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Savings mobilisation and credit conduits : Formal and informal financial sector linkage

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**Les Cahiers du SISERA
1998/2**

**ARCHIV
113762**

Savings mobilisation and credit conduits: Formal and informal financial sector linkages

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November 1998

ARCHIV
330.1(6)
SHE
1998/2

Abstract

The principal objective of the study was to establish the form and extent of linkages between the formal and informal segments of the financial market in Uganda.

The study reveals that some interaction between the formal financial institutions (FFIs) and the informal financial institutions (IFIs) exist in the area of savings mobilisation. Direct credit links are less significant, while the intermediary role for the informal financial institutions between borrowers and the FFIs is very weak and limited.

Indirect credit link between FFIs and IFIs have elements of both competitiveness and complementarity, with the latter being more predominant. In particular, there is very little competition between IFIs and FFIs in the delivery of credit.

Although a wide variety of informal sources are available to meet the needs of different informal users, they have limitations. Each of these sources are independent and generally segmented from one another.

The study also reveals that reforming financially repressive policies is not sufficient to overcome fragmentation of financial markets because of structural and institutional barriers to linkages between formal and informal financial segments. Uganda has fragmented financial markets with weak linkages between formal and informal segments. Differences in costs and risks alone are not sufficient to explain the interest rate differentials.

The study shows that the relatively high transaction, information and enforcement costs coupled with stringent collateral requirements of formal banking institutions make serving small businesses and households unattractive. Indeed, these financial institutions typically do not consider them creditworthy, but paradoxically enough, private moneylenders do consider them creditworthy for advancing loans. Informal sector techniques may have an important role to play in serving these such clients.

Since there are limits to the extent to which FFIs can act like informal lenders, what is recommended is that there should be complementary measures to address institutional and structural problems to accompany financial liberalization and bank restructuring exercise. Such measures should also include forging direct links between informal and formal financial markets, for instance, a credit bureau to perform some of the functions of the FFIs.

Table of contents

1.0 Introduction	1
1.1 Financial depth	1
1.2 Monetary situation at the rural level	2
1.2 Credit repression at the rural level	3
2.0 Objectives of the study	3
3.0 Research hypotheses	3
4.0 Review of the literature and conceptual framework	4
5.0 Methodology	6
6.0 Summary of the findings	6
6.1 The households survey results	6
6.2 Financial infrastructure	7
6.3 Savings activities	10
6.4 Evidence of financial market fragmentation	11
6.5 Hindrances to linkages	12
7.0 Discussions and policy considerations	13

1.0 Introduction

In Uganda, like most developing countries, the indigenous private sector consists largely of households and small-scale enterprises that operate outside the formal financial system. In this study we use the term 'informal finance' to refer to the operations of all lawful but unregulated entities such as rotating (and non-rotating) saving and credit associations such as the tontines and susu in West Africa, money-lenders and money collectors and other providers of retail financial services. Its defining characteristic is that it is outside the purview of the legal, fiscal, regulatory and prudential framework of the monetary and financial authorities.

Informal savings activities in Uganda are widespread but generally self-contained and isolated from those of formal institutions. There is evidence of demand for external finance by enterprises that want to expand beyond the limits of self-finance but have historically lacked access to bank credit.

1.1 Financial depth

The reform of financial sector in Uganda is part and parcel of the overall Economic Recovery Programme (ERP). Monetary policy has become a major cornerstone of overall economic policy in Uganda. The subsistence sector, however, limits the growth of the financial sector and effectiveness of monetary policy. As would be the case in the economy whose level of monetisation is still low, there is a narrow range of monetary and financial instruments that have been developed for monetary policy and investment purposes. The Bank of Uganda Bill was indeed introduced to meet part of this challenge.

The financial sector still lacks depth and breadth. Currency in circulation accounts for about 30 percent of broad money supply, M2, substantially down from about 50 percent in 1987, which reflects increased confidence in the banking system. However, this ratio is high compared to say, 3 percent in the UK. In addition, non-monetary GDP was about 25 percent of GDP in 1996 down from 30 percent in 1994. Furthermore, the ratio of nominal GDP to M2 was about 9 percent in 1995/96. Domestic saving rate of less than 10 percent is very low by international and Sub Saharan Africa standards.

1.2 Monetary situation at the rural level

While there is an urgent need to nurture financial intermediation and promote savings accumulation at the national level, most of our rural level sub-economies are not even monetized.¹ These sub-economies remain first and foremost cash economies. Cash is not transformed into bank deposits as often as it should be; instead it stays hoarded by fragmented groups of people. There is no way it can be captured and re-injected by the financial intermediation system to finance economic development simply because it remains outside of the system itself.

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Note and coins (cash) held by individuals circulate in the economy and are periodically transformed into bank deposits, a process called monetization. The word cash refers to the currency in circulation in the public domain and not that deposited in banks. Monetization therefore refers to the transformation of physical cash into bank deposits.

Monetization therefore does not occur at the rural level as often as it should. Banks are needed in order for cash to be transformed into deposits; yet they are few, if any, commercial bank branches in such areas.

Furthermore, the few commercial bank branches that operate at the rural level make little effort to mobilize cash. They are not incited to do so by the rather difficult geographical and economic conditions prevailing at that level. Excess cash cannot be physically transported to the next central bank branch or currency centre because this would mean carrying it over dozens of miles without proper security.

Cash is kept at the branch level, thereby increasing the bank's reluctance to mobilize more deposits from its local clients. Mobilizing deposits, in any case, is also costly because the cost of maintaining branches in such a hostile environment is high and costs are not offset by revenues derived from an otherwise weak and small lending activity.

Unlike rural areas, small- and medium-sized towns usually have bank branches, yet monetization is not optimal in these areas either. For poor urban and peri-urban areas, the geographical constraints are replaced by sociological constraints and cultural barriers. Faced with highly diversified, unstable population, banks tend to limit the clientele they work with to narrow segments of the surrounding population. Although distances are not a problem in these areas, operational costs are as high as they are in rural areas because of the large numbers of loan delinquencies.

It is important to note that this situation in rural and peri-urban areas is not likely to change in the next few years. It is more likely to worsen, now that the main commercial bank (UCB) is being privatized. To restructure the financial sector at the national level, banks are encouraged to be more profitable, thus closing more branches at the rural level. Paradoxically, therefore, rural economies will become even more liquid in the coming years because of the strengthening of the financial systems at the national level.

This overall situation points, therefore to an interesting aspect of rural economies : they cannot extricate themselves from the liquidity trap into which they are plunged; geographical and cultural isolation compound the cash problem. While cash flows almost everywhere in these areas, it does not actually fuel the ongoing local economies process. Banks cannot play their role in deposit mobilization because of difficult geographical and cultural situation in which they operate. Assistance from outside contributes to a worsening of the problem since it increases the amount of cash trapped in the region without providing a way to transform that cash into bank deposits.

1.2 Credit repression at the rural level

Due to low level of monetization, credit activities are repressed at the rural level. Repression comes from a paradoxical situation where, in a highly liquid environment, bank branches do not have enough mobilized cash to loan.

As a result of the hyper-liquid situation at the rural level, the economic agents who borrow have very little possibility of keeping, transferring or simply handling proceeds of any loan in the abstract form of a deposit. For a bank at this level, then, there is high probability that any borrower will want to transform the proceeds of the loan into cash immediately.

Pressure to cash the loan quickly will also come from the borrower's business partners since none of them is likely to hold a bank account in which to store money in the form of deposit. For a bank, therefore, extending credit amounts to putting itself under constant pressure to find cash

- not a very easy situation if a strong drive to mobilize deposits has not been undertaken long beforehand by the bank.

While it is obvious that the fear of lending to small economic units plays an important role in the reluctance of banks to make loans at the rural level, the fear of becoming illiquid if deposits created by loans are withdrawn too quickly by borrowers plays a hidden but rather important role in shaping a bank's attitude vis-a-vis lending. This fear must be taken into account in a significant way in understanding and resolving the financial intermediation problems encountered at the rural level.

Credit repression is reinforced by geographical isolation of rural areas from the main centres of economic activity. Because cash circulating in the area is not captured by banks, the cash needed by banks for daily transactions must be brought physically from great distances and at a cost, thus making prompt timely portfolio adjustments at the rural level difficult.

2.0 Objectives of the study

The main objective of the study is to investigate the form and extent of linkages between the formal and informal segments of financial markets in Uganda and to analyse the possible linkages in terms of their impact on borrowers and the process of financial intermediation.

Specific objectives include the following :

- (a) To determine whether informal financial institutions (IFIs) and micro-finance institutions (MFIs) bank with formal financial institutions (FFIs);
- (b) To determine whether informal financial institutions and MFIs borrow funds from formal financial institutions for on-lending to their clients;
- (c) To establish whether there is competition or complementarity between the formal and informal financial institutions; and
- (d) To suggest policy recommendations based on the study findings.

3.0 Research hypotheses

It is hypothesized that :

- (a) IFIs bank with FFIs
- (b) IFIs maintain bank accounts at FFIs to ease payments to their clients;
- (c) IFIs deposit savings at FFIs for safety or security; and
- (d) Informal credit complements rather than substitutes for formal credit.

4.0 Review of the literature and conceptual framework

One view emerging from the literature is that while the financial market is extensively segmented, demand for credit or saving facilities in one sector cannot always be said to be exclusive to that sector. The linkages between the sectors arise out of 'non-specific' demand. Many people who would normally use the services of the formal sector, find themselves compelled to use the services offered by the informal sector to complement what they have received or may receive from the formal sector.

They also sometimes make a substitution if the price of credit from the informal sector is lower, as will be the case in borrowing at near-zero interest from friends. Similarly, 'normal' informal savers, may begin saving on the formal circuit if an opportunity for obtaining cheap credit comes up by way of a government or NGO-sponsored rural finance project. Here the

formal credit substitutes for the expensive informal credit. Element of complementarity may also be present in this relation.

These linkages were observed both in savings mobilization and credit allocation (Aryeetey, 1992; Hyuha et. al., Kipokola, 1993; Chipeta and Mkandawire, 1992). What is not yet clear is how significant these linkages are for the development of the entire financial sector in the economy, and therefore the extent to which action taken in one financial sector may have repercussion in another. This may partly depend on whether the linkage relationships is complementary or competitive. Knowing the effect of this relationship on the financial sector market could assist in directing government policy towards them.

Direct deposit links (for example, with IFIs depositing funds at FFIs) would help reduce the level of idle cash balances at IFIs, while at the same time enhances the capability of commercial banks to create money. On the other hand, direct credit links (for example, with credit flowing from FFIs to IFIs) would help to relieve the liquidity problem of IFIs (Chipeta and Mkandawire, 1992).

Drawing on the experience of rural India, where state agencies, co-operatives and banks were established to reduce the influence of money lenders by competing with them, Bell (1990) analyzes how the welfare of the borrower is affected under four different scenarios. The first scenario consists of the money lenders operating in the absence of the state agencies; the second involves exclusive institutional loans of institutional lender operating in the absence of money lenders. The third scenario is of non-exclusive institutional contracts. here, borrowing from the informal sector is considered to take place after the borrower has failed to secure formal credit. Under this scenario, a spillover of demand from the formal to informal sector of the credit market will take place as long as there is rationing in the formal sector at a fixed rate of interest and lenders find it profitable to grant credit in the informal sector after screening the borrower. In the fourth scenario, it is assumed that money lenders act as intermediaries of formal lenders. Bell explains how, in this situation, the cost of funds to the money lender will decline. The impact of this on the money lender's clients will depend on whether he is a monopolist or a perfect competitor. If he is a perfect competitor, the entire gain from the decline in the rate of interest accrues to the borrowers, whereas if he is a monopolist the gain is shared between lender and borrowers. This suggests that the presence of the money lender in the credit market does not necessarily have a negative impact on the borrower.

Significant interactions between the formal and informal segments of the financial market have been observed in Ghana (Aryeetey, 1992), Malawi (Chipeta and Mkandawire, 1992) and in India (Bell, 1990). In Malawi the formal sector is found to be the largest depository of financial savings and the informal sector, the largest source of credit. In Ghana, a significant amount of private-sector savings held by indigenous banks is initially mobilized by the susu collectors. It is argued that the linkages in credit allocation have elements of both competition and complementarity and to a lesser extent an intermediary role for the informal sector between borrowers and the banking system. The authors assert that the linkages between the formal and informal systems currently provide no positive benefits for the borrowers and savers, and subsequently to the economy as a whole, since they do not encourage local investment.

Using Bell's scenario of "equilibrium with non-exclusive institutional contracts", Chipeta and Mkandawire (1992) provide evidence that credit from formal financial sector sources is sought before credit from the informal financial sector. Empirically, this has been observed in India (Bell, Srinivasan and Urdy, 1990), in Ghana (Aryeetey, 1992), and in Malawi (Chipeta and

Mkandawire, 1992). One reason for approaching these sources was that they were the only ones known to borrowers. The other was that credit from these sources was and is still much cheaper than credit from money lenders.

Competitive credit links

A competitive credit link exists when an increase in borrowing from FFIs is accompanied by a reduction in borrowing from IFIs, and vice versa. As an example, this means that an increase in capital formation that is financed by FFSs credit substitutes financing that would be undertaken by the IFIs (Aryeetey, 1992). In this event, the IFI is not a provider of residual financing; it is at par with the FFIs. Considered to be an alternative finance, IFIs credit thus rises as FFIs credit falls. In competitive environment, the opportunities open to borrowers are diverse, hence, they are able to improve their welfare by freely negotiating on the two credit markets for the best terms and conditions.

While Aryeetey (1995) found hardly any data on general household indebtedness to both formal and informal units to compare trends in Africa, it has become evident from the studies in Ghana and Malawi (Aryeetey, 1995) that the decline and growth of informal credit is little influenced by development in formal finance or change in financial sector policies.

The observations from Ghana never supported any notion that the relative size of formal and informal finance change with financial sector policies. Neither did Malawian data, which is quite opposite of Bell's (1990) observations in India, where there was growth in formal credit accompanied by growth in informal credit in many instances. Interestingly, in the more recent study by Aryeetey (1994), informal sector is seen to be growing relatively rapidly in the prevailing liberal climate faster than formal sector credit.

Complementary credit link

When growth in demand for credit from one sector is accompanied by an increase in demand for credit from the other sector, then, irrespective of the type of cause, the indirect links are complementary (Chipeta and Mkandawire, 1992; Aryeetey, 1992). In essence, what this means is that an increase in capital formation that is financed by FFIs credit creates additional productive capacity that can be utilized also with IFIs credit. The joint impact on the economy of credits from the two sectors will depend on the relative amount of credit from Informal financial sectors (IFS) considered to be additional finance in excess of what comes from the formal financial sector (FFS). An increase in demand for credit from the IFS is thus seen to be created by increasing use of FFS credit.

The data from Ghana (Aryeetey, 1995) suggests that the significance of informal credit as a means of residual financing in this manner is very limited. In practice, only one out of the 26 enterprises that received only part of the required amount from banks is reported to have used credit from informal sources to complete the planned investment expenditure. For Malawi also, Chipeta and Mkandawire (1992) observed that amounts borrowed from informal sources did not vary directly with credit from formal sources.

In urban areas where a lot of demand for credit is non-specific, especially considering that many people interact freely with both segments, the issue of complementarity and substitution is less clear.

5.0 Methodology

The survey was carried out in six districts: Kampala, Masaka, Mbarara, Jinja, Mbale and Lira.

Four different sets of questionnaire were administered to: Households, NGOs, self-help groups (credit and savings associations, women groups, clubs, etc.) and banks. Both qualitative and quantitative information were obtained through rapid appraisal techniques involving face-to-face interview or by observation or references to record books or files.

In each selected district, a random sample of about 80 households (selected from both urban/peri-urban and rural areas) were interviewed. In addition, at least fifteen groups, five NGOs and all the commercial banks in the area were also covered for each district.

6.0 Summary of the findings

6.1 The households survey results

Borrowing activities

Of the 498 households interviewed, about 53 percent reported that they usually borrow money from individuals, SCAs, NGOs or banks (Table 1).

Table 1: Sources of borrowed money

Source	N° Households
Individual	98
SCA	96
NGOs	45
Banks	30
Others	23
Total	292

Table 1 shows that 66 percent of the households interviewed borrow from individuals (friends, relatives and private money lenders) and/or savings and credit associations.

Only 37 percent of those who borrowed from individuals were charged some interest while the rest were interest free. Some respondents borrowed from more than one individual and each individual had his/her own terms of lending.

About 70 percent of savings and credit associations are ROSCAs. The common bond among them is that they either belong to the same community (51 percent) or that they are workmates (28 percent). Some respondents belonged to more than one association or group.

Of those who borrowed from NGOs, 56 percent were required to provide collateral. Sometimes the NGOs required more than one form of collateral.

All 30 households who borrowed from the banks were required to provide land titles as collateral. Others also attached assets such as buildings as part of their collateral.

Lending activities

Of the 498 households interviewed, only 19 percent admitted they do lend out money to others. The main source of the funds for on-lending is their own income (from salary, trade or farming). 60 percent of these money lenders admitted that they could not honour all the loan requests the previous year. The collaterals they require vary considerably, from postdated cheques to real estates.

The penalties for default also vary from one individual to another. 38 percent of the lenders simply stopped lending to the defaulters!

6.2 Financial infrastructure

The financial infrastructure in Uganda is composed of two main segments - formal and informal.

(a) The formal financial institutions

Like in most of Sub-Saharan Africa, the formal financial system in Uganda is underdeveloped, small and undiversified in terms of value and volume of transactions. The system consists of the Central Bank (Bank of Uganda), 20 commercial banks, 6 non-bank credit institutions, 3 development finance institutions², 26 insurance companies, one building society, one cooperative savings and credit union, one leasing company, 76 forex bureaus deal in buying and selling of foreign exchange and the National Social Security Fund. In addition, there is one Postal Savings bank.

Commercial banks dominate the sector accounting for over 90% of its assets. They have a network of 155 branches and 45 agencies. This, however, is considerably lower than the 290 branches in 1970. In addition, there has been a decline in the ratio of persons per branch from 34,000 in 1972 to 100,000 persons per branch in 1996 (Bank of Uganda).

Uganda Commercial Bank (UCB) is the largest commercial bank in the country. Until recently, it accounted for over 60% of the market and had an extensive branch network countrywide³. UCB also account for 31% of the deposits in the system, and the four foreign-owned banks account for only 38% while the remaining 31% is shared among the indigenous banks.

Government has recently sold off its 49 percent shares in UCB to a Malaysian investor as part of privatization. UCB has been down-sized and restructured, with more than half of its branches closed and one fifth of the staff retrenched.

The formal banking sector is no where to be found in many isolated rural areas. The sector is concentrated in the capital and in main urban centres, leaving the poor remote areas with a highly liquid economy.

A special situation has thus developed with regard to financial intermediation at the micro level: intermediation functions are now also performed by institutions that do not belong to the financial sector. Policies and concepts that were designed to deal with a homogeneous set of

2

These are the East African Development Bank (EADB), Uganda Development Bank (UDB) and the Development Finance Company of Uganda (DFCU).

3

Out of the entire network UCB has 84 branches and 42 agencies.

financial institutions are now implemented in a fuzzy context where a heterogeneous set of banking and non-banking institutions operate. The fact that non-banking intermediation at the micro level does not appear in the macro-level picture should not be misinterpreted: ultimately, the financial-sector intermediation activity at the macro level is completely dependent upon the intermediation at the micro level (that is, the non-bank intermediation), if only because macro levels are merely aggregates of the micro levels.

To embody this complex reality, the set of institutions that perform financial intermediation is often designated by the term 'financial infrastructure' - formal and informal financial intermediaries. The informal financial intermediaries operating are :

(b) the informal financial intermediaries

NGOs;

self-help groups, for example, savings and credit associations, clubs, etc.

Informal financial operators, for example, friends, relatives, traders, etc.).

We now focus on each of these intermediaries

(i) NGOs

These groups have sprang up to fill in the gaps left by formal institutions in providing credit and savings facilities to the rural as well as low income urban communities. Among some of these grassroots institutions are the: Uganda Women Finance and Credit Trust (UWFCT), Centenary Rural Development Bank (CERUDEB), ACORD, Foundation for International Community Assistance (FINCA), World Vision and other Church-related NGOs.

Traditionally, NGOs have played the role of advisers and extension service-providers to groups engaged in savings and credit activities.

Of recent, some NGOs have further expanded their activities in microcredits. Through the creation of solidarity groups of borrowers, the NGOs can hedge risks stemming from lending. Savings, although not a primary concern at the beginning, are now also collected by some of these NGOs.

From a local perspective, however, isolation is still the main problem faced by credit-specialized NGOs. NGOs operating as 'banks' are not banks (that is, they are not part of the financial system; they can have no direct financial exchange with neighbouring banks or even among themselves). They are placed in a situation common to all economic agents: they need to go through banks to deposit their funds or transfer them to other institutions. When they collect deposits, NGOs issue liabilities that are not guaranteed by the central bank.

The two approaches in relation to the role of NGOs in microcredit deserve some attention. The NGO role as advisers to borrowers can be looked at as a strategic aspect of the development of microcredit. It provides the linkage between groups retailing credit at the local level and the banking sector, from which the wholesale credit originates. In this relationship, NGOs are facilitators, not actors. Strengthening such a linkage would ensure that the entire process works in an integrated way and no part of the financial sector remains isolated.

NGOs provide also provide some advice and training to their clients in the areas mainly of business practices and financial management. Project monitoring is also an important component of the training.

The main constraint to these NGOs is the issue of sustainability. Many of them rely on donor funds and only clients of certain categories are served.

The NGOs cannot generate much income from the members savings (for example, by lending

them out and charging market interest rates) as the law does not allow them to lend out such funds. NGOs may invest such funds in instruments like Treasury Bills at low returns and this situation hinders growth and encourages continued dependence on donor funding.

(ii) Self-help groups

Savings and credit cooperatives (SCCs) or societies raise savings from and make loans to members. Although they are membership organizations, sometimes raising money from shares as well as voluntary deposits, they are relatively large and open to new members, unlike ROSCAs.

Owino Market Agency

To join the scheme members must operate an account with minimum \$9. Each member is required to save \$2 per week. The members are organized in groups of five people (Core group) who are engaged in income generating activities. Ten of the groups of five form what is called an Economic group (50 members). Each group of five has a chairman and a secretary. Out of the group of chairmen of the Core Groups an executive team comprising a Chairman, Secretary and Treasurer is elected. It is the Executive who oversee the administration of the loan advanced to members. Every member of a core group is asked to have a guarantor among the five who ensures that the money is paid back, or he takes up the debt himself.

In SCCs members save jointly toward common objectives such as school fees, annual festivals, or community development, sometimes making loans at high rates to increase accumulated amount.

ROSCAs are membership groups in which all members pay in set amounts at regular intervals to a common pool, which goes to each member in turn. Intermediation occurs between members whose turn comes earlier and later within a small, closed group over a fixed period of time. Mutual trust offsets the risk that early recipients will drop out.

The main advantage of these intermediaries lies in their simplicity, informal nature, rural biased, easy accessibility to their clients and community participation in decision-making and management.

(iii) Informal financial operators

This category includes relatives, friends, neighbours, traders and professional money-lenders. Unlike financial transactions in the formal sector, transactions in the informal sector rarely involve legal documentation. Moneylenders cover a wide range of credit arrangements with interest rates ranging from 0 to as much as 100 percent per month. In general, the most common source of informal finance consists of relatives and friends.

All the informal moneylender surveyed base their lending decisions on firsthand knowledge of the borrower. In our sample, there are very few what would be described as professional moneylenders.

Informal lenders draw heavily on information obtained through personal, social and business relationships in order to preselect clients. Traders and landlords lend only to their customers and tenants. Most informal lenders do not use interest rates to discriminate among clients. Through pre-screening, all of the borrowers of each lender fall into similar risk category.

Informal lenders generally require security but are much more flexible than banks in accepting personal guarantees, arrangement with employers and movable properties.

Informal enforcement is easier than going through the legal system. For example, a landlord-lender could make productive use of pledged farmland, whereas a bank would face a long, expensive legal process to seize it. Personal relationships and social pressure, either within membership groups or through family members, are often instrumental in ensuring repayment without aggressive enforcement measures.

Traders are an important source of informal credit. They supply either inputs and equipment or cash advances to farmers, linked to purchase of produce at a highly discounted price. Such interlinked transactions reduce uncertainty.

Collateral requirements vary from case to case, for example, a client may have to surrender a car, land title (with signed transfer forms for the land in favour of the money lender), etc.

Types of agreement between lender and borrower :

- a) A formal agreement may be entered into between the lender and the borrower which is enforceable in Courts of Law.
- b) An informal agreement, verbal, and probably witnessed by a third party.

Most of the borrowings arise out of desperation, making the agreement somehow lopsided in favour of the money lender. There is therefore need for reform in the legislation, for example, Money lender/borrowers Act to protect the interests of both.

Relatives and friends also provide some form of micro-finances. Borrowing in the informal sector is usually mainly for consumption and has flexible collateral/security arrangements. Some of the loans from relatives and friends are at zero interest rates.

6.3 Savings⁴ activities

Informal savings groups have been formed for various purposes. In urban and peri-urban areas, groups are formed for welfare purposes and perform functions like organizing weddings, funerals of social merry-making occasions (Christmas, Easter, Independence, etc.). Such groups have common bindings/interests, for example, the Ajono drinkers group which bring members together on a regular basis. Gradually such groups initially formed for social welfare purposes begin to widen their operations to include development-oriented undertakings.

However, one of the problems with these groups is that they are usually small and weak and built around a few individuals and are therefore susceptible to individual abuse and weaknesses.

In rural areas, savings are in kind. An individual would count his wealth/savings in form of livestock, food granaries/stores, coffee trees (see also Obwona and Ssentamu-Ddumba, 1996).

The development of group savings are also being enhanced by NGOs that seek to assist communities through credit and other financial services to groups rather than individual clients.

However, a number of internal as well as institutional problems still greatly impede the formation and growth of informal savings mechanisms/groups in Uganda. They include :

- (a) Lack of recognition (by the law) and support from government and formal financial institutions. For example, the procedure of opening accounts with formal financial institutions is cumbersome and discourages savings groups from opening accounts with formal institutions like banks.

- (b) Scattered holdings and poor infrastructure impede the formation of strong and larger savings groups while making it difficult to supervision.
- (c) Lack of exposure and training of group members. Some households are reluctant to give their financial savings to somebody else and are suspicious of the formal and tax authorities.
- (d) A weak legal framework that does not facilitate debt recovery and which can be manipulated by wilful defaulters.

6.4 Evidence of financial market fragmentation

Although we find it difficult to make precise comparisons for loans of widely different terms and conditions, financial flow from formal to informal markets are negligible. Informal financial agents generally have limited capital base and little access to borrowed funds. Even those moneylenders who can access bank credit through their other business activities rarely do so for the purpose of on-lending. The main sources of the expanding loanable funds by informal agents are mobilised savings and reinvested profits (mainly from other activities).

We find no direct linkages between informal agents. Informal clients generally have neither a savings nor a credit relationship with formal banks, and a few can obtain credit from more than one source.

Interest rates vary widely across informal institutions, as well between formal and informal markets. Moneylenders' rates are generally higher than formal rates.

Delinquency and default rates of informal lenders are generally low relative to banks.

Loan administration costs (screening, monitoring, and contract enforcement) are generally lower as a percentage of loan amounts for informal lenders than banks. Most of the informal lenders' costs are in prescreening the client's ability to repay, not the particular use of funds, whereas banks devote considerable resources to project evaluation. The value of the time that moneylenders allocate to administer loans is less than 5% of loan amounts.

Most of the informal financial units surveyed mobilise their own funds, usually at very low cost; they have no access to bank loans for on-lending. ROSCA members evidently have a low opportunity cost of funds, because they persist despite the absence of interest payments. The opportunity cost of funds for money lenders who are also traders is low because they generally lend out temporarily idle funds.

The evidence indicates that financial markets in Uganda are highly fragmented. Formal and informal lenders are polarized at extreme ends of the market, with relatively little overlap of clientele. Each informal and formal institution selects a narrow range of clients and products. Although some informal agents link households and small businesses to the formal financial system through their deposit mobilisation activities, this is one-way link with virtually no linkage on the credit side.

Informal interest rates are generally much higher than formal rates, yet informal lenders have both lower transaction costs and lower default rates. Among the informal lenders, the variation in rates is much wider than the variation in transaction costs and default rates. Informal lenders appear better able to enforce collateral than banks and to have a relatively low opportunity cost of funds. Hence the relatively high rates charged by informal moneylenders are likely to represent substantial monopoly power vis-a-vis borrowers who lack access either to formal credit or to membership-based informal finance.

The relatively low transaction costs and loan losses of informal agents serving clients who lack access to formal banking system indicate that they provide a reasonably low-cost solution to the information and enforcement problems that characterise the Ugandan economy.

6.5 Hindrances to linkages

Based on our analysis of the local financial infrastructure, three categories of problems must be overcome in creating horizontal relationships among intermediaries at the micro level.

(a) Cultural/ideological problem

This problem is created by the fact that many intermediaries at the micro level work within a strong philosophical framework. This framework dictates the way in which the microfinance operations are perceived and how the intermediaries should conduct them (eg. in microcredit operations, savings should always come first, or lending should always come first, or lending and savings should always come together). Ideological perceptions are powerful obstacles on the road to cooperation among intermediaries at the local level

(b) The logistic problem

This relates to the exchange of physical cash between the intermediaries working in an area. A set of intermediaries is not an integrated network until all intermediaries can access a clearing mechanism that allows them to borrow and lend cash among themselves. This, in turn, necessitates the setting up of an information system that keeps each intermediary informed of the cash situation of the others. It also requires a physical means of transportation that helps the intermediaries to exchange physical cash.

(c) The institutional problem

In determining how institutions can work together to overcome their differences in cultures and procedures, two issues need to be addressed: how to overcome the risk problem (each institution is not keen to work with the others) and how to look for complementarities as a basis for linking institutions together.

(d) The risk problem

Linkages among financial institutions are possible only when each institution trusts the other institutions and agrees to do business with it. In the case of financial institutions (banks, NGOs and groups), risk is the most critical problem that must be overcome to create trust. The network approach taken to build up the local financial infrastructure is likely to attach a critical and overwhelming importance to risk.

An analysis of the constraints created by the links established between NGOs and banks will illustrate this issue.

In an intermediary relationship between banks and non-banks, risk is present at two levels: at the NGO level in the lending by the non-bank intermediary to microenterprises, and at the bank level in its refinancing of the operations of the non-bank intermediary. The two risks are clearly interrelated. The bank's risk depends on the financial health of the non-bank intermediary but also on the success (in terms of repayment) of the non-bank intermediary's own lending operations. Linkages are possible between a bank and non-bank intermediary only if the problems posed by these two risks are addressed simultaneously.

When working in isolation, non-bank intermediaries have their own ways of addressing their own risk problem. They can extend character loans, (that is, they do cover risks through specific legal or financial measures) or they can address the risk issue through the formation of solidarity

groups (that is, through collective responsibility) or any other form of grouping. Character evaluation is based on a subjective judgement on the part of the lender. Solidarity among borrowers can be effective because the lender and the borrowers are bound by a link of confidence in one another.

Both methods are viable if the lender operates in isolation from other institutions (that is, the lender operates with its own funds and lends them only to borrowers that it knows). The situation changes if, through the linkage, the non-bank intermediary seeks refinancing from a bank. In this case, it is likely that the bank will demand not only that its own risk in the lending to the non-bank intermediary be covered by the non-bank intermediary-owned tangible assets but also that the lending activity undertaken by the non-bank intermediary be secured in such way that it will not put the financial situation of the non-bank intermediary at risk. In other words, the bank will be interested in the way the non-bank intermediary handles its own risk.

This constraint may cast a new light on the much-publicized merits of the solidarity groups in hedging the risks of microfinance intermediaries. Unless solidarity groups (and character loans) are considered as good hedges by banks, the non-bank intermediary is not likely to be allowed to borrow from banks. In practice, banks are not likely to accept solidarity groups or character loans as good hedges for the non-bank intermediary's own activities. Solidarity groups therefore remain acceptable as long as the non-bank intermediary is donor-dependent; they are likely to become less acceptable the day the non-bank intermediary wants to borrow from a bank.

The network approach will change the way non-bank intermediaries handle their own risk problem, which will have to be addressed through asset/equity building rather than simply through reliance on character or the creation of solidarity groups. This way of handling the risk issue will provide the intermediary with liquid reserves with which to repay the bank if it has a problem; it will be an acceptable hedge for the banks. The net result will be that the non-bank intermediary will establish some form of borrower-supported guarantee mechanism to cover its own risks.

The network approach shows therefore that microfinance, despite its specificities, has not changed the fundamental rule of banking: capital (or reserves, or liquid assets) must be commensurate with the size of the lending activity.

7.0 Discussions and policy considerations

Financial sector reforms have focused on the formal sector. But our study shows that simply removing financially repressive policies is not sufficient to increase financial depth or to induce banks to reach a wider clientele.

In contrast, informal financial agents have responded positively to demand from clients who continue to lack access to formal finance. Expansion of demand and supply in informal markets appears related more to growth of real sector than to changes in financial policies.

Informal financial institutions used a variety of specialized methodologies to mitigate the problems caused by information asymmetries and to contain risks and transaction costs. In dealing with small clients, informal institutions used methods that enabled them to achieve relatively low transaction costs and default rates compared with what banks reported for both large and small clients.

Formal financial deepening is a long-term process that also requires a sound macroeconomic environment, stronger regulatory and supervisory frameworks, improved information flows, and legal and judicial reforms to facilitate contract enforcement. Until costs to formal institutions of acquiring information and enforcing contracts are significantly reduced, informal financial

institutions will retain a comparative advantage in their market niches.

The efficiency of financial system as a whole can be improved by enabling informal and emerging semiformal institutions to function and better integrate with the rest of the system.

Forging direct links

The study findings support the view that incentives and support for linkages among segments of the financial market may be needed to accelerate integration of formal and informal financial institutions. To expand financial market segments viewed as risky by banks, it is likely to be more effective to induce banks to link up with institutions that use appropriate methods than to expect banks to lend directly.

Such institutions could help in formulating the projects, filling in the forms, negotiating on behalf of the borrower, supervising the projects and helping in making the investment a success.

Alternatively, partial guarantee of a line of credit to an NGO or association of informal agents for on-lending in small amounts would make more sense than guaranteeing direct small loans by banks.

Some form of flexible and supportive regulatory framework for semiformal intermediaries would help give formal institutions greater confidence in lending to them. Banks could provide a deposit instrument adapted for savings and credit societies.

By this, FFIs may reduce their risk burden since they share this with IFIs and improve the management of credits (the credit bureau/money lender possesses superior knowledge of clients).

Contract enforcement

Improving contract enforcement through reform of the legal system is a fundamental long-term institutional measure that would encourage formal institutions to serve dynamic small-scale enterprises. This may require introducing special commercial laws and courts. Measures to facilitate the seizure of equipment and stock in case of default, would encourage leasing and working capital loans to smaller businesses.

Information and managing risks

Difficulties in obtaining reliable information and in managing risks cause fragmentation by raising the costs to formal institutions of entering household and small-scale enterprise market segments. These difficulties enable informal agents, who have developed individualized information and social networks, to form local monopolies. Measures to improve the flow of information about borrowers include establishing 'bureaus de risques' or credit rating agencies, creating registries for recording secured debt, and making audits available to small businesses at reasonable cost.

Central Bank

A conspicuous deficiency in Uganda, as in other developing regions, is the lack of a central institutional agency to oversee and promote semi-formal finance and to foster viable linkages with the formal sector. The situation is a curious amalgam of benign neglect, hostility and prejudice because informal finance is associated (mistakenly) with the illegal or underground economy which therefore is regarded as being beyond the legitimate purview of the regulatory authorities.

It is imperative that Bank of Uganda accord high priority to the creation of properly-designed and staffed special units to research, monitor, promote and refinance the semi-formal financial sector. But it is equally, if not more, important for Bank of Uganda to adopt a positive attitude and constructive policy approach towards semi-formal finance with a view to formulating and facilitating the operations and transactions within the sector as much as fostering market-oriented linkages with the formal sector based on an intermediate financial technology within an appropriate legal framework on, for example, the following lines :

- promotion of group borrowing and lending units for commercial banks ;
- creation of a panel of guarantee brokers to appraise and guarantee bank credit to ROSCAs ; and
- offer of market-oriented rediscount and refinance facilities through the Central bank for promissory notes or other credit paper originating from semi-formal financial sector which could be subject to a guarantee by commercial banks, authorised brokers or responsible guarantors.

Finally, the strengthening of all the sections of the Bank responsible for the real sector, rural finance and microfinance should continue to enhance Government's efforts to deal a final blow to poverty (Kikonyogo, 1997; Smith, 1997).

In conclusion, the study indicates that liberalization of financially repressive policies has limited impact on financial deepening without complementary measures to address problems of information, risk management and contract enforcement. Innovative methodologies of informal and semiformal institutions, however, are overcoming these barriers to small financial transactions. Including these methodologies in financial development strategies offers important potential to improve financial intermediation and widen access to financial services in Uganda.

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Appendix 1 Survey results

Table 1A: Do you usually borrow money ?

BORROW	FREQUENCY	PERCENTAGE
YES	262	52.6%
NO	236	47.4%
TOTAL	498	100.0%

Table 2A: Sources of borrowing money by sex

SEX	INDIVIDUAL	SCA	NGOS	BANKS	OTHERS
MALE	67 (68.4%)	59 (61.5%)	33 (73.3%)	27 (90.0%)	20 (87.0%)
FEMALE	31 (31.6%)	37 (38.5%)	12 (26.7%)	3 (10.0%)	3 (13.0%)
TOTAL	98(100.0%)	96 (100.0%)	45 (100.0%)	30(100.0%)	23(100.0%)

Table 3A: Marital status by source of borrowing

MARITAL STATUS	INDIVIDUAL	SCA	NGOS	BANKS	OTHERS
SINGLE	18 (18.4%)	17 (17.7%)	6 (13.3%)	3 (10.3%)	3 (9.5%)
MARRIED	71 (72.4%)	69 (71.9%)	30 (66.7%)	26 (86.2%)	20 (90.5%)
WIDOWED	5 (5.1%)	3 (3.1%)	7 (15.6%)	1 (3.4%)	0 (0.0%)
OTHERS	4 (4.1%)	7 (7.3%)	2 (4.4%)	0 (0.0%)	0 (0.0%)
TOTAL	98 (100.0%)	96(100.0%)	45 (100.0%)	30 (100.0%)	23 (100.0%)

Table 4A: Level of education of household head by source of borrowing

EDUCATION	INDIVIDUAL	SCA	NGOS	BANKS	OTHERS
NO EDUCATION	3 (3.1%)	3 (3.1%)	2 (4.4%)	1 (3.3%)	0 (0.0%)
PRIMARY	14 (14.3%)	21 (21.9%)	3 (6.7%)	6 (20.0%)	5 (21.7%)
SECONDARY	39 (39.8%)	22 (22.9%)	11 (24.4%)	4 (13.3%)	5 (21.7%)
HIGH SCHOOL	10 (10.2%)	10 (10.4%)	7 (15.6%)	4 (13.3%)	3 (13.0%)
UNIVERSITY	12 (12.2%)	10 (10.4%)	9 (20.0%)	8 (26.7%)	2 (8.7%)
OTHERS	20 (20.4%)	30 (31.3%)	13 (28.9%)	7 (23.3%)	8 (34.8%)
TOTAL	98 (100.0%)	96 (100.0%)	45 (100.0%)	30 (100.0%)	23 (100.0%)

Table 5A: Employment status by source of borrowing

EMPLOYMENT	INDIVIDUAL	SCA	NGOS	BANKS	OTHERS
SELF-EMPLOYED	56 (57.1%)	62 (66.0%)	22 (48.9%)	19 (63.3%)	9 (39.1%)
EMPLOYED- BY OTHERS	42 (42.9%)	32 (34.0%)	23 (51.1%)	11 (36.7%)	14 (60.9%)
TOTAL	98(100.0%)	96(100.0%)	45(100.0%)	30(100.0%)	23(100.0%)

Table 6A: Age group by source of borrowing

AGE GROUP	INDIVIDUAL	SCA	NGOS	BANKS	OTHERS
<= 19 YEAR	0 (0.0%)	1 (1.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)
20-29 YEARS	19 (19.6%)	11 (11.5%)	5 (11.1 %)	4 (13.3%)	6 (26.1%)
30-39 YEARS	48 (49.5%)	45 (46.9%)	19 (42.2%)	8 (26.7)	9 (39.1%)
40-49 YEARS	20 (20.6%)	28 (29.2%)	16 (35.6%)	11 (36.7%)	5 (21.7%)
50-59 YEARS	6 (6.2%)	10 (10.4)	3 (6.7%)	6 (20.0%)	1 (4.3%)
>=60 YEARS	4 (4.1%)	1 (1.0%)	2 (4.4%)	1 (3.3%)	2 (8.7%)
TOTAL	97 (100.0%)	96 (100.0%)	45 (100.0%)	30 (100.0%)	23 (100.0%)

Table 7A: Religion by source of borrowing

RELIGION	INDIVIDUAL	SCA	NGOS	BANKS	OTHERS
CHRISTIANITY	79 (82.3%)	81 (84.4%)	39 (86.7%)	24 (82.8%)	22 (95.7%)
ISLAM	16 (16.7%)	15 (15.6%)	6 (13.3%)	4 (13.8%)	1 (4.3%)
OTHERS	1 (1.0%)	0 (0.0%)	0 (3.4%)	1 (0.0%)	1 (0.0%)
TOTAL	96 (100.0%)	96 (100.0%)	45 (100.0%)	29 (100.0%)	23 (100.0%)

Table 8A : Type of sole proprietor borrowed from

TYPE	NUMBER	PERCENTAGE
COMMERCIAL MONEY LENDER	6	6.1
FRIENDS, FAMILY, AND NON COMMERCIAL LENDER	94	95.9
OTHERS	5	5.1
TOTAL	98	100.0

Table 9A: Frequency of borrowing from sole proprietors⁵ :

NUMBER OF TIMES	NUMBER	PERCENTAGE
1-3	33	33.7
4-5	25	25.5
6+	7	7.1
NON RESPONSE	33	33.7
TOTAL	98	100.0

Table 10A: Purpose of borrowing from the sole proprietors⁵:

PURPOSE	NUMBER	PERCENTAGE
EDUCATION	12	12.2
EDUCATION AND SICKNESS	3	3.1
BUSINESS/INVESTMENT	59	60.2
BUY LAND	1	1.0
PAY DEBT.	2	2.0
FAMILY	22	22.4
OTHERS	3	3.1
TOTAL	102	104.0

5

Respondents were allowed to give more than one purpose

Table 11A: Terms of borrowing from sole proprietors⁶

TERM OF BORROWING	NUMBER	PERCENTAGE
NO TERMS	63	64.3
PAY INTEREST	37	37.8
TOTAL	100	102.1

Table 12A: Type of savings and credit associations⁷

TYPE OF ASSOCIATION	NUMBER	PERCENTAGE
ROSCAS	71	74.0
SCAS	18	19.0
LICENSED COOPERATIVES AND UNIONS	6	6.0
OTHERS	2	2.1
OTHERS	97	101.1

Table 13A: Nature of common bond for savings and credit associations

COMMON BOND	NUMBER	PERCENTAGE
COMMUNITY	51	53.1
OCCUPATIONS	28	29.1
ETHNICITY	1	1.0
GENDER	12	12.5
RELIGION	3	3.1
OTHERS	1	1.0
TOTAL	96	100.0

Table 14A: Does the NGO you borrow from require collateral ?

COLLATERAL	NUMBER	PERCENTAGE
YES	20	44.4
NO	25	55.6
TOTAL	45	100.0

6

Responses exceed 100% because some respondents borrow from more than one sole proprietor and each sole proprietor has his/her own terms of lending.

7

Responses exceed 100% because some respondents belong to more than one association or group.

Table 15A: What kind of collateral does the NGO require?⁸

KIND OF COLLATERAL	NUMBER	PERCENTAGE
LAND TITLES	4	20.0
ASSETS	12	60
OTHERS	9	45
TOTAL	25	125

Table 16A: Interest rates charged by NGOs⁹

INTEREST RATE(%)	NUMBER	PERCENTAGE
<=10	13	28.9
11-20	9	20.0
>20	8	17.8

Table 17A: Interest rates charged by banks¹⁰

INTEREST RATE(%)	NUMBER	PERCENTAGE
0-10	2	6.7
11-20	5	16.7
21-30	18	60.0
31+	1	3.3
NO RESPONSE	4	13.4

Table 18A: Are you a money lender ?

LEND	NUMBER	PERCENTAGE
YES	93	18.7
NO	405	81.3
TOTAL	498	100.0

8

The total percentage exceeds 100% because some NGOS require more than one form of collateral security. The base used in this table is 20 because 20 out of the 45 respondents who borrow from NGOS reported that NGOS require collateral security.

9

The base used in this table is 45 since only 45 of the 498 respondents interviewed borrow from NGOS.

10

The base use in this table is 30 since only 30 of the 498 respondents interviewed borrow from banks.

Table 19A: Source of funds you lend

SOURCE OF FUNDS	NUMBER	PERCENTAGE
SALARY	40	43.0
TRADE	48	51.6
FARMING	21	22.6
OTHER	5	5.4

Table 20A: Did you honour all the loan requests last year ?

HONOURED	NUMBER	PERCENTAGE
YES	37	39.8
NO	56	60.2
TOTAL	93	100.0

Table 21A: Amount of annual net income coming from loans

AMOUNT	NUMBER	PERCENTAGE
ALL	6	6.5
MORE THAN HALF	5	5.4
HALF	26	28.0
LESS THAN HALF	38	40.9
NO RESPONSE	18	19.4

Table 22A: Collateral asked for by the money lenders

SECURITY	NUMBER	PERCENTAGE
POST DATED CHEQUES	6	6.5
REAL ESTATE	5	5.4
PROPERTY	26	28.0
OTHERS	38	40.9
NO RESPONSE	18	19.4

Table 23A: Penalties imposed by money lenders on debtors who default¹¹

PENALTY	NUMBER	PERCENTAGE
RESCHEDULE THE DEBTS	8	8.6
STOP LENDING HIM/HER	35	37.6
TAKE THE BORROWER TO POLICE	7	7.5
SEIZE THE PROPERTY OF THE DEBTOR	24	25.8
NO PENALTY	17	18.3
OTHERS	13	14.0

¹¹

The base used in this table is 93 since only 93 of the 498 respondents interviewed are money lenders. The total of the percentage of the various penalties imposed by the money lenders may exceed 100% since some money lenders may impose more than one penalty on a single defaulter or have ever imposed several different penalties on different defaulters.

Appendix B

Table 1B: Possible linkage matrix of local financial infrastructure institutions

Recipient Provider	NGOs	Banks	Group
NGOs	Allow liquidity to circulate within LFI	Assist banks to collect deposits; extension services to bank clients	
Banks		Allow liquidity to circulate within LFI	
Groups	Provide hedging mechanism for NGO lending liquidity	Provide hedging for bank lending; collect saving for banks	Allow liquidity to circulate within LFI

Note: LFI stands for local financial infrastructure

Table 2B: Some key micro finance programmes in Uganda, 1996

Name	Average loan size	Repayment rate	Percent Savings of women	Years required	in Uganda
UWFCT	\$500-3000	60-80%	100%	Yes	12
FINCA	\$168	97%	99%	Yes	4
CRS	\$630/group	40-60%	60%	Yes	10
WVvision	\$100	--	N/A	--	11
FChildren	--	45%	99%	--	5
CERUDEB	50%:<\$1000				
	50%:>\$1000	--	28%	Yes	13
UGAFODE	\$370	96%	80%	--	2
PCSs	\$920	--	N/A	--	36+
PAP	\$2.7m	77%	--	Yes	2

Sources: NGOs

Key:

UWFCT	Uganda Women Finance and Credit Trust
CRS	Catholic Relief Services
WVvision	World Vision
FChildren	Feed the Children
CERUDEB	Centenary Rural Development Bank
PCS	Primary Cooperative Societies

Appendix C

Some responses from interviewees

WHY DO YOU BORROW FROM THE SOLE PROPRIETOR INSTEAD OF THE FORMAL FINANCIAL INSTITUTIONS ?

1. I needed a soft loan on no interest to start a business.
2. I did not have any bank account.
3. No interest, simple procedure, cheap compared to bureaucracy of banks.
4. I borrow when I am in acute need and there is no time to think of financial institutions.
5. Bank procedures are too long.
6. Interest rates charged by banks are too high yet the amount of money to be borrowed is very low.
7. Financial institutions are headed by corrupt people and since I did not know anybody, it would be difficult for me.
8. I do not see why I should follow all those bureaucracies in financial institutions yet there are other alternatives.
9. Procedures of securing a loan are tiresome and the loans attract higher interest rates.
10. Did not know that banks can give credit.
11. Banks ask for security.
12. Banks charge interest.
13. No formal contacts with banks.
14. Easy to approach, repayment period is flexible.
15. Family relationship/lender flexibility
16. Amount to be borrowed and time of payment is negotiable.
17. Since the amount to be borrowed is small, the chances of getting the loans are high.
18. They can't lend you when your account is in the red.
19. I had no security.
20. It was still initial stage with a lot of risks so I could not risk with Bank money.
21. The whole process of borrowing money from the bank can cost you half of the total loan being sought.
23. The money needed was too small that going to the bank was not worth it.
24. Did not think of formal financial institutions.
25. Bank loans are expensive.
26. They are far (banks).
27. Since I do not put money in the banks, I can not approach them.

28. I fear bank loans.
29. It needs wealthy people.
30. No interest is charged.
31. His my neighbour (we know each other well).
32. I borrow small amounts of money.
33. I do not have security
34. He is readily available and it is easy to negotiate with him.
35. Borrowing at short notice is possible
36. He is my relative.
37. I tried the bank and it turned me down.
38. There were no rough conditions associated.
39. For safe custody.
40. No travelling required.

FOR WHAT PURPOSE DID YOU BORROW MONEY FROM THE SCA ?

1. To buy a cow and start grazing.
2. To boost my business.
3. Setting up a business, a kiosk.
4. Rearing poetry.
5. General up keep.
6. Buy clothes for sale.
7. For hospital costs and for business.
8. To go to my distant home.
9. School fees and other family needs.
10. Trade.
11. To pay bride wealth (dowry).
12. To buy a plot of land.
13. Building.
14. Farming and petty trade.
15. To buy food for my stall.
16. To put rental houses.
17. To finish my house.
18. To buy a vehicle.
19. To buy more land.
20. To clear my land.

21. Ploughing, weeding, buying fertilizer for my plantations.
22. To assist me in buying furniture, stationery and hiring for my nursery school.
23. To pay rent.
24. Medical care and dairy meal purchase.
25. To improve banana plantation.
26. For horticulture.
27. To improve the welfare of orphans.
28. To start a piggery project.

WHAT ARE THE ADVANTAGES AND DISADVANTAGES OF DEALING WITH SELF-HELP GROUPS AND NGOs COMPARED TO FORMAL FINANCIAL INSTITUTIONS ?

ADVANTAGES:

1. Time saving
2. Profits from shares
3. No need for collateral
4. Simple and easy procedure.
5. Provide some advice on how to use the loan which is essential.
6. Referees not required.
7. The interest rates are low.
8. NGO's do not segregate
9. Monitors are employed by NGO
10. It is a christian organisation which makes no profits but only to render services to the poor and hence does not charge any interest.
11. NGOs go deep in the villages compared to formal financial institutions.

DISADVANTAGES :

1. Guarantors can betray you.
2. Difficult to form groups because we need to look for trustworthy friends.
3. Failure to pay by one member affects the performance of the rest since the rest has to pay for that one who fails.
4. They are strict on paying back the interest and the principal borrowed.
5. The amount of credit offered is limited.
6. Very short grace period.
7. Give less amount than requested.
8. NGOs prefer lending money to groups
9. Conflict and misunderstandings among members.

WHAT IS THE GOAL OF YOUR SCA ?

1. To create a revolving fund from which members can borrow whenever the need arises.
2. It finances women activities.
3. Development of the area.
4. Poverty alleviation among its members.
5. To mobilise savings and lend to each other.
6. Saving and borrowing.
7. To uplift the standard of women and their families.
8. Improve welfare of teachers.
9. Financing women projects.
10. To help one another.
11. To promote rural development.
12. To bring services nearer to the people.
13. To uplift the standard of widows.
14. To help orphans.

WHY DO YOU PREFER BORROWING FROM THE FORMAL FINANCIAL INSTITUTION INSTEAD OF OTHER SOURCES, EG INFORMAL LENDERS ?

1. To buy a vehicle (bus).
2. Business (spare parts).
3. To import spare parts of vehicles for sale.
4. Importation.
5. Expand my business.
6. To raise zero grazing cows.
7. Building a workshop, buying machines.
8. Putting up a commercial farm.
9. Small scale industry (rice huller).
10. Agricultural production.
11. To improve the standards of animal keeping.
12. Put up a milling machine.
13. Use it to pay workers.
14. The amount to be borrowed out be given by informal lenders.
15. They can lend large sums of money at once.
16. I was not aware of other sources apart from the bank which would raise all that much money.

17. The bank is reliable.
18. Informal lenders are not easily accessed.
19. Sometimes I borrow big amounts of money which informal lenders cannot raise.
20. To have cash at the time you need it.
21. Their interest rate is fairer.
22. I need money for long periods.
23. If you are a good customer they keep on lending you.
24. They provide business information or advise freely.
25. They rectify the business proposal.
26. They help you in marketing (showing markets).
27. Period of repayment is long enough.
28. I have no close person in the informal lending.