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The microfinance sector in Uganda: Journey, experiences, lessons, and outlook

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Abstract
The purpose of this paper is to explore the microfinance industry to note where it has been, the industry experiences and lessons learned, and the peer into its future. The study adopted a qualitative approach reviewing the extant literature about the subject. The review reveals that the industry evolved from the desire to help poor people access affordable microcredit and transform themselves into economically empowered members of their communities. Consequently, a number of initiatives have been undertaken to develop the industry. This has included targeted legislation and institutional development both globally and in Uganda. The industry experiences indicate that both welfarist and institutionalist objectives of developing the microfinance industry can be pursued with minimal contradiction. However, events pose a mixed bag of results. One the one hand, success stories of microfinance enhancing access to affordable credit, and empowering the poor financially to be more productive, among others, are mentioned. On the other hand, blatant failures at institutional and individual level are noted. Cases of usury, corruption, diversion of funds, confiscation of poor borrowers' property, a weak credit culture, and politicisation of the industry are noted. Nonetheless, the industry remains promising to the poor given the existing infrastructure. Moving forward, strengthening regulation, increased funding, depoliticisation of the microfinance policy and programmes will refocus the industry to serve better the poor.

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1. Introduction
This section provides a brief context of the microfinance industry in Uganda.

1.1 Background and Objectives
Uganda remains committed to eradicating poverty that stands at 20.3 percent in 2022 against a target of 10 percent by 2017/18 (Africa Economic Outlook, 2013; Uganda Bureau of Statistics, 2022). It is noted that the deliberate efforts by the National Resistance Movement (NRM) government in power since 1986, to resuscitate an economy that was left in shambles due to turmoil, and economic mismanagement superintended over by previous governments saw poverty drop from 56 percent in 1992/93 to 20.3 percent in 2022. It is claimed that one of these efforts, has been the provision of microfinance to the poor, and micro, small, and medium enterprises (MSMEs). Since the early 1990s, government initiated, implemented, and supported numerous credit programmes to eradicate poverty in all its forms including provision of small loans (microfinance). Such programmes include; the Rural Farmers Scheme, South Western Small-holder Rehabilitation Project, the '*Entandikwa'* Credit Scheme, The European Union (EU)/GoU Micro Credit Programme, The Youth Entrepreneurship Scheme, The Poverty Alleviation Project, and Prosperity for All (PFA), among others (Ministry of Finance, Planning & Economic Development, 2005). Most recently, in 2019, it rolled out the "*Emyooga*" (Talent Support Fund), across the country (Parliament of Uganda,

2021). Historically, microfinance related activities such as microcredit have existed in Uganda for close to a century now, and their importance, and impact seems to have been accelerated by the NRM government policy on poverty reduction since early 1990s. However, there is a lack of systematic articulation, synthesis, and compilation of the overarching aspects of the journey of the industry, the experiences, and lessons learned, and a plausible way forward to guide the repositioning of the microfinance industry to accelerate socioeconomic development. The author by analysing, interpreting, and compiling this material provides additional support literature to close the knowledge gaps about the sector. This material seeks to enhance the readers' appreciation of the historical, theoretical, conceptual, and contextual aspects of the microfinance industry in Uganda. This paper provides resourceful literature to researchers, policy makers, implementers, and other stakeholders on the past, present, and future of the microfinance industry in Uganda to guide microfinance policy formulation, and implementation.

This study attempts to showcase the microfinance industry in Uganda from where it has been, what has been experienced, and learned, and the likely future stance to catalyse socioeconomic transformation. In order to do so, it has endeavoured to:

1. Provide a synoptic historical, theoretical, and conceptual view of microfinance;
2. Describe the global microfinance position;
3. Document the journey of microfinance in Uganda;
4. Describe the experiences, and lessons learned; and
5. Provide a likely future stance of the industry in Uganda.

1.2. Methods and Materials

The study adopted literature review, which is a qualitative approach to collecting, and analysing data, and information obtained from secondary sources. The purpose of adopting this approach was to obtain a deeper understanding of the industry in a very short time period, and limited mobility occasioned by the enveloping global Covid-19 pandemic. The researcher reviewed relevant literature sources to synopsise the historical, theoretical, and conceptual perspectives of microfinance, and to document, and describe its global position, journey, and the experiences, and lessons learned respectively.

1.3. Paper Structure

This paper consists of six sections

- Section One introduces the study by providing a brief background, and study objectives, materials, and methods, and the structure of the paper.
- Section Two provides a synopsis of the historical, theoretical, and conceptual perspectives of microfinance. In doing so, it historicizes, and defines the concept, its intentions, and philosophy, and documents the microfinance industry lifecycle.
- Section Three describes the microfinance's global position providing the facts, and figures. It also examines the hits, and misses of the industry from the global perspective.
- Section Four chronicles the microfinance journey in Uganda. It describes the genesis, and evolution of the industry in the country including the policy regimes, and key milestones.
- Section Five describes the experiences, and lessons learned over time. It reviews critical areas in the industry including role of government, politics, and building a sustainable pro-poor microfinance, regulation, and regulatory administration, source of funding, governance, and management of microfinance institutions, linkage banking, wholesale microcredit, lending methodologies, culture, savings mobilization, information technology, public sector microfinance, and the emergence of the Covid-19 pandemic, and its consequences on microfinance.
- Section Six provides a conclusion, and outlook of the industry. It suggests in practical terms what could make microfinance more suitable to meet the dynamic needs of the poor, and how to deepen achievement of the social objective while ensuring sustainability of the microfinance institutions.

2. A synoptic historical, theoretical, and conceptual view of microfinance

This section provides a general overview of the historical, theoretical, and conceptual perspectives of microfinance. The author also traces its origins, and peers into its philosophy, and intentions, and generic models used in the industry.

2.1 The history of microfinance

The interest in microfinance as a tool to poverty reduction has risen globally in the last two decades. It is a hot topic in the social development discourse against the backdrop that poverty in developing countries is partly due to market failure such as limited access to credit in both rural, and urban areas. To Muhammad Yusuf, and other microfinance philosophers, and proponents including Jonathan Morduch, microfinance is the cure to such a perceived market failure (Morduch, 1999; CGAP, 2007) [41]. The success of the Grameen Bank in the mid-1970s onwards became an attraction point in organising financial service delivery to the poor in later years. Presently, international development agencies, government institutions, non-governmental organisations, and for profit enterprises are actively providing microfinance services.

Microfinance is a relatively new term in the development literature though small saving, and credit facilities have existed for centuries across the globe. Microfinance which traditionally is described as providing small loans to poor people has a long genealogy that may be traced back to eight successive accounts representing the waves of development of the microfinance industry as we know it today (Osthoff, 2005; Microfinance Gateway, 2009; Reserve Bank of Fiji, 2009). These include: (i) the premedieval small loan facilities by individual money lenders charging usurious interest rates in Europe that predate modern history. (ii) The Catholic Church established Pawn Shops in Europe around 1500 to provide small loans, and curb the usurious money lending practices. (iii) The Irish Loan Fund of the 1700s to provide small loans to the poor without collateral. (iv) The financial cooperative movement of 1800s pioneered by Friedrich Wilhelm Raiffeisen to provide savings, and loan services to members. (v) The state owned finance institutions of 1950s-1970s that lent money to agriculturalists on concessional low interest rates. (vi) Small loans to groups of poor women to invest in micro-businesses by Yunus Mohammad in the mid-1970s that gave birth to the Grameen Bank, and related models such as ACCION International, and the Self-Employed Women's Association Bank. (vii) Bank Rakayat with a paradigm shift from concessional low interest to cost recovery interest rates to ensure financial sustainability. (viii) Inclusion of other financial services in the 1990s like micro-savings, micro-insurance, and micro-money transfers besides microcredit that created a change in the nomenclature from microcredit to microfinance as it has come to be known post 2000.

Since 2000, microfinance has metamorphosed from a supply driven to a demand driven service where clients demand a variety of services including equity, and working capital financing, business development training, and support to create the desired business ecosystem (USAID, 2011; CGAP, 2013). These specific services are demanded by the client according to their particular, and peculiar business needs. There is also a realisation that all poor people are not necessarily entrepreneurs but all poor people need, and use a variety of microfinance services, and products (CGAP, 2007). Poor people need financial resources to organise their financial lives, meet their basic needs, create wealth, become financially resilient, and take advantage of opportunities. The microfinance outfit on the market in the 2020s, therefore, provides a number of financial services, and products aimed at satisfying the needs of the clients whether business or non-business – social funding.

2.2. Defining Microfinance

Microcredit, and microfinance are two terms used interchangeably to mean the same thing–providing small loans to the poor, and other groups that are not well served by the formal banking system. However, the two seem to differ in scope, and range of services. Srinivas (1997) [57] defines microcredit as … extending small loans to very poor people for self-employment projects that generate income, allowing them to care for themselves, and their families. This suggests that microcredit focuses mainly on provision of small loans to the excluded poor from the formal financial system. Microcredit does not, therefore, appear to include other services that small loan providers have come to extend to their clients.

Meanwhile, the Asian Development Bank (2000) defines microfinance as the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor, and low-income households, and their micro-enterprises. This definition suggests that microfinance is broader in scope of services, and range of products than microcredit. It can be inferred from the definitions of the two concepts that microcredit is a subset of microfinance, and only relates to provision of small loans to the borrowers.

Consultative Group to Assist the Poor (CGAP) (2006, 2013) considers microfinance as an extension of financial services to the poor. It targets individuals, and small businesses that face financial exclusion due to the small nature of their economic resources. Therefore, the essence of microfinance is to enhance financial inclusion in the community, and enable the excluded access services that are suitable for their peculiar needs. The name micro implies small size loans, and savings, small, and frequent loan repayments, shorter payment periods, focused on local level activities. One may argue that microfinance is a platform to enable financially excluded access small loans, build capacity to make small savings, and manage small enterprises, make small transfers between individuals, and ease their lives. In the current context of applying the term microfinance, consideration is given to both extension of microcredit, and associated financial services that are aimed at meeting the specific needs of the small under or unserved clients.

2.3. The Intention and Philosophy of Microfinance

Microfinance is intended to help the financially excluded segment of the population access quality financial services that suit their needs (Annin, 2010). The intention is to increase financial inclusion, reduce poverty, and contribute to employment creation (CGAP, 2013, Abrar & McMillan, 2019). Traditionally, microfinance aims at socioeconomic transformation of any society that is financially excluded, yet, still living in poverty (Murdoch, 1999). It is premised on consideration that poor people need financing at lower cost. However, the postulation of lower cost is getting eroded by the emergence of the institutionist paradigm of financial sustainability, and or the re-emergence of usury practices by some microfinance institutions (Montgomery & Weiss, 2011) [40].

The essence of microfinance appears to be twofold. On the one hand, it is intended to finance an activity generating income (income generation approach), and on the other hand, credit to improve living conditions of the household (minimalist approach) such as paying school fees, buying furniture, clothes, and other assets (CGAP, 2007, 2013). The bottom line of microfinance is poverty alleviation or eradication. The philosophy behind microfinance is that small amounts of credit help either break or end the cycle of poverty, and ensure financial autonomy to those in financial exclusion (Morduch, 1999) [41]. The sociological perspective of microfinance is enabling the poor work themselves out of poverty, and gain a financial voice. Microfinance is the first industry where the end clients are the very poor, and the business model focuses on sustainability, and social impact (Montgomery & Weiss, 2011) [40]. From the foregoing, the whole range of microfinance products such as microcredit, micro savings, micro insurance, trainings, and micro remittances are intended, at least theoretically, to help individuals trapped in poverty to break the vicious cycle of poverty, and improve their wellbeing – attain autonomy.

Microfinance institutions as tools of poverty alleviation are seen to have two dominant objectives, that is, financial, and social objectives (CGAP, 2013). These seem to be lying on two extreme ends of the financial versus social intentions continuum of the microfinance business. The financial objective, from the institutionist perspective, seeks profit maximisation. The driving logic seems to suggest that the institution should not rely on external help to remain operational but should generate its own internal revenues to sustain the business, and make profits. This school of thought advocated by institutionists avers that high risk poor customers can compensate for their risk through higher than market interest (Morduch, 2000) [42]. This sounds double faced when the client targeted is poor. The financial sustainability objective lies at the heart of optimising value from surplus labour for the investors in microfinance institutions. However, this approach increases the cost of doing business to the poor who are struggling to achieve financial empowerment. It may be argued that the financial objective is turning microfinance into a form of institutionalised exploitation of the poor through microloans. It may be claimed that it is this growing perspective of microfinance that is making the industry to be perceived as veering off its original intent of alleviating poverty.

The social objective from the welfarists' perspective seeks social development, and helping of the poor as the preeminent focus of the microfinance institutions (Bhatt & Tang, 2001) [6]. The central argument seems to be that microcredit should be delivered at a cost that does not erode the financial gains of the poor. This line of argument seems to align its rationale to provision of microcredit, and related services to promote the depth of outreach, and reduction of material, and non-material poverty. This appears to agree in principle with the original intent of microfinance of alleviating poverty as the primary focus. This may logically happen when the products, and services of the industry are accessible, and affordable.

There is a line of argument that financial objective, and social development as consequences of microfinance are neither at variance nor mutually exclusive (Schmied, 2014) [49]. This seems to be informed by the empirical evidence that the poor groups, more especially women in countries such as Bangladesh, Pakistan, Tanzania, and Uganda, among others, have been in position to pay back their high interest micro loans with over 96 percent recovery rate. At the same time, such groups have reported improvement in their wellbeing. However, this argument does not deny the fact that the depth of wellbeing would be much higher with market or below market interest rates. It does not also deny the fact that where the financial objective is predominant, the relationship between the lender, and the poor borrower is that of cheap labour for the lenders labour surplus. This labour surplus creates more wealth for the venture capitalist behind the microfinance institution than it improves the wellbeing of the poor. Moreover, the hard core poor remains outside the purview of microfinance due to the cost of microloans. Socially, the financial objective does not seem to recognise the great stress the poor go through to service higher interest rates. This reality erodes some of the expected social gains of microfinance.

Microfinance is considered the magic bullet that will shoot down global poverty. The initial theorisation, and conceptualisation of microfinance pointed to a ‘golden future time’ for the poor more especially in the developing world (Morduch, 1999) [41]. Since 2000, the informal businesses of the poor are seen as the critical type of un-met demand for credit, and poverty as the undesired outcome of market failure. Therefore, microfinance is promoted as a tool to correct the market failure. The dominant hypothesis is that microcredit creates economic power that translates into social power thus lifting the poor out of poverty (Yunus, 2007, Roodman, 2012) [56, 45]. Therefore, faith in the contribution of microfinance to poverty alleviation, and development remains strong as evidenced by statements of some thought, and policy leaders. "*The hope is that much poverty can be eliminated – and that economic, and social structures can be transformed fundamentally – by providing financial services to low-income households*" (Morduch, 1999) [41]. "*Through enhanced micro-finance, we are going to solve one of the bottlenecks -- absence of low-interest money for manufacturing... and farmers to engage in commercial farming... The privatization of commercial banks failed to solve the problem of high interest-rates,” (*Museveni, June 6, 2018) [43].

However, concerns regarding the intentionality, and philosophy of microfinance vis-à-vis its evidential impact remain. Questions such as has the microfinance industry lived to its promises, and expectations? Has it promised more than it could deliver? Hasn’t the promotion of microfinance created more questions than it provided answers to? Is it a constructive endeavour that is vastly overhyped? Is there evidential proof that this new tool reduces poverty? Does microfinance instead of alleviating poverty exacerbate it in particular contexts? Is microfinance another form of exploiting cheap labour from the poor by venture capitalism? Are abound. There is an attempt to provide answers to these questions in Section 3.2 of the paper.

2.4. Understanding the Microfinance Industry Lifecycle

Construction of the lifecycle of institutions, markets or sectors is central to appreciating the dynamics that drive their behaviour in any given context. Various attempts have been made to explain how the institutions in the microfinance industry evolve, and grow. However, lack of a single theoretical approach or model to explain the growth of these institutions sometimes creates analytical challenges. A few studies have paid attention to describe how the microfinance institutions evolve, and grow in a given context such as de Sousa & Frankiewicz (2004) [10] and Kapper (2007). Similarities, and differences in evolution, and growth behaviour of MFI institutions have been noted based on the source of funding whether private, NGO or state funded. These provide the stimuli to which most of these institutions are deemed to move towards financial sustainability, and social objective. However, financial sustainability itself is open to various interpretations, and its consideration as the main goal that drives MFI business is subject to debate.

De Sousa and Frankiewicz (2004) [10] suggest a generic model explaining how MFIs evolve, and grow. The model specifies three stages of development namely new, young, and mature. (i) The new phase includes start-up MFIs that have just started operations, are funded from a few sources, have low client base, incur high operational costs, and rarely breakeven though some may attain operational sustainability. Most also have weak management structures, systems, policies, processes, and procedures. This phase is presumed to last 0-4 years from inception after which, the MFI is assumed to transit to the next phase. However, the ability to transit to the next phase depends on how fast the MFI builds its systems, adjusts to the industry’s best practices, and builds its client base. (ii) The ‘Young Phase’ is characterised by operational, and sometimes financial sustainability. The MFIs at this stage are expanding but also consolidating the operations. They are observing the regulations, have evolved strong systems such as risk, and credit management systems, have lower portfolio at risk, access funds from a variety of sources, have built a reliable client base, and they have started enjoying some economies of scale. This phase is presumed to last 4-8 years. (iii) The ‘Mature Phase’ is characterised by MFIs that are financially sustainable. They have robust governance, and management systems, are able to meet their operating costs, and return a profit. Such firms are in position to provide a variety of services, secure funds from low cost sources, and operate at a much lower unit cost. These MFIs have been fully integrated into the financial system of the economy.

From the perspective of MFIs that grow from NGO operations, de Sousa & Frankiewicz (2004) [10], and Kapper (2007) suggest a four stage model of evolution, and growth namely start-up phase, expansion phase, consolidation phase, and integration phase. These are expounded on here below:

1. During the start-up phase, the MFIs are financed through donations, and concessionary funds which attract low costs. At this time, the market is untapped but customer

demand is limited, the systems are young, and weak, the MFIs lack business experience, and serve a limited market. The unit operating costs are high, and the institutions operate a tight budget. They may not easily access financial markets. It can also be added that in this phase, the regulatory framework for the industry is evolving, and does not guarantee safety, and soundness of the financial system, and effective protection of the customers. Most of the rules, and regulations are new, and have not yet fully permeated the layers of the industry. The actors face capacity gaps including weak governance, and management that limit their operations.

2. At the expansion phase, the MFIs have resolved their operational challenges, and are extending their services to a larger client base. The firms have tested their business models, and have made a few market driven service, and product innovations. The firms operate an expanded client outreach. The rules, and regulations are being appreciated by the key players. The capacity of the actors more especially MFIs, and regulators is improving, and safety, and soundness of the MFIs is better. Customer confidence is improving, and customers begin to trust the institutions. However, the need remains to strengthen the rules, and regulations to enhance soundness of the MFIs, and customer safety.
3. Consolidation Phase is where the MFIs are investing in attaining sustainability. The operating costs are lower due to prudent cost management, better pricing decisions, and operational practices. The market outreach continues to grow, operations are more formal, and the MFIs are attracting more deposits thus accessing low cost funds. The firms start realising profits. The industry regulatory system takes shape, and is in position to guarantee more safety, and soundness of the financial system, and customer protection. Regulatory institutions get stronger, and specific regulations that handle industry specific matters are in place. For example, at this point, a specific regulator for microfinance is in place. At this point, some MFIs have translated into robust deposit taking institutions.
4. Integration Phase includes the MFIs being more robust, having adequate financial resources, and entering the mainstream financial sector, some by transforming into formal microfinance banks. At this level, the MFIs no longer need subsidies, and grants in their capital structure as they are commercially sustainable. They have access to financial markets, are financially sustainable, and profitable due to charging commercial interest rates. There is more compliance with the regulations, and the supervision is more stringent given the greater risk these institutions pose. The safety, and soundness of the financial system, and customer protection levels are at their highest. The interaction between the MFIs, the regulators, and the clients is guided by the regulations, and market needs. From this angle, the microfinance industry is considered mature, and sustainable.

Consistent with characteristics of life, MFIs, and the microfinance industry have a life that grows, and develops, and can have a definite end. However, this observation is not limited to MFIs, and the microfinance industry just replicating or getting larger in size, and then facing demise, but also, there is the ability to rebuild, and repair themselves when injured. This observation creates a fifth phase–the decline phase to the lifecycle. In the decline phase, business begins to slow down, customer base drops, operational costs rise again beyond breakeven levels, and the business begins to make losses, and the MFI(s) or the industry becomes less sustainable, and profitable. For example, it is noted that in India, Pakistan, Mexico, and some other countries, the MFIs, and the industry itself are facing a meltdown. The aforesaid suggests that they are in the decline phase of evolution, and development. As argued by Porter (1980), the good news is that businesses, and industries can be reincarnated through deliberate strategies. Reversal strategies can be adopted that could take the MFI(s) or the industry back to maturity stage. These strategies however, are not the focus of this paper.
From the foregoing, it can be inferred that MFIs, and the industry itself go through a lifecycle from the inception to when the industry matures, and declines. During each of the phases of the lifecycle, both the MFIs, and the industry exhibit certain characteristics that explain where in history of business development they are. This characterisation is instrumental in guiding policy makers, and industry players in taking necessary decisions to drive the competitiveness of the MFIs, and the industry. Competitiveness in this regard should not be about how profitable the MFI or industry is but how well it meets the objectives it set out to realise vis-à-vis other players. In case the primary objective is poverty eradication, then, the competitiveness could be viewed in terms of how well the MFIs or industry is creating an impact on poverty reduction in the community.

3. Global Microfinance Position
This section describes the microfinance's global position providing the facts, and figures, and also examines the hits, and misses of the industry from the global perspective.

3.1. Global Microfinance Position: Facts, and Figures
The microfinance industry has witnessed significant growth over the past two decades. The microfinance global portfolio in 2018 is estimated at US$124.1 billion distributed across regions as indicated in Table 1 below.

Table 1: Global Microfinance Statistics 2018

	Region	Portfolio Size (US$) Billion	Borrowers (millions)	Gender Component (%)		Location (%)		Average Loan Portfolio US$
				Male	Female	Urban	Rural	
1	Latin America & Caribbean	48.3	22.2	37	63	71	29	2,176
2	South Asia	36.8	85.6	11	89	28	72	430
3	East Asia & Pacific	21.5	20.8	27	73	21	79	1,034
4	Africa	10.3	6.3	36	64	40	60	1,635
5	Eastern Europe & Central Asia	5.7	2.5	51	49	38	62	2,280

6	Middle east & North Africa	1.5	2.5	27	63	53	47	600
		124.1	139.9	20	80	35	65	887
This is estimated to reach over US$150 billion by 2020 while it be in excess of US$ 300 billion by 2026. The expected CAGR is 12% and much of this growth will take place in Asian countries account for over 50% of the microfinance reserves globally. Similarly, there is expected growth in microfinance clientele during the projected period.								

Adapted from Microfinance Barometer (2019)

The global microfinance situation is rather promising though the portfolio, and the impact fall short of the desired level for a more dramatic change in society. A report by Research and Markets (2016) projects a compounded average growth rate of 15.56 percent in the global microfinance industry but projected to reach US$156.7 billion in 2020, and US$304 billion by 2026. As indicated in Table 1, in 2018, the number of borrowers were 139.9 million, 42 percent higher than 98 million borrowers 10 years back. This is a phenomenal growth. However, this is against a backdrop of about 1.3 billion people currently living under multi-dimensional poverty in need of microfinance of whom, 603 million live in extreme poverty globally (World Poverty Clock, 2020). Africa, remains with 70 percent of the world's poor people totalling about 422 million. It is tempting to assume that Africa, having a highest percentage of the poor, should also have the highest loan portfolio to eradicate poverty. Table 1 indicates that Eastern Europe and Central Asia has the highest average loan portfolio followed by Latin America and Caribbean. South Asia has the lowest average loan portfolio at US$430 due to a high number of borrowers in relation to the loan portfolio. Africa does better in terms of average loan portfolio at US$1,635 compared to the Middle East and North Africa, South Asia, and East Asia and Pacific. It is also better than the global industry average by US$748. However, Africa which is home to 70 percent of the world's poor population has relatively fewer borrowers at 6.3 million people, yet hundreds of millions are poor, and in need of borrowing.

Africa posts less than average rural outreach at 60 percent compared to the global average of 65 percent. It has to be noted that reaching out to the rural communities where majority of the poor live accentuates the microfinance sector's ability to enhance financial inclusion. East Asia, and Pacific, and South Asia are doing very well on this front posting outreach levels of 79 percent, and 72 percent respectively. However, observing the size of the average loan portfolio for South Asia, the high outreach appears to deliver small loans to the rural communities. But seen from the angle of accessibility to microloans, East Asia, and Pacific and South Asia are doing very well.

With the projected growth in market size and loan portfolio, the microfinance industry is poised to play a greater role in enhancing financial inclusion, and helping out the poor pull themselves out of poverty with the small loans, and other financial services extended. However, this outreach remains inadequate with fewer outreach points, and small loan portfolios per outreach point to transform the majority poor as about 2.5 billion people are in need of microcredit to create income generating enterprises, 1.3 billion remain in multidimensional poverty, 603 million of whom are in extreme poverty, and 70 percent of them in Africa. The industry remains small relative to the needs of the people only reaching about 5.6 percent (139.9 million) people of the 2.5 billion in need of credit. Though microfinance is not a single dose pill for curing poverty, more innovations, and investment in the sector remains crucial for sustainable poverty reduction.

3.2. Microfinance Sector: Hits and Misses

Evidence from Pakistan, Bangladesh, and Sub-Saharan Africa suggests that the microfinance industry has helped the poor in a number of ways. Microfinance is credited for five (5) key benefits in reducing poverty (Srinkart *et al*., 2008; Copestake & Williams, 2011; Roodman, 2012; Karlan *et al*., 2016; Abrar & McMillan, 2019; Microfinance Barometer, 2019; Uganda Microfinance Regulatory Authority, 2019) [45]. These are: (i) Encouraging entrepreneurship among the poor access to microcredit, and skills development has alleviated two critical impediments to poverty reduction namely limited access to capital, and low entrepreneurial skills among some beneficiaries. Consequently, the stock of entrepreneurs emerging from poverty is on the rise. (ii) Increase in income generating activities by the poor thus reducing income poverty. The Microfinance Barometer (2019) indicates that in 2018, the loan portfolio was US$124.1 billion, and 139.9 million people accessed credit from official sources world over. Though this remains far below the 2.5 billion people that need microcredit to operate thriving business, it is nonetheless a commendable effort. (iii) Empowering the poor especially women and the youth who are excluded from the formal financial sector, and marginalised by the social structure, and limited opportunities to income. In 2018, it is reported that of the 139.9 million people that accessed microcredit, 80 percent were women, and 65 percent were from the rural setting confirming that the microfinance industry has the ability to empower the marginalised. (iv) Building social capital, and solidarity among the poor. Regular meetings to repay the loans or pool savings lead to repeated interactions, creation of networks thus generating greater social capital. (v) Increase in household, and community resilience to rise up to social, and economic challenges. The latter is a consequence of the first four benefits associated with microfinance. Overall, it may be noted that the poor communities through microfinance are more able to access health facilities, education, meet their basic dietary needs, afford better accommodation, and means of transport, and enjoy improved wellbeing.

However, microfinance meltdowns have been reported in a number of microfinance contexts (Karlan & Zinman, 2011; Yunus, 2011; Roodman, 2012; Cull, 2015; Duggan, 2016) [45]. In Morocco, Nicaragua, Pakistan, Bosnia, Mexico, Lebanon, India, and Sub Saharan Africa, cases of contraction are reported. There are growing voices about microfinance reaching a few poor people (Cull, 2015; Karlan *et al*., 2016; Microfinance Barometer, 2019), and extending short term loans at high costs to the borrower by the commercial microfinance institutions (see Roodman, 2012; Uganda Microfinance Regulatory Authority, 2019) [45]. From the foregoing observation, an intriguing question arises; are microfinance institutions taking money to the poor or making money out of the poor? The imbalance between the pursuit of the financial sustainability objective vis-à-vis the social objective is blamed for the aforementioned question. Cases of lender opportunism resulting in the abuse of borrowers' rights, and making them pay more than what is due were noted. It is also averred that microcredit is sending some poor people deeper into poverty, and social exclusion. Moreover, microfinance is faulted for making the poor dive deeper into the sea of poverty (Cull, 2015). This has been a consequence of promoting the finance objective at the expense of the social objective. The high interest rates charged by commercial microfinance institutions make poor people earn lower returns off their enterprises as a higher percentage of the earnings is eroded by the high interest costs. However, while this seems common with commercial microfinance institutions, the experience with state microcredit is also not promising. High credit delinquency rates, unsustainability of the programmes, political interference, bureaucracy, corruption, crowding out of the commercial microfinance institutions, and building, and sustaining a negative credit culture are also noted in State supported microcredit initiatives.

Some poor people have been reported to have lost assets when business goes south. Failure to pay back the loans has resulted into confiscation of the assets of some of the poor hence disempowering them, and increasing their vulnerability (Roodman, 2012; Cull, 2015) [45]. Breakup of social relationships when some of the group members fail to meet their obligation has weakened their social capital. The high interest rates charged by the microfinance institutions to cover their operating costs, and remain sustainable–maximise profits have hurt many poor households (Cull, 2015; Duggan, 2016; Karlan *et al.*, 2016). It seems, microfinance exacerbates poverty in some contexts instead of alleviating it. This could be a new market failure that inhibits the poverty reduction potential of microfinance industry.

The microfinance industry is also criticised for failure to create more jobs to lift the majority poor from poverty. Critiques of the microfinance movement arguably say, 'create jobs not loans' to fight poverty (see Karmani, 2011, Baker, 2016). These critiques do not seem to see a significant, and positive correlation between access to microcredit, job creation, higher household incomes, and prosperity. The argument is that to match the current job needs of the majority poor, creating large scale industries, and a large scale service sector are imperative. They will create opportunities for full employment hence eradicate income poverty faster than the small loans will do. The aforesaid lends credence to Cull (2015) claim that in Mexico, Morocco, and Ethiopia, among others, there is no much transformational evidence of the impact of microcredit on household incomes, wealth or reduction in poverty levels.

Though the microfinance industry seems to be stumbling in some contexts, its intentions, philosophy, and benefits to the poor remain desirable. In developing countries, it remains a tool for poverty reduction that either the poor or their governments cannot do without. Governments must face the challenge of unlocking the stunted potential of the microfinance industry. Cull (2015) calls for a review of the micro lending methodologies, and funding opportunities to create more impact. New, and innovative ways, and models of doing business to drive the microfinance industry forward are needed. Considerations such as capitalisation of microfinance institutions, cutting down the absurd interest rates or setting concessional rates, providing funds for longer credit periods, building the capacity of the poor in terms of organisation, and access to technology, and tapping more into government, and pension funds seem plausible missing links. Realigning microfinance approaches to focus on greater job creation among the youth, women, and to those in persistent poverty is essential. Efficient, and effective regulatory administration is fundamental in building, and sustaining a transformative microfinance industry.

4. Chronicling the Journey of Microfinance in Uganda

This section presents the genesis, and evolution of the sector in Uganda, the waves of development, and associated reforms, and the changing landscape of microfinance sector as driven by both public, and private sector dynamics. It provides the interventions, and policy regimes, milestones, trigger factors, and implications for industry growth.

4.1. Genesis and Evolution of Microfinance Industry in Uganda

The history, and development of the microfinance industry in Uganda has been shaped by the political processes in the country. Different executive pronouncements, policies, and legal enactments have determined the direction the industry takes at a particular point in time. Since colonial era, governments have implemented political decisions, micro, and macroeconomic policies, and strategies that have changed the course of evolution, and development of the microfinance. The most serious efforts to ensuring a systematic development of a formal microfinance industry in Uganda can be traced to the period post 1986 when the NRM took over government.

Historically, both formal, and informal microfinance arrangements have existed in various forms in Uganda over the years. Microcredit activities such as extending small loans by individuals at high interest rates predate Uganda's current history. Moreover, the Rotating Savings, and Credit Associations (ROSCAs) have been sources of small loans. In the recent history, Centre for Policy Analysis (CEPA) Policy Series Paper No. 19 of 2017 indicates that the first formal microfinance initiative was the African Civil Servants Co-operatives Thrift, and Loan Society Limited of Kampala established by the colonial government in 1946 under the Cooperatives Ordinance 1946 (CEPA, 2017). By 1962, all-rounder cooperatives had been formed that extended microcredit to farmers, and mobilized small savings that were ploughed back into agriculture. These cooperatives were regulated under the Cooperative Act of 1963. In 1972, Uganda Cooperative Savings, and Credit Union Limited (UCSCU) was formed as a national apex organisation for Savings, and credit Cooperative Societies (SACCOs) in the country under the Cooperatives Societies Act 1970, and later under the Cooperatives Statue 1991. The enactment of the Uganda Cooperative Societies Statute 1991, and the Uganda Cooperative Societies Regulations 1992 enabled the establishment, and growth of the SACCOs as retail microfinance service providers.

In 1980s, and early 1990s, some key microfinance institutions (MFIs) were established. These included Centenary Rural Development Trust (CRDT) in 1983, which started extending financial services to the public in 1985, Uganda Women Finance Trust (UWFT) in 1984, Foundation for International Community Assistance (FINCA) Uganda in 1992, Foundation for Credit, and Community Assistance (FOCCAS) in 1993, and Promotion of Rural Initiatives, and Development Enterprises (PRIDE) in 1995. These MFIs are deemed as the pioneers of modern microfinance industry in Uganda (Association of Microfinance Institutions of Uganda, 2008). UWFT, and FINCA used group based lending methodology while CRDT used individual lending based on innovative physical collateral. In addition, there were several government credit programmes, and policies that aimed at extending microcredit such as Rural Farmers Scheme 1987, Cooperative Societies Programme 1992, '*Entandikwa'* Credit Scheme 1996, Poverty Eradication Action Plan (PEAP) 1997, Plan for Modernisation of Agriculture (PMA), and National Agricultural Advisory Services (NAADS) 2001, Rural Microfinance Project 2003, Plan for Enhancement of Sustainable Financial Services/Microfinance Outreach Plan 2003, and the Poverty Alleviation Project (PAP) 2006 (Ministry of Finance, Planning & Economic Development, 2005, National Planning Authority, 2010). The Microfinance Outreach Plan was later translated into the Rural Microfinance Support Project (RMSP) with a primary focus on lending to the small scale community based organisations (CBOs). However, the lines of credit were open to larger scale MFIs that needed capitalization to lend to the poor.

The early development of a robust microfinance industry in Uganda was supported by multilateral agencies, and International non-governmental organisations (INGOs) such as the United States Agency for International Development (USAID), and PRESETO/Center for Microfinance, and stakeholders such as the Association of Microfinance Institutions in Uganda (AMFIU). These agencies were instrumental in coordinating the early efforts of creating a sustainable microfinance industry in the country (Association of Microfinance Institutions of Uganda, 2008). In January 1996, a microfinance seminar sponsored by USAID was held which was a landmark engagement between the different stakeholders, and opened the doors for growth, and development of the microfinance industry. In the first five years post the landmark seminar, between 1998 and 2003, from the impetus created, the industry attracted about US$40 million in portfolio, developed a shared stakeholder vision, and drew government support (Duflos & Imdedon, 2004).

The aforesaid developments coincided with government's reformation of the economy to ensure greater efficiency, and effectiveness in service delivery. The liberalisation policy that the NRM government undertook since it came to power, and the popularisation of microcredit for poverty eradication created a supportive ecosystem for a well-structured, and functional microfinance system in the county (Association of Microfinance Institutions of Uganda, 2008). For example, the three dominant policy frameworks that drove the country's economic agenda in the 1990s, and early 2000s namely the Plan for Modernisation of Agriculture (PMA), the Poverty Eradication Action Plan (PEAP), and the Medium –Term Competitiveness Strategy (MTCS) deliberately articulated microfinance as the tool for poverty eradication. This gave the industry players the impetus, and confidence to organise the industry, and attract business.

Underscoring the role of microfinance in the country's development agenda catalysed the systematic growth of the industry in Uganda. Subsequently, there was emphasis on actions that promote microfinance industry such as prioritisation of savings, emphasis on small deposits, and mobilisation of the poor people especially, the rural communities to work with savings based institutions. Moreover, the revisions to the PEAP in 2003 attempted to address the challenges of the industry. These included establishment of a focused microfinance policy that addressed issues such as capacity building, outreach, product mix, agriculture finance, regulation of the unregulated service providers, specifically, the tier 4 institutions, savings mobilisation, and interest rates, among others. The industry also attracted political support right from the head of state who had a firm belief that microfinance services empower the poor more especially the youth, and women to have a simultaneous solution to the challenges of lack of capital, low level of technology, and low social organisation.

As noted earlier, the introduction of the PEAP in 1999 streamlined the need for creating a sustainable microfinance industry (Ministry of Finance, Planning & Economic Development, 2005, National Planning Authority, 2010). Consequently, between 1999 and 2005, Uganda pursued a microfinance policy that sought to integrate the microfinance market into the mainstream financial sector. This included encouraging the NGO established MFIs to transform into central bank supervised deposit taking institutions. FINCA in 2004, and PRIDE Microfinance in 2005 were among the earliest adopters of the MDFIs status in Uganda. This policy regime could be seen as a shift from the welfarist to institutionist perspective of microfinance as financial sustainability became the primary objective of the MDIs under the watchful eye of government.

The transformation of the industry precipitated by the 1999-2005 policy shift became an opportunity to encourage government to scale down from direct lending, provide an environment for the growth of the private sector, and a window of hope for the NGO founded MFIs to pursue financial sustainability– in a purely institutionist style. That is, fostering business operations that do not only result into operational sustainability, but also lead to profitability– which equates to realisation of financial sustainability. This policy dispensation found much favour among the development partners, and private investors who considered it an opportunity for a commercial microfinance industry. The breadth of microfinance providers widened to include banks such as Centenary Rural Development Bank (CERUDEB), insurance companies, SACCOs, Non-Governmental Organisations (NGOs), and Community Based Organisations (CBOs). However, the outreach remained limited threatening the government's desire to attain wider, and deeper financial inclusion, and provide production credit to poor people at affordable rates without restrictive policies (Ministry of Finance, Planning & Economic Development, 2005).

The slow progress in outreach, and restrictive practices of the commercial MFIs seeking financial sustainability seemed to put less emphasis on the social objective. Restrictive practices, and high interest costs associated with MFIs symptomized market failure. This attracted government back into the practice of providing affordable credit, and ensuring greater outreach to the under or unserved sections of the community against its earlier position of regulation, and support to capacity building of the MFIs. In a welfarist perspective, as witnessed in the Microfinance Policy, and Regulatory Framework of Uganda 2005-2015, the government besides allowing the MDIs to exist, and grow under a favourable regulatory regime (MDI Act 2003), chose to promote SACCOs (Ministry of Finance, Planning, and Economic Development, 2005). Each sub county in Uganda was encouraged to establish a SACCO supported by government. These SACCOs were to be capitalised with funds from the Microfinance Support Centre (MSC) Limited, a government fund management agency established in 2001 under the RMSP of 2000-2008. MSC was established to manage microcredit funds, and offer business development services to MFIs including SACCOs, and Micro, Small, and Medium Enterprises (MSMEs).

The aforesaid policy changes could be linked to positive developments in the microfinance industry such as the widening, and deepening access to financial services by the excluded sections of society. A Finscope survey in 2018 found out that 78 percent of adult Ugandans had access to some form of financial services either from formal or informal sources (Finscope Uganda, 2018). The report also showed that the number of adults accessing formal financial services had doubled since 2006 reaching 58 percent by 2018. Unlike in the 1999-2005 policy direction, the major outputs of the post 2005 policy dispensation included lending to SACCOs, MFIs, and MSMEs at affordable rates, establishing sub county SACCOs throughout the country, and building capacity of the SACCOs, MFIs, and MSMEs to enhance financial inclusion. The overriding objective was to serve the poor better. This policy direction drew some criticisms from both the development partners, and the private microfinance institutions. The bone of contention was that creation of SACCOs with concessionary funding is distortionary to the growing, and lucrative microfinance market. It was also considered that the government inviting itself back into the business of lending to the SACCOs, MFIs, and MSMEs through MSC would presumably lead to market failure by destabilising interest rates, and operational, and financial sustainability of commercial MFIs. However, current literature claims existence of financially sustainable MDIs, commercial MFIs, and SACCOs in spite of the policy shift (Association of Microfinance Institutions in Uganda, 2016; Uganda Microfinance Regulatory Authority, 2019). This policy regime has witnessed phenomenal growth in SACCOs, and MFIs, and the outreach of microfinance services to the rural communities, and the poor in line with government objectives. It should be pointed out that this growth in the industry seems to be a quantitative observation, other than a source of quality microfinance services. It is therefore considered not adequate to address the microcredit gaps to pull the majority of poor people out of poverty to prosperity.

The review notes that in the political history of Uganda, there are interventions that have created the right ecosystem for the systematic establishment, and growth of the formal microfinance industry. In Table 2 below, an account of the key events in the evolution, and development of the microfinance industry in Uganda since 1946 when a formal microcredit, and saving institution was established is provided together with the trigger factors, and the implications on the industry.

4.2. A Chronicle of Microfinance

This section provides a chronicled account of the evolution and development of the microfinance including the critical interventions, and policy regimes, and key milestones realised.

Table 2: A chronicle of Microfinance Evolution and Development in Uganda

Period	Critical Intervention & Policy Regime	Key Milestone	Salient Trigger Factors	Main implications for industry Growth
1946	Enactment of Uganda's Cooperative Ordinance 1946	African Civil Servants Co-operatives Thrift, and Loan Society Limited of Kampala established in 1946	Urgent need to create a social economic structure for self-help, and reliance among civil servants	The first formal SACCO created. It was precursor for the SACCOs as sources of microcredit in Uganda based on collective action
1950	Ordinance No. 50 enacted	Uganda Credit, and Savings Bank (UC&SB) established in 1950	Offer more banking, and credit opportunities to indigenous people	Africans were brought into mainstream business, made bankable, and provided with credit
1952	Money Lenders Act 1952	Formalized money lending as a source of microcredit	Regulation of the activities of mushrooming lenders	Guided the operation, and growth of money lending business
1955	Building Societies Act passed	First building society established	Need to pool funds for investment by collective action	▪ Strengthened the culture of pooling of funds through member subscription ▪ Increased the stock of capital for microcredit (capital, loans, and deposits raised) ▪ Formed the foundation of group savings, and loan schemes
1963	Cooperative Societies Act 1963	Cooperative Bank created in 1964	▪ Mobilize cooperative savings ▪ Generate cooperative savings ▪ Finance cooperative development	▪ Opportunity for savings mobilization ▪ Pooling of funds for microcredit with members having a priority ▪ Greater access to affordable microcredit
1965	Uganda Commercial Bank Act passed	Uganda Commercial Bank established as a successor to the Savings, and Credit Bank	Need to extend banking services to rural areas, and provide credit to the rural farming communities	▪ Continue some of the services of UC&SB such as affordable credit to small farmers ▪ Extended credit to the rural population enhancing financial inclusion

				▪ Provided a channel for intermediation of government credit. The bank though faced many challenges related to management of credit
1972	▪ Cooperative Societies Act 1970 No. 53 & Cooperative Societies Regulations 1971 No. 30 enacted ▪ Cooperative Bank established under the Cooperative Societies Act 1963 & Banking Act 1969, licensed as a commercial bank in 1974	▪ Uganda Savings, and Credit Cooperative Society established 1972 ▪ Cooperative Bank licensed as a commercial bank 1972	▪ Need to create an umbrella organization to control, and coordinate various SACCOs in the country ▪ Provide a framework for establishment of one SACCO per sub county ▪ Have a bank owned by the cooperatives to provide for their financial needs	▪ An umbrella organization to coordinate the development, and operations of SACCOs in Uganda was formed ▪ Efforts to establish one SACCO per sub county were kick started ▪ Cooperative Bank services opened to the wider financial market enhancing financial inclusion
1980-1993	▪ Economic Recovery Programme 1987 ▪ New government policy on direct credit through projects such as Northern Uganda Rehabilitation Programme, Cotton Subsector Development Programme, Rural Farmers' Scheme ▪ The 1970 Cooperatives Act repealed by the Cooperatives Statute 1991, and the Cooperatives Regulation 1992 ▪ Financial Sector Reform Programme 1993 ▪ Financial Institutions Statute 1993 enacted (the statute covered banks, credit institutions, building societies, and development finance institutions, bringing all financial institutions under the supervisory authority of the BOU).	▪ Foundation for economy wide reforms including the financial industry ▪ Targeted public sector credit created ▪ Government pursued a policy of direct credit administered through ministerial, and local government offices, and UCB (UCB rural farmers' scheme 1987-1993) ▪ Financial sector reforms 1993 e.g. liberalization of the financial industry ▪ New NGO based, and private players created e.g. CRDT, UWFT, World Vision, Feed the Children, Food for the Hungry, and Freedom from Hunger established ▪ Cooperative societies programme implemented ▪ USCU given a new lease of life ▪ Building societies reactivated ▪ Policy of liberal licensing of financial institutions implemented	▪ Need to strengthen the weak banking credit system ▪ Create credit facilities for production ▪ Foster gender equality e.g. access to credit by women excluded by existing systems ▪ Extend credit to the rural communities ▪ Need to create capital stock from small savers	▪ Microcredit culture reactivated after the political, and economic crises of the 1970s, and early 1980s but the schemes suffered high delinquency levels ▪ Rural farmers accessed credit from the 190 UCB branches country wide ▪ NGOs, and private sector attracted into the microcredit industry. New microcredit credit system born e.g. group lending ▪ Building societies extended their network to almost every district enhancing financial inclusion, and helping some small savers create stock of capital through credit deposits. However, these quickly disappeared in the late 1990s
1993-1998	▪ National *Entandikwa* Credit Scheme (ESC), and Youth Entrepreneurship Scheme (YES) 1993-1997 ▪ Poverty Alleviation Project (PAP) 1994-1998 ▪ PEAP implemented as a national planning framework in 1997 ▪ USAID PRESTO Project 1997	▪ Government startup scheme retailed through government structure ▪ Microfinance capacity building, and loan wholesaling facility created through PAP ▪ PEAP implemented with one of the foci being microfinance ▪ USAID-PRESTO project implemented. Seminar on structuring the microfinance industry held ▪ Private sector forum of microfinance industry established (AMFUI) in 1996	▪ The urgent need to address the needs of the rural communities, and the youth access affordable credit [seed money] to undertake sustainable business activities ▪ To incorporate microfinance needs in the development process to address poverty ▪ To provide an avenue to bring together the industry players, and create a platform for actors to lobby for policy actions ▪ Institutionalization, and funding of AMFIU secretariat	▪ Increased stock of small scale entrepreneurs though reached about 25% of those in need. ▪ Microfinance deliberately included in the country's development agenda through PEAP. More funds allocated to the industry, and a supportive policy environment established ▪ More resources committed to microcredit ▪ Capacity of MFIs built, funds for wholesaling availed to MFIs ▪ However, contributed to the culture of poor repayment of government credit (some credit programmes were misused, misdirected

				leaving limited impact on beneficiaries)
1999-2005	▪ 1999 BoU Policy Statement on microfinance ▪ Rural Development Strategy 2000 ▪ PEAP reviewed 2000 ▪ Rural Microfinance Support Project (RMSP) ▪ Microfinance Outreach Plan developed 2003 ▪ MDIs Act 2003 ▪ PEAP reviewed 2004 ▪ Developed, and adopted a standardized donor reporting tool for donor funded MFIs ▪ Developed, and implemented the concept of linkage banking ▪ Rural Financial Services Programme/Plan 2005 initiated	▪ Tier 1, 2 & 3 policy guidelines in place Tier affecting MDIs ▪ AMFIU registered as an NGO to coordinate MFIs, and lobby for the industry ▪ Microfinance Support Centre established 2001 ▪ Revised PEAP 2000, etc. ▪ SPEED Project (USAID) ▪ Registration of MDIs (4 MDIs registered (FINCA -2004, PRIDE-2005, UM Ltd-2005 & UFT-2005) ▪ Performance Monitoring Tool (PMT) 2000-2003 developed ▪ Microfinance Outreach Plan 2003 done ▪ Financial Deepening Uganda Initiative ▪ Linkage banking initiated ▪ Framework for creating SACCOs at sub county level reactivated	▪ Create continued government commitment to microfinance industry ▪ Provide technical assistance to MFIs ▪ Protection of savers money ▪ Regulate the growth of Tier 1-3 FIs including the MDIs ▪ Regulate the unregulated FIs that were posing financial risk, and guide the development of the industry ▪ Track performance of donor funded MFIs, have a single reporting tool, and track MFIs performance ▪ Decentralize SACCO services to the sub county level	▪ Defined the business of microfinance ▪ Increased access to services ▪ Establishment of robust rural financial structure through SACCOs. ▪ Improved safety of savings through effective regulation, and supervision ▪ Sustainability of MFIs enhanced ▪ Improved customer awareness ▪ Institutional capacity enhanced. ▪ More MFIs established ▪ Transition between the tiers enhanced ▪ MDI deposit protection fund gave confidence to the depositors on the safety of deposits
2005-2010	▪ Uganda Microfinance Policy 2005-2015 developed ▪ NRM Political Manifesto 2006-2011 ▪ Prosperity for All Policy 2007/8 ▪ Peace, Recovery, and Development Plan for Northern Uganda (PRDP) 2007 ▪ Rural Financial Services Programme/Plan Implementation Framework approved by cabinet 2008	▪ A SACCO at each sub county ▪ NRM Manifesto 2006-2011 in place ▪ Provision of funds to sub county SACCOs at affordable interest rates ▪ Drafting of the Tier 4 regulatory framework ▪ Rural Financial Strategy implemented ▪ Department of microfinance created at Ministry of Finance Planning, and Economic Development (MoFPED) – though seen as a duplication of work at other agencies such as MSC, and others ▪ Rural Financial Services Programme Coordination Unit created ▪ Post Bank selected to link formal financial sector to SACCOs ▪ Microfinance for micro businesses in northern, and eastern Uganda operationalized	▪ Consolidate policies scattered in various policy documents such as PEAP, PMA, budget statements, etc. ▪ Provide an interventionist economic environment that focuses on microfinance as a social service that should be available to every Ugandan ▪ Build a nationwide network of rural financial infrastructure ▪ Guide the beneficiaries on how to use the resources ▪ Increase access to microfinance services country wide ▪ Improve safety of savings ▪ Enhance microfinance institutional sustainability ▪ Guide microfinance research, and training ▪ Create robust coordination mechanisms for the MFI ▪ Empower UCSCU to form, strengthen, and develop SACCOs ▪ Create infrastructure for linkage banking ▪ Enhance access to microfinance for the rehabilitated Ex-Lord's Resistance Army (LRA) fighters, victims, and auxiliary forces	▪ Microfinance delivery to sub county level (sub county level community SACCOs) ▪ Strong apex institutions ▪ Further development, and strengthening of the rural microfinance infrastructure. Among others, MSC has promoted reference SACCOs for this purpose ▪ Reduced the cost of borrowing to beneficiaries through low cost funds from MSC to SACCOs, and MFIs with capped interest that is financially sustainable ▪ Provided for the creation of microfinance Regulatory Authority to regulate tier 4 institutions (SACCOs, Credit only institutions, microfinance NGOs, money lenders, and other informal credit groups) ▪ Capacity building of better regulation, and management of MFIs ▪ Enhancing public awareness on financial services, guide research, and policy making in microfinance industry ▪ Infrastructure for linkage banking ▪ Mainstreamed funds for microfinance needs of Northern Uganda
2010-2015	▪ Development, and implementation of the National Development Plan	▪ Continued emphasis on microfinance as a vehicle to deepening	▪ Enhancing household incomes through accessible, and affordable microfinance	▪ Government maintained its commitment to support the growth of the microfinance

	I 2010/11-2014/15 ▪ Tier 4 Act Microfinance Institutions Bill drafted ▪ Islamic Microfinance Framework 2015 drafted ▪ Project for Financial Inclusion in Rural Areas (PROFIRA) as a successor to Rural Financial Services Project created to oversee SACCOs in Uganda	financial inclusion, and source of funds to pull the poor out of poverty ▪ Draft Tier 4 Microfinance Institutions Bill presented to Parliament ▪ Islamic Microfinance Framework to guide disbursement of Islamic microcredit ▪ Framework to oversee SACCOs in place	▪ Prepare regulations, and provide institutional mechanisms to cover microcredit activities in all their forms ▪ To provide for an enabling regulatory environment for Tier 4 financial institutions in the country ▪ Provide a structure for Islamic microfinance	industry ▪ Government continued to support SAACOs access affordable credit ▪ Development of SACCOs capacity through programmes such as PROFIRA ▪ Microfinance institutions able to provide Islamic microfinance products
2016-to date	▪ The Tier IV Microfinance Institutions, and Money Lenders Act of 2016 enacted ▪ Amendment of the Financial Institutions Act 2004 in 2016 ▪ Development of the National Financial Inclusion Strategy 2017 ▪ Regulations to implement the Act made in 2018	▪ An Act to regulate Tier 4 operations in place ▪ A National Financial Inclusion Strategy in place ▪ Uganda Microfinance Regulatory Authority established to regulate the Tier 4 microfinance institutions ▪ The Tier 4 Microfinance Institutions, and Money Lenders (Money Lenders) Regulations, and ▪ The Tier 4 Microfinance Institutions, and Money Lenders (Non-Deposit Taking Microfinance Institutions) Regulations in place ▪ Financial Institutions Amendment Act 2016 in place ▪ The National Financial Inclusion Strategy 2017-2022 in place	▪ Establish a regulatory authority for the industry ▪ Establish formal licensing mechanism for Tier 4 ▪ Control money lenders ▪ Establish SACCOs protection scheme ▪ Establish SACCO stabilization fund ▪ Provide for a central financing facility for Tier 4 financial institutions ▪ Provide for receivership, and liquidation of microfinance institutions ▪ Provide for Islamic banking, and finance in Uganda ▪ Provide for regulation of Islamic microfinance ▪ Provide a framework to ensure that all Ugandans have access to, and use of, a broad range of quality, and affordable financial services which helps ensure their financial security	▪ Enhanced customer confidence in the Tier 4 financial institutions, e.g. promoting safety of savers' funds through regulation, and controlling lender/borrower opportunism ▪ Provided a conducive environment for growth of the industry, e.g. putting in place structures, systems, policies, and processes to ensure better governance of microfinance institutions ▪ Created opportunities for microfinance business growth, and development ▪ Microfinance Support Centre delegated to manage the Islamic microfinance ▪ More financing opportunities, and inclusion from the several models of Islamic microfinance introduced such as Musharaka (Equity financing /partnership), Murabaha (cost plus financing), Mudaraba (profit sharing), Salam (Forward sale), and Muqawala ▪ Put in place strategies for wider, and deeper financial inclusion leading to greater accessibility to affordable microfinance resources ▪ Created a framework for digital, and credit infrastructure for efficiency, and growth ▪ Capacity development of the industry players ▪ Greater focus on rural populations that need greater access to microfinance

***Source*:** Several legal and policy documents produced over the space of time

The microfinance industry in Uganda has come a long way to be what it is today. It is a journey that started three score, and 14 years ago. During this journey, a lot has been done by the government, private sector, and other non-state actors. The most critical time has been since the mid-1990s to date when the microfinance industry was perceived as the magic bullet to shoot down the biting poverty afflicting over 50 percent of Ugandans then.

5. Microfinance in Uganda-Experiences and Lessons

The microfinance sector in Uganda is both publicly, and privately financed, and controlled. Government strongly supports the industry. The overriding objective of supporting the industry post 1970s was to help the poor transform from the state of poverty to prosperity through access to affordable microcredit. As articulated in Section Four, the government, and microfinance industry stakeholders have taken a number of steps to build a vibrant, and sustainable industry. Observing the industry from both institutionist, and welfarist perspectives of microfinance, one notes several experiences, and lessons learned. The Microfinance Sector Effectiveness Review Report 2014 indicates that since 2005, the microfinance policy stance has been to increase access to microfinance products, and services through promotion of SACCOs with emphasis on having at least one SACCO per Sub County (Financial Sector Deepening Uganda, 2014). The SACCOs were expected to influence rural development through provision of affordable microcredit, and encourage member savings. The nature, and form of these SACCOs remains an enigma to the citizens. This stance is criticised by both public, and private players as being unrealistic. The private microfinance institutions, and NGOs specifically, claim that public funds in the microfinance sector may potentially crowd out private actors, and distort free market competition while government claims that non-government actors, and the private sector charge exploitative interest rates. The government, further argues that the efficiency, and effectiveness of microfinance service delivery to the poor requires greater availability, accessibility, and affordability of services which players seem to be failing to promote. Therefore, while the private sector claims to be doing well, and sustainable, the government is of the view that the terms, conditions, and interest rates charged only exploit the poor thus deepening their poverty. Government looks convinced that public interventions in the microfinance industry are the surest way to simultaneously solving the limitations of availability, accessibility, and affordability of microcredit to the poor in the country.

However, the experiences, and lessons learned regarding government intervention in the microfinance industry seem to send mixed perspectives. Examining them on a broad spectrum of key dimensions reveals a number of interesting nuances as highlighted in the subsections below.

5.1. Role of Government in Facilitating Access to Microfinance for the Poor

Government plays three critical roles in the microfinance industry namely protection, provision, and promotion (3 Ps). Through policy, government regulates to protect, and promote the industry, and can participate in service provision either wholesaling, and/or retailing microfinance services (Ministry of Finance, Planning & Economic Development, 2005). Government is key to enabling the microfinance industry to grow, and attain financial sustainability while at the same time targeting the poorest of the poor, though the proposition appears double faced as it sounds. The financial sustainability objective, and social objective seem to be two extremes on the microfinance industry performance continuum. Nonetheless, it is imperative that there is a balance between pursuit of financial sustainability, and social objective by the financial institutions. Moreover, government retains the obligation of ensuring its excluded citizens who are usually the rural, and poor communities are served to deepen, and widen financial inclusion, and alleviate poverty. In the past two decades, the role of government in facilitating access to microfinance services has been eclectic (Ministry of Finance, Planning & Economic Development, 2005). It has been characterised by direct credit–provider role, and a mixture of promotion, and regulation–promoter, and protector roles. On the one hand, in the period 1993-1999, government intervened directly in microfinance service delivery with provision of seed capital (*entandikwa*). This intervention left little or no impact on poverty levels (Budget Monitoring Unit, 2016). The funds were mismanaged, and the programme suffered low recovery rates of less than 30 percent of advanced funds on average. National, and local politics, misuse of borrowed funds by the customers, weak customer screening mechanisms, restraining fraud, regulatory gaps, inadequate monitoring, and wrong timing of programme implementation conspired to render government credit less effective (Schmidt, 2012, 2017, Budget Monitoring Unit, 2016). On the other hand, in the period 1999-2005, government focused more on promoting commercial MFIs with hope that existing, and new financial institutions under such policy dispensation would enhance sustainability based on market forces (Financial Sector Deepening, 2014) and deepen financial inclusion, and produce a noticeable impact on the poor (Budget Monitoring Unit, 2016; Financial Inclusion Insights, 2018; Museveni, 2018) [43]. While the microfinance institutions, and international development partners considered this policy regime as the most conducive to promote financial inclusion, and sustainability of microfinance institutions (Schmidt, 2012, Financial Sector Deepening, 2014), the Microfinance Policy 2005, and the State of the Nation Address note that the financial sector is yet to enhance the social objective as desired by government (Ministry of Finance, Planning & Economic Development, 2005; Museveni, 2018) [43]. The poor remain not served or underserved, still borrowed at high cost–new usury, most financial institutions such as SACCOs suffered low organisational capacity, and the impact on poverty reduction was dismal.

From the foregoing, as in other microfinance contexts (see Cull, 2015), provision of credit without adequate mechanisms to ensure effective utilisation of the funds for poverty reduction does not help the poor. Likewise, promotion of financial sustainability without pro-poor accessible, and affordable credit lines does not help the poor transform from poverty to prosperity. It is noted that to strike a balance between the financial sustainability objective, and social objective, government should have a strong promotional role to ensure the poor access affordable microfinance. The promotional role of government would put in place mechanisms for ensuring that the poor access affordable funds, climb the prosperity ladder, get integrated into the financial system, and later, and access credit at commercial terms. This seems to have been the driving factor behind the 2005-2015 microfinance policy shift. For example, establishment of the Microfinance Support Centre (MSC) as, among others, a wholesale lender to SACCOs, and other microfinance institutions both public, and private (Budget Monitoring Unit, 2016) is aimed at promoting greater access to low cost credit particularly, by the poor. As observed by Uganda Microfinance Regulatory Authority (2019), more Ugandans operate under microfinance hence can benefit from low cost credit to establish, and operate viable enterprises. This way, government facilitates access to affordable microfinance services, and products by the poor thus promoting the social objective. In addition, it creates the right microfinance milieu for growth of more sustainable microfinance institutions when majority of the poor have been elevated to a level of demanding commercial microfinance services.

5.2. Politics and Sustainable Pro-Poor Microfinance

Government has had good intentions in promoting access to microfinance including direct credit programmes such as *entandikwa,* and low credit facilities through community SACCOs at each sub county (Budget Monitoring Unit, 2016; Parliament of Uganda, 2021). It is noted that establishment of SACCOs is far cheaper than setting up commercial banks (Schmidt, 2017). Moreover, SACCOs support more financial services to remote communities, and easily meet the unique demands of the local conditions. Whereas SACCOs provide a reliable vehicle for direct microfinance service delivery to the poor, policy making strategies adopted by the politicians, and technocrats, and how these shape service delivery is critical. The strategies may either enable or limit efficiency, and effectiveness of the SACCOs. In Uganda, politics seems to affect sustainability of public microfinance in two ways; through the timing of these microfinance interventions, and the language used by the politicians, and technocrats in developing the strategies, and implementing the programmes. On the one hand, the introduction of microfinance interventions during peak political events or immediately after elections seems to be perceived by the citizens as a reward for loyalty from the sitting government. For example, the "*Emyooga" (*talent support fund) programme a microfinance initiative to support pro poor SACCOs in every sub county was launched in August 2019 when presidential, and general elections were due in 2021. This timing made the policy intentions of the initiative questionable. Political pundits considered it an effort by the executive to sway the voters in favour of the sitting government. Both pro government, and opposition politicians encouraged citizens to form SACCOs, and access funds that were drawn from their taxes. It is likely that such kind of atmosphere contributed to the programme's dismal performance (Parliament of Uganda, 2021). On the other hand, the involvement of politicians creates the impression that this is free credit by the government (Schmidt, 2017) to the citizens. Politicians accentuate this through mobilisation of their voters to access funds that government has provided them for voting right candidates. The message from politicians acts as a catalyst to misuse the funds, and or intentionally reject government's efforts to recover the credit from the poor. It may be understood that the political timing, and involvement of politicians is considered to distort the credit culture as it appears to promote delinquency. Moreover, patronage, and the unwillingness by the politicians to support recovery mechanisms exacerbates the delinquency challenge. It is observed that politicians either out of need to create political capital or to weaken government's programmes claim that recovery efforts antagonise their voters. Consequently, borrowers become reluctant to pay back the money. This kind of scenario weakens sustainability of the pro-poor public sector microfinance initiatives. It may be inferred that recovery of public credit from citizens in Uganda is by and large a failed effort due to politics.

5.3. Regulation and Regulatory Administration

Building, and sustaining a robust microfinance industry needs strong, and well administered regulatory framework (Financial Sector Deepening, 2014; Budget Monitoring Unit, 2016). Unregulated microfinance industry is very risky for the lenders, borrowers, and the economy in general. A microfinance industry without a functional, and effective regulatory regime increases credit, liquidity, market/pricing, compliance and legal, and strategic risks. As pointed out by Duggan (2016), savers, and borrowers are at a higher risk of losing savings, and assets in unregulated industry. On the one hand, lenders may not recover the borrowed funds while on the other, borrowers may be overcharged or their assets swindled by loan sharks or unscrupulous microfinance institutions (Uganda Microfinance Regulatory Authority, 2019). In addition, MFIs, and SACCOs may be defrauded by directors, and managers due to governance lacunas occasioned by a weak regulatory regime. A weak microfinance industry is a drain on the economy as it can potentially exploit the poor, breed unsustainable allocation of financial resources, and lower customer confidence in the industry.

The enactment of the MDIs Act in 2003, and Central Bank supervision for example enabled a number of large microfinance institutions to transform into MDIs. However, MDIs have not expanded rapidly or developed wide, and deep outreach mechanisms to serve the poor as envisaged (Schmidt, 2017). A lack of focused regulatory framework for the Tier 4 institutions created a regulatory vacuum that affected growth of Tier 4 institutions (Budget Monitoring Unit, 2017). Moreover, scattered monitoring roles across the Ministry of Planning, and Economic Development (microfinance department), member driven organisations such as AMFIU, and the umbrella SACCOs union UCSCU without a central regulatory agency limited effective tracking of the microfinance industry's progress. This could partly explain the low level of functionality of SACCOs that was reported at 55 percent according to 2015 census on Tier 4 microfinance institutions (Budget Monitoring Unit, 2016).

It may be claimed that the enactment of the Tier 4 Microfinance Institutions, and Money Lenders Act, 2016, and establishment of the Uganda Microfinance Regulatory Authority (UMRA) in 2017 provides a ray of hope for better regulation of the microfinance industry. However, this institutional framework is new with limited evidence to evidence its functionality, and effectiveness in streamlining the performance of the industry. Moreover, non-depositing, and money lenders regulations came two years late while the SACCOs regulations were gazetted in March 2020. Delay in passing the regulations left serious regulatory gaps in the microfinance industry with more savers' funds at risk. More still, UMRA as a new agency faces physical, and financial resource constraints to effectively regulate the industry. The Tier 4 Microfinance Institutions, and Money Lenders Act, 2016 places regulatory obligations on UMRA that require high human, and financial capacity that the agency seems to lack. For example, licensing, and supervising over 8,314 SACCOs, 200 non-deposit taking microfinance institutions, and 300 money lenders to ensure compliance with the law requires more physical, and financial capacity than presently available at the agency (Uganda Microfinance Regulatory Authority, 2019). An effectively regulated microfinance industry has the potential to pool resources, and contribute to poverty reduction. As noted, on the account of the challenges aforementioned, the regulatory framework, and its administration still suffers capacity gaps that limit its effectiveness to promote a viable industry.

5.4. Source of Funding and Pro-Poor Microfinance

The source of funding plays a major role in ensuring affordability of funds for the poor. It is noted that public funds as opposed to private funds have lower costs to the borrowers in terms of interests, and related costs. Moreover, the terms, and conditions are more favourable with public sourced funds compared to privately provided funds. Presently, reliance on commercial sources of finance to capitalise microfinance institutions for onward lending to the poor remains a challenge. While the philosophy of microfinance remains uplifting the poor from poverty to prosperity (Morduch, 1999; Bhatt & Tang, 2001; Budget Monitoring Unit, 2016) [6] [41], the interest rates that come with capitalisation from commercial banks are high (Museveni, 2018; Uganda Microfinance Regulatory Authority, 2019) [43] which makes the desired impact a distant dream. Bank of Uganda (2019) indicates that the average commercial bank lending rates range between 20-21.4 percent per annum. Moreover, private investors in the microfinance industry seek profit maximisation which can only be satisfied through optimising the net interest income. The Independent (2019) reports that some usurious microfinance institutions charge interest rates as high as 65 percent per annum while Uganda Debt Network (2013) reported that some SACCOs charge interest rates as high as 144 percent per annum. It is claimed that the high cost of borrowing, and the desire to attain financial sustainability attracted such SACCOs to charge usurious rates. Yet, interest caps as a mitigating measure are still on hold (Uganda Microfinance Regulatory Authority, 2019). From the institutionists' perspective, capping of interest rates as a regulatory measure has its own ramifications on service inclusion, and sustainability of the microfinance sector. Some MFIs claim that rate capping would force them to withdraw from the rural areas, and or even relocate to other countries. Therefore, the fear of capital flight due to loss of confidence in the industry, and contraction of the industry at worst has sustained a regime of high interest rates from commercially sourced microcredit.

Experience shows that access to low cost microfinance capital has a knock-on effect on interest rates charged by the participating microfinance institutions, and access to credit by the poor (Budget Monitoring Unit, 2016, 2018; Museveni, 2018) [43]. It is claimed that SACCOs, other microfinance institutions, and money lenders borrowing from government should be in position to lend to the poor at rates lower than institutions themselves that borrow from commercial banks. However, without close supervision, usurious tendencies crop. Evidence suggests that a significant number of MFIs that borrow at 3-6 percent on savers' deposits or 12 percent from government fund agencies lend to the poor at higher interest rates ranging between 60-144 percent per annum (Auditor General, 2010; The Independent, 2017, 2019). Such interest rates make repayment of loans very expensive, leaving many poor people trapped in poverty. Several borrowers lose mortgaged assets which were the primary source of their livelihood, and in other instances, social networks break down increasing vulnerability of the poor. This revelation has three critical lessons for the microfinance policy makers, and implementers. (i) The microfinance system is intended to build the poor but not to exploit, and destroy them (ii) Funds for pro-poor microfinance institutions should be cheaper. (iii) Participating institutions should be closely supervised to ensure that recommended interest rates are charged, and poor people are the primary beneficiaries.

5.5. Governance and Management of Microfinance Institutions

Microfinance institutions like other firms in the financial industry require prudent governance, and management to ensure growth, and business, and financial sustainability. Institutions with sound governance, and management structures are more stable, and sustainable compared to those with weaknesses (Budget Monitoring Unit, 2016; Uganda Microfinance Regulatory Authority, 2019). They ensure uninterrupted service delivery to their clients. It has been observed that a number of SACCOs suffer governance weaknesses that have resulted into elite, and capitalist capture (Budget Monitoring Unit, 2016; Uganda Microfinance Regulatory Authority, 2019). The board, and managers run such institutions as personal businesses. Board members, managers, and cashiers share out low cost borrowed funds meant for lending to the poor. This scenario in turn breeds fraud, corruption, mismanagement of funds, and loss of savers' funds. Therefore, the effort of transforming cooperatives into financially sustainable institutions, which would affect economic, and social interests is hampered by governance, and management weaknesses that bedevil a significant number of institutions.

Microfinance institutions require strong human resource capacity at all levels of the structure to build, and sustain efficient, and effective governance, and management. Government, NGOs, and private sector capacity development initiatives are noted since 1990s as indicated in Table 2. As noted by Budget Monitoring Unit (2016 & 2018), Uganda Microfinance Regulatory Authority (2019), Uganda Microfinance Support Centre (2019), Bisherurwa, Lule and Magunda (2023), microfinance institutions with robust governance, and management systems, and practices are more successful than those that lack such. Moreover, SACCOs with weak governance hampers access to cheap funds by the poor as the elite, and managers extinguish the funds through internal borrowing. This suggests that where there is weak governance, and management, low cost external funding may not help SACCOs improve access to affordable microcredit. Moreover, capacity gaps at board, management, and operational levels of SACCOs in form of limited knowledge, skills, and abilities, and weak business ethics to operate the microfinance business efficiently, and effectively have rendered about 45 percent of them dormant or closed while others are struggling.

It should also be noted that with the enactment of The Tier 4 Microfinance Institutions and Money Lenders Act 2016, and the accompanying regulations in 2018, and 2020, the affected institutions are required to strengthen their internal controls, and governance to comply with the regulations (Uganda Microfinance Regulatory Authority, 2019). However, these regulations are yet to be effectively implemented. Nonetheless, this development challenges SACCOs, and MFIs to develop internal capacity to meet the legal requirements. It may be argued that when the functionality, and effectiveness of Tier 4 Act, and Regulations improves, better governance, and management of SACCOs, and other MFIs will improve leading to better microfinance service delivery. The capacity improvement of the Uganda Microfinance Regulatory Authority to effectively regulate the microfinance industry needs fast tracking to strengthen service delivery.

5.6. Linkage Banking and Access to Microcredit

Linkage banking is one of the innovative approaches to deepening, and widening financial inclusion in the financial services sector in Uganda. Linkage banking or delegated lending model is a financial service relationship where the formal financial service provider (FSP) such as a commercial bank lends to a savings group (SG), and lets the group internally decide the allocation of the borrowed funds (Financial Sector Deepening Uganda, 2018; Burlando, Goldberg & Etcheverry, 2020). The terms, and conditions of borrowing among the group members are determined by the group. It is a potent way of making microfinance services more accessible to rural, and poor people.

Country reviews Financial Sector Deepening Uganda (2018), Burlando *et al*. (2020) suggest that linkage banking in Uganda is gaining ground, and operates two models namely (i) Financial Services Providers (FSPs) linked to the Savings, and Lending Groups (SLGs) with support from NGOs model–a savings led model, and (ii) FSP linked to the SLGs model–a credit led model without the support of NGOs but where either the FSP forms, and nurtures the SLGs or the SLGs evolve on their own and link with the formal FSPs. CARE Uganda, Aga Khan (CREAM West Nile), and Catholic Relief Services (Caritas) are some of the NGOs that are supporting linkage banking with banks such as Centenary Bank, Post Bank, Opportunity Bank, and Diamond Trust Bank. Linkage banking is credited for ensuring safety of savers funds, providing interest earning opportunities on members' savings, capacity building of both the informal SGs, and their members, access to funds to meet both business, and personal needs, acquisition of better skills for management of personal finances, easy access to funds through agent and mobile banking, and access to credit without collateral security that many rural, and poor people lack. On the flipside, specifically, from the perspective of the rural, and the poor, linkage banking is a high cost operation due to high interest rates ranging between 24-33 percent per annum. In addition, the loan repayment periods are short ranging between 3-9 months on average. The FSPs also note that SGs which are not properly nurtured usually fail due to weak savings, and payment culture, low group cohesion hence a weak social collateral, and mismanagement of borrowed funds.

However, linkage banking faces a number of challenges that limit its growth (Financial Sector Deepening Uganda, 2018; Burlando *et al*., 2020). Accessing the rural, and poor people remains a challenge as commercial banks may not sustain branches within reach of its clients. Most banks are geographically delineated from their clients with some nearest branches being about 20-40 kilometres away from the groups they serve. Mobile banking technology is not yet all pervasive due to delays in rolling out the mobile platform across the country. There is limited collaboration between the FSPs, SGs, and stakeholders such as local governments (LGs). Close collaborations with LGs could ensure cheap, and timely assessment of groups, and completion of know your customer (KYC) documents. Rural, and poor people without regular income fail to sustain savings causing premature unzipping of groups, and loan delinquency. A lack of alignment between loan repayments, and the seasonal cash flows of the poor who are mainly farmers creates room for delinquency. The formal FSPs, and NGOs lack adequate human, and financial capacity to nurture all SGs to the level that can guarantee their economic sustainability. This leaves them fragile, and prone to failure when challenges set in. It is acknowledged that 43 percent of Ugandans own mobile phones, but there is limited knowledge in the use of mobile banking facilities among some of the members of the SGs which affects service delivery. For example, some group officials request non-members to help with initiations, approvals, and use of the mobile banking facilities which is a potential fraud risk. In spite of the flipside issues of linkage banking, and the challenges abound, there is still great potential for its growth, and the opportunity for deepening, and widening financial inclusion in the country.

5.7. Wholesale Microcredit and Access to Credit

In Uganda, both the wholesale (lending to institutions), and retail (lending to individuals) microfinance markets are growing both in terms of portfolio, and range of products. The players in the wholesale markets include local, and off-shore lenders. Several apex institutions in the microfinance wholesale market exist. Key among these are Oikocredit, Stromme Microfinance East Africa (SMF EA) Ltd, Microfinance Support Centre Ltd, and Uganda Central Cooperative Financial Services, and some commercial banks who are local, and Triple Jump (Netherlands), Microvest (USA), and Symbiotics (Switzerland) who are offshore (Association of Microfinance Institutions of Uganda, 2015, Uganda Microfinance Regulatory Authority, 2019). Against the backdrop that microfinance institutions are numerous, and small, these apex institutions which are both private, and public institutions pool funds from different sources, and invest in retailing microfinance institutions. There are two overriding objectives for wholesale lending namely provision of wholesale funds-loan funding, and capacity building, and technical assistance to the microfinance institutions.

Apex institutions are a major source of microfinance funds, and technical assistance to microfinance institutions. Wholesale lenders provide lines for commercial, and agriculture credit, and asset finance while banks provide loans, and overdraft facilities to credit banks, MDIs, some MFIs, SACCOs, and SMEs. Theoretically, availability, and accessibility to technical assistance promotes institutional capacity, sustainable governance, and management, and growth of the industry. However, the quality of growth depends on the quality of governance, and management in each individual microfinance institution whether a SACCO or other microfinance entity. Weak governance, and management which does not follow laid down systems, policies, processes, and procedures as noted in some institutions (Budget Monitoring Unit, 2016) leads to negative effects on the growth of the institutions. Particular observation is made with regard to the savings culture of members. The board, and management that consider external capitalisation to be enough do not put in enough effort to mobilise members to save more as funds to lend are externally available. This does not encourage organic growth of savers' fund which is a cheap pool of resources to lend to members at preferential interest rates. Wholesale lending works better when lenders specify management systems for credit, and institutional management, ensure that the officials of the borrowing institutions particularly, the board, and management are trained in management of microfinance operations, and a robust monitoring, and evaluation mechanism capable of following up the borrowers to the lowest level beneficiary, and systematic growth of savers' funds exist.

Specific to government wholesale funds, the market specifically, SACCOs, MFIs, money lenders, and MSMEs access credit at affordable rates of 12-17 percent per annum, and business development services. The government credit enhances provision of loans by SACCOs, MFIs, and MSMEs at affordable rates. However, where there is weak follow up, and follow through, the board, and management of the institutions tend to finance personal projects at the expense of majority poor who continue to access credit at high interest rates (Budget Monitoring Unit, 2016). Moreover, government credit is more susceptible to political influence at both national, and local levels. This affects the credit culture as beneficiaries fail to invest the funds in planned projects, fail to pay back both interest, and principal leading to poor performance of such credit programme. Sensitisation of politicians, board, management, and members of the SACCOs, and other stakeholders about the purpose of funds, and the obligation to pay back is critical but lacking in effort. Government wholesale lending remains central to supporting pro-poor MFIs such as sub-county SACCOs to enable them lend to the poor, and local MSMEs at affordable rates to spur more grassroots socioeconomic transformation but remains bedevilled by institutional and market challenges.

5.8. Lending Methodologies and Access to Microcredit

Lending methodologies are the methods, and approaches through which microcredit is offered to the general public, and covers aspects such as how the customers are identified, selected, grouped, and how the services are offered to the general public. Several approaches, and methods are adopted, and adapted by various actors in the industry. For this paper, the methodologies of concern are group, and individual lending.

Microcredit lending methodologies are intended to overcome the credit dilemma of extending small loans to a diversity of borrowers. Dealing with many small borrowers sustains, and exacerbates the exclusion of the poorest members of the community from formal credit sources (Association of Microfinance Institutions of Uganda, 2015). In Uganda, many poor people remain less bankable requiring methodologies that favour their socioeconomic context such as similar locality, gender, age group, income bracket, and occupation or community.

Group lending methodology involves extending credit to groups of members that share certain features such as same locality, gender or occupation. This accentuates the importance of context, and gender issues for the success of borrowing groups. This methodology remains a vital source of social collateral to unbankable sections of the community such as women, and the youth to access microcredit. Through peer pressure, and group guarantee, the poor have an opportunity to pool liability, and become eligible for microcredit. Moreover, group lending enhances cluster screening–better knowledge of customers, monitoring, and enforcement of credit terms leading to higher repayment rates. The methodology enables the microfinance institutions to reduce on adverse risk (taking on riskier clients), and moral risk (taking on risky projects). However, group lending remains limited due to instances of group default, limiting weekly repayments, higher training costs, and higher financial responsibility for those in the group.

Nonetheless, group lending methodology remains pivotal for the continued promotion of the sub county SACCOs in Uganda to reach out to the most excluded groups (Budget Monitoring Unit, 2016). The lending context of the rural, and poor communities' demands that group lending methodology be maintained to serve the target groups more efficiently, and effectively. Moreover, group lending enhances repayment of government credit, and inculcates the culture of honouring loan obligations. It is also necessary that investment in building, and sustaining cohesive borrowing groups is maintained to create robust grassroots economic units for socioeconomic transformation. Solidification of the groups that share common interests creates potential for sustainable transition from subsistence to commercial production, accelerated poverty reduction, and rural development.

Individual lending methodology focuses on individuals that are regarded as independent, and can manage their own cash flows, and loan obligations without peer pressure. This usually involves borrowers who either graduated from the group lending methodology or those that MFIs just jumped onto after meeting loan scoring requirements to borrow as individuals. Centenary Rural Development Trust was the microfinance institution to insist on individual lending from inception (Association of Microfinance Institutions of Uganda, 2008). More MFIs are making individual loans secured on chattel, savings or titled property (Duggan, 2016). Borrowers saving with an MFI have an opportunity to collateralise their savings to secure loans. Whereas this is a growing practice, and enhances access to microcredit by the poor, it is claimed that the methodology benefits the MFIs more than the savers. The principle of collateralised savings in most if not all MFIs denies savers an opportunity to either earn interest or receive market rates on their deposits like those on fixed deposit accounts (The Independent, 2019). Moreover, collateralising savings by the MFIs has not been associated with noticeable reduction in the cost of borrowing. As noted by Duggan (2016), MFIs earn twice from the same customer from both the high interest loans, and the customer's low cost or interest free savings. This practice erodes customer trust, affects the savings culture, and keeps savers in poverty while MFIs post impressive financial sustainability scores.

5.9. Culture and Microfinance Services

Microfinance services are provided within a given social context that may enable or limit successful service delivery. In the social context of microfinance service delivery is culture, which, according to Breuer and Quinten (2009) is a complex entity of perceptions, shared by the members of a social group. The central point in these perceptions are the values that drive individual, and collective behaviour–attitude toward certain social phenomena. In the general field of finance, culture in terms of attitudes influences how clients perceive the financial institutions, and the institutions perceive clients, including levels of trust. This ultimately influences service delivery, and acceptability. Facets of culture such as religious beliefs, gender, education, age group, location (urban versus rural), and politics can affect an individual or groups' use of money including savings, management of financial matters, and financial decisions.

Ugandans are considered to espouse a culture of consumerism as opposed to one of saving, and investment. The savings culture is low with 54 percent of adult Ugandans reportedly saving part of their earnings on a regular basis (FinScope Uganda, 2018). Savings groups, and VSLAs remain the main preferred mechanism for saving among the informally served. To reach the informally served therefore, use of savings groups, and VSLAs remain the most realistic channel. In addition, they prefer borrowing from the same sources whenever need for credit arises. While the formally served customers prefer banks as a savings mechanism, they are also more inclined to borrow from savings groups, and VSLAs. This presupposes that to encourage access to credit among both formally, and informally served Ugandans, use of SACCOs to channel funds to savings groups, and VSLAs will serve more rural, and poor people.

At institutional level, Deloitte (2019) indicates that culture can either reinforce or undermine an institution's formal governance, risk, and control processes, as well as determining customers' practical experience in all aspects of their interaction with a financial services institution. Instances of well-run institutions with clear governance, and management structures are increasing in number due to business development services by agencies such as Microfinance Support Centre (MSC). The institution as a wholesale lender builds the governance, and management capacity of its customers, and ensures that the institutions are closely monitored to ensure compliance with best governance, and management practices (Microfinance Support Centre, 2019). This is greatly improving governance, and management practices in the SACCOs, and MFIs supported by MSC.

Uganda's microfinance industry has noted both positive, and negative cultural stimuli to service delivery. On the positive note, at community level, Budget Monitoring Unit (2016); Financial Inclusion Insights (2018); Schmidt (2017); FinScope Uganda (2018); Microfinance Support Centre (2019); Uganda Microfinance Regulatory Authority (2019) note a favourable attitude to microfinance service delivery in Uganda. There is more use of microfinance services, and digital technology, saving, and prudent financial management, access to credit, and willingness to payback the borrowed funds, and interest. Moreover, there is interest in membership with various forms of financial institutions such as SACCOs, ROSCAs, and VSLAs. At institutional level, institutions are more keen at ensuring that hard to reach clients are reached through mobile services, and branches, and satellite offices. Notable improvements in prudent financial management of the institutions are also registered. Positive actions such as proper book keeping, client sensitisation, client screening, and increased transparency, integrity, compliance, and accountability are noted. These attitudes promote growth, and development of the microfinance industry in Uganda.

However, as noted by Budget Monitoring Unit (2016); Schmidt (2017); Uganda Microfinance Regulatory Authority (2019), cultural challenges remain in certain aspects of the industry. Cases of boards, and managers of SACCOs running the institutions as personal business–elite capture, corruption, and fraud, exploitative tendencies through charging high interest rates, and taking advantage of the information asymmetry between the institution, and the clients to defraud them exist. Moreover, weak credit management habits leading to high delinquency, politicisation of credit services, and not encouraging savings growth among others are noted. The community also remains with weak adherence to credit terms, mismanagement of credit, unwillingness to pay especially funds from public credit schemes, political influence, and mistrust of credit institutions are abound. These cultural aspects do not facilitate qualitative growth of the industry.

5.10. Savings Mobilisation

Savings–money held back willingly from day to day use, remains important for individual, community, and national wellbeing. It enables individuals meet future needs they would otherwise have failed to meet. Saving is one of the values that financially resilient communities espouse. Uganda's savings to gross domestic product ratio is modest at 19.99 percent, and is projected to reach 21.45 percent in 2023 (International Monetary Fund, 2020). This is not very impressive though as majority of Uganda's population remains unbanked limiting access to their savings for reinvestment in the economy to generate higher economic value. Bank of Uganda (2019) indicates that 54 percent (10 million) of adult Ugandans save or put money aside for future use. However, it is imperative to interrogate the how, and where of this saving to appreciate its likely effect on the wellbeing. Uganda National Household Survey Report 2018 indicates that most adults 33 percent keep their savings at home, 16 percent with VSLAs, 8 percent with commercial banks, 5.3 percent with RSCAs, 3.2 percent with SACCOs, and 10 percent with mobile money service providers (Uganda Bureau of Statistics, 2018). The statistics suggest that more savings are not mobilised by formal financial institutions which reduces the quantity of cheap credit funds available to these institutions, and the economic multiplier of the savings through credit system.

It is noted that factors that influence the level of saving mobilisation in the communities include: (i) the level of information available to the households such as benefits of saving, available products, safety of savings, and accessibility to savers funds, among others (Financial Sector Deepening Uganda, 2018; Financial Inclusion Insights, 2018; Uganda Bureau of Statistics, 2018). The rural, and poor people embrace savings when they are more aware of the benefits to be derived therefrom. However, information asymmetry remains. The rural, and poor people least informed, and hence not easily attracted to save their earnings with formal institutions, and some MFIs. (ii) Proximity to financial service points like branches, agents, ATMs, and mobile points increases service seeking behaviour of the unbanked communities. The closer the service points to the communities, the more likely the communities will save with the institutions providing those services. (iii) Concentration of financial institutions in the locality tends to attract more savers than a lower one. (iv) Availability of credit facilities attracts savers in a hope that they will easily access credit when needed from the financial institution they are associated with. (v) Low transaction costs encourage savers to operate savings accounts or access credit from the institutions. (vi) Consistency of income encourages savers because they are confident they will pay back the credit. People with regular income that covers their basic needs tend to save more than those that do not. (vii) Ability to mobilise savers. SACCOs, Savings groups, VSLAs, and ROSCAs tend to mobilise savings from the rural, and people more than other forms of MFIs.

There is more potential for the microfinance institutions to mobilise rural, and poor people to save when strategies to address factors that influence savings are addressed. Financial service providers that build savers' capacity through trusted approaches such as SGs including VSLAs build, and sustain resilient savings communities. When these saving communities are nurtured, they grow into more sustainable savings groups that are more bankable (Financial Sector Deepening Uganda, 2018). Such groups are easily integrated into formal financial institutions through strategies such as linkage banking. Adoption of business development services (BDS) approaches for financial institutions such as SACCOs, and SGs widens savings base in the rural, and poor communities.

5.11. Information Technology and Deepening Microfinance

Service delivery to the rural, and sparsely populated areas is costly, and may be disappointingly unprofitable to commercial banks, and MFIs. It involves provision of many small loans to numerous clients at very high cost per unit compared to provision of commercial loans. Adoption of information, and communications technology (ICT) by commercial banks, and MFIs is one sure way to leverage the cost of service provision with much success (CGAP, 2006). This increases service accessibility in the hard to reach areas. In Uganda, use of ICT to deliver financial services is gaining ground. Financial Inclusion Insights Survey Report 2018 indicates that 43 percent of Ugandans living in both rural, and urban areas have mobile accounts with potential for growth as more Ugandans acquire mobile telephony facilities (Financial Inclusion Insights, 2018). Moreover, the basic microfinance market infrastructure for digital service delivery exists. This infrastructure includes platforms for digital financial services such as online applications by (e.g. pay way, easy pay, pesa pal, pay bills, e wallet, pesa moni), mobile money, agent banking, mobile banking (e.g. MoKash), automated teller machines, and point of sale systems.

Some microfinance institutions have adopted, and adapted some digital technologies through Fintech to deliver services with much success (Financial Insights, 2018; Uganda Microfinance Regulatory Authority, 2019). Some SACCOs such as Jubilee SACCO, Kyamuhunga Peoples SACCO (KYAPS), Igara-Buhweju Tea Farmer's SACCO, Mushanga SACCO, in Bushenyi, Buhweju, and Shema districts, among others, are already using ICT based tools to reach out to their clients online. In addition, ICT has facilitated linkage banking, and mobile banking through mobile telephone. For example, MoKash, a product offered through a partnership between Commercial Bank of Africa, and MTN Uganda offers MTN registered mobile money clients a suite of banking services for microfinance. The microfinance services are effected through ICT include withdrawal, bill payment, money transfer, deposits, loan repayment, balance inquiry, account statement, account payment, loan application, and disbursement, advances, remittances, and member benefit payments, among others. However, it has been noted that some of these services are not actually cost effective to the end user as promoted. Access to MoKash micro loans costs the client 9 percent per month equivalent to 108 percent per annum. Such high interest costs affect the poor, and discourages them from accessing the ICT based micro loans. Moreover, the loan period is very short with a maximum repayment period of 30 days.

In Uganda's case, where majority of adults are reportedly under microfinance (Uganda Microfinance Regulatory Authority, 2019), and are in rural areas, use of ICT based approaches to service delivery is an imperative. Using ICT for process automation, and service delivery saves both the SACCO, and the clients the transaction costs associated with microfinance services such as, and time. Adoption, and adaption of ICT capabilities in the microfinance industry has a huge potential to support service innovation, cost reduction, and increased client outreach. Further, ICT provides a huge opportunity to the microfinance institutions to achieve greater financial sustainability. The customers are interested in accessing ICT based services. Therefore, sensitization, customer training, and reduction of transaction costs including interest rates, will be required to increase ICT uptake, and use of the ICT based microfinance services.

5.12. State Microcredit and Pro-Poor Microfinance

Many arguments support involvement of the state in the microfinance industry as a protector/regulator, and promoter other than provider of microcredit (Schmidt, 2012, 2017; Cull, 2015). The central argument is that state credit is a cause of market distortion, and affects free competition. It can potentially harm financial inclusion when private sector players are discouraged by subsidised microcredit. Whereas this may hold water in a number of contexts, it is not a one size fits all prescription. Contextual fundamentals may call for a policy mix that suits the particular, and peculiar needs of the society. Determinants of policy mix such as stage of financial sector growth, political regime, and its socioeconomic development objectives, and economic situation, among others, deserve consideration. Uganda's poverty level should have been 10 percent by 2017/18 as planned but remains higher at about 21.4 percent meriting targeted microcredit policy for poverty reduction. Employment creation remains critical to Uganda's socioeconomic transformation while access to low credit for industrialisation, and commercial agriculture which drive employment creation is the main impediment to such progress (Museveni, 2018) [43]. Commercial banks, and MFIs have failed to solve the problem of high interest rates creating a service vacuum that the state fills to foster the country's development agenda. This observation supports earlier concerns (Ministry of Finance, planning, and Economic Development, 2005) that promotion of the private sector MFIs in the period 1999-2005 did not create a significant effect on the policy objectives of the microfinance industry in Uganda specifically, enhancing financial inclusion, and poverty reduction.

In 2001, there was a paradigm shift in provision of state credit. A microfinance institution, the Microfinance Support Centre (MSC) was established as a government fund management outfit to lend to the poor, and priority projects. Since 2001, MSC has demonstrated that state microfinance can combine both financial, and policy objectives in financial service delivery (Microfinance Support Centre, 2019). The institution promotes policy objectives as enshrined in government policy frameworks, and plans such as the NDP I & II, NDP III, NRM Manifestos 2016-2021, 2021-2026, and Vision 2040, among others.

To note the experiences, and lessons learned by state microcredit under MSC, it is imperative that certain questions from both welfarist, and institutionalist perspectives are posed, and answered. Has the creation of the state microcredit fund management system in Uganda eroded credit culture, and prompted pull out of the private sector? Has it enabled access to priority funding, and financial inclusion? Has state microfinance created the right infrastructure to reach out to the excluded groups such as rural communities, women, youth, and the poor? Does prudent extension of microfinance services to the poor exist?

Contrary to arguments that state owned microcredit erodes credit culture, and promotes unfair competition (Schmidt, 2012, 2017), in Uganda, competitive commercial microfinance institutions thrive alongside low interest state run microcredit under MSC (Budget Monitoring Unit, 2016; Uganda Microfinance Regulatory Authority, 2019). In addition, it is claimed that there is noticeable culture change in relation to credit recovery from the experience of MSC. Compared to credit recovery under earlier programmes such as '*Entandikwa'*, the post 2001 state fund management system has registered higher credit recovery (Microfinance Support Centre, 2019). Therefore, credit culture is not deemed to be eroded. Moreover, establishment of sub county SACCOs, and support to a plethora of MFs by MSC has created a mechanism through which the under, and unserved poor can access microcredit at cheaper rates. It is also noted that it is possible to operate a state microcredit scheme that is demand driven alongside commercial MFIs. Such a mechanism easily picks the progressive poor who are uplifted, and transformed into resilient, and sustainable entrepreneurs that commercial MFIs can serve efficiently, and effectively. There is growth in the number of reference SACCOs in Uganda that borrow from MSC, and lend to savings groups, and VSLAs at low interest rates. In addition, creation of zonal offices, and satellite offices takes services nearer to the customers. There is remarkable growth in SACCOs, and VSLAs accessing credit thus the outreach to the marginalised groups such as youth, women, and people with disabilities, and the rural, and urban poor has increased (Budget Monitoring Unit, 2016; Microfinance Support Centre, 2019). The state has been in position to fund priority projects that are deemed to benefit marginalised groups such as the youth, and women, and commercial agricultural enterprises in both urban, and rural areas. Risk management tools including know your customers, peer screening, group guarantee, assessment of collateral, internal control, business development training, governance, and management audits, monitoring of business operations, and cash flows have been promoted by MSC as a government microfinance institution. These measures have enhanced prudent lending to the poor.

However, it remains noted that political interference in SACCO formation, and operations is an obstacle to sustainable government supported microfinance institutions (Microfinance Support Centre, 2019). Politicians engaging in the governance, and management of SACCOs either directly or through proxies undermines their efficiency, and effectiveness. New usury tendencies by some SACCOs that raise interest rates to the same level or higher than commercial MFIs exist (Budget Monitoring Unit, 2016). Instances of microfinance charging much higher than the recommended interest rates are noted. Further, there is a tendency to treat funds from MSC as credit with very low sanctions, and mechanisms to enforce repayments (Microfinance Support Centre, 2019) tempting some borrowers to delay loan servicing. This has been more noticeable in the recovery of the *emyooga* funds (Parliament of Uganda, 2021). Nonetheless, this is not as grave as it was with previous credit schemes where recoveries were less than 30 percent of loan portfolio. It is observed that low capitalisation of MSC, which is below the funding needs of the targeted customers remains a serious hurdle to increasing accessibility, availability, and affordability of microcredit by the poor, and priority projects. To provide funding to priority enterprises in manufacturing sector, and commercial agriculture requires more capitalisation of the institution which is not the case at the moment.

Further, four critical issues are observed:

1. It is possible for a state agency to manage several funds including conventional credit funds from central government, stakeholder specific funds like teachers fund, and special purpose funds such as Islamic Finance when the agency has evolved strong governance, and management structures, systems, policies, processes, and procedures. It is also possible for such an agency to manage offshore low cost credit under the same terms to supplement government funds, and reach out to more customers in need of low cost funds (Microfinance Support Centre, 2019).
2. Sometimes, government agencies such as MSC can be made to operate in business-like manner while at the same time implementing government programmes that meet specific socioeconomic development objectives. Empirically, a state funded agency such as MSC can meet both welfarist, and institutionalist goals of microcredit ensuring service to the poor at affordable rates while being financially sustainable.
3. It is also possible to run successful state credit focusing on priority projects, and segments of the population while the private sector institutions focus on those customers that have matured enough to meet the credit terms, and conditions of commercial lending. State credit when appropriately executed may not erode the credit culture of the community, distort the market, lead to capital flight, and or stifle the growth of the industry. Therefore, both welfarist, and institutionalist objectives may harmoniously be implemented in an environment of a significant number of the poor that need specific microcredit products.
4. Greater capitalisation of state credit institutions can enhance priority lending, and fast track realisation of the government's socioeconomic development objectives.

5.13. Covid-19 Pandemic and Microfinance Service Delivery

The Covid-19 came in as a rolling combination of both health pandemic, and economic crisis. The pandemic was both a demand, and supply side shock to the economies of the affected countries. The effects of the Covid-19 pandemic (World Bank, 2020) were twofold: (i) human suffering due to ill health, overstrained health systems, distress from loss of loved ones, loss of income due to lockdown, stigma, and general hopelessness. (ii) Severe global recession. In developing countries, Uganda inclusive, gross domestic product (GDP) contracted significantly due to resource constraints. In the period 2019-2021, as financial markets, and systems slid into stress, deep financial, and corporate sector distress followed (SAETINI, 2021). In the emerging economies, foreign capital inflows including offshore funding slowed down as investors became more risk averse, and sought safer havens in economies expected to stabilise faster. This affected cash inflows in the country with a limiting effect on the availability, and affordability of microcredit.

In addition, lockdowns, and activities associated with mitigation of Covid-19 shocked the demand (customers), and the supply (lenders and funders/investors) of micro-credit **(Grameen Credit Agricole Foundation, 2020, SAETINI, 2021)**. Large-scale bankruptcy was looming given the bleak socioeconomic atmosphere. Some sections of the economy such as tourism, hotel, and food services, recreational services, transport, personal services, education, internet cafes were greatly affected by the lockdown. During such time, customers experienced loss of income as most enterprises closed their operations. Most businesses needed bail out as general customer expenditure was constrained leading to low demand for the goods, and services, and limited cash flow in the economy (**Grameen Credit Agricole Foundation,** 2020; World Bank, 2020). Consequently, the producers, and middlemen some of whom were microcredit customers faced a sudden, and dramatic loss of demand for the products, and services, and revenues causing severe liquidity shortages with a knock-on effect on the microcredit services in general.

While the impact of this pandemic, and associated economic crisis was not well articulated with empirical, and statistical evidence during this point in time (World bank, 2020), five lessons were nonetheless noted: (i) micro enterprises, and microcredit institutions supporting the poor suffered liquidity problems some even failing to service their loans causing severe cash flow problems to the MFIs. (ii) The demand from existing, and new microcredit customers for loans to facilitate their recovery was beyond their resources, and threatened their resilience. To maintain the pre-covid-19 business level and/or even catapult it, customers' needed additional capital as an imperative. Without this, the gains already realised by the microfinance industry would be lost plunging more microenterprises into distress, and economic uncertainty, people into unemployment, loss of income, and deeper poverty. (iii) Technology is essential to bridging the gaps caused by social distancing, and lockdowns. (iv) However, social distancing, and lockdowns damage group cohesion, break down the social collateral, and make recovery of credit from customers difficult. (v) Sourcing cheap funds from government such as microfinance recovery fund is a necessity to bail out financial institutions such as SACCOs and VSLAs that support the poor. Yet, the challenge of bureaucracy, and stringent terms, and conditions set by the institutions through which such funds are channelled stifle meaningful access to funds.

Government should ensure that the microfinance institutions access affordable and accessible microcredit to stimulate both MFIs, and their clients' businesses. In addition, measures such as back to back moratorium, direct, and targeted loans, reduced collateral value to loan ratio, doubling maximum loan amounts to customers, simplifying loan application and approval procedures, tying loans to business cycles, setting up new loan instruments, and strengthening business development, and financial extension services are paramount to help the microfinance industry recover from the effects of the pandemic, and to operate effectively, and spur small business growth. Closer monitoring of the microfinance industry to ensure that the target population is served is critical.

6. Conclusion and Outlook

Globally, the microfinance industry may not have lived to its original goal of alleviating poverty. However, its contribution is not something that stakeholders, more especially governments in developing countries should wish away. Billions of dollars have been invested in the industry infrastructure that remains with the potential to turnaround fortunes of many poor people. In Uganda, the industry has a long history, and is growing significantly in coverage, capacity, and products. This is, in spite of challenges regarding balancing the financial sustainability objective, and the social objective. Moreover, politics, corruption, usury, weak credit culture, limited service infrastructure, and low capital base still limit the industry from operating at the desired levels of efficiency, and effectiveness. Nonetheless, the stance of microfinance is one that should sustainably nurture the poor into viable, and independent entrepreneurs or empowered citizens with stable income. The leadership in the country still has trust that the industry holds potential for poverty alleviation which should be nurtured. The microfinance industry in Uganda, like elsewhere, has provided a number of marginalised poor with self-worth, and opportunities to break into the mainstream commercial economy. It has turned numerous vulnerable, and poor people who were at the verge of collapse to resilience with more capacity to demand for microfinance services, and pay back both principal, and interest. This has opened greater opportunities for commercial banks that serve clients who are bankable.

The microfinance stature for Uganda moving forward should be more aggressive in addressing the poor's' supply and demand side constraints to socioeconomic transformation. On both supply and demand sides, the purpose should be to build and sustain the capacity of the poor to access financial capital, increase their productivity, enhance the income, enable them save, and grow their capital, enhance their buying power, and attract investment in multiple local enterprises in the communities based on the growing effective demand of the community. The empowered citizens will be more disposed to demand microfinance services due to stable income and enhanced ability to repay the loans from MFIs, and the banking institutions. In addition, they will be in a better position to invest the loans in a manner that generates quality returns to both the borrowers and lenders. Therefore, microfinance services should be more available, accessible, and affordable to the poor. This calls for a renaissance in the industry to focus on building, and sustaining more efficient, and effective structures, and systems, and the industry's general capacity that will drive the desired service delivery.

The renaissance should, among others, include: (i) strengthening regulatory capacity of the industry regulator to monitor, and guide the actors effectively through regulatory compliance. This includes increased funding, and staffing to the authority, and establishment of the infrastructure – regional, and branch offices, IT facilities, and linkages, and collaborations with the local governments, which can support the regulator's work. The legal framework is already in place, and appears adequate to address most of the industry's needs. However, this framework needs to be more functional, and effective, and inadequacy of resources seems to be the major limiting factor presently. (ii) The MFIs should mainstream innovation in order to provide appropriate products, and services that are aligned to the customers' needs. This may include tying payments to customers' business cycles, product diversification to include others like insurance, student loans, housing loans, more focused business development programmes, and making the loan terms, and conditions appropriate to the type of the enterprise funded. (iii) Stakeholders should build networks of more dedicated players to the microfinance ecosystem like bringing together investment funds both public, and private, Fintechs, industry associations, wholesale lenders, and associations of customers to handle matters that affect the industry. (iv) Government should undertake reforms that focus on more inclusive development of the industry. Among these, there should be mainstreaming of high poverty reduction impact MFIs. These are the MFIs that support the very poor, and hard to reach segments of the population like subsistence farmers, vulnerable adolescent, and young mothers, and women, and active elderly. These MFIs should be provided with preferential funding at concessionary interest rates for onward lending to the poor.

In addition, there should be inbuilt service networks with input suppliers, storage, and value addition facilities, and traders to empower the poor to simultaneously access low cost funding, enhance quality of the products, and appeal to more competitive markets. This would make their enterprise operations more integrated in the value chain, and their effort to generate revenues seamless. (v) Government agencies such as the MSC should step up capacity building programmes focusing on enabling MFIs to develop people, products, and processes they need to meet their social and financial development goals. To enable such public organisations meet this challenge, operational budget should be increased to permit them reach out to the MFIs that are in most need of these services. (vi) Stakeholders including the State actors should depoliticise the microfinance policy and programmes more especially, state microcredit initiatives to ensure better access to the funds, and their purposeful utilisation by the poor. This is key to strengthening the fragile credit culture in Uganda in relation to repayment of state credit facilities.

7. Disclosure statement

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