remove any savings in the homestead in an attempt to raise both money for transport and medical treatment.
3. If she does not raise enough, her next option would probably be to try to borrow the extra money from a friend.
4. The next step would probably be to pledge an animal (if she has one) usually a cow or a goat, to a moneylender. But if she thinks this process will take too long, she could simply sell her animal.
5. She could also access half her animal. How is this done?

Let us assure the animal fetched Ush.100,000 [$57.14] (mature cows usually cost more than this, definitely not less). With this cash in her hand, she could take her child to the hospital. Assume that transport to and fro, hospitalisation for five days and medication costs her Ush.60,000 [$34.29], she would have Ush.40,000 [$22.86] left over. With this, she could buy a small calf at Ush.30,000 [$17.14] and start rearing it. Thus the woman would have accessed 'half-a-cow' to deal with the crisis. Her child would now be better and she would still have a cow.

A simple flow chart of a typical households financial management patterns is presented below. The thick arrows represent normal, regular flows while the thin arrows represent irregular, but nevertheless established flows.



Let us briefly examine the impact of these financial service systems or mechanisms on households. Impact here simply means the changes that have occurred in the households as a result of the use of the mechanisms. The understanding is that there is a causal link between these changes and the household's use of the mechanisms. One may therefore ask the question, "How have the homesteads of the communities in the study areas changed because of the use of these mechanisms?" We shall later on also examine the impact, if any, of the provision of microfinance services, on the household's use of other financial services.

In looking at the impact of the mechanisms on the households, it may be useful to make a distinction between improving the household and protecting the household. By improvement, one is essentially referring to improved living standards, mainly through increased levels of productivity and increased incomes. Protection, a closely related and linked concept, would mainly refer to a type of social security or insurance system used to reduce vulnerability to the shocks that so often challenge poorer households. In using the financial service systems or mechanisms as investment techniques or to raise working capital, more income can be generated. This would raise the standard of living in the home by for example sending the children to school, ensuring good nutrition, increasing asset accumulation and so on. These types of investments could raise the productivity levels in that household in the long run. Increased productivity would in turn protect these homesteads against unexpected shocks in the future.

Perhaps a key security system needed in rural areas, which are sometimes vulnerable to hostile weather patterns, is that which addresses the whole issue of food security. Droughts, floods and collapses in the prices of the crops that the people produced, were all referred to by respondents in the study. The respondents brought them up as severe challenges they had actually experienced. To cope with these challenging times, the communities had options among which were:

- selling their possessions,
- hiring out their labour,
- accessing their savings by selling animals to buy food from the shops, or
- borrowing from friends or relatives.

The savings mechanisms to some extent also acted as an insurance against both predictable and unforeseen risks. What risks do poor people normally face? They may range from life-cycle risks (related to normal life-cycle events) structural risks (long-term cyclical or permanent changes in national or international economy) or crisis risks (sudden unexpected shocks) see Wright 2001. In the groups they also have a social safety net, and groups can also help members when they lose a family member. Groups may for example fetch water and chop firewood, help to cook for mourners and in some cases even dig the grave. Some respondents had also learnt from other group members how other crops fetched higher prices than the traditional coffee and maize, so in Bukuya for example, the group members had diversified and were now growing vegetables like cabbages, carrots, green pepper, spinach and tomatoes. They were getting very good return. In this case, the shared information in the group had improved the income levels.

The impact of microfinance institutions on the households was much less clear. The study areas did not have a presence of any formal financial institutions, save for the newly opened Uganda Microfinance Union (UMU) branch in Bukuya. It was clear however, from the financial sector trend analysis exercise that some people (albeit a small number) were accessing these institutions by for the most part, making the long journeys to neighbouring districts. The trend analysis showed that at the same time as formal financial services came on the scene the usage of all other savings and credit mechanisms apart from animals and groups, declined. It is not clear whether there is any direct relationship between the emergence of the formal instititutions and the decline in the usage of other mechanisms but the coincidence of one method declining while another gained popularity is, in the view of the researchers, significant. It was very clear in Bukuya trading centre, where there was a newly opened branch of Uganda Microfinance Union, that the institution was rapidly becoming <u>the</u> major facility for both credit and savings in the community.

In conversation with respondents in Bukuya, it was clear that a large number of the trading center residents/shopkeepers are accessing the new microfinance institution. They testified to the improvement their businesses have registered. The number of businesses closing down had reduced in the year the branch opened. Indirectly, this meant that more families could meet more of their needs, and employers could keep more people in work as their cash flow situation had improved. The respondents praised UMU and as one respondent put it, *"…UMU is our saviour. If they had not come here, most of us would be out of business by now, most of us would have been unable to pay rent and we would have had to leave this trading centre and go back to the villages …"*

The acquired business skills and knowledge associated with the UMU loan orientation training have made people more disciplined in the way they do their work. Many have learnt to keep basic records. Many are able to assess for the first time in their lives, whether they are making a profit or a loss in their businesses. Small petty trading has grown and transport services have improved as the more buses ply the routes from this trading centre to the remote villages and other districts, as more people travel from outlying areas to access the UMU branch. This means that with improved transport, the people of Bukuya can access more markets and more customers can come to buy from them. The demand for services can be seen from the rapid growth the UMU branch has experienced. In the first four months of operation, the institution registered more than five hundred new members.

A Time Series of Crisis analysis was carried out in Bukuya trading centre to establish how the community copes with emergencies. It was evident from the findings that since the Uganda Microfinance Union branch moved into this trading centre, it has taken a centre stage in managing household finances, especially, for the traders who live in this trading centre. More and more people are saving with the institution. Respondents stated that eighty to ninety percent of all traders in shops had loans with the UMU branch. Although savings levels are still low, it was clear that more problems are being solved with money kept in the UMU branch. This notwithstanding, there was no evidence that the use of other mechanisms had been completely replaced by UMU. This would not be possible because for example there would always be people who are not eligible to join UMU (since the institution mainly helps already established businesses and not start-ups, or since membership must start from a certain age etc.) The evidence was that UMU had grown rapidly; of this there was no doubt. The evidence was also that people still complained about the long hours spent in the UMU office on transactions and the fact that UMU did not operate on weekends. It would make sense that those who are aware of these problems would still keep some money in an easily accessible place for immediate emergencies. On the credit side, interest rates and the urgency of the need would dictate where one goes for service. The fact that very many people had started using the UMU branch in such a short time is consistent with the finding in the other research areas that indicated that non-usage of banks and MFIs was mainly due to non-existence of these services, and not necessary a dislike for the services or mechanisms themselves. Whether the other findings discussed above would be replicated in the more rural areas (i.e. more rural than a trading centre) is not clear.

CONCLUSIONS AND RECOMMENDATIONS

The study examined two areas in rural Uganda where formal financial institutions are absent, or have recently been introduced, and looked at both the savings and credit mechanisms that the communities have developed and used in the absence of formal institutions, over many generations. The study examined how the mechanisms affect and impact each other, especially how this inter-relationship has affected the usage levels of each mechanism over time. The impact on households of the use of these mechanisms was also examined. It was evident that the mechanisms in use are quite effective coping strategies and the people in the communities have mastered the art of using them. Although deficiencies still exist that a more formalised environment could perhaps address, the critical factor is that the people have developed systems that depend on social relationships and that have stood the test of time. Perhaps the answer for more effective impact lies in working with these mechanisms or around them, rather then attempting to replace them altogether. As one scholar wrote:
"*… the various financial market segments may in fact be representing an efficient specialisation for different niches, suggesting that selective integration is the appropriate policy vehicle, rather than simply extending the formal sector's frontier …*" Bagachwa 1995

Barriers for Formalised Financial Service Organisations
One of the over-riding and limiting factors for the formal or semi-formal sector lenders is the great fear to lose property to these lending organisations. AS a result of hearing of cases of a few people who have lost property in previous government poverty alleviation programmes and existing institutions in other towns (many of these being third hand inaccurate accounts from places far off) it was apparent that the majority of respondents preferred to use formal institutions for saving rather than for credit.

In cases where the formal institution may require groups e.g. UMU Bukuya the difficulty to form long lasting groups that are well managed was given as another reason why people have tended to remain attached to their old mechanisms. However it was clearly established that groups that are not attached to formal institutions are slowly gaining ground.

The bureaucracy and complicated paperwork often found in a formalised institution was also given as an inhibiting factor.

Recommendations For Microfinance Institution Seeking To Introduce Services In These Areas

It would be of great advantage to link some aspects of the informal system with the formal system in a well defined relationship based on working with what is available on the ground. For example, there is as the study established, a large and growing presence of group schemes (usually RoSCAs) in the communities. Even where the groups may have collapsed because of the hardening economic situation, and the inability to regularly contribute to the group rotational fund, the researchers found, in most cases, a desire to revive the groups with much smaller periodic deposits. The majority, of respondents agreed that they had found the groups very helpful.

It is the group mechanism that would perhaps most easily be linked to a formal financial mechanism. In Uganda, many microfinance institutions still use the Grameen solidarity group model for their lending operations. In extending their operation to these areas, they would be able to link up with group units that already exist, that have been self-selecting, that have been brought together by the desire to become economically empowered, and of people in the same community where a peer pressure technique would have a good chance of success. However, the groups would have to undergo intensive training and learn the disciplines of formalisation.

Having stated the above, the fact that respondents seemed to have a preference for savings facilities as opposed to credit facilities, cannot be over emphasised. For the respondents, it appeared that reliable savings services were in the same or perhaps in more demand than working capital or credit for investments. This is consistent with recent developments in the global microfinance movement that recognise the importance of savings services for the poor. The challenge for institutions considering operating in the areas is therefore to design cost effective savings mobilisation strategies that respond to different client needs. These savings services should allow these households to save for large expenses like dowries or higher level education for their children, accumulate funds for future investment such as building a house, or prepare for periods such as the dry season when they may have little or no income. Access to good reliable savings services would make the people less vulnerable, giving them the opportunity for positive real return.

It may be useful at this point to understand why potential clients may opt not to join a microfinance institution. In Matin and Helms (CGAP Paper) reference was made to the reasons why poor people or those significantly below the poverty line may opt not to join an MFI. The reference was to a *MicroSave* study of drop-outs in East Africa, and among the reasons given were:

- Exclusion by the MFI themselves due to their focus on micro entrepreneurs with sufficient repayment capacity;
- Exclusion by groups unwilling to take responsibility for the poor in case of delinquency;
- Self exclusion due to a fear of credit; and
- Product exclusion where "one size fits all" and working capital loan on offer does not meet their needs.

As stated before in this study, the people in the study areas had faced severe economic hardship. This had mainly been due to the collapse of the prices of cash crops, which had traditionally been the backbone of their livelihood. The reduced incomes were the major reason that had led to the collapse of many RoSCAs as people failed to pay their contribution obligations. However, the researchers found that in most cases where a RoSCA had collapsed for this reason, there were efforts to revive it with a smaller weekly contribution requirement, which would be more manageable. For all intents and purposes, these communities could be described as generally poor communities, with a narrow economic base. It is possible that MFIs had not come into these areas for this fundamental reason. It is clear that where an MFI were to make an entry into this market, a lot of effort would have to be put in educating the population about microfinance as there is a risk that the general fear of formal credit found by the researchers (because of the fear to lose collateral) would make many members of the community exclude themselves from credit services.

Other Lessons For Micro Finance Institutions Seeking To Extend (Or Consolidate) Services In The Area

Microfinance institutions need to invest in aggressive information and training strategies. Education levels in the area are already quite low so one does not have a lot to work with in terms of skilled manpower, and yet, using the members of the community, even in staffing the programme, has obvious advantages. Group leaders should be trained and helped to become more businesslike in their thinking and approach. In as much as it is possible, the community members should have a real stake in these ventures so that in their understanding the financial institution goes beyond patronage, and they understand the importance of recovery and profitability.

It is critical that a deliberate attempt be made to reduce the cost of accessing financial services. Respondents in Kakooge county, Nakasongola, suggested that mobile services would help them greatly. Some microfinance institutions in Kampala already practice this "hub and spoke" strategy. Reducing costs by carrying out transactions for many people in a designated centre near their locations (or their local trading centre) would meet a very positive response (although an institution serving in this manner would have to make security considerations).

Microfinance institutions that seek to reach the rural poor should simplify their procedures as much as possible. Forms should be simple and in the local language and staff should be fluent in the local language.

In the rural communities, the challenge of agricultural lending should again be looked at. In the study areas in particular, there is also a need to look again at the "crop culture" and the "cattle culture". The dynamics of a settled life pattern and a nomadic life pattern are quite different. How for example should a microfinance institution relate with a person who has one hundred and fifty head of cattle but lives in a grass thatched hut, is illiterate, does not send his children to school and is permanently on the move looking for water and pasture for his animals (as the example in Wabigalo – Nakasongola where one respondent in a focus group who fits the above description expressed a desire to access credit services because selling one of the animals was not an option). How for example could microfinance institutions think about using livestock as collateral? This is a question worth thinking about because there is an incredible amount of wealth locked up in these herds of animals. Obviously it would not be advisable for a microfinance institution to mix its primary business with actually handling or managing animals. A microfinance institution could however look at agencies (or a franchising of sorts) with already established moneylenders who could access funds (which they themselves could put up regular collateral for e.g. buildings or land). These funds would be accessed at a relatively cheap rate and on lent using the existing systems. Alternatively, a franchise package could be created and the larger settled farmers or ranchers be encouraged to take up the franchises as a business. In many cases, these larger farmers will have assets that can be used as collateral. How these franchises would then ensure repayment of on-lent funds would very much depend on the existing informal systems they already use. If the market was given enough of these types of credit sources, competition would drive down the very high interest rates and increased affordability would most probably drive up the usage scales making it a win-win situation for everybody.

Finally there will be a greater chance of success if a multi-sectoral approach is adopted. As formal financial service providers move into these areas, they will need to network with other sectors to boost their own chances of success as they promote the livelihoods of these people. Success for the people and improved lives will mean great success for the institutions and all stakeholders involved in the process of development.

Such an approach would make it more likely that microfinance institutions would have a real impact on the people in these communities. While some government or private sector initiatives have not had the desired impact, there are some that have had great impact e.g. improved seed stock projects, private sector produce marketing initiatives etc. If for example a person gets a loan to improve has agricultural produce, of what use will the loan be if he cannot market his crops. Of what use will the big yield season be if he has no secure place to keep the lump sum income? Of what use will the loan be if the buys more animals but there are no veterinarian services nearby to look after this resource and no reliable water sources to keep him and his animals settled?

APPENDIX A

FINANCIAL SERVICES ANALYSIS MATRIX

	RoSCAs	**ASCA (including loans from RoSCAs with credit function)**	**Friends and Relatives**	**Money Lenders**
Who uses it	Middle and Upper category men and women (mainly women)	Middle and Upper category men and women	All categories of men and women.	Middle and upper category men and women
CORE PRODUCT				
Needs that it addresses	Household needs and working capital	Emergencies	Emergencies or medium scale problem solving	Strictly emergencies
ACTUAL PRODUCT				
Product Design				
Term (range)	Rotation depends on the size of the group eg. 30 days for group of three to 6 months (large group)	Usually not exceeding six months	Negotiable	By agreement but usually not exceeding 2 to 3 months
Amount (range)	Ranges from Ush.10,000 to 50,000 increasing depending on class, gender and trade and instalment sizes	Ranges up to Ush.100,000 (and may be more depending on repayment history of borrower)	Negotiable but in many cases small petty sizes	Can be quite large. It depends on the need and the capacity of both the lender to lend and the borrower to guarantee the repayment
Grace Period	None	Repayments start after one month	Negotiable	Negotiable but usually none
Installment structure (equal /unequal)	Equal payments	Variable	Negotiable	Negotiable
Frequency of repayment	Daily, Weekly and Monthly with weekly being most popular reduced during low income	Variable	Negotiable	Negotiable
Collateral	None – except character	Physical collateral requirement	Normally not required but a reported increase in cases where it is	Required. It can take any form.
Repayment incentive	Being a part of the next round, building reputation, social capital	Repeated access, fear of losing collateral and reputation	If collateral, fear of losing it. If not, fear of losing relationship or reputation	Repeat access and fear of losing collateral

	RoSCAs	ASCA (including loans from RoSCAs with credit function)	Friends and Relatives	Money Lenders
Price				
Interest rates	No interest	Usually 10% of the loan amount per 6 months	Usually no interest	Can range from 5% to 25% of loan amount per month
Application fees	Generally none but some groups have membership	Generally none	None	Usually none
Commitment fee	None	Upfront deposit required in some cases (eg. 20% of loan amount)	None	None
Repayment incentive	None	Depends on agreement	As repayment incentive above	May be proposed by the moneylender
Appraisal fee	None	None	None	None
Loan Insurance	None	Upfront fees (see commitment fee)	None	None
Late payment penalty	It depends on the rules. Some do not charge a penalty. Some charge a percentage of the instalment size usually not exceeding 10%	If loan not paid within loan term, charge will usually be put on late period (e.g. Ush.5,000 per week late after expiry of loan term)	Usually none but depends on agreement	Will normally be communicated to borrower when negotiating for the loan
Loan agreement	Verbal agreement to continue till all have received	Usually written and kept with group executive	None	May or may not be written agreement
AUGMENTED PRODUCT				
Promotion				
Personal contact	Personal contact and character reference	Personal contact and character reference	Usually no promotion	Usually no promotion but clients can market
Brochure	N/A	N/A	N/A	N/A
PR events	Usually RoSCAs are confined to people who know each other well. Mass selling is not the intention	If a RoSCA has a credit component and accumulates a fund like an ASCA, it will normally hold fundraising events	N/A	N/A
Information session				
Place & Service Centres and Time				
Location – access	In different people's homes	In predetermined place easily accessible to the community members.	Usually at lender's home or workplace	Usually at lender's home or workplace

	RoSCAs	ASCA (including loans from RoSCAs with credit function)	Friends and Relatives	Money Lenders
Layout (space, privacy etc)	Women need privacy from nosy men and men need privacy to prevent robbers.	Privacy and security issues important when a loan is going to be disbursed.	Privacy usually important	Privacy and security issues usually very important
Operating hours			Anytime	Most hours of the day
Operating days	Meeting days agreed to by members when group is first formed and later on usually changed by consensus	Predetermined access days. Usually easily accessible on any day of the week although loan capital will usually not be disbursed immediately (because fund may be kept with financial institution a distance away)	Any day	Any day
Positioning				
Image (e.g. strong, weak, fast, flexible etc)	A useful mechanism.	Expensive but more affordable than a moneylender	Becoming increasingly unreliable and weak as a credit mechanism	Fast
Physical Evidence				
Branch appearance				
Passbook				
Card				
Repayment Schedule		Written loan agreement will normally stipulate loan and other terms		If written agreement, terms will be stipulated
People				
Customer Service		Usually repeat borrowers who paid well previously are treated very well.		Repeat borrowers of good record are treated well
Attitude				Market driven entrepreneurial attitude
Knowledge				
Skills		Management and number skills necessary		Number skills necessary

	RoSCAs	**ASCA (including loans from RoSCAs with credit function)**	**Friends and Relatives**	**Money Lenders**
Process				
Client Recruitment	By word of mouth from one member to another person (usually a friend)			Word of mouth
Application		By verbal request to group executive or coordinator	Verbal request	Verbal request
Disbursement of money	Cash collected and given to one member	Cash payment to loan applicant	Cash to borrower	Usually cash to borrower
Withdraw (e.g. queues)				
Repayment (e.g. queues)				
Handling of non-payment		Seizure and sale of property pledged as collateral	Sometimes there is a complicated fallout and broken relationship	Can be ruthless. Also complicated fallout a possibility

- ***Core product***: The reason *why* the customer pays money — a benefit (e.g., financial return, security) or the need it fulfils (e.g., liquidity, livelihood);
- ***Actual product***: The specific features that characterize *what* the customer is buying —including how it is designed (terms, interest rates, eligibility requirements) and packaged (length and clarity of the application, colour of the passbook);
- ***Augmented product***: *How* the customer receives the product — the way in which it is delivered and serviced (application turnaround time, hours of operation, waiting room facilities, and customer service — in terms of friendliness, accessibility before and after the loan is closed; product knowledge of loan officers).

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LIST OF ACRONYMS / ABBREVIATIONS

ASCA	Accumulating Savings and Credit Association
CERUDEB	Centenary Rural Development Bank
CGAP	The Consultative Group to Assist the Poorest
MFI	Microfinance Institution
PAP	Poverty Alleviation Programme
RoSCA	Rotating Savings and Credit Association
SOMED	Support Organization for Micro-Enterprise Development
UCB	Uganda Commercial Bank
UMU	Uganda Microfinance Union
UPE	Universal Primary Education
Ush.	Uganda Shilling
VEDCO	Volunteer Effort for Development Concerns