

**THE ROLE OF THE INFORMAL SECTOR ON PEOPLE'S SAVINGS
IN UGANDA CASE STUDY OF MAKINDYE DIVISION,
KAMPALA DISTRICT**

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**A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF
ECONOMICS AND MANAGEMENT IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR
THE AWARD OF A BACHELOR OF ARTS IN
ECONOMICS OF KAMPALA
INTERNATIONAL
UNIVERSITY**

JUNE 2015

DECLARATION:

I Tumuhairwe Daniel declare that this is my original work and the best of my knowledge. It has never been presented to any institution for any academic reward.

Signed:.....



TUMUHAIRE DANIEL

Date:.....

26/06/2015

APPROVAL

This research report has been under my supervision as the university supervisor.

Signed: Muhereza Franklin

MR. MUHEREZA FRANKLIN

Supervisor

Date: 26/06/2015

DEDICATION

I dedicate this piece of work to all my family, my friends, my lecturers and all teachers at all levels plus my sponsors who have supported me financially to where I am. All of them have contributed to me in such a special way that I wouldn't make it without them.

ACKNOWLEDGEMENT

I acknowledge the efforts of my supervisor Mr. Muhereza Franklin for his tireless efforts in form of guidance, advice and encouragement that has enabled me produce this piece of work. I also recognize the efforts of my research lecturer Ms. Nakawungu Faridah who has imparted knowledge in me to enable me produce this work. I also acknowledge fellow students who have given me comfort and morale when am doing the work. I also acknowledge my relatives and benefactors for their financial support over the course. God bless you all.

LIST OF ACRONYMS

BoU	- Bank of Uganda
UBOS	- Uganda Bureau of Statistics
GDP	- Gross Domestic Product
VSLA	- Village Savings and Loan Association
SACCO	- Savings and Credit Cooperative
ILO	- International Labour Organization/Office
ERP	- Economic Recovery Programme
SAP	- Structural Adjustment Programme
EME	- Emerging Market Economy
RIR	- Real Interest Rate
OECD	- Organization of Economic Development
NPS	- National Pension Scheme
PFRA	- Pension Fund Regulatory Authority
MFI	- Microfinance Institution
SPSS	- Statistical Package for Social Scientists

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ABSTRACT

This study focused on the role of the informal sector on people's savings in Makindye division. The study geared in three objectives that include: To determine the role played by the informal sector in Uganda, to determine the level of savings in Uganda and to establish the impact of the informal sector on people's savings in Uganda. The study will help the region and the country at large on the way of increasing people's savings. The study was based on a cross sectional design and respondents included entrepreneurs in the informal sector and financial institutions. The study sample was made up of 80 respondents, purposively selected. The findings are presented in form of numbers, percentages as indicated in tables, graphs and charts. The study findings show that the mode and level of savings in the informal sector are majorly determined by flexibility of the saving mechanisms, gender of the individual, level of education, profitability of the business and the level of government initiative to support the entrepreneurs. According to the findings and conclusions, the study found it necessary that there should be increased government initiative in promoting the savings through establishing and improving on more flexible and community based saving schemes. Sensitization is very vital as well.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Informal activity is not something new in the economic set up of different economic systems, as far as evolution of mankind from the society of fruit gatherers and hunters, rudimentary farming and trade on the basis of barter system, the introduction of money and the rest of economic developments in the human society. It is in fact the first before the widely recognized formal economic systems of the world. It has been and still is inherent in both capitalistic and socialistic set up.

The explosion of the informal sector in society had never posed a challenge to theorists and policy makers to the extent that nobody bothered about its existence, until the post-world War period that the gap between the rich and the poor increases steadily pushing the majority poor into harsh conditions that posed a threat to government planning, policy implementation and discretionary modification of macroeconomic variables, which made economies prone to shocks and instabilities **(Martha A. Chen 2012, page 3)**.

According to Martha A. Chen *ibid*, it was assumed that with right mix of economic policies and resources, low income traditional economies would be transformed into dynamic modern economies and casual labour force would be absorbed into the formal sector. This was reinforced by reconstruction of the contemporary developed economies of Europe and Japan after World War II. By 1960s, hopes started dwindling and stiff concern arose about the persistent income inequalities and a growing traditional economy. Following this concern the International Labour Organization (ILO) mounted multidisciplinary employment missions to various developing economies **(Chen 2012, et al)**.

British anthropologist **Keith Hart** was the first to name the informal sector after studying rural migrants in Accra, Ghana. He concluded that despite the capitalist thrust, the sector had persisted and the capacity of generation substantial income.

The first ILO development mission was conducted in Western Kenya in 1972. The study found out that informal sector had not only persisted but had also generated countable profits and employment as well as marginal activities, **(Chen 2012, et al)**.

By the 1980s, the debate expanded to include changes occurring in the advanced capitalist economies where production was continuously being organized small and more flexible economic units. These changes are associated with informalization of the economy. Standard jobs turned into non-standard, replaced salaries and paid on a piece rate with minimal benefits and social security. Up to now, the informal has persisted despite suppression by the capitalist set up, **(Chen 2012, et al)**.

Uganda like any other country in the Sub-Saharan Africa has a high rate of dependency on the informal sector. According to a report on key labour issues 2005, there were about 800,000 micro enterprises across the country. Employing about 90% of the people across the county, and it was estimated to be growing at a rate of 98.8% in the central region, 59.0% in the Eastern, 7.6% in the Western and 4.5% in the Northern, all making up an average of 42.0%, as indicated by Uganda National Survey 2002/3.

(https://www.google.com/uganda_urban_informal_sector/html).

According to the financial stability report by Bank of Uganda (2012), global financial stability report warned about financial imbalances and overheating financial markets in a number of emerging economies, Uganda inclusive. A key challenge to merging market economies (EMEs) is increased capital flows due to improved investor sentiment and high interest rate differential with developed economies. In particular, there are concerns fuelled by resurgence of capital inflows, private sector credit and corporate leverage is likely to grow. As recently witnessed in Asia, episodes of high capital inflows are often associated with domestic credit growth and increases in unsustainable loans. Large capital inflows also complicate macroeconomic management given their potential to generate inflationary pressure. **(Bank of Uganda 2012, et al)**.

Bank of Uganda (2012) *ibid* shows that commercial banks are faced with potential borrowers who even put at risk banks themselves. A survey made by the institution in June 2011, indicated that if a single buyer defaults 100%, 11 commercial banks would lose Ushs75.3 billion and close due to under capitalization. If three biggest borrowers defaulted, 18 banks would lose Ushs482.1 billion and suffer the same consequence named, **(Bank of Uganda 2012, et al)**.

Business dictionary defines the informal sector be the sector of society that is engaged in economic activity that is neither taxed nor monitored by any form of government authority. It encompasses all jobs that are not recognized as normal income sources and on which no taxes are paid, **(www.businessdictionary.com)**.

Book keeping is limited in these economic activity and professional skills are normally deficient whereby people operate businesses using intuitive knowledge, a factor which makes most of such business enterprises to collapse when their owners die. Many of the businesses are situated in city and town suburbs and slums, a term "*Kisenyi*" is used to identify these places. Workers as well as employers are not protected by labour laws and social security. Activities include transport serves ie taxis and motor cycles "*boda-boda*", restaurants, retail shops, hair and fashion salons, car tyre shoe making (*rugabire*), food venders, porters as well as other illegal activities like drug trafficking and prostitution. **(GDLC, 2005)**.

Business dictionary defines savings as the portion of disposable income that is not spent on consumption or consumer goods but accumulated or invested directly in capital equipment or in paying off a home mortgage, or indirectly through purchase of securities, **(www.businessdictionary.com)**.

This research work is aimed at establishing the extent to which the informal sector is correlated with the stunted saving trend in Uganda and recommend strategies that can be undertaken in order to bring about a positive trend in savings in the country.

Almost all theories about the informal sector bring out the idea that associates the sector to capitalism and its associated inequalities, unemployment and economic marginalization. According to Gibson and Bruce Kelly (2005), the continuing crisis of the 1980s has promoted the informal sector to prominence in literature of developing economies. But while the informal sector is being studied from the historical/empirical point of view, the theoretical literature is scarce.

The theory explaining the spiral growth and persistence of the informal sector in economies stems from the Straffan model that relates two sectors (the informal and the formal sector) in terms of availability and costs of means of production. In relation to the model, we come up with a conclusion that the informal sector exists because a specific class of people especially in the urban areas is poor and cannot afford to purchase expensive means of production. It is for this that the informal sector majorly employs labour intensive means of production. Because the activities in the sector yield some profits, the informal sector ends up co-existing with the formal sector, **(Gibson & Kelly 2005, et al)**.

According to the model, the two processes may cooperate even if there are no scarce means of production, so long as unit costs and profits remain the same. Typically, one process will be cheaper than the other at a given level of wages and profits but if the level of profits in the informal sector is free for all below the general profit, nothing prevents it from operating alongside the formal sector.

The informal sector is defined as a process which at the prevailing wage will not return the average rate of profits in the long run. Informal sector producers operate these defective processes because they have no alternative. If these individuals cannot find remunerative employment in the formal sector, they have no choice other than reproducing themselves. It is for this that despite efforts undertaken, the informal sector spontaneously multiplies itself and grows, without any external intervention. The model explains the informal sector as a reserve of the unemployed workers who await a chance to be recruited into the formal activity set up. But however this remains unclear why informal activity has persisted even in developed economies.

The overall idea is therefore not to eliminate the sector from existence but rather formulate it, give it a clear format and necessary assistance so that its benefits can be realized, (Gibson & Dalley, et al).

1.2 Statement of the problem

There are numerous complex challenges facing the urban informal sector development, the most conspicuous being is a low saving culture among the informal sector practitioners. The high costs of living and meager/insufficient incomes coupled with illiteracy levels of these people flocking from rural environs to urban and suburban areas are some of the likely reasons for low savings by the urban informal sector. According to the (14th February 2015) updates by Uganda Bureau of Statistic (UBOS) the country's authorized issuer of statistical data, it shows that the informal sector is the fastest growing sector in the economy, constituting above 80% of employment in the country. By the fact that this sector forms the bigger part of the urban economic activity, there is a big risk that investment in these urban centers. According to John Maynard Keynes (1936), savings equal to investment ($S = I$). Therefore this study seeks to investigate the role/effect of the informal sector on people's savings in Uganda.

1.3 Purpose of the study

The study was aimed at examining the role of the informal sector towards people's savings in Uganda, through establishing the extent to which the growing informal sector contributes to savings in Uganda, finding out the probable effect on the saving culture and ability in Uganda, if the people are not well mobilized.

1.4 Objectives of the study

- a. To determine the role played by the informal sector in Uganda.
- b. To determine the level of savings in Uganda.
- c. To establish the impact of the informal sector on people's savings in Uganda.

1.5 Research questions

The research investigated the following questions;

- a. What is the role played by the informal sector in Uganda?
- b. What is the level of saving in Uganda?
- c. What is the effect of the informal sector on people's savings in Uganda?

1.6 Research hypothesis

H_0 : There is a relationship between formal the informal sector and people's savings.

H_1 : There is no relationship between the informal sector and people's savings.

1.7 Scope of the study

The study was confined to informal business enterprises in Makindye division, Kampala district. This is because Kampala is the country's capital and is part of the country with people engaged in the informal activity. These people come from all parts of the country. Makindye division was selected as a representative division because conducting the study in the hole of Kampala would be too expensive for the researcher to conduct.

The research work used both primary and secondary data, but to a larger extent, secondary data was be used. Secondary data was got from journals, periodicals, news updates, reports from Uganda Bureau of Statistics (UBOS), Bank of Uganda (BoU) among other agencies. Whereas primary data was got directly from the field using interviews and questionnaires.

1.8 Significance of the study

This research work is very important, because labour force planning is a crucial problem facing the country. In order to enhance investment and overall economic growth both micro and macro, there is high need to boost private sector savings by actors at the grass root level. The government is on a move to boost local savings but only concentrating on the rural informal actors, letting down the urban informal sector, yet a big number of people are engaged in business ranging from street

vendors to manufacturing. Policy makers need to understand this and for proper policy determination, empirical data and solutions needed.

To policy planners: The study findings shall aid development policy planners in policy formulation by putting up policies that recognize the role of the urban informal sector and the whole sector in general in creating employment to absorb the unemployed labour force and its possibility of transforming itself into formal sector. Strategies need to be put in place to boost urban informal savings, just as the rural informal savings are being boosted by the government.

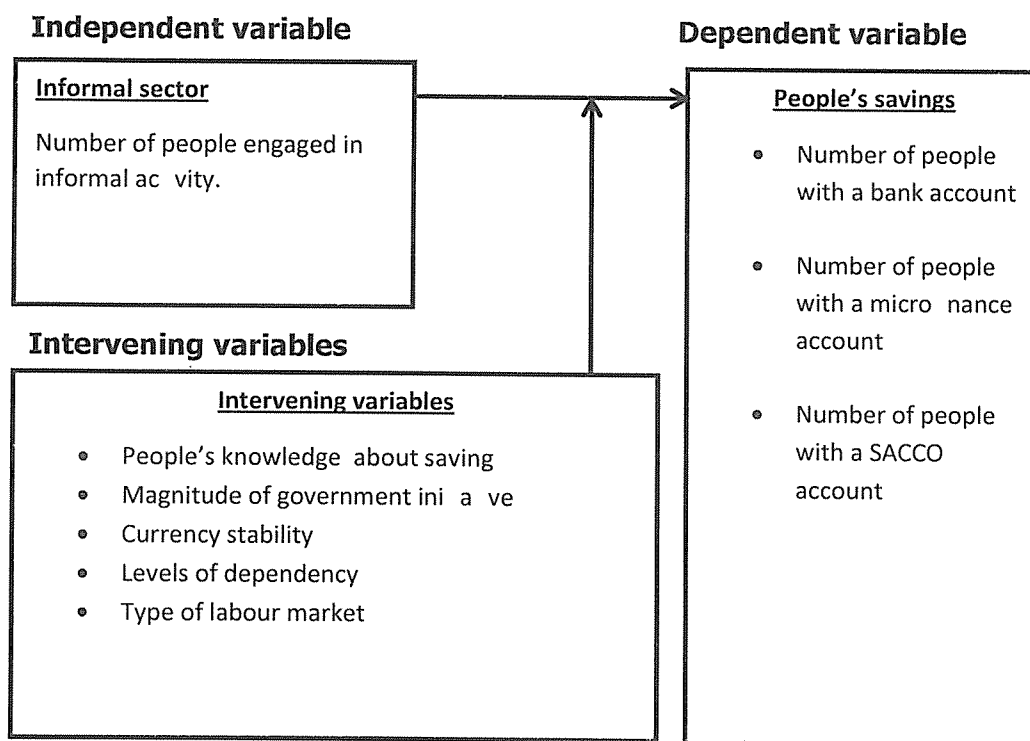
To academicians: The study findings shall help academicians in studying the empirical relationship between the two macroeconomic variables in the economy. As a discipline in both economics and business, savings need to be deeply conceptualized as a core promoter to investment and general economic growth in the country. Further models and theories may be developed basing on the research findings.

To researchers: The findings of the study shall be used by researchers as secondary information in conducting their research work in the future, as regards the two trends in both economic variables. That is; urban informal sector and the level of savings among people engaged in the activities in the informal sector in the country, or related topics.

1.9 Conceptual framework

This is the diagrammatic illustration showing the relationship between the variables under study, as they have conceptualized by the researcher. It is illustrated as below;

Figure 1: A conceptual framework



From the illustration above, informal sector is conceptualized to be the independent variable. The dependent variable is people's savings, which has been measured in terms of; the number of people with bank accounts, the number of people with a microfinance account and number of people with an account in a SACCO. Intervening include; people's knowledge about the importance of saving, magnitude of government initiative, currency stability, levels of dependency and the type of labour market.

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

This chapter covers theoretical review of the study, conceptual review that is definition of the study variables and related searches researches that is, studies made on the variables and their related.

2.1 Conceptual definition of the variables.

The business dictionary defines the informal economy as economic activity that is conducted outside state-controlled sphere of the economy as practiced by most economies of the world. It includes both barter and monetary exchange of goods and services, mutual help, odd jobs, street trading and other such direct sale activities. Income generated in the informal economy is not recorded for taxation purposes and is often unavailable for inclusion in GDP computations. (<https://www.businessdictionary.co>).

It is that sector of the economy which encompasses all activities which are not recognized as normal income sources, and on which no taxes are paid. The term is at times used to refer only to illegal activities. It is a sector where an individual earns wages but does not claim for them on his/her income tax, or a cruel situation where individuals are forced to work without pay. However, the informal sector could as well be interpreted to include legally recognized activities. (<https://www.businessdictionary.com>, et al).

According to Friedrich Schneider (July, 200), many scholars over the years have put up different definitions of the informal economy but one commonly accepted definition of the informal economy is all currently unregistered economic activities which contribute to the officially calculated Gross Domestic Product (GNP). Smith (1994), pg. 8 defines the informal economy as a market based production of goods and services that escape official estimates whether legal or illegal. Other terms used to refer to the informal sector can include; black market, the shadow economy, underground economy, gray economy, off-books economy among others.

The dictionary defines the term as part of the income that is not consumed or invested. In the conceptual understanding of the term, it is used to mean any resource that is not spent whether on taxes, consumption, investment or giving out as a donation or gift, but rather put aside and accumulated over time. In today's context, the term has been often used with financial resources or other tools like government securities like bonds and treasury bills, (<https://www.businessdictionary.com>).

2.2 Theoretical review

According to Gibson and Bruce Kelly (2005), the continuing crisis of the 1980s has promoted the informal sector to prominence in literature of developing economies. But while the informal sector is being studied from the historical/empirical point of view, the theoretical literature is scarce.

According to Bill Gibson and Bruce Kelly, the theoretical framework here is developed from Staffa's theory of non-produced means of production. As in the simple Staffan system, the multiple processes is the scarcity of some means of production. Scarcity is relative to a given level of aggregate demand and it permits the introduction of more expensive means of production alongside cheaper ones, the two processes may cooperate even if there are no scarce means of production, so long as unit costs and profits remain the same. Typically, one process will be cheaper than the other at a given level of wages and profits but if the level of profits in the informal sector is free for all below the general profit, nothing prevents it from operating alongside the formal sector, **(Gibson & Dalley 2005, et al)**.

The informal sector is defined as a process which at the prevailing wage will not return the average rate of profits in the long run. Informal sector producers operate these defective processes because they no alternative. These individuals cannot find remunerative employment in the formal sector, they have no choice other than reproducing themselves. It is for this that despite efforts undertaken, the informal sector spontaneously multiplies itself and grows, without any external intervention,

Perhaps the basic feature of the model as it has been developed so far is that the informal sector behaves as a reserve army of the unemployed. To pursue some of the implications of the approach, return to the simplifying assumption that there is only one of the period j^{th} for which both the informal and formal sectors co-exist. The model is demand constrained and is in a stable long-run equilibrium. The crucial new assumption is that the informal sector process is labour intensive relative to the formal process. To say that the two processes cooperate implies that the informal sector cannot produce all the required output even if it displaces the formal sector and absorbs all the labour previously employed there. On the other hand, the formal labour saving process could not employ all the available labour since it would over satisfy the given level of demand.

It might be expected that an increase in demand for the j^{th} good would cause both the informal and formal output to rise. In fact, the informal sector shrinks and the formal sector expands. The argument is straight forward. First, assume there are no intermediate goods. If output of both processes expands to meet the additional demand, the employment constraint would be violated. Employment in the remaining sectors of the economy must be fixed if they are to satisfy their own demand. Thus the only output of the labour saving process can be increased while that of the labour using technology must fall. The primary implication is that an interventionist state would actually improve profits of the private sector while maintaining the standards of the urban poor. The question here is whether the informal sector serves as an efficient means by which to maintain living standards of individual who would otherwise be unemployed, **(Gibson & Dalley, 2005)**.

According to MacArthur A. Chen (2012); due in part to global economic crisis of the past decades, the size of the informal sector has exploded in almost all developing countries of the world. Estimates of its size vary with the fuzziness of the concept across counties, but representative numbers place the figure of almost a half of the urban work force in developing countries under informal sector. As a generalization, informal sector technologies are predominantly labour intensive in nature, characterized by low overhead capital and capital productivity is generally low.

The unifying principle under literature review is that the informal sector arises from the capital-limited nature of the economy. If capital was not limited in supply, the whole economy would be formal in nature. But the question arises whether the whole economy would be comprised of circulating capital.

The model which follows Straffa (1960) is based on the notion that informal sector processes are processes which will not return the average rate of profit when evaluated at the prevailing level of wages and prices. Informal sector processes will not be operated by capitalists who by definition require a given average rate of return. Unfortunately the economy is limited by an exogenously given level of demand which forces the unemployed workers to join the informal sector.

The characteristics of this dynamic adjustment path are considered to see if the informal sector disappears in the course a capitalist development. If the initial conditions are appropriate, the informal sector will eventually earn the average rate of profits becoming in effect, formal. But it is also possible that this adjustment path is blocked so that the model converges to a long run equilibrium in which both the informal and formal sectors co-exist. It is right to say that the informal sector is not a problem in itself. For centuries, the socio-economic set up of society has been comprised of two classes that is the haves and the have-nots. What is important is to revise means of how we can promote the informal sector to productivity and economic efficiency. By the fact Uganda's economic activity is more than 80% informal in nature and the rate of unemployment is high in the country, there is apparently no other means than boosting the informal sector as a way of absorbing the extra labour force.

2.3 Related studies

A study was conducted in March (2005) by Lall Somik v, Suri Ajay and Deichmann Uwe in Bhopal, India. It was conducted to establish the role of savings in the socio-economic transformation of people employed in the informal sector. Their analysis showed that one of every five households succeeded in getting out of slum set up

and the major determinant is the household ability to save on a regular basis. Due to limited outreach of institutional financial outreach, rural dwellers relied on household savings to acquire housing facilities. These findings explain the urgent need to improve saving instruments for slum dwellers and down market finance to reach the poorest residents of Uganda.

A study made in (2009) on the relationship between expanding informal sector and pension scheme status. The study paper considered nine Asian countries that is; India, Thailand, Sri Lanka, China, Vietnam, Philippines, S. Korea, Indonesia and Bangladesh. The study was based on the need for government hand to reach the informal sector and protect people against old age poverty. The study concluded that expanding the coverage to informal sector through mandatory mechanisms could not work. And again, the voluntary alternative would meet challenges as the informal economic activities are faced with limited profitability that require intensive government subsidization.

A study made by OECD in (2009) around the world. It was aimed at establishing the trends of pension coverage ratio among the informal sector workers vis-à-vis their counterparts who have a formal income scale. The study reveals that pension reforms around the world in recent decades has focused on the formal sector. Consequently those working in the informal sector have been left out of the structured pension arrangements particularly. A serious problem facing this group IS low incomes and vulnerability to economic volatility. **(Yu-Wei Hu & Fiona Stuart 2009).**

A study was made by David Tuesta in (2014) aimed at finding out the limitations to informal pension scheme success. The study was conducted on a household survey basis in Brazil, Colombia, Peru and Mexico. The study found out that low contributions by individuals are the limitations to the strategy. The study further found out that prevailing conditions in the labour market are the main determinants of people's ability to contribute to the system. This gives a clue about labour market formulation ranging from micro enterprises. **Tuesta, (2014).**

A study was made in India, (October 2013), by Renuka Sane and Susan Thomas. The study was aimed at finding out the participation of the informal sector in voluntary pension system. The study used a National Pension System (NPS) under which \$17 was given as government incentive to those who deposited an equivalent amount and above. The study found out that only 12% of the population applied to the Pension Fund Regulatory Authority by April 2010 and only 50% could sustain the contribution for more than one year. This was due to the fact that the program operated among informal sector people with very small wealth holdings and small incomes uncondusive for them to save. **(Renuka Sane & Suan Thoas, October 21, 2013).**

A research was made by Johnson together with Graham K. Brown & Cyril Fouillet (2012) in Kenya. The search was aimed at establishing the structure and causative factors for the finance flows across businesses in Kenya. The searched used banks, SACCOs and MFIs as instruments for financial transfers and savings. Chapter 4 indicates the flows among the informal sector as being in such a pattern that banks are used when depositing large sums for custody while smaller amounts are kept by individuals themselves. The study also shows that banks are mainly used for keeping savings while SACCOs and MFIs are used for borrowing loans. Mobile money and M-pesa are used for money transfers and making payments. Among factors affecting people's access to financial institutions are; education levels, distance to be travelled and gender. **(Susan Jonhson, Graham K. Brown & Cyril Fouillet, March 2012).**

A study was made in Kenya in December 2014, by Marve Akbas, Dan Ariely, David A. Robalino and Michael Weber. The study was intended to establish how psychological interventions and financial incentives can influence the saving rate of individuals with low and irregular incomes. The study employed the use of periodic messages to remind people to save, in other case a gold coin was given to the savers and the other, an interest rate of 10% and at times 12%. Giving the coin emerged as the most successful strategy of making people save more. The conclusion made was

that people need to be psychologically stimulated in order to increase savings.
(Akbas, Ariely, Rabalino & Weber, 2014).

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter covers research design, research population, sample size, sampling strategies, validity and reliability and ethical considerations that all were used in conducting the study.

3.1 Research design

The study was quantitative in nature where figures have been used, and it has been cross sectional in nature. It has been a once off endeavor because of the limit in resources available resources. All the planned respondents were contacted analysis of the received data has been done at the same time.

3.2 Research population

The research population was comprised of people involved in the informal activity including street vendors, motor cyclists and taxi drivers, retailers and general merchandise. They as well included financial institutions like banks and microfinance institutions that have helped in ascertaining the ratio of people having accounts with them, as regards people with informal businesses vis-à-vis those with formal sources of income like salary earners and shareholders in big companies and other large scale enterprises.

3.3 Sample size

The study used size a sample size of 80 respondents carefully selected. This is because the target population was 120. Considerably, 80 respondents were a sample size more than a half of the target population.

3.4 Sampling strategies

The sampling strategy was basically purposive than probabilistic. This is because in urban setting, there is co-existence of the formal sector alongside the informal. The sample purposively targeted Ugandans and left out Asians because Asians tend to have bias on giving out informative details about themselves. Convenient sampling

was put to use in order to make the study less tiring, by selectively concentrating persons who are willing to give information and paying less time to those who send insults to the researcher.

3.5 Data collection

Data collected was basically primary and secondary in nature. Primary data was got directly from respondents in the field by the researcher himself. Questionnaires and interpersonal interviews are the instruments that were used to collect primary data from the field. Rightfully designed questions were used to collect data from respondents in the field. Secondary data was got from journals, reports from bank of Uganda, Uganda bureau of statistics and visiting websites for different institutions both local and international like International Labour Organization, United Nations Department of Economics and Social Affairs. This secondary data was mainly used for comparison purpose during analysis and making of conclusion regarding the variables under study.

3.6 Data collection instruments

3.6.1 Questionnaire

A designed questionnaire was used to get information from the respondents. This questionnaire included pre-designed questions that enable the researcher gather information from the informants. The questions inquired the number of workers an enterprise employs, whether the entrepreneur had an account in bank, microfinance institution or any other form of savings or not among others.

3.6.2 Interviews

This form of person to person communication was used more especially in financial institutions including banks, microfinance institutions and savings cooperatives. This is because most of these are formal in nature and therefore the information they gave was not about themselves but rather their customers.

3.6.3 Observation

The researcher also used observation method as a means of distinguishing informal business settings from formal ones basing on their setting. The method was also used to interpret hidden information from respondents. For example some respondents not tell their attitude towards some things, but expressed it through a gloomy face, which informed the researchers about their hidden feelings.

3.7 Data Analysis

The study mainly used SPSS (Statistical Package for Social Scientists), a data analysis package for processing, describing and displaying the data got from the field and to test the correlation between the variables on which the study is based in order to come up with a right conclusion. The study also used Microsoft excel to draw graphs as a way of illustrating findings from the field.

3.8 Data presentation

Data got from the field is presented in form of graphs and tables and charts indicating the findings as regards the relationship between the variables. Descriptive indicators of the relationship between the variables that is the average findings, correlation, regression plus standard deviation was also used to portray the findings and the conclusion made which was presented in the dissertation, as it indicates. A copy was handed to the supervisor for approval and another copy to the department for record keeping.

3.9 Validity and reliability

It was a very crucial to get information that corresponds to the original search rightful measurements of the variables under study, in order to come up with rightful conclusion. In conducting this study, validity and reliability was ensured through use of primary data as a way of reducing risk of being misled by obsolete (out dated) secondary data. Validity and reliability were ensured through very keenly structured and unbiased questionnaire, plus a right mode of face-to-face interview. More so, the researcher conducted the field study by himself and got the information from the respondents themselves. Right questions were asked so as to get right information

so as to make informed conclusions. The validity of the questionnaire was ensured through constant visitation of the research supervisor, Mr. Muhereza Franklin for guidance and correction.

3.10 Ethical consideration

For ethical reasons, confidentiality was considered as of high importance and highly preserved. For example confidentiality of respondents was observed where by, they were not forced to deliver information about their age, how much they have, where is their money if not in the bank, among others. Also, respondents were conducted in a right tone and were not forced to deliver information where they were not willing.

CHAPTER FOUR

DATA PRESENTATION AND INTERPRETATION

4.0 Introduction

This chapter highlights the presentations, interpretations and discussion of the collected data in form of tables, graphs and charts among others where 80 respondents were examined to provide the required information about the topic of study.

4.1 Number of people of informal business enterprises by gender

Figure 2: Gender distribution

Gender	Frequency	Percentage
Male	53	66.2%
Female	27	33.8%
Total	80	100.0%

Source: Primary data (2025).

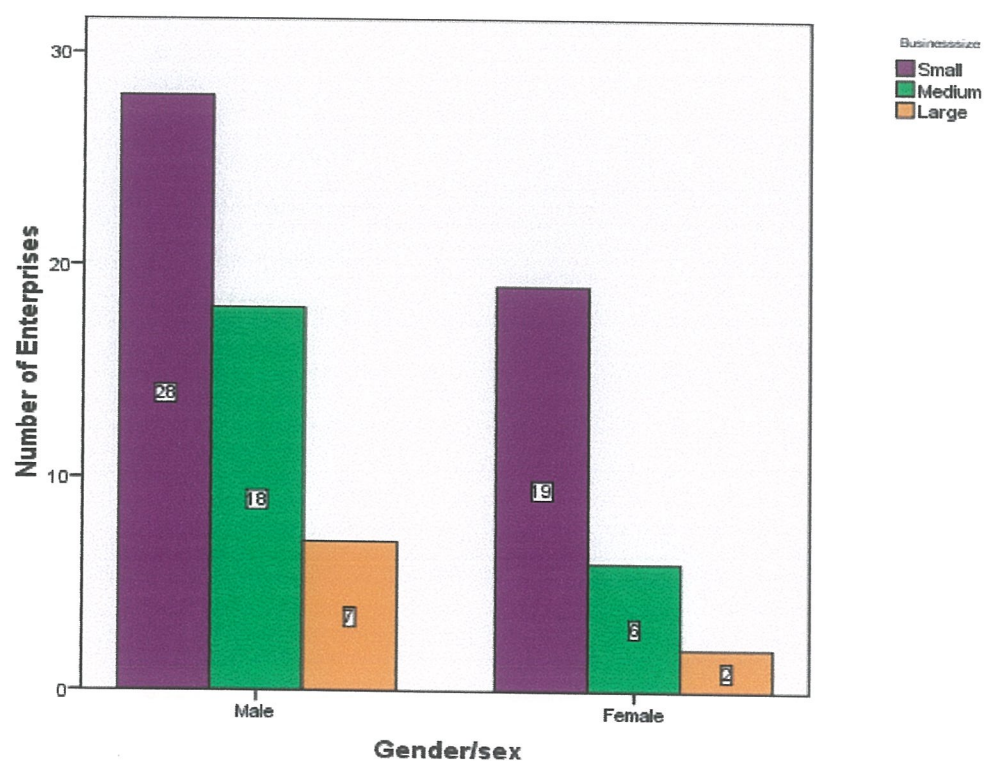
The study found out that the informal business is majorly dominated by men. As the table above indicates, 66.2% of the studied population was composed of males, and females only make up 33.8%, about a third. This structure is highly attributed to the fact that men normally have higher needs than women, as they needed supplementary income to keep their families and enable their children attain good education. This is different from women because some women were already married and bigger responsibilities are taken up by their husbands and for those who were not, most were youths that had no big families to cater for.

4.2 Distribution of respondents by gender/sex

Table 1: Distribution of respondents by gender/sex

Gender	Business size			Total
	small	Medium	Large	
Male	28	18	7	53
Female	19	6	2	27
Total	47	24	9	80

Figure 3: A Bar Graph Showing the Distribution of Informal Business Owners by Gender/Sex in Makindye Division



Source: Primary data (2015).

From the above table and graph, it is indicated that the most numerous enterprises are small scale in size making up 47 out of eighty that is 58.75%. Medium size businesses are 24 out 80, which make up 30% and large scale are only 9 which make up only 11.25%. This shows that smaller enterprises are more than larger enterprises in the informal sector. This is due to the fact that smaller enterprises are easy to manage but large scale enterprises need a lot of managerial skills yet informal entrepreneurs lack. It is also because large scale businesses require much money to set up and a long time for them to grow from a smaller scale of operation.

According to the gender frequency, the information shows that there are more males than females in the informal business, males being 53 out of 80 who make up 66.25% whereas female owned businesses only make up 33.75%. The fact that more males are engaged in the business than females is because males have more time to dedicate to their businesses. On the other hand, most females have other obligations that take their time like house wives.

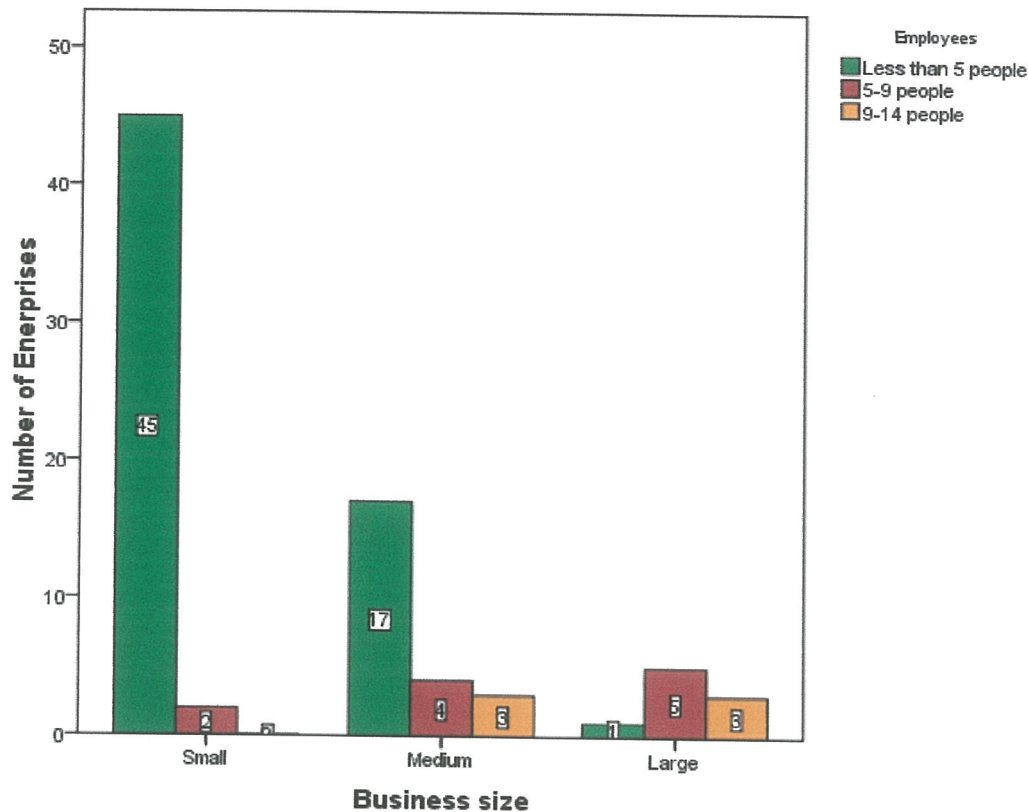
4.3 Distribution of Enterprises in Terms of the Number of People Employed.

Table 2: *Number of employees*

Number of Employees	Frequency	Percentage
Less than 5 people	63	78.8%
5-9 people	11	13.8%
10-14 people	6	7.5%
15 and above	0	0%
Total	80	100%

Source: Primary data (2015)

Figure 4: A Bar Graph Showing the Distribution of Enterprises by Number of Employees



Source: Primary data (2015)

The table and the graph above show that 63 that is 78.8% of the enterprises employ less than 5 employees. They are largely small scale making 45 (56.25%) of the studied respondents, followed by medium size which are 17 (21.25%) and the least being 1 (1.25%). This is because most enterprises are sole proprietorships that require individuals operation. Small scale enterprises are the most and large scale are the least because when businesses grow, their profit rates increase and they join the formal sector thus they are excluded from the informal sector. Enterprises employing 5-9 people are fairly small that is 11 out of 80, making only 13.75% of the studied respondents. Among the 11, only 2 are small, 4 are medium size and 5 are large scale. Only medium size and large scale enterprises can afford employing

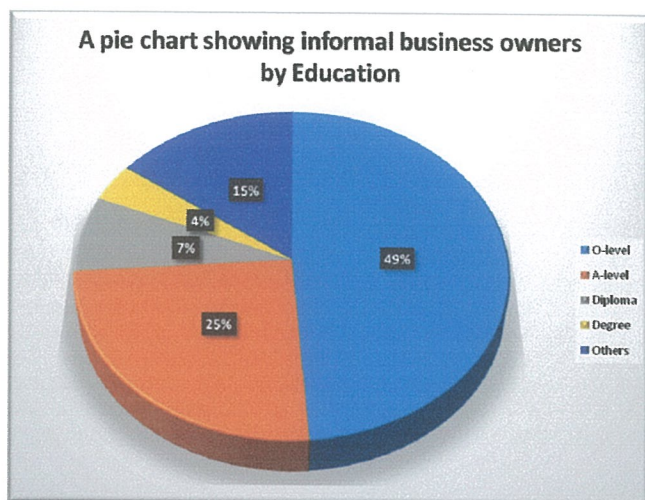
many workers. This is because smaller businesses are manageable and do not require a lot of labour force, while larger enterprises are complex and require additional labour.

4.4 The Education Level of Respondents

Table 3: Level of education

Education level	Frequency	Percentage
O-level certificate	39	48.8
A-level certificate	20	25.0
Diploma	6	7.5
Degree	3	3.8
Others	12	15.0
Total	80	100.0

Source: Primary data (2015)



Source: Primary data (2015)

The table and the pie chart above shows the biggest persons engaged in the informal sector as O-level certificate holders as they are 39 out of 80 respondents studied, which makes up 48.8% A-level certificate holders are 20, making up 25% of the studies population. Diploma holders were 6, making up 7.5%, degree holders

being only 3, making up only 3.8% and being the least in the informal sector. The unidentified level made up 15%, which is termed as others.

The above trend shows that most of the informal sector entrepreneurs are O-level certificate holders. It is attributed to the fact that most youths tend to drop out of school after senior four, thus joining the informal sector. The trend shows that the proportion engaged in the sector declines as the level of education increases. This is attributed to the negative attitude that educated people have towards the informal sector and also as the level of education increases, labour force gets more qualifications to work in the formal sector and only a few are up for the informal sector. The others all combined make up only 15% of the population under study.

The above trend shows an inverse relationship between education levels and the informal sector. That is; as more people attain higher levels of education in a country, there are high prospects that informal activity reduces, as seen in the currently developed nations.

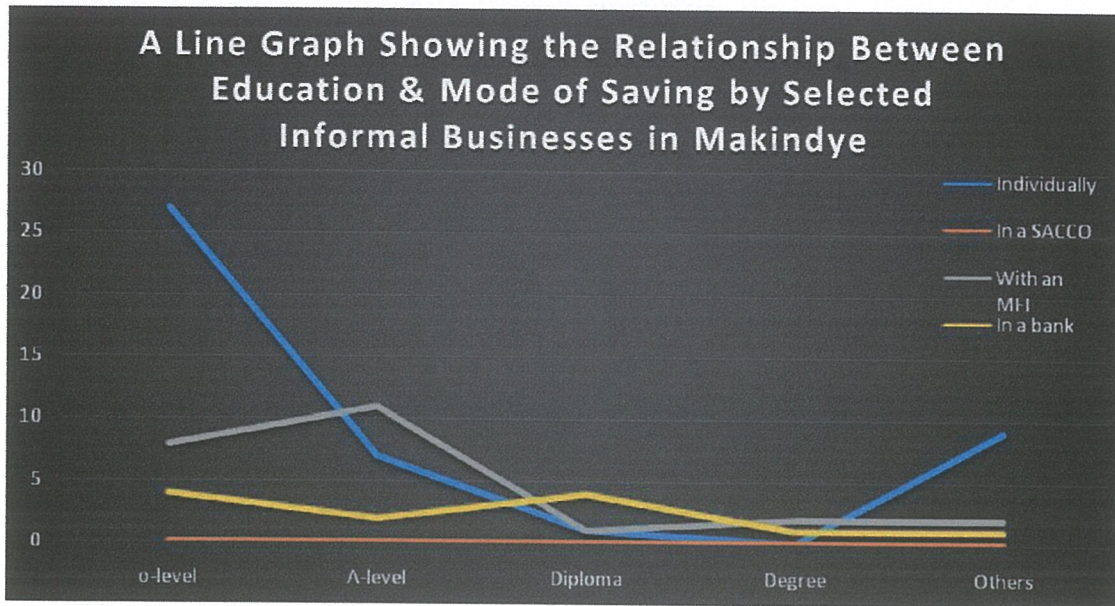
4.5 Mode of saving and Education levels by informal Entrepreneurs in Makindye division, Kampala

Table 4: *Level of education and mode of saving*

Education level	Mode of saving				Total
	Individual	In a SACCO	With an MFI	In a bank	
O-level	27	0	8	4	39
A-level	7	0	11	2	20
Diploma	1	0	1	4	6
Degree	0	0	2	1	3
Others	9	0	2	1	12
Total	44	0	24	12	80

Source: Primary data (2015)

Figure 5: Level of education and mode of saving



Source: Primary data (2015)

The above table indicates that out of 80 enterprises studied, 44 business owners were keeping their savings by themselves or other means like friends. This is highly because people engaged in the informal sector do not realize the importance of keeping their money in the banks or any other financial intermediary but rather they prefer keeping it in liquid form. Informal businesses are highly uncertain that any deal can arise since traders tend to deal in general merchandise. Microfinance institutions comprised 24 of the respondents. It emerged the next popular means of saving by the informal sector as it offers better concessional terms, flexibility, less formality and their appealing nature to the relatively poor and sidelined sections of society. The least were banks making up 12 out 80 expected savings by the respondents under study. Banks are the least used. Thus could be attributed to the high level of paper work needed, verification and much inflexibility that scares away entrepreneurs. Commercial banks have been found out to be used majorly by salaried workers in receiving their payments, but less often by business owners, more so small scale businesses.

The graph indicates that more people of lower education levels appear saving more and at higher education levels, savings appear small in all modes of saving. This is just because more people engaged in the sector are of lower education, thus the cause of the larger figures, whereas those of higher education registered small saving figures because they were few in the sector. Among the 44, 27 (more than a half) keep their own savings, indicating that people of lower education do not see much value in keeping their money with banks, as indicated by only one person keeping money there.

The volume of savings kept in the bank appeared more or less the same, which indicate less relationship between the informal sector and commercial bank activity. It is for this that cooperative and microfinance saving is growing prominently. Whereas individual saving and microfinance institutions appeared playing a vital role. This is attributed to the advantages of flexibility that allows different saving facilities, numeracy, less paper work and formalism that is common with commercial banks.

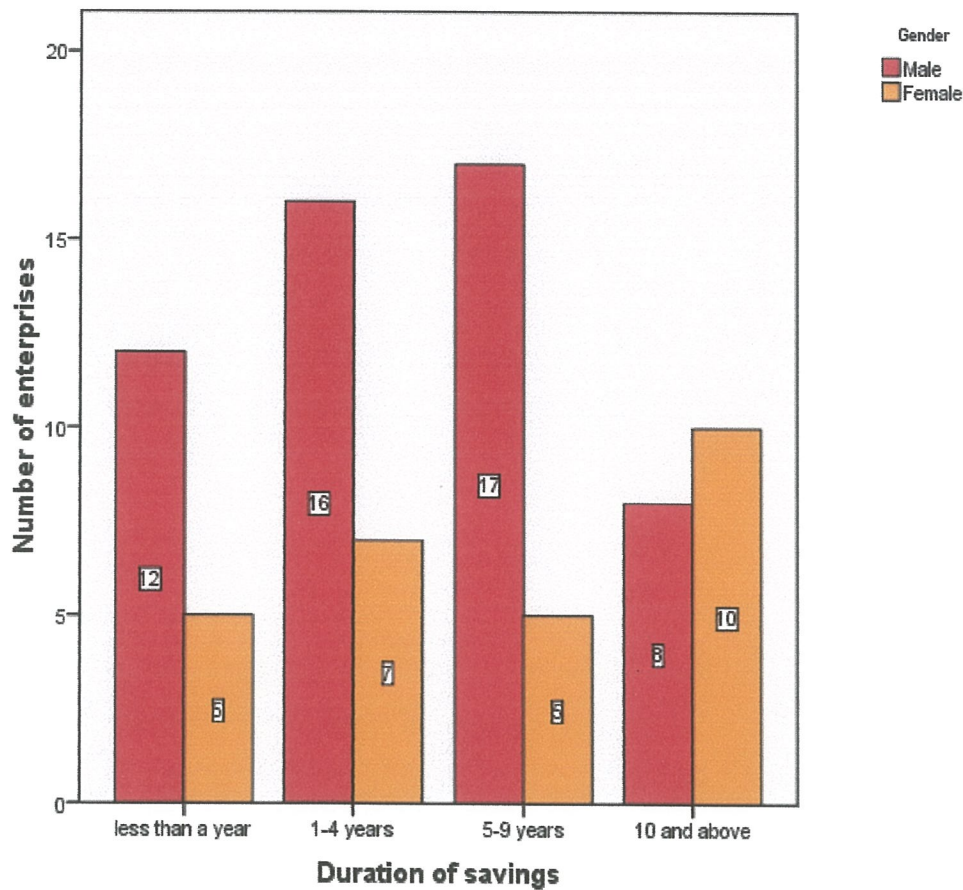
4.6 Duration of the savings by informal sector entrepreneurs in Makindye

Table 5: *Duration of savings*

Savings duration	Number of Enterprises	Percentage
Less than 1 year	17	21.2
1-4 years	23	28.8
5-9 years	22	27.5
10 and above	18	22.5
Total	80	100.0

Source: Primary data (2015)

Figure 6: A Bar Graph Showing the Number of Informal Businesses in Makindye and the Duration They Have Sustained Their Savings



Source: Primary data (2015)

From the above table and the respective bar graph, enterprises showed a positive trajectory in that, they tend to sustain savings for long. The savings that have lasted for less than a year were 17, 12 of which were by males and 5 by females. Those that had sustained their savings for a period between 1-4 years were 16, out of which 9 belonged to males and only 7 belonged to females. Those that had sustained savings for a period between 5-9 years were 22, out of which only 5 belonged to females and those that sustained their savings for more than 10 years were 18 out of which only 10 belonged to females.

According to the trend, males showed higher savings ration as compared to their female counterparts. This was because the informal sector was more dominated by men such that women were overshadowed.

However in the long run, the savings by male owned male enterprises show a decline. This is because in the very long run, their businesses accumulate much profits and join the formal sector of the economy. On the other hand, the woman owned enterprises kept a fairly growing record of accounts. This is because women tend to be married and the very tough responsibilities are taken up by their husbands. Women thus retain their savings. Because women generally tend to have weaker managerial ability and are risk averse compared to their male counterparts, this is why over the long period, the number of savings increase.

4.7 Opinion Questions and Interpretation

These were the questions that were designed I order to get respondents' opinion regarding the roe of the informal sector on people's savings in Makindye division. The questions were structured using likert scale in which respondents were required to tick in the box where their opinion was. That is; strongly agree, agree, not sure, disagree and strongly agree. These questions were used to find out the contribution of the informal sector, the current level of saving and the role the informal sector has played in promoting people's savings as per their opinion. The following details were found out by the study as follows;

The respondents' opinions were ranked as follows; 1= strongly agree, 2. = Agree, 3. = Not sure, 4. = Disagree and 5. = Strongly disagree. The overall opinion of respondents was judged to show the strength of the variables under study.

Contribution of the Informal Sector

The contribution of the sector to socio-economic welfare of people was ranked as follows; (1.0-1.4) = Very strong, (1.5-2.4) = Quite strong, (2.5-3.4) = fairly strong, (3.5-4.4) = Weak and (4.5-5) = Very weak.

Table 6: Growth of the Informal Sector

Role of Informal Sector	N	Min	Max	Mean	Standard deviation	Comment
Income distribution	80	1	4	2.89	1.125	Strong
Government initiative	80	1	4	2.60	1.074	Strong
Reduced dependency	80	1	4	2.77	1.006	Strong
Currency stability	80	2	4	3.50	.528	Weak
Business profitability	80	2	4	3.39	.528	Quite strong
Increased employment	80	1	5	2.50	1.273	Strong

Table 7: Growth of Savings

Savings Indicators	Number	Min	Max	Mean	Standard deviation	Comment
More people with MFI accounts	80	1	5	2.40	.976	Very strong
More people engaged in SACCOs	80	1	4	2.54	.927	Strong
More people with bank accounts	80	1	5	2.85	.995	Strong

Table 8: Correlation between Informal Sector and People's Savings

**Correlation between Informal Sector
and Savings**

		IV	DV
IV	Pearson		
	Correlation	1	.018
	Sig. (2-tailed)		.874
	N	80	80
DV	Pearson		
	Correlation	.018	1
	Sig. (2-tailed)	.874	
	N	80	80

Source: Primary data (2015)

The study used Spearman's correlation coefficient to study the impact of the informal sector on people's savings. The study used a 2-tailed test to find out the level of significance. The correlation coefficient was found out to be 0.874, which shows a very strong positive relationship between the IV (informal sector) and the DV (people's savings). The study indicated a very strong impact of the informal sector on people's savings because the correlation coefficient was found to be (0.874), far above 0.5. This shows the strong role the informal sector has played in promoting savings in the community.

Figure 11: Regression

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Constant	2.557	.250		10.233	.000
	IV	.012	.073	.018	.159	.874

a. Dependent Variable: DV

From the above, the level of significance is 0.18 that is 18% which shows the relationship between the variables under study. The equation between the informal sector and people's savings can be written as;

$Y = 2.557 + 0.18X$, where Y is people's and X is the informal sector. This shows a strong effect of the informal sector on people's savings since beta (β) is more than the level of significance since the level of significance equals 0.000 as indicated in the table.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter involves a summary of the findings, discussions and recommendations that are based on the objectives, the problem statement and the findings from the study.

5.1 Conclusions from the study

From the above findings, the bigger part of the informal sector is comprised of small scale business enterprises. Medium and large scale business enterprises are increasingly few. This shows an inverse relationship between the number of businesses and business size in the informal sector. This is due to a lot of managerial skills they require and the large volumes of capita they require to set up. More to that, more men are engaged in the sector than women, at all level. This is because men have more managerial skills, are more objective than women. It is also because men have more responsibilities than women that is, whereas women's needs are partly met by their husbands, men tend to carry a bigger part of family financial responsibility.

The study shows the factors affecting savings in the informal sector being education levels, business size, flexibility and accessibility of the saved funds and gender of the practitioners in the sector

Education level: It was found out that people of higher education have higher preference for saving their resources. This is probably because they know that saving leads to further investments that lead to further growth of their businesses. Whereas those who have attained lower education levels prefer to save less and also if that is done they keep their money by themselves. It is for this that the more educated population in the informal sector save more than those who are less educated, as shown in figure 6. Education level also affects savings because those

who have not attained required education fear document work involved in financial dealings with institutions.

Gender: Gender or sex of individuals was found out to be a determinant of saving in the informal sector. Females are found out to prefer more to save than males. This is highly because women naturally are risk averse. They fear sinking all their money into business there by preferring to save it. On the other hand, men indicate a lower desire to save their money but rather to invest it. Another reason for the variation of savings vis-à-vis gender is that males have lots of responsibilities that consume their financial resources that there is barely anything to save. Most of their businesses serve family needs. On the other hand, women tend to have limited responsibilities. Those who have time to spare for business are commonly people who are not yet married thus have not family to cater for. Even for those who are married, they are covered by their husbands.

The study also found out that none of the studied respondents was covered by National Social Security Fund (NSSF). This could be because their enterprises are not profitable enough to sustain NSSF contribution for a long time, the long age required to receive the benefits while others are adamantly not interested in social security coverage.

5.2 Recommendations

Government should involve craft policy frameworks for small scale businesses that focus on the legal and regulatory conditions, capacity building in support of improving the environment to increase competition and promote the informal sector. Gender equality should be promoted at all levels local and national by emphasizing and enhancing the role of women in society, as a way of increasing their competence in the business world. This will help increase on house hold income and reduce on the financial burdens borne by men. It will increase income at local, regional and national levels, increase socio-economic welfare, saving and investment plus the associate economic growth.

Government should intervene in the informal sector by offering free short courses, seminars as a way of building on their managerial skills. This will help them to increase the profit margins from their enterprises that will enable them meet their needs and have some for saving for their future needs.

The government needs to put more emphasis on cooperative saving and microfinance system, as the study found these to be the most appropriate means of saving by the informal entrepreneurs. Increasing transparency among the members of these cooperatives needs to be done as well, by putting up correct guidelines and sensitizing the people, so that they can keep their resources at community level.

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APPENDICES

APPENDIX I

SELF GUIDED QUESTIONNAIRE ON THE ROLE OF THE INFORMAL SECTOR ON PEOPLE'S SAVINGS IN MAKINDYE-UGANDA

Dear respondent,

My name is Tumuhairwe Daniel, a student of Kampala International University, pursuing a bachelor degree in Economics. Am conducting a study on the role of the informal sector to people's savings. This document has been formulated, the information you will provide will be treated with confidentiality. This study is being carried out to establish the contribution of the informal sector on people's savings within Makindye division. The research work is purely academic and thus the findings will not be used in any way that has a negative contribution to your activity.

1. What activity is your business engaged in?

.....
.....

2. Sex of the business owner

a) Male

☐

b) Female

☐

4. Size of the business.

a) Small

☐

b) Medium

☐

c) Large

☐

3. Level of education

a) O-level certificate

b) A-level certificate

c) Diploma

d) Degree

e) Others

5. Number of employees.

- a) Less than 5 people
- b) 5 to 9 people
- c) 10 to 14 people

☐
☐
☐

6. How do you save your money?

- a) Individually
- b) In a SACCO
- c) With a microfinance institution
- d) On a bank account

☐
☐
☐
☐

7. In the above saving institution, how long have you had an account there?

- a) Less than a year
- b) 1 to 4 years
- c) 5 to 9 years
- d) 10 & above years

☐
☐
☐
☐

8. Is your business registered by any authority?

- a) Yes
- b) No

☐
☐

9. Are you or any of your workers covered by NSSF programme?

- a) Yes
- b) No

☐
☐

10. If no, why?

- a) It takes too long to receive the benefits
- b) At times the benefits are not received
- c) It is too expensive
- d) Not interested

☐
☐
☐
☐

11. How is the enterprise owned?

- a) Individual
- b) Family
- c) With friends
- d) Corporation

☐
☐
☐
☐

12. Opinion questions. I humbly request you to tick in the box where your opinion lies.

SECTION A

Do you think the below statements are true about the informal sector in Uganda?

		Strongly agree	Agree	Disagree	Strongly disagree	Not sure
1.	The informal sector has achieved income redistribution among people.					
2.	The sector has increased government initiative to assist citizens.					
3.	The level of dependency has been reduced among the people.					
4.	The informal sector has helped shilling value to stabilize.					
5.	The businesses people are running are highly profitable					
6.	The sector has increased on the labour market (employment).					

SECTION B

Do you think the following statements are true about savings in Uganda?

		Strongly agree	Agree	Disagree	Strongly disagree	Not sure
1.	The number of people with a bank account has increased.					
2.	The number of people with a microfinance account has increased.					
3.	The number of people engaged in SACCOs has increased.					

SECTION C

In your opinion, what has been the effect of the informal sector on people's savings in Uganda?

		Strongly agree	Agree	Disagree	Strongly disagree	Not sure
1.	The informal sector has increased people's savings					
2.	People's knowledge about saving has increased					
3.	The sector has enabled people to sustain savings for a long time					
4.	The informal sector has stimulated community based saving schemes					

Thank you very much for your cooperation.

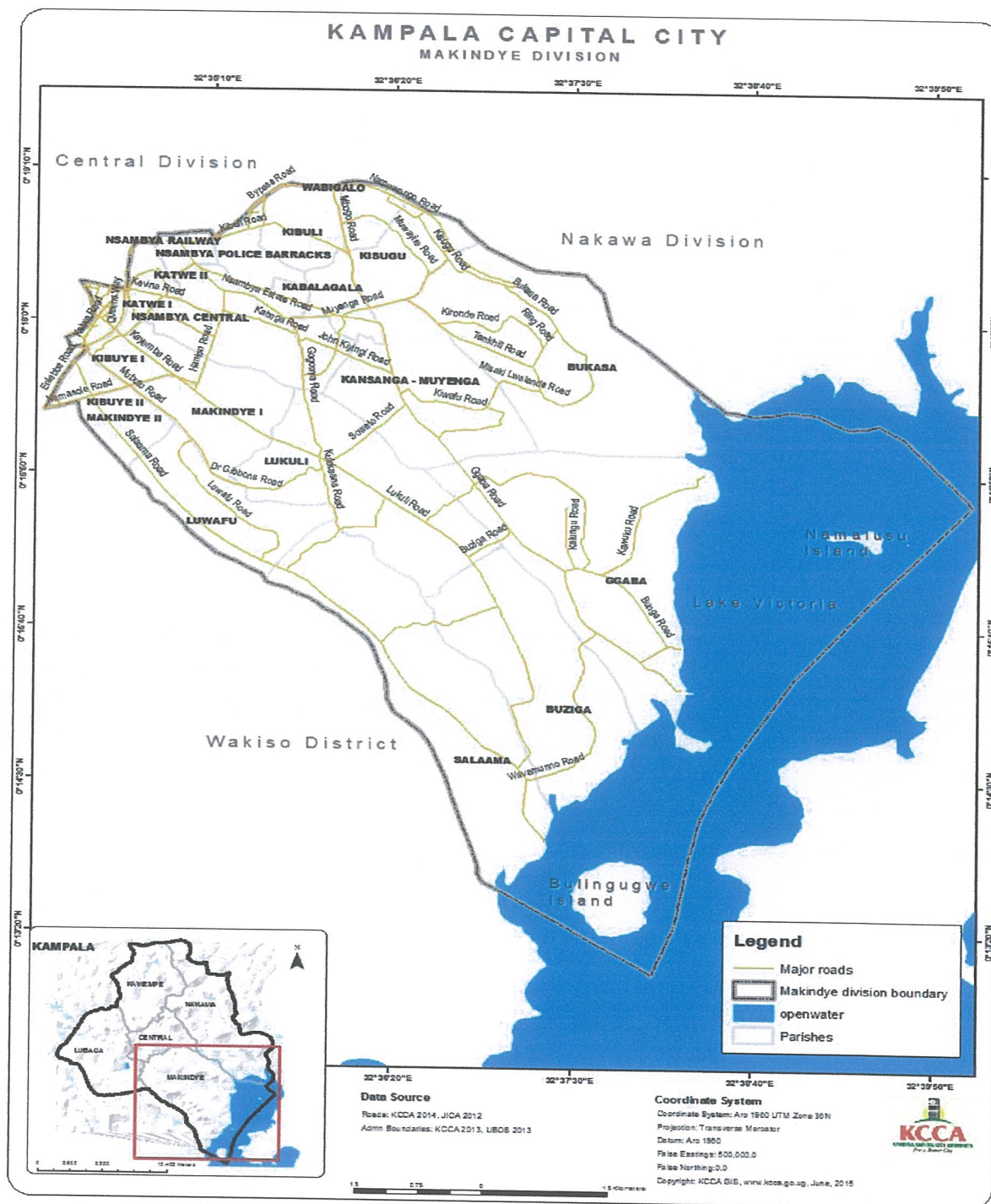
APPENDIX II: TIME FRAME

Activities	MARCH	APRIL	MAY	JUNE
3. Conceptual phase				
4. Chapter 1				
5. Design and planning phase				
6. Chapter 2-3				
7. Dissertation proposal				
8. Questionnaire design and data collection				
9. Analytical phase				
10. Chapter 4-5				
11. Final book bound				
12. Supervision and correction				

APPENDIX III: ANTICIPATED BUDGET

Item	Units	Price (UGX)	Amount (UGX)
Pens	4	500/=	2,000/=
Papers (A4)	1 ream	5,000/=	5,000/=
Printing	Lumpsome	40,000/=	40,000/=
Hard cover binding	3 copies	7,000/=	21,000/=
SPSS study package	Once	20, 000/=	20,000/=
TOTAL			88, 000/=

APPENDIX IV: A SKETCH MAP SHOWING MAKINDYE DIVISION, KAMPALA DISTRICT



Source: Physical Planning Authority (PSA), Kampala