


**A Comparative Case Assessment of the Development Roles of MFIs in
Uganda and Bangladesh**

Mwesigye Edgar Kateshumbwa

2552527



A Research Report submitted in partial fulfilment of the requirements for the
award of degree of Masters of Public Administration in the School of
Government, Faculty of Economic and Management Sciences,
University of the Western Cape

October 2007

Supervisor

Professor Christo De Coning

ABSTRACT

During the last decades of the 20th century, increased attention was given to the provision of microfinance services to low income earners, especially those from poor households of the developing world. This was done in the quest for remedies to the challenges posed by poverty as credit has been indentified as a barrier facing the poor. While the missions of different microfinance institutions (MFIs) varied, the majority focused on improving the social-economic conditions of the poor. However, there is general consensus that microfinance is not for all the poor. One wonders who the poor that benefits from the intervention are.

The overall objectives of this thesis were to assess the theory and evaluate the development roles of MFIs in Uganda and Bangladesh. The study in particular focused on MFIs impact on poverty reduction, empowering women, promoting health as well as promoting children's education in Uganda and Bangladesh. The study preferred the selected countries because Bangladesh is internationally considered as the best practice for microfinance, while Uganda is assumed to be well positioned in terms microfinance compared to other developing countries in Africa. Besides, both countries fall under the divide of developing countries. The question that guided this empirical investigation was whether MFIs empower women, reduce poverty, and promote children's education as well as health among its beneficiaries in Uganda and whether Bangladesh has important lessons of experience for Uganda.

The methodology employed in this study was mainly qualitative. The research investigation included a literature review of the prominent theoretical approaches as well as desktop study of the case Bangladesh. A case on Uganda's MFIs was developed using relevant literature as well as in-depth interviews with government and private sector experts on MFIs in Uganda, managers of randomly selected MFIs, beneficiaries of MFIs as well as focus group discussion with women beneficiaries in three regions of Uganda where the data was collected. Findings from the study revealed undeniably that MFIs are critical tools for development with strong potential on poverty reduction, empowering women, and promoting children's education as well promoting better health outcomes among the beneficiaries. In the same vein, the study also gives recommendations and areas for future research.

KEY WORDS

Microfinance institutions (MFIs)

Microfinance

Development

Sustainability

Bangladesh

Poverty

Empowerment

Capacity-building

Uganda



DEDICATION

This work is dedicated to my parents:

Kateshumbwa John and Rebecca

and to

my brother; Edmund

lastly to

my beloved sisters;

Barbra, Deborah, Rachael, Christine and Rita.



ACKNOWLEDGEMENTS

I owe immense heartfelt gratitude to my supervisor Professor Christo De Coning to whom I am deeply indebted for his invaluable, rigorous and critical guidance, patience and encouragement without which this work would have never come to fruition.

Special thanks go to my parents Kateshumbwa John and Rebecca who gave me all the necessary financial support. Their participation in MFIs contributed enormously in enabling me to grasp some of the ideas expounded in this study. Above all, you gave me the virtues that made me to persevere even in the hardest moments of life. Thank you.

I would also like to extend my appreciation to the staff of the School of Government and the Institute for Social Development, University of the Western Cape, particularly, Prof Pieter Le Roux, Prof John Williams, Prof Michelle Esau, Dr Leon Pretorius, Dr Issy Ille, Mr Collin Prins, Ms Lynnette Festers, Ms Bridgett Maart, Ms Jessica Gordons, Ms Priscilla Kippie and Ms Letitia Lekay who have been extremely helpful during my study.

Exceptional thanks are owed to Jenny Martin for her support and encouragement. I am also grateful to my friends in Uganda who assisted in me gathering all the necessary information as well the respondents of this study. Without their sincerity and open-mindedness, it would not have been possible for me to gather all the required data. I am also grateful to all my colleagues at UWC for their encouragement and assistance during my study.

DECLARATION

I declare that the research report entitled: **A Comparative Case Assessment of the Development Roles of MFIs in Uganda and Bangladesh** is my own work, that it has not been submitted for any degree or examination in any other University, and that all the sources I have used or quoted have been indicated and acknowledged as complete references.

STUDENT

..... **DATE**.....

Mwesigye Edgar Kateshumbwa



	TABLE OF CONTENTS	PAGE
	ABSTRACT	I
	KEY WORDS	II
	DEDICATION	III
	ACKNOWLEDGEMENT	IV
	DECLARATION	V
	LIST OF FIGURES AND TABLES	XI
	ABBREVIATIONS	XII
	CHAPTER ONE OVERVIEW, STRUCTURE AND METHODOLOGY	
1.1	INTRODUCTION	1
1.2	STRUCTURE OF THE STUDY	2
1.3	STATEMENT OF THE PROBLEM	3
1.4	GOALS OF THE STUDY	4
1.5	OBJECTIVES OF THE STUDY	4
1.6	MOTIVATION OF THE STUDY	4
1.7	DEFINITION OF KEY WORDS	5
1.8	RESEARCH METHODOLOGY	7
1.8.1	Introduction	7
1.8.2	Review of the relevant literature	7
1.8.3	Qualitative Approach	8
1.8.4	Case study Approach	8
1.8.5	Gaining Access	9
1.8.6	Selection of sites and participants	9
1.8.7	Methods of data collection	10
1.8.8	Data analysis and presentation	11
9	CONCLUSION	12
	CHAPTER TWO THEORETICAL OVERVIEW OF POVERTY, DEVELOPMENT AND MFIs	
2.1	INTRODUCTION	13
2.2	DEFINITION OF POVERTY	13
2.2.1	Dimension of poverty	14
2.2.2	Poverty deprivation trap	15

2.3	CONCEPTUALISATION OF DEVELOPMENT	17
2.3.1	Traditional theories of development	18
2.3.1.1	Modernisation theory	18
2.3.1.2	Dependency theory	19
2.3.2	Alternative approaches	20
2.3.2.1	People-Centred Development	20
2.3.2.2	Participation	21
2.3.2.3	Capacity-building	22
2.3.2.4	Empowerment	22
2.3.2.5	Top down/bottom up approach to development	23
2.4	DEFINITION OF MICROFINANCE AND MFIs	24
2.4.1	Summarised history of MFIs	26
2.4.1.1	MFIs in 1980's	26
2.4.1.2	MFIs in 1990's	27
2.4.1.3	MFIs in the new millennium	29
2.4.2	Objectives of MFIs	30
2.4.3	Types of MFIs	30
2.4.3.1	Income from the participants	30
2.4.3.2	Income from participants and public funds	31
2.4.3.3	Public funding	31
2.4.4	Characteristics of MFIs	32
2.4.5	Funding mobilisation	33
2.4.5.1	External generated resources	33
2.4.5.2	Internally generated resources	33
2.4.6	Target markets for MFIs	33
2.5	MICROFINANCE PARADIGM	34
2.5.1	Old paradigm: subsidised credit	34
2.5.2	New paradigm: sustainable commercial microfinance	35
2.6	INSTITUTIONIST AND WELFARIST APPROACH MICROFINANCE	36
2.6.1	Definition and rationale of institutionist approach	37
2.6.2	Definition and rationale of welfarist approach	38
2.7	THE DEVELOPMENT ROLE OF MFIs	40
2.7.1	Poverty reduction	41

2.7.2	Promoting children's education	42
2.7.3	Improving health outcomes	43
2.7.4	Empowering women	44
2.8	CONCLUSION	46
	CHAPTER THREE DEVELOPMENT ROLE OF MFIs IN BANGLADESH	
3.1	INTRODUCTION	47
3.2	BRIEF OVERVIEW OF BANGLADESH'S ECONOMY	48
3.3	MICROFINANCE SECTOR OF BANGLADESH	50
3.4	EVOLUTION OF MFIs IN BANGLADESH	50
3.5	FACTORS THAT LED THE GROWTH OF MFIS IN BAGLADESH	52
3.5.1	Visionary leadership	57
3.5.2	Role of donors	52
3.5.3	Role played by the government	53
3.5.4	Strong professional personnel	54
3.5.5	Population density and ethnic homogeneity	55
3.6	DEVELOPMENT ROLE OF MFIs IN BANGLADESH	56
3.6.1	Poverty reduction	57
3.6.2	Promoting children's education	59
3.6.3	Improving health outcomes	61
3.6.4	Empowering women	62
3.7	OVERALL SIGNIFICANCE OF MFIS	63
3.8	NEGATIVE ASPECTS OF MFIs	63
3.9	CONCLUSION	65
	CHAPTER FOUR DEVELOPMENT ROLE OF MFIs IN UGANDA	
4.1	INTRODUCTION	66
4.2	BRIEF OVERVIEW OF UGANDA'S ECONOMY	67
4.2.1	Poverty situation in Uganda	69
4.2.3	Poverty reduction policies	70
4.2.3	Poverty reduction strategies	72
4.3	FINANCIAL SECTOR OF UGANDA	72
4.4	EVOLUTION OF MFIs IN UGANDA	75

4.5	FACTORS THAT LED TO THE GROWTH OF MFIs IN UGANDA	78
4.5.1	Government policies	79
4.5.2	GoU microfinance programmes	80
4.5.3	Regulatory framework	81
4.5.4	Donor and government commitment	81
4.5.5	Strong stakeholder mechanism	82
4.6	DEVELOPMENT ROLE OF MFIs IN UGANDA	83
4.6.1	Basic information and methodology	83
4.6.2	MFIs and poverty reduction in Uganda	84
4.6.2.1	Perceptions of government and private sector experts on poverty reduction	85
4.6.2.2	Perceptions of managers on poverty reduction	85
4.6.2.3	Perceptions of beneficiaries on poverty reduction	85
4.6.3	MFIs and promotion of children's education	88
4.6.3.1	Perceptions of government and private experts on education	89
4.6.3.2	Perceptions of MFI managers on education	89
4.6.3.3	Perceptions of MFI beneficiaries on education	90
4.6.4	MFIs and improving health outcomes	93
4.6.4.1	Perceptions of government and private sector experts on of health	94
4.6.4.2	Perceptions of MFI managers on health	94
4.6.4.3	Perceptions of beneficiaries on health	94
4.6.5	Empowering women	97
4.6.5.1	Perceptions of government and private sector experts on empowerment of women	97
4.6.5.2	Perceptions of MFI managers on empowerment of women	97
4.6.5.3	Perceptions of MFI women beneficiaries on empowerment	98
4.6.5.4	Focus group discussions	99
4.7	CONCLUSION	100
	CHAPTER FIVE FINDINGS OF THE STUDY	
5.1	INTRODUCTION	101
5.2	MFIs AND POVERTY REDUCTION	101
5.2.1	Findings from the literature on MFIs and poverty reduction	101
5.2.2	Findings on MFIs and poverty reduction in Bangladesh	102

5.2.3	Findings on MFIs and poverty reduction in Uganda	103
5.3	MFIs AND IMPROVEMENT OF CHILDREN'S EDUCATION	103
5.3.1	Findings from the literature on MFIs and children's education	104
5.3.2	Findings on MFIs and children's education in Bangladesh	104
5.3.3	Findings on MFIs and children's education in Uganda	105
5.4	MFIs AND IMPROVEMENT OF HEALTH OUTCOMES	105
5.4.1	Findings from the literature on MFIs and health	105
5.4.2	Findings on MFIs and health outcomes in Bangladesh	106
5.4.3	Findings on MFIs and health outcomes in Uganda	107
5.5	FINDINGS ON MFIs AND WOMEN EMPOWERMENT	107
5.5.1	Findings from the literature on MFIs and women empowerment	107
5.5.2	Findings on MFIs and women empowerment in Bangladesh	108
5.5.3	Findings on MFIs and women empowerment in Uganda	108
5.6	CONCLUSION	109
	CHAPTER SIX CONCLUSION AND RECOMMENDATIONS	
6.1	INTRODUCTION	111
6.2	DEVELOPMENT ROLE OF MFIs	111
6.2.1	MFIs and poverty reduction	111
6.2.2	MFIs and improvement of children's education	111
6.2.3	MFIs and improvement of health	112
6.2.4	MFIs and empowerment of women	112
6.3	KEY THEORETICAL ELEMENTS OF RESEARCH	112
6.3.1	Poverty	113
6.3.2	Development	114
6.3.3	Microfinance institutions	116
6.4	LESSONS LEARNED FROM THE STUDY	118
6.5	RECOMMENDATIONS	119
6.5.1	Government	120
6.5.2	Microfinance institution industry	121
6.6	AREAS FOR FUTURE RESEARCH	122
6.7	CONCLUSION	123
7	BIBLIOGRAPHY	124

LIST OF FIGURES

FIGURE 2.1	INTERLOCKING CLUSTERS OF POVERTY	15
FIGURE 3.1	MAP OF BANGLADESH	48
FIGURE 4.1	MAP OF UGANDA	67
FIGURE 4.2	SOURCES OF DATA	84
FIGURE 4.3	PERSONAL SAVINGS	86
FIGURE 4.4	SAVINGS IN THE LAST 12 MONTHS	87
FIGURE 4.5	INCOMES OVER THE LAST 12 MONTHS	88
FIGURE 4.6	TOTAL NUMBER OF CHILDREN IN HOUSEHOLDS	91
FIGURE 4.7	BOYS SCHOOLING	91
FIGURE 4.8	GIRLS SCHOOLING	92
FIGURE 4.9	CHILDREN SCHOOLING	93
FIGURE 4.10	ILLNESS PREVALENCE IN HOUSEHOLD	95
FIGURE 4.11	ABILITY TO MEDICAL EXPENSES BEFORE INVOLVEMENT IN MFIs	95
FIGURE 4.12	ABILITY TO PAY MEDICAL EXPENSES AFTER INVOLVEMENT IN MFIs	96
FIGURE 4.13	MEASURING WOMEN EMPOWERMENT	98

LIST OF TABLES

TABLE 3.1	BANGLADESH MFI DATA VERIFIED BY THE MICRO-CREDIT SUMMIT IN GLOBAL CONTEXT	58
TABLE 4.1	POVERTY REDUCTION POLICY FRAMEWORK UGANDA	71
TABLE 4.2	MICROFINANCE PROVIDERS IN UGANDA	78
TABLE 4.3	BENEFICIARIES INTERVIEWED	86

ABBREVIATIONS

ADB	Asian Development Bank
AMFIU	Association of Micro Enterprise Finance institution Uganda
BancoSol	Bank for Solidarity groups
BDB	Bank Dagang Bali
BKD	Badan Kredit Desa
BoU	Bank of Uganda
BRI	Bank Rakyat Indonesia
CBOs	Community Based Organisations
CERUDEB	Centenary Rural Development Bank
CGAP	Consultative Group to Assist the Poor
CMF	Centre for Microfinance
ERP	Economic Recovery Programmes
FSDPU	Financial Sector Deepening Policy Unit
GoU	Government of Uganda
IMF	International Monetary Fund
LCV	Local Council Five
MDGS	Millennium Development Goals
MFIs	Microfinance Institutions
MoFPED	Ministry of Finance Planning and Economic Development
MSEPU	Micro and Small Enterprise Policy Unit
MTCS	Medium Term Competitive Strategy
NAADS	National Agriculture Advisory Services
NGOs	Non Governmental Organisations
NRA	National Resistance Army
NRM	National Resistance Movement
NURP	Northern Uganda Rehabilitation Programme
PAP	Poverty Alleviation Programme
PCD	People Centred Development
PEAP	Poverty Eradication Action Programme
PMA	Programme for Modernisation of Agriculture
PRS	Poverty Reduction Strategy
PRSPs	Poverty Reduction Strategy Papers
PSD/CB	Private Sector Development /Capacity Building

PVO	People's Voluntary Organisations
ROSCAs	Rotating Savings and Credit Associations
SACCOs	Savings and Credit Cooperation's
SEWA	Self Employed Women's Association
SHDI-U	Self Help Development International Uganda
SHO	Self-Help Organisations
SWARP	South West Agriculture Rehabilitation Project
UNDP	United Nation Development Programme
UPE	Universal Primary Education
UWESO	Uganda Women's Effort to Save Orphans
UWFT	Uganda Women Finance Trust
WB/BIDS	World Bank/ Bangladesh Institute for Development Studies
USE	Universal Secondary Education
MDGs	Millennium Development Goals



CHAPTER ONE: INTRODUCTION

OVERVIEW, STRUCTURE AND METHODOLOGY

1.1 INTRODUCTION

During the last decades of the 20th Century, increased attention was given to the provision of microfinance services to low income earners, especially those from poor households of the developing world¹. At the same time, there was also a need for establishment of viable and sustainable organisations that would provide microfinance services. While the missions of different microfinance institutions (MFIs)² varied, the majority focused on improving the economic conditions of the poor. The growth of MFIs was accompanied by expectations about their impact on the beneficiaries.

In order to assess the socio-economic development roles of MFIs, this study took a planned and systematic orientation and posed a central question to whether MFIs empower women, reduce poverty, and promote children's education as well as health among its beneficiaries³ in Uganda and Bangladesh. The focus of the study is not primarily on the role of MFIs in micro-lending and other small medium micro-enterprise but rather on the above selected development themes. The study positioned itself on the facilitatory roles of MFIs because it contends both theoretically and practically, that MFIs do not in themselves reduce poverty, empower women or promote health and children's education. Rather, they provide a catalyst for poor beneficiaries to [re]create for themselves to reach acceptable social-economic standards.

Such argument also stem from the emerging questions on the usual optimism within which development and / or MFIs interventions are evaluated by taking beneficiaries as mere recipients of interventions. Nonetheless, they too partake in the transformation of interventions into an acceptable and meaningful life in line with their contextual aspirations.

¹ The concepts of 'developed' and 'developing' divide are preferred as a category for ease of understanding; though these are highly contested categorization just like 'north-south', 'rich-poor', divide. The term developed portrays development as static while it's being clamoured for everyday, and everywhere. The north-south divide is empty since there is no boundary of where it starts and end. The distinction of rich and poor is wanting because of the multifacetedness of poverty on the one hand and the wrong assumption that there are no poor people or locations in the rich countries on the other.

² The rest of the study uses acronym MFIs to mean microfinance institutions.

³ The researcher prefer to use the word 'beneficiaries' as opposed to 'clients' since the latter seems to be too broad and normally associated with New Public Management and Development.

In light of the above, a number of logical studies (Christen et, al 1995; Goetz & Gupta, 1996; Hulme & Mosley, 1996b; and Zaman, 2004) on the impact of MFIs programmes have increased. These studies have provided a better base for understanding how MFIs and other microfinance programmes have impacted on the low income earners and the poorest of the poor.

This study assesses the development roles of MFIs in Uganda and Bangladesh. In particular, the study broadens the understanding of development roles of MFIs with emphasis on the socio-economic impact on beneficiaries such as, empowering women, reducing poverty, promoting education, and promoting health among households that participate in microfinancing in both countries.

From a theoretical perspective the study further indicates that participation in microfinance programmes contributes to reduced vulnerability and economic risks. Microfinance services help the poor to diversify their income sources, build up physical, human and social assets, good money management, and rebuilding their household's base of income and assets after economic shocks (Cohen & Sebstad, 1999; Hulme, 1997; Sebstad & Chen, 1996).

1.2 STRUCTURE OF THE STUDY

The study is divided into Six Chapters, namely, Chapter one gives overview, structure and methodology. The Chapter also contains the definition of basic concepts and terminology, research problem, objectives of the study, motivation of the study, limitation of the study and methodology of the study.

Chapter two gives a theoretical overview and conceptualisation of poverty development and MFIs. Fundamentally, the chapter gives theoretical and intellectual background to the study and builds a logical framework for the research.

Chapter three focuses on the development role of MFIs in Bangladesh. Amongst other the chapter discuss the Microfinance sector of Bangladesh, evolution of MFIs in Bangladesh and factors responsible for growth of MFIs in Bangladesh.

Chapter four discusses the development role of MFIs in Uganda. The chapter uses available data in the literature as well as information obtained from the empirical field study.

Chapter five concentrates mainly on the findings from the study. The discussion in this chapter is mainly on the selected areas namely, MFIs and poverty reduction, MFIs and improvement of children's education, MFIs and improvement of health, and lastly MFIs and empowerment of women.

Chapter six provides a conclusion, recommendations and areas for future research.

1.3 STATEMENT OF THE PROBLEM

As pointed out by Littlefield, Murdoch & Hashemi (2003) and United Nations, (2004), there is an escalating mass of facts showing that the availability of financial services for poor households ("microfinance") is a critical contextual factor with strong impact on the achievement of the Millennium Development Goals (MDGs)⁴. However, despite MFIs enormous contribution and potential for development, little has been done in estimating the demand of Microfinance services to the poor. Robinson (2001) argues that those who hold power do not understand the demand; those who understand the demand do not hold power.

The literature seems to indicate that the issues of MFIs and development in the developing countries particularly in the disadvantaged rural communities are still open to discussion. In the same vein, there is limited research on whether MFIs empower women, reduce poverty, and promote children's education as well as health among its beneficiaries in Uganda. The problem being investigated in this study is that insufficient research has been undertaken to explain international lessons of experience (such as in Bangladesh) and its implications for Uganda.

On the same subject, insufficient research publications and documentation especially with regard to whether MFIs empower women, reduce poverty, and promote children's

⁴ Millennium Development Goals include: (1) eradicate extreme poverty and hunger; (2) achieve universal primary education; (3) promote gender equality and empower women; (4) reduce child mortality; (5) improve maternal health; (6) combat HIV/AIDS, malaria, and other disease; (7) ensure environmental sustainability; and (8) develop a global partnership for development.

education as well as health among its beneficiaries in Uganda renders a basis for this study.

1.4 GOALS OF THE STUDY

The two broad goals of the study are to:

- Assess the theory on the development roles of MFIs with emphasis on whether the institutions empower women, reduce poverty, and promote children's education as well as health in Uganda.
- Evaluate the perceptions of government and private sector experts, managers and some MFIs beneficiaries on whether MFIs empower women, reduce poverty, and promote children's education as well as health among its beneficiaries in Uganda.

1.5 OBJECTIVES OF THE STUDY

The objectives of the study are to:

- Provide a theoretical perspective and conceptual framework on the role of MFIs in development;
- Provide a comparative case assessment of the role MFIs in Uganda and Bangladesh (which is often cited as the best practice example) in terms of empowering women, poverty reduction, promoting children's education as well as promoting health.
- Present an analysis and synthesis of findings from the empirical study on Uganda as well as conclusions and recommendations from both case studies.

1.6 MOTIVATION OF THE STUDY

The major reason as to why the researcher was compelled to carry this investigation is the fact that, a study of this nature has not been conducted in Uganda thus far. Hence, the exploratory nature of the study has potential to advance new theory by interpreting the significance of MFIs within a social-economic context in Uganda.

On the other hand, the international lessons of experience recorded regarding MFIs in Bangladesh have not been directly applied or considered in Uganda before. The personal experience of the researcher as a beneficiary to MFIs for a period of six years gave the

researcher inspiration to carry out the study. The findings in this study are of a practical nature and will be made available to decision-makers for consideration.

1.7 DEFINITION OF KEY WORDS

In order to clarify the specific concepts used in this study, basic key terms and concepts are elaborated in the subsequent section.

Microfinance refers to small loans that help poor people who wish to start or expand their small businesses and who are unable to get loans from commercial banks. According to Robinson (2001:9), microfinance refers to small-scale financial services for both credits and deposits that are provided to people who farm or fish or herd; operate small or microenterprises where goods are produced, recycled, repaired, or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and local groups in developing countries, in both rural and urban areas.

On the other hand, Microfinance Institutions (MFIs) refers to non- governmental organizations (NGOs) or private institutions providing financial services to low income households and / poor entrepreneurs (United Nations, 2004). The services provided by MFIs include credit, savings and insurance. Some MFIs also provide non-financial services like training, group formation and counselling in order to build the capacity of their clients.

The concept of poverty has many meanings to many people. Poverty refers to the state of being poor; lack of the means of providing material needs or comforts. According to Sen (1999), he refers to poverty as the failure to have some basic capabilities to function. The function can vary from elementary such as being well nourished, being adequately clothed and sheltered, avoiding preventable morbidity and so forth to more complex ones such as failure to take part in the life of the community, being able to appear in public without shame and so on.

The term development, according to Cypher & Diethz (1997) incorporates diverse and broad aspirations of good life in regard to economic, social and political aspects of the society. Similarly, Overseas Development Administration, (1995) refers to the attainment

of sustainable improvement in economic growth and quality of life that increases the range of choices open to all, achieved by people's own efforts in private sector or through voluntary activity, supported by the government. Ayres (1995) on the other hand notes that development is directly linked to economic indicators such as the reduction of poverty, unemployment and inequality.

Empowerment is seen as a process through which a person or community gives or gets power from another. The idea is that power originates outside the person or community, who gives or gets it from another. It appears that, there is always another person or community that ought to be empowered. According to Eade (1997), empowerment is termed as the gaining of strength, confidence and vision to work for positive changes. However for Checkoway (1995) the key aspect of empowerment is for people to recognise and act upon the power that they already have.

The concept of sustainability refers to the conservation of the natural resources and a sense of obligation to future generation (Becker & Jahn, 1999). It relates to the capacity of an organisation, or set of activities to become self-supporting (Eade & Williams, 1995). In a nutshell, sustainability refers to looking after resources while maintaining the present or existing ecosystem.

The concept capacity-building refers to a mechanism of enabling local people to determine their own values, priorities and act on their decision (Eade & Williams, 1995). On the other hand, Schuftan (1996) refers to capacity- building as an approach to community development that raises people's knowledge, awareness and skills to use their own capacity as well as the available support system to resolve the more underlying causes of underdevelopment. In addition, Eade (1997) refers to capacity-building as enabling institutions to be more effective and efficient in the process of identifying, implementing, monitoring and evaluating development projects.

Uganda is a country East Africa. It is bordered by Tanzania and Rwanda to the south, the Democratic Republic of Congo to the west, Sudan to the north and Kenya to the east. It has a land surface of 241,139 square kilometers. It has several fresh water lakes, including Lake Victoria which it shares with Kenya and Tanzania, and from which the River Nile starts its 6695 kilometers journey to the Mediterranean Sea.

Bangladesh is a country in South Asia. It is surrounded by India on all sides except for a small border with Myanmar to the far Southeast and the Bay of Bengal to the South. The borders of Bangladesh were set by the Partition of India in 1947, when it became the Eastern wing of Pakistan (East Pakistan), separated from the Western wing by 1,600 kilometres (1,000 miles). Despite their common religion of Islam, the ethnic and linguistic gulf between the two wings, compounded by an apathetic government based in West Pakistan, resulted in the independence of Bangladesh in 1971 after the bloody Bangladesh Liberation War, in which it was supported by India.

1.8 RESEARCH METHODOLOGY

1.8.1 Introduction

A range of equally important research methodologies do exist. Nonetheless, this study employed mainly qualitative research methodology. Qualitative research methodology was utilised because of the nature of the research questions and resources available. Other research methodology that was not fully utilised in the study include quantitative. The subsequent section discusses a detailed methodology.

1.8.2 Review of the relevant literature and construction of theoretical framework

A host of authors (Babbie & Mouton, 2001; Neuman, 2000; and Mouton, 1996) have concurred that research methodology in social sciences is very broad since it encompasses different processes, approaches, principles, strategies assumptions and techniques applied in the process of undertaking scientific research. One of the highlighted strategies in undertaking a scientific research is the review of literature. According to Marshal & Rossman (1995) and Mouton (2001), review of the literature gives an insightful exploration and exposes the underlying assumptions behind the research questions, displays the research paradigm underlying the study and guides researchers towards conceptualisation of the research problem by locating it in the theory.

During the literature review, this study focused on three areas. The first part deals with definition of poverty, dimensions of poverty and ended by discussing the poverty deprivation trap. The second section examines and contextualises development, discusses both traditional theories and alternative theories of development. The third section

discusses MFIs which leads to the construction of the analytical framework of the study. In short, the literature review is done to accurately define the concepts, explore and select suitable theories for the study. This is explained in detail in the second chapter.

1.8.3 Qualitative approach

Qualitative researchers use various strategies of enquiry that differ depending on the purpose of the study, the nature of research question and resources available to the researcher (Rubin & Rubin, 1995). At the same time, qualitative research also tries to explore human behaviour through interacting with people in trying to understand the World. Mouton (2001), Flinders & Mills (1993), and Runi & Babbie (1993) argues that the primary goal of using qualitative research is to describe and understand; rather than explaining human behaviour.

In light of the above, this study employed a qualitative case study approach in order to collect more information and get a deeper understanding and interpretation of socio-economic aspects of the development roles of MFIs. The rationale for this preference is the fact that different scholars (Mouton 2001; Flinders & Mills 1993; and Runi & Babbie, 1993) asserts that qualitative research helps to understand the dynamics of people's experience, structure of their lives perceptions, assumptions attitudes behaviour, judgements and suppositions within the context of their social world. Based upon the analytical framework the researcher employed a variety of qualitative research tools (interviews, group discussion) in order to gain an in-depth understanding the dynamics of development roles of MFIs in development particularly in the case of Uganda. Evidently people's perceptions, feelings and interpretation of social-economic events, form a tremendous part of the data collected.

1.8.4 Case study

A case can be a person, an event in a given area a programme consisting of several projects, time period, a critical event within a community or a community development process. Yin (1984:23) asserts that the case study method combines quantitative and qualitative modes of observation while investigating a particular locality within the real life context. Robson (1993) and Patton (1987) argues that case studies are useful when one needs to identify a specific problem or condition in great depth, and where one can identify case rich information.

Case studies are detailed investigations of individuals, groups, institutions or other social units. Case studies attempt to help the researcher in analyzing the variables relevant to the subject under study. Further, the case study method provides a basis for the application of ideas and extension of methods. In the context of the current study, this method is suitable because it makes it possible to study the complex theory of MFIs in relation to their development roles in both countries. It also makes it possible to make inferences or cautious generalisation of situations of similar occurrence. A case study on Uganda was therefore developed using three selected areas in the country namely West, East and Central.

1.8.5 Gaining access

It was not very difficult for the researcher to get access to the area of study because he already knew many people working in Microfinance both in the government and private sector prior to carrying out the research. Respondents were already familiar with the researcher and his intentions. The normal protocols were followed such as making appointments and seeking permission before interviews were conducted. The above protocols were applied at all the levels that the interviews were conducted. At the clientele level the managers of selected MFIs assisted in organising the beneficiaries for interviews as well as for focus group discussion.

1.8.6 Selection of the site and participants

At the national level, the researcher carried out six interviews. Three of these interviews were with government experts on MFIs while the other three were with the specialist on MFIs in the private sector. The second phase of the interviews was with randomly selected managers of different MFIs across three regions in the country (West, Central, and the East). Due to time constraints, the Northern part of the country was not taken into account. The third phase comprised of the participants at the clientele level. In each of the three regions visited, twenty beneficiaries were also randomly selected from different MFIs in each region. Lastly, the researcher carried out focus group discussions with female beneficiaries in each region. In the Western region, the researcher had a focus group discussion with thirteen women, in the Central they were twelve and in the Eastern they were fourteen. The questions in all the discussions were similar. The group discussions were done with assistance of MFIs managers.

1.8.7 Methods of data collection

This study was of an exploratory nature. For Bangladesh, the study relied on the prominent literature as the case material has been well recorded and is readily available. In the case of Uganda's MFIs, it was developed using relevant literature as well as in-depth interviews from randomly selected beneficiaries of selected MFIs as well as specialists on MFIs in the Government and the private sectors in Uganda.

The research design included questions that were based on an analytical framework. The researcher consulted with colleagues and some experts in the field of research to come up with discussion points and questions posed to focus groups as well as questions used in individual interviews. With the help of the supervisor's constructive comments, necessary modifications were made. This helped the researcher to formulate some of the questions so as to make these clearer to the interviewees.

Before setting off for data collection, the researcher liaised with different people who had expertise in working at the field level in Uganda. Accordingly, their practical experiences were helpful in terms of data collection, focus group discussions and mini workshop facilitation. The researcher undertook a fieldwork period of three weeks in (East, West and Central) parts of Uganda. During the fieldwork stage the relevant primary data was gathered. To facilitate easy communication and understanding among the participant all focus group discussion were conducted in a local Uganda Luganda language. This allowed effective communication without barriers. With the objective of capturing required information, the researcher used a mini cassette recorder. In the process of undertaking research the following fieldwork methods were used to gather required information in Uganda.

In-depth interviews were one of the most effective tools used in the process of carrying out this research. According to Gerson & Horowitz (2002), in-depth interviews mainly rely on informal interviewing techniques seeking to explore particular matters in a detailed, elaborative and comprehensive manner. This study used similar methods. Thirteen personal interviews, either in-person or by telephone were conducted to gather information from experts with knowledge relating to the roles of MFIs in development. Three of these interviews were from government experts, three from private sector

specialists on MFIs and seven were from randomly selected MFIs across the three regions where the study was conducted.

The questions were open-ended and broad as they were intended to collect as much information as possible. Probing was used to stay on track with answers being sought. The questions asked were more related to socio-economic development roles of MFIs and in particular, perceptions on whether MFIs empower women, reduce poverty, promote children's education as well as improve health outcomes among the beneficiaries in Uganda.

Focus group discussions are among the widely used in-depth interview techniques in the social science research (Rubin & Rubin, 1995). This study also employed focus group discussions. The researcher carried out three focus group discussions in (West, Central and Eastern regions) where the study was conducted particularly with women beneficiaries. During the focus group discussions, questions were asked as to whether their participation in MFIs had an impact on their empowerment, children's education, poverty reduction as well improvement in the health outcomes. The outcomes from these focused group discussions are illustrated in the forth Chapter of the study

Observation is another relevant method that was used in this study. According to Jorgensen (1989), observation is a very useful tool in gathering the detailed information of processes, relationships among people and their respective environment, and patterns, as well as the immediate socio-cultural contexts in which human existence unfolds. During the study this method provided the researcher with detailed descriptions different activities that MFIs beneficiaries are involved with. For example, it was observed during the field study in the central region of Uganda that MFIs beneficiaries had small business in the markets and physical assets such as land, cattle, goats and other household assets.

1.8.8 Data analysis and presentation

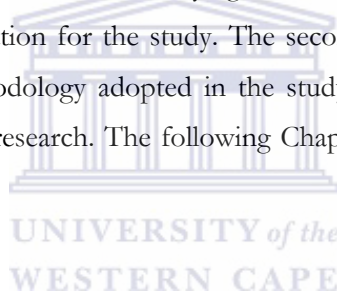
In qualitative data analysis, the researcher sorts and shifts the data, searching for types, classes, sequences, processes and patterns. Jorgensen, 1989 and Mouton, 1996 argues data analysis involves reducing the size of the information obtained to a manageable proportion and identifying of different patterns as well as themes in the data. At the

beginning of the data analysis process, the researcher coded and edited the data and arranged its respective themes and categories.

According to Robson (1993), a code is a symbol applied to a group of words to classify or categorise them. They are in most cases related to research questions, concepts and themes. In addition, analysis of the information and data presentation were also made using text, tables and figures. In order to arrive at conclusions and recommendations, the degree of correlation between the gathered information and the existing information on the research questions, were used as the guiding principle and parameter.

1.9 CONCLUSION

The first section of this Chapter has provided a general background, a statement of the problem, an overview of the goals of the study and a summary of the objectives. It has also not only furnished justifications for carrying out the research in this specific area, but also provided the motivation for the study. The second section of the Chapter has explained the research methodology adopted in the study. The study is guided by the basic principles of scientific research. The following Chapter will discuss the theoretical perspectives of the study.



CHAPTER TWO

THEORETICAL OVERVIEW OF POVERTY, DEVELOPMENT AND MFIs.

2.1 INTRODUCTION

This Chapter is committed to three interconnected subjects, namely, (i) an understanding of the concept of poverty; (ii) development and (iii) theoretical perspectives on MFIs from which the analytical framework is constructed. The Chapter relies heavily on the international literature on the three subject areas of discussion. The first part of the Chapter (conceptualisation of poverty), illustrates various definitions of poverty, the dimension of poverty, with emphasis on the poverty deprivation trap as developed by Chambers (1983).

The second part of the Chapter deals with the conceptualisation of development and the traditional theories of development namely; modernization and dependency theory. This section also outlines alternative approaches to development, namely; people centred development, participation, capacity building, and empowerment as well as top down / bottom-up approach to development.

The third part of the Chapter, focuses on an explanation of the concept and approaches to microfinance and MFIs, summarised history of MFIs, objectives of the MFIs, types of MFIs, characteristics of the MFIs, target and impact analysis of MFIs, microfinance paradigms, approaches to microfinance (institutional and welfarist) and lastly the role of MFIs in poverty alleviation and development as well as a concluding remark.

2.2 DEFINITION OF POVERTY AND RATIONALE

Poverty has drawn the attention of the World Bank, sociologists, researchers, politicians and academicians to come up with various definitions. Accordingly, the majority of the sources seem to differentiate between “absolute” and “relative” poverty (Sen, 1999; Atkinson, 1991; Bigsten, 1983; World Bank, 2000; World Bank, 1998). Absolute poverty refers to a lack of sufficient income in cash or exchange items for meeting the most basic needs for example food, clothing and shelter. Relative poverty on the other hand, refers to a situation of poverty for a particular group or area *vis-à-vis* the economic status of other members of the society. In this respect, the poor people are considered as poor if they fall below prevailing standards of living in a given societal context (World Bank, 2000; World Bank, 1990; Atkinson, 1991).

In addition, poverty has been seen as a social problem, which reproduces itself from generation to generation, resulting to the poverty cycle. It appears that when one comes from a poor background or is born to poor people, the chances of being rich are very narrow. Therefore, the cycle of poverty is more like a permanent situation, where people are trapped and unable to escape. According to Dinitto & Dye (1983: 55), they postulate that “poverty is a way of life passed on from generation to generation in a self-perpetuating cycle. This culture of poverty involves not just a low income, but also attitudes of indifference, alienation and apathy”.

In the same vein, Leinwand (1968) argue that poverty cycle is related to the casualties of society, such as inadequate parents, children who are in varying degrees abused at home resulting in emotional disturbance, socially and intellectually deprived people, unskilled or unemployed persons not earns enough to move out of social deprivation, people trapped in unstable and unsatisfying marriages and those living dysfunctional family lives. All these factors interact with various linkages to keep one in the trap of the cycle of poverty.

According to Fields (1980), poverty is an economic condition where people lack sufficient income to obtain certain minimal levels of health services food, housing and education generally recognised as necessary to ensure a tolerable standard of living. Nevertheless, there are different theories about the main causes of poverty. The Marxist theory hypothesises that poverty is a product of an unjust social structure and gives evidence on slavery, colonialism and exploitation by the rich (Wallestein, 1974; Frank, 1969). More recently, poverty issues have once again moved to the top of development agenda reflecting the concern that economic reforms undertaken by many countries in the 1980s may have raised inequality and poverty levels (World Bank, 1990).

2.2.1 Dimension of poverty

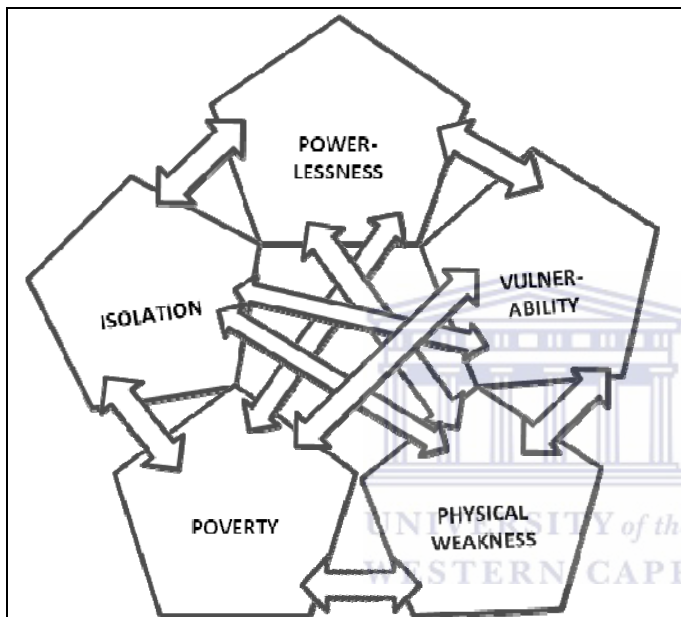
Poverty as a matter of empirical investigation and theoretical exploration has attracted the attention of governments, civil societies and academicians. This is reflected in well documented and rich textured material in the literature on the subject. Among the notable works on poverty include (Sen, 1999; Chambers, 1983; Filstead, 1990; Howard, 1985; Ife, 1995; Klasen, 1977; and Lombard, 1991). In addition, some journal publications such as (Sen, 1990; Ahmed, 2003; Athkison, 1991; Appleton, 2001 and Mosley & Rock, 2004) have also endeavoured to lay down the magnitude of poverty.

However, this study utilises the works of Chambers (1983) to demonstrate the extent to which poverty has negatively impacted on the lives of the people.

2.2.2 Poverty deprivation trap

Chambers (1983) uses correlation of five interlocking clusters to discuss the ills associated with poverty as illustrated in Figure 2.1 below.

FIGURE 2.1 INTERLOCKING CLUSTERS OF POVERTY



Source: (Chambers, 1983:112)

According to Chambers, one of the Western world's most respected analysts of rural development, he identifies five interlocking "clusters of disadvantage" that characterise the lives of the rural poor in developing countries namely: poverty, physical weakness, isolation, vulnerable and powerlessness. Each of these disadvantages serves to reinforce and aggravate the others; the overall effect is to 'trap the poor in deprivation' (Chambers, 1983:112).

The first cluster (poverty) involves the material status and resources of the household. In respect, Chambers (1983) uses aspects such as assets endowments, livelihood strategies, housing conditions, and access to services, typical of Uganda and Bangladesh's rural poor. Other elements of his conceptualization of 'poverty' applicable in the Uganda's

context include a tendency of the poor to use available cash on immediate needs rather than on savings or investment (Chambers, 1983:112).

Poverty of poor households according to Chambers (1983) is both a cause and effect of the second cluster of disadvantage physical weakness. Rural households face frequent bouts of illness, typically occasioned by poor nutrition and sanitation. Infant, child and mortality rates in rural households are often higher than in urban areas because of the difficulty of accessing clinics or other health care facilities. Poor households in general seem to have a higher ratio of dependents that include small children, the elderly, the sick and disabled.

In light of the above, Chambers (1983:113) argues that the poor are left in isolation. He further argues that the rural households are often located at a substantial distance from one another and from trading centres unable to access information. Therefore, with heavy workloads and limited resources at their disposal, rural household members are rarely able to travel. In addition, many rural households seem to be infrequently or never visited by government workers from health, agriculture or other departments. Hence, Chambers (1983:113) argues that such situation where rural households' have difficulty in accessing information often exacerbated by low levels of formal education and literacy deepens their isolation.

As a result of being isolated, Chambers (1983) argues that the poor becomes vulnerable. Vulnerability is often experienced through seasonal fluctuations of agricultural cycle in rural areas (increased workloads during periods of peak activity and decreased income and food security) leading to poor nutrition and poor health during the lean months. The time of highest risk for many agricultural families is the extremely wet season, when demand for labour is high, food supplies are low, and sickness is more common. According to Wilkins (1998), the reliance of most rural economies on agriculture leaves rural households highly vulnerable to seasonal failure as well, when inadequate or excessive rain damages or destroys crops.

In the same vein, the poor are left powerless. Chambers (1983:113) argue that powerlessness is least tangible but arguably the most significant of the five. However, the term powerlessness appears to be relative therefore one can substitute it with

“disempowerment”. Seemingly, no individual household or community is ever all-powerful or entirely without power. Rather, there are varying degrees of empowerment possessed by an entity (individual, household, community and nation-state) vis-à-vis another entity. The degree of empowerment is determined by the relationship between the two and is therefore constantly changing as the relationship changes.

In conclusion, the strength of these five clusters or linkages varies but poverty is the strong determinant of the others. Poverty contributes to (i) physical weakness due to lack of food; (ii) isolation because of the inability to have money to travel for job seeking and pay fees for education; (iii) vulnerability due to lack of assets to pay high amount of expenses; and (iv) powerlessness due to lack of wealth (Chambers, 1983). In the view of the above discussion on definitions and the dimensions of poverty, the subsequent section discusses development and some of the theories that are embedded before MFIs and their development roles are discussed.

2.3 CONCEPTUALISATION OF DEVELOPMENT

The term development is multi-dimensional with numerous meanings and definitions (Coetzee, 2001; Pieterse, 2001; Cypher & Diethz, 1997). Generally, the concept encompasses values such as empowerment, capacity building, and the expanded role for women as well as transparency, equity and sustainability, irrespective of class, race, colour and gender. According to Coetzee (2001), development infers a form of social change that will lead to progress, the process of enlarging people’s choices, acquiring knowledge and having access to resources for a decent standard of living, and a condition of moving from worse to better.

Cypher & Diethz (1997) argues that development is the improvement of socio-economic and political dimensions of society that leads to increased income and standard of living conditions. From the above mentioned perceptions of development, it appears that in the last decades of the 20th century, development was seen as an economic exploitation whereby decisions were made by a few elites and the majority of people whom development was supposed to serve in the developing countries were excluded. This scenario was labelled traditional and led to birth of traditional theories of development.

2.3.1 Traditional theories development

There are differing perspectives from academics, politicians, social scientists and economists (Swanepoel & De Beer 2000; Burkey, 1993; Wallestein, 1974; Frank, 1969) on traditional development theories. These theories are mainly based on the Western concept of development which Ferriho (1980) refers to approaches of technological progress that encourages economic growth.

Traditional theorists assumed that Western model and provision of financial support to the developing countries would enhance development. In the same light, financial support was given to the less developed countries. Nonetheless, the less developed countries seemed not to have benefited much from the Western effort because of the limited capacity of the recipients. As a result, less developed countries never reached the level of strategically utilizing the resources that were provided. From the above perspectives, it is imperative to discuss briefly both modernization and dependency. Substantially, it is also pertinent for the study to review alternative approaches to development before theoretical perspectives on MFIs.

2.3.1.1 Modernisation theory

According to Graaff (2003), modernisation theory was a response of Western Social Scientists to the many challenges that faced less developed countries in the decades following the end of Second World War. Modernisation as a concept was understood as a system historically associated with the urban, industrial, literate and participant societies of Western World. Graaff & Venter (2001) and Coetzee (2001b) argues that modernisation system was characterised by a rational and scientific world view, with increased application of science and technology, and continuous adoption of the institutions coupled with the emerging technological ethos.

On the other hand, Rogers in De Beer & Swanepoel (1998) described modernisation as the process by which individuals change from traditional ways of life to a more complex, technologically advanced and rapidly changing lifestyle. In addition, 'developing world' is labelled as third world, backward, underdeveloped or less developed. Ironically, the Western views were to be a reflection through which developing countries should grow and change. The rationale was that 'developing World' ought to repeat in the 20th century what the 'developed World' did in the 18th century by replacing traditional values,

attitudes, practices and social structure with more modern ones. The assumption was that the 'developed World's' way of development was unquestionably right and provided the best model for development.

Modernisation theory advocated for economic growth through industrialization and that would impel societies towards a particular direction of change (Coetzee, 2001b; Alvin, 1953). With the paradigm shift, structural change processes, which were fashioned by the Western societies, were introduced to the developing countries with the assumption that the developing world would develop according to the Western model. During early 1990s, the modernization approach was introduced in Uganda with a large amount of external finance and technical support from the West. However, this approach seems not to have been successful and as a result the country did not progress in terms of economic and social development.

2.3.1.2 Dependency theory

As the shortcomings of modernisation became more apparent, dependency theorists put forward a different school of thought in order to explain the weaknesses of modernisation. Dependency theory was made popular by Frank (1969) in his work *Capitalism and Underdevelopment of Latin America* who argued that the 'core' or developed countries actively underdeveloped the 'peripheral' or the developing world. According to Graaff & Venter (2001), dependency theory was often referred to as the Marxist development theory. The fundamental view of the theory was to analyze the basic unit of the World economy as an opposite to the modernization theory. In general, dependency theorists argue that underdevelopment occurred through the exploitation of developing world by the developed world.

Further, dependency theorists argue that it was the reliance on the international market that led to the domination of transitional capital because of the unusual exchange between core and periphery, benefiting only the core (Coetzee, 2001a). In addition, Coetzee (2001a) notes that modernization theory failed to narrow the gap of inequalities between the developed and developing countries. According to Burkey (1993), dependency theory brought socio-economic dependency and which resulted in underdevelopment on the periphery because the centre controlled the balance of economic and political power.

For development to prevail, the dependency theorists argue that there is need to eliminate foreign involvement and the creation of a socialist context of development. Even though modernisation and dependency theories gave insight into the notion of development, both failed to provide all-encompassing explanation of the concept. Some researchers (Ferriho, 1980; Swanepoel & De Beer, 2000; and Pieterse, 2001) have noted that traditional theories of development and their strategies focused on slow growth; resulting to failure in addressing development in its broader sense. The deep dissatisfaction with previous traditional theories of development gave rise to alternative and more inclusive 'people centred' development approaches whose impact has been a subject of debate in the field of social science as illustrated in the subsequent section.

2.3.2 Alternative approaches

Amidst deep dissatisfaction with traditional development theories, Oakley (1991) and Burkey (1993), lead to re-assessing the purpose of development and a search for alternative approaches and conceptual explanations of development. These approaches were supposed to focus on sustainable development and people-centred growth if its relevance was to satisfy the needs of the poor. Onimode (1990) argues that ideology of traditional economic development theories which were based on preoccupation with growth failed in many African countries. He further argues that it brought about many economic and ecological crises and was unable to solve the problem of abject poverty.

Along the same line, alternative approaches to development encouraged the involvement of all stakeholders in the process of development such as government and civil society, including non-governmental and community-based organizations (De Beer & Swanepoel, 1998; Penderis, 1996; and Burkey, 1993). Alternative approaches to development advocates for participation and involvement of beneficiary groups developed through strengthening their capabilities in development initiatives. In addition, alternative approaches to development were also empowering, and lead to self transformation and self reliance thereby ensuring sustainability (De Beer, & Swanepoel, 1998; Penderis, 1996; and Burkey, 1993).

2.3.2.1 People-Centred Development (PCD)

According to Swanepoel & De Beer (2000), people-centred development strategy builds on the participatory and learning process approaches. The approach stresses the

participation of the majority, especially the previously excluded components such as women, youth and the illiterate in the process of development (Roodt, 2001). Among the various components integral to a people centred approach includes; (i) popular participation in development; (ii) need for sustainable development; and (iii) advocacy of the people's role in development by all Government organisations, NGOs and voluntary organizations.

Unlike the traditional theories, people-centred development approaches place the community at the centre stage of development. Within this context, development practitioners simply play the role of facilitators, while the communities take control of the implementation of their own projects. The communities are viewed as people with potential and with the capacity to manage their own development. It further recognises the skills and resources of the local people as well as the utilization of external resources with the ultimate goals being empowerment, self-reliance, and community ownership and project sustainability.

2.3.2.2 Participation

Participation in development is broadly understood and used in various ways. According to Jennings (2000:1), participation is often a rendition of organisational culture defining it. However Jennings (2000:1) stresses that “participation is the involvement by local population and, at times, additional stakeholder in creation, content and conduct of a programme or policy designed to change their lives”. This argument is based on the principle that citizens can be trusted to shape their own future through participatory local decision making. However, Roodt (2001) argues that genuine participation in development is viewed as people having the power to influence the decisions that affect their lives.

According to Sanderson & Kindon (2004), participation creates a specific type of knowledge within a participatory development discourse. As a result, logical decision-making exercises positivist judgment and solution finding activities. Gajanayake & Gajanayake (1993:4) view participation as the active involvement of people as key ingredients of development. In general, full participation of all stakeholders in planning, decision-making, implementation and evaluation of projects is crucial and it is imperative since the objectives tend to correspond to the priorities of the all the stakeholders. On

the same subject, the intended beneficiaries are regularly consulted and involved in decision making at all stages of planning and implementation process. Contrary to the above, some fractions of literature seem to suggest that real participation is difficult to achieve and has not yet obtained its rightful place in the process of development.

2.3.2.3 Capacity-building

According to Eade & Williams (1995), capacity-building refers to strengthening people's capacity to determine their own values and priorities so as to organize themselves for action. Eade (1997) argues that development is the process by which vulnerabilities are reduced and capabilities are increased. Capacity-building has been linked to empowerment and characterizes the approach to community development that lifts up people's knowledge, awareness and skills to use their own capacity. Parallel to the argument, is the fact that beneficiaries are able to understand the decision-making process and communicate more effectively at different levels and stages.

Interestingly, developing capacity of beneficiaries also contributes to the sustainability of the project, beyond the disbursement period, due to an improved level of beneficiary interest and competence in the management and implementation of the projects. According to Mayer (1994), without capacity-building, communities are merely collections of individuals acting without concern for the good, and without the necessary ingredients required to develop a healthier community. Therefore, capacity-building at the grassroots level is geared at promoting and empowering the local communities so that vulnerable and marginalized groups gain new skills, which they can apply to foster sustainable development within communities. Along the same line, capacity building approach to development involves identifying the constraints that people experience in realizing their basic rights and finding appropriate channels through which their abilities are strengthened and the causes of their exclusion and suffering minimised (Eade, 1997).

2.3.2.4 Empowerment

Empowerment refers to the enhancement of freedom of choice and action to shape one's life. This means that an individual has control over resources and decisions. However, for poor people, freedom is severely curtailed by their voicelessness and powerlessness in relation particularly to the state and markets (Narayan, 2002). Similarly, the World Bank definition of empowerment linked to the expansion of assets and

capabilities of poor people to participate in, negotiate with, influence, control and hold accountable institutions that affect their lives. It categorises empowerment into four key elements such as; (i) access to information; (ii) inclusion and participation; (iii) accountability and (iv) local organizational capacity that must underlie institutional reform.

The notion of empowerment is central to social and community development. For example Ife (1995), argues that empowerment is aimed at increasing the power of the disadvantaged, marginalized women, men and children. Hence, empowerment should focus on human capital development. To Gajanayake & Gajanayake (1993:6), empowerment ought to go hand in hand with participation. Gajanayake & Gajanayake further argues that empowerment enables the people to understand the reality of their environment, reflect on the factors shaping that environment, and take steps to effect changes to improve the situation (1993:6).

Most importantly, empowerment advocates for a situation where people are able to liberate themselves from mental and physical dependence, gain the ability to stand independently, think progressively, plan and implement changes systematically and accept outcomes rationally (Gajanayake & Gajanayake, 1993:6). Therefore, empowered people are able to make informed decisions on matters that affect them and create their own version of development. It is through this process that the poor majority can start to deal with their situation in terms of poverty reduction and take control of the issues that impinge on their quality of life.

2.3.2.5 Top down /bottom up approach to development

According to Feyissa (1997), he indicates that top down approach to development enables little or no involvement of the target groups (beneficiaries) for which the development initiative is intended. The approach is very prescriptive and is capital centred as opposed to people centred. On contrary, the bottom up approach encourages participation of the target groups in any proposed development programme (World Bank, 2002; Eade, 2000; and Abott, 1995). Bottom up approach encourages beneficiaries to participate through their organisations in determining decisions on the type of development most relevant to their needs, and also participate in the planning implementation as well monitoring and evaluation of the development initiative (World

Bank, 2002; Eade, 2000; and Abbott, 1995). Such involvement leads to capacity building self-reliance and sustainability of the projects.

In summary, alternative approaches to development emphasise activities that involve the use of locally available skills. This is done through promotion of self-help structures which are important tools of empowerment and increase participation of the poor in decision-making and access to assets and services. This implies that all stakeholders involved in any development projects in any community or a country ought to adhere to the above approaches so as to enhance development.

2.4 DEFINITION OF MICROFINANCE AND MFIs

Microfinance has been broadly described as the provision of financial services to the poor sectors of any society. According to the UNDP (2006) and CGPA⁵, microfinance refers to financial services, mainly credit facilities which are present for poor people. MFIs on the other hand, refer to Non-Governmental Organization (NGOs) or private institutions providing financial services to low income households and poor entrepreneurs. These services include credit, savings and insurance. Some institutions provide non-financial services like training, group formation and counseling in order capacitate their beneficiaries. Many scholars have aligned themselves to this definition. For example, Ledgerwood (1999:1) describes microfinance as the provision of financial services to low income clients including the self employed. She asserts that microfinance evolved as an economic development approach intended to benefit low-income women and men by providing them with financial services.

By financial services, Ledgerwood implies savings and credit though she attested to the fact that some MFIs provide insurance and payments of services. In addition to financial intermediation, Ledgerwood (1999:1) affirms that many MFIs provide social intermediation services such as group formation, development of self-confidence and training financial literacy and management capabilities among member groups. Ledgerwood's definition, microfinance therefore, takes account of both financial intermediation and social intermediation.

⁵ The Consultative Group to Assist the Poor (CGAP) is a consortium of most of the public international donor agencies that support microfinance along with UNDP.

Robinson (2001:9) views microfinance as a small scale financial package primarily credit and savings provided to people who farm or fish or herd; who operate small enterprise or micro-enterprises where goods are produce recycled repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and groups at the local levels of developing countries both rural and urban.

Robinson (2001:9) further argues that savings allow savers to store excess liquidity for future use and to obtain returns for their investment, albeit credit services enable the use of anticipated income for current investment or consumption. For that reason, Robinson (2001:9) demonstrate that microfinance services help low income earners to reduce the risk, improve management, and raise productivity, obtain higher returns on investments increase their incomes and improve the quality of their lives and those of their dependants.

Other important scholar's whose views on microfinance cannot be abandoned is Remenyi & Quinones (2000). In their book *Microfinance and poverty Reduction: Case studies from the Asia and the Pacific*, their definition of microfinance takes both Ledgerwood's and Robinson's definition that is; microfinance as the provision of financial intermediation through the distribution of small loans, acceptance of small savings and provision of other financial products and services to the poor (Remenyi & Quinones, 2000:26). Significantly, with Remenyi & Quinones's definition of microfinance is the suggestion that poverty can be effectively and permanently reduced or eliminated within in a reasonable period of time by providing the poor with access to such financial services.

In addition, the Asian Development Bank (ADB) defines microfinance as provision of a broad range of financial services such as deposits, loans, payment services, money transfers, insurance to poor and low-income households and their microenterprises. Similarly, Khandker (1998) asserts that about 21 per cent of the Grameen Bank borrowers and 11 per cent of the borrowers of the Bangladesh Rural Advancement Committee, microfinance NGO, managed to uplift their families out of poverty within about four years of participation.

Following a brief overview of the various definitions microfinance (above), it is concluded that the definition by Robinson (2001:9) will be used for purposes of this study. Robinson refers to microfinance as “a small scale financial package primarily credit and savings provided to people who farm or fish or herd; who operate small enterprise or micro-enterprises where goods are produce recycled repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and groups at the local levels of developing countries both rural and urban” (2001:9). The reason for the use of this definition as a guide to this study is that, an assessment will be carried out on people whose livelihood activities are similar to those activities mentioned in Robinson definition of microfinance.

2.4.1 Summarised history of MFIs

MFIs have a long history dating back from the Second World War. The pioneers of MFIs among many others include; the Badan Kredit Desa (BKD) and the Bank Dagang Bali (BDB) in Indonesia, the Self-Employed Women's Association (SEWA) a Women's Cooperative Bank in India, ACCION affiliates in Latin America, and a range of Non Governmental Organisations (NGO's), Credit Unions, and Cooperatives in different countries opened way in establishing the financial systems approach to microfinance.

Prior to the 1970's, large poorly designed subsidized rural credit program dominated the institutional approach to microfinance in developing countries. Starting in the 1950's, and flourished in the 1960's and 1970's, these programs were usually accompanied by high loan defaults, high losses, and a general inability to reach poor rural households. According to Penny (1983), this pattern still holds in many countries.

At some stage in the 1970's, these MFIs developed lending methodologies that suited the low-income beneficiaries in both rural and urban areas, and confirmed that micro credit given at an interest rate that enables full cost recovery could be delivered with high repayment. In light of the above, Robinson (2001) argues that some commercial banks, especially in parts of Asia, had gained decades of experience in mobilizing large amounts of savings from the rural poor.

However, most Banks tended to avoid micro credit, except for banks such as the Bank Dagang Bali (BDB) in Indonesia, which began in 1970 and Self-Employed Women Association (SEWA) Bank in India, which opened in 1972⁶ and whose member's were vendors, artisans, agricultural labourers, and other poor women who formed the bank to meet their member's credit needs. According to Adams (1973), both BDB and SEWA operated from the start without subsidies, emphasized voluntary savings as well as loans, set interest rates to cover all costs and risks, and developed early models of sustainable microfinance intermediaries.

2.4.1.1 MFIs in the 1980's

During the 1980's, numerous financial institutions in many parts of the developing World started providing micro credit and recovering their loans. In the same period, the Grameen Bank came up with a lending methodology that later resulted to a paradigm shift. Micro-financing as a concept became a widely adopted component of poverty reduction in many parts of the world. This increased number of MFIs according to Holt (1994:157-175), resulted into mobilisation of voluntary savings from low-income savers.

Still in the 1980's, the Bank Rakyat Indonesia (BRI) developed the first large-scale sustainable micro Banking system operating without subsidy (Robinson, 2001: xxii). In addition, many institutions in numerous countries provided inputs to the new paradigm though; they often made use of some aspects of commercial finance.

For example some NGO's were not permitted to mobilize voluntary savings albeit governments or donors would set limits on NGO's interest rates for loans. In other cases, institutions may choose to adopt some aspects of the financial systems approach and not the other. Therefore, Pradan (1996) argues that not all institutional contributors to the paradigm shift chose to become sustainable institutions, limiting their participation in the microfinance revolution.

On the other hand, Robinson (2001:10) asserts that some institutions showed that they can provide small loans and savings services profitably on a large scale. Although they could not receive systematic subsidies (fully sustainable commercial funding), they were able to attain wide outreach to beneficiaries.

⁶ <http://www.sewa.org/aboutus/history.asp> [Accessed on 14/ Feb/2007]

In a nutshell, the 1980's signified a turning point in the history of microfinance in a sense that by the end of that decade, the paradigm shift was well under way. The Grameen Bank and Bank Rakyat Indonesia (BRI) demonstrated that microfinance institutions could reach more than one million borrowers with very high repayment rates. In addition, BRI demonstrated that its micro-banking system could service more than six million savings accounts, and could operate its entire micro-banking system without subsidy.

Meanwhile, most of the programs created in the 1960's and 1970's for micro lending collapsed due to the removal of high repayment rates, corruption, and heavy subsidisation, resulting to what Paxton (1996:9) called a 'grant mentality' among beneficiaries. According to the 1995 worldwide survey of 206 MFIs that had opened in or before 1992, 7 percent were found to be in operation before 1960, 48 percent had been founded between 1980 and 1989 (Robinson, 2001). Therefore, it became clear that in the 1980s MFIs provided large-scale outreach profitably.

2.4.1.2 MFIs in the 1990's

During the 1990s internationally, there was increased growth in the microfinance industry with numerous MFIs emphasising reaching scale. According to Glosser (1994), attention was given to developing appropriate regulation and supervision for formal sector MFIs. In some countries, regulated non-bank microfinance intermediaries were developed. For example in Bolivia, BancoSol (Bank for Solidarity groups) pioneered the access of microfinance institutions to domestic and international financial markets and to for-profit investors.

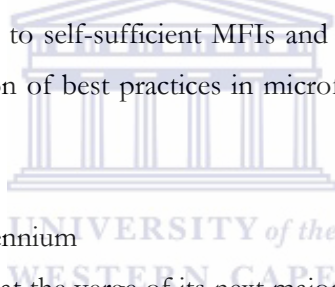
In the same period (1990s), rating agencies for microfinance institutions began operation. Robinson, (2001) asserts that channels for disseminating information about best practices on commercial microfinance proliferated. For example teaching programs on commercial microfinance were instituted, drawing participants from around the world. Hence worldwide networks of microfinance practitioners were formed.

Towards the end of 1990's commercial microfinance was no longer limited to a small group of scattered institutions but rapidly growing industry. The microfinance industry became more sustainable on a national scale. However, this depended on institutional

governance, management, and organisation as well as on product, pricing, and knowledge of the market. The BRI and Bancosol became the first of the self-sufficient MFIs to develop the management, organisational structures, information systems, staff training systems, and internal supervision and control, along with their commitment to full cost recovery and institutional self-sufficiency that enabled them to provide microfinance profitably on a large scale.

According to Robinson (2001), their successes spawned both imitation and competition within their countries and adaptation and extension of their methods by institutions in other developing countries. For example government agencies such as central banks, bank superintendence's, ministries of finance and a variety of organizations with specific interest and expertise on finance for the poor led to the microfinance revolution.

In addition, some donor agencies provided strong support for the shift from donor-driven micro-credit programs to self-sufficient MFIs and at the same time initiated and co-ordinated the dissemination of best practices in microfinance on regional and global scales (Harper, et al, 1998).



2.4.1.3 MFIs in the New Millennium

Micro-financing today stands at the verge of its next major stage since millions of people reached today have increased hundredfold. According to Robinson (2001:21), this has nothing to do with the changing nature of banking from servicing the top 25 or 30percent (at the most) of the population of the developing world but meeting the demands of the rest through reclaiming of finance and true democratisation of capital.

During the micro-credit summit held in Washington DC 1997, commitment was made to ensure that 100 million of the world's poorest families, especially the women of those families to have access to credit for self employment and other financial business services by the year 2005. The above mentioned objective was to be met through a campaign that would raise \$21.6 Billion (Yunus & Jolis, 2001; Mauri, 1997; Von Pischke, 1978, 1983, 1991; Bouman, 1979; Vogel, 1984; and Adams, 1984). However, the overall poverty reduction approach poses a deep dilemma not only to governments, but also to MFIs, donors, and others stakeholders in development because the microfinance

revolution seems to be largely based on the financial systems approach rather than the poverty eradicating agenda through credit.

2.4.2 Objectives of MFIs

MFIs are believed to be catalysts in the fight against poverty. This is based on the fact that provision of financial services enables the poor households make a considerable variation to economic welfare and self-reliance (Remenyi & Quinones, 2000:31). In light of the above, MFIs as a strategy for poverty reduction are expected in most cases to deliver financial services where they are in demand. For example in any country, there are segments of the society who do not have financial services at all, and there are those whose financial services available are not sufficient enough. This ranges from the ultra poor, who may not be economically active, to small growing enterprise that provide employment in their communities. Therefore, the objectives of MFIs as a development tool are to service the financial needs of the unserved or underserved markets as a means of meeting development objectives. Notably, the objectives include:

- Reducing poverty among low income earners
- Empowering disadvantaged population groups especially women
- Creating employment for the unemployed
- Facilitating the existing business grow or diversify their activities
- Encouraging development small medium enterprises

2.4.3 Types of MFIs

MFIs appear to take up two broad types that is; semi-formal and formal institutions. These two types can however be classified into three broad categories based on their sources of funding. The first type comprises of the MFIs that depend on the other peoples money, the second type involves MFIs which depend on member's money and the last one includes those MFIs which leverage the public's money. These are discussed in detail in the following sections.

2.4.3.1 Income from participants

According to Greuning, et al, (1998), MFIs that use other people's money are non-profit Non Governmental Organizations (NGOs) which are organized as a Self-Help Organization (SHO), People's Voluntary Organization (PVO) or association, whose capital and funding for lending operations are sourced mainly from grant funds provided

by donors. These associations or foundations, supplement their donor funds by accepting limited or minor deposits from members (similar to the practice in village banks) and accessing limited borrowings from Commercial Banks.

2.4.3.2 Income from participant and public funds

MFIs that fall under this category use the member's money. They consist of membership-based credit unions and savings and credit cooperative associations whose services are limited exclusively or primarily to members. These credit unions or savings and credit cooperative society may possibly be registered on the basis of an open or closed-common bond membership. Usually, more than half of its total funding for financial services to members is generated from members' savings and share capital contributions from family and friends and the informal markets Rotating Savings and Credit Associations (ROSCA's), various "club" systems pooling members' savings for loans, village banks buyer's advances and money lenders⁷

2.4.3.3 Public funding

In this category, MFIs uses the general public's money. They consist of corporate entities authorized to operate as specialized banks or finance companies. These banks or finance companies are registered business corporation licensed by a regulatory authority to operate either as a specialized bank, limited deposit-taking company or finance company permitted to accept limited deposits from the public (for example, savings and fixed deposits), in addition to wholesale funds and commercial borrowings to support microfinance and other operations (Greuning, et al, 1998).

The regulatory agency generally imposes a minimum capitalization level upon entry into the limited deposit-taking activity. These MFIs are subject to prudential guidelines on minimum capitalization and capital adequacy; qualification of directors and officers; mandatory reserve requirements and deposit insurance; portfolio aging, loan classification and loan loss provisioning; as well as periodic reporting requirements and disclosure standards.

⁷ Some country examples are stokvels in South Africa, tontines and susu in West Africa, iqqubs in Ethiopia, ke in Korea, andarisan in Indonesia and ebigombe some parts of in Uganda.

2.4.4 Characteristics of MFIs

MFIs in most cases seem to be characterized by the financial services they provide. Although MFIs have differing demands depending on specific country situations, the features common to them, amongst many others, seem to be; (i) low technology; (ii) labor-intensive activities; (iii) limited access to financing from the formal sector; (iv) lack of conventional forms of collateral and accounting records; and (v) the concentration of business activities in poor urban and semi-urban areas. This has been attributed to the fact that the financial services required are mostly for short-term working capital, and relatively in small amounts.

However, according to Greuning et al (1998), MFIs loans to informally organized businesses are numerous, though in small amounts, with the aggregate loan portfolio turning over several times during the year. They assert that the loans are generally unsecured, with simple repayment structures and at interest rates generally higher than those in the formal sector. In contrast, regular loans of Commercial Banks are fewer in number and for larger amounts. The majority of Commercial Bank loans are formally secured, with more complex structures and short- to medium- term maturities.

On the other hand, Commercial Banks seem to be significant players in the continued existence of MFIs because of the infrastructure and their ability to mobilize resources from the public. However, they normally don't have the product lines, loan procedures, operating cost structures and staff skills to make a profit from numerous smaller-sized microfinance loans. This has been as a result of lack of an information base in Commercial Banks on the MFIs market as well as the difficulties in enforcing loan contracts.

2.4.5 Funding mobilisation

Different MFIs have different ways of mobilising their funding. However in order to understand the context in which a microfinance provider operates, the determination of its source of funding seems a requisite. A close look at different MFIs reveal that they source their funding for on-lending and services provision in a combination ways for example;

2.4.5.1 External donor resource transfers

Under the external donor resource transfers, there are grant funds from local and foreign donors, subsidised technical assistance, goods in kind and soft loans. Donors in most cases seem to be the source funding for the MFIs. Ledgerwood (1999) substantiates the fact that donors are primary funder's of microfinance activities since most of the MFIs do not collect savings and not financially viable enough to access commercial funding. However, the approach donors use and requirements they set for MFIs to access funding and appears to affect greatly the development of the MFIs rather than the beneficiaries they serve.

2.4.5.2 Internally generated resources

Internally generated resources comprise of savings gathered from borrowers and other programme participants. Profits obtained from financial services delivered, cash donations from participants or collaborating agencies and enterprises, client donated goods in kind, and assistance from volunteers, including programme clients forms part of funding mobilisation.

2.4.6 Target markets of MFIs and impact analysis

Ledgerwood (1999:33) refers to a target market as a group of potential beneficiaries who share certain characteristics, tend to behave in similar ways, and are likely to be attracted to a specific combination of products and services. Ledgerwood further stresses that, a target market is the one that represents a defined segment that contains identifiable beneficiaries who demand or represent a potential for microfinance services (1999:33). Therefore, the target market for the MFIs is the poor people whose characteristics include poverty level, gender, ethnicity, social order, religion and so forth.

In light of the above, the United Nations report (2005) on global poverty demonstrates a declining trend on poverty rates especially in Asia where the number of people living on less than US \$1 a day dropped by nearly a quarter of a billion from 1990 to 2001 after being targeted by different MFIs. However, more millions of people are still sunk deep into poverty in sub-Saharan Africa, where the poor are getting poorer and has been attributed to diseases and armed conflict and inadequate supply of financial services to the poor communities.

In an attempt to address these unbearable problems on poverty, the Micro Credit summit set 100 million new beneficiaries as the out reach for MFIs between 1997 and 2005 which if was achieved would have brought to one quarter of the poor people in the developing world. Of these new beneficiaries, 70 million were to from Asia- pacific region and if the past is any guide the majority would be female (Remenyi & Quinones, 2000).

2.5 MICROFINANCE PARADIGMS

2.5.1 Old paradigm: Subsidized credit delivery

The old paradigm of microfinance was derived from theories of subsidized credit programmes that emerged in response to conditions after World War II. According to Coetzee (2001b), governments of many newly developed nations placed high priorities on economic development, and especially on increasing food cultivation. In this context, the microfinance theorists believed that most farmers needed more capital input to cultivate the new high- yielding varieties of rice. This later on marked the Green Revolution of the 1960s and 1970s. According to Robinson (2001:71), governments and donors subsidized credit programs which proliferated rapidly in developing countries throughout the World.

However, subsidised credit delivery did not take into account the social and political realities of life in rural areas of developing countries or the financial dynamics of their rural markets. According to Harper et al, (1998), large scale subsidized credit programs led to massive problems. Amongst many others, the programs often did not reach low-income farmers, repayment was frequently low, and losses were high. In addition, the loans were subsidized and therefore rationed; a situation that encouraged corruption since it often reached the better off rather than poorer villagers.

Still to note, Robinson (2001:72) argues that there were four microfinance models which were often associated with subsidized credit programs. They included MFIs that provided microcredit but were not permitted to mobilize savings from the public, institutions that performed well in lending but poorly in mobilizing savings, institutions that were successful in savings but failed in lending and last model consisted of institutions that failed in both savings and lending. Some examples throughout the World included, State-Owned Agricultural Banks and Development Banks (Robinson, 2001:72).

For Christen et al, (1995:10), heavily subsidized micro-credit programs required frequent injections of fresh funds. But when the injection of funds was not forthcoming, it resulted to a scenario where the program would quickly consume its capital in financing routine operational costs. Studies seem to indicate that this happened hundreds, perhaps thousands of times within the old paradigm.

This appears to have been a result of a direct linkage of credit with borrower training programs in all the MFIs models. The underlying belief was that, for the poor to use their credit properly, they needed training-in skill development, business, literacy, finance, agriculture, and so on. However, the economically active poor knew and understood their businesses financial needs better than the institutional staff who trained them. Besides, borrower training seems not to have only been at a high cost to the institution, but also of less value to borrowers. This resulted into an impediment towards self-sufficiency (Adams & Von Pischke, 1992).

According Mutua (1994:268), it appears obvious that the ‘integrated’ method of developing micro enterprises, which combined traditional methods of making loans with intensive entrepreneur training methods of making loans with intensive entrepreneur training and technical assistance, had limited impact on the beneficiaries, was costly, and could be sustained or expanded only through grant funding. This later led to the paradigm shift.

2.5.2 New Paradigm: Sustainable Commercial Microfinance.

In the new paradigm, different methodologies were developed to enable financial institutions provide microfinance services without ongoing subsidy (Holt, 1994). These methodologies included; both individual and group lending, new financial products suitable for poor borrowers and savers, interest rate that permit institutional profits, innovative operating methods and information systems, widely dispersed small service outlets, specialized staff training and incentives, the financing of loan portfolios from locally mobilized savings and from commercial debt and investment, and others (Robinson, 2001:73).

The new paradigm laid emphasis on enabling macro-economic, political, legal, regulatory, and demographic conditions. With such conditions, commercial institutions would

develop to provide financial intermediation for the economically active poor and would deliver services at the local level profitably, sustainably, without subsidy, and with wide coverage (Robinson, 2001:73). However, the new paradigm emphasised throughout that commercial microfinance was a complement to, not a substitute for, governments and donors on poverty alleviation and employment generation programmes for the extremely poor (Robinson, 2001:73). For example, whereas BRI, Bank Dagang Bali (BDB), and the BKDs (Badan Kredit Desa– Indonesia) provided individual loans, BancoSol provided loans to small, self-formed groups (Harper, et al, 1998; and Robinson, 2001:73).

It appears that there were many routes to large-scale sustainable microfinance. However, there were also fundamental characteristics that underlie all fully self-sufficient commercial MFIs. Firstly, they understood their beneficiaries businesses and financial needs, which in some respect was different from those of conventional Bank beneficiaries. Thus, Rutherford (2000) shows how the poor used savings and loans to acquire the lump sums that they often needed for purposes of emergency, social and religious obligations and investments in their enterprises.

In addition, Robinson (2001:76-77) highlighted the common elements that were shared by self-sufficient institutions. Amongst many others, these elements included; (i) knowledge of the commercial microfinance business and its clients; (ii) characteristics of institutions ownership; (iii) priorities in organizations and management; (iv) development of human resources; and (v) corporate philosophy. However, many of the shared elements were found in other kinds of microfinance programs as well, but they are common in aggregate to sustainable MFIs operating on a large scale.

2.6 INSTITUTIONIST AND WELFARIST APPROACHES TO MICROFINANCE

According to Morduch & Haley (2002), microfinance was characterized by two approaches that served as gatekeepers to alleviate poverty. These approaches included the institutionist and Welfarist approach, a division in the microfinance industry which Morduch & Haley (2002) refer to as the microfinance schism or debate. Although there was overlapping of commonalities between the two approaches, according to Woller et al, (1999), there was a large rift between them.

The objective of each camp was poverty reduction and yet, in practice, these objectives were diverse as each had their own interpretation of “poor” which influenced their way of allowing the poor to access microfinance. According to Woller, et al (1999), the practical implications of these differences between the two camps are at least threefold.

Firstly, the differences in the population segments served (the not-so-poor true entrepreneurs against those who struggle on the margins of survival); secondly differences in the designs (and the reasons for the designs) for service delivery to these populations (lending to Individuals along side Small Solidarity Groups versus large Village Banks); and the third was the differences in the institutional structures and financing to support these services (Social Service NGOs opposed to Community-Based Credit Unions and Community Banks against Commercial Banks and Finance Companies).

2.6.1 Definition and rationale of Institutionist approach

The institutional success was generally gauged by the institution's progress towards achieving financial self-sufficiency. The institutionist approach focused on creating financial institutions to serve beneficiaries who were either not served or underserved by the formal financial system. According to Woller et al (1999), emphasis lied on achieving financial self-sufficiency; breadth of outreach (numbers of clients), took precedence over depth of outreach (the levels of poverty reached); and positive client impacts are assumed.

The institutionist approach's financial systems to microfinance, was based on numerous large-scale, profit-seeking financial institutions providing high quality financial services to large numbers of poor beneficiaries that dominated the future of microfinance. The best-known examples of the institutionist approach are Bank Rakyat Indonesia (BRI) and BancoSol in Bolivia (Woller, et al, 1999).

In addition, the institutionists believed that successful poverty reduction required massive scale, given the worldwide prevalence of poverty and the estimated demand for microfinance services. However, massive scale in turn required massive financial resources far beyond the ability of donors to provide. From this recognition of scarcity, Gonzalez-Vega, (1993:25) asserts that this situation attacked suddenly institutionists

concern for financial self-sufficiency. In addition, the only way to attract the requisite financial resources was by tapping into private sources of capital.

Nevertheless, widespread access to private capital in turn required that MFIs be well run, operated efficiently, and most important, be profitable. This resulted into institutions spending much time in attempting to design a set of best practices for industry adoption. In this context best practices referred to those practices that improved institutional efficiency and effectiveness in areas such as management and management systems, finance and accounting, marketing, service delivery, or product design and development. According to Woller et al (1999), the identification, standardization, and widespread adoption of best practices were believed to be an essential step on the path to industry-widening, financial self-sufficiency, capital market access, and maximum outreach to poor clients.

2.6.2 Definition and rationale of Welfarist approach

The Welfarists approach was quite explicit. It focused on immediately improving the well-being of participants. Welfarists were not interested in banking as a way and means of poverty reduction but rather using financial services to alleviate directly the worst effects of deep poverty among participants and communities. Even when some of the services required subsidies, they emphasized depth of outreach. Their objectives focused on self-employment of the 'poorer' of the economically active poor, especially women, whose control of modest increases of income and savings was assumed to improve the conditions of their lives and their children.

In addition, the centre of attention in the welfarist approach appeared to be the family. Similar to the institutionists, the welfarists assumed more impact to the poor than what they were able to document. According to Woller et al (1999), the most well-known examples of welfarist institutions were the Grameen Bank in Bangladesh and its replicates elsewhere, and FINCA-style village Banking programs in Latin America and, more recently, in Africa and Asia.

On the other hand, the Welfarists distinguished themselves from institutionists primarily by their value-based commitment to serve the very poor. While they acknowledge the benefits and necessity of scale in attacking world poverty, their tendency was to place

greater weight on depth of outreach than on breadth. Woller et al (1999), argues that they never differentiated themselves by any lesser degree of commitment to sound operational and management practices or to institutional efficiency or effectiveness.

Besides, the perceived threat to Welfarists posed by the Institutionists seemed multifold. According to Woller et al (1999), the belief was that the commercialization of microfinance would satisfy the needs and demands of outside investors which would inevitably result to profit motive displacing social mission. Secondly, the theoretical sense was that the commercialization of microfinance would divert the industry from its foundation principles which seemed an animating force.

Thirdly, there was a concern that called for donors to withdraw support from unsuccessful programs. This would result to suppression of protester's viewpoints, of which, if not observed, would result in allocation of resource based on good institutional performance regardless of actual program impact. Fourthly, the drive to define and codify "best practices" risked the imposition of a blueprint approach to microfinance that would stifle innovation and experimentation in the design of new products and delivery systems for the very poor. According to Woller et al (1999), MFIs would cut strictly to "best practices" for fear of losing donor support.

In summary, though some welfarist fell in a trap as they envision a single "correct" approach for microfinance, others, and also some institutionist, agreed that a combination of both approaches would be necessary in provision of energy that was required by microfinance to make an impact on poverty alleviation (Woller, et al, 1999). The overall impression got from both approaches was that they aimed at poverty alleviation, and developing a good strategy for eventual handling of their beneficiaries to more sustainable service institutions. Coupled with State intervention, the two approaches would enhance economic growth and would serve to shorten the gap between the rich and poor.

2.7 DEVELOPEMENT ROLE OF MFIs

The MFIs universally have gained broad acknowledgement for the role they play in providing financial services to low income households and their contribution to poverty alleviation. From their description, MFIs have been seen as a powerful tool that can be used to fight poverty. A host of authors (Khandkher, 2003; Wood & Sharif, 1997; Hulme, 1997) argue that access to sustainable financial services enables not only the poor, but also low income earners and other groups of people who operate on small scale to build assets, hence reducing their vulnerability against external shocks which leads to development.

In addition, MFIs have proven to be a cushion that enable people to cope with unexpected events, as well as acquiring credit for investment in small businesses, livelihood activities such as paying school fees, acquiring income-producing and household assets, insuring assets against losses, covering major medical expenses, and payment services that enable people to receive and send remittances from and to family.

To recapitulate, development has been referred to by different authors (Coetzee, 2001a; Coetzee, 2001b; Pieterse, 2001; and Cypher & Diethz, 1997) as a multi-dimensional concept that ascribes numerous definitions and encompasses values such as sustainability, empowerment, capacity building, and expanded roles of women, participation, transparency, accountability and equity. From such perspective, MFIs are thought to be imperative in playing a crucial role in development. Though there are many aspects on the development roles of MFIs, the study emphasises particularly their impact on poverty reduction, empowering women, promoting children's education as well as promoting health outcomes among beneficiaries since they are believed to be critical for development and meeting the Millennium Development Goals (MDGs). At the same time, the study also contends both theoretically and practically that MFIs themselves do not deliver the mentioned variables; rather, they act as catalyst for the beneficiaries to [re]create for themselves towards acceptable socio-economic standards as discussed in the subsequent sections.

2.7.1 Poverty reduction

The significant role that MFIs may play in poverty reduction has been measured in different ways. For example, improved income, employment, reduced vulnerability to economic and social crises and amplified household expenditure. There is evidence that access to credit has given many poor people the means to increase, diversify and protect their sources of income hence reducing poverty. More to the point, MFIs in many parts of the World have reported improved food expenditures⁸ and employment opportunities among their beneficiaries. In addition, different authors (Shreiner, 2000; Bonti-Akoman & Chamba, 2000; Ledgerwood, 1999; Cohen & Sebstad, 1999; Hulme, 1997, and Sebstad & Chen, 1996) clearly assert that access to financial services not only reduces the poor people's vulnerability, but helps them to increase their income and this has been seen as important part of many development initiatives.

For instance, according to Littlefield et al (2003), participation in the Zambuko Trust in Zimbabwe, increased the consumption of high protein foods among extremely poor client households. On the other hand, SHARE⁹ in India, noted a marked shift in the employment patterns of its beneficiaries from irregular, low-paid daily labour to diversified sources of earnings, increased employment of family members, and a strong reliance on small business (Littlefield, et al, 2003). In addition, it appears that a lot of poor people have also benefited indirectly from the wider impacts of microfinance programmes. For instance a study carried out by Mosley & Rock (2004) in six MFIs in Africa provides examples, in South Africa, and Kenya, where credit provided to the non-poor helped to reduce poverty by drawing very poor people into the labour market as employees of microfinance clients.

Furthermore, Mosley & Rock (2004) argues that access to financial service such as loans; savings and insurance provide poor people with a vital cushion in times of economic shock and natural disasters, as well as during sudden emergencies or periods of unemployment or crisis such as that created by a death in the family. Therefore, access to

⁸ CGAP (Consultative Group to Assist the Poor), "Is Microfinance an Effective Strategy to Reach the Millennium Development Goals", Focus Note No. 24, January 2003.

⁹ SHARE Microfinance Limited extends small loans to the poorest women in rural areas for income-generating self-employment projects, allowing them to care for themselves and their families. In addition, SHARE also provides awareness in areas such as child education, health, nutrition, non-formal education, adult literacy and sanitation.

credit leads to improved household's risk management capacity through the enhancement of social capital partly derived from training and capacity-building efforts.

It appears that people who participate in microfinance programmes on a continuing basis eventually realize better economic outcomes than non-clients. For example in Bangladesh, beneficiaries of the Bangladesh Rural Advancement Committee (BRAC) who participated in the programme for more than four years increased household expenditures by 28 percent and assets by 112 percent. On the other, 80 percent of Freedom from Hunger beneficiaries had secondary income sources, compared with 50 percent of non-beneficiaries in Ghana (Littlefield, et al, 2003).

2.7.2 Promoting children's education

Research studies have shown that poor people tend to invest their income from microfinance in their children's education. In addition, children of microfinance beneficiaries are more likely to go to school and stay in school longer. Student dropout rates are much lower in microfinance client households. For example in Honduras¹⁰, participants in credit and savings programmes reported that their increased earnings and the availability of resources allowed them to send many of their children to school and reduce student dropout rates. On the other hand, Littlefield et al (2003:3) observed that in Uganda, revenues from microenterprise were vital in financing the education of the children of the MFIs clients.

In addition, a longitudinal study in a BRAC area in Bangladesh found that basic competency in reading, writing, and arithmetic among children 11-14 years old in member households had increased from 12 percent of children at the start of the program in 1992 to 24 percent in 1995. In non-member households, only 14 percent of children could pass the education competency tests in 1995 (Chowdhury & Bhuiya, 2001). On the other hand, School enrollment among working-class children in Ahmedabad was 55 percent for girls and 65 percent for boys 11-17 years of age in 1997. Over the period 1997-99, borrowing from SEWA Bank had a positive impact on boys'

¹⁰ The Republic of Honduras, formerly also known as Spanish Honduras, is a country in Central America, bordered to the West by Guatemala, to the Southwest by El Salvador, to the Southeast by Nicaragua, to the South by the Pacific Ocean, at the Gulf of Fonseca, and to the north by the Gulf of Honduras and the Caribbean Sea.

secondary-school enrollment rates, which rose to 70 percent (Chowdhury & Bhuiya, 2001).

2.7.3 Improving health outcomes

In general, illness seems to be the most important crisis for poor families. This normally lead to deaths in the family, taking time off from work when sick and health-care related expenses can deplete incomes and savings that result to selling of assets and indebtedness. Yunus & Jolis (2001) and Littlefield, et al, (2003: 3) argue that the main reason for failure to repay loans by microfinance beneficiaries is illness.

However, households of microfinance beneficiaries appear to have better nutrition, health practices, and health outcomes compared to non-client households. Larger and more stable incomes generally lead to better nutrition, living conditions, and preventive health care. Increased earnings and financial management options also allow beneficiaries to treat health problems promptly rather than waiting for conditions to deteriorate (Yunus & Jolis, 2001). Along with financial services, some MFIs also provide health education, usually in the form of short, simple preventive care messages on immunization, safe drinking water, and pre-natal and post-natal care. Some programmes provide credit products for water, sanitation, and housing. A growing number of MFIs have forged partnerships with insurance providers to offer health insurance to beneficiaries (Littlefield, et al, 2003).

For example, Self-Employed Women's Association (SEWA)¹¹ in India provides loans to upgrade community infrastructure such as tap water, toilets, drainage and paved roads¹². In a nutshell, such scenario has been promoted by some MFIs that link their financial services to health education through immunization, safe drinking water and prenatal and post-natal care. In the same vein, support has been outsourced to programmes that provide credit products for water, sanitation and housing.

¹¹ SEWA Bank began as a cooperative Bank primarily focusing on increasing value to members who were poor women entrepreneurs and producers. At present, services are offered in India through a fully independent microfinance unit to both rural and urban beneficiaries in cooperation with SEWA India. SEWA Bank, as of December 2001, had 50,000 micro loan clients, of whom 100 percent are women. Of the 170,000 beneficiaries that receive micro savings services, 100percent are women

¹² http://www.swwb.org/english/1000/address/gnbi/add_gnbi_sewa.htm [Accessed on the 12/Feb/2007]

In addition, while the relationship between MFIs services and improved in health outcomes has yet to be empirically proven, evidence in the field seems to suggest that such a positive relationship might exist. For instance, beneficiaries of Crédito con Educación Rural (CRECER) in Bolivia had better breastfeeding practices, responded more often with rehydration therapy for children with diarrhoea and had higher rates of immunization among children (Brott, et al, 2006). Besides that, beneficiaries demonstrated higher rates of contraceptive use than non-clients. In the same vein, a study carried out by Littlefield et al (2003), indicated that of beneficiaries of the Foundation for Credit and Community Assistance (FOCCAS) microfinance programme in Uganda had tried an AIDS prevention practice, twice the percentage of non-clients.

2.7.4 Empowering women

Under the right conditions, MFIs can promote the empowerment of poor people. In particular, MFIs have catalysed opportunities for millions of poor women who have become active participants in economic activities, and attained new roles as cash income earners and managers of household incomes. According to Littlefield, et al (2003:5), women have become more confident, more assertive, more likely to participate in family and community decisions, and be able to confront systemically gender inequalities. However, such empowerment is by no means automatic. Gender-related issues seem complex. Nonetheless, appropriate programme design can have a strong, positive effect on women's empowerment, that would result to women owning more assets, having a more active role in family decisions, and increasing investment in family welfare (Littlefield, et al, 2003: 5).

In addition, MFIs has caused a shift in values and expectations that affect women's role in society. For example in Bangladesh, women to whom credit was extended had a much greater impact on household consumption and their children's quality of life. Also women who participated in MFIs were more likely to send their daughters to school. In addition, widowed, separated or divorced women, who are viewed as the most vulnerable group in Bangladesh society, were capable of controlling their loans; hence achieving significant advances in their capacity to engage in economic activity through microfinance.

According to the study carried out by MckNelly & McCord (2001), information from Bolivia and Ghana, revealed that there was self-confidence among women who participated in MFIs and improved status within the community, while in India, empowered SEWA beneficiaries had actively lobbied for higher wages, the rights of women in the informal sector and the resolution of neighbourhood issues¹³. Furthermore, some women of MFIs groups have extended their activities beyond financial services to include community-based projects and peacemaking roles in times of conflict.

For instance, in India, self-help groups of indigenous women managed community-based projects, such as contracting of minor irrigation construction and soil conservation works, and indigenous women's groups in a village in Andhra Pradesh and invested in electricity-generation. In North-Eastern India, self-help groups in International Fund for Agricultural Development (IFAD)-funded projects play an important role in peacemaking in conflict-ridden communities (Hulme & Mosley, 1996a).

Nevertheless, empowerment of women cannot be assumed a direct outcome of microfinance programmes, especially given socio-cultural settings where women are extremely "disempowered". To begin with, many researchers contend that their examination of credit programmes in Bangladesh revealed that loans made to women were not always used by women. Men either significantly or partially control the credit women brought into the household. Besides, they also report increased tensions and domestic violence in household where women needed to ask their husbands for loan instalments (Goetz & Gupta, 1996). Similarly, there were also cases in Bangladesh where men were users of more than 60 per cent of women's loans and where loans were used for purposes different from the ones applied for (Raham, 1999). The lesson is that loans alone, without opportunities for women to transform the power relations and create their own spaces in the prevailing power structure, make empowerment of women difficult to attain.

¹³ <http://www.sewa.org/campaigns/index.htm> [Assessed on 23/Mar/2007]

2.8 CONCLUSION

In this Chapter, the term poverty has been defined and conceptualized. Theoretical overviews of various theories of development have been provided. More importantly, various definitions and types of MFIs and the development role of MFIs in poverty alleviation have been discussed and the contexts of various paradigms were highlighted. The analytical framework stem from the Millennium Development Goals (investigation whether MFIs lead to poverty reduction, promote children's education, improve health out comes and empowerment of women) and the usual optimism for development. It is also important to note that the chapter has not primarily focused on the role of MFIs in micro-lending services but, rather on selected development themes.



CHAPTER THREE

DEVELOPMENT ROLE OF MFIS IN BANGLADESH

3.1 INTRODUCTION

The preceding Chapter gave a discourse on the notion of poverty, development and MFIs. However, this Chapter scrutinises the literature to illustrate the development role of MFIs in Bangladesh. Bangladesh is referred to as an international best practice example in MFIs and this study is assessing the lessons of Bangladesh MFIs experience for Uganda.

After the introduction, the Chapter will give a brief overview of the Bangladesh economy. This will be followed by a perspective on the MFIs sector as well as the evolution of MFIs in Bangladesh. Thereafter, the Chapter will point to different factors responsible for the growth of MFIs in Bangladesh such as visionary leadership, the role of donors, the role played by the government, strong professional personnel, population density coupled with ethnic homogeneity.

After that, the Chapter will focus attention to discuss the most essential section namely, assessing the development roles of MFIs in Bangladesh. In this section, social-economic aspects such as poverty reduction, promotion of education, improvement in health as well as empowering women will be tackled in detail. This is done to align the Chapter with the analytical framework and keep the flow of the information as seen in the previous two chapters. The Chapter will also in brief give the overall significance of MFIs and the negative aspects of MFIs as well as a concluding remark of the chapter.

FIGURE 3.1 MAP OF BANGLADESH¹⁴



Source: <http://worldatlas.com/webimage/countrys/asia/ciamaps/bd.htm> [Accessed on the 21/Aug/2007]

3.2 BRIEF OVERVIEW OF BANGLADESH'S ECONOMY

Of recent, Bangladesh has been seen as the point of reference to microfinance or the inventor of MFIs as a poverty reduction tool (Hossain, et al, 2000:65). Like any other developing country, the need for MFIs was great in Bangladesh after the political and civil unrest between West and East Pakistan, which left Bangladesh as one of the World's poorest countries with the least developed financial sectors (Hossain, et al, 2000:65). In response to the problems associated with poverty, the development practitioners of Bangladesh searched for a possible poverty reduction mechanism. Among the various strategies made by the Bangladesh government, was the conception and successful establishment of microfinance which served millions of poor women and made credit available to the poorest of the poor. According to Hossain et al (2000:65), the success of Bangladesh is evidenced by the success of the famous Grameen Bank, the availability of

¹⁴ The present Bangladesh dates back in the 16th century when the Europeans began to set up trading posts in the region and came to dominate the region which became part of British India. In 1947, West Pakistan and East Bengal (both primarily Muslim) separated from India (largely Hindu) and jointly became the new country of Pakistan. East Bengal became East Pakistan in 1955, but the awkward arrangement of a two-part country with its territorial units separated by 1,600 km left the Bengalis marginalized and dissatisfied. East Pakistan seceded from its union with West Pakistan in 1971 and was renamed Bangladesh. About a third of this extremely poor country floods annually during the monsoon rainy season, hampering economic development.

a large number of NGOs that were formed after the liberation of the country in 1971, and the ability of the NGOs to be least dependant on donors.

Notwithstanding the persistent political instability that Bangladesh went through, it never promoted an unfriendly environment for the MFIs. The economy seemed to have grown steadily during the last twenty five years with an average annual growth rate of GDP balanced around 4.2 percent during the period 1970-1994. During the same period, there was no hyperinflation¹⁵ to contend (Hossain, et al, 2000). However, the literature holds that to some extent, a relatively low inflation rate contributed to the lowering of interest rates from 9.75 percent 1990-1991 to 5.50 percent 1994 -1995.

The population growth rate¹⁶ of Bangladesh appears to have been falling through the years, and currently stands at 2.09 percent per annum as per 2006 estimates¹⁷. In absolute terms, the population of Bangladesh has almost doubled since independence to 120 million in 1996 and it is forecasted to again double to 250 million by the year 2015. And still, 50 million Bangladeshis of the present population remain in absolute poverty, half of them 'hard-core' poor with 80 percent of the rural population depending on rice harvests (Hossain, et al, 2000:66).

In an attempt to reduce the poverty situation, the Government of Bangladesh from 1990-1995 explicitly emphasised the importance of employment generation. This was vigorously supported with social safety net programmes of Bangladesh such as the Food For Work (FFW), Vulnerable Group Network (VGN) and the Rural Maintenance Programme (RMP) to deal with the problem of poverty, sometimes in close collaboration with the NGOs (Hossain, et al, 2000). However, these programmes seemed to have had a narrow coverage and the foodstuffs distributed under the FFW and the VGN seemed to have declined during the following years after implementation.

¹⁵ Hyperinflation is a term used in economics where inflation is out of control or a condition in which prices increase rapidly as a currency loses its value.

¹⁶ The average annual percent change in the population, resulting from a surplus (or deficit) of births over deaths and the balance of migrants entering and leaving a country. The rate may be positive or negative. The growth rate is a factor in determining how great a burden would be imposed on a country by the changing needs of its people for infrastructure (e.g., schools, hospitals, housing, roads), resources (e.g., food, water, electricity), and jobs. Rapid population growth can be seen being threatened by neighboring countries.

¹⁷ http://www.indexmundi.com/bangladesh/population_growth_rate.html [Accessed on 02/ Apr/2007]

This however did not stop the government from searching for alternative tools for poverty reduction. Thus, the Government of Bangladesh decided to apply the cooperative model developed at the Bangladesh Academy of Rural Development at Comilla as the basis to for nationwide credit programme for small and landless farmers which later set stage for MFIs in Bangladesh.

3.3 MICROFINANCE SECTOR OF BANGLADESH

The consensus in the literature suggests that access credit or micro-loans considerably reduced the vulnerability of poor households in Bangladesh. This is attributed to the fact that microfinance industry was able to provide access to credit to nearly thirteen million poor households in Bangladesh (Zaman, 2004:1). According to Credit and Development Forum (2002), there are twelve hundred MFIs operating in Bangladesh. However, the Microfinance industry is dominated by four large MFIs. These include Bangladesh Rural Advancement Committee (BRAC), Grameen Bank, Association for Social Advancement (ASA), and Proshika that had over 1.2 million active borrowers of which over 0.8 million were poor women (Micro-credit, 2004).

In relation to the “major four” MFIs, there is Swarnivar Bangladesh which is the next largest NGO with approximately 0.7 million beneficiaries. On the other hand, the estimates indicate that there are probably only ten NGOs with more than 100,000 borrowers and at the bottom line; there is the majority of MFIs that have less than 5,000 borrowers (Zaman, 2004:2). The bulk access to micro-credit was supplied by the major four MFIs.

3.4 EVOLUTION OF MFIs IN BANGLADESH

In Bangladesh, access of credit to the poor seems to have taken place in phases in the last three decades. The origins of the current model can be can be traced back to action research project that started in 1976 when a team of academics led professor Yunus¹⁸ as well as practitioners in different organisations decided to start a project that would deal with the relief and rehabilitation needs of Bangladesh. They started by providing credit to households considered “unbankable” by the formal financial systems during post-independence. And from the beginning, Bangladesh’s emphasis was focused on relief rehabilitation and community development (Zaman, 2004:3).

¹⁸ Yunus Muhammad is the 2006 noble laureate and the founder of the famous Grameen Bank of Bangladesh

However, towards late 1970s BRAC and Proshika¹⁹ found that “elite capture” was a serious impediment to their development objectives. As a result, a separate focus on the poor through a “target-group” approach was introduced. Borrowers were organised in small peer monitoring groups of four to five people which later became single sex groups with emphasis on women groups. These groups met weekly with other groups to put together loan repayments.

In the 1980s, Bangladesh witnessed a growing number of nongovernmental organisations (NGOs) with different modalities of delivering credit to the so called “unbankable”. According to Zaman (2004:4) one of the important ways that tested efficacy was providing loans for group projects compared to offering loans to individuals with peer monitoring. However, the broad lesson was that the latter was more effective because of the incentives and it lacked the “free-rider” problems seen in lending to a group. Also during the late 1980s according to Zaman (2004:4), the predominant model was to provide individual loans to a target group of poor households, with peer monitoring and strong MFIs staff to follow-up. During the period of late 1980s and early 1990s, there was transfer of capacity within several large MFIs, which allowed them to expand micro-credit programmes.

In the 1990s, according to Ahmed (2003), there was rapid expansion of the Grameen style of micro-credit approach. This growth according to Zaman (2004) was fuelled largely by franchising new branches that replicated the procedures and norms that prevailed in the existing branches. The entire process was supported by the high population density and relative ethnic, social, and cultural homogeneity in Bangladesh. However, a point to note is that during the expansion phase, donor funds laid more emphasis on individual borrower accountability for loan repayment, rather than reliance on peer monitoring. At the same time, staff follow-ups of loans became more rigorous and professional with the use of computerised management information systems.

From the mid 1990s onwards, feed back from academic research and international experience increased emphasis on providing diversified financial services for different groups of households in Bangladesh. Therefore the existing micro-credit borrowers

¹⁹ These are among the renown MFIs in Bangladesh

required complementary financial and non-financial services. According to Zaman (2004:6), the benefits of a narrow focus on micro-credit during the expansion phase was that it kept costs low, operations transparent, and management oversight relatively straightforward. Hence the standard practice for MFIs until the late 1990s was to collect compulsory weekly savings from their clients, holding the money as a *de facto* lump sum “pension,” which was returned when a client left the organization (Zaman, 2004).

3.5 FACTORS THAT LED TO GROWTH OF MFIs IN BANGLADESH

Although Bangladesh’s history narrates the ordeal of how the country suffered to restore the current stability, the information from the literature holds that Bangladesh appears to be endowed with the strongest and most dynamic microfinance industry among the developing countries. Bangladesh’s microfinance industry seems to be serving many clients, similarly to other institutions in Asia and Latin America. The microfinance industry in Bangladesh seems to have reached a stage of development in terms of sustainability, outreach and coherence that is unmatched in other parts of developing world. The reason for such success in Bangladesh has been attributed to the factors discussed in the subsequent sections.

3.5.1 Visionary leadership

According to Zaman (2004:7), it is unquestionable that the vision and determination of leaders of MFIs and NGOs were the key aspects behind the triumph of the microfinance industry in Bangladesh. Zaman (2004), argues that good leadership skills were instrumental in persuading the public that providing credit to the poor could become a viable and replicable proposition. In addition, the skills were essential throughout the process of recruitment, motivating staff, decentralising authority, building information systems and having modesty to learn from the mistakes.

The literature further put forward, that staff recruitment, motivation, and retention are particularly important for large organizations. Therefore to have good skilled personnel required visionary leaders and trustees. For example BRAC, employed around 28,000 staff in its various programs, Grameen had around 12,000 in its micro-credit program, and ASA’s micro-credit program employed around 8,000 staff (Zaman, 2004:7). For that reason, a critical element in the process of recruitment of staff and evaluation of system appeared apposite. In addition, other incentives such as the introduction of a system of

rating branches by the Grameen Bank on the achievements of specific targets which not only includes standard loan recovery but also social indicators, such as the proportion of children of Grameen beneficiaries going to school enabled the staff to perform well.

In light of the above, staff motivation and decentralisation of power is a significant responsibility to the lower tiers of the administrative structure since it enables effective performance. For example, ASA's loan or credit delivery structure with high levels of decision making authority was given to field officers. The field officers roles ranged from loan sanctioning decisions to human resource issues. In same vein, branch managers worked with individuals and fieldworkers to resolve problems and typically share living quarters with other field staff (Jain & Moore, 2003). As a result, the bank became successful in reaching the target beneficiaries.

3.5.2 Role of donors

In Bangladesh, donor resources appeared to have played a significant role in experimentation and the subsequent growth in outreach and institutional strengthening of the MFIs industry. Similarly, the large MFIs and NGOs of Bangladesh seemed to have succeeded in “managing donors”. For example the International NGOs, such as the Ford Foundation, Oxfam, and the Aga Khan Foundation, are believed to have played an important role in the initial stages of the NGO-MFI industry in Bangladesh (Zaman, 2004:9).

Subsequently, the expansion and consolidation of MFIs according to Zaman (2004) was funded largely by official bilateral agencies, and later by multilateral agencies, when international NGOs could not match the growing resource requirements of the larger MFIs. However, the 1990s saw dependence on donor resources progressively decline for the large MFIs. For example Grameen Bank, ASA, and BRAC did not receive any grant financing for their micro-credit operations. In addition, out of BRAC's total \$160 million expenditure on development programs in 2002, more than 80 percent was financed from its own resources, through the interest income on micro-credit as well as the surplus from its commercial enterprises (Zaman, 2004).

3.5.3 Role played by government

In Bangladesh, the government's undertaking to reduce poverty among the people coupled with an "enabling environment" seems to have aided the early experimentation and later growth of MFIs the industry. According to Zaman (2004), the macro-economy of Bangladesh was soundly managed; the rate of inflation kept to single digits, and economic growth over the past two decades averaged around five percent per annum, thereby creating economic opportunities for micro-credit-financed investments. However, it is important to note that the government of Bangladesh maintained a balanced approach towards regulating and supervising the activities of the NGO sector.

This resulted in ensuring the operational flexibility which appears to be the foundation of service delivery by NGOs (Zaman, 2004:9). Whereas the long relationship between the Government of Bangladesh and NGOs has not been free from tensions on both sides, it was able to put in place the interests of the poor when dealing with NGO issues. For example, the government's verdict to discharge donor funds allocated to Proshika Bank, even while the Bank was still being investigated for alleged irregularities in the use of its funds.

While the relationship between the government and NGOs depends on individual personalities and social ties (Hossain, 2003), there was always varying individual views regarding MFIs within the civil service and the Cabinet. Individuals in key positions within the government were time and again instrumental in facilitating the growth of the micro-credit sector such as the development of the Grameen project, its registration as a Bank, and the decision to grant it managerial autonomy are clear examples²⁰.

In addition, the Government of Bangladesh was supportive of MFIs and NGOs, although there was accusations of involvement in party politics by a handful of NGOs that later strained the overall government-NGO relationship. According to Zaman (2004:11), regulatory framework for microfinance needed to be strengthened, particularly in light of the large amounts of deposits mobilized for the poor. This situation led to the Central Bank, PKSF, and representatives of MFIs to start to work on a set of guidelines and standards to strengthen the regulatory framework.

²⁰ See Yunus, M 1998. Banker to the Poor (Dhaka: UPL).

3.5.4 Strong professional personnel

Ever since the evolution of microfinance, Bangladesh has always had a strong professional body that manages different sectors of the microfinance industry. For example in 1990, there was the formation of the Palli Karma Sahayak Foundation (PKSF) which was governed by a board composed of both public and private sector representatives. Among the various tasks of the workforce was to channel funds to MFIs, and the expansion of improved professionalism of the MFIs industry in Bangladesh. On the same note, PKSF's was responsible for lending money to MFIs, which met certain eligibility criteria, expanding their microfinance operations, building capacity, moving towards financial sustainability and lastly helping to develop an appropriate regulatory framework for the MFIs industry.

In addition, PKSF played an active role in contributing to the sharp increase of access to micro-credit that took place in the 1990s by expanding the capital base for MFIs to lend to the poor (Zaman, 2004). For example, the PKSF loans constituted around 30 percent of ASA's current revolving loan fund as of December 2003. Zaman (2004) further stresses that PKSF was also widely credited for sharpening the focus of many MFIs on financial sustainability and setting appropriate standards to pave the way to a strengthened regulatory structure for microfinance.

In summing up, the primary factors behind the success or failure of a professional workforce are the underlying retail capacity in a particular country. However the overall strength of the MFIs in Bangladesh was a key to PKSF's success. Overestimating the capacity to absorb funds by the MFIs on the ground seems to result in a professional workforce failing. However, if a realistic assessment of the underlying retail capacity is made, then a professional workforce may offer many benefits, such as the ability to screen MFIs on standard criteria and creating a "level playing field" (Zaman, 2004).

3.5.5 Population density, ethnic homogeneity

Bangladesh seems to be from an ethnic perspective a relatively homogenous country, with a high population density and good communication networks. In addition, her mainly homogenous market is also very large in absolute terms. In contrast with Nepal for instance, there is a striking difference in microfinance outreach between these two countries which is partly due to these factors. In addition, it is also remarkable how in

Pakistan, Afghanistan, Egypt and certain other Muslim countries, MFIs have found religion to be a factor that has led to a relatively lower demand for micro-credit and MFIs that are more cautious about expanding²¹. However, in contrast, even conservative religious forces in Bangladesh have been largely tolerant of microfinance activities and the greater economic empowerment and mobility of women.

3.6 DEVELOPMENT ROLE OF MFIs IN BANGLADESH

Borrowing from Bebbington & McCourt's (2005) definition of 'development policy success' as the tangible enhancement of the human capabilities of a significant population of otherwise disadvantaged people, whether through direct investments and improvements in their assets or through the improvement of the environments in which poor people pursue their well-being, it appears that MFIs in Bangladesh at least reached a significant fraction of population of low and unstable incomes, little or no land or assets, low social status, and few if any alternative sources of financial services that are both accessible and affordable.

The evidence of the socio-economic impact of micro-credit in Bangladesh can be assessed from two inter-related angles. Firstly whom did credit reach and secondly how did it affect the welfare of different groups of individuals and households? According to Zaman (2004:9), land ceilings, occupational criteria and asset valuations seemed to be the standard targeting tools used by micro-credit providers in Bangladesh in order to direct resources to the rural poor. These indicators have been shown to be a relatively accurate comparison of poverty by programme administrators who do not have the time, resources or expertise to carry out more sophisticated calculations of poverty for each household in their targeted area.

In addition, the substantial improvement of poor peoples capabilities' seem to be a more normative and debated issue, but on balance the evidence suggests that this is the case, particularly through asset development but also via positive effects on the socio-economic environments in which the poor work and live. Microfinance had a great impact on the lives and the economy of Bangladesh. The subsequent paragraphs will draw attention to some of the notable impacts of MFIs in Bangladesh.

²¹ This issue was raised by Stephen Rasmussen, the Lead Microfinance Specialist for the South Asia Region at the World Bank's Finance and Private Sector Development department in a personal communication.

3.6.1 Poverty reduction

In Bangladesh, there was an increase in the number of MFIs and the beneficiaries both in absolute terms and microfinance sector globally. According to the Credit and Development Forum (2002), there were as many as 1,200 MFIs. However, more recent Credit and Development Forum estimates seem to suggest that about 1,500 MFIs currently operate in Bangladesh, with another 500 entities soon to join the industry. Most MFIs except those run by government bodies- consistently report repayment rates of 98 percent or more.

On the other hand, in 2002, about 13 million poor households had access to credit and other financial services through the 1,200 MFIs (Credit and Development Forum, 2002). However, these figures excludes over three million Grameen Bank borrowers, though the possibility of overestimating the total number of poor households with access to micro-credit since practice of borrowing from more than one source has been evident. Conversely, with an average household size of 5.3 people, a total population of 128.9 million in 2000, a poverty rate between 36 percent (US\$1/day) and 49.8 percent (national) in 2000, and about 75 percent of microfinance beneficiaries being poor, it appears that at least 80 percent of the poor were covered by microfinance services.

So, the large majority of borrowers perhaps 90 percent are beneficiaries of the handful of large organisations which include, BRAC, Grameen Bank, ASA and Proshika. Of the remaining organisations, only about ten have over 100,000 borrowers. According to data gathered by the Micro-credit Summit Campaign, by the end of 2003, Bangladeshi MFIs (including government bodies and commercial banks that offer some form of microfinance) had 21.2 million active clients, some 13.7 million of whom are undoubtedly poor women (see Tables 3.1 below).

TABLE 3.1 BANGLADESH MFIs DATA VERIFIED BY MICRO-CREDIT SUMMIT IN THE GLOBAL CONTEXT

	No. of MFIs	No. of 'poorest' clients	No. of active clients	Proportion of active clients who are 'poorest'	No. of 'poorest' who are women	Proportion of poorest who are women
Verified Bangladesh MFIs	75 (26percent)	15,811,955 (33percent)	21,206,621 (31percent)	75percent	13,673,877 (34percent)	87percent
Total verified MFIs	286	47,454,443	68,629,792	69percent	39,714,556	84percent
Total reporting MFIs	2,931	54,785,433	80,868,343	68percent	45,200,000	83percent

Source: Micro-credit Summit Campaign, 2004. Figures in parenthesis represent the proportion of total verified MFIs made up by Bangladeshi verified MFIs.

The State of the Micro-credit Summit Campaign Report (2004) reported externally-verified data from 286 MFIs worldwide (see Table 3.1). These 286 institutions reported reaching 47.5 million of the poorest²² beneficiaries at the end of 2003, or 87 percent of the total number of poorest beneficiaries reported. 84 percent of the poorest beneficiaries of verified MFIs are women. According to Zeller et al (1997), there are 'pathways' through which improved access to financial services can improve household's well-being.

This is supported by Yunus's virtuous circle of low income, credit, investment, more income, more credit, more investment, and more income...that draws attention to the primary process by which microfinance is foreseen as improving the economic well-being of borrowers. For instance, loans were seen as additional capital that can be used to enhance the level of the household's productive human and physical capital (Zeller, et al, 1997). On the other hand, with improved access to credit the risk-bearing capacity of the household's can be increased and potentially profitable activities may be adopted.

²² Poorest refers to families whose income is in the bottom 50 percent of all those living below their country's poverty line, or any of the 1.2 billion who live on less than \$1 a day adjusted for purchasing power parity when they started with the program.

However the question stands: did the poor Bangladeshis economically benefit from their enhanced access to microfinance, and if so, to what extent? Considering the research that has been carried out in Bangladesh for the last three decades, on a professionally-run large scale impact assessment to a journalistic and anecdotal field reports using different methodologies, it is understandable, that the evidence on the economic impact of microfinance is mixed.

According to Mayoux (1995) on balance, there is evidence that microfinance on average and in general does have a positive economic impact on clients, although the effects are often small and all beneficiaries may not benefit equally. However Khandker's (2003) study had similar findings on the effects of microfinance on poverty. The data from the research which was carried out jointly by the World Bank and Bangladesh Institute of Development Studies (WB/BIDS) in the late 1990s revealed that there was a strong indication that micro-credit programmes help the poor in consumption smoothing as well as in building assets. Similarly, Khandker (2003) reports that micro-credit lend a hand to the poor in raising their per capita consumption, mainly on non-food, as well as household non-land assets.

Despite the fact that MFIs are involved in lending to so many poor, primarily rural Bangladeshis, and on average helping them to improve their economic position, why are the rural poverty rates still so high? It can therefore be argued that the economic improvements are significant but insufficient to lift a household above the poverty line therefore not contributing to declines in poverty rates.

For instance according to (WB/BIDS) studies revealed that fewer than 5 percent of microfinance clients, or about 1 percent of the population in total, could lift themselves out of poverty each year through borrowing from an MFI. As a result, the quantity and quality of growth seems to remain a crucial factor in determining levels of rural poverty, both directly and through constraining the gains achieved by MFIs clients. Microfinance lends a hand in poverty reduction but it should not be assumed to be a universal remedy.

3.6.2 Promoting children's education

In Bangladesh, MFIs initial objectives appear not to have been in the 'social' dominion. Based on the literature, to a less extent most MFIs focused on social goals such as

children's school attendance, awareness of and demand for health services. In addition, the social impact of microfinance in Bangladesh seems to have been mixed, but again, on balance, though it is suggested that microfinance and the associated activities of MFIs had positive social effects. However, Khandker (2003) argues that the earlier WB/BIDS study found that micro-finance programmes promoted investment in human capital such as schooling, and contributed to increased awareness of reproductive health for example, the use of contraceptives among poor families.

On the same note, data from a survey on households suggested that micro-credit had significantly contributed to reducing poverty (Khandker, 2003). Using the same data, it is surprising to note that the impact of micro-credit appears to have been greater for households who started off on extremely poor conditions (18 percentage point drop in extreme poverty in seven years) compared to moderate poor households (8.5 percentage point drop). These results further illustrate that moderate poor borrowers were benefiting more than extremely poor borrowers due to the fact that the poorest had a number of constraints (fewer income sources, worse health and education etc) which prevented them from investing the loan in a high-return activity (Wood, et al, 1997). In addition, the same aspect of better-off households benefiting more was also borne out by a detailed case-study evidenced by Farashuddin & Amin (1998) and by comparing participants of credit programs who cater to different socio-economic groups (Montgomery, et al, 1996).

Related to the above, better-off households that existed as a result of access to credit were often able to foster social, psychological and even political empowerment. Credit services for the poor appear to reverse their systemic elimination from access to public or private funds, consequently changing systems of hierarchy and power (Todd, 1996). In Bangladesh, access to credit was an alternative means of finance that reduced dependency on moneylenders. In general, the poor participated more effectively in the social, economic, and political workings of their community. Therefore, Hedrick-Wong et al's (1997) claim that credit provision in itself does not challenge any of the structural reasons behind poverty is not valid. Von Pischke (1983) argues that forming a financial apparatus that would help the poor to partake fully in market and political processes is a major objective of current development assistance.

3.6.3 Improving health outcomes

In general, the literature on MFIs and other microfinance programmes points out that access to financial services by the poor helps them to overcome their risks. Other than hunger, the poor seems to be severely challenged by the problem of illness. Deaths due to illness, time taken off from work because of an illness and health care-related expenses appears to erode incomes and savings, often forcing the poor to sell assets and going into debt. Increased earnings and savings allow beneficiaries to seek out and pay for health care services when needed, rather than waiting for conditions to deteriorate. In Bangladesh MFIs seems to have actively promoted health. This took place in different forms. For example some MFIs provided their beneficiaries with simple preventive health care messages on immunization, safe drinking water, and pre-natal and post-natal care. According to Littlefield et al (2003), some programmes in Bangladesh provided credit for water and sanitation which directly improved their beneficiaries living conditions.

Similarly, a study of BRAC beneficiaries by Chowdhury & Bhuiya (2001) found that fewer members suffered from severe malnutrition than non-beneficiaries and that the extent of severe malnutrition declined the longer beneficiaries stayed with BRAC. On the same note, Grameen Bank beneficiaries showed a higher rate of contraceptive use (59 percent) than non-beneficiaries (43 percent). This was attributed to beneficiaries increased awareness of contraceptive programmes (gained from attending group meetings) provided by the Bank and from increased mobility, which allowed women to seek out such services.

In addition, a study by the World Bank in Bangladesh showed that a 10 percent increase in credit to women was associated with a 6.3-percent increase in mid-arm circumference of daughters. Mid-arm circumference of sons also increased, though by a smaller amount. There was also a statistically significant positive effect on height-for-age for both boys and girls (Pitt, et al, 2001). Another survey of microfinance beneficiaries in Bangladesh indicated that rates of contraceptive use were significantly higher for Grameen beneficiaries (59 percent) than for non-beneficiaries (43 percent) (Schuler & Hashemi, 1994). Similar findings of increased contraceptive use were reported in a later study by (Rahman, et al, 2000). In general, the health standards among the beneficiaries

of MFIs in Bangladesh had a dramatic increase compared to households that never participated in microfinancing.

3.6.4 Empowering women

Equally, structures of power at the household level were also affected by micro-credit. For instance credit became a bargaining break off for many women, in terms of improving their fall-back position, and permitting them to 'negotiate transfers' with those who held some form of social control. For example, in the Bangladesh context, traditionally women's economic contributions to the household were in labour which was often 'invisible'. Therefore, access to loans in cash by women encouraged revaluing of women and as a result women were able to have resources of their own contributing to the family's well-being (Goetz & Gupta, 1996). Similarly, according to Todd (1996) widows with loans were noted to lend a hand to their children who wanted access to credit. In a nutshell, women who received loans gained access to additional resources even if their husband appropriated the money.

More to the point, women who gained access to credit seemed to have used it as a bargaining chip with their male relatives to gain access to a congregation of community women and other services that MFIs offered such as skills training, education and health services. This enabled women to participate in community social networks and social programmes, which in turn enhanced their opportunities and empowerment. According to Hulme and Mosley (1996b), the creation of a regular forum at which large numbers of poor women met and talked represented a 'breakthrough' in the social norms of rural Bangladesh, and to some extent reduction in the seclusion experienced by many women.

Generally, the impact of MFIs in Bangladesh were largely visible in terms of family support, direct relations between women's access to resources and opportunities to earn an independent living, and consequent participation in decision making. Todd (1996) believes that minimalist micro-credit programmes such as the Grameen Bank were more effective in empowering women inside their homes, due to an almost complete focus on credit provision.

3.7 OVERALL SIGNIFICANCE OF MFIs

Internationally, Bangladesh was renowned for her poverty, floods, famine, disease, war, overpopulation, oppressed women, corruption, ferryboat disasters, and contamination of water by arsenic. However, with the ‘invention’ of MFIs as a tool that would lend a hand in development and her commitment and insights from her competent cadres with vast expertise made Bangladesh on a global scale, a benchmark for microfinancing. This was achieved through honest MFIs and NGO field staff that put the microfinance model of poverty alleviation into practice every day; thereby narrowing the gender gaps in economic participation, education and health²³

In addition, employment creation by the MFIs themselves went above and beyond the effects on beneficiaries and was enormous. According to Credit and Development Forum (2002) estimates, there were at least 50,000 credit officer-type positions across the country, and considering their own households, they gained their livelihoods from the provision of microfinance services. It is with no doubt that the impacts of MFIs in Bangladesh were visible.

3.8 NEGATIVE ASPECTS OF MFIs

From the theoretical perspectives of the development roles of MFIs discussed above, it is imperative to note the negative aspects of MFIs so as to strike a balance in the discussion. According to Vanroose (2007:3), there are ethical questions related to provision of financial services. Vanroose (2007:3) mentions that the main issues originate from the imbalance of power between the lender and the borrower. Vanroose’s argument is supported by (Stiglitz, 2003) who argues that credit markets are imperfect and borrowers traditionally have access to only a limited amount of lenders, while lenders face a lot of borrowers and at same time, borrowers are also typically poorer than lenders.

According to Vanroose (2007:3) such asymmetries lead to possible abuse. She further mentions that traditionally important market failures exist in developing countries where poor people often do not have access to formal financial services. The informal financial

²³ The World Economic Forum’s global gender gap ranking, published on 16 May 2005, ranks Bangladesh 39 out of 58 countries. In addition, it is ranked 18th on economic participation, surpassing the UK (21) and US (19), and 37th on both educational attainment and health and well-being, surpassing Austria (38) on education and the Baltic (44, 46, 48) on health and well-being.

sector comprises of MFIs ask high interest rates as they bear high costs. The high interest rates imposed to the poor borrowers makes them vulnerable since much of their savings are spent on financing the interest rates rather than their socio-economic welfare.

In relation to the above, supporters of microfinance such as Robinson (2001) argue that huge demand for credit is common in poor societies and its accessibility is more important than its costs. Such argument assumes that access to financial services has a positive impact on the poor yet, in reality, it is the lenders who charge high interest leaving the poor in what Chambers (1983:112) refers to as the deprivation trap. This is common in the institutionist approach to microfinance where emphasis is put on the achieving financial self-sufficiency rather than breadth of outreach.

In the same vein, the effectiveness of increasing financial capital through micro-credit depends on the interest rates MFIs charge. Specifically, if the interest rates are high, the net capital accumulation accrues to the lender rather than the borrower. According to Vanroose (2007), the subject of interest rates has become highly controversial in microfinance, because it raises some difficult ethical questions about making profits on the back of the poor (Hudon, 2006). Negatively, in most cases the credit obtained from MFIs is used for consumption or financing components for consumption rather than investment. Low income earners who get credit from MFIs are not sensitized on how to utilize the credit meaningfully. Such scenario contributes to the poor being poorer and the lenders accumulating profits.

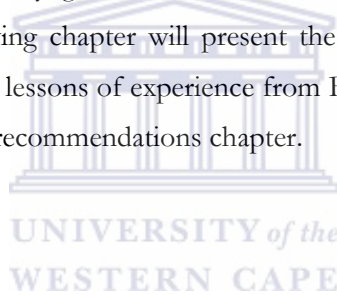
In relation to the above, Hulme (2000) argues that micro-credit can also be looked at as micro-debt. Whenever micro-credit is not used to invest in an income-generating activity, no additional means are generated to repay the loan. Indebtedness has become a major issue in microfinance. This is especially true as increased competition has led to irresponsible lending from some MFIs, leading to social dramas (Marconi & Mosley 2005). Indebtedness also decreases the level of freedom the poor have. It has been Sen's (1999) contribution to development theory to define development as freedom.

Although access to financial services could increase the poor's' capabilities and possibilities, once the level of indebtedness is too high and the individual becomes dependent on different institutions, one cannot claim that one has become freer. In

conclusion, we cannot automatically assume that micro-credit improves the financial capital of all borrowers. The result depends on the income level of the borrowers, the purpose of the loan, and on the interest rate charged by MFIs.

3.9 CONCLUSIONS

In this Chapter, discourse on the economy of Bangladesh has been given. This was followed by discussion on the MFIs sector in Bangladesh as well as the evolution of the MFIs. Various factors responsible for the growth of MFIs in Bangladesh such as visionary leadership, the role of donors, the role of the government strong, professional personnel and the population density coupled with ethnic homogeneity were discussed in detail. Significantly, the development roles of MFIs that included among others; poverty reduction among poor clients, promoting children's education, improving health outcomes as well as empowering women has been discussed. The overall significance of MFIs in Bangladesh was briefly given attention. This was followed by the negative aspects of MFIs. The following chapter will present the Uganda case after which the findings chapter will consider lessons of experience from Bangladesh for Uganda. This is followed by conclusions and recommendations chapter.



CHAPTER FOUR

DEVELOPMENT ROLE OF MFIs IN UGANDA

4.1 INTRODUCTION

The previous Chapter discussed the development roles of MFIs in Bangladesh using the information from the literature. Nonetheless, this Chapter discusses the development roles of MFIs in Uganda using both the information from the literature and the field study. The Chapter is divided into two sections. The first section of the Chapter comprises of the theoretical perspectives on issues such as overview of the Uganda's economy, the poverty situation in Uganda which is discussed along with poverty reduction policies as well as poverty reduction strategies, the financial sector of Uganda, the evolution of MFIs in Uganda, and lastly different factors that contributed to the growth of MFIs in Uganda. This is done purposely to provide a basis for further discussion.

The second section of this Chapter contains an analysis of the development roles MFIs in Uganda where social-economic aspects, namely; (i) poverty reduction; (ii) promotion of children's education; (iii) improvement of health outcomes; and (iv) empowerment of women are discussed using data obtained from the interviews, and focus group discussion. At the beginning of this section, basic information on the participants of the study (see Figure 4.2) is given, for example the number of Government experts interviewed, the number of beneficiaries interviewed and the methods used in collecting the information.

FIGURE 4.1 MAP OF UGANDA²⁴



Source: www.library.edu/africana/map/africa.map [Accessed on 23/Jul/2007]

4.2 BRIEF OVERVIEW OF UGANDA'S ECONOMY.

According to Carlton et al (2001:10), Uganda's current economic performance indicate a steady growth in terms of development having emerged from a savage civil war with the economy and its international status shattered by twenty five years of authoritarianism. However, some scholars (Carlton, et al, 2001; MoFPED, 2000c; and Nannyonjo & Nsubuga, 2004), argues that Uganda is considered by the World Bank as one of the few success stories in Africa of the last decade with some impressive statistics on the economy, with doubled average growth rates of about 6 percent per annum.

In the same vein, the Economic Commission for Africa (2003) survey, found that Uganda's economy had grown 6.2 percent in 2001/2002 (June-July), slightly above the 5.9 percent growth a year before. During the same period, the economy continued to excel with increased investment and rehabilitation of infrastructure, reduced inflation, tightening domestic security accompanied by substantial poverty reduction (lifting 22

²⁴ Uganda is one of the countries in East Africa. It is bordered by Tanzania and Rwanda to the south, the Democratic Republic of Congo to the west, Sudan to the north and Kenya to the east. It has a land surface of 241,139 square kilometers. It has several fresh water lakes, including Lake Victoria which it shares with Kenya and Tanzania, and from which the River Nile starts its 6695 kilometers journey to the Mediterranean Sea.

percent of the population from poverty) in a decade (MoFPED, 2000a; Wright, et al, 1999a).

In 1997, the Government of Uganda (GoU) developed a Poverty Eradication Action Plan (PEAP),²⁵ within which strategies were drawn to boost the growth of the economy through supporting private sector activities, facilitating the development of the rural economy through Programme for Modernization of Agriculture (PMA) at the grassroots levels, and the Medium-Term Competitiveness Strategy (MTCS). All the three poverty reduction policies (PEAP, PMA and MTCS) deliberately included microfinance. The stakeholder's in the policy process were of the conviction that provision of microfinance services would propel macroeconomic stability. However, these innovations as stated in the development policies seem not to have taken course as planned due shortage of financial services mainly at the micro level. Subsequently, the implementation of the poverty reduction strategies, MFIs in particular help to the poor at grassroots levels left much to be desired and the poverty situation in many parts Uganda appear to have worsened.

A survey carried out by the Ministry of Finance Planning and Economic Development (MoFPED) 2002 indicated that between 1992 and 2002, Uganda made little headway in the fight against poverty. While different methodologies to measure the extent of poverty were used, most analysts agreed that at least 35 percent of the population in 2001 still lived below the poverty line (MoFPED, 2002 and 2000c; Mijumbi & Okidi, 2001; Wright, et al, 1999a). In addition, despite the fact that Uganda is being held up by the World Bank as one of the success stories, it also adds up to the twenty poorest countries in the World with high infant maternity and mortality rate, fertility rate (6,7 children per woman)²⁶ is one of the highest in the World.

On the economic front, poverty is particularly prevalent in rural areas and agriculture continues to dominate Uganda's economy. Notwithstanding considerable productivity and output improvements for certain cash crops following the government's liberalization efforts, the rural economy is still largely dominated by low subsistence

²⁵ The Poverty Eradication Action Programme (PEAP) was a policy designed by the GoU in attempt to address the alarming rates of poverty in the country. For further debate on the PEAP and other macro policies such MTCS and PAM see MoFPED reports 2000/2002 and 2003/2004.

²⁶ <http://www.cia.gov/cia/publications/factbook/geos/ug.html> [Accessed on 15/May/2005]

production. Cash crop producers to some extent have benefited from liberalization, however, smallholder sector with average holdings of 1, 6 hectares have seen insufficient real growth due to lack of access to agricultural inputs, declining soil fertility, poor infrastructure, the inability to access output markets and lack of financial services posing the most critical challenge (Wright, et al, 1999a).

In light of the above, the poorest 20 percent of the population who are inadequately [if not] involved in the production of cash crops appears to be worse off. Following the above discussion on Uganda's economy, the subsequent section provides a detailed discussion on the poverty situation in Uganda, which with no doubt is an important element of this study that deserves attention of readers.

4.2.1 Poverty situation in Uganda

On the international scale, Uganda seems to be among the poorest countries of the World. Her per capita income is among the lowest of the least developed countries and its reliance on agriculture among the highest in the group. According to the most commonly cited estimates, poverty in Uganda declined from 56 per cent in 1992 to 35 per cent in 2000, and a combination of economic growth and recovery from civil war damage are widely regarded to be responsible for this accomplishment (Appleton, 2001a; Collier & Reinikka, 2001; GoU, 2001).

However, reduced poverty in the 1990s seems to have gone hand-in hand with increased inequality (Appleton, 2001b; Deininger & Okidi, 2003; Hickey, 2005) and the extent to which different segments of the population took advantage of and benefited from further growth-induced opportunities is in doubt (Okidi & Mugambe, 2003; Mijumbi & Okidi, 2001; Ssewanyana, et al, 2004). Poverty reduction seems to have slowed down after 2000 according to Kappel et al (2005), and the extent to which sustained growth would facilitate an escape from poverty even in the longer term for those left behind appears to be debatable.

The report on hunger and malnutrition released in 2005 revealed that extreme hunger and extreme poverty are real in Uganda and there is a high incidence of vulnerability to hunger and starvation among asset less widows, female and child headed families,

adolescent mothers and orphans²⁷. The prevalence of stunted growth in children less than five years of age stood at 40 percent and 27 percent in rural and urban areas respectively. Measured in terms of food consumption and set at a nutrition requirement of 2,200 calories per adult per day, estimates by hunger and nutrition 2005 shows that 30 percent women suffered from Anaemia which is caused by iron deficiency, and 65 percent children suffered from similar syndrome. Further, Vitamin A deficiency was at 28 percent and 52 percent in children and women respectively. Such negative health indicators clearly illustrate the magnitude of poverty Uganda.

In the process of confronting poverty related ills, the GoU in collaboration with the World Bank adopted the poverty reduction policies within which a plan to facilitate the development of the rural economy were drawn. Embedded within the policies, was the notion that provision microfinance services would enable the poor to get out of poverty cycle. Different institutions such as the International Monetary Fund, World Bank, Bank of Uganda as well as the Ministry of Finance and Economic Development participated in designing the poverty reduction policies as discussed below.

4.2.2 Poverty reduction policies in Uganda

In some countries, economic growth is the primary policy goal and poverty reduction is achieved through measures complementary to economic growth. However, according to the development goals and policies of the GoU, this approach was not ideal in terms of the existing situation. As a result, poverty reduction became the core objective of the GoU and at the same time, the GoU seems to have been convinced that economic growth is the principal, but not only means in attainment of the development objective (World Bank, 2002)

According to the Poverty Reduction Strategy Papers (PRSPs)²⁸ on GoU, poverty has many dimensions that include, low and highly variable levels of income and consumption, physical insecurity, poor health, low levels of education, disempowerment,

²⁷ Leadership Strategy for Reducing Hunger and Malnutrition in Africa: The Agriculture Nutrition Advantage Report 2005.

https://www.icrw.org/docs/2005_report_agnutrition.pdf [Accessed on 02/Feb/2007]

²⁸ PRSPs are prepared by member countries in broad consultation with stakeholders and development partners, including the staffs of the World Bank and the IMF. Updated every three years with annual progress reports, they describe the country's macroeconomic, structural, and social policies in support of growth and poverty reduction, as well as associated external financing needs and major sources of financing.

a heavy burden of work or unemployment, and isolation (both social and geographical). Drawing on recent evidence including household surveys and the Uganda Participatory Poverty Assessment Project, poverty is experienced in different dimensions Ugandan (MoFPED, 2000d).

In light of the above, the GoU recognised the importance of increasing income to poor households, and placed emphasis on eradicating poverty. On the same note, the GoU views ignorance as a constraining feature of the lives of poor people, and is concerned to improve literacy and educational achievement among the population at large. Health is another central concern for the poor, and the Government has established clear goals for improving the health of Ugandans (MoFPED, 2000d).

Based on the international lessons of experience and the current Government's experience in leadership, the GoU formulated poverty reduction policies as indicated in the Table 4.1 below. In the same vein, current Government shifted its attention from urban to rural areas where 85 percent of the population live. The small holder farming seems to have been the focus of the economic development with massive agricultural extension and credit scheme and later on, the expansion of Universal Primary Education to Universal Secondly Education.

TABLE 4.1 POVERTY REDUCTION POLICY FRAMEWORK UGANDA²⁹

Policy Document	Action plan
Master development policy	Poverty eradication action plan.
Agriculture development policy	Plan for modernisation of agriculture.
Agriculture planning extension	National Agriculture Advisory Services master document (NAADS).
National food nutrition policy	Uganda Food and Nutrition Policy.
National nutrition action plan	Food Nutrition Strategy and Investment Plan.
National gender policy	National Gender policy
Decentralisation policy	The Local Government's Act 1997

²⁹ The table illustrates the poverty reduction policy framework in Uganda. The details of the contents of the table are selectively used in the overview of Uganda's economy and the overall poverty scenario in the Uganda.

4.2.3 Poverty reduction strategies

Having discussed some of the poverty reduction policies of GoU, it is imperative for this study to illustrate the poverty reduction strategies of Uganda. According to the MoFPED (2000d), Poverty Eradication Action Plan (PEAP) was centred on promoting economic growth and increasing the income earning capacity of the poor. In addition, the PEAP stakeholders argues that there was a need for a shift of the policy focus from recovery to sustainable growth and structural transformation and present specific government strategies that would accelerate poverty reduction. In that same vein, poverty reduction strategies were placing emphasis on empowerment and incorporation of women in development process of the country (IMF, 1999).

In light of the above, PRSP (2005) emphasized the importance of a stable and consistent macroeconomic framework, fiscal deficit reduction, conflict resolution, good governance, increased production and productivity in the agricultural sector, and strengthened human development. The problem of high population growth and increasing income inequality were noted as major challenges in the fight against poverty. The PRSP (2005) further identified various strategies of accelerating growth, reducing poverty, and improving service delivery through; economic management, enhancing production, competitiveness and incomes, ensuring security, conflict resolution and disaster preparedness, good governance and promoting human development.

According to GoU development policies, capacity-building comprises of combination of a human resource development, building and strengthening of institutions and the establishment of effective working practices. Accordingly, the capacity-building programme framework was formulated and designed to fit into service reforms as well as decentralisation and empowerment (PRSP, 2005). Following the above discussion on the poverty scenario and poverty reduction policies as well as poverty reduction strategies in Uganda, the subsequent section discusses the financial sector of Uganda before embarking on the evolution of MFIs in Uganda.

4.3 FINANCIAL SECTOR OF UGANDA

Uganda in partnership with active international donor community has enjoyed unprecedented period of political and economic stability since the mid 1990s (Goodwin-Groen, et al, 2004:3). This kind of environment and relationship with the donor

community has enabled the country to allow foreign direct investment. Foreign direct investment has seemingly strengthened the financial sector of the country in many ways. To begin with, Uganda's financial system is composed of formal and informal financial markets.

The formal financial markets comprises of Commercial Banks, Development Banks and Credit Institutions which seem to be mainly centered in urban areas and offer a narrow range of financial services. According to Nannyonjo & Nsubuga (2004), the formal financial markets focus on providing working capital mainly to medium and large-scale enterprises. In addition, they seem inflexible in their operations with respect to the needs of the poor people in the rural areas who may not have collateral or well-written feasibility studies to solicit for loans.

On the other hand, Uganda's informal financial institutions comprises of moneylenders, micro-finance agencies, Non Government Organisations (NGOs), rural farmers' schemes and savings societies that provide savings or credit facilities to micro and small-scale business people who have experienced difficulties obtaining such services from the formal financial institutions.

Nonetheless, the informal financial sector in the rural areas of Uganda seems to be largely weak, patchy and not effectively incorporated with the formal financial sector. The cost of operation of MFIs appears to be generally higher than those of the formal financial institutions. In addition MFIs beneficiaries are usually located a distance from the branches and this necessitates continuous monitoring. Ledgerwood et al (2002)³⁰ asserts that the interest rates are higher on loans obtained from MFIs than those on loans obtained from the formal financial institutions. Therefore, reversing this trend requires policies that aim at implementing market based rural financial services on a sustainable basis so that the rural areas where the majority of the people live and work are availed with financial services.

³⁰ While lending rates range between 11 percent – 80 percent for MFIs, they range between 5 percent and 30 percent for the formal financial institutions.

The baseline survey on the outreach of microfinance service in Uganda by the Micro and Small Enterprise Policy Unit (MSEPU) 2002 revealed that the rural areas, where the majority of poor people live, remain either under-banked or served by informal financial institutions. It is estimated that only 10 percent of the rural population and 5 percent of the rural poor have access to financing services in terms of saving and credit (MSEPU, 2002). This has limited the rate of investment and employment creation particularly in rural areas, thus constraining overall economic growth. Although, informal sector institutions have existed in Uganda in many forms for many years, they seem to have failed to answer to the resource gap in the market and serving the real needs of their beneficiaries who constitute low income households. Yet Uganda seems to have a long history of informal finance (Nannyonjo & Nsubuga, 2004).

According to Uganda's regional analysis, the majority of informal financial institutions are located in the Western region followed by the central eastern and lastly the northern region. The limited number of the MFIs in the northern region seems to be a result of the ongoing insurgency in the region (MSEPU, 2002; MoFPED, 2002). In terms of rural-urban distribution, most MFIs are rural based and the MFIs with large loan portfolios are however, urban based (Nannyonjo, & Nsubuga, 2004). Whereas MFIs have increased their outreach to the rural areas, the average loan size in the rural based institutions are still very small; a situation that require refurbishment.

Among the various range of activities of MFIs in Uganda include; deposit taking, savings schemes, small-scale enterprises, agriculture, real estate, group lending, retail financial services, giving advice on financial matters and training in business management. According to the MSEPU (2002), it is estimated that there were over 1400 MFIs with an active loan portfolio of over Shs 97 billion (US\$ 53.3 million), over 340,000 borrowers and over 900,000 active savers.

Having briefly discussed the composition of Uganda's financial sector, it is of great value for the study to illustrate the evolution of MFIs in Uganda. This is done to inform the research and assist in the assessment of the development roles of the MFIs in Uganda. The subsequent section narrates the development of MFIs in Uganda.

4.4 EVOLUTION OF MFIs IN UGANDA

Microfinance industry in Uganda seems to be fairly new compared to other well-advanced microfinance countries like Bolivia, India or Nepal. However, the informal financial arrangements of Uganda such as Rotating Savings Credit Associations (ROSCAs) appear to have existed in many forms for several decades. Carlton et al (2001:16), argues that from the mid-1980s, credit schemes started emerging as side components of social welfare programs. Like in all other parts of the developing World, such components according Carlton et al (2001:16) followed a project-oriented approach and disbursed credit at subsidized interest rates, had very poor repayment rates and to a certain extent short-lived.

The notable microfinance institutions that appeared in early 1990s, in Uganda included FINCA and Uganda's Women Finance Trust (UWFTI). However, the mentioned MFIs seem not to have started by expanding in terms of significant client outreach and therefore they did not receive broader recognition until the mid 1990s. Their recognition in the mid 1990s was attributed to increased interest from donors and NGOs after discovering that small scale financial institutions can make a lasting impact on poverty alleviation by offering sustainable financial services. Consequently, the microfinance industry began to take shape.

Carlton et al (2001:16) point out that in 1996, Uganda hosted a microfinance seminar that was sponsored by USAID. This seminar among many issues exposed to development practitioners the best practice, methodologies and importance of sustainable micro-financing. At the same time, the GoU realised that private sector was the most important contributor to economic growth and the need to improve access to financial services to low income earners.

Subsequently, microfinance became an issue at the Ministry of Finance and Economic Planning (MoFPED) as well as the Bank of Uganda (BoU), as both parties got acquainted with national and international experiences and practices in microfinance sector (Carlton, 2001:16). In early 1997, the Centre for Microfinance (CMF) a rural microfinance support programme started providing trainings and technical assistance to MFIs in key areas such as loan tracking, interest rate setting, business planning, product

development, and ownership and governance. In addition, other development projects also began to provide valuable capacity-building to the microfinance industry.

Beginning with 1997, there was a strong combined effort among the international community (donors), government, Central Bank, practitioners and capacity building providers (Carlton, et al, 2001:17). This resulted into a consultative working group that later developed into a full Microfinance Forum that would discuss different topics related to microfinance and development and exchange information and share ideas on key issues affecting the sector. During the same period, the Association of Micro Enterprise Finance Institutions of Uganda (AMFIU) was established to serve as a practitioner platform for sharing experiences and technologies and as well as being advocacy body for Uganda's MFIs.

In mid 1999, microfinance operation in Uganda became sluggish and redundant, a situation that Carlton et al (2001) attributed to the withdrawal of donors. In 2000, Uganda hosted a microfinance workshop that was facilitated by AFCAP³¹. From the workshop, a joint vision for development of the microfinance industry was mutually agreed as well as the strategies to achieve the vision. Among many compelling issues, the donors expressed was the need for ambitious outreach expansion plans and agreed on a coherent strategy for a demand driven capacity building initiative (Carlton, et al, 2001; MoFPED, 2000d)

In 2001, a number of initiatives like common donor guidelines, universal reporting standards, a rating system, guarantee funds, a capacity building initiative for MFIs were made which led to some MFIs graduating to formal status. At the same time, significant number of MFIs took important steps towards professionalisation and transformation into well organized, well-managed and commercially viable institutions that provided financial services to an increasing number of beneficiaries with poverty reducing (Carlton, et al, 2001; Goodwin-Groen, et al, 2004).

From the contemporary perspectives, Uganda's MFIs industry seems to have flourished and can generally be described as favourable. This has been attributed to among others,

³¹ AFCAP is a Microfinance Capacity Building Programme in Africa. Its team comprises of highly trained consultants whose roles among others are to train development stakeholder particularly those in the field of microfinance.

macroeconomic stability, strong and competent MFIs, practitioners and donors committed to best practices, MFIs with international alliances, and large supportive government and a constructive cooperation among stakeholders (Carlton, et al, 2001). In relation to the above, the industry has managed overcome the dent left by former civil instability and bad practices that destroyed part of Uganda's social capital, damaged the credit culture in some parts of the country, and the closure many banks that eroded the trust of beneficiaries into financial institutions(Carlton, et al, 2001). At the same time, none of the bigger MFIs have faced serious delinquency problems since they embraced professionalism.

Centenary Bank formerly referred to as Centenary Rural Development Bank (CERUDEB), is among the notable Commercial Banks [if not only], that has distinctly provided microfinance. The preliminary results from the census microfinance Uganda of 2006³² revealed, there are 741 microfinance institutions in the country, with 1064 outlets, Saving and Credit Co-operatives (SACCOs) are 682 in number with 675 outlets, companies that offer microfinance services are 82 in number with 158 outlets and lastly Non-Governmental Organisations (NGOs) are 24 in number with 34 outlets. The major microfinance institutions such as Centenary Bank, FINCA, PRIDE, UMU, and Uganda Women's Finance Trust (UWFI) seem to have surpassed [if not] close to full financial sustainability. Carlton et al (2001), they argue that the new providers continue to enter the market and they are joining a relatively mature and professional industry. Competition in Kampala and the surrounding areas in the country have become strong.

From the above discussion on the evolution MFIs in Uganda, the study highlighted some of the challenges facing the MFIs industry and most pressing one being high drop out rates, indicating that beneficiaries make use of increased competition in the microfinance industry and shop around, but probably also suggests that, beneficiaries are not satisfied with the products offered. In fact, some of the lending methodologies reveal that the services and products offered by the majority of MFIs are very [if not] similar to each other and are not adjusted to the specific needs of different beneficiary groups. From the above theoretical perspectives on the evolution of MFIs in Uganda, it is essential for this

³² See unpublished Paper presented at Informal Information Exchange Meeting held at Hotel Equatorial, Kampala on 31st July, 2006 by Okumu Luke Financial Sector Deepening Project Uganda (FSDPU) July 31, 2006.

study to bring to the attention of readers the possible factors that contributed to the growth of MFIs in Uganda before an explanatory journey to development roles of MFIs in Uganda are discussed.

TABLE 4.2 MICROFINACE PROVIDER'S IN UGANDA³³

MFI	Year of establishment	Methodology	No. of clients	Sustainability
CERUDEB	Trans-formed into Commercial Bank 1993	Individual lending	14,000 borrowers, 45.000 savers	Full financial sustainability
FINCA	1992	Village banking	23.500	Full financial sustainability
PRIDE	1995	Adjusted Village banking	24.500	Close to operational; sustainability
UMU	1997	Solidarity group lending and individual lending	10.000	Close to operational; sustainability
CMF LTD	1999	Group and Individual lending	13.000	Close to operational; sustainability
UWFT	1985	Group lending and individual lending	35.000	operational; sustainability
FOCCAS	1995	Village banking with education	7.500	Approx. 50percent operational sustainability
FAULA	1995	Group and individual	8.000	Just below operational sustainability
UWESO	1996	Group	8.000	Below 50percent operational sustainability

Source: (Carlton, et al, 2001:19)

4.5 FACTORS THAT LED TO THE GROWTH OF MFIs IN UGANDA

Despite the fact that ten to fifteen years ago only a few moderately performing MFIs existed in Uganda, the country today seems to be endowed with the strongest and most dynamic microfinance industry based on the information obtained at a presentation on informal exchange meeting for Financial Sector Deepening Project Uganda (FSDPU) presented by Okumu in 2006. Uganda's microfinance industry appears not be serving as many beneficiaries as similar institutions in Asia and Latin America, though the industry has reached a stage of development in terms of sustainability, outreach and coherence that is unmatched in other parts of Africa. The reason for such success in Uganda has been a result of the following;

³³ The microfinance institutions in the table include some of the major institutions that were providing financial services as per 2001.

4.5.1 Government policies

Many researchers (Carlton, et al, 2001; Goodwin-Groen, et al, 2004; Wright, et al, 1999a) have concurred that, the Government of Uganda (GoU) policies played an important role in the development of a healthy national microfinance industry. After attaining power in 1986, the then, National Resistance Army (NRA) or present day National Resistance Movement (NRM) embarked on Economic Recovery Programme (ERP) that was launched in 1987 and supported by the International Monetary Fund (IMF) and the World Bank. According to Carlton et al (2001), since that time, the GoU pursued structural adjustment policies and succeeded in stabilizing the macro economy hence fostering economic growth.

As mentioned earlier in the overview of Uganda's economy, inflation was reduced to single digit levels since 1990 and average growth rates have been around 6 percent per annum. From the time when the Financial Sector Reform Programme was launched (1993), the GoU has promoted a more market-oriented financial sector approach, deregulated interest rates and liberalized the exchange rate in 1994. Moreover, the privatization of state controlled banks was initiated, although not very successfully (MoFPED, 2000b; Opiokello, 1999).

The economic strategies of the GoU for poverty alleviation were laid down in the Poverty Eradication Action Plan (PEAP) and the Plan for Modernization of Agriculture (PMA). Both policy documents identified efforts to increase the ability of the poor to raise their incomes either by increasing their productivity or by entering new productive activities as important strategies to improve the quality of their lives. Mutually, the policy documents identified that microfinance was an important instrument that would alleviate poverty.

The GoU also acknowledged that the role of the government in microfinance was limited to the provision of the appropriate legal and policy environment and capacity building. As a result, the Private Sector Development/Capacity Building (PSD/CB) policy unit at the Ministry of Finance, Planning and Economic Development (MoFPED) was entrusted with microfinance issues (MoFPED, 2000b; MoFPED, 2000c). According to Carlton et al (2001) one of the activities of the policy unit was to process and establish a comprehensive microfinance database that would promote coordination, monitoring

and evaluation in the industry. In general, the Ministry of Finance, Planning and Economic Development became supportive of the microfinance industry, adhered to the needs and ideas of its stakeholders, and engaged in a constructive dialogue on relevant issues.

4.5.2 GoU microfinance programmes

According to the MoFPED (2000b) and MoFPED (2002) the GoU was involved directly and indirectly in microfinance service delivery to beneficiaries through a number of projects and programs, such as Northern Uganda Rehabilitation Programme (NURP), South West Agricultural Reconstruction Project (SWARP), the Cotton Sub-sector Development Programme and the Rural Farmers Scheme. However, all of these programmes seem to have been characterized by high delinquency rates and low levels of self-sufficiency.

Carlton et al (2001) argues that in response to such delinquency rates, the GoU promoted a new generation of Government funded programs that channelled funds to beneficiaries through existing NGOs and CBOs. The two most important programs are Poverty Alleviation Project (PAP) and Entandikwa scheme³⁴. While these programmes were better designed than the older generation of credit schemes, they also fell into similar problems. For example, most beneficiaries believed that the Entandikwa scheme money was politically motivated, since loans were often approved through local councils. This perception encouraged loan recipients to default. Other problems that came with Entandikwa scheme included unsustainably low interest rates, insufficient institutional capacity and lack of staff for monitoring and supervision (MoFPED, 2000a).

As from 2006, the GoU created a ministry in charge of microfinance and at the same time, also initiated another microfinance programme which is similar to the Entadikwa scheme that is called Bona Bagagawale (prosperity for all). The implementation of the programme is underway. However, some critics have already expressed their dismay on how the programme is being run and speculations are that it might also collapse as the Entadikwa scheme since there has not been enough guidelines on the programme, and how to use the money. In addition, the GoU appears to have contributed to the erosion

³⁴ Entandikwa is a word from Luganda dialect that refers to starting or initial capital that is required for any business

of credit culture since most its programmes have acted on politically motivated grounds and disbursed credit without insisting on repayment (Carlton, et al, 2001).

4.5.3 Regulatory framework

According to Carlton et al (2001), the development of a regulatory framework was a relatively consultative effort, with a number of practitioners and donors eager to support the initiative from the beginning. For example, the German agency GTZ provided and [still provides] technical assistance in the areas of regulation and supervision to the central Bank. The principles of the framework were discussed in various meetings and all stakeholders had ample opportunity to comment. Currently, some practitioners feel that the process has become less consultative over the past years. For example, policy papers like the Bank of Uganda (BoU) policy document on microfinance regulation of 2000 according to Carlton et al (2001) remained silent on some key issues, triggering fears among providers that the regulation may contain provisions that could be harmful to them.

4.5.4 Donor and government commitment

Nannyonjo & Nsubuga (2004:3) argues that strong government and donor commitment supported the development of a healthy microfinance industry and pushed MFIs towards sustainability. Donor support and commitment to microfinance has increased over the years. According to Carlton et al (2001) and Nannyonjo & Nsubuga (2004), international microfinance organizations have provided critical inputs in terms of capacity-building, human resources and exposure to international experiences to affiliated national MFIs. On the other hand, whereas microfinance has emerged vigorously in other parts of the world, the GoU's commitment on macroeconomic stability, combined with high population density in urban, semi-urban as well as some rural areas, and not forgetting serious financial sector reforms has set the stage for growth of MFIs industry.

In relation to the above, microfinance has become part of the financial sector and has emerged as an instrument for poverty reduction. At the same time, the GoU developed special interest and expertise in it (Carlton, et al, 2001). This has been supported by an enterprising population combined with massive formal sector lay offs which resulted into rapid growth of the micro and small enterprises sector. The population's experience with

informal financial arrangements according to Goodwin-Groen et al (2004) has further assisted its willingness to access microfinance services.

4.5.5 Strong stakeholder mechanism

According to Carlton et al (2001), Uganda appears to stand out relatively strong and effective on coordination of the microfinance industry stakeholders. While the consolidation of practitioner, government and donor interests has not been without frictions, the general willingness to listen to each other, learn from each other and coordinate and cooperate has been widely acknowledged as one of the key reasons for Uganda's success in microfinance.

As discussed in above sections, the MFIs industry began to take shape in 1990s with increased interest from donors, who brought international experiences, and at same time GoU's commitment to private sector development that linked practitioners to international microfinance organizations like FINCA and PRIDE Africa, contributed significantly to the growth of the microfinance industry. In light of the above, when MFIs were still quite far away from self sufficiency, some crucial practitioners, like FINCA and PRIDE, as well as donors clearly promoted financial systems approach with emphasis on institutional and financial sustainability (Carlton, et al, 2001). In connection to the above USAID sponsored microfinance seminar in January 1996, which brought together a number of practitioners and exposed them to international microfinance. This was regarded as the first broad-based coordination effort.

To further illustrate the strong stakeholder mechanism, was the remarkable workshop which was facilitated by AFCAP in 2000. This workshop according to Carlton et al (2001) brought all stakeholders in the microfinance industry together and mutually agreed on a joint vision for the sector. Donors drew plans regarding client growth rates (50 percent per annum) and rural outreach expansion (from currently 80 percent urban and 20 percent rural to 60 percent to 40 percent respectively) for the next five years.

However, to meet the above mentioned targets, donors agreed that a coherent strategy for demand-driven capacity-building and an active promotion of product development for rural areas would be needed (Carlton, et al, 2001). This was to be done through strengthening the microfinance industry by developing a set of uniform performance

indicators that would be acceptable by all potential stakeholders, such as donors, wholesale lenders, investors, depositors, regulatory authorities, and the MFIs themselves (Carlton, et al, 2001). The main intention was to streamline the information flow and save valuable time and resources for the MFIs as well as assisting in the assessment and comparison of general performance among MFIs (Carlton, et al, 2001). Following the above discussion on the factors that contributed to the growth of MFIs in Uganda, the following section focuses on the development roles of MFIs Uganda.

4.6 DEVELOPMENT ROLE OF MFIs IN UGANDA

Different scholars (Barnes, et al, 1998; Mutesasira, et al, 1999; Wright, et al, 1999a; Wright, et al, 1999b) have agreed that MFIs have played a significant role in terms of development in Uganda. Having noted some of the general renown development roles of MFIs in the theoretical overview which formed the part of analytical framework (poverty reduction, promoting children's education, promoting health outcomes for women and children and empowering women), this section uses similar variables to illustrate the development roles MFIs in Uganda.

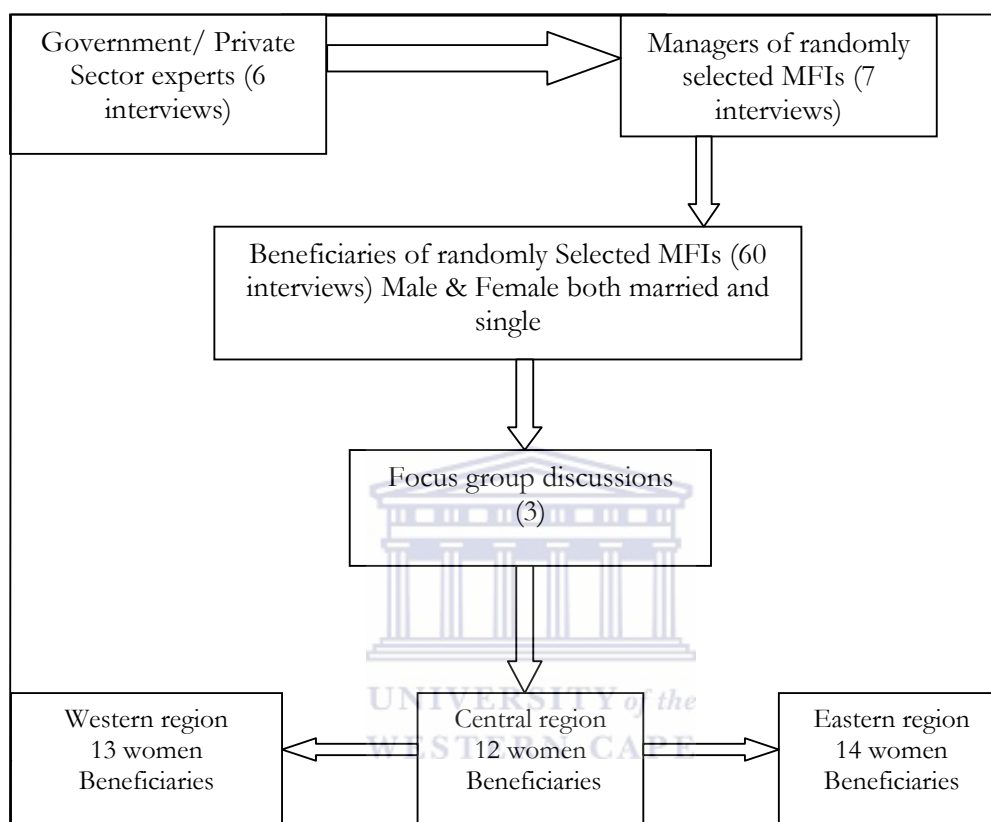
4.6.1 Basic information and methodology

As explained in the research methodology (see 1.4 in the first chapter), this sections provides further methodological information on how the information from the field was obtained. The researcher carried out six interviews at the national level. Three of these interviews were with government experts on MFIs while the other three were with private sector experts. The second phase of the interviews were with randomly selected managers of different MFIs across three regions in the country (West, Central, and East) due to time constraints, the Northern part of the country was not taken into account. However, this will not change the representation nature of the study sample as the northern part is similar to the other regions where the study concentrated.

The third phase comprised of the participants at the clientele level. In each of the three regions visited, twenty MFIs beneficiaries were randomly selected. Lastly, the researcher carried out focus group discussion with female beneficiaries in each region. In the Western region, the researcher had a focus group discussion with thirteen women, in the Central they were twelve and in the Eastern they were fourteen and the questions in all the discussions were similar. The group discussion were organised with assistance of

MFIs managers and were guided by the questions developed that were prior to the field data collection phase.

FIGURE 4.2 SOURCES OF DATA



4.6.2 MFIs and poverty reduction in Uganda

Although it is sometimes more challenging to measure, evidence whether MFIs offers a leeway to get out of poverty among the poor particularly women, the body of evidence for MFIs and their role in poverty reduction has grown. While neutral and even negative findings can be teased out of any individual study, the totality of evidence indicates that MFIs are a critical strategy for poverty reduction. For example findings from a two-year period of participation in MFIs programmes in Uganda by Barnes et al (1998) showed an increase in both assets and savings compared to a non-participant group, and reported greater profits from their micro-businesses.

4.6.2.1 Perceptions of government and private sector experts on poverty reduction.

The general impression got from government and private sector experts on MFIs in Uganda revealed that they held a common belief towards the positive role the MFIs play in poverty reduction. All the government and private sector experts agreed that MFIs help the low income earners to manage their cash flows and apply them to whatever household priority they judge most important for their own welfare. The government and private sector specialist agreed that access to flexible, convenient, and affordable financial services equips the poor to make their own choices and build their way out of poverty in a sustained and self-determined way. However, the experts were sceptical about the way how some of the MFIs charge interest on the borrowers and the mechanisms they use in giving out loans to beneficiaries which some referred rather shrewd to the MFIs than the beneficiaries who takes loans.

4.6.2.2 Perceptions of MFIs managers on poverty reduction.

Consultation with some of the randomly selected MFIs managers across the three regions where the study in Uganda was carried out revealed that all the managers were certain that MFIs are suitable tools for poverty reduction in the country. Some managers narrated the ordeal of what some of their client's went through before joining the MFIs. On the same subject, some managers mentioned that extreme poverty among households that participated in MFIs was reduced by availing financial services. In general, the managers narrated that ability to borrow and repay a loan and build savings by low income earners is no doubt an empowering experience and at the same time a springboard to getting out of poverty.

However, some managers mentioned that in some cases the credit obtained from the institutions by beneficiaries are used for consumption or financing components of consumption rather than for investment. This makes beneficiaries stay in debts which minimises their development freedom.

4.6.2.3 Perceptions of MFIs beneficiaries on poverty reduction.

The beneficiaries were asked whether their participation in MFIs had impact on the household welfare. The beneficiaries were asked if they had personal savings excluding the forced loan guarantee. This question was asked on assumption that the more savings

a beneficiary had, the more he or she is able to get out of poverty. Table 4.3 illustrates the beneficiaries interviewed.

TABLE 4.3 BENEFICIARIES INTERVIEWED

Gender composition	Number of beneficiaries interviewed	Percentage
Married Men	25	42 percent
Married Women	26	43 percent
Single Men and Women	5	8 percent
Other	4	7 percent
Total	60	100 percent

The beneficiaries interviewed in the study were married men, married women and single men and women beneficiaries and other as shown in Table 4.3. The married men constituted 42 percent; married women constituted 43 percent single men and women beneficiaries were 5 percent and 4 percent never revealed their marital status. This was out of the total number of 60 beneficiaries interviewed.

FIGURE 4.3 PERSONAL SAVINGS

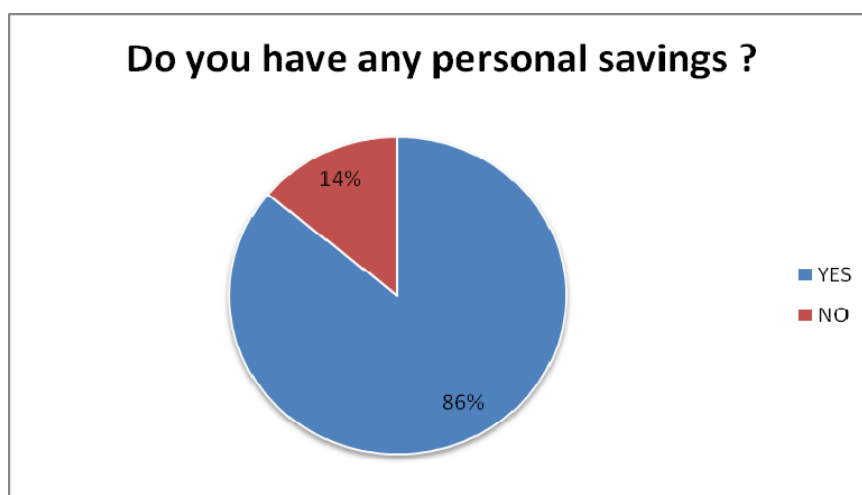


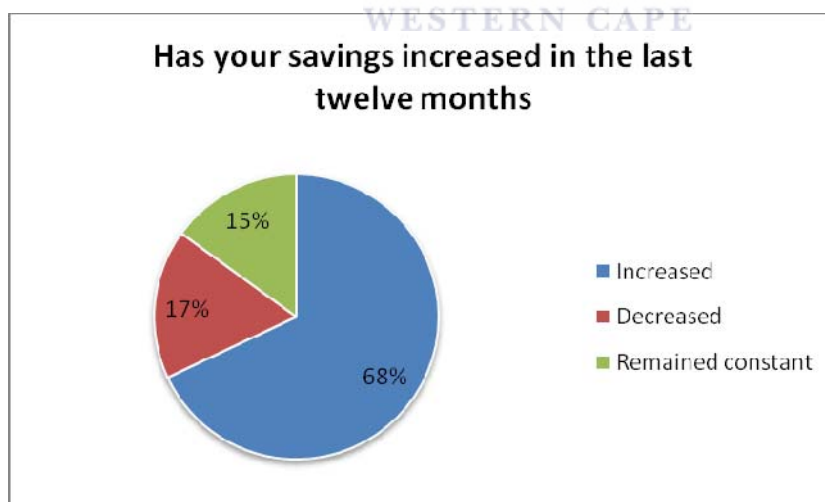
Figure 4.3 above shows the response by interviewees on whether they had personal savings. The majority of the beneficiaries 86 percent responded to have personal savings while 14 percent had no savings. The loan guarantee savings is 15 percent of the loan

amount which partly contributes to savings. If a client gets a loan of Ushs 250, 000 (US\$³⁵ 155), he /she will deposit a loan guarantee of Ushs 37,500 (23 US\$).

In relation to savings, beneficiaries were asked whether their savings in the last 12 months had increased, decreased, remained the same. The response in Figure 4.4 below indicates that 68 percent beneficiaries had in increase in their Savings, 17 percent said their savings decreased and 15 percent said it remained constant. The loans acquired by beneficiaries are mainly short-term loan and to avoid accumulated interest, the beneficiaries are encouraged to make regular savings and this partly explains the increment in their savings.

On the same subject, the key reason given by majority of beneficiaries to why they save was that they want to cope and protect themselves against risks. At the same time, some beneficiaries revealed that they save because they use their savings to acquire more loans and expand their existing economic activities. However, some beneficiaries prefer to save in physical assets such as land, animals (cows, goats, sheep and pigs) household items such as TV, radio, sofa set, houses and other valuables.

FIGURE 4.4 SAVINGS IN THE LAST 12 MONTHS

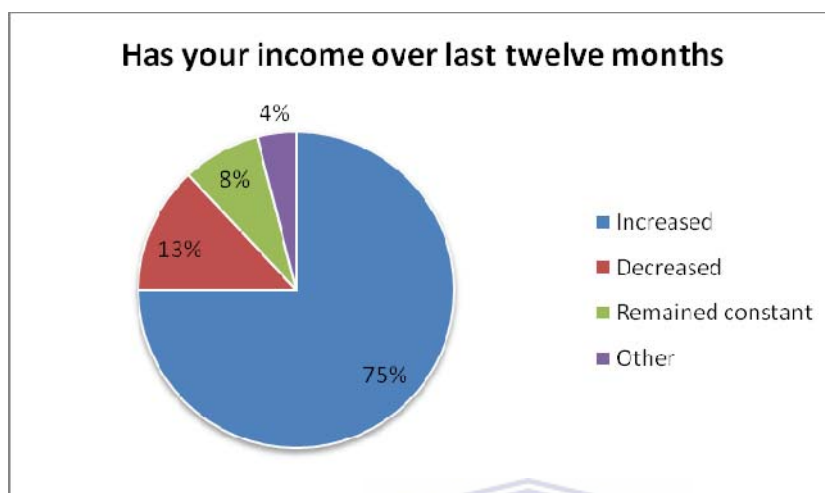


Another valuable component that was used to measure whether participation in MFIs had an impact on poverty reduction was to check the incomes beneficiaries for the last

³⁵ 1US\$ is equal to Ush1610

twelve months. The beneficiaries were asked if their incomes had increased, decreased, remained the same or any other.

FIGURE 4.5 INCOMES OVER THE LAST 12 MONTHS



The majority of the beneficiaries interviewed responded positively that they had registered 75 percent increment in incomes as shown in the Figure 4.5 above while 13 percent noted a decrease, 8 percent remained the same and the 4 percent never answered to this question. Business profits are an important income source for all groups. Those who run medium- range businesses like dairy farming have higher incomes than who sell food stuffs in the market.

From the above discussion on MFIs and poverty reduction, it can be concluded that MFIs in Uganda are critical tools with strong impact on poverty reduction and alleviation. The well informed input from the government and private sector experts on MFIs and the MFIs managers justifies the above connotation. At the same time, the increment in the beneficiaries savings as well as personal savings, also confirms that participation in MFIs positively contributes to poverty reduction.

4.6.3 MFIs and promotion of children's education.

In Uganda, participation in microfinance programmes appears to enable beneficiaries not only in building physical assets but also in non-physical assets, for example investing into children's education. According to Carlton, et al (2001), they affirm that even when loans are used for business, the household's own capital is thus freed for other investments, particularly in school fees and health care.

During the process of this study, there were different questions posed to different respondents who participated in the study. These questions were aimed at getting the perceptions on whether participation in MFIs had an impact on children's education. The government and private sector experts were asked whether they concur to the idea that participation in MFIs promotes children's education. In addition, similar questions were asked to the randomly selected MFIs managers and beneficiaries and later in the group discussions. Some of the questions sought to find out whether beneficiaries participation in MFIs helped in education of their children. The reason why such questions were asked is that Uganda adopted Universal Primary Education (UPE) and has of recent adopted Universal Secondary Education (USE) and education seems to be for 'free'³⁶.

4.6.3.1 Perceptions of government and private sector experts on education.

The government and private sector experts consulted in this study agreed that participation in MFIs enables the beneficiaries to boost their abilities in providing their children with quality education. The majority of the experts narrated that though the government has taken initiative of making primary and secondary education 'free', it is not entirely free as perceived and at the same the quality of education given in where Universal Primary Education has been implemented is lacking. Therefore, in the quest of looking for better quality education which comes with a high cost MFIs has filled up that gap hence promoting children's education.

4.6.3.2 Perceptions of MFI managers on education

The managers were also of a similar opinion that participation with MFIs acts a catalyst for promoting children's education especially among low income earners. The managers revealed that beneficiaries who participated in MFIs had the ability to provide basic scholastic materials for their children compared to those who never participated. At the same time, some managers revealed that when their beneficiaries are rated creditworthy they are given loans to finance their children's education even at tertiary levels. This saves the beneficiaries from selling off their accumulated assets in order meet their children's

³⁶ Although primary and secondary education in Government founded and funded schools is sought to be free by the Government of Uganda, it is not entirely free. Parents are at times tasked to provide some scholastic material such stationary to their children.

scholastic needs. Therefore, in this case, the managers agreed that MFIs promotes children's education.

4.6.3.3 Perceptions of MFI beneficiaries on education.

There were different questions posed to the MFIs beneficiaries related to their participation in MFIs and their children's education. The first question sought to find out how many children are in the household who were in the school age (4-17 years of age) and how many attended school (both boys and girls). The reason for being specific with the children's sex was that traditionally, boys used to be favoured in terms of education as opposed to girls.

The findings revealed that both boys and girls attend school in almost all the households except for a few. The reason given for children not attending school was simply because of lack of motivation to go to school. Many of the beneficiaries interviewed had almost enrolled all their school-age children. Some beneficiaries attributed sending their children to school because of their participation in MFIs. The majority narrated that they were able to take their children to private schools which are believed to be providing better quality education as opposed to government schools where education is believed to be free.

On the same subject, some beneficiaries credited Universal Primary Education for having helped them on the burden of school fees for their children, though they asserted that the UPE does not fully cater for all their children's scholastic needs. Therefore their participation in MFIs fills the gap left.

FIGURE 4.6 TOTAL NUMBER OF CHILDREN IN HOUSEHOLD

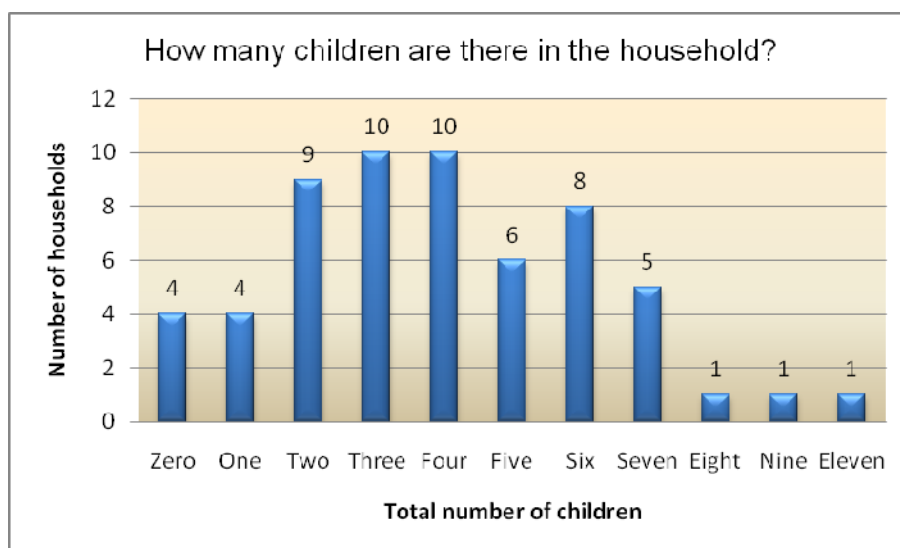
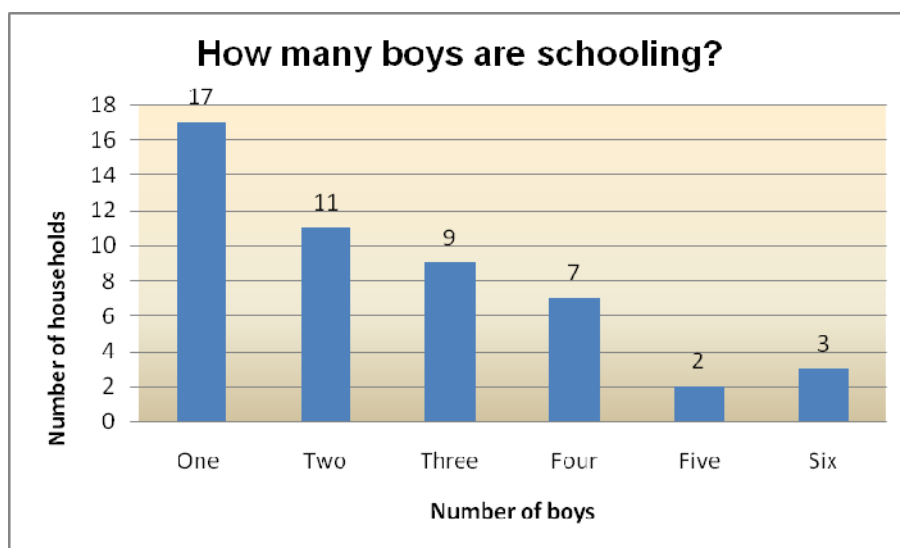


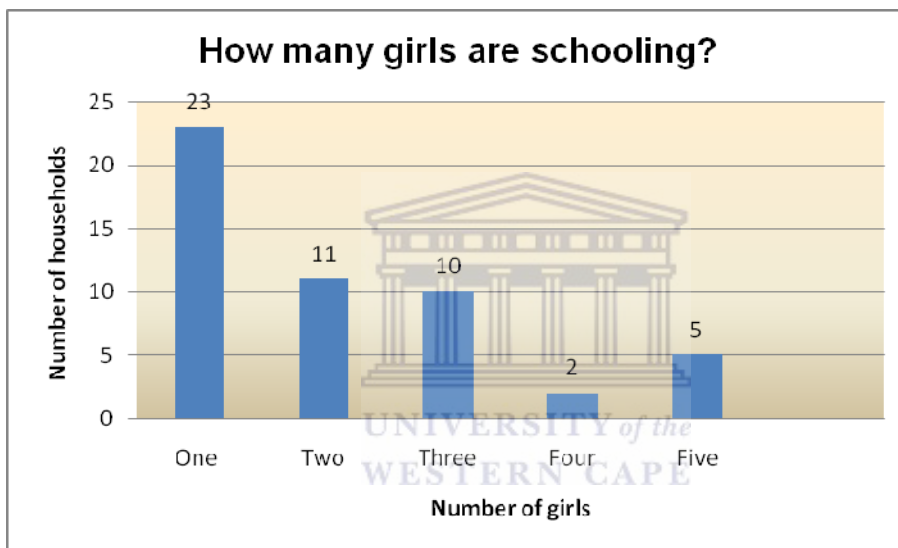
Figure 4.6 above shows the number of children in the household both girls and boys. In 4 household's, there was no child, in 4 household's there was 1 child, in 9 household's there were 2 children, in 10 household's there were 3 children, in 10 household's there were 4 children, in 6 household's there were 5 children, in 8 household's, there were 6 children, in 5 household's there were 7 children, in 1 household there were 8 children, in 1 household there were 9 children, and lastly, in 1 household there were 11 children. The majority of the beneficiaries interviewed did not have big hinders to maintain their households after being facilitated by MFIs.

FIGURE 4.7 BOYS SCHOOLING



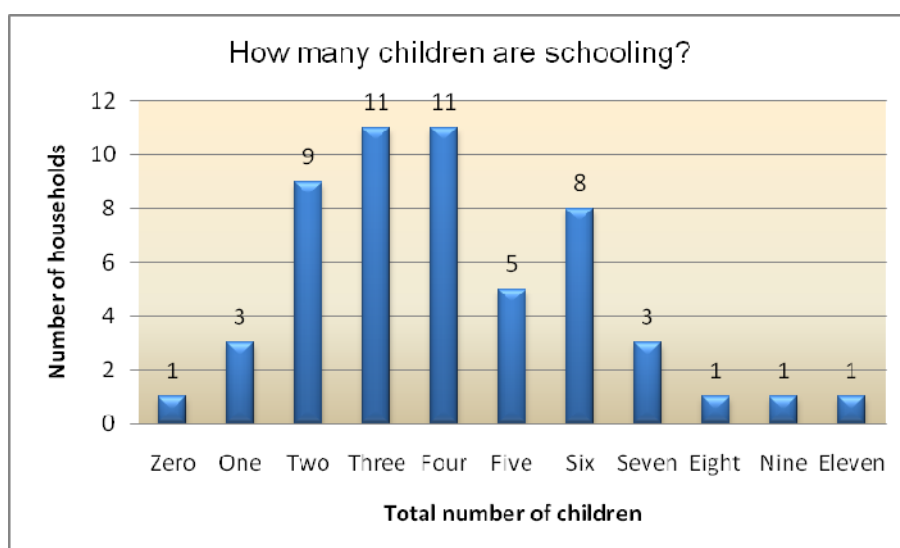
The question asked to the beneficiaries about how many boys were going to school and the response is indicated in the Figure 4.7 above. For example 17 households 1 boy was going to school, in 11 household's 2 boys were going to school, 9 household's 3 boys were going to school, 7 household's 4 boys were going to school, 2 households had 5 boys going to school and lastly 3 households had 6 boys schooling. The majority of beneficiaries agreed to have the capacity to send boys to school from the savings obtained from their participation in MFIs with the assistance of Universal Primary Education (UPE).

FIGURE 4.8 GIRLS SCHOOLING



In the same way, another question was asked to investigate how many girls were attending school. As indicated in Figure 4.8 above, a big number of girls did attend school. For example in 23 households 1 girl was attending school, in 11 households 2 girls were attending school, in 10 households, 3 girls were attending school, in 2 households 4 girls were attending school and in 5 households 5 girls were. The MFI beneficiaries' further revealed that they have managed to send their girls to school with the help of savings and income obtained from their participation in MFIs and other supplementary savings obtained from their salaries and selling of their agriculture produce.

FIGURE 4.9 CHILDREN SCHOOLING



Concerning how many children were going to school, a question was asked to the beneficiaries and the response was very positive partly because of their facilitation by MFIs and the Universal Primary Education. The response indicated in Figure 4.9 shows that; 1 household never had a child schooling, 3 household's had 1 child schooling, 9 household's had 2 children schooling, 11 household's had 3 children, another 11 had 4 schooling, 5 household's had 5 schooling, 8 household's had 6 in school, 3 household had 7 in school, 1 household had 8 in school, 1 household had 9 in school and the last 1 household had 11 children in school. Their beneficiaries' abilities to educate their children were partly attributed to the contributions made by financial support got from their participation in MFIs.

Following the discussion above, it can be firmly stated that MFIs promotes children's education. This is in relation to the perceptions of government and private sector experts on MFIs in Uganda, managers as well the beneficiaries who participate in MFIs. It can also be argued from this study that income from participation in MFIs coupled with other salaries play an important role in promoting children's education in Uganda.

4.6.4 MFIs and Improving health outcomes

Health seems to be an important component for protecting the productivity of the household's effective use of their resources. In Uganda, like any part of the world, the poor have always been vulnerable to risks such as illness and failure pay medical expenses. It is evident that most the low income earners are always challenged with the

dilemmas of poor health. The subsequent sections discuss the perceptions of government and private sector experts, managers as well as beneficiaries on whether participation in MFIs had a positive impact on improved health outcomes.

4.6.4.1 Perceptions of government and private sector experts on health outcomes

The Government and private sector experts on MFIs interviewed, narrated that group-based lending schemes which are common in Uganda provide beneficiaries with an opportunity to build their social assets by reinforcing mutual relationships and social networks. They further recited that membership of MFIs links individuals, households and enterprises into a vital web of business and personal relationships that enables members to better cope with the challenges of life. The experts revealed that in some cases when families are faced with health-related issues they use their social networks to overcome the risks. In addition, some experts stated that the beneficiaries utilize their savings to pay their medical expenses.

4.6.4.2 Perceptions of MFI managers on health outcomes

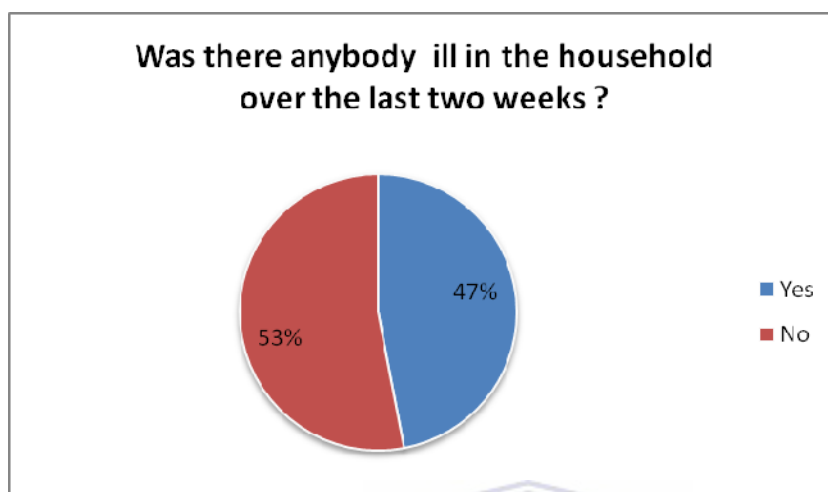
The managers interviewed in the study stated that participation in MFIs has at least made every household pursue strategies to protect against risks ahead of time. The managers revealed that most of their beneficiaries use part of their savings to pay for their medical bills since malaria and other tropical diseases are rampant in the country. At the same time, the managers concurred that access to financial services also allows the poor to cope with shocks or economic stress once they take place. One manager revealed that some of his beneficiaries use their loans to re-stock their businesses and to smooth consumption which in turn results in improved health standards.

4.6.4.3 Perceptions of MFI beneficiaries on health outcomes

The response from the beneficiaries on whether MFIs promote health outcomes was at large a confirmation of what the experts and managers had stated. At least all the beneficiaries of the MFIs consulted had a sick person in the household in the last two weeks of the interview and the most prevalent illness in the households was malaria. From the responses given, it is evident that most beneficiaries took household health as a critical issue for their continued well-being. The results in Figure 4.10 demonstrate that

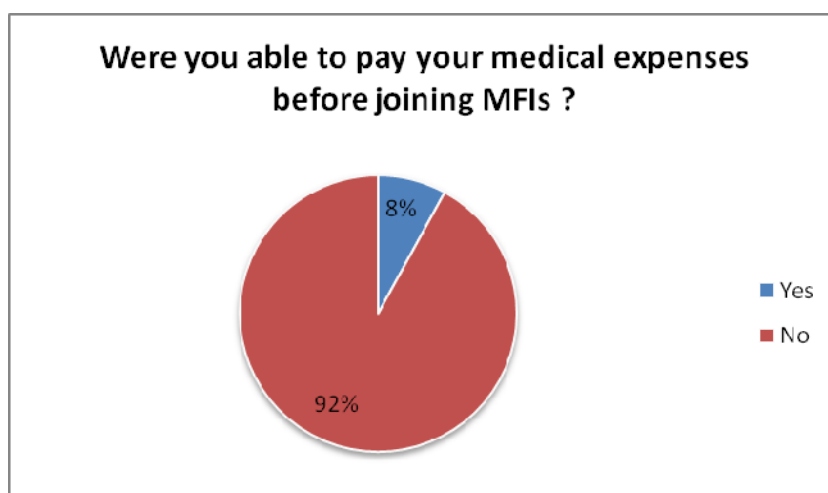
53 percent of the households had an ill person while 47 percent had no one ill person in two weeks before the interview.

FIGURE 4.10 ILLNESSES PREVALANCE IN HOUSEHOLDS



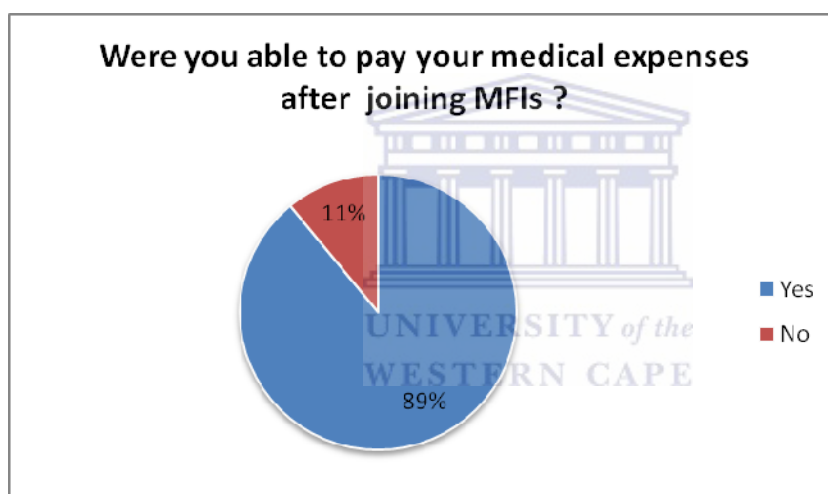
In relation to health outcomes, a question was asked to the beneficiaries if they could afford to pay their medical expenses before their involvement with MFIs. The majority of the beneficiaries 89 percent revealed that they were unable to pay their medical expenses before their involvement in MFIs. While 11 percent revealed that they had the capacity to meet their medical expenses. Figure 4.11 below illustrates the responses from beneficiaries on their abilities to pay their medical expenses before joining the MFIs.

FIGURE 4.11 ABILITY TO PAY MEDICAL EXPENSES BEFORE INVOLVEMENT IN MFIs



Another question linked to health outcomes was also asked. This time, the question sought to know whether the beneficiaries could afford to pay their medical expenses after their involvement with MFIs. The majority of the beneficiaries 97 percent agreed that they had the capacity to meet their medical expenses through their savings, and income generated through their participation in MFIs. In addition, savings among many other things were meant to protect them against unforeseen risks. However, 3 percent of the beneficiaries stated they were not able to pay their medical expenses even after participating in MFIs. This could be attributed to the fact that they borrow money for consumption or facilitating components of consumption, rather than investment.

FIGURE 4.12 ABILITY TO PAY MEDICAL EXPENSES AFTER INVOLVEMENT IN MFIs



Still on the same subject, some beneficiaries praised the GoU's liberalization of the health sector that allows the private sector to participate in the provision of medical health facilities. In the same vein, some of the beneficiaries interviewed reported improved diet after joining MFIs since they could afford to eat fish, meat, vegetables, milk, bread and butter which was not possible before joining the MFIs. From the findings of this study, it appears that beneficiaries' participation in MFIs enabled them to pay their medical expenses and protect them against risks. All the beneficiaries could afford to visit health clinics and hospitals and also could afford to pay the medical expenses every time a member of the household fell sick.

In summary, the study found out that participation in MFIs had a positive impact on improving health outcomes. This is justifiable by the perceptions of government and private sector experts, managers of different MFIs as well as beneficiaries whose empirical figure demonstrate an upward trend towards improvement of health. Therefore, it can be stated that MFIs are critical tools with strong positive impact on health outcomes among the beneficiaries.

4.6.5 Empowering women

Microfinance institutions have been seen as a critical tool for social and economic empowerment of women. It appears that participation in MFIs helps women to protect themselves and their households against risks by rendering their enterprises more competitive, diversifying their income sources, broadening their asset base, re-stocking their business and smoothing consumption. The following sections illustrate the perceptions of different respondents in connection to the MFIs and women empowerment.

4.6.5.1 Perceptions of government and private sector experts on MFIs and empowerment of women

The government and private sector experts mentioned that MFIs in developing countries have remarkably been known for lifting the previously marginalized gender (women and youth) to the mainstream economy. They revealed that Uganda being part of the developing world, attests to the fact that the majority of MFIs beneficiaries in Uganda are women and their loans to constitute around 75 percent of the loan portfolio and 80 percent of the savings portfolio. The experts mentioned that women's empowerment is an important aspect of financial service provision in the country, but MFIs are obliged to seek efficiency and sustainability in order to guarantee a durable access to financial services to the greatest possible number of poor women clients.

4.6.5.2 Perceptions of MFI managers on women empowerment

According to the responses got from interviews with some MFIs managers selected randomly across the country, MFIs prioritizes lending to women because they are thought to benefit the whole family and strengthen the role of women. In addition the majority, of the microfinance manager's agreed that they lend women because they are better re-payers as compared men. Some of the managers further revealed that they have recruited female credit officers and others have been put on information help desks and

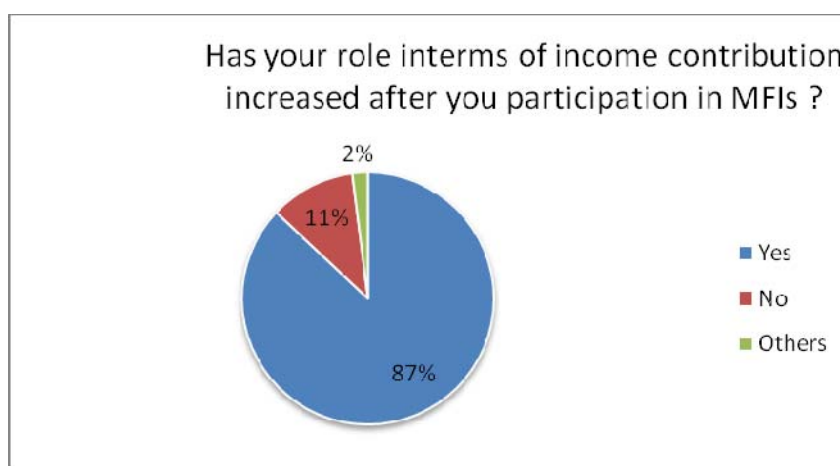
loan disbursements (varying from institution to institution), though board members are still mainly men.

Although most MFIs in Uganda seem to specifically target women, only few have altered their lending methodology to attract women's participation. At the same time, it is a few percentage of entire population of women that have been able to access credit from MFIs.

4.6.5.3 Perceptions of MFI women beneficiaries on empowerment

Women who participated in MFIs felt that they can look after their children and educate them, afford a nutritious diet for the household and are no longer depending on their husbands. Some women stated that with the income obtained from participating in MFIs, they have managed to buy land and build houses while others said that their voices have begun to be heard in the household. On the business front, several women have managed to set up their businesses and manage them. Interestingly, some women beneficiaries claim that leadership and business skills have been enhanced. From this study, access to microfinance services contributes significantly to improvement of women's bargaining position within and outside the household.

FIGURE 4.13 MEASURING WOMEN EMPOWERMENT



Most respondents 87 percent said that their role of income contribution in the house increased after joining microfinance programmes, 11 percent said they have not been empowered and 2 percent never answered the question.

4.6.5.4 Focus group discussion

During the focus group discussions, a set of similar questions were asked particularly to women who participated in MFIs. These questions meant to investigate whether their participation in MFIs had a positive impact towards their empowerment. The majority of the participants in the three focus group discussions agreed that their participation in MFIs had enabled them to support their children's education, improve on their health standards since they were able to pay their medical expenses and buy nutritious foods for the family, and they considered themselves no longer poor.

In addition, women felt that they were empowered in a sense that they could carry out small businesses. One woman from the Western region Merabu (not her real name) in the group discussion recounted "I have been able to use my savings from the MFIs for starting a small business...am now selling groceries such as tomatoes, onions, sweet potatoes and Irish potatoes using the money I borrowed from microfinance...and my responsibility at home has increased since I now contribute towards family welfare compared to when I was a domestic housewife".

Further, another woman in the group discussion in the East narrated "my participation in MFIs has boosted my self-confidence and, as a result, am able to discuss family concerns with my husbands and now the family is run as a collective compared to the times when he used to think that he was the head and I was a subordinate". Similarly, a woman from the central region recited "*microfinance yaa zigya mu kulembeka kubasajja, kati ndivadembe okufuna sente ninezigurirawo business*" meaning that microfinance has helped me to stop begging from men, am now in position of getting money and starting my own business.

Interestingly, some of the information obtained from the field in the three regions where the study was carried out revealed that some women could assertively put their views straight to the concerns of their families in comparison to the period when their husband's were the main source of income for family. In general all the participants agreed that their participation in MFIs had a positive impact since it increased their roles in decision making in the family and their ability to contribute towards the family's welfare.

From this study, participation in MFIs positively impacts on women beneficiaries in terms of empowering them socially, economically and to a small extent politically. This is justified by the perception of government and private sector experts on MFIs, the perception of managers of some MFIs as well as beneficiaries. If MFIs are availed to women it is with no doubt that they can be empowered socially and economically.

4.7 CONCLUSION

This Chapter has dealt with at length the overview of Uganda economy, poverty situation in Uganda, the financial as well as the evolution of MFIs in Uganda. The Chapter also illustrated various factors that contributed to the growth of MFIs such as the government policies, the government microfinance programmes, the regulatory framework, donor and government commitment and lastly strong stakeholder mechanism.

More importantly, the Chapter made an effort to discuss the development roles of MFIs in Uganda. These were discussed concurrently with the literature and information obtained from the field study. Issues derived from the analytical framework in the theory, namely; poverty reduction, promoting children's education, improving health standards as well as empowering women were given thorough attention.

Using the data from Carlton et al (2001:19) see Table 4.2 on the number of microfinance clients, the overall impact of MFIs on Uganda population³⁷ is limited as only limited as 0.6percent MFIs beneficiaries. In light of the above, the same is true with the findings on impact of MFIs on poverty reduction, promoting children's education, improving health standards as well as empowering women in this study. The overall percentage of this study is limited to 0.00025 percent of the entire population of Uganda. Having noted the development roles of MFIs in theoretical overview, Bangladesh and Uganda the subsequent Chapter analyses the findings.

³⁷The population of Uganda according to the 2005 estimates is 24,442,084 <http://en.wikipedia.org/wiki/Uganda> [Accessed on the 10/Sept/2007]

CHAPTER FIVE

FINDINGS OF THE STUDY

5.1 INTRODUCTION

Following the discussion of Bangladesh (chapter three) and the discussion of Uganda (chapter four), this Chapter makes a comparative assessment of the findings. This Chapter contains an analysis and interpretations of the development roles of MFIs from the theoretical perspective (Chapter two), Bangladesh (Chapter three) and Uganda (Chapter four). The findings from the theoretical perspective and from both cases are presented against the variables developed from the theoretical overview aimed at determining whether MFIs reduces poverty, promote education, and improve the health standards of beneficiaries as well as empowering women.

5.2 MFIs AND POVERTY REDUCTION

As the literature holds, that MFIs are critical components in the development effort with a strong potential impact on poverty reduction, the subsequent section takes note of the findings from the theoretical perspectives (chapter two), Bangladesh (chapter three) and Uganda (chapter four) on whether MFIs contribute or leads to poverty reduction.

5.2.1 Findings from the literature on MFIs and poverty reduction

The literature revealed that MFIs play a significant role in poverty reduction. It is evidenced in the theoretical perspective that MFIs improves income, creates employment, reduces vulnerability to economic and social crises and amplifies household expenditure (Shreiner, 2000; Bonti-Akoman & Chamba, 2000; Ledgerwood, 1999; Cohen & Sebstad, 1999; Hulme, 1997, and Sebstad & Chen, 1996).

In addition, findings also illustrate that access to credit has given many poor people the means to increase, diversify and protect their sources of income hence reducing poverty. Further, in some parts of the World, MFIs have contributed to increase on food expenditures³⁸ thus keeping beneficiaries in good health and able to maintain the production cycle. For instance, Littlefield et al (2003) stated that participation in the Zambuko Trust in Zimbabwe increased the consumption of high protein foods among extremely poor client households.

³⁸ CGAP (Consultative Group to Assist the Poor), "Is Microfinance an Effective Strategy to Reach the Millennium Development Goals", Focus Note No. 24, January 2003.

In the same vein, SHARE³⁹ in India noted a marked shift in the employment patterns of its beneficiaries from irregular, low-paid daily labour to diversified sources of earnings, increased employment of family members, and a strong reliance on small business (Littlefield, et al, 2003). Further more findings also revealed that a lot of poor people have benefited indirectly from the wider impacts of microfinance programmes. For example, a study carried out by Mosley and Rock (2004) in six MFIs in Africa shows that credit provided to the non-poor, helped in reducing poverty among the very poor people by drawing them into the labour market as employees of microfinance beneficiaries.

In summary, the literature confirmed that access to financial services provides poor people with a vital cushion in times of economic shock and natural disasters, as well as during sudden emergencies or periods of unemployment or crisis such as death in the family. This resulted in improved household's risk management capacity through the enhancement of social capital partly derived from training and capacity-building efforts.

5.2.2 Findings on MFIs and poverty reduction in Bangladesh

Findings from Bangladesh on MFIs and poverty reduction were mixed. There is a mass body of literature showing that MFIs have immensely contributed to poverty reduction among poor beneficiaries especially women. Using prominent literature on Bangladesh (Yunus, 2000; Zaman, 2004; Khandker, 1998; 2003; Hossain, et al, 2000; Micro-credit, 2004), there is a clear indication that through participation in MFIs, better off households existed since credit was to able to foster social change which ultimately contributed to poverty reduction.

At the same time, there was also increase in the number of MFIs and the beneficiaries both in absolute terms and the microfinance sector globally. According to Micro-credit Campaign (2004), 286 MFIs reported reaching 47.5 million of the poorest⁴⁰ beneficiaries at the end of 2003 and 84 percent of the poorest beneficiaries were women. The increase in the number of MFIs had a positive impact on poverty reduction among the poorest beneficiaries particularly women. It is estimated that by the end of 2003 Bangladesh

³⁹ SHARE Microfinance Limited extends small loans to the poorest women in rural areas for income-generating self-employment projects, allowing them to care for themselves and their families. In addition, SHARE also provides awareness in areas such as child education, health, nutrition, non-formal education, adult literacy and sanitation.

⁴⁰ Poorest refers to families whose income is in the bottom 50percent of all those living below the country's poverty line, or any of the 1.2 billion who live on less than \$ 1 a day adjusted for purchasing power parity when started with the programme.

MFIs had 21.2 million active beneficiaries (See Table 3.1). This claim is supported by Yunus's virtuous cycle of low income, credit, investment, more income more credit and more investment more income.

On the other hand, Mayoux (1995) argues that MFIs in general have a positive impact on poverty reduction among beneficiaries though he states that beneficiaries do not benefit equally. There were also traces of absolute rural poverty in Bangladesh. Therefore it can be argued that the economic improvements in poverty reduction were significant though insufficient to lift entirely all the households above the poverty line hence making little contribution to poverty reduction in Bangladesh.

5.2.3 Findings on MFIs and poverty reduction in Uganda

Findings from the study on MFIs in poverty reduction revealed that MFIs institutions are critical components in the development effort with a strong potential impact on poverty reduction and alleviation. The study on Uganda demonstrated an increase in people's savings and income which in end contributed to their reduction in poverty levels. For example 86 percent of the beneficiaries who participated in MFIs reported to have personal savings from the MFIs they were participating in.

At the same time, 68 percent of beneficiaries reported an increase in their savings in their last 12 months which was a positive indication towards the reduction of poverty. On the other hand, 75 percent of MFIs beneficiaries interviewed showed that they had an increase in their incomes and only 8 percent had a decrease in their income. The positive response from the majority of beneficiaries demonstrates that MFIs in Uganda have contributed to a larger extent to poverty reduction in the country.

5.3 MFIs AND IMPROVEMENT OF CHILDREN'S EDUCATION

This subsection compared to the above sections (5.2), particularly deals with the findings from the theoretical perspective (chapter two), Bangladesh (chapter three) and Uganda (chapter four) on whether MFIs have an impact on the improvement of children's education.

5.3.1 Findings from the literature on MFIs and children's education

The literature on MFIs and improvement of children's education revealed that participants tend to invest their income from MFIs in their children's education. In addition, children of microfinance beneficiaries are more likely to go to school and stay in school longer. At the same time, student/ learner dropout rates are much lower in MFIs client households. For example, in Honduras⁴¹, participants in credit and savings programmes reported that their increased earnings and the availability of resources allowed them to send many of their children to school and reduce student dropout rates.

In the same vein, Littlefield et al (2003:3) argues that revenues from micro enterprise were vital in financing the education of the children of the MFIs beneficiaries in Uganda. In addition, school enrollment among working-class children in Ahmedabad was 55 percent for girls and 65 percent for boys 11-17 years of age in 1997. Over the period 1997-99, borrowing from SEWA Bank had a positive impact on boys' secondary-school enrollment rates, which rose to 70 percent (Chowdhury & Bhuiya, 2001).

5.3.2 Findings on MFIs and children's education in Bangladesh

Most of the literature consulted on Bangladesh highlighted that MFIs initial objectives seemed not to have been in the 'social' dominion and most MFIs never focused on social goals such as promotion of children's education and improvement in literacy levels. However, literature reveals that participation of beneficiaries in BRAC enabled them to pay their children's education. This was evidenced by the basic competency in reading, writing, and arithmetic among children 11-14 years old in member households. At the same time there was an increase from 12 percent of children at the start of the program in 1992 to 24 percent in 1995. In non-member households, only 14 percent of children could pass the education competency tests in 1995 (Chowdhury & Bhuiya, 2001).

On the other hand, findings from efficiently run impact assessment done by World Bank and the Bangladesh Institute for Development Studies found that MFIs promoted investment in human capital such as schooling of beneficiaries' children and later MFIs beneficiaries themselves. Similarly Khandker (2003) argues that MFIs promoted

⁴¹ The Republic of Honduras, formerly also known as Spanish Honduras, is a country in Central America, bordered to the West by Guatemala, to the Southwest by El Salvador, to the Southeast by Nicaragua, to the South by the Pacific Ocean, at the Gulf of Fonseca, and to the north by the Gulf of Honduras and the Caribbean Sea.

investment in human capital such as schooling of client's children which contributed to increased awareness among beneficiaries themselves. In summary, MFIs had a positive impact on the client's children's education.

5.3.3 Findings on MFIs and children's education in Uganda

Findings from the study on MFIs and promoting children's education revealed positive results. In Uganda, the government and private sector experts, the managers of randomly selected MFIs, beneficiaries as well focus group discussions with women beneficiaries demonstrate that MFIs promotes children's education. The study revealed that children of the MFIs beneficiaries are able to get quality education.

In addition, findings also further revealed that the beneficiaries of selected MFIs are able to send both boys and girls to school using their savings from MFIs. The beneficiaries further stated that they have the ability to send their children to private schools which are believed to provide better quality education compared to government schools where there is Universal Primary Education.

5.4 FINDINGS ON MFIs AND IMPROVEMENT ON HEALTH OUTCOMES

Like the first two sections, (5.2 and 5.3) this sections also discusses findings from the theoretical perspectives (chapter two), Bangladesh (chapter three) as well as Uganda (chapter four) on whether participation in the MFIs had a positive improvement in the health outcome of beneficiaries.

5.4.1 Findings from the literature on MFIs and health outcomes

Findings from the literature consulted on health seem to suggest that illness is the most common crisis facing poor families. Such argument is linked to Yunus & Jolis's (2001) claims that the main reason for failure to repay loans by microfinance beneficiaries is illness. Findings from the theory further revealed that households of microfinance beneficiaries appear to have better nutrition, health practices, and health outcomes compared to non-client households. Larger and more stable incomes generally lead to better nutrition, living conditions, and preventive health care. Increased earnings and financial management options also allow beneficiaries to treat health problems promptly rather than waiting for conditions to deteriorate (Yunus & Jolis, 2001).

For example, Self-Employed Women's Association (SEWA)⁴² in India provides loans to upgrade community infrastructure such as tap water, toilets, drainage and paved roads⁴³. These results have been promoted by some MFIs that link their financial services to health education through immunization, safe drinking water, sanitation and housing and prenatal and post-natal care. In addition, findings also revealed that beneficiaries of Crédito con Educación Rural (CRECER) in Bolivia had better breastfeeding practices, responded more often with rehydration therapy for children with diarrhoea and had higher rates of immunization among children (Brott, et al, 2006). Besides that, beneficiaries demonstrated higher rates of contraceptive use than non-clients. In connection with the aforementioned, a study carried out by Littlefield et al (2003), indicated that 32 percent of beneficiaries of the Foundation for Credit and Community Assistance (FOCCAS) microfinance programme in Uganda had tried an AIDS prevention practice, twice the percentage of non-clients.

5.4.2 Findings on MFIs and health outcomes in Bangladesh

Information from the literature on Bangladesh reveals client's participation MFIs actively promoted health. Some MFIs in Bangladesh provided their beneficiaries with simple preventive health care messages on immunization, safe drinking water, and pre-natal and post-natal care. At the same time, some MFIs provided credit for water and sanitation which directly improved their beneficiaries living conditions. According to Littlefield et al (2003), some MFIs in Bangladesh provided credit for water and sanitation which directly improved their beneficiaries living conditions.

The findings also reveal fewer MFIs members suffered from severe malnutrition compared to non-beneficiaries and that the extent of severe malnutrition declined the longer beneficiaries stayed with MFIs. For example a study done by Chowdhury & Bhuiya (2001) found that fewer members of BRAC suffered from severe malnutrition than non-beneficiaries and that the extent of severe malnutrition declined the longer beneficiaries stayed with BRAC. Similarly, Grameen Bank beneficiaries showed a higher rate of contraceptive use (59 percent) than non-beneficiaries (43 percent). This was

⁴² SEWA Bank began as a cooperative Bank primarily focusing on increasing value to members who were poor women entrepreneurs and producers. At present, services are offered in India through a fully independent microfinance unit to both rural and urban beneficiaries in cooperation with SEWA India. SEWA Bank, as of December 2001, had 50,000 micro loan clients, of whom 100 percent are women. Of the 170,000 beneficiaries that receive micro savings services, 100 percent are women.

⁴³ http://www.swwb.org/english/1000/address/gnbi/add_gnbi_sewa.htm [Accessed on the 12/Feb/2007]

attributed to beneficiaries increased awareness of contraceptive programs (gained from attending group meetings) provided by the Bank and from increased mobility, which allowed women to seek out such services. In general, there is an improved health outcome among the beneficiaries of MFIs in Bangladesh.

5.4.3 Findings on MFIs and health outcomes in Uganda

In Uganda, findings on whether MFIs contribute to improved health outcomes were positive. The experts and managers consulted agreed that MFIs indirectly accelerated better health in Uganda. Findings from the beneficiaries who participated in the study demonstrated that their health and well-being was enormously supported by their participation in MFIs. The results in figure 4.10 reveal that 53 percent of the households had a sick person while 43 percent never had a sick person in the household for two weeks. The most astonishing fact as illustrated in Figure 4.11 was the fact that the beneficiaries were able to pay up their medical expenses using incomes generated from their savings from the MFIs as well the social capital. Nonetheless, some of the beneficiaries also credited the government for liberalising the health sector since they are able to access the medical facilities from private health centers at a moderate cost.

5.5 FINDINGS ON MFIs AND WOMEN'S EMPOWERMENT

This section discusses the findings on whether MFIs contribute to women's empowerment. Like the previous sections, the findings discussed are from the theoretical perspectives (chapter two), Bangladesh (chapter three) as well as Uganda (chapter four) respectively.

5.5.1 Findings from literature on MFIs and women's empowerment

The literature demonstrated that under the right conditions, MFIs can promote the empowerment of poor people. In particular, MFIs have catalysed opportunities for millions of poor women who have become active participants in economic activities, and attained new roles as cash income earners and managers of household incomes. According to Littlefield, et al (2003:5), women have become more confident, more assertive, more likely to participate in family and community decisions, and be able to confront systemic gender inequalities.

For instance, findings from the study carried out by MckNelly & McCord (2001), and information from Bolivia and Ghana, revealed that there was self-confidence among women who participated in MFIs and improved status within the community, while in India, empowered SEWA beneficiaries had actively lobbied for higher wages, the rights of women in the informal sector and the resolution of neighbourhood issues⁴⁴. Further, some women of MFIs groups have extended their activities beyond financial services to include community-based projects and peacemaking roles in times of conflict.

Similarly, findings from India revealed that self-help groups of indigenous women managed community-based projects, such as contracting of minor irrigation construction and soil conservation works, and indigenous women's groups in a village in Andhra Pradesh and invested in electricity-generation. In North-Eastern India, self-help groups in the International Fund for Agricultural Development (IFAD)-funded projects play an important role in peacemaking in conflict-ridden communities (Hulme & Mosley, 1996a).

5.5.2 Findings on MFIs and women's empowerment in Bangladesh

In Bangladesh, MFIs acted like a bargaining break off for many women, in terms of improving their fall-back position, and permitting them to 'negotiate transfers' with those who held some form of social control⁴⁵. In addition, Bangladesh women who gained access to credit used it as bargaining chip with their male relatives to gain access to a congregation of community. This enabled women to participate in community social networks and social programmes, which in turn enhanced their opportunities and empowerment. According Hulme & Mosley (1996b), the creation of a regular forum at which large numbers of poor women met and talked represented a 'breakthrough' in the social norms of rural Bangladesh, and to some extent reduction in the seclusion experienced by many women.

5.5.3 Findings on MFIs and women's empowerment in Uganda

The findings on whether MFIs empower women in Uganda reveals that the majority felt that their position in the family had been strengthened and attained change in their lives in comparison with the period prior to joining MFIs. For example, when women were

⁴⁴ See <http://www.sewa.org/campaigns/index.htm> .[Accessed on 23/Mar/2007]

⁴⁵ In Bangladesh, traditionally women's economic contributions to the households were in labour which was often 'invisible'. Therefore, access to loans in cash by women encouraged revaluing of women and as a result, women were able to have resources of their own contributing to family wellbeing (see Goetz, et al, 1996).

asked whether their role in terms of income contribution increased after their participation in MFIs, 87 percent responded positively, while 11 percent said they have not been empowered and 2 percent never answered the question. In addition, some women stated that they can look after their children through providing them with education, giving them a nutritious diet and being self-reliant.

In addition, some women stated that with their savings and income from MFIs, they have managed to buy a plot of land and build a house while others said that their voices are heard in the household, their contribution in terms of income, their involvement in the decision making process has increased. On a business level, several women narrated how they have managed to set up their small businesses.

In general, the impacts of MFIs in empowering women from the theoretical perspectives (chapter two) Bangladesh (chapter three) and Uganda (chapter four) are largely visible in terms of family support, direct relation between women's access to resources and opportunities to earn an independent living, and consequent participation in decision making.

To sum up the findings, Todd (1996) believes that minimalist micro-credit programmes such as the Grameen Bank were more effective in empowering women inside their homes, due to an almost complete focus on credit provision such that increasingly large loans can be quickly provided however outside the home, she feels, progress was much more inadequate. As a matter of fact MFIs enhance women's empowerment through improving their bargaining position within and outside the household.

5.7 CONCLUSION

Chapter five provided a discussion on the findings of the study regarding the development roles of MFIs in reducing poverty, improving children's education, improving the health outcomes of beneficiaries and empowering of women from the theoretical perspective (chapter two), Bangladesh (chapter three) and Uganda (chapter four). On the aspect of poverty reduction, findings from all three chapters (chapter two, three and four) revealed that beneficiaries who participated in MFIs had their poverty levels reduced. At the same time, increased savings and incomes from MFIs allowed beneficiaries to send their children to school. In the same vein, it was empirically proven

in the study that MFIs contribute to improved health outcomes among its clients. On women's empowerment it was certainly clear that MFIs had a positive connotation as regards to the empowerment of women.



CHAPTER SIX

CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION

The objective of this Chapter is to synthesize the main findings of the research. It highlights the major points of the research as discussed in the preceding chapters. In addition, it provides conclusions, recommendations and areas for further research for improving MFIs the industry in Uganda. In the final analysis, the Chapter places MFIs in the broader context to properly interpret the meaning of the results of the study.

6.2 DEVELOPMENT ROLE OF MFIs

The following section presents some of the major observations of the study on the impact of MFIs in development using variables namely; poverty reduction, promoting children's education, improving of health outcomes of the beneficiaries' and empowerment of women.

6.2.1 MFIs and poverty reduction

The study shows that MFIs are critical components in the process of poverty reduction. This is evident from the results on MFIs in Uganda, Bangladesh and from the theoretical perspective. The study concludes that MFIs act as a catalyst in the fight against poverty. In a nutshell, poverty is reduced if financial services are made available to poor people.

6.6.2 MFIs and improvement of children's education

The study shows a mixed response on the role of MFIs in improvement of children's education. Much as it was agreed from the study in Uganda that MFIs support children's education among the household of the beneficiaries, it was different from the literature consulted on Bangladesh. In Bangladesh, MFIs appears to have concentrated to a large extent on the economic well-being of the poor beneficiaries. However, some traces in the literature indicate that after the beneficiaries have been economically equipped they are in a position to send their children to school.

In summary, it can be concluded that availing financial services to the poor enables them to improve their children's education, through sending them to private schools that are sought to provide better quality education in Uganda and giving them other essential scholastic materials. At the same time, the study also shows that when poor people or

low income earners are availed with financial services, they are in a position of investing in non-physical assets and in which education is a general feature. However, the overall impact is still limited since a small percentage of the population is MFIs beneficiaries. Challenges exist as to how this can be rolled out to the general population.

6.2.3 MFIs and improvement of health outcomes

In relation to the improvement on health outcomes, the research showed that MFIs contribute significantly to the improvement of health among the beneficiaries. From the empirical study in Uganda, MFI beneficiaries could afford to pay medical expenses. On a similar note, women in Bangladesh who participated in MFIs were in better position to feed their families on good nutritious foods, as well as making use of contraceptives using their savings from participation in MFIs. Conclusively, it can be stated from this study that provision of MFIs to low income earners contributes enormously to improvement of their health and wellbeing. Nonetheless, in comparison to MFIs and improvement of education, the overall impact of MFIs on health is still limited to a small percentage of the populations that are MFIs beneficiaries. Challenges exist as to how this can be rolled out to the general population.

6.2.4 MFIs and empowerment of women

This study shows that MFIs have great impact on the empowerment of women. This is evident throughout areas which the study investigated. The beneficiaries of MFIs in this study substantiated that their participation contributed to their social-economic empowerment. In addition the study also shows that when women are availed with financial services, not only do they get empowered; but, also their political significance in societies begins to be realised. This is inline with patriarchal societies like Uganda and Bangladesh where women seem to be subordinate to men. Convincingly, from this study, it is argued that MFIs acts as a catalyst in women empowerment.

6.3 KEY THEORETICAL ELEMENTS OF THE RESEARCH

Chapter two gave a discourse on three broad themes, namely, an understanding on the concept of poverty, the theoretical perspective on development and the conceptual framework on MFIs in development. The intention in this chapter was to compare the conceptual and theoretical elements to the research findings for lessons in development practice.

6.3.1 Poverty

In Chapter two (2.2) reference was made to Dinnitto & Dye (1983:55) who postulate that poverty is a way of life passed on from generation to generation in a self-perpetuating cycle which involves not only low income but also attitudes of indifference alienation and apathy. Fields (1980) on the hand mentions that poverty is an economic condition where people lack sufficient income to obtain certain minimal levels of health services, food, housing and education generally recognised as necessary to ensure a tolerable standard of living.

The World Bank (1990; 1998; and 2000), places emphasis on the nature of (absolute and relative) poverty. The World Bank considers absolute poverty as lack of sufficient income in cash or exchange items for meeting the most basic needs for example food, clothing and shelter. While relative poverty on the other hand, is viewed as a condition for a particular group or area in comparison with the economic status of other members of the society. In this respect, poor people are considered poor if they fall below prevailing standards of living in a given societal context.

Lastly, Chambers (1983) contributed hugely to the discussion of poverty in this study. (Chambers, 1983:112) identifies five interlocking “clusters of disadvantage” that characterise the lives of the rural poor in developing countries namely: poverty, physical weakness, isolation, vulnerable and powerlessness. Each of these clusters serves to reinforce and aggravate the others. The overall effect is that the poor are left in what Chambers (1983) refers to as the poverty deprivation to trap.

With respect to poverty and the studies findings, it is clearly illustrated that Uganda and Bangladesh have adopted policies that contribute to reduction and eventual alleviation of poverty. At the same time, strategies are being laid in both countries to have poverty reduced for example through availing poor people with financial services. With respect to the preparedness of stakeholders surveyed in the study, it is demonstrated that both governments are working at their best to address the issues related to poverty.

6.3.2 Development

Chapter two (2.3) further outlines two theoretical perspectives on development, namely; the tradition theories (Modernisation and dependency) and alternative people-centred approaches (participation, capacity-building, empowerment, and top down/ bottom up approach) to development.

From the study, modernisation theory is understood as the common behavioural system historically associated with the urban, industrial, and literate as well as participant societies of the Western World. Similarly, the study shows that the modernisation system was characterised by a rational and Scientific World view, with growth and the ever increasing application of science and technology, and continuous adoption of the institutions and coupled with the emerging technological ethos (Graaff & Venter, 2001 and Coetzee, 2001b). Ironically, the modernisation theory advocated for economic growth in general through industrialization that would propel societies towards a particular direction of change (Coetzee, 2001b; Alvin, 1953).

The study also shows that dependency theory was often referred to as a Marxist development theory (Graaff & Venter, 2001). The fundamental view of the theory was to analyze the basic unit of the World economy as an opposite to the modernization theory. In general the dependency theorists argue that underdevelopment occurred through the exploitation of the developing world by the developed world. At the same time, the dependency theorists further argue that reliance on the international market leads to the domination of transitional capital because of the unusual exchange rates between core and periphery, benefiting only the core (Coetzee, 2001a). However for development to prevail, the dependency theorists argue that there is a need to eliminate foreign involvement and the creation of a socialist context of development.

The study also shows alternative development approaches that encourage involvement of all stakeholders in the process of development such as government, civil society, including Non-governmental and community-based organizations. The subsequent sections bring to the fore what the study found out as regards alternative approaches to development.

People-centred development (PCD) according to Swanepoel & De Beer, (2001), is discussed as a strategy that builds on the participatory and learning process approaches. The approach stresses the participation of the majority, especially the previously excluded components such as women, youth and the illiterate in the process of development (Roodt, 2001).

The central idea in participation according to Jennings (2000:1) is the involvement of the local population and, at times, additional stakeholders in the creation, content and conduct of a programme or policy designed to change their lives. The notion resonates to the principle that citizens can be trusted to shape their own future through participatory development in local decision making and capacities to steer and define the nature of an intervention.

Capacity-building in this study was discussed using an explanation given by Eade who refers to capacity-building as a way of strengthening people's capacity to determine their own values and priorities so as to organize them for action. He further argues that development is the process by which vulnerabilities are reduced and capabilities are increased (Eade, 1997). Capacity-building has been linked to empowerment and characterizes the approach to community development that lifts up people's knowledge, awareness and skills to use their own capacity.

The notion of empowerment has been referred to as enhanced freedom of choice and action to shape one's life. This means that an individual has control over resources and decisions. For poor people freedom is severely curtailed by their voicelessness and powerlessness in relation to the state and markets (Narayan, 2002, Chambers, 1983). Similarly, the World Bank (2000) considers empowerment to be linked to the expansion of assets and capabilities of poor people to participate in, negotiate with, influence, control and hold accountable institutions that affect their lives.

The study shows that the top down approach to development maintains its prescriptive nature with little or no involvement of the target groups (beneficiaries) for which the development initiative is intended. While the bottom up approach advocates for participation of target groups of any proposed development programme in determining decisions on the type of development most relevant to their needs, and also participate in

the planning, implementing as well as monitoring and evaluation of the development initiative (World Bank, 2002; Eade, 2000; and Abott, 1995).

With respect to development and the study findings, the study shows dynamics and assumptions of some theoretical perspectives on development. The case on Bangladesh and Uganda's experience with beneficiaries has relevancy in the following ways; participation leads to capacity-building which in turn contributes to empowerment, consequently fostering social-economic growth. The Bottom-up approach in the study shows that low income earners or the poor are always in isolation, voiceless and vulnerable to risks. Hence, they can be empowered if effective and efficient policies on MFIs are put into play with beneficiaries' participation.

6.3.3 Microfinance Institutions

Chapter two (2.4) outlined the theoretical perspectives on MFIs. The theoretical perspective of MFIs in this study is divided into three main categories, namely, the understanding of MFIs, the microfinance paradigms and the approaches to microfinance. In respect of understanding microfinance, the study defines microfinance and MFIs, summarises the history of MFIs, and gives objectives of MFIs, types, characteristics and funding mobilisation as well as target markets for MFIs. In light of the above, microfinance is described as the provision of financial services to the poor sectors of society. While MFIs on the other hand, is referred to as non governmental organizations (NGOs) or private institutions providing financial services to low income households and poor entrepreneurs.

Robinson (2001:9) defines microfinance as a small scale credit given to people who farm or fish or herd; who operate small enterprise or micro-enterprises where goods are produced, recycled, repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and groups at the local levels of developing countries both rural and urban.

Chapter two (2.5) outlined the microfinance paradigms, namely, old paradigm of subsidised credit and new paradigm of sustainable commercial microfinance. The old paradigm theorists argue that after the Second World War, the newly developed nations

placed emphasis on economic development that (especially on food cultivation) later resulted in Green Revolution of the 1960s and 1970s. Similarly, the theorists argue that the farmers needed more capital input to cultivate high yielding varieties. In that respect, Robinson (2001:71) argues that governments and donors subsidized credit programs which proliferated rapidly in developing countries throughout the World.

Still on microfinance paradigms, the study shows that the new paradigm of sustainable commercial microfinance was to avail finance without ongoing subsidy. The methodology used in the new paradigm included both individual and group lending, new financial products suitable for poor borrowers and savers, interest rates that permit institutional profits, innovative operating methods and information systems, widely dispersed small service outlets, specialized staff training and incentives, the financing of loan portfolios from locally mobilized savings and from commercial debt and investment, and others (Robinson, 2001:73). In a nut shell, the new paradigm was flexible in terms of reaching poor people in comparison with the old paradigm.

Chapter two (2.6) further discussed the approaches to microfinance. According to Morduch & Haley (2002) microfinance is characterized by two approaches that serve as gatekeepers to poverty alleviation and improvement of peoples standard of living. The microfinance approaches include institutionist and Welfarist, a division which Morduch & Haley (2002) refer to as the microfinance schism or debate. Although there are overlapping commonalities between the two approaches, there is a large rift between them (Woller, et al, 1999).

The study shows that institutionist approach to microfinance, is based on numerous large-scale, profit-seeking financial institutions providing high quality financial services to large numbers of poor beneficiaries that dominate the contemporary microfinance industry. The best-known examples of the institutionist approach are Bank Rakyat Indonesia (BRI) and BancoSol in Bolivia (Woller, et al, 1999). Whereas the study shows that the welfarist's approach is quite explicit, it focuses on immediate improvement of well-being of participants and direct alleviation of the effects of deep poverty among participants and communities.

With respect to MFIs and study findings, it is evident that the postulations of all the theoretical perspectives on MFIs come to play in the dynamics of this study. MFIs in

relation to the findings are of great relevance in following ways, namely: MFIs if availed to the poor, are able to reduce poverty, improve the health outcomes, and improve education of children as well as empowering women as illustrated in chapter five.

Having noted conclusions from the theoretical perspective, the subsequent section discusses lessons of experience learned mainly from Bangladesh coupled with aspects from the literature. Thereafter, recommendations of the study are made.

6.4 LESSONS LEARNED FROM THE STUDY

There are many lessons one can learn from this study. At the beginning, the study shows how Bangladesh was internationally known for the ills she suffered and later gaining universal acknowledgment and becoming best practice for microfinance. There are various reasons why Bangladesh was able to successfully develop the microfinance scheme that would cater for the needs of the poor. The same reasons can be replicated for other developing countries and Uganda in particular so that microfinance can serve the needs of the poor. The following sections discuss in detail the lessons learned.

Provision of credit should possibly be a more effective remedy against poverty and vulnerability if it is complemented with other interventions. According to Jain & Moore (2003), these interventions may be particularly appropriate for the poorest households, which face the greatest risk of income fluctuations and have the greatest need for a range of both financial and non-financial services. At the same time, provision of credit should be coupled with social mobilization and legal education interventions so that credit can have a more significant effect. However, this does not imply that MFIs ought to provide above mentioned services, but rather, MFIs should create linkages or organizations that may prefer to specialize in providing such services like education and health.

The importance of an enabling environment for microfinance should not be underestimated. Maintaining a stable macroeconomic environment with both interest rates and inflation kept at reasonable levels is necessary for microfinance to succeed. The lack of macro-stability has seriously constrained the growth of the microfinance industry. On the same note, government regulations and policies are crucial in creating the appropriate environment for the growth of MFI sector. However, policies need to strike a balance between protecting the interests of depositors, in microfinance institutions that collect savings, and not regulating the sector excessively.

Importantly, the donor financial assistance is necessary in expanding the capital base of the emerging MFIs, as well as in developing technical capacity that leads to organizational sustainability. Therefore, the study shows that subsidies support “infant” MFIs so long as there is a viable route to institutional sustainability and the duration of subsidies should vary according to local conditions and level of poverty of the beneficiaries.

Another lesson of experience from the study is that systems and formal rules that govern the microfinance industry in Bangladesh can, to a large extent, be replicated. For example large MFIs should delegate decision-making authority away from head offices, so that monitoring of individual staff performance is linked to staff incentives. In addition, beneficiary feedback and program monitoring are also crucial. This enable MFIs to develop an attitude towards change of services based on this feedback from the beneficiaries.

Further more, it is clear that the bulk of the growth of MFIs in Bangladesh took place through major financial institutions that currently serve ninety percent of all micro-credit borrowers. Therefore, such an observable fact would not be a sound strategy for developing countries to replicate and support many different institutions, and risk spreading resources thinly, in order to reach large numbers of poor people (Zaman, 2004).

Lastly, leadership skills and professional capacity required for MFIs growth are limited in most developing countries. However, such issues can be addressed through employing expatriates so that they can train local technical staff. In addition, franchising and setting up virtually identical field offices can possibly be relatively simple in terms of delivering credit to the poor.

6.5 RECOMMENDATIONS

With regard to the virtues discussed above, it is justifiable that MFIs are critical components with a strong potential impact on poverty reduction, improvement of children’s education, improvement of health outcomes as well as empowering of women. However, some adjustments have to be effected to arrive at desired results. The

following section presents some recommendations to the government and MFI industry towards reorienting the development role of MFIs in Uganda so that social economic growth and alleviation of poverty can be witnessed.

6.5.1 Government

The Government of Uganda should adopt a policy that engenders the microfinance industry. The policies should entail the customization of MFIs services provision to the local context. Besides, other than the universal product development approach, the government should allow the MFIs industry to design and deliver technologies that are relevant to local (market) needs of the beneficiaries.

Secondly, the Government of Uganda should ensure that microfinance policies are made clearer. As it is currently, only a few MFIs deliver services with women's empowerment as their cardinal goal. Most, if not all, commercial MFIs see women's empowerment as non-consequential to macro-economic development. Yet, the fact that women constitute the majority of the economy implies that they require basic social justice in terms of enjoying not only the gains in their gender relations but also those of their well-being.

Thirdly, recasting of microfinance policy focus demands that the policy-making arena is enlarged. Often, microfinance policy-making processes (and institutional establishments) are done without the due participation and voices of beneficiaries. For that reason, it is imperative that before the establishment of a MFI, there is a need for carrying out situational analysis so as to incorporate the essential needs of the beneficiaries in the missions and visions of MFIs. Evidently, this study found a missing link; a gap that makes policy irrelevant to their broader struggles.

Finally, the Government of Uganda should direct donor investments in MFIs not only towards face-lifting MFIs offices, equipping and tooling, but also in financial management skills enhancement, Knowledge and skills competencies (monitoring and evaluation) for beneficiary analysis in policy and impact analysis. This is important because, such competence contributes considerably to institutional sustainability and further beneficiary needs.

6.5.2 Microfinance institutions industry

MFIs should make sure that beneficiary issues become not only part of their mission statement but also of their social intermediation packages. MFIs need to widen their training packages beyond loan management. They also need to customize their delivery mechanisms, such as in the loan cycle, loan terms, lending methods, loan management, and loan performance monitoring issues that help safeguard the beneficiaries.

In light of the above, MFIs should institutionalize impact assessment. For various reasons, MFIs tend to avoid impact assessments. If ever they conduct such an assessment, it is merely a formality to account to their donors and not to the government or beneficiaries. As a result, only a financial audit, which in itself is institutionally-centred, is popular among regulated MFIs. The current reporting framework of Association Microfinance Institutions Uganda (AMFIU) deficiently looks at these indicators and hence cannot hold MFIs accountable to their beneficiaries. MFIs should, therefore, be engaged in conducting routine impact assessment both for credibility purposes (internal to the organization) and accountability (to funders, the government, and beneficiaries).

Further, MFIs should adopt an integrated approach to build beneficiary-MFI sustainability. The current approach of expanding outreach with financial self-sufficiency in Uganda seems to exploit beneficiaries to meeting institutional interests and lacks long-term sustainability. As beneficiaries realize that they are debt-dependent and are patronized by the MFI, their loan uptake and repayment deteriorate. In relation, as group solidarity weakens beneficiaries exit increases. This means a re-direction into other livelihood activities on the part of the beneficiaries and business slumps for the MFI. Inherently, there is a need to ensure that the beneficiaries prosper in their businesses so that, with the contingent renewal principle, they take more and bigger loans that in turn increase the profit margin for the MFIs.

From this study, it is clear that for the popularization of MFIs as a poverty reduction strategy to have meaning, a hinge from which institutional and beneficiary gains merge needs to be found. This will require a further review of best practice principles. While supporting interest, subsidies are not desirable, since there is a need to explore avenues for beneficiaries support in order for them to sustainably engage in profitable ventures within their small but diversified markets.

6.5 AREAS FOR FUTURE RESEARCH

The study reveals that, participation in MFIs has a positive impact towards poverty alleviation, improvement on children's education, improvement of health as well as empowerment of women. However, for MFIs to act as vehicles for development especially in Uganda, some important areas call for research so that MFIs can drive and diversify livelihoods development. Against the background in the study themes and in its recommendations, the study highlights pertinent areas for future research as follows;

- What MFI profit levels can beneficiaries sustain without any limitations to attaining the good life they desire?
- What best practice policies should the Government adopt in making sure that MFIs meet their objectives?
- Is monitoring and evaluation of significance to MFIs in meeting their targets?
- Does livelihood diversification through MFIs lead to economic growth? Is diversification *per se* adequate for improving well-being?
- What facets of well-being (good life), as is desired by a given community, are strengthened and/or constrained by livelihood diversification processes?
- Do beneficiaries sustain the different empowerments they attained given that social dynamics recreate gender relations? What long-term consequences do such empowerments have on the gender identity in the community?
- It is also necessary to investigate why some beneficiaries are not saving in the MFI? How relevant are local savings mobilization for rural microfinance business? And, how can such savings strategies provide a long-term gain in beneficiaries' well-being and entitlement status?

6.7 CONCLUSION

From the theoretical arguments and empirical findings, microfinance is not a panacea, but a crucial component in breaking the cycle of poverty and aid dependence. Microfinance supports developments in health, education and women empowerment. The provision of the poor with financial services should be a fundamental condition for economic and social growth. Organizations such as New Partnership for Africa's Development (NEPAD) that seek to create a strategic common vision towards eradicating Africa's poverty through improved access to capital, should incorporate micro financing on her agenda. In the same vein, Africa's renaissance should be geared towards increased funding for capacity-building in microfinance, substantial expansion and strengthening of existing centres (inclusion of private sector) of expertise on microfinance.

In relation to the above, there ought to be collaboration and knowledge transfer between Africa's MFIs and more mature institutions in other parts of the world, integration of microfinance with mainstream financial institutions and financial markets and creation or support of Africa's funding facilities that will positively impact of Africa's development. Sustained focus on MFIs ought to be a powerful tool for achieving the Millennium Development Goals and enhancing freedom and dignity to the poor. In addition, sustained political will combined with the creativity and dynamism of the microfinance community will make a profound contribution to ending poverty in Africa.

7 BIBLIOGRAPHY

- Abott, J. 1995. *Community Participation and its Relationship to Community Development*. Oxford: Development journal, Vol.30, No.2, pp: 158-169.
- Adams, D. W. & Von Pischke, J.D. 1992. *Micro-enterprise Crédit Programs: DEJA VU*. World Development 20 (10): 1463-70.
- Adams, D.W. 1973. *The Case For Voluntary Savings Mobilisation: Why Rural Capital Markets Flounder* In United States Agency for International Development, Spring Review of Small Farmer Credit. Washington D.C.
- Ahmed, S. 2003. *Micro-credit and Poverty: New Realities and Strategic Issues*, in *Attacking Poverty with Micro-credit*. Dhaka.
- Allen, T. & Thomas, A. 2000. *Poverty and Development into the 21st Century*, United Kingdom: Oxford University Press.
- Alvin, Y. 1953. *Social Change and Development: Modernisation, Dependency and World system Theories*. London: Sage Publishers.
- Appleton, S. 2001a. *Changes in poverty and inequality*, in Reinikka, R & Collier P (eds) Uganda's Recovery: The Role of Farms, Firms, and Government Washington DC: World Bank, pp. 83-102
- Appleton, S. 2001b. *Poverty in Uganda, 1999/2000: Preliminary Estimates from the UNHS*. Nottingham: University of Nottingham.
- Archibald, G.C. & Donaldson, D. 1976. *Non-paternalism and Basic Theorems of Welfare Economics*. This Journal, 9 492-507.
- Atkinson, A. 1991. *Comparing Poverty Rates Internationally: Lessons from Recent studies in Developed*. The World Bank Economic Review Co. 5 No .1 pp. 3-21.
- Ayres, R. 1995. *Development Studies: An Introduction through Selected Readings*. United Kingdom: Greenwich University Press.
- Babbie, E. & Mouton, J. 2001. *The Practice of Social Research*, South African edition. Oxford New York: Oxford University Press.
- Babbie, E. 1986. *Observing Ourselves: Essays in Social Research*. California: Wardsworth Belmont.
- Babbie, E. 2001. *The Practice of Social Research*. Cape Town: Oxford University Press Southern Africa.
- Bak, N, 2001. *Research Proposal Guide*. Cape Town: University of the Western Cape.
- Barnes, C., Morris. & Gaile. 1998. *An Assessment of the Impact of Microfinance Services in Uganda: Baseline Findings*, Washington D.C: AIMS Vol. 1.

- Bebbington, A. & McCourt, W. 2005. *Statecraft in the South: A framework for Understanding Public Policy success in Developing Countries*. Paper presented at the ESRC Seminar on 'Policy Success in Developing Countries', Institute for Development Policy and Management. United Kingdom: University of Manchester.
- Becker, E. & Jahn, T. 1999. *Sustainability and Social Sciences: Across Disciplinary Approach to Integrating Environmental Considerations into Theoretical Reorientation*. Paris: Zed Books.
- Bigsten, A. 1983. *Income Distribution and Development: Theory, Evidence and Policy*. London: Heinemann publishers.
- Bonti-Ankomah, S. & Chamba, L. 2000. *The Structure and Constraints of Rural Microfinance in South Africa*. NIEP Occasional Paper Series 18.
- Bouman, F.J. A. 1979. *The ROSCA: Financial Technology of an Informal Savings and Credit Institutions in Developing Countries Savings and Development*.
- Brott, R., Murray, I., Rueda, I. & Torrico, A. 2006. *How Client Assessment is Making a Difference at CRECER*. USA: The SEEP Network.
- Bryant, C and White, G. 1982. *Managing Development in the Third World*. Boulder: Westview Press.
- Bryman, A. 2001. *A Social Research Methods*. New York: Oxford University Press.
- Burkey, S. 1993. *People First*. United Kingdom: Biddles LTD.
- Carlton, A., Manndorf, H., Obara, A. & Ryhne E.R. 2001 *Microfinance in Uganda*. Lecher, Reiter und Riesenfeilder Liniengasser.
- CGAP, 1995. *Micro and Small Enterprise Finance: Guiding Principles on Selecting and Supporting Intermediaries*. Mimeo Committee of Donor Agencies for Small Enterprise Development and Donors Working Group on Financial sector and Development. Washington DC.
- Chadwich, B.A., Bahr, H.M. & Albrecht, S.L. 1984. *Social Science Research Methods*
- Chambers, R. 1983. *Rural Development: Putting the Last First*. London: Longman
- Chambers, R. 1997. *Whose Reality Counts? Putting the First Last*. London: International Technology Publication.
- Chambers, R. 1998. *The State and Rural Development Ideologies: An agenda for the 1990's*. Brighton: IDS Discussion Paper 169 Institute of Development Studies.
- Checkoway, B. 1995. *Six Strategies of Communities Change*. Community Development Journal. Vol.30 No.1 Oxford: Oxford University Press, pp: 2-20.
- Chowdhury, A.M.R. & Bhuiya, A. 2001. *Do Poverty Alleviation Programmes Reduce Inequality in Health: Lessons from Bangladesh*. In Poverty Inequity and Health, ed. D. Leon and G. Walt. Oxford: Oxford University Press.
- Christen, R.P. 1996. *Executive Summary, Maximising the outreach of Microenterprise finance: Analysis of Successful Microfinance Programmes* by christen, R.P., Rhyne, E. & Vogel

R.C 1995, USAID programmes and operations Assessment Report. No 10. Washington D.C.

Christen, R.P., Rhyne, E. & Vogel, R. 1995. *Maximizing the Outreach of Microenterprise Finance: The Emerging Lessons of Successful Programs*. Washington DC: USAID Program and Operations Assessment Report. Agency for International Development.

Coetzee, J, 2001a. *A Micro-foundation for Development Thinking*. (eds) Coetzee, J., Graaff, J., Hendricks, F. & Wood, G. 2001. *Development Theory, Policy and Practice*. South Africa: Oxford University Press.

Coetzee, J, 2001b. *Modernisation Theory*. (eds) Coetzee, J., Graaff, J., Hendricks, F. & Wood, G. 2001. *Development Theory, Policy and Practice*. South Africa: Oxford University Press.

Cohen, M & Sebstad, J. 1999. *Microfinance and Risk Management: A Client Perspective*. Washington, D.C: AIMS.

Collier, P. & Reinikka, R. (eds) 2001. *Uganda's Recovery: The Role of Farms, Firms, and Government*. Washington DC: World Bank, pp. 1–12.

Conyers, D & Hills, P. 1990. *An Introduction to Development Planning in the Third World*. New York: John Wiley & Sons.

CPRC. 2004. *The Chronic Poverty Report 2004 – 05*. Manchester UK: Chronic Poverty Research Centre.

Credit and Development Forum. 2002. *Microfinance Statistics*. Dhaka

Cyber, J. & Diethz, 1997. *The Process of Economic Development*. Britain: Redwood Books.

De Beer, F & Swanepoel, H. 1998. *Community Development and Beyond*. South Africa: National Books Printers.

Deininger, K. & Okidi, J. 2003. *Growth and Poverty Reduction in Uganda, 1992 – 2000: Panel data evidence*. Development Policy Review. 21(4), pp. 481–509.

Denzin, N & Lincon, Y. (eds). 1994. *Handbook of Qualitative Research*. Thousands Oaks Sage.

Dinitto & Dye 1983. *Social Welfare: Politics and Public Policy*

Dodds, M. E. 1989. *The Need for Appropriate Inquiry Concerning Human Development: The Human Challenge*, Development Society of Southern Africa.

Eade, D. 1997. *Capacity Building, An Approach to People Centred Development*. United Kingdom: Oxfam Print Unit.

Eade, D. & Williams. 1995. *The Oxfam Handbook Development: Aging with wisdom and Dignity*. United Kingdom: Oxfam Publication Limited. Focus on Gender Vol 2, No 1.

- Economic Commission for Africa, 2002. *Economic Report on Africa: Tracking performance and progress*. Addis Ababa, Ethiopia.
- Economic Commission for Africa, 2003. *Economic Report on Africa: Accelerating the Pace of Development*. Addis Ababa, Ethiopia.
- Farashuddin, F. & Amin, N. 1998. *Poverty Alleviation and Empowerment: An Impact Assessment Study of BRAC's RDP – Ten Qualitative Case Studies*. BRAC Research and Evaluation Division.
- Ferrinho, H. 1980. *Towards the Theory of Community Development*. South Africa: Juta & comp. Ltd.
- Feyissa, D. 1997. *Existing Potential linkages Between CBOs and Development association*.
- Fields, G. 1980. *Poverty, Inequality and Development*. Cambridge: Cambridge University Press.
- Filstead, W. J (ed). 1990. *Qualitative Methodology*. Chicago: Markham.
- Flinders, G & Mills, G. 1993. *Theory and Concepts in Qualitative Research Perspectives from the field*. Columbia University: Teachers college press.
- Frank, A. 1969. *Latin America: Underdevelopment or Revolution*. Monthly Review Press.
- Gajanayake, S. & Gajanayake, J. 1993. *Community Empowerment: A participatory Training Manual on Community Project Development*. Office of the International Training and Consultation. USA: Northern Illinois University Dekalb Illinois.
- Gerson, K. & Horowitz, F. 2002. *Observation and Interviewing*. In options and Choices in Qualitative Research. May, T. (ed) Pp 113-137. Great Britain: The Cromwell Press Ltd.
- Getubig, I. J., Remenyi, J., & Quinones, B (eds). 1997. *Creating the Vision: Microfinancing the Poor in Asia Pacific: Issues Constraints and Capacity Building*. Kaula Lumpur: Asia Pacific development centre.
- Glosser, A. 1994. *The Creation of BANCOSOL in Bolivia*. In Otera, M & Rhyne, E (eds) *The New World of Microenterprise Finance: Building Healthy Financial Institutions for the Poor*. West Hartford Conn: Kumarian Press.
- Goetz, A & Gupta, R. S. 1996. *Who takes the Credit? Gender, Power and Control over Loan use in Rural Credit Programmes in Bangladesh*. World Development, vol. 24, No. 1
- Gonzalez-Vega, C. 1998. *Microfinance: Broader Achievements and New Challenges*. Occasional Paper No. 2518, Rural Finance Program, Ohio State University.
- Goodwin-Groen, R., Bruett, T. & Latortue, A. 2004. *Uganda Microfinance Effective Review*. Ugandan Private Sector Donor Working Group (PSDG).
- GoU. 2001. *Poverty Status Report*. Kampala: Ministry of Finance, Planning and Economic Development, Government of Uganda.

Graaff, J. & Venter, D. 2001. *Understanding the World*. (eds) Coetzee, J., Graaff, J, Hendricks, F, and Wood. G, 2001. Development Theory, Policy and Practice. South Africa: Oxford University Press.

Graaff, J. 2003. *Poverty and Development*. Cape Town: Oxford University Press Southern Africa.

Greuning, H., Gallardo, J. & Randhawa, B. 1998. *A Framework for Regulating Microfinance Institutions*. World Bank. Financial Sector Development Department.

Guitierrez, M, 1990. *The Truth Shall Make You Free: Confrontations*. Marknoll, New York: Orbis Books.

Halifax, N. S. 1995. *Empowerment for Sustainable Development Towards Operational Strategies*. (eds.) Titi, V, & Singh, N. London: Bed Books.

Harper, M., Esipisu, E., Mohanty, A.K. & Rao, D.S.K. 1998. *The New Middle Women Profitable Banking Through On-lending Group*. London: Intermediate- Technology Publications.

Hedrick-Wong, Y., Kramsjö, B. & Sabri, A. 1997. *Experiences and Challenges in Credit and Poverty Alleviation Programs in Bangladesh: The Case of Proshika*. In Wood, G. and Sharif, I. (eds.) Who Needs Credit? Poverty and Finance in Bangladesh. Dhaka: University Press Limited, 145-170.

Heintz, J. & Conradie, J. 1998. *Poverty and Economics in South Africa: The South African Non-Government Organisation Coalition*. Johannesburg: SANGOCO Occasional Publications. Series, No 3.

Hickey, S. 2005. *The Politics of Staying poor in Uganda: Exploring the Political Space for Poverty Reduction in Uganda*. World Development, forthcoming.

Holt, S.L. 1994. *The Village Bank Methodology: Performance and Prospects*. London.

Hossain, I., Sakhwat, J., Quionones, B. & Rutherford, S. 2000. In Remenyi, J. & Quionones, B. 2000. *Microfinance and poverty Alleviation. Case studies from Asia and Pacific*. Great Britain: BookEns limited, Royston, Herts.

Hossain, N. 2003. *Elites and Poverty in Bangladesh*. Unpublished DPhil thesis, University of Sussex.

Howard G. S. 1985. *Basic Research Methods in the Social Science*. University of Notre Dame Scott, Foresman and company.

Hudon, M. 2006. *Fair interest rates when lending to the poor: Are fair prices derived from basic principles of justice?* Brussels working Paper, WP-CEB 06/15, Solvay Business School, Université Libre de Bruxelles.

Hulme, D. 1997. *Impact Assessment Methodologies for Microfinance: A Review*, Paper prepared for the Virtual Meeting of the CGAP Working Group on Impact Assessment Methodologies.

- Hulme, D. & Mosley, P. 1996a. *Finance against Poverty*. London: Routledge, publishers.
- Hulme, D & Mosley, P. 1996b. *Finance for the Poor or Poorest? Financial Innovation, Poverty and Vulnerability*. In Who Needs Credit? Poverty and Finance in Bangladesh, Geoffrey, D., Wood & Iffath, A. eds. Dhaka: University Press, Ltd.
- Hulme, D. 2000. *Is Microdebt Good for Poor People? A Note on the Dark side of Microfinance*. Small Enterprise Development, Vol. 11, No. 1, March 2000, pp. 26-28.
- Hulme, D. 2003. *Conceptualizing Chronic Poverty*. World Development 31 (3): IFPRI, Bangladesh Institute of Development Studies, Washington DC: Unpublished Report.
- Ife, J. 1995. *Community Development: Creating Community Alternative-Vision, Analysis and Practice*. Australia: Addison Wesley Longman LTD.
- IMF (International Monetary Fund) 1999.
- Jain, P & Moore, M. 2003. *What Makes Micro-credit Programmes Effective? Fashionable Fallacies and Workable Realities*. IDS Working Paper 177, University of Sussex.
- Jennings, R. 2000. *Participatory Development as New Paradigm: The Transition of Development Professionalism*. Washington DC.
- Jorgensen, D. 1989. *Participants Observation, a Methodology for Human Studies*. USA: Sage Publications.
- Kappel, R., Lay, J. & Steiner, S. 2005. *Uganda: No more Pro-poor Growth?* Development Policy Review, 23(1), pp. 27–53.
- Khandker, S. R. 1998. *Fighting Poverty with Micro-credit: Experience in Bangladesh*. New York: Oxford University Press.
- Khandker, S. R. 2003. *Microfinance and Poverty: Evidence Using Panel Data from Bangladesh*. World Bank: Policy Research Working Paper 2945.
- Klasen, S. 1997. *Poverty and Inequality in South Africa*. Unpublished paper.
- Ledgerwood, J., Burand, D. & Braun, G (eds) 2002. *The Micro Deposit Taking Institutions Bill 2002*. Summary of Workshops and Information Exchange.
- Ledgerwood, J. 1999. *Microfinance Handbook: An Institutional and Financial Perspective. Sustainable Banking with the Poor*. Washington. D.C: World Bank.
- Leinwand, G. 1968. *Poverty and Poor*. Washington DC: Washington Square Press.
- Lipton, M & Van der Gaag, J 1993. *Including the Poor*. Washington DC: World Bank.
- Littlefield, E., Murdoch, J. & Hashemi, S. 2003. *Is Microfinance an Effective Strategy to Reach the Millennium Development Goals?* Washington, D.C: Consultative Group to Assist the Poor (CGAP) Focus Note, No. 24:

- Lombard, A. 1991. *Community Development: Perspectives on Social Development*. Copyright HAUM Tertiary.
- Marconi, R. & Mosley, P. 2005. *Bolivia during the global crisis 1998- 2004: Towards a 'Macroeconomics' of Microfinance*. United Kingdom: University of Sheffield. Sheffield Economic Research Paper. Series, No. 2005007.
- Marshall, C. & Rossman, G. 1995. *Designing Qualitative Research*. Sage Publications, London.
- Maser, C. 1997. *Sustainable Community Development, Principles and Concept*. USA. St. Lucie Press.
- Martin, I. 1998. *Mis-Targeting by the Grameen Bank: A Possible Explanation*. IDS Bulletin Volume 29, No. 4.
- Mauri, A. 1997. *A Policy to Mobilise Rural Savings in Developing Countries*.
- Mayer, S. 1994. *Building Community Capacity: The Potential of Community Foundations*. Minneapolis: Rainbow Research inc. Newport: Harper Adams University College.
- Mayoux, L. 1995. *From Vicious to Virtuous circles? Gender and Micro-enterprise Development*. Geneva: United Nations Research Institute for Social Development.
- MSEPU. 2002. *Highlights of the National Baseline Survey on the Outreach of Micro-finance Services in Uganda*. Micro and Small Enterprises Policy Unit. Kampala:
- Mijumbi, P & Okidi, J. 2001. Analysis of poor and vulnerable groups in Uganda. Kampala: Economic Policy Research Centre, Occasional paper No.16.
- MoFPED. 2000a. *Draft Final Report on the District Resource Endowment Profile Survey (DREPS)*, Vol. II, Survey of Microfinance Institutions, Ministry of Finance, Planning and Economic Development Kampala: Uganda.
- MoFPED. 2000b. *Medium-Term Competitive Strategy for the Private Sector*, Ministry of Finance, Planning and Economic Development, Kampala: Uganda.
- MoFPED. 2000c. *Uganda Poverty Profile: What do we know About the Poor?* Ministry of Finance, Planning and Economic Development Kampala: Discussion Paper 3.
- MoFPED. 2000d. *Poverty Reduction Strategy Papers (PRSPs): Poverty Eradication Action Plan*. Ministry of Finance Planning and Economic Development, Kampala: Uganda.
- MoFPED. 2002. *Highlights of the National Baseline Survey on the Outreach of Micro-finance Services in Uganda*. Ministry of Finance, Planning and Economic Development. Kampala: Uganda.
- Montgomery, R., Bhattacharya, D. & Hulme, D. 1996. *Credit for the Poor in Bangladesh: The BRAC Rural Development Programme and the Government Thana Resource Development and Employment Program*. In Hulme D and P Mosely 'Finance against Poverty', Vols. 1 and 2, Routledge, London.

- Morduch, J. & Haley, B. 2002. *Analysis of the Effects of Microfinance on Poverty Reduction Overview*. New York: Robert E Wagner Graduate School of Public Service.
- Mosley, P & Rock, R. 2004. *Microfinance, Labour Markets and Poverty in Africa: A Study of Six Institutions*. Journal of International Development, vol. 16 pp. 467-500.
- Mounton, J. 2001. *How to Succeed in Your Master's and Doctoral Studies*. Pretoria: Van Schaik Publishers.
- Mouton, J. 1996. *Understanding Social Research*. Pretoria: Sigma Press Limited
- Munslow, B. 2001. *Making Development Sustainable*. (eds) Coetzee, J., Graaff, J., Hendricks, F. & Wood, G, 2001. *Development theory, policy and practice*. South Africa: Oxford University Press.
- Mutesasira, L.K., Sempangi, H., Hulme, D. & Rutherford, S. 1999. *Use and Impact of Savings Services among the Poor in Uganda*. Kampala.
- Mutua, A.K. 1994. *The Jabudi Credit Scheme: From a Traditional Integrated to a Financial systems Approach*. In Otero, M and Rhyne, E eds., *The New World of Micro enterprise finance: Building Health Financial institutions for the poor* West Hartford, Conn: Kumarian Press.
- Nannyonjo, J. & Nsubuga, J. 2004. *Recognising the Role of Microfinance in Uganda*. Kampala: Bank of Uganda Working paper.
- Narayan, D. 2002. *Empowerment and Poverty Reduction: A Sourcebook. Poverty Reduction and Economic Management (PREM)*. Washington DC: World Bank.
- Neuman, L. 2000. *Social Research Methods Qualitative and Quantities Approaches*. Printed in the USA.
- Oakley, P. 1991. *Projects with People: The practice of Participation in Rural Development*. Geneva: International Labour Office.
- Overseas Development Administration, 1995. *A guide to Social Analysis for Projects in Developing Countries*. London.
- Okidi, J. & Mugambe, G. 2003. *An overview of Chronic Poverty and Development Policy in Uganda*. United Kingdom: CPRC working paper 11, Chronic Poverty Research Centre Manchester.
- Okumu, L. 2006. *Financial Sector Deepening Project Uganda (FSDPU)*. Unpublished paper Presented at Informal Information Exchange Meeting held at Hotel Equatorial, Kampala on 31st July.
- Onimode, B. 1992. *The African responses: Adjustment or transformation*. United Kingdom: The institute for African Alternative.
- Opiokello, D. 2000. *Role of the Central Bank in Developing Rural Financial Markets: The Case of Uganda*. In *After the Reforms: Which Way Forward for Central Banks in Rural Finance*.

Africa Rural Finance Series. Nairobi: African Rural and Agricultural Credit Association. Vol.1.

Patton, M. 1987. *Community Participation in Development Projects*. Washington DC: The World Bank Experience.

Paxton, D. 1996. *Worldwide Inventory of Microfinance Institutions*. Washington DC: World Bank Sustainable Banking with the Poor Project.

Penderis, S. 1996. *Informal settlement in the Helder Berg basin: people, place and community participation*. Cape Town: University of Stellenbosch (MA thesis).

Penny, D.H. 1983. *Farm Credit Policy in the Early Stages of Agriculture Development*. Johns Hopkins University Press.

Pieterse, N. 2001. *Development Theory, Deconstruction / Reconstruction*. London: Sage publications.

Pitt, M. M., Khandkher, S.R., Chowdhury, O. H. & Millemet, D. C. 2001. *Credit Programs for the Poor and the Health Status of Children in Rural Bangladesh*. International Economic Review.

Pradan, 1996. *Training Material for Exposure Programme on Banking with SHG*. MADURI

Rahman, A. 1999. *Micro-credit Initiatives for Equitable and Sustainable Development: Who pays?* World Development, vol. 27, No. 1, pp. 67-82.

Rahman, M., DaVanzo, J. & Razzaque, A. 2000. *Fertility Transition, Contraceptive Use, and Abortion in Rural Bangladesh: The Case of Matlab*. Washington D.C: Futures Group International.

Rappaport, A. J. 1961. *In Praise of Paradox: A social empowerment over Prevention*. America Journal of Community Psychology, Vol.9 pp. 1-25.

Redie, A., Korner, K. & Poeschke, R. 1997. *Development Associations and Self-help Initiatives in the Southern Region of Ethiopia*. Addis Ababa.

Remenyi J. & Quinones, B. 2000. *Microfinance and Poverty Alleviation. Case studies from Asia and Pacific*. Great Britain: BookEns limited, Royston, Herts.

Remenyi, J. 1991. *Where Credit is due: Income generating activities for the poor in Developing countries*. London: ITP.

Remenyi, J. 1996. *Microfinance for Poverty Reduction, Rapportuer Generals Report on the Bank Poor*. An Asian Pacific conference sponsored by the Asia Pacific development centre 10-12 December, APDC Kaula Lumpur

Robinson, M.S. 2001. *The Microfinance Revolution: Sustainable Finance for the Poor*. Washington D.C: World Bank.

Robson, C. 1993. *Real World Research: A Resource for Social Scientist and Practitioner Researchers*. USA: Blackwell Publishers.

- Roodt, M. 2001. *Participation, civil society and development*: In development theory, policy and practice. (eds). Coetzee, J., Graaff, J., Hindrick, F. & Wood, G. South Africa: Oxford University Press.
- Rubin, H. & Rubin, I. 1995. *Qualitative Interviewing: The art of hearing data*. London: Sage publishers.
- Runi, A. & Babbie, E. 1993. *Research Methods for Social Work*. Pacific Grove. Brooks /Cole Publishing Company.
- Rutherford, S. 2000. *The Poor and their Money*. New Delhi: Oxford University Press.
- Sanderson, E. & Kindon, S. 2004. *Progress in Participatory Development: Opening up the Possibility Knowledge through Progressive Participation*. EBSCO Journal publication. Vol. 4. Issue 2 p114.
- Schneider, H. (ed) 1997. *Microfinance for the Poor*. Paris: OECD.
- Schuftan, C. 1996. *The community Development Dilemma: What is really empowering?* Community Development Journal, Vol.31, pp 260-264. Oxford: Oxford University Press
- Schuler, S.R. & Hashemi, S.M. 1994. *Credit Programmes, Women's Empowerment, and Contraceptive Use in Rural Bangladesh*. Studies in Family Planning 25, no. 2.
- Sebstad, J. & Chen, G. 1996. *Overview of Studies on the Impact of Microenterprise Credit*. AIMS.
- Seers, D. 1969. *The Meaning of Development*. In Lehman, D (ed) Development theory: Four Critical studies. London: Frank Cass.
- Sen, A. 1999. *Development as Freedom*. New York: Anchor Books.
- Sen, A. 1990. *Human Capital and Human Capability*. World Development. Volume 25(12): 1959-61.
- Shreiner, M. 2001. *A Cost-effective analysis of Grameen Bank of Bangladesh*. Centre for Social Development Working paper 99-5. Washington: St Louis.
- Slocum, W. R. & Thomas-Slayter, 1995. *Power, Processes and Participation: Tools for change*. London. Intermediate Technology Publications.
- Ssewanyana, S., Okidi, J., Angemi, D. & Barungi, V. 2004. *Understanding the Determinants of Income Inequality in Uganda*. Kampala: Economic Policy Research Institute.
- Stiglitz, J. 2003. *Ethics, Market and Government Failure, and Globalization*. , Paper Presented to the Vatican Conference at the Pontifical Academy of Social Sciences, Casina Pio IV, 2-6.
- Swanepoel, H. & De Beer, F. 2000. *Development studies*. Cape Town: Oxford University press

Todd, H. 1996. *Women at the Center: Grameen Bank Borrowers after One Decade*. Boulder: Westview Press.

Treurnicht, S. 2000. *Sustainable*. (eds.) Debeer, F, & Swanepoel, H, 2000. Introduction to Development. Women in Changing Global Economy. New York.

United Nations (OSCAL). 2000. *Microfinance and Poverty Eradication: Strengthening Africa's Microfinance institutions*. New York: United Nations.

United Nations, 2004. *Implementation of the first United Nations Decade for the Eradication of Poverty (1997-2006) and preparations for the International Year of Micro-credit, 2005*.

Vogel, R.C. 1984. *The Effect of Subsidised Agricultural Credit on Income distribution in Costa Rica*. In Adams, D.W., Graham, D.H. & Von Pischke, J.D. (eds). *Undermining Rural Development with Cheap Credit*. Boulder: Colo, Westview Press.

Vanroose, A. 2007. *Is microfinance an ethical way to provide financial services to the poor?* Brussels Universiteit Brussels and Solvay Business School, Centre Emile Bernheim,

Von Pischke, J. D. 1978. *Towards an Operational Approach to Savings for Rural Developers*. Savings Development 2 (1): 3-55.

Von Pischke, J.D. 1983. *The Pitfalls of Specialised Farm Credit Institutions in Low-Income Countries*. In Von Pischke J.D., Adams, D.W. & Donald, G. (eds) *Rural Financial Markets in Developing Countries: Their Use and Abuse*. Baltimore: The Johns Hopkins University Press.

Wallerstein, I. 1974. *The Modern World System, Capitalist agriculture and the origins of the European World Economy in the Sixteenth Century*. Academic Press.

Weynman, & Fussell, 1996. *The Value of Local Knowledge and the Importance of Shifting Beliefs in the Process of Socialism Change*. Community Development Journal, Vol.31, pp 44-53. Oxford: Oxford University Press.

Wilkins, N. (ed) 1998. *Poverty and Inequality in South Africa*: Report prepared for the office of the Executive Deputy President and the Inter-Ministerial Committee for poverty and inequality. Durban: Praxis Publishing.

Woller, G., Dunford, C. & Woodward W. 1999, *Where to Microfinance*. International Journal of Economic Development, Vol. 1, No. 1, pp. 29-64

Wood, G. & Sharif, I. 1997. (eds) *Who needs credit? Poverty and finance in Bangladesh*. London: Zed Books.

World Bank. 2000. *World Development Report 2000/2001: Attacking poverty*. New York: Oxford University Press.

World Bank. 1990. *World Development Report*. Oxford: Oxford University Press.

World Bank, 1996. *Poverty Reduction and the World Bank Progress and Challenges in the 1990s*. Washington DC: World Bank.

World Bank, 1998. *International Conference on Environmentally Sustainable Development*. Washington DC: World Bank.

Wright, G.A.N., Mutesasira, L., Hulme, D. & Sempangi, H. 1999b. *Drop-Outs Amongst Ugandan MFIs*. Kampala: Micro-Save-Africa.

Wright, G.A.N., Mutesasira, L., Hulme, D. & Sempangi, H. 1999a. *Vulnerability , Risks, Assets and Empowerment – The Impact of Microfinance on Poverty Alleviation*. Kampala: MicroSave-Africa & Uganda Women's Finance Trust.

Yin, R. 1984. *Case Study Research: Design and Tools. Applied Social Sciences Research Methods*. Vol 5. Beverly Hill: Sage Publications.

Yunus, M. & Jolis, A. 2001. *Banker to the Poor*. The Autobiography of Muhammad Yunus, founder of the Grameen Bank. The University Press Limited.

Zaman, H. 2004. *Microfinance in Bangladesh: Growth, Achievements, and Lessons*. Chapter 4 of Scaling Up Poverty Reduction Case Studies in Microfinance. CGAP.

Zeller, M., Schreider, G., Von Braun, J., & Heidhus, F. 1997. *Rural Finance for Food Security for the Poor*. Food Policy Review 4. Washington D.C: International Food Policy Research Institute.

INTERNET SOURCES

http://www.indexmundi.com/bangladesh/population_growth_rate.html [Accessed on 06/ Jan/2007]

http://www.indexmundi.com/bangladesh/population_growth_rate.html [Accessed on 06/Jan/2007]

http://www.pksf-bd.org/annual_report2004/annual_report_cont.html [Accessed on 13/Jan/2007]

Johnson-Welch, C., Macquarrie, K. & Buch, S. 2005. *Leadership Strategy for Reducing Hunger and Malnutrition in Africa*. The Agriculture Nutrition Advantage Report http://www.icrw.org/docs/2005_report_agnutrition.pdf [Accessed on 02/Feb/2007]

Micro credit Summit Campaign 2004. List of Verified Institutions http://www.microcreditsummit.org/pubs/reports/socr/2004/en_app1.pdf [Accessed on the 06/Jan/2007]

MkNelly, B. & McCord, M. 2001. *Credit with Education Impact Review. No. 1: Women's Empowerment*. Freedom from Hunger, available from <http://www.fhtechnical.org/publications/pdfs/cweimpactrevu1oct01.pdf> [Accessed on 12/ Feb 2007]

PKSF, 2002. *Micro credit programs in Bangladesh: Giving a chance to the poor*. http://www.pksf-bd.org/Microcredit_bangladesh.htm [Accessed on 13/Jan/2007]

PKSF 2004 Annual Report.

http://www.pksf-bd.org/annual_report2004/annual_report_cont.html [Accessed on 13/Jan/2007]

PRSP. 2005 International Development Association and International Monetary. Republic of Uganda. Poverty Reduction Strategy Paper. Fund Joint Staff and Advisory Note <http://www.imf.org/external/pubs/ft/scr/2005/cr05308.pdf> [Accessed on 02/Feb/2007]

SEWA Bank

http://www.swwb.org/english/1000/address/gnbi/add_gnbi_sewa.htm [Accessed on the 12/Feb/2007]

SHDI-U, 2005 (Self-Help Development International – Uganda) Annual Report. <http://www.selfhelp.ie/selfhelp/Files/Uganda-AnnualReport-2005.doc> [Accessed on 02/Feb/2007]

World Bank. Uganda at a Glance:

http://devdata.worldbank.org/AAG/uga_aag.pdf . [Accessed on 02/Feb/2007]

