Graduate School of Development Studies

MICRO CREDIT FUND THROUGH SACCOs:

ANALYSIS OF INCLUSION AND EXLUSION OF THE POOR IN KABAROLE DISTRICT, UGANDA

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List of Acronyms

AAMP-Area based Agricultural Modernization Program
AMFIU-Association of Microfinance Institutions Uganda
BRAC- Bangladesh Rural advancement Committee
CGAP PAT- Consultative Group Against Poverty- Poverty Assessment Tools
FGD-Focus Group Discussions
IMF- International Monetary Fund
ISS-Institute of Social Studies
L&R- Lechner, Reiter & Riesenfelder Social Research
LAPO- Lift Above Poverty Organization
MDGs-Millennium Development Goals
MFI- Micro Finance Institutions
MFPED- Ministry of Finance Planning and Economic Development
MSC- Microfinance Support Centre Limited
NAADS-National Agricultural Advisory Services
NGO- Non Governmental Organization
NSADP- North West Smallholder Agriculture Development Project
PEAP- Poverty Eradication Action Plan
PMA-Plan for Modernization of Agriculture
POV-Poverty Studies and Policy Analysis Specialization
PRSPs-Poverty Reduction Strategic Papers
RMSP- Rural Microfinance Support Project
SACCOS- Savings and Credit Cooperative Societies
UCA- Uganda Cooperative Alliance
UCSCU-Uganda Cooperative Saving and Credit Union
UMU- Uganda Microfinance Union
UN- United Nations
UNDP-United Nations Development Program
UPE-Universal Secondary Education
USE-Universal Secondary Education
WB- World Bank
WDR- World Development Report

Abstract

Micro Credit is a contentious product in the World Development as it is seen as one component for stimulating Investment. As evidence has always been in favour for borrowers of large sums of money for big investments and reaping high profits, it has not worked the same way for borrowers of small sums of money. Money borrowed in small sums by community members was met by already glittering and biting societal and individual demands and usually used for consumption or investment in non profit making ventures like paying school fees and purchasing fixed assets like land and housing.

As the situation for the poor was already appalling as indicated by lack of income, lack of education and basic business skills, poor housing, health and nutrition and above all lack of information, the poor were and still are in the vulnerable position to successfully access and utilize credit under SACCOS. By design, the poor could be very lucky to find themselves in SACCOS and even those who find themselves in SACCOS accessing credit can not be guaranteed. Those who access credit find challenges to repay and in the end the little assets owned would be sold to repay a loan or resort to money lenders who appear to be exploitative in nature that worsens their situation.

The services in SACCOS are subjected to forces of demand and supply yet it is clear that the poor cannot compete favourably for a product that is also attractive to the non poor. There were no special considerations for the poor to encourage and mentor them through a process of income generation to ensure sustained savings, the assumption that individuals would join SACCOS because they wanted loans and would be able to repay helped those who were already established in their businesses. In the poverty strategy, there has to be vigorous efforts to bring the poor on board, its very clear the forces of demand and supply increases the divide between the have and the have nots and those with capacity benefit more after entering the market while those with less capacity are left at the periphery.

The SACCO clients are not wealthy but they are also not poor, they are basically above the poverty line because they earn income, have got education, afford three meals a day, have business skills and they can get security for loans. The proponents of micro credit argue that credit reduces poverty by preventing individuals who are well off from falling into poverty but they don't answer the question why they don't work with the poor themselves. They tend to argue that credit to poor people is not sustainable and this raises concerns about the motivation of targeting well-off[1] category in society. The answer lies with Adam Smith's argument about the invisible hand of capitalism where he argued that selfish interest would benefit the entire public yet there was no guarantee for this. This ´myth´ is evident in credit schemes where credit to

[1] The non poor can afford to borrow, have security, have alternative sources of income and can afford to pay back the loan even though the conditions are bad.

well-off and successful entrepreneurs is presumed to benefit others in the trickle down effect.

Relevance to Development Studies

In the recent trend in Development, Poverty has become a concern and a focus for many Development interventions. Many agencies and institutions at international and national levels have developed strategies as well as implementing policies that aim at poverty alleviation. A case in point is the MDGs and PRSP that are implemented in many countries. The 1980s and 1990s experienced deterioration in the economic performance that witnessed breakdown of systems, governments and worsening of wellbeing and poverty while structural adjustment programs that were implemented as solutions rather worsened the situation. In a bid to enhance economic performance for low income earners and poor households and individuals in developing countries, microfinance/microcredit has been put at the forefront in poverty reduction. There are contradicting debates on the role of microcredit in poverty reduction. Given the contexts that surround the poor communities and the design of the microfinance programs themselves, it is worth assessing the e of microcredit to the poor. Knowledge on targeting of the poor people in the programs would give insight on the inclusion and exclusion levels of microfinance and eventually being able to determine its role in the development process and development studies as well.

Keywords

Micro credit

Poverty

Poverty reduction

Saving and Credit

Group formation

Inclusion and Exclusion

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CHAPTER 1: INTRODUCTION

This Chapter gives a comprehensive analysis of the problem; it includes background, Problem Statement, Research questions and Objectives, relevance of the study, Research methodology, limitation of the research and organization of this Research Paper

1.1 Background

In Uganda, there are a number of interventions for Poverty Reduction as identified in the national development framework (PEAP 2004-2008)[2]. These interventions range from Macro Economic Stability Policies, increasing production and competitiveness, improving incomes for the poor to governance, security and conflict resolution as contained in PEAP. As a major component to stimulate production in all sectors, the government needed to establish viable financial institutions that could avail financial services to all categories of people in society. However, the existing institutions like formal banks and microfinance organizations had little coverage and were more urban based and targeting income earning class with predetermined products that did not fit the rural setting and poor communities (Andy 2001: 38). In the effort to target and reach rural and poor communities, the government had to channel credit through institutions that are community based. In this case, Savings and Credit Organizations (SACCOs) were seen as viable vehicles through government fund would be channelled to reach poor communities.

SACCOS operate at community level and are locally owned by members (Mutesasira 1999) however the government has no control over their formation process. At community level there are both the poor and non poor who have varying interests which determines the social networks, friendship and trust bestowed in members themselves. Given the fact that poor people have a lot of vulnerabilities they are being viewed as a liability to the group in addition to high requirements during the group formation, this makes the composition of SACCOs comprised of non poor who benefit from funds and leaving out the poor as indicated in the findings of this research. The research assessed whether both non poor and the poor are members to SACCOs or the poor are excluded by their poverty context, the analysis and conclusion is contained in chapter 4 of this research.

SACCOs are business entities and operate on the basis of demand and supply, they are not concerned about the existence of the poor or non poor, what matters to them is clients ability to fulfil the requirements, giving out credit/loans and members being able to repay within a given period. Poverty programs that target the poor at the same time are attractive to the rich makes it difficult for the program to reach the poor (Hirway 2003). As noted by

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[2] PEAP is the national development framework for Uganda and it has five pillars that details different strategies for poverty reduction.(PEAP 2004-2008)

Nelson 2003, in her article on grounds for alliance, there are reasons why the alliance of the poor and not so poor is difficult, that priorities as well as pressing needs/interests for the rich and poor differ and the rich people needs in society may not cater for the needs of the poor. The poor need to be catered for, so that they are not left at the periphery of development.

With emergence of capitalism and the neo liberal agenda, capital markets developed and there was increasing use of credit as a form of investment. In many of the developing countries including Uganda, Microcredit schemes became popular interventions from 1990s, many schemes/microfinance arrangements emerged from the government, NGOs and private sector. This idea was boosted by UN secretary general's report that commended the role of micro credit in alleviating poverty during the world summit for Social development in 1995[3]. As a result, international institutions like IMF and WB support micro credit initiatives through the PRSPs that acted as guiding documents for achieving growth. In spite of these initiatives and the belief that credit can reduce poverty, there was no consensus on how micro credit contributes to poverty reduction.

The contribution of credit to investment cannot be disputed especially when big companies and businesses acquire credit. However, critics of microcredit have argued that micro credit role in fighting poverty leaves a lot to be desired and there is a debate on whether micro credit benefits poor communities in society (Rogaly 1996) that the poor are always excluded by micro credit requirements which they can't afford[4], at the same time because of cultural attachments and increasing inequality in households, the women who comprise the biggest portion of the poor have no control over the loans (Kabeer N 2001). This research was conducted to analyse the effectiveness of government approach of channelling micro credit fund for the poor through Savings and Credit Cooperatives (SACCOs) Schemes and assess whether the poor benefit or are excluded.

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[3] The World Summit for Social Development, held in Copenhagen in March 1995, also underlined the importance of improving access to credit for small rural or urban producers, landless farmers and other people with low or no income, with special attention to the needs of women and disadvantaged and vulnerable groups. Governments were called upon to "review national legal, regulatory and institutional frameworks that restrict the access of people living in poverty, especially women, to credit on reasonable terms; to promoting realistic targets for access to affordable credit, providing incentives for improving access to and strengthening the capacity of organized credit systems to deliver credit and related services to people living in poverty and vulnerable groups; and to expanding financial networks, building on existing networks, promoting attractive opportunities for savings and ensuring equitable access to credit at the local level" (UN Secretary General report 1997).

[4] The findings from this research and researcher's personal experience have provided evidence to support this view on how the poor are excluded from micro credit programs

The credit interventions have raised a number of arguments in trying to relate credit to poverty reduction. Institutions that are established under the financial sustainability paradigm (details of this paradigm in Chapter 2) offer services to middle class and to clients above the poverty line who can afford their services by paying high interest rate and being able to repay in time for the institution sustainability purposes which raises concerns as to how can the poor benefit and how does services to non poor translate to poverty reduction. However, such institutions twist their argument of contribution to poverty reduction that by supporting the non poor/middle class, they prevent them from falling into poverty in situations like risks and uncertainties (Wright et al 1999a). They also argue that credit to middle class would be well utilized and trickle down effect would benefit the poor. But what institutions don't want to say is their motivation to support the well off when the poor are there and how they would ensure benefits to middle class reaches the poor especially with the selfish interest. Adam smith argued that 'private and selfish interest would result to the greater good of all'. This is the invisible hand of capitalism and Adam's fallacy which Foley criticized (Foley 2006 1-12) where Smith urges to "accept direct and concrete evil in order that indirect and abstract good may come out of it. The logical fallacy neither smith nor any of his successors has been able to demonstrate rigorously and robustly how private selfishness turns into public altruism". The debate goes on that microcredit institutions target clients above the poverty line to prevent them from falling into poverty. Therefore the services are designed to suit those who can afford under the forces of demand and supply leaving the poor out. In Microfinance individuals get credit not to satisfy the interests of the public or the poor but their own needs. At the same time, many financial institutions are established not because they want to help the poor but to ensure their own profits for sustainability. In this case, it's an evil to leave the poor out yet the intervention was meant to fight poverty and help those affected by poverty. Regarding the way how credit is invested by individual clients, there was no guarantee that their benefits will translate to the poor.

With the increasing forces of market liberalization, every exchange of goods and services has been monetized and social support systems have broken down and almost every aspect of life requires money yet the opportunities for getting money are scarce. The functionality of the poor in this system has become difficult as opportunities are constrained by lack of resources to enable them play an important role in the development process. The research was intended to verify whether the approach of channelling funds through SACCOs was effective in reaching the poor and the findings prove the contrary. Analysis of the findings in line with SACCO formation process, criteria of selecting a beneficiary SACCO by micro finance support centre, the requirements of accessing credit and ways through which SACCO help poor clients appear in chapter 4 of this research.

One of the key issues of this research is that the poor are marginalized and experience both entitlement and endowment breakdown as a result programs that are not universal in nature end up going to those who have the capacity and the poor left at the periphery (Hirway 2003). The poor can not afford most of the requirements for micro credit unless the requirements are designed to suit their situation. The research analyses how the approach by the government to channel funds for micro credit through SACCOs exclude/includes the poor

1.2 Problem statement

This research focuses on the analysis of inclusion and exclusion of the poor in the government fund for micro credit channelled through SACCOS. The research explains how and why inclusion/exclusion takes place but only provide evidence within the parameters of SACCO formation process, requirements for accessing and using credit, selection criteria by MSC and implementation of micro credit. A key stand point of this research is that in theory SACCOs were seen as vehicles for reaching the poor and therefore being unique from other microfinance institutions. Equally, the government approach of channelling micro credit funds for the poor through SACCOs was viewed as a viable approach undermining the complexity surrounding the poor and their willingness to join SACCOs, access and use of credit. Micro credit through SACCOS would be effective in benefiting the poor when the SACCO formation process, the design, requirements and practice of micro credit fund for the poor respond to poor peoples needs while the management of rural financial outreach program focus on strengthening and mentoring of SACCOs (Andy 2001:21).

Since other credit institutions have been criticized for not reaching the poor, the functioning of SACCOs like other micro credit institutions exacerbates exclusion of the poor hence micro credit funds for the poor through SACCOs would end up benefiting the non poor thus not being effective in helping poor individuals. It should be noted that poverty programs have always targeted "wrong" groups as the marginalized people have experienced both entitlement and endowment breakdown as a result programs that are not universal in nature end up going to those who have the capacity and the poor left at the periphery (Hirway 2003).

It was not known how the approach of channelling micro credit funds through SACCOs would ensure that the poor were part of beneficiaries given the heterogeneous nature of society where both the poor and non poor were competing for same resources. The research examined the inclusion and exclusion of the approach at four levels in the implementation process of credit fund for the poor that included SACCO formation, Selection of a beneficiary SACCO by MSC, requirement for accessing credit and the nature of packages/services to clients where the poor were likely to be included or excluded.

1.3 Relevance and Justification

The research findings contribute to the current debate on the contribution of micro credit to poverty reduction. The focus on the government approach of channelling micro credit funds for the poor through SACCOs shades more light on pro-poor policy beneficiaries. This specific research bring evidence on whether the poor individuals in society are part of SACCOs and can therefore effectively benefit from the poverty interventions targeting the poor through SACCOs.

The study findings bring evidence on the relationship and interaction between the design and management of SACCOs and their relevancy in catering for the needs of the poor which show the extent of inclusion and exclusion of the poor. This was partly because SACCOs were seen as vehicles to reach the poor, the argument in this research was that for the credit program to be pro-poor, its design and management has to reflect and address the context of the poor.

The findings analyse the argument of fighting poverty through supporting the non poor as maintained by many microfinance institutions with sustainability motives, given the overlapping nature of interests between the poor and non poor, how does SACCOs cater for the needs of both categories. This was because of the assumption that there was cooperation in society between the rich and the poor and therefore benefits to the non-poor could mean benefits to the poor. The concern in this research was that since the poor and the non poor have varying interests, benefit to the non poor may not guarantee benefits to the poor

The study gave me a more practical analytical insight relating theory to practice. In this regard, the assessment of government intervention to reduce poverty through targeting SACCOs enriches my understanding on how policies fit into the context of the poor and this broadened my knowledge on my area of specialization in poverty studies and policy analysis

The findings bring more insight to policy makers to come up with proper mechanisms on targeting and making financial services accessible to the poor. It would also inform the on going policy debates on the effectiveness of pro-poor policies in Uganda by different stakeholders

1.4 Research Objectives and Research Questions:

In what ways does the approach of channelling micro credit fund for the poor through SACCOs include/exclude the poor from rural financial services in Uganda?

1.4.1 Sub Questions

a. In what ways has the process of SACCO formation included/excluded the poor
b. In what ways does the selection criteria by Microfinance Support Centre in establishing a beneficiary SACCO include/exclude the poor
c. How does the requirements of accessing and using credit include/exclude the poor
d. In what ways does SACCO management tackle circumstances that prevent the poor from accessing and utilising credit

1.4.2 General Objective

This research aims to contribute to understanding of how the poor are included or excluded from rural financial services by SACCO formation processes, requirements, design and practices.

1.4.2.1 Specific Objectives

1. To establish whether the process of SACCO formation was favourable to the poor
2. To establish whether the selection criteria by MSC perpetuates exclusion or inclusion of SACCOs with poor clients category
3. To establish how the requirements for getting credit include/exclude the poor
4. To find out ways put in place by SACCOs and MSC in helping the poor to benefit from micro credit services

1.5 Assumptions for determining inclusion and exclusion

- The context which surrounds the poor in society does not allow the poor to join SACCOs. For the poor to benefit from rural financial services from government they should be part of SACCO composition
- The requirements for accessing credit are not affordable to the poor. The requirements, rules and regulations for SACCOs should respond to the context of the poor to minimise high levels of exclusion of the poor
- Weak SACCOs with poor individuals could be disqualified and lose their bid to get micro credit funds for the poor. The selection criteria should focus on helping weak SACCOs and poor individuals other than profit oriented
- SACCOs are community owned, offering unique services that are pro-poor compared to other micro credit institutions

1.6 Background to the Study Area

Uganda is found in East Africa and lies across the equator with a population of 25 million people and 31% of the population live below the poverty line. Kabarole district is found in Western Part of Uganda, with many tribes that include Batooro, Bakiga, Bakonzo, Bamba and Babwisi. The major economic activities include agriculture (tea, banana, animal husbandry and trading). The district has infrastructure and investment from both public and private establishments. There are a number of NGOs operating in the district; Fort portal is the major town for the district as it hosts the municipality. Many of the residents have businesses or cultivation on a small scale. Uganda government through its poverty reduction efforts has put in place a number of policies to fight poverty that include UPE, USE, rural electrification, road construction, agricultural programs as NAADS, PMA and AAMP.

1.7 Data collection methods and tools

In this research, different methods were used to generate and triangulate information that answers different aspects of research questions. The methods included qualitative techniques that gave room for analysis and probing for answers related to a number of causation in the variables. These methods included focused group discussions, key informant interviews and observation of tools and documentation system.

1.7.1 Focussed group interviews

This method was selected and applied to clients for SACCOs, this was because all members belonged to SACCOs and all get loans and they come from the same community. Questions surrounding perceptions of SACCO members on SACCO formation, SACCO selection, requirement for accessing credit and the general implementation and how the poor are excluded were answered. This method allowed SACCO members to remind themselves on issues that affected them and built confidence while putting forward their mind. 5 FGD were held to interview 30 original SACCO members who started the SACCO. Each group was composed of 6 members and this was intended to get information from every member.

1.7.2 Key informant interviews

This method was used to generate information concerning management and implementation issues, perception on the approach in regard to reaching the poor in the community. It was also used to triangulate information got from FGD held with clients for SACCOs. These interviews were held with help of interview guides. They applied to Staff of MSC which is a managing agency for rural financial outreach in the micro credit fund for the poor, the district commercial officer, as well as the board and managers of Kagote SACCO.

1.7.3 Document review and Analysis

Observation and scrutiny of the documents for SACCOs was made on whether tools were used to assess clients' poverty status. This was because for a SACCO to be effective in reaching the poor, it should have a databank showing the baseline, client characteristics and criteria for defining the poor.

Documents were accessed regarding the operation of UCA which were important in analysis the implementation process

Analysis of SACCOs draft Act, internal SACCO rules and regulations, tracking on issues of non payment, defaulting, conditions and reasons of clients exiting and documented packages to respond to clients needs. This information was got from SACCOs, MSC and other stakeholders in addition to interviews

1.8 Data Processing and Analysis

Data processing

Answers to the questions during interviews were written in notebooks during interviews that enabled immediate probing on issues that were not clear on the interview schedule. Voice recorders were used and transcribed after the interview to ensure that information required from the interview was well documented and followed up.

Data analysis

On spot data analysis technique was employed where probing was done on the linkages of respondents answers to questions in relation to the context of the poor, analysis was made while having the major assumptions in mind to be able to determine whether the approach of channelling micro credit fund for the poor through SACCOs was effective in reaching the poor.

1.9 Limitations of the Study

This research concentrated on analysing inclusion and exclusion of the poor in the government micro credit fund. This inclusion/exclusion was measured at four levels that included SACCO formation process, selection criteria by MSC, requirements to access credit and implementation process.

Findings were based on selected case study of Kagote SACCO which had internal characteristics that vary from SACCO to SACCO which means some internal characteristics for the SACCO under study may not represent others who have other unique internal characteristics. However, this only applied to one parameter of SACCO formation, other parameters are applicable to other SACCOs since the selection criteria and requirements for accessing credit and implementation process are guided by set rules and regulations.

Other data collection related challenges like change in appointments and costs were over came by the researcher by being flexible, adjusting to respondents schedules and using personal resources to cover costs as a result of inflation in the country by the time of research.

1.10 Organization of the Research Paper

Chapter 1; Background, problem statement, relevancy of the study, the objectives of the research, study assumptions, how data was collected and documented and limitations of the research. Chapter 2; conceptualizing poverty or the poor, group formation theory, microfinance models/paradigms and the role of micro credit in poverty reduction. Chapter 3; Government micro credit fund Approach, Operation of Microfinance Support centre and the SACCO case study. Chapter 4; Presentation, Analysis and interpretation of findings. Chapter 5; Summary of major findings, conclusion and recommendations

CHAPTER 2: POVERTY, GROUP FORMATION AND MICRO CREDIT

2.0 Introduction

This chapter analyses the existing literature on different conceptualization of poverty which define clients for micro credit schemes, micro credit models and their relevancy to the improvement of the client poverty situation as well as group formation theory. Poverty approaches would give more insight on how the poverty situation addressed by micro credit is conceptualised, micro credit models would give insight on features of the scheme to assess which model had initial intention or objective for poverty reduction while group formation theory would be used to analyse the formation of SACCOs as they are examples of group based saving and credit schemes. The analysis will provide an overview on the interpretation of the effectiveness of government approach to channel micro credit fund through SACCOs in reaching the poor in Uganda

2.1 Identifying poor clients

The society is not homogeneous where the poor and the non poor live together (Nelson 2003), there are differences that exist between the upper class, middle class and the poor because the two categories in society have varying needs (ibid). For the analysis of levels of inclusion and exclusion of the poor in any program, it is important to establish the baseline and the nature of beneficiaries. Likewise, there is need to define the clients of SACCOs so as to be able to assess the nature of contribution towards poverty reduction. In this case, programs designed to benefit the poor need to identify and define the poor. Making poverty contextual is important for targeting and to avoid misidentification of the poor (Cofie 2006:23). Therefore as far as micro credit for the poor is concerned, the clients who live below the poverty line need to be targeted so that they are not excluded in the credit schemes. Given the multi dimensional nature of poverty, the poverty context surrounding clients cannot be analysed using a single approach, different approaches yield different results and they need to be taken into consideration while defining clients. This analysis enriches research findings on determining whether the poor are part of the beneficiaries in the micro credit fund channelled through SACCOS.

2.1.1 Income/Monetary Approach

Income has been used as one of the measures of poverty but it has come under intense criticism from proponents of capability, participatory and social exclusionary measures because it does not take into consideration the multidimensional nature of poverty. According to this monetary approach, Poverty has been understood here as a result of lack of income/earning that would be used to access basic necessities of life. Poverty in this case arises due to lack of employment, earning less, consuming less calories among others that would render an individual to fall below the poverty line[5]. UN standard according to UNDP reports, any one below consumption of 1 dollar a day is poor (WDR 2000/2001). In the micro finance setting, credit in SACCOS is only considered in monetary terms which make this measure remain relevant. All transactions are done in Uganda shillings. By contrast, there are no records to show peoples levels of earning and the aspect of focusing on money and income makes those who are in earning positions to be able to transact business with SACCOS.

2.1.2 Capability Approach

Sen's work on capability approach criticized monetary income as a measurement of poverty that income may not be an indicator of wellbeing and instead focused on indicators of the freedom to live a valued life. In this framework, poverty is understood as deprivation in the space of capability approach or failure to achieve certain minimal or basic capabilities (Lardechi 2003)

Lardechi argues that the capability approach provides a much wider range of the causes of poverty and possible policy alternatives for poverty alleviation than the monetary approach (Lardechi 2003: 257). However, given the difficulty nature of measuring capabilities across countries, for comparison and coming up with statistical figures, monetary measurement has been seen as a complementary approach to the capability approach. With the ideas from Sen's capability approach that saw the dominant ideology of human development, WB and IMF policies shifted the focus to freedom and rights, governance, democratization and welfare. While developing an appropriate intervention by SACCOS, different deprivations that surround the poor need to be assessed so that the poor are helped to function. However, over emphasis on credit which is only measured in monetary terms portrays a lot of loopholes in the argument that microfinance contributes to poverty reduction as well as SACCOs benefiting the poor. It is important to understand that over reliance by SACCOs on credit/loan and repayment without knowledge on the poor faced with capability deprivations creates a lot of dought on whether their intervention can address these deprivations to be able to contribute towards poverty reduction

2.1.3 Social Exclusion Approach

Exclusion is seen as "a process through which individuals or groups are wholly or partially excluded from full participation in the society in which they live" (Lardechi 2003:257).

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[5] the minimum level of income deemed necessary to achieve an adequate standard of living

According to Le Grand in Lardechi 2003,"a person is excluded if he/she is: (a) resident in society; (b) but for reasons beyond his/her control cannot participate in normal activities of citizens in society; (c) would like to do so. Others have argued that a person is excluded if conditions (a) and (b) hold, whether or not they actually desire to participate. From the analysis, it can be asserted that SACCOS perpetuate exclusion as the services only favour the middle class leaving the poor who 'badly need help' in dire need

Social exclusion[6] became dominant way of understanding poverty especially in developed industrialized countries and it is being used to describe the processes of marginalization[7] and deprivation that can rise in countries without comprehensive social welfare provisions. Each country has different ways of defining social exclusion but in general it has to relate to marginalization, deprivation that increases with the level of vulnerability of a given society. In this research, it has surfaced that exclusion applies in two way 1; the poor are excluded by their poverty context 2; the services offered by SACCOS/requirements perpetuate the exclusion of the poor as SACCOS and MSC does not to micro credit especially how the conditions of operation for SACCOs incorporate aspects surrounding excluded members of society into their policies and practices.

2.1.4 Participatory Approach

Poverty situation best conceptualized by poor people themselves other than professionals. This approach would be used to analyze how clients conceptualize micro credit as a solution to their poverty context.

From the works of Chambers (1994, 1997) that was well researched in India, Vietnam and published, a new version of understanding poverty that differed from other conventional definitions emerged. Chambers differs with what he calls professional definition of poverty in terms of deprivations with the concept of poor themselves. He says, the poor know better about their situation and can ably come up with best alternatives for their situation. Chambers work brought a new wave of thinking or ideas where people are given the opportunity to think for themselves and the tools as well as methods are considered to be empowering, they increase on self determination, efficiency of programs, enhancing learning opportunities and promoting

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[6] The alienation or disenfranchisement of certain people within a society. It is often connected to a person's social class, educational status and living standards and how these might affect their access to various opportunities. It also applies to some degree to the disabled, to minority men and women of all races, and to the elderly. Anyone who deviates in any perceived way from the norm of a population can become subject to coarse or subtle forms of social exclusion.

[7] Young (2000) defines **marginalization** as exclusion from meaningful participation in society, partly because the labour market does not or cannot accommodate them, proving to be one of the most dangerous forms of oppression. Marginalization has the ability to cause severe material deprivation, as well in its most extreme form can exterminate groups

participation that enhances empowerment, good governance and sustainability of development programs. This conceptualization also resulted to an emergence of 2000/2001 WB WDR with the title "voices of the poor" meaning that the new concept of the poor themselves defining their condition played a crucial role in the report. In this research, its clear from Chambers perspective that the poor should have a role to play but it not always the case. As they lack business skills though they have local knowledge, they find difficult to apply and utilize create and also pay interest in the saturated markets. What complicates the poor situation is that, the membership and the board is not for the poor, therefore the design of products and services only cater for the needs of the non poor. As participation is very important, the gates to SACCOS need to be open to the poor and services designed to transform members to prosperity.

Conclusion

Defining the poverty situation do matter, clearer and more transparent definitions give way for appropriate development policy. Micro credit has to acknowledge the obstacles facing the society and mainstream efforts to address them in the intervention. Individuals may not be in position to use micro credit because of structural problems, at the same time, income for those who access credit can not be sufficient to explain that they are out of poverty (Lardechi 2003). The considerable lack of overlaps between the different approaches means that targeting according to one type of poverty will involve serious targeting errors in relation to other types that would be termed as exclusion. Identification and targeting of the poor with combined methods should be more widely adopted, reflecting the concerns for a broad characterization of poverty which are currently part of the development discourse.

It is important to understand the nature of clients and cause of the intervention. Once efforts were made to avail financial services to the rural poor who were excluded by conventional banking system, it would be imperative for the process to establish who the poor people are, what characterises them and how best should credit be of help to them. The approaches of poverty give the research a broad way to analyze the level of exclusion/inclusion of the poor using different measures of poverty. Any arrangement that ignores this raises questions on the intention and motivation for SACCOS and microfinance to fight poverty especially when the poor are left out. The argument of supporting the non poor to benefit the poor has no guarantee and reinforces the capitalistic ideology that emphasises self interest would ensure benefits to a wider public (Foley 2006)

2.2 Poverty, Exclusion and Group formation

This section analyses the importance of group formation and the theory for group formation. It's important in the analysis of SACCOs because they were viewed by the government and development actors to be groups or organizations at community level with saving and credit component. It highlights the reasons behind using community groups as a strategy in poverty reduction and finally analysis is made on the linkage between group formation and the inclusion/exclusion of the poor.

2.2.1 Importance of Group Formation

A group means some people (minimum of five) who come together on a free and voluntary basis and with a spirit of co-operation expressed by mutual love and assistance, sister/brotherhood, justice and honesty; to work together for mutual social and economic benefit. In this case a group might be a women group registered with National Council of Women, District Community Development Department, a traditional credit rotation group, or an informal development group of individuals in a community.(Tuckman 1977)

According to Bartle 2008, Groups are needed (a) to organize and guide the action, (b) for promoting and encouraging savings and investment, (c) for training members in necessary skills, and (d) for channelling the finance needed for the individual micro enterprises.

SACCOs are organized at community level by community members themselves with a hope of strengthening benefits associated with groups. According to Bartle, groups have a number of benefits which in this case can also accrue to SACCOs. These benefits may include;

1. Members have access to goods and services more easily than they would have on an individual basis;
2. Group members pull together scarce resources, own and manage them themselves in order to fight against poverty, food shortage, powerlessness of an individual person against market forces, unemployment and low self esteem;
3. Groups can be learning laboratories, promoting skills such as enterprise management and problem solving;
4. Groups are useful receiving mechanisms for resources from Government and NGO development agencies;
5. The group allows more small women entrepreneurs to be reached;
6. It reduces on administrative transaction costs of lending;
7. A group reduces default through collective risk taking; and
8. Groups provide a channel for information

However, as long as there was big assumption that groups have benefits to members, they do not accrue to all groups. It was noted in the findings of this research that the group's existence was motivated to accesses loans; also benefits do not reach the poor as they were excluded.

2.2.2 Theory for Group Formation

Komives (1998) and Tuckman (1977) identified 6 stages in group formation that are relevant to process through which SACCOs are operating at community level. SACCOs are examples of groups at community level and the processes they go through are assessed using the group formation theory. Tuckman and Jensen draw on the movement known as group dynamics, which is concerned with why groups behave in particular ways. This offers various suggestions for how groups are formed and how they develop over time. The formation of some groups can be represented as a spiral; other groups form with sudden movements forward and then have periods with no change. Whatever variant of formation each group exhibits, they suggest that all groups pass through six sequential stages of development. These stages may be longer or shorter for each group, or for individual members of the group, but all groups will need to experience them. They are forming, storming, norming, performing, mourning and retiring.

2.2.2.1 Forming

This is the initial stage when the group comes together and members begin to develop their relationship with one another and learn what is expected of them. This is the stage when the team building begins and trust starts to develop. Group members will start establishing limits on acceptable behaviour through experimentation. Other members reactions will determine if a behaviour will be repeated. This is also the time when tasks of the group and the members will be decided. When a group is forming, participants can feel anxious not knowing how the group will work or what exactly will be required of them.

2.2.2.2 Storming

During this stage of group development, interpersonal conflicts arise and differences in opinions about the group and its goals will surface. If the group is unable to clearly state its purposes and goals or if it cannot agree on shared goals, the group may collapse at this point. It is important to work through the conflict and establish clear goals. It is necessary for there to be discussion so everyone feels heard and can come to an agreement on the direction the group is to move in. Storming, as the word suggests, is when things may get stormy. Conflict can emerge, individual differences are expressed and the leader's role may be challenged. The value and the feasibility of the task may also be challenged.

2.2.2.3 Norming

Once the group resolves its conflicts, it can now establish patterns of how to get its work done. Expectations of another are clearly articulated and accepted by members of the group

Formal and informal procedures are established in delegating tasks, responding to questions and in the process by which the group functions. Members of the group come to understand how the group as a whole operates.

2.2.2.4 Performing

Under this stage, issues related to roles, expectations and norms are no longer of major importance. The group is more focused on its task, working intentionally and effectively to accomplish its goals. The group will find that it can celebrate its accomplishments and members will be learning new skills and sharing roles. He again agues that after the group enters the performing stage, it is unrealistic to expect it to remain there permanently. When new members join or some people leave, there will be a new process of forming, storming and norming engaged as everyone learns about one another. External events may lead to conflicts within the group, to remain health; the groups will go through all of these processes in a continuous loop.

When conflict arises in the group, do not try to silence the conflict or to run from it. Let the conflict come out into the open so people can discuss it. If the conflict is kept under the surface, members will not be able to build trusting relationships and this could harm the group's effectiveness. If handled properly, the group will come out of the conflict with a stronger sense of cohesiveness than before.

When the group retires or adjourns, much learning happens through informal chat and feedback about the group performance. Tuckman and Jenson recognise that when groups dismantle themselves and the loose ends are all tied up, participants often go through a stage of mourning or grieving.

2.2.3 Group Formation (SACCOs) and the Inclusion/Exclusion of the Poor.

Nelson in Moore 2003 advocates for a polity based approach to politics of inclusion. He cites the complexity between the interaction of the state and public policy on the other hand the evolving capability of the groups in society to develop their own identity, organize and make political alliance (Nelson 2003).

Nelson argues that the poor and the non-poor (middle class) have different interests. That since the poor and non poor live in the same society there are situations that bring them together especially for public goods which are shared. However, she again argues, the needs of the poor always differ from the needs of the non poor and this makes the alliance to fail. In the process of group formation to start savings and credit at group level, when members in society are accommodative, the group has to undergo all stages to build trust and confidence in each other to be able to form a SACCO. With differences in society between the poor and the non-poor, the poor become prone to exclusion at the time of forming a group since they would be viewed as a liability. At the same time the processes of group formation that provide negotiation, rising of conflicts and retiring or leaving the group may disfavour the poor. When the poor are weak to negotiate and comply with the requirements that favour the non poor then the poor end up leaving the group. Joan again notes that, in the past two decades, much of the international development community has strongly favoured tightly targeted programs as the major direct approach to poverty reduction. In this research, the argument will not be on targeting the poor alone but on whether the funds meant for the poor people reach the poor. Since SACCOs are used as vehicles, its imperative to analyse the processes of group formation to assess whether the poor are part of these SACCOs and come with ways in which SACCOs formation process include or exclude the poor. When the poor are not part of the SACCO composition, micro credit funds to help the poor will not benefit the poor and this would have implication to the strategy for poverty reduction.

2.3 Micro Credit and Poverty Reduction

Under this section, discussion is around the importance of micro credit to poverty reduction. It should be noted that the poor are entitled to micro credit so as to benefit from positive elements associated with micro credit. Also not all credit is bad for the poor and what is important here is the appropriate model of micro credit that fits the circumstances that surround the poor.

Empirical evidence from Uganda shows that micro credit interventions have indeed capacity to reduce poverty, contribute to food security and change social relations for the better. 'The success of microfinance program-defined in terms of outreach, financial sustainability and/or economic socio impact-depends on an interaction between the characteristics of the program itself (both its design and the way it is managed) and the context in which the program is implemented.'(Andy 2001)

Mukuye (2004: 22) highlights the value associated with micro credit which include the following;

1. 'Micro credit can be invested in an income generating activity as working capital or it may be used in purchasing a productive asset
2. The availability of reliable and regular micro credit enables the stabilization of income for the poor, also helps in smoothening consumption expenditure. These help to protect the poor from exploitative money lenders and negative effects of debt cycle, regular incomes enables the poor to have regular access to food, health care, education and other services
3. Micro credit argued to lead to accumulation of physical assets categorized into three; assets that contribute to quality of life like radio, productive assets like fridges for earning income, household asset like livestock for in-kind saving
4. Increased income and income security
5. Reduced vulnerability and increased ability to cope with risks'

From this understanding, it's clear that micro credit can help the poor to function in the liberalized market system, reduces risks and vulnerabilities, and also be able to address some of the capability related deprivations. In this case the model of micro credit matter a lot so as to respond to poverty context surrounding poor people in rural and urban areas. As noted by Evelyn, there are two schools of thought; one dealing with business and another with development (Cofie 2006:20). The business school is profit oriented and does not consider the poor as its clients while the development school takes into consideration the conditions of the poor. In this case the credit institution that reaches the poor, "Apart from loans, it includes savings, micro finance and other financial innovations to primarily poor people who are conventionally not thought to have financial capacity to save and lack access to formal banks (Wamba, 2004). It covers a broad spectrum from traditional businesses to social service organization for whom reaching the poorest is the prime objective. With social service organizations their main aim is to alleviate poverty and to help poor people create a sustainable livelihood for themselves (Dunford 2003:151, Harper 2003:3. This helps in fashioning the kind of products they offer their clients and the approaches they use" (Cofie 2006:19).

Therefore, the research will establish whether SACCOs have features to provide services to the poor and whether the government approach of channeling credit through SACCOs is effective in reaching the poor in society.

2.4 Micro Credit Models/Paradigms

In this section, analysis is made on different models of micro credit to establish how different characteristics/features of the models relate to the poverty situation in the community. As the government intention is to fight poverty through availing financial services accessible to the poor, and SACCOs are used as vehicles then SACCOs should posses characteristics that are pro-poor. Cofie 2006 refers to Maanen 2004:53 and argues that micro credit is divided in two groups that include the sound business school and the development school. That micro credit industry consists of a wide variety of institutions ranging from Non Government Organizations (NGOs) pursuing exclusively social objective to profit maximizing institutions. She also notes that government and international donors also subsidize old style of credit delivery to small farmers groups in developing country (Rogaly 1996)

Micro credit refers to the very small loans provided to the poor who are left out from conventional banking system, to utilize these loans for various productive purposes which prevent them from exploitation of the money lenders and hence contribute a lot to "poverty alleviation by ensuring income generation and economic growth"(Yunus 2003:12)

According to M. Yunus, micro credit has a number of features that include the following; (Yunus 2003: 12-13)

> 'The core objective is to provide to the poor in order to bring them above the poverty line, The poor women are the main target group, Credit must be used in income generating activities and strictly prohibited to use in direct consumption, Collateral no more a pre-requisite to qualify for credit, Credit given to the poor who are being usually rejected by conventional banking system considering them not credit worthy, Credit is being disbursed on the basis of trust rather than any legal contracts, The borrowers are obliged to repay the loans on weekly or bi-weekly instalments, It is compulsory to participate in the group to be eligible for credit, New credit provided only when the borrowers do not have any previous due, It is mandatory to participate in savings programs, Interest rate kept closer to the current market interest rate instead of the money lenders rate, Door-step services being provided to the poor and Credit considered to be a human right'.

Yunus's views subscribe to the idea that credit can contribute to poverty reduction and the poor are entitled to it in the monetized world. His argument concurs with the argument in this research that the poor need to be part of SACCOS so as to be beneficiaries and the services need to put into consideration the context that surround the poor if credit has intentions of contributing to poverty reduction and eventual benefits to the poor.

2.4.1 Poverty Alleviation Credit Model

This is the credit model that prioritizes financial services to the poor and helping the poor come out of poverty. There are a number of agencies that have successfully realized this, a case in point is Lift Above Poverty Organization (LAPO) in Nigeria that provides microfinance and innovative social development services targeted at the poor (Brody 2005: 27) in WIIG 1997:11. LAPO uses social performance management system in targeting poverty, poverty monitoring, exit monitoring and client/staff learning system, integration of poverty monitoring into the information management system and follow-up qualitative research. The organization focussed on tracking changes in the clients' poverty status, to understand how those changes occur and to monitor the trends of impact on clients.

The method applied by LAPO targeted the poor and it was effective and this was done through use of a simple poverty assessment tool to generate data on trends of impact on clients' poverty status, data was used for further investigation through qualitative research to find explanations for the apparent impact on clients' status. In addition, LAPO used participation form to capture demographic information, poverty assessment indicators and impact information. The poverty assessment indicators were incorporated into the poverty means test that was particularly used for the selection of eligible applicants for microfinance services. The indicators were tested against the Consultative Group to Assist the Poor Poverty Assessment Tool (CGAP PAT), the degree of accuracy was 97% from the survey results

The poverty assessment tool indicators were inclusive in nature to capture the broad aspects that characterise the poor that include; steadiness of household income, regularity of daily feeding, dwelling conditions, frequency of cooking special foods and sleeping arrangements

There has been argument that poverty alleviation model is not sustainable since it targets the poor who are not innovative and can't make repayment for a loan. It should be noted that any approach that does not consider the situation of the poor, it can not claim to fight poverty. As noted from Bangladesh Rural Advancement Committee (BRAC) case, support to the poor can equally be sustainable, what is important is how to address the deprivations of the poor, the micro credit institution has to go beyond giving credit to addressing the capacity gaps for the poor so that they are able to engage in acquisition of loans like other clients for sustainability models. The poor need grant based entry points into micro finance in addition to other programs like social awareness, income generating activities, savings (Brody 2005:17) and other issues that target specific deprivations for the poor. In the BRAC approach, clients have different categories and have unique services that target the context and they keep graduating to another level as their situation improves. This approach ensures that the capacity of clients to invest, earn and save is built through a mentoring process that would result to sustainability other than focussing on investing and savings at the beginning which does not fit in the poor context.

2.4.2 Financial Sustainability Micro Credit Model

This is the character of many Micro Finance Institutions (MFIs) that are set up with a business lens; they determine their products and function by market forces of demand and supply. They define their clients in terms of capacity to repay the loan and be able to get profits that can sustain the institution to run by itself and not depending on donors. They view other services as encroaching to their profit margins and prefer to focus on credit and repayment levels.

As noted in Austrian ministry of foreign affairs, department of development cooperation report on Micro finance in Uganda by Andy, Hannes, Andrew, Walter and Elisabeth (2001)

> "Micro finance providers in Uganda reach low-income households in both rural and urban areas but not poorest of the poor. The average client is female, married, between 30 and 39 years and sufficiently literate with an average household of 7 people, many of whom are dependants. Commerce is the main activity of clients, followed by agriculture, services and manufacturing. Clients of Micro finance institutions tend to cluster around the poverty line. Most users of MFI services appear to be non poor but not wealthy: they tend to come largely from households that can usually meet their daily needs, have access to primary education and basic health services and have accumulated some assets. They tend to spend a high proportion of their earnings on basic needs such as food and education of their children. This group of clients are in a "comfort zone", they enjoy a relatively stable income source and sufficient livelihood diversification, allowing them to service regular repayments even when faced with small crises". (Andy 2001:19-20)

The proponents of the sustainability model argue that because of severe crises in society such as fire in houses and businesses, theft of business assets and chronic illness including HIV/AIDS etc the people above the poverty line may be transformed into poorest households with alarming rapidity. This is why micro finance's role in assisting in development and maintenance of robust household economic portfolios is so important for everyone who does not have access to formal financial services (Wright et al 1999a). This argument brings a debate of whether this model had a primary goal of fighting poverty; it also raises questions on the motivations for institutions to target clients that are economically performing well. The answer could lie in the clients' ability to repay regardless of whether the loans were useful to them or not. This is a clear manifestation of capitalism (the self interest to make more profits) and proponents make us believe that the poor would benefit in the long run yet there are no guarantees to this as each individual is driven by self interest of making profits and satisfying their own needs. This argument was started by Adam Smith in his book of wealth of nations who was later criticised by Foley that the private and selfish goal of every person is allegedly led to the greater good of all by an invisible hand. When the poor are left out and non poor are targeted, there should be no claims that should be made for this model to fight poverty. The model suggests that non poor are prevented from falling into poverty at later stages but is rather a narrow and misleading argument by predicting poverty to happen yet there are poor people in the community and does poverty reduction at later stages imply that this model had primary focus of fighting poverty? Whether crises occur or not, this model leaves the deserving poor in dire need in the society. SACCOs are seen as vehicles for reaching the poor, analysis is made on whether they have same features like sustainability micro credit model or they have unique features that correspond to the needs for the poor.

Conclusion

The questions regarding poverty intervention should be faced head on, "*it does not make sense to fight hunger by feeding people with plenty of food when the hungry ones are watching!",* in this way any effort to fight poverty through credit and microfinance should be given priority to those in dire need and design rigorous intervention to help. We can not argue that the poor can't use credit when on their daily transaction they need money and as Yunus said credit should be a human right. Government resources should be accessed by everyone and the poor should be enabled to operate other than been excluded. For any micro credit institution to operate effectively there has to be detailed information on the nature of its clients. Whether a poverty alleviation or financial sustainability micro finance, information on clients is important to ensure right targets are got. Any micro credit with primary objective of reaching the very poor requires information on the distribution of its loans between different categories of borrowers. Borrowers can be categorized in terms of 1) their economic status, whether credit is going to destitute or other poor groups and household characteristics like the number of earners in the household (income information is hard to get). Micro credit institutions have not used such data sets in monitoring the poor (Wiig A. 1997 11). However from many cases like Grameen Bank in Bangladesh and Lift Above Poverty Organization in Nigeria (LAPO), poverty assessment tools were used to define and select the poor as clients and different indicators were used to incorporate the multidimensional nature of poverty. (Brody 2005)

CHAPTER 3: MICRO CREDIT THROUTH SACCOs

3.0 Introduction

This chapter presents information on the approach used by government to avail credit to poor communities. It highlights the operation of Micro Finance Support Centre Ltd (MSC) and SACCOs that will be discussed in chapter four while assessing whether these institutions include or exclude the poor.
The government realized there was need to avail financial services to poor communities who were excluded by other formal banking and microfinance institutions and established the microfinance support centre ltd where micro credit funds are channelled to support SACCOs that work closely with MSC to access credit, loans and capacity building.

3.1 Microfinance Support Centre (MSC) ltd

The Microfinance Support Centre limited (MSC) is wholly owned by the government of Uganda and was incorporated in 2001 as a company limited by guarantee. MSC is charged among others with the management of the rural microfinance project(RMSP), manages a credit component of the North West Smallholder Agricultural Development Project (NSADP) and the government fund for support to Savings and Credit Cooperative Societies (SACCOS)

MSC has a vision of becoming a leading facilitator of access to sustainable financial services by all economically active poor Ugandans through providing sustainable financial services to the economically active poor in Uganda through viable Partner Organizations and build their capacity. In this case SACCOS have to undergo an assessment for eligibility to qualify as partners Organizations and be able to access the government fund to help the poor.

MSC head office is in Kampala and operates countrywide through 12 regional offices. The regional offices are found in Arua, Gulu, Hoima, Iganga, Kabale, Kabarole, Kampala, Masaka, Mbale, Mbarara, Moroto and Soroti.
The Kabarole regional office that serves the SACCO under study operates in seven districts that include Bundibugyo, Kabarole, Kamwenge, Kasese, Kyenjojo, Mityana and Mubende.

MSC specialises in credit handling for SACCOS however to be able to give credit they carryout appraisal/assessments and training for some SACCOS with urgent need. MSC only deal with the board and management of SACCOS.

3.2 SACCOs

A Savings and Credit Cooperative Society (SACCO) is a cooperative financial organization owned, used, and controlled by its members, according to democratic principles for the purpose of encouraging savings, using pooled funds to make loans to members at reasonable rates of interest, and providing related financial services to enable members to improve their economic and social condition.

A SACCO serves only its members. A person must be a member in order to save, borrow or receive other services from the SACCO.

The bye-laws of a SACCO prescribe the requirements for membership, including the field of membership, the number of shares to be subscribed to, and any membership fees to be paid.

To become a member of a SACCO, a person must belong to the field of membership set forth in the bye-laws. That field of membership must consist of a pre-existent common bond of association or community of interest among the persons who belong to it. It may include, but need not be limited to persons; 1) who have a similar occupation or profession or are employed by a common employer or within the same business district or market area; 2) who have common membership in an association or organization, including, but not limited to, religious, social, cooperative, labour, or educational groups; 3) who reside within the same defined community, rural or urban district, or political subdivision (Proposed SACCO Act 2008)

3.2.1 Kagote Savings and Credit Cooperative Society ltd

Kagote SACCO operates in four wards of West Division Fort portal municipality in Kabarole District

The group was started in 2002 as a group of 16 visionary people and registered as a cooperative savings and credit society in 2003. By the time of Registration, the group got other members to reach a total of 30 as required by government. The 30 membership group started sensitization and awareness to bring other members on board to expand on their membership and savings. By the time of research, the group had expanded to 125 members with 70 female and 55 male.

The group was formed with a goal to encourage members to save, give loans for production and improvement of business.

The SACCO has a wide range of members that include teachers, civil servants, business people and some students. The clients save and acquire loans, mostly loans used for business, school fees and purchase of assets like land. By the time of research, the SACCO had a saving portfolio of seven (7) million Uganda shillings, loans to clients of nine (9) million Uganda shillings and shares of four (4) million Uganda shillings

3.2.2 Nature of Clients for SACCOS

According to Andy 2001 in the Austrian ministry of foreign affairs report on the impact of micro finance to the poor, Micro credit providers in Uganda reach low-income households in both rural and urban areas but not the poorest of the poor. The average client is female, married between 30 and 39 years and sufficiently literate with an average household of 7 people, many of whom are dependants. It was found out in this research that female population still comprise the biggest[8] for SACCO's clients. It was also noticed that all clients have alternative source of earnings apart from 2 students who accessed a loan for their school fees but were not compelled by the compulsory savings as findings indicated they had an understanding with the board and management of the SACCO

From this research, it was found out that a significant number of clients use credit for buying land and paying school fees which does not have immediate returns to meet the daily savings and repayment. Clients tend to cluster around the poverty line that include non poor but not wealthy, they tend to come largely from households that can usually meet their needs, have access to primary education and basic health services and have accumulated some assets. They tend to spend a high proportion of their earnings on basic needs such as food and education of children. The group of clients are in the 'comfort zone', they relatively enjoy stable income source and sufficient livelihood diversification allowing them to service regular repayments even when faced with small crises, however, they remain vulnerable to shocks and access to micro finance has proven to play an important role in managing this vulnerability (AIMS 1998; MFPED 2000c; Mutesasira et al 1999; Wright et al 1999a)

Those significantly below the poverty line do not seem to join Ugandan MFIs. This Occurs for several reasons (CGAP 2000; Wright et al 1999b)

- Exclusion by the MFIs themselves due to their focus on micro entrepreneurs with sufficient repayment period
- Exclusion by groups to take responsibility for the poor in case of delinquency
- Self exclusion due to fear of taking credit
- Product exclusion where the one-size-fits-all working capital loan on offer to meet their needs
- Emphasis on credit delivery and little attention to the needs of the poorest for safe and accessible savings services

3.3 Other Players in the microfinance sector in Uganda

Microfinance is a dominant sector in Uganda where the government, NGOs and private institutions have joined hands to provide financial related services to the people. Most of the services under private organizations are deemed not to be pro-poor because of their exploitation nature by pricing high charges to their services for sustainability purposes while NGOs services are seen as pro-poor but have faced sustainability challenges as emphasis is put on grants and dependency on donations. At the same time government programs have experienced political challenges as clients view services as political rewards that affect their sustainability too. Some of the microfinance institutions include

[8] Out of 125 members, female comprise 70 members compared to 55 male

UMU, AMFIU, Pride Uganda, FINCA, UCA, formal banking institutions, and many NGOs

CHAPTER 4: PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

Introduction

This chapter presents findings, analysis and interpretation of data collected in the field. It comprises of four thematic areas that have been divided into sections where exclusion and inclusion of the poor is likely to take place. These sections include SACCO formation, selection criteria by Microfinance Support Centre, and requirements to access credit and implementation process (pro-poor packages and services).

4.1 Exclusion and Inclusion of the Poor at SACCO Formation Process

This section was selected because individuals and households in society work in isolation, for purposes of getting outside resources and starting up savings and credit, it's a requirement for community members to belong to a group (SACCO) where credit was channelled to benefit community members. But because of differences that exist between the poor and non poor in society due to vulnerability levels of the poor, different interests and needs, different lobbying capacity and power and issues of information availability, it was worth researching to find out whether the poor join SACCOs. In this research, I argued that the poor need to be part of the SACCO composition so that they are able to benefit from the micro credit funds from government channelled through Microfinance Support Centre as a government agency charged with the responsibility to manage the fund. The formation process needs to be open to every member of society and favourable to the poor individuals who live under a number of vulnerabilities. The fund has to directly help those in poverty as there was no guarantee for trickle down effect in situation where funds are given to the non poor. A number of questions were designed and answers were generated and analysis is made whether there was a link between the poor in society and their participation in the SACCO formation process. The findings are presented as below.

4.1.1 Findings related to SACCO Formation Process[9]

A number of questions were administered to generate answers regarding how SACCOs were formed, how people accessed information, what processes and conditions were put in place by SACCOs and how were they afforded by members and to assess whether a certain category of the community was left out. The research established that there are a number of conditions which members are required to fulfil like Registration fee of 10,000 Uganda shillings, Compulsory savings, buying shares at least one for every member, Stationary

[9] See details of answers to each question in appendix 1

for book keeping and documentation work. It was agreed that though SACCO Members afforded the requirements, they were not afforded by individuals who are poor and with no income

More issues were raised concerning information accessibility and availability and it was found out that the SACCO under study started with 16 members who expanded to 30 for purposes of registration and later expanded to 125 because of sensitization. Members of the group meet once a month and share information and their sensitization to get more community members was meeting challenges as the manager noted that;

> "Individuals in the community complain of the requirements not being affordable by them and many people are not aware because we can't afford to sensitize the whole community"

Given, the fact that many people were not aware and could not afford, I went on to establish the motivation for the registered members to join the SACCO. The findings show that different members had different interests that included Getting loans, Getting government money, Expand on business, the need to pay fees, the need to purchase land and Payment of hospital bills. The uniting factor here was credit that was used differently based on individual need. It was further found out that as long as each individual wanted to get credit by joining a SACCO, many people who had similar interests were left out as one member noted;

> "There are many who wanted to access credit but when it came to requirements like savings, they were not willing to put money in the group…Membership fee seemed high especially for the poor.

However, it was not only the requirement that excluded the poor but also information availability that left out those who had the capacity as it was indicated by the SACCO chairperson that;

> "We can't know others who wanted but could not join since we did not reach every one in our community"

As already noted that people were in SACCOs for credit, they became tied up and could not leave the group easily. Many argued the interest rate was not fair, The requirement of a loan equivalent to twice money saved is not fair to members with small savings and many had difficult for repayment.

The research also got responses regarding the processes of group formation that include storming, norming, performing, mourning and retiring. This was intended to establish how members accommodate each other, trust each other, and give economic and business advice to each other as one family and how they react to business failures as well as showing interest to leave the group. The major findings rotated around individual interest and the need to get money to satisfy different needs as noted by the SACCO manager that "The focus is on savings and credit and those who afford to come are welcomed". And this also meant there was assumption that clients/members had the knowledge and ability to use credit given to them as there was no special hands on skills to ensure clients effectively utilise credit and this also raises concerns on the motivation for this credit/fund to SACCOs was intended for fighting poverty…if it was true that the intention was poverty reduction then why are the poor left out? Why is the focus on repayment and why benefit clients with alternative sources of earnings when the needy poor people who need to function in the

liberalised market system lack resources and means. Answers to these questions will appear in the analysis part of this section.
It was further established that the functionality of the group was fixed to Adherence to regulation and laws that govern SACCOS, members have guarantors for loans and sometimes security to ensure the loan is recovered, but given the fact that the poor were seen as liabilities no one trusted them and they had their own social network that was outside business orientation. The manager and board for the SACCO defended the actions that

> "Collateral security and guarantors prevent defaulting and members given loans according to their savings levels. When one defaults, collateral is sold or a guarantor's savings taken but we have not had extreme cases"

It was anonymously agreed by all interviewees that there are no poor people in SACCOs as was indicated by the SACCO composition.
Source: Primary field research data[10]

4.1.2 Analysis of SACCO Formation Process Findings

Many microfinance institutions are business entities with intention of making profits, their focus is more on credit and repayment. It is important also to analyse the initial objective of micro credit scheme whether it intended to help the poor or doing business and being profit oriented. The process of identifying poor people or groups comprised of the poor who deserve support especially by micro credit programs which are not universal in nature is very key in the contribution towards poverty reduction. Defining the poor who deserve support becomes imperative in the analysis of effectiveness (Glewwe, 1990). As a major concern in this section of research, analysis would be on how poverty and the poor were defined and how micro credit would address it and whether SACCO formation process brought the poor on board

From the theory of group formation, groups function effectively when members are able to go through a process of understanding each other which is contained in the 6 stages of group formation that include forming, storming, norming, performing, mourning and retiring. Because of the pressure to fulfil requirements for registration and acquiring funds from government, SACCOs form and seek members that create tension, mistrust and failure to comply with values and procedures of the group at later stages of SACCO functionality. There was a belief that SACCOs were equally represented and open to every member of society. The findings are clear that SACCOs have specific requirements for them to be joined and the requirements are not afforded by everyone in the society. It is true, for purposes of sustainability and ownership member contribution is important but given the situation where we have many members of the society who can not afford savings on the daily basis, how does SACCO ensure that such people benefit. It should be noted that these SACCOs are getting resources to 'benefit the poor'. The question that remains is that 'are SACCOs meant for the poor', it was clearly noted by all respondents that SACCOs are not meant for the poor because of the

[10] Details of answers to different questions in appendix 1 attached

compulsory saving requirement, membership fee and stationery. The district Commercial officer Kabarole noted 'that the poor in society are lazy, have no land or asset, do not have any source of earning, money given to them has increased defaulting rates'. In addition to that, the manager for Kagote SACCO remarked that 'Such categories of people have no collateral to secure a loan and they do not have trust in group members so as to get guarantors for a loan' What makes the situation more appalling is the lack of information to every community member which makes difficult for those willing to join SACCOs to be part of SACCOs.

As noted by the district commercial officer, micro credit channelled through SACCOs is not meant for the poor and that the poor communities in society have other programs under PMA, NAADS and AAMP. These are agricultural programs that provide skills as well as improved planting materials for agriculture. His concern contradicts what Dr. Yunus of Grameen Bank said that Credit should be a human right and accessed to every one. LAPO's example in Nigeria and BRAC in Bangladesh has clear cases of credit that has been effectively used and eventually improved life for the poor. As noted in the remarks by the commercial officer, there was no guarantee that the poor people stood to benefit from other government programs. He noted the lack of information, lack of assets like land and capital for maintaining the projects. All these remain obstacles to people's participation not only in microfinance but also in other development programs including agricultural programs. Cases were noted where planting materials were taken up by district officials instead of poor people in Kyenjojo District, passion fruit planting materials drying up at the sub county headquarters in Kasese District because people lacked information and were not prepared.

What appears to be a struggle in fighting poverty has become more of 'propaganda' of helping the poor yet the poor are not part of the beneficiaries. In most of paper work every program appears to be for poverty reduction without looking at how the poor would be benefiting. The argument of the trickle down effect where the non poor benefits end up in the hands of the poor does not hold because most of the clients end up using loans/credit for paying school fees for their children, buying land and assets. Those who are engaged in business do not employ many people and in situations where employment is given, the poor are vulnerable with little bargaining power, they are paid less, subjected under hard conditions in the informal sector and prone to exploitation.

4.2 Exclusion and Inclusion of the poor by Microfinance Support Centre (MSC) selection criteria

This section presents findings and analysis of the inclusion and exclusion of the poor related to the selection criteria by MSC. It should be noted that there were many SACCOs and only few which satisfied the criteria were given credit. The research wanted to find out whether the criteria exclude SACCOs with poor clients and how the criteria ensure SACCOs with poor clients benefit since the program was intended to address the imbalance in reaching the poor by other microfinance institutions. MSC used a lot of indicators to assess

SACCOs to qualify for funds; indicators included; outreach, saving levels, level of portfolio activity and quality, level of profitability, operating efficiency and documentation satisfaction. The details of the assessment attached in appendix 2

Outreach as a criteria was measured in terms of at least 30 active loan clients, 100 members and 30% of loan going to women. Given the understanding of poverty context where individuals in society live, the outreach measurement was so narrow, it didn't consider isolated places or rural areas that were marginalized by other micro credit institutions which were criticised as urban based, it did not reflect income levels of clients to ascertain how credit would reach the poor in the society and by implications, any SACCO with no poor individuals but having 30 active loan clients, with 100 shareholders and with a composition of 30% female passes the threshold of outreach, this was a clear indication that poor clients were not in their initial plans.

Saving as a requirement appears good for any institution that deals with credit. In fact, MSC and SACCOS contends that savings helped to tell a client who was serious and it indicated a possibility of quick recovery of a loan. Savings were also used as security to the client loan. As a condition, a client was not supposed to acquire a loan which was more than twice of the amount of savings. This appears a good strategy for sustainability and guaranteeing repayment but was it in the interest of the poor. As seen in understanding of the poor as not affording two meals a day, having no assets, land and no source of income…where does the compulsory savings come from? SACCOS, MSC and the government did not look at a strategy of building strength and capacity of individuals to earn and be able to secure savings on either weekly or monthly basis. In comparison to other credit institutions for the poor in Bangladesh, there are different programs/packages for different client levels, the poor were first given grants, skills and were mentored to reach the phase of savings to be able to start meaningful savings and acquiring loans for interests. The compulsory saving ideology by SACCOS and MSC favours those already capable to save and those ones seeking to earn and save were left out.

The loan portfolio activity as noted in the table of findings doesn't look at the performance of the enterprise as well as the performance of the loan itself. The focus is given to SACCOS as credit institution and assessment to the performance of loan, the loan financed by voluntary savings and the loan in the hands of women. This implies, by criteria conclusion would be made that the loan is performing well without looking at where the loan was spent, who took the loan and how best should suit the process of reducing poverty by improving the skills and availing loans to those who badly need it

Profitability for SACCOs is measured in terms of operating self sufficiency and financial self sufficiency which is achieved through sustained repayments for the loans. The profitability levels assessment concentrate of the SACCOS, it does not look at profitability of enterprises for clients. It is a common culture for clients to go for borrowing either in other financial institutions or from money lenders to be able to pay. As noted that the poor lack skills and capacity, in any case if they were to benefit from this fund, the situation would deeply exacerbate because no efforts to look at how clients can select profitable enterprises and how to sustain the enterprises and profit levels.

Operating efficiency for SACCOs is measured in terms of operation expenses between 25-30% and an increasing average of outstanding loans. This adds to what has already been noted where the focus was given to the performance of SACCOs and not their clients. By implication, strong SACCOS with minimum operating expense and with high average outstanding loans stand to benefit while the weak SACCOS that comprise the poor in society with saving difficulties and clients who take small loans would not compete favourably. Eventually, only strong SACCOs that are comprised of the non poor would access the fund while the weak ones miss out.

The documentation requirement is necessary for any serious institution but its relevancy in the fight against poverty is questionable. MSC observed that the requirement for registration which is always done by registrar of cooperatives in the city is costly, the formalization of the constitution and other paper work provided in the rules and regulations favour SACCOS with strong clients and enough resources. This criteria leaves out grass root SACCOS as most of them do not meet the requirement. Though it is a necessary difficult condition, there was no mechanism to help groups go through this process. It is very clear that poor individuals in society are found in these un registered and weak SACCOS yet the system of assessment does not favour them. Even though, no clear strategy to mentor them so that efforts of working and helping the poor are reinforced.

4.3 Exclusion and inclusion of the poor by Requirements to access and use of credit

This section presents findings and analysis of the inclusion and exclusion of the poor related to requirements for accessing and using credit. It takes two perspectives, one being SACCO as borrowers from MSC and the second being SACCO members as borrowers from SACCOs. The requirements can either be favourable to the poor or they could be so high to the extent that the poor can not afford. When SACCOs acquire loans from MSC, it does not become a guarantee that all its members would get credit, there was also a criteria/requirements which members needed to fulfil to be able to access credit which included; One has to be a member of a SACCO; Paid membership/registration fee of 10,000 Uganda shillings, bought at least one share and stationery; Compulsory savings from members on either weekly or monthly basis. When applying for a loan the savings should be 50% of the requested amount and a guarantor who has to be a SACCO member. The details of the requirements for accessing credit are attached on appendix 3 of this research

The requirements set by MSC to the group as well as the group to the members are very vital. Issues that surround amount of money to borrow, rules and regulations, repayment, security for a loan, interest rate can exclude the poor. The argument here is that when the poor afford to join SACCOs, its not always a guarantee that they would get credit/loans because of the possibility of failure to access and use credit due to high standards set by MSC and the SACCO itself. Analysis of the requirements in regard to the context of member's composition and the poor would give insight to assess on whether the micro credit for the poor is really affordable by the poor

There are differences in situation as noted from the findings, there are many SACCOs which did not access credit because they were weak and couldn't fulfil the requirements. At the same time, within a SACCO itself there were many individuals who did not access credit/loan. By implication, there are always two scenarios one; a SACCO without credit from MSC and two; being a member of a SACCO without credit.

The SACCOS that were able to register and fulfil the documentation requirement faced a difficulty of fulfilling the audit requirement and a loan portfolio. The process of acquiring funds from MSC appears to be along journey full of hurdles for many SACCOS. As noted by MSC, the process of auditing accounts of SACCOS in rural areas is unusual with few existing audit firms and audit costs are very high for SACCOS. MSC staff noted that, "the district commercial officer is charged with the role of auditing these SACCOS but the officer is incompetent and does not do his work as expected…that is why there are many SACCOS whose accounts are not audited and without verified accounts performance there is no way money can be given" Petronilla added. It did not take much for the district commercial officer to admit the fact that his office had not helped SACCOs as expected by remarking that "I cant deny that we are not doing work effectively but it is not of our own making, Districts are in bad shape, no funds, no transportation facilitation, how would I move to visit the entire district without facilitation*"* John noted.
From this, it is clear that the scenarios that make SACCOS vulnerable are many and they form part of government bureaucracy. It was not surprising to the researcher having known the nature of commitment and zeal by the government institutions to fight poverty. The process makes it impossible for a poor man and woman in the village who is part of a weak SACCO to access government funds. It is only few SACCOs that can afford registration, afford maximum liability requirement, maintain a substantial number of shareholders, have a loan portfolio that fits the standard and be able to meet the audit fees at market rate.

Standards are not set to SACCOS themselves but also SACCOS set standards to members. It is not a guarantee that every member of the SACCO gets a loan/credit. This member has to have a substantial savings, has paid membership and subscription fees. As noted earlier in the formation process, poor individuals find it difficult to meet the compulsory saving requirement and those who save less get less amount of credit which cannot help in any substantial investment.
It should be noted for instance the SACCO under study went through a process of getting members for purposes of fulfilling the requirement of the minimum number of 30 members for registration. Eventually, SACCO values of

understanding one another building trust, engage in different group activities were foregone. It made it difficult for some member to get guarantors for a loan because of their strangeness; everyone was getting a loan for him/herself for a purpose that had nothing else to do with the group. The entire focus for members was to apply for a loan, get a loan and pay back. This made individuals in the group with fewer networks to other members be left at the periphery and by implications, collateral security and amount saved would be the one to enable them access credit. When it comes to the 'poor' individuals, matters are made worse since they have no assets for collateral and don't have enough savings. This confirms the argument of the district commercial officer Kabarole that Money given to SACCOS is not meant for the poor as they lack assets and capacity to utilise it and money is meant to support those who have already made progress to reinforce on their efforts. He even said "not every body can get rich" which reinforces the statusquo and thinking that poor will remain poor and this is reflected in the actions, policies and programs that do not directly target the poor people themselves. This raises a concern for this thinking in this research that when such programs intended to transform the lives of the poor are conceived as programs not fit for the poor then who caters for the poor? It should be recalled that exclusion doesn't only occur in micro credit programs but all other programs for the government and non government organizations that are not universal in nature.

4.4 Exclusion and Inclusion of the poor in the Implementation process

This section discusses the major findings regarding the inclusion exclusion of the poor in the implementation process, it tries to look at the design of the micro credit fund program, how it reaches it's targets, the types of products, how products fit in the poor context. The findings try to answer the question of whether the implementation process puts the client interest first or the interest of the SACCO. In answering these issues, major parameters that directly affect credit performance were given focus which included repayment period, interest rates, capacity building for members, profitability of client enterprises, and penalty for defaulting clients and risk coverage.
A lot of discoveries were made during the research; some were pro poor while others were marginalizing the poor. In spite of the fact that some favoured the poor, given the fact that the poor were not favoured by conditions to join SACCOs, such incentives ended up benefiting the non poor.

Repayment; The repayment period is one of the factors that determine the time from which a loan is received to the time a loan is supposed to be paid back. From the findings MSC has a favourable repayment period of 1-4 years for any SACCO that gets a loan compared to other micro finance institutions which require repayment within a period of less than two years. This period allows SACCOs to invest and be able to adjust their investments in case of uncertainty to the business. The SACCOs are also given a grace period of six months and this is the period that allows them to respond to their repayment obligation after the expiry period. However, as much as this repayment is appealing and favourable to SACCOs it doesn't translate itself to members of

SACCOs. It was noted SACCOs expect repayment from members within a period of six months. According to the management, this period was agreed upon by SACCO members and this could be partly attributed to the fact that the memberships of the SACCO don't include the poor as defined by members. On the other hand, SACCO members are required to repay the loan within 6 months. Given the circumstances that surround the poor, this period is short and scares the poor from any productive investment that takes long to bring returns and given the fact that the poor engage in small businesses most of which are agricultural based and vulnerable to uncertainties.

Interest Rates; the rates range between 9-13% per year and are more appealing and favourable to SACCOs compared to microcredit institutions that charge interests ranging between 20-30 p.a. The interest rates charged by MSC allow SACCOS to make profits but are not exploitative. However, the low rates do not translate themselves to members as 2% is charged monthly on the loan borrowed by members from SACCOS and this makes 24% interest p.a. and which make SACCO charge members like other micro credit institutions. At the same time, MSC charge interest on a reducing balance which doesn't happen to clients of SACCOS.

Capacity Building; MSC does capacity building to the board and management of SACCOS on the basics and urgent capacity needs like book keeping, monitoring among others. MSC major jurisdiction is on credit assessment, managing loans and training on some identified capacity gaps but the entire role for capacity building is under Uganda Cooperatives Association (UCA) and Uganda Cooperative Saving and Credit Union (UCSCU)-*Manager MSC Fort Portal.* However, from interaction with SACCO members and managers it was established that non of the said institutions had ever visited the SACCO members for training purposes. It was also admitted by MSC that the interaction is only limited to managers and board of SACCOs which accountable for the funds borrowed. This finding is also linked to the argument of SACCO management that they have an assumption that members know what to do, they concentration is on giving credit, increasing on membership and members being able to pay. Given such background and findings, the so called poor have limited information, rarely engage in income generating activities, not aware of the market dynamics and find it difficult to select a viable/feasible enterprise. The arrangement that does not cater for basic skills for SACCO clients on enterprise selection, management and to be able to sustain the enterprise for improving personal/household income scares away the likely poor members. Secondly, in the current setup of SACCO composition, any capacity building strategy would be good but would not benefit the poor who are already not members to SACCOS that have benefited from the government funds.

Penalty; Penalizing credit defaulters couldn't be something that can easily be noticed especially when the internal system was designed to recover money from the likely defaulters. Compulsory savings, guarantor's savings as well as some collateral security ensure that when one fails to pay, the system is able to recover the loan through selling the property, deducting from guarantors' savings and using client's personal savings. The major concern with this arrangement lies with the intention of the SACCO itself, it should be noted that the actions could easily increase the vulnerability of the borrowers and guarantors especially given the nature of risks for small business and agricultural activities. The SACCO does not go further to investigate why clients fail to pay loans but concentrate on recovering loans and interest which is only in the interest of the SACCO as an institution but not individual client borrowers.

Deprivations; From the findings as already analysed in the previous sections, the programs and packages for SACCOS to serve its clients do not target the vulnerable poor individuals in society. As noted by respondents and managers, the services entirely concentrate on credit and repayment. As a business entity, the SACCO has initial focus on expansion, making profits and sustains itself. According to the strategic plan, the SACCO intends to have a number of future programs that would target different client categories that would include the poor. The SACCO has a mission of empowering the community with sustainable financial services through financial facilitation for enterprises development for economically active poor engaged in wealth creation. However, the term became vague to define those who were poor and active, it turned out that the economically active poor are seen as well off according to society standards, and in comparison with those who are not in SACCOS and given the requirements for joining SACCOS and accessing credit that could be afforded by individuals who are not poor.

Profitability; The concern for profitability concentrates at SACCO level while the clients' enterprise profitability is not a major concern. SACCOS get loans from MSC at a relatively low interest rate and charge high interest rate to members. At the same time, the repayment period for SACCOS is longer than the repayment period of members to SACCOS. This means, all efforts benefit SACCOS as institutions not poor individuals as SACCO members. SACCOS have been battling with management and sustainability concerns and resources intended to help the poor individuals may end up helping SACCOS as institutions and the benefits to SACCOS do not translate themselves to clients.

Risks Coverage; Risks that affect businesses as well as agricultural activities where loans are invested have had a direct relationship with defaulting levels. However, there has been no special strategy to counter the risks which perpetuate client vulnerabilities. From MSC perspective, SACCOS are given longer repayment periods and the grace period so that they are able to adjust in situations of risks. It should be noted this strategy was put in place to favour loan recovery. Long repayment period do not help SACCO members and it does not help them in cases of risks that befall their business. What does this have to do with livelihood changes and poverty levels, benefits to institutions do not help clients, clients are expected to pay and less attention is given on the source of repayment. Many clients resort to borrowing from money lenders or seeking loans from other micro credit institutions which puts clients into credit trap which is another form of risk to clients.

CHAPTER 5: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Conclusions

This chapter shall cover conclusions made from this research based on the research objectives, research questions and analysis of the findings. It shall also suggest recommendations based on literature, researcher's experience and research field practical cases where credit worked for the poor communities.

The context of poverty where poor are living does not allow the poor to join SACCOs. Poverty statistics always bring a category of people who fall below the poverty line and these same people are excluded from benefiting because poor people lack information, lack business skills, credit from money lenders used for consumption as their immediate need, do not actively participate and they are excluded by the social networks in the community. The poor are rarely friendly to the non-poor which make it difficult to invite them to join SACCOS because they are viewed as liabilities to the group. They have no assets and sustainable income which can guarantee repayment when the enterprise does not generate profits and it becomes difficult for the poor to get guarantors at SACCO level.

The requirements for accessing credit are not affordable to the poor. As much as the requirements have good intentions, the poor find it difficult to move on with them. Compulsory savings notion that is done either on weekly or monthly level appear as a 'night mare' for the poor. These are people who have no source of income and they are faced with the immediate need of satisfying household demands like consumption, health and education. No effort made to first make the poor generate income so that they are able to afford compulsory savings. In addition to compulsory savings, one has to be a member by subscribing and paying membership fee as well as stationery which are all good for ownership and sustainability but not compelling to individuals with less resources, they find it difficult to become members and as a result they don't benefit from government funds channelled through SACCOS.

Weak SACCOs with poor members could be disqualified and lose their bid to get micro credit funds for the poor. There are many SACCOS in Uganda and all of them could not qualify for funds. The politicians and government urged community members to form SACCOS and as a result many organizations are not registered according to Cooperative rules and regulation, have few shareholders, cannot afford hiring audit firms, have no clear management and weak documents system. The MSC assesses applications from SACCOS and only those which meet the requirements are selected, by implication, strong SACCOS that are composed of the non poor with business skills, self motivated members, with capital and other sources of income, able to meet registration and audit requirements are selected and the weak ones with poor members are left out.

SACCOs are community owned compared to other micro credit institutions however the services they offer are not pro-poor. The issue of community owned is not rejected however it is subjective. It is true every SACCO is found in the community with membership of community members who pay subscription, save and get loans. The only concern that is contested is the extent of community ownership, as seen from the case study, members do not include every one in the community and there are traits that bring together members of a given SACCO. In this case both the strong SACCOS that have benefitted from government funds and the weak ones surviving on their own claim to be community owned. From the findings, it can be argued that SACCOS are member owned not community owned because each SACCO serves the interest of members not the interest of the community and this is reflected to away how the poor individuals can not afford the requirements of join certain SACCOS.

SACCOS do not differ much from other microfinance institutions in terms of credit management. They charge interest to member's equivalent to 2% per month, give a repayment period of 6 months and in some cases require collateral securities. The difference emerges on the management where the board and management comes from members and set their own decisions as a group. Members are able to guarantee loans for each other and the group is able to meet on monthly basis to deliberate on issues that affect the SACCO unlike other microfinance institutions where every decision comes from the top and clients get loans and payback after fulfilling the loan requirement like able to pay and offering a collateral security.

5.2 Recommendations and the future of credit for the Poor

Credit schemes have helped individuals to improve on their incomes yet others have worsened or made people to fall into poverty because they focus on exploiting their clients in the name of sustainability. It has been realised from the findings that conditions are ripe that justify poor exclusion from the government fund. This fund was established with intentions of fighting poverty, accessing financial services to the poor and rural communities as well as using a mechanism that does not exploit the clients like other microfinance institutions. From the findings, it was observed that little difference exist between SACCOS and other credit institutions. The strategy may not have a direct impact on helping the poor if the poor do not directly benefit, it has been argued that the poor do not necessarily need to benefit from this program that credit is meant for those who are already established and that the poor individuals have been catered for in other income generating programs that relate with agriculture. It should be noted that the exclusion of the poor do not only happen in micro credit programs, the poor are as well excluded in other income generating activities. It was found out that the educated and people working in offices access information first than the poor, have power than the poor, create network and relationship with program managements than the poor, have income to sustain and make eligible proposals than the poor and eventually they are able to defeat arrangement for targeting the poor because same programs attract the non poor. With corruption tendencies, lobbying and manipulation, the poor have found themselves out of reach, lacking information and always in the position of begging, their skills very low and always accused of incapable to run a program. From this background, this research makes the following recommendations

The selection criteria should focus on helping weak SACCOs and poor individuals other than profit oriented. Support to weak SACCOS would ensure the poor in those SACCOS benefit and this would greatly have a direct relationship on the livelihood improvement for the poor. The support should not necessarily be limited to finance but cut across to mentoring mechanisms like business skills, giving of start up grants, information availability and capacity building in different areas that would help individuals face the challenges of market saturation, start up capital, be innovative and creative and be able to participate in the liberalised market forces of demand and supply.

The requirements, rules and regulations for SACCOs should respond to the context of the poor to minimise high levels of exclusion of the poor. As noted from managers and members of SACCOS, there is need for consideration of the poor context and adjust on the requirements like audit, shareholders, registration and compulsory savings. alternatively, efforts need to be put in place to facilitate a process where SACCOS are able to meet the requirements without being constrained like availing facilitation to the district commercial officer or working with audit firms that would carry out the auditing function without burdening SACCOS, localizing registration and assigning field staff that would continue to work with SACCOS to meet the official documentation requirement. This has to be done in the spirit of patriotism and the need to reach the poor, help the poor and contribute towards poverty reduction.

For the poor to benefit from rural financial services from government they should be part of SACCO composition. This means the government fund should get into the hands of the poor since there was no guarantee for trickle down because SACCO members invest in small businesses, purchase fixed assets and pay school fees…all this does not ensure that the poor in society will have some indirect benefits. The existing strong SACCOS should expand their membership to include people with weak capacity and design special programs to orient and mentor them into business skills that would enable them to be innovative, invest, earn income and ensure sustainability of their future savings. The weak SACCOS need to be targeted specifically by MSC in terms of the programs, funding, monitoring, on spot support to boost the mentoring process that would see them grow to a level that match other existing strong SACCOS.

Broad strategy to encompass other issues that make poor more vulnerable. As noted earlier, poverty is relative and multi dimensional and it was observed that groups are a big asset to society in the fight against poverty. It makes sharing of information, working together, joint lobby and advocacy, easy mobilization during community development meetings and forms background for a strong force to influence policy changes. SACCOS as community groups comprise of different categories of people and therefore efforts need to be in place to use micro credit as entry point then encompass other development issues like education, agriculture, health and sanitation and good governance.

Lastly, there has to be a distinction on the role of micro finance institutions in poverty reduction. Those that work on their own sustainability should never claim to contribute to poverty reduction when their products are exploitative and not concerned about the performance of their clients. Given the fact that poverty alleviation financial paradigms have been criticised for being unsustainable, there has to strong government regulation and support in terms of policy and resources to enable institutions like SACCO start working with the poor and progressively move towards sustainability of both the clients and institutions.

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Appendices

Appendix A: Detailed research findings tables

Appendix A1: Responses to Questions related to SACCO Formation and inclusion/exclusion of the poor

No.	**Question**	**Generated answers**
1.	What are the requirements for joining SACCOs? Are they affordable to every member	• Registration fee of 10,000 Uganda shillings • Compulsory savings • Buying shares at least one for every member • Stationery for book keeping and documentation work • Members afforded the requirements but they are not afforded by individuals who are poor and have no income
2.	Is information available to every community member?	• Members of the group meet once a month and share information • With the need to expand, 30 members are sensitizing the community to join • The group only expanded to 125 members • "*Individuals in the community complain of the requirements not being affordable by them and many people are not aware because we cant afford to sensitize the whole community*"
3.	How did members learn about forming a group?	• 16 people came together and came up with an idea of saving and credit, that time it was called 'merry go round' meaning save and give credit that rotates to every member • 16 people invited others to reach a minimum number of 30 required for registration. The 30 members sensitized others in the community and the group expanded to 125 members
4.	What was the motivation for members to join the SACCO?	• Get loans • Get government money • Expand on business • The need to pay fees • The need to purchase land • Payment of hospital bills
5.	Are there individuals in the villages who wanted but couldn't join? If yes why	• There are many who wanted to access credit but when it came to requirements like savings, they were not willing to put money in the group • Membership fee seemed high especially for the poor • "*We cant know others who wanted but could not join since we did not reach every one in our community*"
6.	Are there individuals presently in SACCO who would feel to leave? If yes why?	• We want to but its hard • The interest rate is not fair • The requirement of a loan equivalent to twice money saved is not fair to members with small savings • Get loans from others who want repayment so fast • Making a loss and failing to pay the loan
7.	Storming. How members identify each	• Identification of members Already dis-

	other, how they understand and accommodate each other given the economic, social and political differences in society	cussed on formation • Members don't bother about each others economic activity • The management only monitors for loan recovery • "*The focus is on savings and credit and those who afford to come are welcomed*"
8.	Norming. What values for SACCOs, what are expectations of members, what is the treatment of those who don't abide?	• Adherence to regulation and laws that govern SACCOS, members have guarantors for loans and sometimes security to ensure the loan is recovered • "*Collateral security and guarantors prevent defaulting and members given loans according to their savings levels. When one defaults, a collateral is sold or a guarantors savings taken but we have not had extreme cases"*
9.	Performing. How members execute their tasks, how business for every member performs	• Everyone minds about his/her business and how to pay back
10.	Mourning. How members are affected by SACCO services. Who are affected most Retiring. How members leave the group, why they leave and who are they	• Those who get loans and buy land and paying fees do not have returns to daily payment. So they use other incomes to pay. • Those who suffer loses get their own means of payment, it doesn't affect the SACCO • The SACCO still small and members not very active, we are concentrating on savings and loans, in future we shall consider other programs • Those who leave the group do not say it, we notice it from abscondment from meetings and non savings for long
11.	How the poor are defined	• Household/Someone not affording lunch and supper (two meals a day) • Having no source of income • Not educated • Lacking assets as land
12.	Presence of the poor in the SACCO	• The poor exist in the community but are not part of the SACCO because of the saving requirement and other requirements • Majority of members are female, acquired at least primary education, with income generating activity • Members come from the same division in the municipality • Members composed of working individuals getting salaries and business men and women • The needy people in the community cannot afford the SACCO requirements
13.	Composition	• 30 0riginal registered members • 95 expanded members • Total 125 members (70 female, 55 male)

Source: Primary field research data

Appendix A2: Findings on MSC selection criteria

Indicators	Means of measurement	Benchmark
Outreach	Number of active loan clients	At least 30
	Number of members/shareholders	At least 100
	Number of women loan clients	Over 30%
Savings	Value of voluntary savings	Ushs1,000,0000
	Value of compulsory savings	

	Number of savers	100
Portfolio Activity	Value of gross loan portfolio	Ushs 1,000,000
	% of loan portfolio financed by voluntary savings	50%
	Value of outstanding loans of female clients	Over 30%
Portfolio Quality	Risk coverage ratio	>100%
	Portfolio at risk > 30 days	Not >20%
	Portfolio yield	Income to effective interest rate
	Effective repayment rate	80%+
Profitability	Operating self sufficiency	Over 100%+rate of inflation
	Financial self sufficiency	100%
Operating efficiency	Operation expense ratio %	25-30%
	Average loan portfolio out-standing	Increasing
Documentation	Minimum of two years running microfinance business with evidence of satisfactory performance A certificate of incorporation/ registration A certified copy of memorandum and articles of association, by-laws, trust deeds or any other documents containing the organizations constitution Certified copy of annual returns filed with the registrar of companies or department for cooperatives	

Appendix A3: Findings to requirements for accessing and using credit

Question	Generated answers
What are the requirements for accessing credit from MSC by SACCOS	• Minimum of two years running microfinance business with evidence of satisfactory performance • A certificate of incorporation/ registration • A certified copy of memorandum and articles of association, bylaws, trust deeds or any other documents containing the organizations constitution • Certified copy of annual returns filed with the registrar of companies or department for cooperatives • At least 100 shareholders/members and 100 savers • Share capital of Shs 5 million • A loan portfolio of at least Shs. 5 million • Audited financial statements for the previous years by registered audit firm/district commercial officer • Elected executive committee with separate powers from management • At least 2 trainable staff • Physically identifiable office • A business plan/strategic plan • A copy of an approved maximum liability
What are the requirements for accessing credit from a SACCO by members	• One has to be a member of a SACCO • Paid membership/registration fee of 10,000 Uganda shillings, bought at least one share and stationery • Compulsory savings from members on either weekly or monthly basis. When applying for a loan the savings should be 50% of the requested amount and a guarantor who has to be a SACCO member

Source: Primary field research data

Appendix A4: Responses to management and implementation of the fund channelled through SACCOS

No.	Parameter	Findings

	Repayment period	• MSC gives loan to SACCO for a repayment period of 1-4 years • SACCOS give loans to members for a period of 6 months • MSC give SACCOS a grace period of 3 moths to 1 year depending on the negotiations
	Interest rate levels	• MSC charges interest rate from 9% per year • SACCOS charge interest of 2% per month on members
	Capacity building for members	• MSC only trains in identified needs that are urgent • MSC specializes in credit giving and management, capacity building by Uganda Cooperative Alliance • SACCOS do not bother about members skills, they only focus on savings, shares and loan recovery
	Level of profitability of enterprise	• No follow up on individual businesses, assumption is made that members know what they want as long as they pay back the loan
	Consideration of different community deprivations	• Only those SACCOS that fulfil the standards and requirements are given loans • SACCOS work with individuals who have fully registered and fulfilled the requirements • Weak SACCOS are given start up loans by MSC which small in size • Focus only on the ability to save, get a loan and pay back
	Penalty for default	• Use of savings to pay the loan got from a SACCO • Use of a guarantors deposit and sometimes collateral for members as agreed which could be sold in case of failure to pay • MSC require acknowledgement from SACCO board which is held accountable for the loan • Post dated cheques are made to MSC to ensure the SACCO doesn't default • No serious offences committed as far as defaulting is concerning
	Risks coverage	• No special program to cover the risks • The repayment period for SACCOs is long to enable them adjust • There is a grace period of 6 months which would enable them pay

Source: Primary field research data

Appendix B: Research tools (Interview guides)

Appendix B1: Interview schedule with Kagote SACCO Members

Assessing the functioning of SACCOs in relation to 6 stages of group formation

1. Forming.
   How members of SACCOs joined the group
   - What are the requirements for joining SACCOs? Are they affordable to every member
   - Is information available to every community member?
   - How did members learn about forming a group?
   - What was the motivation for members to join the SACCO?
   - Are there individuals in the villages who wanted but couldn't join? If yes why
   - Are there individuals presently in SACCO who would feel to leave? If yes why?

2. Storming. How members identify each other, how they understand and accommodate each other given the economic, social and political differences in society
3. Norming. What values for SACCOs, what are expectations of members, what is the treatment of those who don't abide?
4. Performing. How members execute their tasks, how business for every member performs
5. Mourning. How members are affected by SACCO services. Who are affected most
6. Retiring. How members leave the group, why they leave and who are they

Defining Clients for SACCOs

- How do you define the very poor, poor, average, rich and very rich people in your community? (Use poverty diamond and resource map) rank in estimation the number of households under each category
- How many people in your community according to your definition fall under the category of very poor and poor?
- Using the community resource map, could you identify the distribution of poor households in your community
- Do you have categories of the poor in SACCO composition at present? If yes, how has SACCO helped them? If no, were those poor categories part of SACCO at the time of formation
- What is the composition of SACCOs in terms of;

1) Gender status

2) Education
3) House hold size
4) Income (assets, income generating activity)
5) Age distribution
6) area distribution in terms of parish and village representation
7) the position of SACCO members at community level
8) are SACCO members well off than other members of the community or not
    - Does the requirement of belonging to the SACCO exclude the category of needy people in the community?

Requirements for accessing credit

What are the requirements for getting credit from SACCO?

1) Savings for a certain period
2) SACCO member
3) Collateral
4) Repayment
5) Time spent in the SACCO
6) Other…………

In case of

- Are the requirements affordable by every member?, affordable but very high?, or affordable but very low
- Who decides on the nature of requirements
- Did the requirement leave out members who could not afford?

How did requirement affect functioning of individuals?

Appendix B2: Interview schedule with MSC staff

Selection Criteria

1. a) Do you have a selection criterion for A SACCO to qualify for the money?

b) What are the objectives for the criteria

c) What are the key indicators for criteria used to select a SACCO to receive money?

d) In your view, does the criterion ensure that the poor are part of the beneficiaries?

e) how does the criteria ensure this

a)Do you ensure that SACCOs composition has a proportion of the poor

b1)If yes, How do you ensure this

b2) Since the poor have different vulnerabilities, what special consideration do you give them to ensure that fund helps them improve their condition (mentoring,

c)If no, how do you think the poor would benefit from this fund if they don't form part of SACCOs members

d) How would you measure the contribution of the fund to words helping the poor

e) In your view, if the fund doesn't benefit the poor directly in SACCOs, would it help the poor and contribute towards poverty reduction, how would this happen?

How does MSC ensure that the following parameters are designed in SACCOs and their clients' interests? Analysis in relation to the poor

1. Repayment periods
2. Interest rate levels
3. Capacity building for members
4. Level of profitability of enterprise
5. Consideration of different community deprivations
6. Penalty for default
7. Risks coverage

Appendix B3: Interview schedule with SACCO Management (Board)

1. a) What were the initial objectives of the SACCO?

b) Were the objectives related to helping clients improve on their condition or make profits for the group or both?

c) How are the objectives being achieved?

Defining Clients

2. a) How did u determine your clients?

b) Was there initial assessment to establish client status?

c) If no, how will you determine that you are making progress as per your objectives?

d) If yes, what criteria did you use to assess clients and what category of clients were you looking for

e) Does your SACCO have poor members from the community?

f) what are the major characteristics of your clients

Services

3. a)What products/programs does SACCO have

b) Do your programmes and packages help the poor make an improvement?

Requirements to access credit

4. a) What are the rules/requirements for getting credit by clients?

b) Who decided on these rules and regulations?

c) Are they fixed or flexible, are there adjustments always made to reflects clients ideas and situation

d) Are the rules favourable to every client?

e) In case of breaking rules, how does the SACCO enforce the observance of rules and regulation?

Helping the poor

5. a) Does every member qualify for credit? If not why

b) Apart from giving credit, how do you ensure that credit is used by clients appropriately?

6. Given the many problems that surround the poor, how do you help the poor become self sustainable

How does the SACCO ensure the following parameters are designed in the clients' interests? Analysis in relation to the poor

8. Repayment periods.
9. Interest rate levels
10. Capacity building for members
11. Level of profitability of enterprise
12. Consideration of different community deprivations
13. Penalty for default
14. Risks coverage