Microcredit in Uganda: A 'Bottom Up' Response

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Microcredit in Uganda: A ‘Bottom Up’ Response

by

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Abstract

**Microcredit in Uganda; a ‘Bottom Up’ Response**

From the perspectives of new social history and economic anthropology, this project provides an examination of twentieth century Uganda. With this backdrop, this essay centerpieces a study of microcredit, a global poverty alleviation strategy successfully established in Uganda, East Africa. The project study demonstrates global, national and local level responses to economic inequities shaped by a modern capitalist world system. The essay then provides a case study of the replication of the Grameen Village Phone project in Uganda, with an emphasis on the role of women as pillars of the informal economic sector where microcredit projects are located. The Grameen Bank is an award-winning microcredit institution first established in Bangladesh that provides a new economic model for Uganda’s poorest citizens.
Map of Uganda

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I. Introduction/Overview of Paper

My final project starts large and ends small: The first sections are analyses of the relationship between human agency that is at the heart of new social history and the government institutions that inform structural history. More specifically, these initial sections explore the world systems historians and anthropologists have long used to analyze unequal global economic patterns that have impacted sub-Saharan Africa in the modern era. My project then considers how the internal dynamics of rural African societies confronted the colonial and post colonial eras. These cultural and economic conflicts effectively inhibited individual agency for the majority of colonized people in the nineteenth and twentieth centuries and continue to inform African realities in the twenty-first century. In order to show how this interaction now influences African populations, this essay provides a study of microcredit: a global poverty alleviation strategy currently in place in Uganda, the country of focus for this project.

My interest in this topic has been largely influenced by my experiences in East Africa as a teacher at Susesia and Erusui Secondary Schools in Western Kenya, and my work with the International Rescue Committee (IRC) at a large refugee camp on the borders of Somalia and Ethiopia in Mandera, Kenya. During this time I had the opportunity to visit and work with a woman's knitting cooperative in Kakamega, Kenya, a small town in Western Kenya close to the border of Uganda. I include a description of the cooperative here both because of lasting impressions I have of this creative economic response: an example that highlights the significance of agency for women who have interesting stories to tell, and because of its
relevance for this project as it reflects the experiences of many women in East Africa relegated to the peripheral regions of both local and global economies.

In 1987 while working in Western Kenya as a secondary school teacher, I met a group of women who gathered weekly at the local open air market to sell their surplus vegetables; I was drawn to them because they brought colorful knitting projects to the market to help pass the time, and knitting is one of my favorite hobbies. I frequently took time to knit with them on market days, taking part in a vibrant social circle of laughter and creativity. In 1988 after a great deal of deliberation and strategizing, the women opened a small knitting shop in an empty storefront in the village square. Initially, money from vegetable sales was used to open the shop intended for common knitting space. With a little more joyful enthusiasm and careful planning, the organization grew, and within a year a local handmade sweater cooperative owned by the market women was established. During this time, I witnessed an incredible display of keen planning by the group of women involved, and was amazed at the savvy business sense they demonstrated while establishing the sweater cooperative.

Initially each member contributed a small amount of money from profits made from weekly vegetable sales to pay rent for the knitting space. With increased knitting and excitement about production, the women devoted more time to their projects, and they sold the knitted items at market. They used the profit from the sale of their knitted items and member contributions to set up the cooperative with the purchase of several sneed, spinning wheels, and knitting needles. Working members of the cooperative sheared the sheep, carted and spun the wool on site, then knit the homespun wool into sweaters to be snipped to Nairobi and sold to tourists.
contacts were made through family members living in Nairobi, where the sweaters were sold in open air tourist markets.

Eventually, the cooperative gained attention from British business women working in the tourist industry in Nairobi, and with their support it received non-profit donor money for business development. The extra money allowed the women to purchase more sheep and spinning wheels for increased production, and the British women opened a storefront in Nairobi to sell the sweaters and home spun wool. The net profits for the sweaters were returned to the women and used for salaries and community projects. When I left East Africa in December of 1993, the sweaters were selling for 30 dollars each, a skein of homespun wool sold for four dollars, and the business was thriving.

Over time, grant money and international support for the cooperative grew, and the shop moved its production site closer to Nairobi. I remain in contact with one of the original founders of the cooperative, and she has informed me that most of the women from the market group in Kakamega no longer knit sweaters for the business. Some of the women have died, and others have chosen to remain in Kakamega with family. In the most recent correspondence with my knitting friend she reminisced about the small knitting circle that took shape in the market place in 1988, and informed me that a circle is still in place. She encouraged me to come back to Kakamega to knit with her soon, stating “you will find me where you found me in 1988, sitting in the exact same place in the market with my vegetables; bring your knitting, I will wait for you” (personal contact).
It is narratives like this one that have informed the theoretical approach for this project. The analysis here recognizes the relevance of ordinary people in the shaping of specific histories and ethnographies. With a central focus on the Grameen Microcredit project and its practice of cooperative lending in rural Uganda, my project combines three theoretical perspectives that characterize my analysis, and demonstrates the potential for a different, more interdisciplinary approach, that breaks from traditional disciplinary ‘top down’ perspectives. In order to illustrate the foundational framework for this paper, I draw examples from my MALS coursework that provide ‘African contexts’ aimed at deepening our understanding of historical patterns that define the relationship between global and local economic organizations. The project then considers the colonial and post colonial eras in Uganda, and the current impact of and responses to the HIV/AIDS pandemic; realities that have intensified political, socio-economic and cultural change for rural Ugandans, and which have created a niche for poverty alleviation projects like microcredit. The work will then significantly narrow its focus as it provides a case study of the Grameen Bank project and the replication of its Village Phone Project in Uganda; including criticisms of the project that help us to better understand the significance of the role of microcredit projects in a capitalist world system. With this analysis, the project employs an interdisciplinary approach to a specific history. It also provides a theoretical framework that emphasizes the relevance of the experiences of women relegated to peripheral regions of the global economy.
II. Theoretical Framework and African Contexts

The combined theoretical perspectives of Immanuel Wallenstein’s World Systems Theory, substantive economic anthropology, and Fernand Braudel’s historiography are fundamental to my analysis of the microcredit industry and a Grameen Bank project in Uganda East Africa. First, the World Systems theory will place contemporary economies of Africa (specifically economies of rural Uganda) in the context of an evolving and interconnected capitalist world system, considering the importance of global events for local histories.2 Second, the analysis will include a discussion of substantive economic anthropology to help locate the economies of Grameen Bank loan recipients in a specific cultural context; a perspective that employs a ‘thick description’ or a more detailed analysis.3 Third, recognizing that the world systems framework has the potential to overlook collective and individual autonomy and agency of the Grameen loan recipients in Uganda, the project will take a Braudelian approach with a focus on a specific regional history, placing an examination of localized economies and social factors at the center of the analysis.4

a. Wallerstein’s World Systems Theory/ Example: Belgium Congo

Social scientist and historian Immanuel Wallerstein is well known in academia for his modern World Systems Theory published in 1989; a theory that argues that instead of a world

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made up of individual nations divided by first, second and third world regions, that one interconnected world system incorporates a global community engaged in a complex network of economic relationships.\(^5\) These global and local economic relationships are linked in a capitalist world system characterized by social creations with significant histories whose origins must be understood and analyzed in context.\(^6\) The system is made up of states, an intricate interstate system, productive firms, and diverse households.\(^5\)

According to Wallerstein, the modern world system has a long historical legacy that reaches back to its beginnings during the sixteenth century when Europe expanded to the New World, at which time the capitalist system, with the imperative of an endless infusion of capital, became the dominant mode for global economic and political organization. The system is not bounded by a unitary political structure; rather it contains many cultures, religions, and languages, and is divided into three major categories including the core, semi-periphery and periphery regions.\(^7\)

The core regions of the capitalist world system monopolize the most profitable global activities, with the strongest governments and the highest degree of global control, often playing a dominant role in the affairs of other countries. The semi-peripheral regions are at the center, while the peripheral areas are most likely assigned to the least profitable activities including the


production of raw materials and labor intensive goods that directly feed the core areas.\textsuperscript{8} The global relationship that developed between the colonized and colonizer throughout the twentieth century illustrates the relationship between core and peripheral regions. The establishment of colonies facilitated the economic expansion of the modern world when strong states at the core incorporated new zones into the process of the modern world-system in order to establish colonies. Colonies were organized as administrative units and defined as non-sovereign under the jurisdiction of another distant state, making them the weakest state in the system.\textsuperscript{9}

What follows is an example from the colonial era beginning in the latter part of the nineteenth century, that exemplifies characteristics of Wallerstein’s World System, and which supports his argument that colonies are interrelated institutions, all of which are constantly changing, initially because of the imposition of colonial rule, then because of the rise of nationalist movements and the process of decolonization in a World Systems context. Furthermore, an examination of colonial structures is essential to the understanding of deep inequalities inherent in the global economy that were so politically important to the twentieth century, and remain relevant today.\textsuperscript{10}

In the late nineteenth century modern African states emerged as the result of colonial partitioning when European powers laid claim to large territories of the African continent. The infamous ‘Scramble for Africa’ resulted in the transformation of approximately 10,000 African

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{8} \textit{Ibid.}, at 29.
\item \textsuperscript{9} \textit{Ibid.}, at 55.
\end{itemize}
\end{footnotesize}
polities, into 40 European colonies and protectorates. The territorial lines drawn by the colonizers disregarded existing social and political boundaries defining hundreds of cultures and geopolitical states, and established new boundaries that were put under the direct or indirect rule of European colonizers. The colonization of the Congo region of central Africa by King Leopold of Belgium illustrates the core/peripheral relationship central to Wallerstein’s World Systems Theory, and provides an extreme example of methods used by core states to incorporate colonies into the modern world system.

In 1885, following intense negotiations with competing European interests, King Leopold II claimed the Congo Free State as his own personal colony. He had ambitious goals for making huge profits. Initially he took a great deal of ivory from the Congo region, and in the 1890s the king focused on the extraction of Congo’s wild rubber. The desire for profit from the sale of rubber on the international market inspired King Leopold and his men to take extreme and deadly measures in the Congo Free State with the implementation of ruthless forced labor which resulted in the death of what has been estimated at half of the population of the Congo, or approximately ten million people.

Unique to the Congo Free State was the development of a social movement aimed at exposing the atrocities of the King Leopold’s regime. The Congo Reform Association (CRA) successfully conducted a public media campaign that raised awareness and outrage about the

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atrocities taking place in the Congo under Leopold’s reign, and drew support from modern intellectuals.\textsuperscript{13} The brutal policies of the Belgian colonizer prevented internal resistance from taking hold in the Congo, where negative publicity in Europe impacted the King’s decision to give up his private colony. This decision was wrought with political implication as international interest for the profits from the Congo remained a priority for the Belgians.\textsuperscript{14}

Competition for land and resources motivated competing European powers to procure of African colonies, and characterized the capitalist world-system that the Congo became a part of under Belgian colonial rule in the twentieth century. The country of Uganda, and the focus of my case study for this analysis, was colonized by England under a system of indirect colonial rule in an environment less brutal than the direct rule of the Belgian Congo by King Leopold, however the intent of extraction of resources from the Congo and Uganda remained a priority. In both cases the core/ periphery relationship was cemented between the colonizer and the colonized.\textsuperscript{15} The historical legacy of this era remains relevant for understanding the position of colonized African countries in the modern world-system, and illustrates the nature of unequal global economic relationships between core and peripheral regions of the world.

\textbf{b. Substantive Economics/ Example: Response to Structural Adjustment in Kenya}

This paper promotes a substantive or anthropological economic approach to the analysis of the microcredit enterprise in Uganda; this is in contrast to a formal and strictly economic

\textsuperscript{13} Ibid., at 225.

\textsuperscript{14} Ibid.

approach which assumes people will act rationally in their own self interests. A formal economics study examines the ways limited resources are allocated and considers the production, distribution and consumption of goods, and defines economics as a means-ends relationship characterized by rational decision making in pursuit of profit: a model that can be universally applied. Substantive or anthropological economics holds that economics are culturally embedded and that economic rules based on the rational pursuit of profit do not apply universally, emphasizing the idea that individual and collective economic choices are based on a wide range of factors, with a focus on a qualitative economic analysis that accounts for historical and cultural influences. This method recognizes that economic patterns are an extension of social organization.16

The following example illustrates differences between formal and substantive economic perspectives with a description of an interaction in 1986 between the established economic structures of the World Bank and the International Monetary Fund, and a group of rural women in Maragua, Kenya who responded to the imposition of the economic policies of these institutions by continuing to conduct informal economic activity based in subsistence farming. Analysis of this situation uncovers a level of economic activity organized by creative strategies for resource control, cultural rules, and responses to specific histories unique to these women. Further, the African context illustrated in this example emphasizes the viability of the informal economic sector where microenterprise often occurs. It demonstrates a fluid and inherently more

flexible relationship compared to the formal sector where economic activity is regulated by corporate boards and national and international law.

Like Ugandan women, Kenyan women living at the subsistence level share the common historic experience of British colonization. In Kenya the focus of the colonizer was on the extraction of resources for export to the core regions, with the implementation of a shift in agricultural production from local subsistence and informal economic production to large-scale cash cropping for profit. This pattern of agricultural production has continued in the post-colonial era as the country deals with growing international debt. Despite international and national pressure for economic reform to produce cash crops throughout the twentieth century, Kenyan women have maintained a reliance on subsistence farming for their survival.17

During the 1980s-1990s in rural Kenya, Structural Adjustment Policies (SAPS) were imposed by the World Bank and the International Monetary Fund (IMF) in Kenya to facilitate national debt repayment and to establish collateral for new loans from the World Bank and IMF. The programs were aimed at enhancing the role of the global free market to promote development (World Health Organization structural adjustment programs). The new structural adjustment policies in Kenya mandated increased cash crop production for export, which effectively challenged local capacity to produce food for subsistence and sell surplus goods at a local level.18 One of the programs implemented in Kenya in 1986 provided funds to Kenyan


18 Ibid., at 216.
coffee growers to increase production for export, introducing incentives in the form of loans to
the state with the conditions that social service spending be cut. At the same time, the Kenyan
government paid higher coffee prices to the men who owned the coffee growing land in order to
encourage production for export. Prior to the implementation of the SAP, Kenyan farmers were
able to grow crops for subsistence and sale in an unregulated economic environment on the land
that was procured for structural adjustment in 1986. The new program mandated farmers, the
majority of whom were women, to increase coffee production for export, while prohibiting the
growth of subsistence crops on the newly designated cash crop plots.19

Initially, the Kenyan women working on land in Maragua targeted for structural
adjustment produced coffee under the new requirements for production, subversively planted
beans for subsistence between the coffee plants. They did this despite the prohibition of
intercropping in cash crop fields under structural adjustment.20 This initial response
demonstrated the intent of the women to continue their activity in the informal sector, and it also
provided a response that inspired an organized political will and resistance to the oppressive
restrictions of structural adjustment, the state and the landowners who were collecting higher
coffee payments. Then, as a form of formal protest, the majority of women in Maragua
organized their resistance movement and collectively uprooted coffee trees and used them for
firewood, despite the threat of penalties of seven years imprisonment for damaging cash crops.21


20 Ibid.

21 Ibid., at 99.
By the end of 1986, much of the coffee cash crop had been uprooted in Maragua and replaced with maize and beans for subsistence, as well as banana trees for a local, self regulated sale.\textsuperscript{22}

The World Bank and the IMF did not follow through with threats of imprisonment of the women, but rather continued to assert control over land for cash cropping with the dispersion of loans to the Kenyan government to encourage commodity production for export. In 1996, the IMF loaned 218 million dollars to the Kenyan government, earmarked for the “full commercialization” of agriculture with an emphasis on export crops.\textsuperscript{23} Despite this, women in Maragua have earned profits from increased banana production and sales and have organized their businesses locally with revolving micro savings and credit groups in order to keep the profits from sales of bananas in the community. The creation of local microcredit cooperatives referred to by the women of Maragua as ‘merry-go-round’ associations are similar in organization to the microcredit projects in Uganda organized by the Grameen Bank.\textsuperscript{24}

Substantive analysis of this example recognizes the importance of participation in the informal economic sector for Kenyan women dependent on small scale farming for subsistence; economic activity that is fluid and unregulated. This example also illustrates that highly regulated formal economic structures can inhibit the capacity of women to thrive in their unique environment; however this case also demonstrates that the collective response and agency of the women of Maragua allowed them to continue to meet their subsistence level needs, as well as

\begin{itemize}
\item \textsuperscript{22} Ibid.
\item \textsuperscript{23} Ibid., at 99.
\item \textsuperscript{24} Ibid.
\end{itemize}
sell their surplus locally, highlighting their capacity to utilize local resources and to cope with consistently oppressive global structures. This paper will employ a similar substantive analysis to the informal economy of women in rural Uganda where Grameen and other microenterprise schemes are located.

c. Braudelian Historiography/ Example: Thornton and the Atlantic Slave Trade

A Braudelian reading of this problem drawn from the work of French historian Fernand Braudel, offers a different perspective. Braudel, a prominent member of the Annales School emerged in the early part of the twentieth century, and challenged traditional historiography.25 In his work, Braudel drew on Wallerstein’s ideas that the rise and establishment of a capitalist world order is grounded in economic relationships between core and peripheral regions. He placed emphasis on the relationship between determinant societal structures and infrastructures and collective and individual agency for the majority. He was also influenced by Karl Polanyi’s work in economic anthropology that acknowledged the relevance of informal economic organization within specific cultural contexts.26 This is evidenced in Braudel’s opposition to the idea of explanations in terms of a single factor, “Capitalism cannot have emerged from a single confining source,” he wrote, “economics played a part, politics played a part, society played a part, and culture and civilization played a part. So too did history”.27


26 Ibid., at 49.

27 Ibid.
In another historical African context, a Braudelian read on the Atlantic Slave Trade considers the role of African agency in the trade. The work of John Thornton in his book *Africa and Africans in the Making of the Atlantic World, 1400-1800*, and a first hand account of the life of a slave in the historical narrative *The Interesting Narrative of Olaudah Equiano or Gustavus Vassa, the African*, exemplify this approach with emphasis on the role Africans played in the Atlantic Slave Trade both on the African Continent and in the Americas. Both of these works pursue the argument that during the era of New World slavery, Africans exercised an active and determinant role in the trade, challenging the notion that they were simply passive victims completely robbed of their humanity by European and American slavers.

This perspective posits that Africans involved in the trade had more control over their destinies than previously acknowledged, placing emphasis on the agency of African elites who worked to promote the trade and the slaves themselves. The work acknowledges ways Africans shaped and redefined African slave cultures in the Americas as new languages, religions, and patterns of economic organization emerged. This example gives credence to a Braudelian approach that prioritizes the inclusion of contributions of both ordinary and marginalized people in specific histories. In a similar vein, the case study of this essay will focus on the contributions of Ugandan women involved in microcredit projects in the twenty-first century in Uganda.

In summary, the continent of Africa has had a long history of interconnectedness with the global community, and as the examples illustrate this relationship has taken shape in a variety of contexts since the sixteenth century when Wallerstein argues the capitalist world system was established; a world system that is characterized by unequal relationships between core and
periphery regions. The examples provided also show that a consistent response to these unequal relationships existed at political, informal economic and cultural levels, demonstrating the continued capacity for peripheral members of the world system to exercise their collective agency in the face of the oppressive world system structures.

This essay will now turn its focus to Uganda, a country that had a distant relationship with the capitalist world system prior to the colonial era, and one whose people have experienced radical change as the twentieth century progressed and Uganda took its place in a peripheral region of the world. In order to understand this context, the following section includes a brief history of twentieth century Uganda. It summarizes the colonial era and describes how the colonial regime in Uganda impacted the country economically. An analysis of the postcolonial era in Uganda examines realities in Uganda that shaped the need for poverty alleviation strategies like Grameen microcredit projects. Finally, the following section describes a current crisis in the country brought on by the HIV/AIDS pandemic. The pandemic has wreaked havoc on local lives and economies, intensifying the need for successful poverty alleviation strategies, and demonstrates the capacity of Ugandans to successfully employ creative strategies on local levels.

III. Century Twentieth Century History of Uganda: Setting the Context

a. Colonial Era

Prior to the mid-nineteenth century Uganda, a landlocked country in East Africa, was relatively isolated from global markets. The country initially gained attention from explorers in search of the source of the Nile River, and then became coveted by European Colonial powers because British explorers discovered that the small nation contained the source of the river (Lake Victoria), an important waterway that connected sub-Saharan Africa to Egypt. During the ‘scramble for Africa’ Britain and Germany competed for the colonial possession of Uganda, and following lengthy negotiations, the British government declared a protectorate over Uganda in 1894 for more than 60 years of indirect British colonial rule.29

Before the imposition of the new colonial structures, the majority of Ugandans were organized under a patrilineal kinship system that emphasized the importance of men in tracing familial descent, in determining marital residence, and in providing for the inheritance of property through the male line.30 This system was characterized by reciprocal and informal economic exchange that placed emphasis on the collective well being of the extended family versus the profit driven model introduced by the British. Under the patrilineal organization, women in Uganda were responsible for agricultural production at the subsistence level, although they had no rights to ownership of land or material property. Although the system of indirect rule employed by the British in Uganda claimed to organize the protectorate under the traditional


organization of patrilineal networks, abiding by local cultural rules; in reality the British initiated socioeconomic re-structuring and cultural change that would intensify for Ugandans as the century progressed.

Following the signing of the Uganda Agreement of 1900, the document that made the indirect rule of Uganda official, the British put into place infrastructures that supported their agenda of establishing a profitable cash crop for export, with the sole intent of making a profit from the new colony. The British set into motion a system of rule that designated chiefs from the largest Bugandan ethnic group located in central Uganda, to implement new systems of colonial rule. The Bugandan chiefs were required to enforce protectorate laws, collect taxes, oversee the maintenance of public roads and assume general supervision of native affairs. The chiefs were designated to assist the crown in maintaining order and were paid a small stipend for this service to the British.

One of top priorities of the British was for the local chiefs to assist them in converting lineage and clan lands to heritable freehold tenure with large portions of the regions land procured for cotton production. The chiefs were expected to organize labor on highly profitable estates established for cotton, sugar and coffee cash cropping in the most fertile central and eastern regions of the country. Those employed by the British realized the personal profits to be earned from service to the crown with their small stipends and new positions of power as

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landlords over Uganda’s most fertile agricultural land, while Ugandan laborers working on the plantations earned small amounts of money most likely used to pay for newly imposed taxes, education, imported items like clothing, bicycles, and other luxury items. The new colonial system of forced cash cropping shifted the historical pattern of economic self sufficiency in Uganda to a national economy that was structurally dependent on the external economy of the colonizer for the processing of raw materials into consumer capital goods.34

Another priority for the British in East Africa was to build a rail line from the coast of Kenya in the city of Mombasa inland to Kampala, Uganda for the transport of goods and resources. In order to build the rail line, a large Indian contingency was brought to East Africa as indentured servants, many of whom settled in Uganda as cotton cash croppers. The Indians were favored by the British, and they quickly emerged as the business class in the country. Their settlement established a hierarchical structure between the British, Indian, and Ugandan populations creating a sub-imperial system in which local chiefs and Indians employed by the colonial regime gained the most advantage. The system worked well for the British, and new waves of Ugandan administrators and office holders were employed by them for over 60 years.35

British structures did change as the colonial century progressed, and over time the oligarchy of landed chiefs who had emerged with the Uganda Agreement of 1900 took on less prominent positions. This meant that agricultural production slowly shifted to independent land holders who grew cotton and coffee for the export market. However, as the colonial years wore


35 Ibid., at 65.
on, Ugandan chiefs and the Ugandans themselves were restricted to the agricultural sector of cash cropping with the commercial sector dominated by Asian traders and the British themselves. The colonial government consistently and strictly regulated the cash crop market throughout the colonial era, relegating Asians living in Uganda as intermediaries, as they were perceived by the British to be more efficient than Ugandan chiefs and cash croppers. This reality would provide fuel for the establishment of the nationalist movement that developed after 1945; one that took shape around a demand for economic reforms that would provide fairer more equitable prices for cash crop commodities, as well as greater Ugandan control in the international and domestic trade markets.  

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b. Post Colonial Era

Ugandan’s articulation of growing discontent toward their colonizers ultimately led to the country’s independence from the British. With greater awareness of economic inequality imposed by the British system of indirect colonial rule, Ugandan economic and political nationalism became more organized between 1945-1962, while at the same time divisions among classes and ethnic groups on the domestic level intensified in competition for political power and resources.  

37 Also, a growing sense of nationalism grounded in global moves toward decolonization took hold in Uganda. By 1962 the country achieved independence from the


37 Ibid., at 33.
British in a relatively peaceful handover of power, bringing an end to the colonial era during which Uganda’s position in a peripheral region of the global economy was solidified.38

In 1962 Uganda gained political independence from the British and was ruled by Milton Obote for nine years during which time Ugandans were optimistic about their capacity to re-establish the country under self rule. With this optimism, Obote’s regime initially worked to establish economic independence from its former colonizer, but soon shifted his method of rule to an authoritarian dictatorship, declaring Uganda a one-party state and himself ‘president for life’.39 Obote’s consolidation of power naturally led to internal opposition that resulted in a successful military coup in 1971 by Idi Amin, Obote’s army chief of staff. The fact that Obote’s regime became increasingly authoritarian, paranoid, and oppressive during his six year reign, gave Amin a clear path to power with promises of economic reform for all of the people of Uganda. His populist message and charisma appealed to the majority of Ugandans at that juncture.40

Amin was president of the country from 1971-1979 during which time he recklessly ruled, further destroying the nation’s infrastructure and weakening the country’s economy. The optimism expressed by Ugandans at independence was reawakened for a brief time when Amin took power, but quickly it became clear that Amin was a power-hungry dictator who would unleash eight years of terror on the Ugandan people. Amin’s style was more overt and hideous

38 Ibid., at 38.
than Obote’s, with a quick transition in Uganda from the brutal dictatorship of the Obote regime, to a system of anarchic brutality that took the lives of up to 300,000 Ugandans.\footnote{Ibid., at 44.} By the late seventies, Amin’s brutal policies of torture and extermination of those he perceived to threaten his power gained widespread international criticism. The country’s economy collapsed as the country was unable to export cash crops and manufactured goods. Up to 65 percent of the nation’s white collar workers were either killed by the regime, exiled or in hiding.\footnote{Sanford J. Unger, \textit{Africa: The People and Politics of an Emerging Continent} (Simon Inc., 1986). 403.}

Ultimately an attack on Tanzania in 1978 led to Amin’s downfall. A counter-attack in 1979 by Tanzanian and Ugandan soldiers led to the overthrow of Amin, at which time the former president of Uganda, Milton Obote, re-established his presidency with an empty promise to the Ugandan people that he would restore Uganda’s economy, and rebuild the nation. The following six years under Obote proved no better than Amin’s regime, as he continued a tyrannical rule resulting in the death of up to 300,000 more Ugandans.\footnote{Thomas P. Ofcansky, \textit{Uganda: Tarnished pearl of Africa} (Westview Press, Inc., 1996), 55.}

For more than twenty years following Uganda’s independence the country was held in the tyrannical grip of first Obote, then Amin, and then Obote again. The national economy was in ruins and fear and paranoia among Ugandans became commonplace. During this time international trade was restricted even though a Ugandan black market thrived; the latter further devastated the domestic economy, creating desperate conditions for ordinary Ugandans. There were consistent shortages of the basics. A lack of food staples and soap contributed to an
increase in smuggling while inflation increased dramatically. Ugandan currency was essentially worthless. In this context, Museveni’s National Resistance Army captured Kampala in 1986 in a successful military coup. They established the National Resistance Movement government (NRM) and moved into power with a promise of a new order for Ugandan, one that would be just, equitable and based in democratic principles. Museveni has served as Uganda’s president since that time.44

c. Challenges: Economic Recovery Package and the HIV/AIDS Pandemic

One of the new administration’s first accomplishments was to adopt an Economic Recovery Package (ERP) with major funding from both the World Bank and the International Monetary Fund (IMF). Their goal was to rebuild the Ugandan economy and infrastructure after its total devastation under Obote and Amin. The implementation of the ERP is widely perceived to be both ambitious and successful, with positive economic growth rates and national inflation rates dropping from 200 percent in 1987 to 4 percent in 2000.45 The NRM accomplished this by reducing national interest rates to encourage investment, borrowing money from the World Bank and the IMF to rebuild infrastructures, implementing programs to reform agricultural production and marketing on global levels, and introducing national poverty alleviation measures

44 ibid., at 157.

encouraged by the international lenders including the provision of subsidies for school fees and the implementation of a universal primary education program.46

From the beginning the NRM government encouraged women to take part in development activities both at national and local levels with the establishment of the Ministry of Gender and Community Development. This ministry is responsible for ensuring that governmental policies and programs are gender sensitive and inclusive of women. It also implements constitutional provisions that acknowledge women as equal partners in both governance and development issues. At the local level, women’s councils have been established to support rural women’s involvement in development and poverty alleviation programs.47

Despite steps toward reestablishing a positive fiscal reputation in the international community, economic stability remains illusive for Uganda. The nation ranks amongst the twenty poorest countries in the world in terms of gross national product (GNP) per capita, with over 50 percent of the population living below the official poverty line.48 Internal conflict, most notably in the north western part of Uganda, coupled with a prevalence of infectious disease, contributes to persistent economic instability for Ugandans.49 As a result, many rural Ugandans


live at the subsistence level as they continually adapt to the social and economic change of colonial and post colonial eras.

In the twenty-first century, a contributor to persistent poverty in Uganda is the high prevalence of HIV/AIDS. The sickness and death rates resulting from the pandemic have impacted development efforts at household, community and national levels\textsuperscript{50}; a burden intensified for Ugandans because of their peripheral position in the modern world system. Uganda is one of the countries in Africa that has been most affected by the crisis that has impacted family and social networks dramatically. The statistics are staggering: in 2005 an estimated 915,400 adults and children were living with HIV/AIDS. In the same year, prevalence among adults aged 15 to 49 years was estimated at 6.4 percent with an estimate of 132,500 new infections\textsuperscript{51}. The heavy toll of the HIV/AIDS epidemic has destabilized local economies, robbing the country of thousands of its most productive members of society. This crisis continues to wreak havoc on the Ugandan economy, and follows more than twenty years of misrule.

The severity of the crisis has required Ugandans to find coping mechanisms through processes that are inhibited by historical factors, oppressive power structures, poverty, and the virus itself. In the face of this, Uganda is one of the first African nations to bring down the prevalence of HIV/AIDS, earning a reputation as an African success story for tackling the


\textsuperscript{51} Ibid.
pandemic on both national and local levels. \(^{52}\) Ugandans were among the first Africans to acknowledge the problem and to quickly adopt an aggressive campaign to combat the disease at the national level. As a result, rates have declined across the country in the past 15 years, down from approximately 15 percent in the early 1990s to under 7 percent of the population currently. This decline is credited to the implementation of a well-timed and successful public education campaign. \(^{53}\)

On the local level, the Ugandan people have taken on an active role in reducing HIV prevalence, with grass-roots level organizing and educating, and an emergence of many small peer educating and support groups made up of people who are themselves HIV positive. \(^{54}\) With the collective efforts of governmental and non-governmental organizations the country has tackled the problem consistently. However, HIV/AIDS prevalence in the country continues to be high among young adults and women whose deaths have resulted in the depletion of the workforce in all sectors, and disrupted local community and extended family support networks that have traditionally served as a social security net for rural Ugandans. \(^{55}\)

The magnitude of the crisis is intensified by global economic disparities of the world system denying the majority of rural Ugandans consistent access to resources that can curb the

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spread of HIV/AIDS. Paul Farmer, MD, PhD and founding director of Partners in Health, a Non-Governmental Organization (NGO) that provides direct health care services in Haiti and Africa, claims that current AIDS prevention tools work least well precisely where individual agency is most constrained, usually by poverty and gender inequity.\textsuperscript{56} In a 2003 opinion piece in Anthropology News, Farmer states “The only way to implement effective AIDS treatment programs in poor countries is to scrutinize the behavior of the powerful: those who set economic policies for countries like Uganda. Those who decide who will have access to care and who will not. A lot of these folks, whose agency is decidedly unconstrained, are not to be found on the continent of Africa”.\textsuperscript{57}

Despite this, those suffering from the disease have employed creative coping mechanisms including an increase in social versus biological parenting, and with paternal and maternal grandmothers taking on the role as primary caregivers. Also, more women are emerging as breadwinners for extended families that had previously been organized under patrilineages because of pressures created by high death rates of men due to the AIDS pandemic. This demographic shift has brought more women into the economic arena in Uganda, usually through self employment in the informal sector where microcredit projects are located.\textsuperscript{58}


\textsuperscript{57} ibid.

\textsuperscript{58} Ministry of Finance Planning and Economic Development: The Replublic of Unganda, “Micro and small industry policy unit,” Home, \url{http://www.finance.go.ug/}. 
In summary, as this discussion on the colonial and post colonial realities in Uganda illustrates, Ugandans were drawn into the modern world system during the twentieth century. The colonial era facilitated significant change for Uganda with the imposition of exploitive capitalistic structures aimed at extracting resources and wealth.\(^{59}\) Political and economic instability of the post colonial era was directly related to rising poverty levels in Uganda; simply a contemporary version of historical patterns, with the control of the nation’s resources remaining in the hands of a few in the context of oppressive political and economic structures. Currently, the HIV/AIDS pandemic is yet another force that is impacting many in Uganda, challenging families and communities in unfamiliar and profound ways.\(^{60}\)

The ways Ugandans have responded to the continuum of social and economic change illustrates that they have been affected by and have responded to oppressive political structures in ways that continually reshape their communities, extended family networks, and economies. Another way that this has happened is through the use of microcredit, as a global poverty alleviation method. The remainder of this essay examines how microcredit works in Uganda, giving examples of the ways microcredit projects have mitigated the impact of poverty for rural Ugandan families with the capacity to access financial resources, creating the potential to establish small businesses.

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IV. Definitions and Historical Context of Microcredit

Microcredit or the lending of small amounts of money to the rural poor has emerged in Africa as a popular development strategy in the twenty-first century. It is grounded in the idea that it is entirely possible for creative entrepreneurship to result at the local level with the provision of access to financial resources in the form of small loans. These strategies enable participants to take part in the economic sector that they had previously been excluded from on the global scale, and are the result of the poverty brought on by an unequal world system divided by core and peripheral regions. The following section will provide a brief overview of the historical legacy of microcredit projects, a general description of modern day microcredit and the establishment of microcredit projects in Uganda. It will examine the award winning Grameen Bank model of microcredit in Bangladesh. The focus then turns to the Grameen Village Phone project and its replication in Uganda East, Africa; and finally it offers analysis of current criticism of microcredit projects and their relevance for understanding the significance of microcredit for the modern world system.

Modern day microcredit projects are derived from an idea that has dated back centuries. The first one founded in Ireland in the 1700s by author Jonathan Swift was an Irish Loan Fund system that provided credit without collateral to the poor. The original loan system provided a structure that allowed for the dispersion of small loans based on peer recommendations to be paid back in twenty week cycles. As with many contemporary microcredit institutions, interest rates were much lower than those set by informal money lenders and profiteers who traditionally

61 Muhammad Yunus, Banker to the Poor (New York: Public Affairs, 1999), 71.
exploited those who had no access to the formal economy. 62 Another example of a precursor to modern day microfinance is a rotating credit association that emerged at the turn of the twentieth century and was employed throughout the colonial era by the colonized in response to colonial domination. 63 A Rotating Credit Association assumed a similar structure to Jonathan Swift’s model, but was uniquely adapted to the local needs of the people who employed the strategy; it was a device by means of which traditionalistic forms of social relationships were mobilized to fulfill non- traditionalistic economic functions, with organization under the essential principle of the establishment of rotating access to a continually reconstituted capital fund.64

a. The Middle Rung: Clifford Geertz

Several of these organizations emerged in Africa during the colonial era in response to the restructuring of local economies under colonial rule that robbed the control of material resources from the colonized. One such example is the establishment of a Rotating Credit Association in Keta, Ghana in the mid twentieth century at which time Ghana was under British colonial rule. This 400 member credit association made up of market women, raised a "loan" for one member each week, with members of the association contributing an amount they could afford any given week. The amounts contributed by individuals were recorded, and those receiving the loan were given a copy of the amounts the association members put into the credit association each week. Those receiving a loan were then required to contribute at least as much


64 Ibid., at 422.
as the former collector, while those who had not yet received a loan from the association could continue to contribute as much as they were able each week. Solidarity-producing aspects of the association in Keta were also of importance to members of the group. Examples include hospital visits to members of the association when they were sick; money was provided by the association to pay for the funeral when a member died; and each week’s loan raising meeting began with community socializing and singing. In this way the association provided a social security net for the women who took part in credit strategy.  

Anthropologist Clifford Geertz argues that projects like the one in Keta were indicative of an intermediate economic phase that embraced culturally specific characteristics, and grew up within a peasant social structure to harmonize agrarian economic patterns with commercial ones. Further, he argues that these associations acted as educational mechanisms for those moving from static economies to dynamic ones. These projects were predecessors to modern microcredit, differing from current microcredit in that they were organizations that generated funds locally and from within, versus current microcredit projects that are dependent on donor money and the larger structural organizations for funding. However, both rotating credit and modern day credit projects demonstrate dynamic responses from peripheral regions of the global economy, a position reified for Ugandans by the realities of the colonial and post colonial eras.

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65 ibid., at 438.
66 ibid., at 421.
67 ibid.
Before the introduction of modern microcredit, exploitive money lenders dominated the informal economic sector in peripheral regions by offering loans to the poor with exorbitant interest rates in the non-competitive environment. Microcredit offers an alternative for those who previously turned to money lenders, and had no access to financial capital in the formal sector. The loan programs are in place in small villages in the developing world where it is impossible for the majority of the population to walk into a bank and apply for a loan because of a lack of an opportunity to establish financial collateral. Typically microcredit loans are used for both meeting basic needs in cases of extreme poverty, and for generating income activities aimed at boosting the income of families and local economies.

The microfinance institution is the institution responsible for facilitating the loan process and currently includes a variety of organizations that provide microcredit services including non-governmental organizations (NGOs), credit unions, cooperatives, private commercial banks and state owned banks. Some of these institutions deal strictly with financial services, while other organizations (most commonly the NGOs) take part in other development activities with their clients, encouraging skill development within a membership based framework organized at an informal economic level. The typical model for microcredit lending is a peer monitoring system dependent on the support of group members for loan repayment. In the thirty years since its inception microfinance projects have gained popularity with consistently high repayment rates

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68 Muhammad Yunus, “Banker to the Poor,” (New York: Public Affairs, 1999), 47.


among the borrowers, the majority of whom are women with low incomes. The success with payback rates gives a clear indication that the interest rates for the loans are viable for the clients. Currently with over 3,300 microfinance institutions in existence globally serving up to 100 million borrowers, the industry boasts a 95 percent repayment rate on its loans.71

Microfinance clients are usually self-employed, household-based entrepreneurs living just above the subsistence level. In areas like rural Uganda, they might be small farmers and others engaged in income-generating activities like selling harvest surpluses or handmade items at local markets, while in urban areas, microfinance activities are more diverse with clients likely to use loan money for ventures like shop keeping, local service provision, artisans work and street vending.72 A large variety of Micro Finance Institutions (MFIs) exist globally, ranging from small community groups built on the model of the rotating credit project in which participants contribute and circulate money in a loan pool that rotates among its members, to larger NGO based MFIs funded by donors in wealthy countries, to large institutions like the Grameen Bank in Bangladesh.

b. Microcredit in Uganda

In Uganda, rotating credit associations existed during the colonial era among small groups of wage earners in Jinja and Kampala73, contributing to the twentieth century legacy of


local economic responses to global economic structures. Currently, Uganda has a strong microfinance industry with between 25,000 to 45,000 active participants, the majority of whom are women.\textsuperscript{74} This industry has found a niche in an environment where stringent lending policies of commercial banks have left almost all small entrepreneurs and poor households without access to fair financial services. Moreover, the patrilineal organization of extended family units in Uganda that assigned ownership and the role of breadwinner to men, have shifted because of the devastating impact of the HIV/AIDS pandemic. Currently, women are increasingly taking on the role of family breadwinner, turning to the microcredit option that prioritizes the recruitment of poor rural women as participants.

In this context, the NRM government has outwardly expressed it’s commitment to supporting the development of informal sectors of the Ugandan economy where microcredit projects exist, with goals of creating new sustainable employment opportunities for Ugandans who are either under or un-employed.\textsuperscript{75} In the 1990s the Ugandan government acknowledged this effort by encouraging trainings and technical assistance to MFIs in areas of loan tracking, interest rate setting, and product and business development. This type of governmental support has served to strengthen the micro-finance community on all levels both domestically and with international involvement.

\textsuperscript{74} Ministry of Finance Planning and Economic Development: The Replublic of Unganda, “Micro and small industry policy unit,” Home, \url{http://www.finance.go.ug/}.

\textsuperscript{75} Ibid.
The country has experienced a rapid growth of the microfinance sector since the turn of the century with up to 79 percent of all people borrowing money from financial institutions in Uganda using informal microcredit sources, and only 21 percent borrowing from commercial banks.\textsuperscript{76} Examples of well established microfinance institutions in the country include the Uganda’s Women Finance Trust (UWFT) established in 1984; FINCA, an internationally based NGO started in 1992; and the Foundation for Credit and Community Assistance (FOCCAS) that combines credit for the poor with basic education on health issues focused on support for those impacted by the HIV/AIDS virus. These represent just a few of the many microfinance institutions in the country, and are part of a well established banking system that holds the priority of giving financial capital to the majority of Ugandans living in poverty in both rural and urban areas.\textsuperscript{77}

V. Grameen Bank: Bank for the Poor

One of the most noted MFIs currently working in Uganda is the Grameen Bank. The Grameen Bank was first established in Bangladesh in 1976 by Muhammad Yunus, professor of economics at the University of Chittagong in Bangladesh and the 2006 winner of the Nobel Peace Prize because of his work with the Grameen. Yunus’s was one of the first to formalized the idea of giving financial access to the poor in peripheral regions in the form of loans to start

\textsuperscript{76} Ministry of Finance Planning and Economic Development: The Republic of Uganda, "Micro and small industry policy unit," Home, \url{http://www.finance.go.ug/}.

\textsuperscript{77} FINCA, “Small Loans—Big Changes,” Home, \url{http://www.villagebanking.org/site/c.erKPI2PCloE/b.2589455/k.7485/ABOUT_FINCA.htm}. 
small businesses with the establishment of the Grameen Bank, an institution that provides a global model for microfinance replication.

The 1976 microcredit pilot project of the Grameen bank (meaning bank of the village or rural bank) established by Professor Muhammad Yunus, was one of two microcredit projects in existence at the time. The Grameen project was launched by Yunus when Bangladesh was under the grips of a devastating famine; Professor Yunus describes teaching about the economics of poverty and conducting discussions with his classes on strategies for bringing the poor out of poverty, while people were dying of hunger just outside of his classroom.

This stark reality motivated Yunus to initiate discussions with women on the streets of both Chittagong and Jobra, Bangladesh about their life circumstances; in attempts to understand the causes for the extreme levels of poverty he witnessed during the famine. Following discussions with many poor women, Yunus gave 27 dollars from his own pocket to forty-two women in the form of small loans. This initial loan money was meant to assist women to purchase materials to construct stools. These women purchased the raw materials needed for the stools and rapidly paid back the loans with the profit from their sales. This initial success inspired Yunus to begin the arduous work of formalizing the microcredit project with the goals of making credit available to women to start small businesses both to meet their basic needs and pay back the loans.79

78 Muhammad Yunus, “Banker to the Poor,” (New York: Public Affairs, 1999), 46.

79 Ibid., at 49-50.
After several years and lengthy negotiations with the government of Bangladesh, the bank gained the sponsorship of the central bank of the country as well as the support of nationalized commercial banks, and then extended branches into several districts in Bangladesh in 1979. By October of 1983, the Grameen Bank Project was transformed into an independent bank by government legislation, at which time the bank was serving over 28,000 clients with more than a 98 percent repayment rate. Today, Grameen Bank is owned by the rural poor whom it serves, with borrowers of the Bank owning 90 percent of its shares, while the remaining 10 percent is owned by the government. The bank currently has over three million borrowers in Bangladesh, and lends one million dollars a day globally.

In early phases of the development of Grameen, Yunus realized that the poor are good credit risks as was evidenced by the repayment rates of the micro-loans; and while the specific needs of the poor varied from village to village, he concluded that poor people from Bangladesh had in common the fact that none of them could go to a commercial bank to take out a loan because they had no collateral. Yunus would eventually promote this idea globally recognizing that half of the entire world population or more than three billion people had no access to capital because of a lack of collateral. Considering this, the Grameen microcredit enterprise was built with foundational goals of extending banking facilities to poor men and women, working to eliminate the exploitation of the poor by money lenders and loan sharks, creating opportunities

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80 ibid., at 118-119.
82 Ibid.
for self-employment for the vast multitude of unemployed people in rural Bangladesh, and providing disadvantaged women from the poorest households access to financial capital that would otherwise be denied because of a lack of collateral.

For Grameen loan eligibility, individuals must voluntarily form groups of five people to provide a community of borrowers who mutually support each other in their financial obligations with the loan. These groups are required in lieu of collateral necessary for conventional loans from commercial banks. Initially just two members of the group apply for a loan, and when repayment occurs two more borrowers have access to funds and then the fifth. The group provides moral support and collateral for the loan, as well as support for the microcredit ventures the loan takers establish for their livelihood. The operations of the bank are characterized by a high expectation for individual and group discipline, and close contact with “bicycle bankers” or Grameen Bank employees with the job of selecting and supervising loan groups. There is a reliance on peer pressure from group members to ensure adherence to a weekly repayment scheme based on 50 installments. The repayment scheme encourages savings with a provision that 5 percent of the weekly loan should be placed aside in a saving fund for the group. Yunus asserts that high rates of repayment and growing savings funds prove that the poor targeted for Grameen microcredit loans are able to create remunerative occupations toward breaking their own cycles of poverty.83

With this structure, Grameen promotes the idea that when borrowers are given access to credit, they will be provided the opportunity to take part in feasible income generating projects

and activities relevant to their lives and cultural organization. Unlike most poverty alleviation non-governmental organizations (NGOs) and international development models, the Grameen Bank does not require skill training programs for the loan takers, but rather takes the perspective that access to and control over capital will empower the poor to maximize existing skills. A structure that draws from the idea in formal economics that the individual will act rationally toward their own self interest, while recognizing the importance of culture and socioeconomics as determinants for the potential success of the participants measured the establishment of viable businesses. Many Grameen Bank members in Bangladesh have started small businesses in stool making with local raw material, weaving, driving rickshaws, husking rice paddies and raising cows. Yunus asserts that the cash earned with small businesses like these has the potential to unlock a host of other abilities that will then allow the loan recipients to explore their own potential.

In 2006, at the time Yunus accepted the Nobel peace prize for his work with Grameen, women represented 80 percent of all borrowers. In defense of this statistic, Yunus argues that a loan managed through the woman of the house will benefit the whole family. He acknowledges that men cannot be excluded from the financial arena, and bankers should not impose on poverty a set of requirements that will impact the family and community as a whole. However, by prioritizing women as loan recipients, the bank is also prioritizing the children and men of the

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84 Ibid., at 138-139.
85 Ibid., at 140.
family. According to Yunus, in patriarchal societies where women receive loans, profound changes occur in the family as the following example illustrates.\textsuperscript{86}

Jorimon Kahn from Bangladesh was one of the first women to take a loan from Grameen in 1980, and currently runs two small and successful businesses she started with loans from the Bank. Prior to her first 10 dollar loan, Jorimon recalls feeling hunger during most of her childhood. She was married at the age of 10, and had her first child when she was 15 years old. Prior to starting her businesses with the Grameen group, Jorimon worked as a domestic helper and performed other menial jobs for a negligible wage. She never received a formal education, and at the age of 52 she is illiterate. She took her first loan in 1980 and with it purchased a paddy husker for harvesting rice. Her business was successful enough to begin the required loan repayments, and then she soon realized enough profit to send three of her children to school. During the subsequent years Jorimon took several more loans and started a firewood business that continues to support her growing family more than twenty years after her initial 10 dollar loan. She has also taken out Grameen Bank loans for home improvement projects, adding a sanitary latrine and a tube well.\textsuperscript{87}

Jorimon’s story provides an excellent example of the success of Grameen microcredit projects for poor women, and highlights the role of substantive economics in peripheral regions of the world. Because of success stories like these, the bank has grown dramatically in the past 25 years, and is currently operating in more than half of the villages in Bangladesh. The bank

\textsuperscript{86}ibid., at 70-71.

provides credit, savings, and insurance options for the country’s rural poor. The bank is operational globally with branches in Asia, the Middle East, Africa, Central and South America, and the United States. The most recent statistics released by the Grameen Foundation reiterate the success of microcredit projects: since the official establishment of the bank in 1983, more than 6 billion dollars has been loaned by Grameen bank globally, with a 99 percent repayment rate and 58 percent of these borrowers having crossed the poverty line.88

VI. Grameen Village Phone Replication in Rural Uganda

With its continued efforts to meet the needs of the rural poor with the provision of financial services, in 2001 the Grameen Bank pioneered a village phone program extending telecommunication services to the rural areas in Bangladesh where cell phone access is possible with existing technological infrastructure. Prior to the establishment of this project, access to telecommunications services did not exist for people living in rural areas of the country. In taking a step beyond the provision of loan money for the establishment of small businesses, Grameen Village Phone is a venture that seeks to provide loan money to clients for the purpose of providing mobile phone access in rural areas. With this project, women borrow money from Grameen to purchase mobile phones, and then operate the business of selling phone minutes to local communities.

Women established in microcredit support groups can apply for a loan between 200-250 dollars to purchase a starter kit that includes a mobile phone with a charger, prepaid air time, and

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an antenna (necessary to operate the phone from remote areas), marketing supplies, and a few other materials necessary to set up the business. In Bangladesh, Grameen, in partnership with national telecommunications providers, gains access to the telecommunications infrastructure and has been able to negotiate wholesale airtime rates for its loan customers so that community members can make affordable calls with the Village Phone. The Village Phone Lady sells airtime (phone usage) to community members and makes a slight profit that is then used for loan repayment, to cover business costs, and her own income. In this way the establishment of the Village Phone business has provided a new market niche for telecommunications companies, new and profitable micro-enterprises for rural poor with the Village Phone, and affordable and accessible access to telecommunications for the rural communities taking part in Grameen Village Phone in Bangladesh.

The venture has proved successful with obvious benefits: the initiative has provided access to telecommunications networks to many in rural Bangladesh with over 110,000 Village Phone Operators in place, access that has created a basic communication link to the larger world; at the community level access to a telephone saves money that would otherwise be spent for travel to communicate, trips that can cost two to eight times more than a single phone call; the owner of the mobile phone benefits with increased income; and in Bangladesh it is estimated that Village Phone Operators make between 24 to 40 percent of the household income on average.

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90 Ibid., at 7.

91 Grameen Foundation, "Where We Work/ Profiles of Village Phone Ladies." Home., [http://www.grameenfoundation.org/where_we_work/](http://www.grameenfoundation.org/where_we_work/).
household income from the village phone business. The increased social contact the phone operators gain from their business increases their own status and respect in communities that recognize the business of the village phone filling a critical niche. Ultimately with the phone businesses, both the phone ladies and community members gain more control over their lives because the capacity to communicate can facilitate self and community locally directed development.  

With clear successes of Village Phone in Bangladesh, the Grameen Bank in cooperation with its international working partner, the Grameen Foundation, decided to replicate the program in another country to test its viability in the international realm, with hopes of replicating the Village phone globally. In 2003, Grameen Foundation chose the country of Uganda for the initial replication of the Village Phone venture because of shared characteristics between Bangladesh and Uganda: a population of rural poor could potentially benefit greatly from such a scheme, as well as the potential to leverage existing wireless infrastructures in rural Uganda. These similarities between the countries Bangladesh and Uganda provided motivation for the initial testing of the waters in Uganda for the potential of global replication to peripheral areas.

Grameen held similar goals for the programs in both Uganda and Bangladesh: to provide access to telecommunications through microfinance in attempts to continue to chip away at cycles of poverty. The Village Phone project was initiated in Uganda in 2002 because of a strong establishment of microcredit projects in existence in the country. Grameen collaborated with microfinance institutions like FINCA, FOCCAS, and UWFT, organizations providing...
services in the country, ones that welcomed the potential client base accessed through the Village Phone project. In addition, the existing knowledge the Ugandan MFI’s had of rural areas in the country, as well as the presence of supportive loan groups, and relationships with bank workers in place, encouraged Grameen to replicate the Village Phone model in Uganda.

For the first time in Uganda, The Grameen Technology Center approached MTN Uganda, a major national corporation and Uganda’s leading mobile telecommunications provider, to propose a partnership with microcredit organizations for the provision of affordable bulk airtime packages for participants. Prior to the implementation of Grameen Village Phone the majority of telephones in the country were located in urban areas with approximately 1.72 telephones for every 100 people. Access to telecommunications in rural areas was cost prohibitive because of the lack of infrastructures in place for land lines, placing rural Ugandans at social and economic disadvantage.93 With intent of facilitating affordable access to telecommunications through microcredit, discussions between Grameen and MTN Uganda ensued and by March of 2003, partnerships with multiple Ugandan micro finance institutions and MTN Uganda had been forged with a promise from Grameen for increased business from a client base of poor rural Ugandans who prior to the microcredit project did not have the capacity to pick up a telephone and make a call.94

Currently, the village phone businesses established in Uganda are experiencing benefits similar to those in Bangladesh, essentially aiding in the break down of barriers to communication


94 Ibid., at 7-8.
that keep rural people isolated in poverty. The program in Uganda is growing, now reaching rural areas throughout the country where up to 19 million people live.95 The new phone business has created the opportunity for a productive business venture for the Village Phone Ladies who have taken part in the project, and complements already existing businesses with the provision of access to telecommunications. This microcredit project in Uganda has successfully utilized social collateral for loan eligibility and repayment, an aspect that fits nicely with rural cultural structures already in place in Uganda where communal support and care provides a social security net for those living rurally. In the face of shifting kinship dynamics in response to high poverty levels and the loss of life due to the HIV/AIDS pandemic, the program has boosted the collective confidence of rural Ugandans who desperately need access to telecommunication services because of their geographical isolation.

The profiles of four Village Phone Ladies in Uganda illustrate this reality, as they take part in the Grameen Village Phone Replication project in rural Uganda. Each of these women has established a phone business in their own unique cultural contexts shaped by cumulative historical and political forces. The profiles also provide examples of an emerging demographic of women taking part in such projects and show that the women heading up households do have agency as they negotiate with family and community networks for control over resources as they work to rise out of poverty.

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95 Grameen Foundation, “Where We Work/Profiles of Village Phone Ladies.” Home., http://www.grameenfoundation.org/where_we_work/.
Sophia Nalujja has been a successful borrower from UWFT for many years and is currently on her fifth loan cycle. Married with seven children, she runs a small restaurant in her rural village, and is also involved in fish mongering. Before joining UWFT, she worked as a farmer earning approximately 50,000/= per month. Through all of her business ventures, she now earns over 280,000/= per month. To market her village phone business, she has posted signs in nearby villages and visited local schools to inform them of the services she offers.96

Josephine Namala owns a small retail shop in a remote village in rural Uganda. Before she began operating her Village Phone business, people in her community had to walk over five kilometers to make a phone call. In the evenings, large groups of people gather in front of her store with FM radios to listen call-in radio shows. They use her village phone to call the radio

96 Ibid.
stations and make their opinions heard nationally. Josephine has chosen a six month loan from UWFT for her Village Phone.\textsuperscript{97}

\textbf{Angilina Wandera} lives in a village in Eastern Uganda and is a longstanding FOCCAS client. Her dress making shop is a natural hub of social activity in the village, bringing regular customers to her village phone business. She cares for 11 children (six by birth; five adopted children orphaned by death of parents to AIDS). Angilina sits in front of her house every day with her sewing machine and produces dresses that she sells to members of her community. When people come to use her Village Phone, they often place orders for clothes. Angilina’s business is located close to the Kenyan border; she frequently receives clients who make international calls to both Kenya and Tanzania. She has used the income generated from her Village Phone to pay school fees for eight of her school-aged children.\textsuperscript{98}

\textsuperscript{97} Ibid.

\textsuperscript{98} Ibid.
Justine Zikusoka operates a small retail shop in a small village in Western Uganda. She is currently in her 5th loan cycle and earns over 65 percent more than she earned before joining FINCA. She has used her loans to pay school fees for her children, feed her family and increase the working capital in her business. Since starting her village phone business in June, she has sold an average of over 30 minutes per day on her phone. Justine’s success with her Village Phone business has come from actively marketing her services in churches, schools, and through other FINCA clients.99

Each of these women makes visible the face of micro-entrepreneurs in Uganda, and gives example to the successful establishment of a telecommunications infrastructure through microcredit that has supported the creation of diverse businesses throughout the country. For example, Grace Ayaa of the Acholi Quarter, a poor neighborhood on the outskirts of Kampala, Uganda, has started a peanut butter business with a micro loan through Kiva, a San Francisco based MFI. Grace frequently relies on Grameen Village Phone operators to sell her peanut butter to shops on the outskirts of Kampala.100 The successes of these women and their participation in

99 Ibid.

the Village Phone project also highlight that microcredit projects have maintained viability since the modern day introduction of microcredit in the 1970’s, essentially supporting its goals of provided access to financial resources that work within the framework of being poor.

VII. Critical Analysis of Microcredit Enterprises in Uganda

While the growth of the industry and the successful replication of the Grameen Village Phone project in Uganda are indicators of success, there exists an increasing body of criticism of microcredit, as well as a lively and ongoing debate at the donor, institutional, and community levels. The nature of the debate is important to consider for a thorough analysis of microcredit in a World Systems context. Practical and theoretical critiques of microcredit at the institutional level, criticisms suggesting negative impacts on microcredit clients, and an examination of concerns directly related to modern day microcredit continue to influence the growth of the microcredit industry in Uganda.101

Ambivalence regarding the potential for success of microcredit has been part of the dialogue since its modern inception in the 1970s. Prior to that time poor people were unable to take part in the formal economic sector because of assumptions that they did not have the capacity to pay back their loans they had had high unemployment and illiteracy rates, and no collateral. Yunus disproved these ideas with the establishment of the Grameen Bank. However, skepticism about the validity of social collateral remains a point of contention among formal

economists. The debate among scholars and policy makers about the best ways to alleviate global poverty has included the question of the efficacy of microcredit projects that take a bottom up approach with a focus on small scale sustainable development programs like those supported by microcredit. It has been argued that the most effective global poverty alleviation efforts are large-scale top down approaches that tackle poverty by reducing national debt with structural adjustment that emphasizes cash cropping for the export market.

However, as microcredit gains popularity and more microfinance institutions are successfully established, recognition of this bottom up approach is not as far fetched for economists who previously scoffed at the idea of giving access to financial resources to the world’s poor. Currently, large structural organizations like the World Bank (the architects of Structural Adjustment Policies for debt relief in developing countries in the 1980s) have increased its microcredit portfolio to over four billion dollars for the first decade of the twenty-first century.

In the past 30 years the industry has grown tremendously, with more than 133 million microfinance client’s world wide. This dramatic growth has called into question the potential for compatibility between businesses established for profit, and MFI’s or non profit microcredit organizations with the primary mission of breaking cycles of poverty; for example the

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103 Ibid.

relationship between MTN, Ugandans for profit telecommunications provider and the microcredit organizations like FOCCAS that provide small loans to entrepreneurs. Further, MFIs are frequently supported by donor money that might otherwise be used for more holistic development programs that address poverty needs comprehensively, versus placing an emphasis on local entrepreneurship as the solution for poverty alleviation. According to critics, both the profit motive of business partners and the need for MFIs to show growth statistics to ensure further funding, have encouraged microcredit institutions to adopt a grow at all cost mentality, often neglecting larger needs of their client base including food security, the provision of health care, and affordable education. 105

In a stark example, in March of 2006, the government of Andhra Pradesh in South India raided and closed down all of the Microfinance Institutions in the Krishna District of India because of accusations that the MFIs in the district were deceptive with clients about interest rates, employed coercive collection practices, and practiced over lending for greater profit. 106 After several months of stalemate between the government of Andhra Pradesh and the MFIs over these issues, a settlement was reached with an agreement by the MFI’s to lower loan interest rates to below 20 percent. While this kind of dramatic action is not common, the case brings to light the potential for the MFI to become focused on growth and profit, overlooking the intent of the projects which universally claim a mission of poverty alleviation.

106 Ibid.
Microcredit is also criticized for the impact credit based programs have on poor people who get caught in cycles of debt that are difficult to break free of. Not every microcredit business succeeds, and if women are among those who are unable to make payments because of unplanned circumstances, they can result in the alienation from their social loan groups and carry a stigma in the community as having failed, as the following example demonstrates.

In 2004, a bank worker in Hyderabad, India was making visits to loan groups to conduct evaluations. One group, when asked how members were doing, told the story of a group member who was unable to make payments because of the recent death of her husband in a rickshaw accident. The same woman needed money to pay for medicine for her sick child and asked the group for loan money to buy the medicine. This woman was unaware of the fact that prior to her husband’s death, he had borrowed money from the same group, and the unpaid loan became the responsibility of his widow. The bank worker reported the widow left the village in shame because she was unable to pay back her dead husband’s loan, and had ever since been ‘ostracized by the whole village’. Cases like this one bolster critic’s argument that microcredit exploits women because they are burdened with financial debt, and unpredictable circumstances can intensify poverty or result in social alienation.

With realities like the account of the Indian woman, there is a belief that global emphasis should be placed on micro savings versus microcredit, with the assertion that ultimately the capacity to save will bring the poor out of poverty more effectively than the creation of small

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businesses based in a debt structure. Critics argue that debt is not sustainable; therefore the quick fix of credit or a small loan should not be touted as a long term global poverty alleviation method. Poverty reduction is a problem that requires action on many fronts, yet the media attention given to microcredit (including the awarding of the peace prize to founder of the Grameen Bank Muhammad Yunus and the designation of 2006 as the UN year for Microcredit) have created an impression that microcredit is the answer to ending the world’s persistent poverty, versus a strategy that works in a specific context with a small group of people able to harness individual entrepreneurial skills.108

Other critiques of microcredit structures include the criticism that microcredit programs have a gender bias because women are more likely targeted by MFIs as loan recipients. However, Muhammed Yunus and other microcredit leaders, claim that women have been targeted for microcredit programs because of the historic marginalization of women in the marketplace, and the fact that women tend to use the profits from their businesses for the betterment of the family. Women have proven to be better credit risks with a strong track record of paying back the loans.109 More recently in response to criticism of gender biases in loan programs, MFIs have been established to specifically market products to men.

The industry has grown rapidly in Uganda, a growth fueled by the Grameen Village Phone Replication project. As the industry expands, it too has drawn similar criticisms. Over


the past two decades, Uganda MFIs have been largely dominated by institutions based on Asian models, imported and funded by European and North American donors. Critics argue that this model risks cultural sensitivity, and claim that Ugandan MFIs fall victim to the temptation of prioritizing profit over substance as the industry continues to grow. Also critics have cautioned that the introduction of global projects like the Village Phone, have the potential to practice indiscriminant lending the boast numbers for continued funding of the project. There is also concern that donor support of institutions that do not have fixed policies on interest rates and loan caps for their clients can increase the likelihood of default resulting in debt stigmatization that can push clients into further poverty.

In Uganda, a recent governmental response to the rapid growth of the industry is compulsory loan insurance provided by a third party insurance company. This additional fee can be both confusing to calculate and cost prohibitive for clients already living with limited incomes. Here it is critical to recognize that in Uganda successful projects are in place and as the Village Phone project demonstrates, microcredit has helped women in rural areas to meet needs and in some cases realize profits; however these projects do not work for all of Uganda’s rural poor women, rather they provide a workable solution for some. In a study carried out in two Ugandan districts, 59 percent of the respondents said that access to secure savings was more


111 Ibid., at 114.

112 Ibid., at 117.

113 Ibid., at 115.
important than a loan\textsuperscript{114}, an indicator that enabling entrepreneurship through credit is not a sweeping solution for Ugandans.

Recognizing what critics and supporters acknowledge: that microcredit is not the only solution, rather a solution to poverty alleviation, it is fair to say microcredit is an effective tool that draws more people into a financial framework and targets a population assigned to peripheral regions in the world system. At the same time, because of corresponding problems, there is a deep need to utilize other tools to deal with the inequity of the world system. With increasing popularity of microcredit as a global poverty alleviation strategy, Vandana Shiva, Director of the Research Foundation on Science, Technology, and Ecology and author of “\textit{Earth Democracy: Justice, Sustainability, and Peace},” cautions against placing too much emphasis on this method alone, warning that a focus on human dignity and rights must be a priority for successful poverty alleviation programs. Shiva cautions against a deepening capitalist order that dominates every sphere of the global arena, making the argument that accepting the logic of capital as the only way leads to depletion of resources, it is not sustainable. In this way, other means of organizing with the activation of systems that go beyond a focus on capital and address issues of healthcare, universal education, and democratization must be put in place for poverty alleviation that moves toward eradication.\textsuperscript{115} However, from a world systems perspective, the

\textsuperscript{114} Thomas Dichte and Malcolm Harper, eds., \textit{What’s Wrong with Microfinance?} (Intermediate Technology Publications Ltd., 2007), 116.

\textsuperscript{115} Democracy Now, “Poverty a Threat to Peace,” Home, \url{http://www.democracynow.org/2006/12/13/poverty_is_a_threat_to_peace}. 
VIII. Conclusions: The Future of Microcredit and World Systems

Muhammed Yunus continues his pioneering work toward creating greater global economic equity. With wisdom gained from almost 30 years of successes and challenges with the Grameen Bank, in his newly published book *Creating A World Without Poverty*, Yunus has called for a clear corporate commitment that addresses the inequity of opportunity at the corporate level. He encourages a re-setting of the social balance that considers the potential for a compatible relationship between societal affluence and poverty promoting the idea of using a traditional business model to address social problems.\(^{116}\) The creation of social businesses, or businesses structured the same way as traditional businesses and corporations differ in the framework for management of profit; all profits from social businesses would be reinvested into the business to support the combined mission of providing services and products that provide opportunities and products for the poor.

One of the first successful social businesses Grameen-Danone, a company that produces an enriched yogurt, is currently thriving in Bangladesh. Grameen-Danone, tasked with the mission of improving nutritional access for poor children in Bangladesh, is providing jobs to local entrepreneurs who supply the raw materials, work in the factories, and deliver fresh yogurt

to stores. Yunus claims that the product Grameen-Danone supplies are an inexpensive highly nutritious product now widely available to Bangladeshi children because of the newly forged partnership between Grammen and the Danone yogurt company. All profits from social businesses are reinvested into the business to support the combined mission of providing services and products and opportunities for the poor.117 Yunus is currently working on the promotion of his social business model in the healthcare industry, through Grameen Health Care Services, which will set up eye care hospitals throughout rural Bangladesh.118

Drawing on the early success of Grameen-Danone, Yunus asserts that the creation of social businesses to combat poverty is inevitable stating, “the corporate business community needs to move beyond the notion of simply making money, prioritizing ‘humanity’ in profit driven economic models”.119 In this context, social business seeks to make profit, measuring returns by the number of lives improved, the decrease in the number of poor people in their market, and an increased quality of the environment around them.120

New proposals for the creation of social businesses, and with the groundbreaking work of the Grameen Bank, Muhammed Yunus continues to promote structural changes that attempt to bring large population groups out of poverty, efforts that challenge the order of the modern world system by developing strategies that prioritize the needs of the world’s poor. Microcredit offers

117 Ibid.
118 Ibid.
119 Ibid.
120 Ibid.
a solution that takes a bottom up approach in its attempt to narrow the gap between core and peripheral regions of the world, as the case study of Uganda clearly illustrates. For Ugandans who have been historically exploited by the formal economic sector that drives the capitalist world system, microcredit provides a strategy that goes beyond charity as it enables participants to gain control of financial resources. Furthermore, economic activity at the informal level initiated by microcredit allows for the economies of specific cultures to maintain vitality. Most effective is the platform microcredit creates for women, while actively constructing an alternative that provides opportunities for them to exercise ingenuity and the potential to succeed as entrepreneurs.
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