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A Case Study of Rural Finance Self-Help Groups in Uganda and Their Impact on Poverty Alleviation and Development

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A Case Study of Rural Finance Self-Help Groups in Uganda and Their Impact on Poverty Alleviation and Development

Rebecca Flynn

SIT Uganda Development Studies Fall 2013

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Advisor: Mr. Steven Lumonya
Dedication

This is dedicated to the members of SHGs and similar groups in Uganda. To the men and women who manage to do so much with so little and are improving their own lives without the help of any outside aid. This is especially dedicated to the women who have so many more additional obstacles to overcome.
Acknowledgments

Firstly, I would like to thank Steven Lumonya. You went above and beyond the call of duty as my advisor, personally setting up interviews for me and taking me to those interviews yourself. I am very grateful for the time and energy you sacrificed helping me and giving my research direction.

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List of Acronyms

CF – Community Facilitator
CLA – Cluster Level Association
FHH – Female-Headed Household
GDP (PPP) per capita – Gross Domestic Product (Purchasing Power Parity) per capita
MFI – Microfinance Institution
MHH – Male-Headed Household
NGO – Non-Government Organization
PEAP – Poverty Eradication Action Plan
SACCO – Savings and Credit Cooperative Organization
SHG – Self-Help Group
SHGAU – Self-Help Group Approach Uganda (Organization)
UGX – Uganda Shillings
UNDP – United Nations Development Programme

1.0  Abstract
The purpose of this research was to assess the impact of financial Self-Help Groups (SHGs) on poverty alleviation and development in rural areas of Uganda and evaluate their successes, limitations, and potential for sustainability. An extensive literature review of poverty in Uganda, development theories and development in Uganda, and rural finance self-help group methodology and theories was conducted in order to provide a broader context for the research.

The participants in the research were members of SHGs in Central Uganda under the Self-Help Group Approach Uganda (SHGAU) organization and employees of SHGAU. The primary methods were personal interviews and focus groups. These gave the researcher insight into the goals and structure of SHGAU, insight into the goals, finances, and structure of the SHGs themselves, and allowed the researcher to learn from the rural poor themselves about how the groups benefited them and what problems the groups faced.

The main findings of the research supported the claim that SHGs are very successful in alleviating poverty in rural areas and increasing human development, especially among women. The limitations the groups faced were not so much with the groups themselves, although there may be a few very minor structural problems with the groups, but with outside forces, mostly cultural and economic. Specifically, the Ugandan cultural views of women and the poor economic market situation in Uganda hindered the impact of the groups. Recommendations, therefore, focus mainly on social equality and on a stronger economy that will make it easier for these groups to succeed and facilitate even more poverty alleviation and development.

2.0 Introduction
The intent of this research is to study the impact of financial Self Help Groups (SHGs) on poverty alleviation in Uganda. Specifically, the intent is to focus on rural poverty and the poverty of women. Additionally, this research is intended to study the impact of SHGs on the development of their communities, both material and non-material development. It focuses specifically on the development of women. This research also focuses on documenting the successes of SHGs and the limitations and challenges they face and on making recommendations that will improve their effectiveness. The SHGs studied are under the Self Help Group Approach Uganda (SHGAU) organization.

This research was conducted in Kampala, Uganda and Masuliita, Uganda. Kampala is the capital city where most of the background research and part of the interviews for the research were conducted. Masuliita is a rural area in Central Uganda where part of the interviews and the focus groups of SHGs and Cluster Level Associations (CLAs), which are made up of SHGs, were conducted for the research.

3.0 Background and Literature Review

3.1 Poverty in Uganda

The definition of poverty used in this research will be that which is used by many international agencies and institutions and many countries, including Uganda. These organizations and countries define poverty in monetary terms. They set a poverty line based on what they determine to be the minimum amount of money needed to attain the necessary amount of food and other physical non-food necessities for survival. Anyone at or above the line is considered non-poor. Anyone below the line is considered poor. Other, more holistic measures, define poverty both in physical and non-physical terms that go beyond just a lack of money to meet the very basic necessities for survival. These measures are better at describing the overall well-being of people (Burkey 1993). However, for the purpose of this research, poverty will be defined in economic terms only and other aspects discussed in the holistic definitions of poverty will be addressed in a separate section about development.

The latest data from the Uganda Bureau of Statistics, from the 2009/2010 National Household Survey Report, puts 24.5% of the population below the national poverty line. In addition, poverty may be even worse than the official national statistics suggest. The World
Bank, also using data from 2009, reports that 38.0% of the population lives below $1.25 a day and 64.7% of the population lives below $2.00 a day. These statistics are much higher than would be expected from the national poverty line. This may be because Uganda’s poverty line is based off of the same cost of meeting basic food and non-food needs determined in 1993. The poverty line has not been revised in twenty years except for inflation adjustments taken from Uganda’s Consumer Price Index. Since consumption patterns have almost certainly changed in the twenty years since then this consumption basket may be outdated and could possibly use some revision to provide more accurate measurement (World Bank 2012a). Uganda’s national absolute poverty line, therefore, may not give a clear picture of just how big the problem really is.

Uganda has historically done an impressive job of lowering poverty. In 1992/1993 the poverty rate was 56.4%. That percentage has decreased by more than half in less than twenty years. The government’s Poverty Eradication Action Plan (PEAP), which was developed in 1997 and revised in 2000 and 2004, has guided the government’s economic decisions (Economic Development Policy and Research Department 2012). Yet despite the improvements, Uganda is still one of the poorest countries in the world. In 2012, based on Gross Domestic Product (Purchasing Power Parity) per capita (GDP (PPP) per capita), Uganda was ranked the 24th poorest country in the world out of 184 countries. GDP (PPP) per capita is the measure of the “sum of the gross value added by all resident producers in the country” divided by the population and eliminating “the differences in price levels between countries.” While GDP is not a perfect measure for describing the actual well-being of the population it is at least partially indicative of peoples’ level of economic prosperity in the country (Global Finance 2013). The Poverty Indicator in the Human Development Index (HDI) from the United Nations Development Programme (UNDP), which is a better measure of economic well-being than GDP measures, ranks Uganda as the 22nd worst country out of 92 countries when it comes to poverty (United Nations Development Programme 2012a). As shown by the statistics and the discrepancies between the national measures and measures used by international agencies, Uganda still has much it needs to do to alleviate poverty.

3.1.1 Rural Poverty
Rural poverty in Uganda is especially bad. 85.0% of Uganda’s population lives in rural areas; 27.2% of them are below the national poverty line. This is in stark contrast to the only 9.1% of urban residents below the poverty line. This means that rural areas constitute 94.4% of national poverty; out of the 7.51 million Ugandans living in poverty, 7.1 million of them are in rural areas (Uganda Bureau of Statistics 2010).

3.1.2 Access to Credit

Poor people, who often do not have enough savings, often need loans to deal with emergencies, invest in income-generating opportunities that arise, and meet life-cycle needs, including births, deaths, education, and home-making (Rutherford 2001). However, the poor, especially the rural poor, have little access to traditional financial credit. Rural areas may not be serviced by traditional financial industries because they are seen as unprofitable because of low population density in rural areas and the smaller amounts of money borrowed and invested. In addition, poor infrastructure makes operating in those areas expensive and difficult (Plan Uganda 2011). Even if the poor do have access to financial institutions they often lack appropriate physical collateral to be considered for loans. Some rural poor can access informal lenders (Khandker). But loans received from both formal and informal lenders are very risky in Uganda because of the high interest rates in the country. Currently, Bank of Uganda lends at a rate of 12% to financial institutions (Bank of Uganda 2013). Uganda’s lending interest rate (the average rate that banks lend to the private sector) was 26.31% in 2012 (World Bank 2013). These high rates discourage the poor from borrowing.

Even microfinance institutions (MFIs) and Savings and Credit Cooperative Organizations (SACCOs), which often target the low-income populations in rural areas, have difficulties reaching the poorest of the poor, also called the “non-active” poor. The poorest rural people are not attractive clients for banks, MFIs, and SACCOs because they save and borrow very small amounts (Plan Uganda 2011). 65% of Uganda’s rural population does not have access to financial services. Even the rural poor who might have access to credit are uncomfortable working with financial institutions because of the “perceived sophistication of banks” (AMFIU 2008). Additionally, the poor have trouble working with traditional financial institutions because of the high interest rates, insurance requirements, compulsory deposits, and other fees charged. 98% of borrowers in Uganda pay fees in addition to the interest rate. 51% pay two fees or more.
60% of borrowers provide mandatory deposits (sometimes called “savings”) up-front and 90% pay a compulsory insurance fee. 66% of borrowers receive loans using flat interest rates instead of declining balance interest rates. Borrowers pay more with flat interest rates because the interest payment stays the same no matter how much of the loan has been paid back. Declining interest, on the other hand, declines as more of the loan is paid back. Interest rates range from 10% to 60% per year with the majority in the 20% to 40% range. Calculating the full cost of the loan when including the additional charges and requirements gives the Full Annual Percentage Rate (APR). Full APR includes the stated interest rate, all fees paid, compulsory insurance costs, tax costs, and compulsory deposits. The Full APR of loans in Uganda ranges from around 20% to as high as over 130% with the majority in the 40% to 80% range (MFTransparency 2013). This means that, at 130% Full APR, if you take out a loan for 20,000 UGX you could end up paying a total of 46,000 UGX if you repay the loan in one year, more than double the original loan. The poorest of the poor cannot afford to work with institutions with rates like these. Additionally, traditional financial institutions might only offer loans with terms and sizes that are unsuitable for the rural poor, especially when it comes to agricultural needs (AMIFU 2008).

### 3.1.3 Savings

Providing a place for the poor to save is important for poverty reduction because it gives the poor funds to fall back on in emergencies, allows them to invest in profitable opportunities that arise, and allows them to spend on expenses relating to deaths, births, education, and home-building without having to take out loans. This limits the potential of falling into harmful debt. Services for the poor that focus on savings reduce the vulnerability of the poor by giving them the ability to build up their capital (Rutherford 2001). Savings are also important for “smoothing over” short-term income deficiencies due to fluctuations in agricultural seasons and unstable and unpredictable earnings (Barr & Blank 2008). Poor people want, need, and do save (MicroSave 2001). Services available to the poor for savings, however, may be even more limited that credit services. Part of the reason is because some services that lend to the poor, like certain MFIs, cannot offer savings services because of legal regulations (CGAP 2005). Additionally, until recently, credit approaches to poverty reduction were emphasized more than savings approaches (MicroSave 2001). Also, just like with credit access, many institutions do not reach the rural poor because poor infrastructure and low population density mean high costs, and
because they do not value the small amounts of money deposited by the poor (Plan Uganda 2011). The poor often save small amounts very often which increases costs and, therefore, discourages formal financial institutions (Wright 2001). The poor, therefore, are forced to save in informal mechanisms. Unfortunately, these alternative savings systems are often very risky. It is estimated that those who save in the informal sector annually lose 15% to 25% of their savings. In Uganda, 99% of those saving in the informal sector lost some of their savings. The average loss was 22% of the amount saved (MicroSave 2001).

### 3.1.4 Women, Poverty, and Credit Access

Women are overrepresented among the poor in Uganda. Data from 2005/2006 from the Uganda Bureau of Statistics estimates that 23% of Ugandan households are headed by a female. Out of these female-headed households (FHHs), 33.7% are below the national poverty line. This is compared to 29.8% of male-headed households (MHHs) below the poverty line (Ssewanyana 2009). “Households headed by [widowed women] are particularly vulnerable to asset depletion and impoverishment” since they have limited opportunities to inherit their husband’s land and are sometimes thrown off the land by their husband’s family after the husband dies (Ellis, Manuel, & Blackden 2006). Data from 2005/2006 also reports that FHHs have a higher dependency ratio (116.9) than MHHs (114.9). This means that female heads typically have more dependents that they are responsible for providing for. Additionally, MHHs own more assets than FHHs. FHHs own less livestock than male-headed households (MHHs) and the livestock that they do own is mainly chickens and goats, which generate less income than other types of livestock. FHHs own less land than MHHs; 62% of FHHs own an acre or less of land compared to 54.3% of MHHs. Women are more likely to be subsistence agricultural workers (80.5%) than men (67.5%) (Ministry of Finance, Planning and Economic Development 2008). 51% of women, compared to 44% of men, earn wages of less than 40,000 USX a month (Ellis, Manuel, & Blackden 2006).

In addition to increased poverty, women have more difficulty accessing credit. 66% of females, compared to 58% of males, do not have access to financial credit (AMIFU 2008). Although businesses owned by women make up almost 40% of all registered businesses in Uganda they receive only 9% of all credit. Banks often require land as collateral for loans but, because of unfair land allocation practices, women own only 7% of the registered land in Uganda.
Over 50% of FHHs have no right to use their land as loan security (Ministry of Finance, Planning and Economic Development 2008). Uganda’s laws make it difficult to use non-land assets as collateral (Ellis, Manuel, & Blackden 2006).

There are many reasons in addition to unfair land practices why women tend to be poorer than men and have less access to credit. The biggest cause is the traditional patriarchal cultures in Uganda. Women are seen as inferior to men. This limits their involvement in the community decisions and, as a result, means that they have less access to information and, especially when it comes to rural women, are less likely to know their rights. This attitude also means that women often have little to no input in the financial decision-making in their homes. Women often lack control of resources in the marriage. Women provide most of the agricultural labor in Uganda (60% of the planting, 70% of the weeding, 60% of the harvesting, and 90% of the processing/preparation). But even though the women provide most of the labor the men “tend to control the resulting income” because they do the marketing and the selling. This means that women lack incentives to grow cash crops which would give them higher incomes because they rarely benefit from them. Even if they do receive the money from agriculture or from their own businesses husbands often make their wives give them the money. The women, therefore, focus on growing food crops to feed their families. Polygamous practices also increase the poverty of women since the husband’s resources, which are sometimes little to begin with, must be shared by many families. It is not uncommon, therefore, for a wife to be poorer than her husband. (Ellis, Manuel, & Blackden 2006)

The economic dependency of women on men is the main source of the problem. Women are economically dependent on men for many reasons. Men may refuse to allow their wives to work or generate their own incomes because they fear that this will result in their wives being less submissive. Even if they are able to have their own businesses, women, because they are much busier than men, are not able to invest a lot of time and energy into them. Women spend more time than men taking care of the children, the sick, and the elderly, doing the housework, collecting fuel and water, digging in the garden, and preparing food. Women contribute more in both the household and market economies and their workday can be 50% longer than that men’s. This means that women must sacrifice some necessary tasks, including investing more in their own income generation, in order to take care of their families. It also means that women who
would have the ability to obtain credit may not access it because they cannot invest time to get it. (Ellis, Manuel, & Blackden 2006)

3.2 Development

In order for a country to develop it needs to focus on more than just poverty reduction. Development is inter-relational and includes a country’s overall economic health and growth, the status of education, health, and other public infrastructure facilities in a country, the population’s physical, economic, and mental well-being, the country’s political development, and positive cultural and social growth and change in the country. Additionally, development should be environmentally, economically, and socially sustainable. (Soubbotina 2000)

3.2.1 Uganda’s Development

Uganda’s Gross National Income (PPP) per capita is $1,168, making it a low income country and placing it in the category of developing countries. Uganda ranks 161 out of 187 countries on the Human Development Index (HDI). The HDI is a measure used by the UNDP to measure the well-being of each country’s citizens. The index is a single number between one and zero (one being the best and zero being the worst) that combines education, health, and income. Uganda’s HDI is 0.456. This is lower than the overall HDI of the world (0.694), the overall HDI of Sub-Saharan Africa (0.475) and the overall HDI of low human development countries (0.466). (United Nations Development Programme 2012b)

Uganda’s public expenditure on health is just 2% of its GDP. Its under-five mortality (per 1,000 live births) is 99, meaning that close to 10% of Uganda’s children die by age five (United Nations Development Programme 2012b). 20.4% of Uganda’s children are underweight and go to bed hungry (United Nations Development Programme 2012c). The doctor to patient ratio in the country is one doctor to 12,500 people (Dr. Sarah Ssali 2013).

Uganda’s public expenditure on education is only 3.2% of its GDP. The average number of years of schooling (of adults) is 4.7 years. The primary school dropout rate is 68.2%. (United Nations Development Programme 2012b)

Uganda’s HDI decreases (from 0.456 to 0.303) when inequality in the country is taken into consideration. Its health index goes from 0.544 to 0.331 when adjusted for inequality, its education index goes from 0.482 to 0.327 when adjusted for inequality, and its income index
goes from 0.363 to 0.257 when adjusted for inequality. (United Nations Development Programme 2012b)

Additionally, Uganda ranks low in the 2012(b)World Bank Governance Indicators. Its percentage rank of all countries in voice and accountability, which measures freedoms its citizens have and the ability to participate in the government, is 34. Its percentage rank in political stability and absence of violence is 19 and its rule of law percentage rank is 45. Its control of corruption percentage rank is 18. Its government effectiveness percentage rank is 33 and its regulatory quality percentage rank is 44. This means that Uganda is in the bottom 50% of all countries in all categories. Uganda, as has been shown, has much it still needs to do to improve its social, political, and human welfare development.

3.2.2 Development Theories: Focusing on People

There are many different development theories and these theories focus on many different aspects. There are development theories that focus on the overall economic growth of developing countries and there are theories that focus on the modernization and westernization of these countries. There are theories that focus on environmentally sustainable development and there are theories that focus on political development, particularly on increasing democracy. There are theories that focus on the relationships between developing countries and developed countries and theories that focus on the differences and relationships between rural and urban development. Yet these aspects of development, while important and necessary, do not often focus on the individual people in developing countries and their well-being. This has led to people-centered theories of development. (Burkey 1993)

One popular theory which focuses on the citizens of developing countries is the basic needs approach to development. Development theorists eventually realized that a country’s economic growth does not necessarily result in increased well-being for the country’s citizens. This approach led to the emphasis on meeting the basic needs of the poor. While there is sometimes a lack of consensus on the actual definition of basic needs, basic needs can include both material and non-material needs and can include adequate food, shelter, and clothing, accessible and safe drinking water, certain necessary household items, sanitation,
transportation, health, and education facilities, access to information and opportunities, and safety and security. This approach to development is very helpful because it focuses on the development of the people and specifically on the poor. However, approaches to development based on the basic needs theory that go no farther run the risk of becoming large charity programs that cannot be sustained without continuous involvement of outside organizations because they help the poor meet their basic needs without identifying and fixing the underlying problems that caused the poverty and lack of basic needs in the first place. (Burkey 1993)

The recognition that people-centered development must focus on more than just meeting the needs of the poor led to the theory of human development. Human development theorists believe that development must start with and come from the individual. “Unless motivation comes from within, efforts to promote change will not be sustainable by that individual.” Human development, also called personal development, seeks to develop in the individual self-respect, self-confidence, self-reliance, and active participation their community’s development. This approach empowers the poor to come up with their own solutions and development plans and be the ones to implement them. (Burkey 1993)

3.2.2.1 Participation and Empowerment in Human Development

There are many reasons why the poor should be involved in their own development. Firstly, the poor are the most knowledgeable about their condition and their needs because they are the ones who are experiencing them. Organizations that truly want to help the poor are much more effective if they ask the poor what they need instead of assuming they know all the answers (Burkey 1993). Secondly, the poor need to feel empowered to change things themselves. People need to be free to exercise their right to change their own lives. Doing everything for the poor ignores their value and dignity as human beings and treats the poor as if they have no understanding of their own condition and no ideas on how to change it (Chambers 1983). Development projects, therefore, should stop simply giving things to the poor or doing things for them. Instead, development projects should focus on building up the capacity of the poor to do things for themselves (Eade 1997). Development agencies need to realize that empowerment is not something you can give the poor. Instead, it is something the poor need to develop for
themselves. Development agencies can do things to encourage its growth but they cannot do it for them (Burkey 1993). Additionally, development agencies cannot force participation. In fact, forced participation or pressured participation is not true participation. True participation must be voluntary (Rahnema 1993).

Development should be about investing in people. It needs to be actively engaging the poor in their own development. After all, if you “develop” a whole area but it does not change anything for the people then it is not truly successful development. Development does not work or does not even really matter if the actual people involved are not invested in it. When the poor feel empowered, when they gain the confidence to put forth their own ideas, the self-respect to believe that they truly can make a difference, and the self-reliance to do it without outside help, the changes can be remarkable. Improvements in the physical development and economic development of communities are just one aspect. The poor can push for social and cultural changes and more equality. They can push for more political involvement. Even the power relations in families can change (Burkey 1993).

3.2.2.2 Human Development Sustainability

In order for development projects to be sustainable they must engage the people that they are trying to help. If development projects are going to survive after the outside organizations leave the people need to feel like the projects are theirs and not projects imposed on them by some outside force. The projects need to address their needs; not the needs the outside organization thinks are important (Chambers 1983). If development is not involving the people it will fail because if the people do not “own” the project then they will not continue it when the aid leaves. There are many examples of this type of thing in Africa and other developing nations where westerners come in with good, well thought out plans, implement them mostly by themselves and do not ask for the input of the community or ask for very minimal input, and then leave. They come back after a few years and the plan has fallen apart and the community does not do anything to fix it or continue it because it was not “their” project. They had nothing to do with it (Burkey 1993). Development should work towards getting the poor up to the level where they can do things themselves. After all, the point of trying to develop countries should be to get them to a point where they do not need outside help anymore. But if the communities are never able to learn how to plan and implement the projects themselves they will always be dependent
on outside aid. Aid should not create a continuous dependency of the poor on others to fulfill their needs because then the aid will have to continue on forever and that is not sustainable or beneficial for anyone. Instead, development should be empowering the poor to help themselves. This type of development is the only type that will last if/when outside aid ends (Eade 1997).

3.3.2 Women and Development

Women and men do not have the same opportunities in Uganda and, therefore, do not equally benefit from development efforts (Eade & Williams 1995). Uganda’s Gender Inequality Index in the HDI is 0.517, showing that the treatment of women and men in Uganda is not equal (United Nations Development Programme 2012b). The patriarchal culture and women’s subordination to men in Uganda means that women are often not able to participate in development efforts. The lack of decision-making power in the household and in the community means that women often cannot contribute to development efforts which are often controlled by the leaders (who are men) of the community. As a result, women suffer when it comes to development. Their basic needs are overlooked or not given as much preference and their input is not requested (Eade & Williams 1995).

When it comes to health women in Uganda suffer more than men. Although women have a higher life expectancy, (52.0 years compared to 48.8 years), women are more likely to be sick than men (of those sick 26% are women and 19% are men). The percentage of men who fall sick and do not receive health services (20.3%) is much lower than the percentage of women who fall sick and do not receive health services (28.8%) (Ministry of Finance, Planning and Economic Development 2008). Women have heavier workloads so they fall sick more easily (Ellis, Manuel, & Blackden 2006). One of the reasons for not receiving health services when sick is the limited time women have. Another reason is that since the men control the money they may not be willing to spend it on the females in their family. This forces women to go to free public health facilities, which take longer than private facilities and tend to be of poorer quality. Men are more likely to spend their money on private health facilities for themselves but not for their female family members (Dr. Sarah Ssali 2013). Women make up a higher percentage of those with HIV in Uganda (51% compared to 49%) because women have less control than men over their sexuality and their bodies (Ellis, Manuel, & Blackden 2006). Men in Uganda often sleep with other women and/or are polygamous, increasing the potential of contracting a sexually-
transmitted disease. Yet 21% of married women in Uganda said they cannot refuse their husbands sex and 48% said they cannot ask their husbands to use a condom (Dr. Sarah Ssali 2013).

Education is another aspect of development where there is gender inequality. Girls may not receive the same educational opportunities as boys because of attitudes that favor educating boys over girls because educating a girl is seen as benefiting the future husband’s family and not the girl’s family. Only 63% of women ten years or older are literate compared to 77% of men ten years or older. Only 38% of those enrolled in tertiary level education are female (Ellis, Manuel, & Blackden 2006). The ratio of females to males with at least secondary education is 0.437 (United Nations Development Programme 2012b). Early marriage for girls, high fertility rates, and the expectation of early pregnancy in marriage also hinder female enrollment. Education is very important if women are to be free from economic dependence on men (Ellis, Manuel, & Blackden 2006).

Empowering woman to influence development and press for more equality is important for many reasons. Firstly, no society will be fully democratic or equal if half its population is discriminated against, poorly involved in the economic and community spheres, and unjustly suffering more than the other half (Karl 1995). Secondly, for rural development to succeed, women must be directly involved. Women are the ones who are in the village full-time and, therefore, may know more about the community’s needs. The men often go to the city to work and so are not always present. Additionally, women are often more knowledgeable about specific aspects of development in the community. Since they are the ones who fetch the water they are the ones who know the most about water-related challenges in the community. It is likely that they have better ideas about how to solve the problems than the men who are not directly involved. Women in Uganda, and much of the developing world, are also almost solely responsible for taking care of the children. This means that in regards to children’s needs in education and health the women are more knowledgeable. Being women themselves, they are also more knowledgeable about the specific needs of women when it comes to health, education, economic and political participation, and social change (Peet 1999). Educating women benefits the family. Educated women have healthier families and child mortality rates decrease as mothers become more educated. Finally, providing women with a way to gain economically benefits the whole family’s well-being more than economic gain by the husband. Studies have
shown that women are more likely to spend their money on the family’s welfare while men are more likely to spend their money on non-essential personal wants (Karl 1995). One Ugandan man admitted that husbands rarely admit how much they make to their wives because they wanted to use the money themselves. They spend it on alcohol, gambling, entertainment, and other women. (Interview. Anonymous local man.) It is essential, therefore, to empower women to participate in the economy and the community if the whole family is to benefit.

Gender inequality also negatively affects the economic development of the country as a whole. Studies in Sub-Saharan Africa show that addressing inequalities increases agricultural output and incomes, often by as much as 20%. The PEAP estimates that giving women control over the cash crops they produce (instead of the profit being controlled by the men), which would incentivize them to produce more cash crops instead of food crops, would lead to a one-time increase of around 5% of GDP. Additionally, the finance sector suffers from gender inequality. Women have excellent loan repayment rates, often higher than those of men. Increasing female access to loans would benefit financial institutions. (Blackden, Ellis, & Manuel 2006)

### 3.3 Self-Help Groups

Informal self-help savings and loan groups are an alternative way for the very poor to access credit and save money. Self-Help Groups are small groups, often mostly or only women, who save a certain amount of money each week or each month and have group meetings weekly or monthly. Out of these collective savings they issue each other loans. Groups decide democratically how much interest they will charge, what the penalties will be for not coming to the meetings or showing up late to the meetings, and what amount they will save each week or month. They decide what the requirements are for dropping out of the group and the requirements for new members joining. Depending on the group and the organization supporting it, leadership roles can be informal or formal. Some groups, but not all, focus on forming group businesses or collective activities. Some groups distribute the savings and retained earnings at the end of the year or every few years but some do not. Some groups also develop a “social fund” out of which members can take out loans without interest for emergencies or consumption needs. Additionally, the cash storage method can differ for each group. (Allen & Panetta 2010)
Groups like these can also assist developing communities, not just economically, but also inmaterial and non-material development as group members become interested in certain social issues and mobilize the group to try to do something about them (Vanmeenen 2006). The SHG model has become very popular recently with both national and international organizations. The groups are seen as sustainable and are viewed positively for directly involving the poor (Devietti & Nelson 2010). Many reports have found them to very successful in poverty alleviation and contribution to other aspects of development, especially in rural areas among the poorest of the poor and especially among women. This model is used in many developing countries, including those in Asia, South America, and other African countries (Brett 1992). For many years organizations including Self Help Group Approach (supported by Kinder Not Hilfe), Plan Uganda, CARE International, International Organization for Migration, Uganda Women Concern Ministry, Self Help Africa, and Global Giving have been using this model to start groups like these in Uganda. (Although the groups are called different names by the different organizations their structures are very similar and the small differences often do not greatly alter how they are run.)

4.0 Justification

Poverty is a worldwide problem and a major problem in Uganda. Poverty reduction is a goal of the current government and is, therefore, an important research topic. Rural poverty is especially important because of its high prevalence in Uganda compared to urban poverty. Additionally, focusing on women is critical considering their increased vulnerability and higher levels of poverty.

Micro-credit and savings programs have become very popular lately. Many people believe that micro-loans are a very promising way of ending poverty and that enabling the poor to save helps make them less vulnerable.

The development of “third world” countries is a worldwide concern and important to Uganda as one of the developing countries. There are many different theories about what works and what does not and what projects aid should be invested in. The development field is vast, controversial, and confusing and additional research is needed to discover how effective different projects are. Again, focusing on women and development is important considering their subordinate status and difficulty in contributing to development in Uganda.
Self-Help Groups are an ideal choice of topic to study, therefore, because they focus on poverty, especially rural poverty and the poverty of women, provide the poor with access to savings and loans, and have the potential to contribute to development and the development of women.

5.0 Statement of Objectives

1. To observe the impact of rural finance self-help groups on poverty alleviation.
2. To examine how self-help groups contribute to other aspects of development.
3. To learn about the sustainability of self-help groups.
4. To learn about the limitations of self-help groups and the problems that they face.
5. To make recommendations on improvements that would allow self-help groups to have a greater impact on poverty alleviation, contribute more to development, be more sustainable, and solve or limit the problems and limitations that they face.

6.0 Methodology

The research was constrained by limited time and access but still achieved good results. The researcher chose to study SHGs under SHGAU because SHGAU was the most accessible of the options available and focused mainly on rural areas. Also, their groups are mostly women, which was another area the researcher wanted to focus on. Additionally, SHGs under SHGAU form Cluster Level Associations (CLAs) which contribute to community development. This is specific to SHGAU and was important because the researcher also wanted to focus on development along with poverty reduction. The researcher interviewed SHGAU groups in Masuliita, Uganda.

6.1 Interview Methodology

Two interviews were conducted for this research. The first was with Jethro Bamutungire, the National Coordinator of SHGAU, at the SHGAU office in Kampala. This was a formal, semi-structured interview. The researcher did come to the interview with a set of questions
prepared\textsuperscript{1} and asked those questions during the interview. However, Mr. Bamutungire added additional information as he talked. The researcher asked follow-up questions after receiving unexpected information. The researcher introduced topics previously un-thought of before the interview began and then asked for Mr. Bamutungire’s comments.

The second interview conducted was with Ruth Namwere, the head of the SHGAU office in Masuliita. This interview was informal and unstructured. The researcher had a few basic topics to cover with Ms. Namwere but most of the information received from Ms. Namwere came from conversation that related, but did not directly result, from the questions asked. The researcher let Ms. Namwere talk about what she thought was important. Written notes were taken during both interviews.

The researcher was pleased with the interviews’ structures. The formal and informal structures were appropriate for their specific interviews. The formal structure was suitable for Mr. Bamutungire, the head of the organization, because it led to a more professional atmosphere. The informal structure was suitable for Ms. Namwere because it allowed her to continue to add comments as time went on and additional information was brought up by others the researcher was interacting with. Additionally, the semi-structured and unstructured interviews were helpful to the researcher because they gave the interviewees the chance to bring up topics not addressed in the questions. These previously un-thought of topics gave the researcher more information and insight than would have been gleaned from more structured interviews and guided the research in unforeseen directions.

\textbf{6.2 Focus Group Methodology}

Two focus groups were conducted for this research, one with an SHG and one with a CLA. A translator was used. There were six women in the SHG focus group and eight in the CLA focus group. One woman was in both the SHG and the CLA focus group. These were formal and semi-structured. The researcher had prepared questions to ask\textsuperscript{2} but, because of the nature of focus groups, many topics were covered that were not asked about as the women responded to the comments of the others and brought up things that they thought were

\textsuperscript{1}See Appendix 1
\textsuperscript{2}See Appendix 2 & Appendix 3
important that were not specifically asked about. The researcher benefited from the formal, semi-structure. The formal structure ensured that the group was not interrupted and made it easier to make the participants aware of their rights and the purpose of the research. The formal structure created a more professional atmosphere that allowed all the questions to be answered. The semi-structured setting was good because it allowed the necessary topics to be covered while giving the participants the freedom to add additional information. This additional information was helpful in guiding the research and introducing issues the researcher had not previously known of. Written notes were taken during the interview and it was also recorded using an audio recorder.

6.3 Limitations

No challenges arose during the actual interviews and focus groups. Translation during the focus groups was very good and the written recordings of the interviews and the written and audio recordings of the focus groups were good and useful. However, because of the time constraint and some problems setting up contacts with organizations, only two focus groups, one CLA and one SHG, were able to be conducted. This sample size was very small and inadequate for complete and fully reliable research. Additionally, the focus groups were from the same village. Therefore, the data collected may be specific to that village and feedback and experiences from similar groups in other villages in Uganda might be very different. Again, this made the focus groups inadequate for complete and fully reliable research on the benefits and problems of all SHGs. However, this does not make the data invalid. The information gained during the focus groups was helpful and the conclusions derived from the focus groups are a good indication of the effectiveness of SHGs under SHGAU in rural Uganda. One thing done to compensate for the lack of hands-on research was extensive literature review. The researcher reviewed reports from SHGAU and other organizations in Uganda and other developing countries setting up similar groups, specifically those in Sub-Saharan Africa, to learn about the effectiveness of the groups. Literature research of both books and articles was conducted to learn about the theories behind SHGs, their implementation, their successes, and their failings. The data collected in this research agrees with a large body of research on similar topics concerning SHGs in developing countries.
6.4 Ethics

There were no significant ethical issues expected because of the nature of the research. Nevertheless, effort was made to make sure the rights of the participants were respected at all times and that the participants were fully aware of their rights. Verbal consent to use the information from the interviews in the research was obtained when interviewing the two SHGAU employees (Jethro Bamutungire and Ruth Namwere). The anonymous Ugandan man quoted in this research regarding typical male monetary spending also gave verbal consent. The size of the focus groups made it impossible to obtain written consent from each member. Instead, Ruth Namwere, who acted as the translator for the focus groups, signed a consent form on behalf of all the focus group participants. Additionally, verbal consent for the information to be used, recorded in writing, and recorded using an audio recorder, was obtained from both focus groups. The participants were made aware that their participation was voluntary, that they had the right to decide what they did and did not want to share, that they had the right to end the interview at any time, and that they had the right to request that some information shared be confidential and not used in the research. The focus group participants were made aware that sensitive information would be kept confidential. The names of the focus group participants were not recorded. However, if further contact with the participants was needed, Ruth Namwere could be contacted since she has access to the names of all the SHG and CLA group members.

7.0 Findings and Discussion

7.1 Background of Self-Help Group Approach Uganda

Self-Help Group Approach Uganda (SHGAU) is one of the organizations in Uganda setting up SHGs. SHGAU was started in Uganda in 2003. It is funded by a German organization called Kinder Not Hilfe. The project has approximately 2600 SHGs in 27 districts in Uganda. There are some mixed-gender groups but no groups comprised of all men. Approximately 99% of the group members are women. SHGAU groups meet weekly and leadership roles within the groups are rotational. Weekly saving amounts typically range from 100 shillings to 1,000

1See Appendix 4
shillings, usually with older groups saving more and new groups starting out saving less. Interest rates typically range from 3% to 10% per month. (Interview. Jethro Bamutungire.)

SHGAU encourages groups to go beyond just savings and loans. To do this they help set up Cluster Level Associations (CLAs) which usually meet once a month. CLAs are made up of around ten SHGs. Each SHG democratically selects one to three representatives to the CLA. Unlike the SHGs, which are primarily focused on individual and family needs, CLAs look at what they can contribute to the community. CLAs try to help form additional groups and are responsible for making sure existing groups remain strong. They try to respond to the material and service needs of the community and identify and attempt to change harmful practices in the community. They encourage SHGs to participate in local governance. They receive money from the SHGs each month and they identify business ventures to raise additional money. Once there are enough CLAs in an area a Federation can be formed. A Federation is made up of a minimum of ten CLAs. Each CLA sends representatives to the Federation. Federations are responsible for making sure existing SHGs and CLAs remain strong and sustainable. They try to provide or improve needs-based services like healthcare and education. They promote justice, peace, and security in the community and work with the local authorities. They try to influence changes in bad and unjust policies that ignore or abuse peoples’ rights. Currently there are 216 CLAs and 8 Federations. (Interview. Jethro Bamutungire.)

SHGAU employs and trains Community Facilitators (CFs) to help train and support the groups. CFs are members of the community. Initially, when the groups are new, they attend all the group meetings. Eventually, once the groups have matured and can run everything by themselves, the CF only shows up to meetings sporadically to check in and provide support and, if needed, guidance. Depending on the situation, the CLAs are either partially or fully responsible for paying the CF. (Interview. Jethro Bamutungire.)

7.2  Background of Masuliita

The SHG and CLA interviewed are located in Masuliita. Currently there are 98 SHGs there. A Federation just formed in Masuliita in November 2013 so it could not be interviewed. The SHGs in Masuliita are only for women. (Interview. Ruth Namwere.)
Masuliita is a sub-county of Wakiso District. Wakiso District is in Central Uganda, surrounding to the capital city of Kampala. In 2010, the population of Wakiso District was 1,260,900 people. 360,505 of them lived in urban areas and 900,395 of them lived in rural areas (Directorate of Water Development, Ministry of Water & Environment 2010). In 2011 13.1% of the rural population in Wakiso lived below the poverty line (Uganda Bureau of Statistics 2011). Masuliita is mainly rural, with one of the lowest population densities in the district of 101 to 250 people per km$^2$ (Directorate of Water Development, Ministry of Water & Environment 2010). In 2010 the population of Masuliita was 28,000 people (13,700 male and 14,300 female) (Uganda Communications Commission 2010). The main economic activities are fishing on Lake Victoria, raising livestock, and agriculture, focusing mostly on food crops. There are some cash crops which include coffee and cotton (Uganda Travel Guide). The main food crops are beans, cassava, and sweet potatoes (Uganda Bureau of Statistics 2010).

7.3 Background of Groups Interviewed

7.3.1 SHG

The SHG interviewed was started in 2009. It has 15 members, all of them women. It meets every week on Tuesday at 4:00. There is no group bank account. None of the members had ever taken out loans before joining the group and none of them had taken out loans from outside lenders since joining. The group initially started saving 200 UGX per week but they now save 500 UGX a week. There is a 200 UGX fine for coming to the meetings late and a 500 UGX fine for not coming at all. The leadership is rotational and there is a different meeting moderator each week. They stated that the CF came to the meetings regularly but now she only comes once in a while to check on them. (Focus Group.SHG.)

7.3.2 CLA

The CLA interviewed is called the Akwata Empola Level Association. Akwata Empola loosely translates to “handle with care” and is a local proverb/saying. It was formed in December 2010. It has 18 members; three representatives from the nine SHG members. It meets on the last Thursday of every month. It has set up eight new SHGs so far. Each SHG contributes 2,000 UGX per month to the CLA. As with the SHG, the leadership is rotational. There is a book
keeper but no treasurer. Instead, the moderator of each meeting takes the collected money home with them and saves it for when the CLA needs it. The CLA has some partners that support it. Individuals contribute financial aid, organizations contribute financial aid and tangible (physical) help, and the CLA works with the government to administer government-sponsored programs in the community. The group writes and sends reports about what they are doing to organizations and politicians to get support. (Focus Group.CLA.)

CLA representatives are chosen by the SHGs. They serve for two years. To be a representative you must have a good loan repayment record, participate in and attend meetings regularly, and save regularly. Some of the representatives had been part of the CLA for a year and half; others had been there for less time. The amount of time depended on when the SHGs joined the CLA since not all of them joined at the same time. As of the interview the CLA members had been trained about Federations (a Federation in Masuliita was intended to be formed a month after the interview) but they did not yet know who the representatives from the CLA to the Federation would be. (Focus Group.CLA.)

The CLA is responsible for paying part of the salary of the CF. The CLA pays 10,000 UGX per month and the project organization in Masuliita pays the rest. The CF sometimes attends the CLA meetings to provide support but does not come regularly. The CF audits the CLA and the CLA is responsible for auditing the SHGs. (Focus Group. CLA.)

7.4 Self-Help Group Successes

7.4.1 Savings and Access to Credit

One of the SHG’s biggest successes is in providing its members with affordable loans. One of the greatest benefits of SHGs over traditional financial institutions is that the members can choose the loan terms themselves. The member requesting the loan can decide how much she/he wants to borrow and for how long. The SHGs pick the interest rates that they think they can afford. Surprisingly, these groups often choose relatively high interest rates. However, these high interest rates are not as detrimental as the rates charged by traditional institutions. Firstly, the loans given are usually much smaller than those given by traditional institutions so the high interest rates are not as harmful. Secondly, the interest goes directly to the group and increases the capital available for future loans so the interest actually benefits those who pay it (Focus
Additionally, through the groups, members are able to access outside credit that they would not be able to access by themselves. Banks, microfinances, and SACCOs will often accept group membership as “collateral” for loans. Members who had no collateral for loans before joining the groups now do (Chidiac & Hendricks 2011).

Along with loan access, SHGs motivate members to start saving regularly and gives them a convenient and safe place to do so. This teaches them better money management and budgeting skills. SHGs have very high loan repayment rates (Allen & Panetta 2010). The groups provide their members with a fund to fall back in times of emergency and use to improve their well-being and the well-being of their families. Additionally, some groups (especially ones that have been in existence for several years) store their extra money in bank accounts. By themselves the poor would not be able to open their own bank account (Chidiac & Hendricks 2011).

### 7.4.2 Poverty Alleviation

The SHG members interviewed all reported that being part of the group helped them economically. They said the groups helped them learn how to save and some reported that they had more than 100,000 UGX in their accounts. They reported that through borrowing and saving they were able to improve their living situations and were able to start profitable small businesses. These included opening small shops and rearing animals like chickens, goats, and cows. They all reported that their incomes have been raised. (Focus Group. SHG.) That they raised the weekly savings from 200 UGX to 500 UGX is a testament to the reduction of their poverty. The CLA interviewed expressed hope that it could soon create sustainable businesses that would bring profit to both the SHG and the CLA (Focus Group. CLA.).

The sole goal of SHGAU is to set up more groups to aid in alleviating poverty (Interview. Jethro Bamutungire.). The organization’s poverty reduction mission is important considering the fact that financial institutions which people think focus on poverty alleviation, like many SACCOs and MFIs, do not always have poverty reduction as one of their core goals (MFTransparency 2012). If they do have poverty reduction as their goal they rarely focus on the poorest of the poor. SHGAU is dedicated to reaching the poorest of the poor, especially the most disadvantaged poor: the women (Interview. Jethro Bamutungire.).
7.4.3 Women

The women in the female-only SHG in Masuliita reported several benefits that specifically help them as women. One woman commented that the group “built [their] confidence as women.” It has empowered them to try to change and improve things in their community. The woman went on to describe how the women built relationships with each other through the SHGs. Now when they have a problem they have people to go to for support. When issues come up in the home they have people to discuss them with and receive advice from (Focus Group. SHG.). Additionally, a CLA member said that the groups had strengthened the relationships of the women in the whole community, not just between those in the same group (Focus Group. CLA.). An SHG member said the meetings allowed them to address issues in public whereas before they had only kept themselves in their homes. Two women in the SHG reported good relationships with their husbands because of the groups. They said that initially their husbands could not understand the purpose of the group or what good it would do but after seeing the benefits they became supportive (Focus Group. SHG.).

The CLA reported that the links they have with other organizations and individuals to provide aid and support involve men. They said that this is a good thing because it improves and strengthens the community as a whole and ultimately benefits the family. However, both the SHG and the CLA were in agreement that involving the men in the groups would not work. They said that the men would overtake the groups and want to make all the decisions. This would be detrimental to the progress the women made in improving their confidence and participation outside the home. (Focus Group.CLA; Focus Group.SHG.)

7.4.4 Development

While the SHGs may be based on savings and credit, they do so much more than provide money to their members; membership in the SHGs improves many aspects of life. As discussed before, group membership improves the economic situation of women in addition to improving their confidence, providing them with a support network, and empowering them change things in the community. Through discussions with fellow SHG members at meetings and by the support and interaction with the CF, information not previously known is shared. With this knowledge the women are able to get more involved in the community, support development initiatives, especially in health and education, and improve their living situations. An SHG member reported
that group membership resulted in improved hygiene in households. The group members supported each other in digging pit latrines, which some of them did not have before, and using rugs and dust bins in the houses. One member’s goal when coming into the group was to build a permanent house. The house is now halfway completed. Group membership also improves the lives of the children. One member reported that the money from the group allows them to send some of their children to school. This was not possible before. One woman’s goal is to educate her children through the university level. Another reported that because of training about malnutrition received in the group they now grow nutritious food and their children are much healthier. (Focus Group.SHG.)

The CLA is also involved in development. Each meeting the CLA discusses different community issues brought up during SHG meetings and tries to find solutions. Road repair and improvement is one example. The CLA has different subcommittees that focus on specific issues. For instance, one committee follows up with children who have dropped out of school. They monitor the behavior of the children and try to convince them to return. Another committee is involved in agriculture. They have worked with the Ugandan government to provide agricultural inputs to the community. This has resulted in less hunger in the community. (Focus Group. CLA.)

Additionally, there are non-tangible benefits that come with group membership. Members have learned how to lead because of the rotational leadership roles in the groups. They have received training about how to run their businesses, market their goods, balance their expenses, and count their profits (Focus Group. SHG.). CFs play an important role in the development of SHGs, CLAs, and the community. Their employment as CFs benefits the community economically because they are members of the community, instead of employees from outside the area. (Additional money in the community can be spent at community businesses, benefiting the community economically. Employees from outside might not spend the money in the community). The CFs, being community members themselves, know about the community’s culture, history, economy, and problems and can, therefore, help the SHGs and CLAs come up with solutions. Their support, especially in the beginning of the groups’ existence, is important for building strong, sustainable groups. But by eventually leaving the groups alone to run themselves the CF allows the groups to learn leadership skills and take responsibility for their own successes. This empowerment is an important part of human development and has given
them the confidence to take on the development initiatives that they have. These initiatives are things that they came up with themselves and are planning/implementing on their own. Rotational leadership is also part of the empowerment process because it gives the women a chance to learn how to lead and through this leadership they gain self-respect. The SHGs, therefore, support both basic-needs development (physical and economic development) and human development (empowerment and increased participation/involvement in different aspects of the community). Additionally, SHGs and CLAs help in political development by encouraging members to participate in the local government and work with government officials and by giving members the confidence to participate in the community publicly. (Focus Group.CLA; Focus Group. SHG)

7.4.5 Sustainability

Another advantage of SHGs is their sustainability. The SHGs are inherently inward-focused, not outward-focused. This means that the groups are not dependent on outside resources. The groups are run by the members themselves, not by outside aid workers. The members make all decisions and decide what they want to focus on. Their projects are sustainable because members are both the planners and the implementers and, therefore, are invested in making them succeed. Additionally, all the finances come from within the groups and are generated by the groups themselves. If all aid was to be pulled out of Uganda suddenly these groups would survive. CLAs would also have no trouble surviving. Although they do work with outside organizations and coordinate a lot of outside aid there are still things they can do with the resources received from the SHGs. While outside aid is certainly beneficial to the work the CLAs do, if needed the CLAs can coordinate volunteer efforts and resources from the whole community to achieve the goals they set (Focus Group. SHG; Focus Group.CLA.). CFs in Masuliita are partially paid by the CLAs themselves (Focus Group. CLA.). If desperate, they could probably find a way to pay the whole salary themselves or alter the structure so that the CFs are not required as often and, therefore, would not be paid as much. Finally, it does not take a lot of physical resources or personnel to set up new groups. The only necessary resources are containers to hold the money, books to keep track of the finances, and a CF to help explain the concept and be present at the first few meetings. Outside resources and personnel are not required for forming new groups (Singer).
Additionally, the members of the SHGs are in similar situations. They are part of the same social and economic class and are usually of the same gender. This increases the sustainability of the groups because they have the same problems, needs, and concerns and, therefore, the interest of some in the group will not outweigh the interests of the others. This prevents conflict in the group and makes it easier for the group to stay together for a long period of time. The rotational leadership also helps prevent conflicts and increases the ability of the groups to survive by preventing one person from getting too much power over the group and promoting accountability and transparency. (Interview. Jethro Bamutungire.)

7.5 Self-Help Group Limitations

7.5.1 Problems Reported by the Interviewed SHG and CLA

The SHG interviewed was very positive. The only problem they reported was that some members do not come to meetings regularly and do not give good reasons why (Focus Group. SHG.). This is not a problem with the groups themselves but with certain group members; these types of problems will probably arise in any organization or system.

The CLA, however, was less positive and reported several problems. Firstly, they reported poor gender relations in the community. They said that most people in the community do not appreciate what they are trying to do because they are women. This makes it hard to raise support for their projects. As of the interview they had no ideas or projects aimed at changing the gender norms in the community. (Focus Group.CLA.)

Secondly, the group reported many financial challenges. They said that they mobilize partners to help them but the partners often only provide tangible, physical aid and do not provide financial assistance. The CLA admitted that the 2,000 UGX they receive each month from each SHG is not enough to do what they want. That amount comes to 18,000 UGX per month but they only get to use 8,000 UGX of it because they are responsible for paying the CF 10,000 UGX a month. The CLA wants the SHGs to have businesses in order to support the CLA. They tried to start businesses which the SHGs could profit from but financial problems forced them to abandon them. They are now re-making their guidelines in the hopes of trying again. Unfortunately, they reported that their businesses lack markets and they hope to find new skills and technologies in order to improve them. (Focus Group.CLA.)
Besides the examples provided in the above sections, the CLA did not have much to report in terms of accomplishments. This was because of gender relations in the community and financial difficulties. In addition, the CLA reported that they were limited in the things they could do because previously they were not registered with the local government as a group. At the interview they showed that they recently received official recognition as a group. They are registered with the Directorate of Community Based Services in Masuliita as a Community Based Organization. Positively, they reported that they had no trouble registering and no one opposed them. (Focus Group.CLA.)

It is relevant to note that these limitations are not about the structure of the groups themselves. Rather, they are about the particular obstacles faced in the community. Even the complaint that they do not receive enough from the SHGs is not a problem with the self-help group approach itself. The CLA members are all members of the SHGs and the SHGs are the ones who decide how much should be given each month. The only problem with the actual structure of SHGAU that the CLA reported is that they would like more continuous monitoring and support from the project organization in Masuliita (Focus Group. CLA.). The project office, however, does not like to provide intense monitoring. Following the Human Development model, they want the groups to have the freedom to run things the way they want and feel empowered to take responsibility for their development initiatives (Interview. Ruth Namwere.).

7.5.2 Other Reported Problems

The national coordinator of the SHGAU reported different limitations than the SHG and CLA. He complained that many Non-Government Organizations (NGOs) give away handouts. He says that this discourages the poor from taking the responsibility for improving their own lives and creates dependency on foreign aid. Additionally, he admitted that the approach takes a long time and, especially at first, does not seem like a lot because the amounts of money are small. Many aid projects are only given short life spans and are expected to show tangible results immediately. The self-help group approach, because it operates on a small scale, is therefore not always given a lot of attention or support. (Interview. Jethro Bamutungire.)

Organizations in Uganda that operate very similar groups report other limitations. They admit that the money is not always very safe. Especially as the group gets older and there is more money members may be uneasy taking the money home with them for fear of theft. Some
organizations try to solve this problem by encouraging groups to store excess money in bank accounts. The legal framework in some countries can often make this difficult, however (Singer). SHGAU discourages (but does not ban) storing savings in banks. They encourage the members to keep investing the money in different business ventures so they will receive more benefits. (Interview. Jethro Bamutungire.)

Additionally, some organizations report problems in the household because of women joining these groups. Although the SHG and CLA members interviewed reported no serious problems it is likely that women in other groups in the community or in different communities experience more severe problems with their husbands. Husbands may fear that their wives, once they join these groups, may become less subordinate and harder to control because they have their own source of money and rely less on the husband. This may result in the husband using physical violence, refusing to let the wife attend group meetings, or refusing to contribute any of his own finances to the family now that the woman now has access to her own income (Ellis, Manuel, &Blackden 2006). Additionally, men may try to take advantage of their wives’ membership and force her to take out loans from the group for his own use. If he does not repay the loans it can create tension in the groups (Unite for Sight). The national coordinator of SHGAU also knows that gender relations in Uganda are a problem and admitted that, while some men are appreciative and supportive of the groups, some feel threatened. He said that supporting communication between the husband and the wife and facilitating discussions in the community helps solve the problem. Some groups also hold special meetings during the year where the members bring their spouses. This helps show the benefits of the group to the spouses and leads the husbands to be more supportive because they feel like they are more involved (Interview. Jethro Bamutungire.).

Finally, membership in these groups can increase women’s responsibilities, adding on to their already over-burdened lives. While starting businesses increases their incomes, it also takes away any little free time that they had before and increases stress. These over-worked women are more likely to fall sick (Unite for Sight).

7.5.3 Additional Limitations

As discussed before, the CLA mentioned that their businesses lack markets. This deserves further examination. Walking around in Uganda it is easy to see the large number of
small businesses. Several small shops, which sell the exact same goods, can be just a few meters from each other. While at a rural market in Bwera the researcher observed over ten women sitting in a row selling the exact same item: tomatoes. While in Kampala the researcher counted sixteen women sitting right next to each other on a street corner, all of them selling only one thing: grilled corn on the cob. When these women were being observed the researcher did not see anyone buying from any of the women. Clearly, these businesses cannot be extremely profitable. Even if demand is very high (which is probably unlikely for most of these small activities) the large amount of competition between sellers, the lack of product differentiation, and small margins mean that these businesses are not bringing in a lot of money. However, it can be assumed that they are making at least a small profit; otherwise the people would not be spending their time on them (Banerjee & Duflo 2011).

Abhijit V. Banerjee and Esther Duflo, in their book *Poor Economics*, discuss this phenomena. They point out that an unusually high percentage of the poor in developing countries run their own businesses. The majority of these businesses are in addition to agricultural production. This “entrepreneurial” tendency of the poor has been noticed by the international community and has been a big force behind the popularity of micro-credit programs, SHGs being one of them. Stories of the innovations the poor develop to run their businesses have produced a belief that the poor have an entrepreneurial spirit and that all they need is the provision of capital, which they did not previously have access to, to build up their businesses and get out of poverty. Banerjee and Duflo, however, bring up some serious criticisms of this belief.

They point out that the poor run very small businesses which usually do not employ any people and possess very few assets, if any. Evaluations of several of these types of businesses show that the profit is so small that if the owner paid him or herself and other household contributors a very small wage (equivalent to the minimum wages in other developing countries) the business would either just break even or have a negative profit. Then why do the poor not hire themselves out if it would give them higher earnings than running these businesses? Well some do. But most do not have this option. The rural poor, especially rural women, do not have many opportunities for hired labor. At certain times during the seasons, particularly during harvest season, wealthier farmers may hire additional laborers. But this seasonal employment is not enough. Since all the businesses in the rural areas are small there is little chance for outside employment outside of agriculture. The rural poor, especially women, therefore, run these
businesses out of necessity. While some men go to the city to find employment, rural women typically do not. The need for income in addition to the money gained from agricultural production forces rural women to run these businesses in addition to their usual household and agricultural chores (Banerjee & Duflo 2011).

This brings up one reason why the poor, if they must run these businesses, do not build these businesses up to increase their profits: they do not have the time. Rural women, who are already overburdened by their household and agricultural duties, do not have the ability to devote more time and resources to these small businesses. While growing these businesses to a certain point might be profitable, it would require time and energy that the women do not have. A second reason that the poor do not build up their businesses is that they do not have the capital. Investing more money into the small business would, up to a point, increase profits. But the poor, especially the poorest of the poor, do not always have access to credit. If they do have access, it is not always affordable. The third reason the poor do not grow their businesses is that, after investing a certain amount of capital, the small business cannot get any bigger in its current setting. Once the demand of the rural area is met further investment is unprofitable. After that the only way to grow the business is to invest large amounts of capital that will grow the business from a small one to a large one that will reach bigger markets (Banerjee & Duflo 2011). The figure below, from Banerjee and Duflo’s book, demonstrates this principle.

(Source: Banerjee, Abhijit V. & Duflo, Esther. Poor Economics. 2011.)
The line OR (the curved, not the straight one) represents profit. The y-axis is the production capacity of the business and the x-axis is the amount of capital invested. Small businesses function like curve OP. Therefore, investing a small amount of capital is very profitable up to point M. After that, investing more barely increases profits if the business remains small. Big businesses function like curve QR. A large amount of investment is needed before you receive any profit. But once the capital is invested the business makes much higher profits than the small business on curve OP. For a small business, after reaching point M, the only way of gaining additional profit is by investing very large amounts and greatly increasing the production capacity of the business, turning the small business into a big business and switching from curve OP to curve QR. The poor cannot do this because they do not have the capital. Even the poor who do have access to credit do not have access to loans of this size, and raising the money by saving the profits of the business would take too long since the profits of their small businesses are too low. This may be another explanation, in addition to the credit access and time factors discussed above, why the poor sometimes do not even grow their businesses as far as they can, up to point M. If they know the business can only go so far and that it will only slightly improve their lives while requiring a lot of additional time and energy they may not think it is worth it (Banerjee & Duflo 2011).

Another reason why the poor cannot grow their businesses is the inability to differentiate their products. Since everyone is selling the same things the demand is low. This lowers prices and, therefore, keeps profits low. The CLA knew this, which is why they said they hoped to find new skills and technologies to benefit them (Focus Group. CLA.).

This limitation of rural markets is one of the biggest limitations of the SHG method. The loans are too small and have too small a life span for the members to grow their businesses to big businesses. In addition, the high interest rates, while not very detrimental if the loans are small, are too high for borrowing large amounts (Plan Uganda 2011). The SHG method certainly does have many benefits, both tangible and non-tangible. Almost all of the SHG members reported that membership in the groups allowed them to start businesses which increased their incomes. But all of them also emphasized that they were very small businesses (Focus Group. SHG.). The SHG method will not, except in rare cases, move the poorest of the poor to the middle class. It may help alleviate the extremeness of their poverty but, as Banerjee and Duflo conclude, “we are
kidding ourselves if we think that [microcredit and other ways to help tiny businesses] can pave the way for a mass exit from poverty.”

8.0 Conclusions

SHGs are very effective at reaching the poorest of the poor, a group which is often ignored or hard to reach. The SHG model is effective at relieving extreme poverty; it gives the poorest of the poor, who usually have very limited access to financial services, a chance to save their money and take out loans to improve their economic, physical, and mental welfare and the welfare of their families. It is good at empowering the poor to participate in their own development. The CLAs and Federations, especially, facilitate increased involvement in community development. The members of SHGs gain confidence from these groups and gain new knowledge, information, and skills which they use to improve their lives and their communities. The groups are especially good at empowering women and teaching them necessary skills which can improve their living situations and hopefully give them more power over their lives. SHGs are also sustainable and rely on little to no outside help or aid to continue existing.

There are very few structural problems with the SHGs. The long length of time it takes for the group members to accomplish their goals and improve their lives using their own limited resources is seen by some as a limitation. However, it is unrealistic to expect that development can happen in just a few years. Development takes time and great patience is needed (Burkey 1993). Another structural problem is that the safety of the SHGs’ money is sometimes a concern since there are rarely secure places to keep it.

One of the biggest problem SHGs face from outside forces comes from the Ugandan cultural views of women. Violence against women, their lack of control over resources, and their status as subordinates can prevent some women from joining these groups and can hinder involvement with the groups. Additionally, the gender views make it harder for women to impact development in their communities. Finally, SHGs are limited by Uganda’s poor economy. The lack of markets means that group members cannot grow their businesses to more profitable levels. The small amount of capital in the groups and the high interest rates are not conducive to larger business loans. This means that group members will never, except in rare occasions, reach middle class status or even high low-income status. However, when looking at the goal of
SHGAU, this is not really a problem. Their goal is to reach the poorest of the poor and help them reduce their own poverty and improve their lives. The SHG model does this very well. Their goal is not to turn the poor into middle class citizens. Therefore, this limitation, while important to keep in mind, does not represent a failure on the part of SHGs.

9.0 Recommendations

The time constraint on this research limited the amount of on-the-ground, in-depth study of SHGs, CLAs, Federations, their structures and successes and limitations, and the structure and successes and limitations of SHGAU and its project offices around the country. As a result, the researcher does not feel qualified to suggest any internal or policy recommendations for SHGAU. However, the researcher does have some national-level recommendations.

1. Institutions in Uganda and the government must continue to support additional poverty reduction and development strategies. The SHG model is very effective when it comes to small-scale poverty reduction and development in communities. However, its small size and few resources limit its abilities to deal with larger problems. While the SHG model is very beneficial, it cannot be viewed as the whole solution.

2. The Ugandan government must work on improving Uganda’s economy. The lack of markets hinders its overall growth as a country and negatively impacts the poor, especially the rural poor, who can rarely gain income by means other than small businesses with little profit, small-profit animal raising, or subsistence/small-profit agriculture. One way of improving the economy would be improving the country’s infrastructure. This would decrease expenses, improve market efficiency, and provide the rural poor with better access to bigger markets and financial services.

3. SHGAU, similar organizations, other NGOs, and the government must continue to be committed to changing gender relations in Uganda. Only by working to change the culture’s negative view of women will there be equality in the country and improved community and family relations and welfare for all.
4. SHGs, CLAs, Federations, and the government must continue to work together to bring about change more quickly and efficiently since the SHGs, CLAs, and Federations, because they are at the community level, know better what is needed but the government has more resources to use. These community-based groups and the government working together will be beneficial for all.
References


Appendix 1: Interview Questions for Jethro Bamutungire

1. What is the history of SHGAU? How and when did it start?
2. How many SHGs, CLAs, and Federations has SHGAU started so far?
3. How are SHGs started?
4. How great of an impact do SHGs have on poverty reduction?
5. What advantages do SHGs have over SACCOs and MFIs?
6. What problems do SHGs face?
7. How sustainable are SHGs?
8. How is SHGAU promoted and is it growing?
9. Where does the funding come from?
10. What are the roles of CFs? How are they picked and trained?
11. How do gender roles and cultural beliefs about gender affect the groups?
12. What are the typical monetary amounts in groups (amount of savings, interest rates, penalties, etc.)?
Appendix 2: Questions for the SHG Focus Group

1. How long has the group existed?
2. How much money has been saved?
3. What are your interest rates?
4. What is the structure of group management/leadership (treasurer, book keeper, chairperson, etc.)?
5. How many women are part of the group? How many men?
6. What are the penalties for not showing up to meetings, not saving enough, etc.?
7. Does the group have a bank account?
8. Did you face opposition from your husbands? If so, how was this/is this overcome?
9. What benefits have you gained from the group? How have your living situations improved? What have you been able to do with the money?
10. Do you have enough capital to do what you want?
11. Would you consider applying for outside loans?
12. What are your future plans?
13. What problems have you faced?
14. Are there any improvements/things you would like done differently in the SHG model?
15. Is the CF helpful and does she give you enough space?
Appendix 3: Questions for the CLA Focus Group

1. How long has the CLA been formed?
2. How often do you meet?
3. What is the CLA’s purpose?
4. What have been your accomplishments?
5. Have you helped set up other SHGs? If so, how many?
6. What are your current projects?
7. What are your future plans/hopes?
8. If you received outside funding what would you do with it?
9. How much do you receive in funding from the groups? Is it enough to accomplish what you want?
10. What problems have you encountered? Have you faced any opposition?
11. What would you like improved in the SHG/CLA model?
12. How many SHGs make up this CLA? How many representatives do they send? What percentage of these groups are women?
Appendix 4: Consent Form

Rebecca Flynn
SIT: School for International Training
University of Notre Dame
A Study of Rural Finance Self-Help Groups in Uganda and their Effect on Poverty Alleviation and Development

Dear Participant,

Thank you for participating in this study. This research is for scholarly purposes only. It aims to study the effectiveness of rural self-help groups on poverty alleviation, empowerment, decreased dependence, and economic development, especially for women.

You have the right to end this interview any time you wish. You have the right to request that some information, indicated by yourself, remains off the record. Your name and other sensitive information will remain anonymous.

By signing below you indicate your agreement to allow the researcher to use the entirety of this interview for the research. This interview will be recorded and the information stored. If you would not like the interview to be recorded, please indicate below after signing. This research may or may not be published at a later date. If you would not like the content of your interview to be published, please indicate below after signing. If you would like to review the research before it gets published, please indicate below after signing and provide your contact information.

Ruth Namweze
Participant’s Printed Name

[Signature]
Participant’s Signed Name

29/10/2013
Date

Check below ONLY if:

_____ You do NOT want your interview to be recorded.
_____ You do NOT want your information published.
____ You want to review the research before it gets published (please provide contact information below).

Phone Numbers:

Email Addresses: