Can’t Buy Me Love: Development and Social Destabilization in Uganda

by

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# Table of Contents

TABLE OF CONTENTS .................................................................................................................. 2

ACKNOWLEDGEMENTS .................................................................................................................. 3

LIST OF ABBREVIATIONS .............................................................................................................. 5

MAPS OF UGANDA .......................................................................................................................... 6

INTRODUCTION ................................................................................................................................. 9

CHAPTER 1: UGANDA IN TRANSITION ............................................................................................. 16

THE INTERSECTION OF LOCAL AND GLOBAL ............................................................................ 18

THE BONDS OF COMMUNITY ......................................................................................................... 22

MONETIZATION, COMMERCIALIZATION, AND SOCIAL CAPITAL .............................................. 26

CHAPTER 2: THE INSTITUTIONAL PUSH ......................................................................................... 39

THE POLITICAL ROOTS OF AN EXTRACTIVE ECONOMY .......................................................... 43

EXTRACTION AND VIOLENCE AS REINFORCERS OF COMMUNAL, COOPERATIVE NORMS ...... 48

MUSEVENI’S REFORMS .................................................................................................................. 52

CULTIVATING INTERNECINE COMPETITION ............................................................................. 59

CHAPTER 3: THE MICROFINANCE PUSH ....................................................................................... 66

THE CURRENT MICROFINANCE PARADIGM .............................................................................. 69

ORIGINS AND GROWTH: FROM BANGLADESH TO UGANDA ...................................................... 71

COMMERCIAL “MISSION DRIFT”: PRACTICES FOR PROFIT MAXIMIZATION ........................... 77

“SILVER BULLET” TO WHAT? ......................................................................................................... 81

CHAPTER 4: THE CASE FOR LOCAL PLANNING ............................................................................ 87

THE CULTURAL FOUNDATIONS FOR A COMMUNITY PLANNING APPARATUS .......................... 89

CONTEMPORARY SACCOS’ COMMUNITY INVOLVEMENT ....................................................... 91

BASQUE SPAIN: A MODEL FOR UGANDAN DEVELOPMENT ....................................................... 95

BUILDING LOCAL A LOCAL PLANNING APPARATUS ............................................................... 96

APPLYING CAJA LABORAL TO UGANDA .................................................................................... 102

CONCLUSION: ............................................................................................................................... 113

WORKS CITED ............................................................................................................................... 120
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List of Abbreviations

APEP – Agricultural Productivity Enhancement Program
BoU – Bank of Uganda
CRO – Child Restoration Outreach
GDP – Gross Domestic Product
IDP – Internally Displaced Person
IFAD – International Fund for Agricultural Development
IMF – International Monetary Fund
KY – Kabaka Yekka
LDC – Less Developed Country
LRA – Lord’s Resistance Army
MFI – Microfinance Institution
MTEF – Mid-term Expenditure Framework
NGO – Non-Governmental Organization
NRM – National Resistance Movement
PTSD – Post Traumatic Stress Disorder
SACCO – Savings and Credit Cooperative
SRB – State Research Bureau
UCB – Uganda Commercial Bank
UGX – Uganda Shilling
UNDP – United Nations Development Program
UPC – Uganda People’s Congress
USAID – United States Agency for International Development
USD – U.S. Dollar
Maps of Uganda

2006 District Map Showing Major Ethnic Regions

The boundaries and names shown on this map are liable for changes. OCHA disclaims liability for any inaccuracy. Uganda now has 81 districts as of July 2006.

LEGEND:
- Water Bodies
- Capital City
- District Headquarters

SOURCE(S):
DISTRICT AUTHORITIES
NUDC
OCHA

(Reliefweb, 2006)
Percentage of Rural Population Below Poverty Line, 2005
Urban Market Access: Hours of Transport, 2005

Microfinance Access and Poverty Density, 2010

(Rogers, et. al., 2005)

(Syminvest, 2010)
Introduction

While taking morning tea with some of my Ugandan co-workers at Child Restoration Outreach (CRO) in Masaka we received a team of visitors from a major international donor, there to audit CRO’s operations. The team went off to meet with the senior staff and we invited their driver, Vincent, to share tea with us. Like most visitors to CRO during my time there, Vincent was fascinated by the mzungu\(^1\) working at an organization otherwise entirely staffed by Ugandan professionals and university interns.

“You must be an expert in helping street children!” he proclaimed after we exchanged greetings. CRO’s primary mission is providing for local street children, and it occasionally receives international consultants. I explained that I was actually a student, conducting research in Uganda on socioeconomic development. I explained how I secured the position with CRO to help me integrate into the community, and to provide me with access to housing, food and other support resources I needed while I conducted my research. Vincent was pleased to learn I was a student, and

\(^1\) The Ugandan variation of the Swahili *mzungu*, literally meaning “aimless wanderer,” the common term for a person of foreign origin in Southern, Central, and Eastern Africa.
quickly began to “teach” me about the connection between development and street children.

“Here in Uganda, we are poor. Families are failing because there is not enough money,” he said. To him, “failing” families were those whose children ended up on the streets. “Sometimes, parents will make their children dig all day, and beat them if they don’t work hard. Parents are beating their children seriously, and their children run away to the streets. Sometimes there is also not enough food, and the children do not eat. So, they run away to the streets.” He told me the story of one family in his village that had eleven children, seven of whom ran away to the street to find food.

Vincent confirmed what I had been told by various CRO staff during my training: contrary to popular belief, very few street children in Uganda are orphans. Most either ran away from home to escape abuse or are sent to the streets by their families to make money – at as young an age as five. On the streets, children usually make between 500 and 2000 Uganda Shillings (UGX) – about 20-80 cents – per day, performing manual labor or collecting scrap metal to sell. The consumption enabled by this small income is often more than what a child would have access to at home, and is often enough for some children to prefer living on the streets. The preference for street life many (but certainly not all) street children express makes CRO’s mission of helping children to leave the streets difficult to achieve.

“Business contributes to street children,” Vincent continued. “Capitalism contributes. People are so concerned with their businesses. They must work so hard to

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2 Ugandans refer to farming and other manual, agricultural labor as “digging.”
compete – to survive; they go work and leave their children at home. The children can get a taste of street life this way.” When parents cannot bring home enough money to provide for their children’s needs and then force their children to work or go hungry, their children, already familiar with street life, will run away.

Many of the street children I worked with at CRO’s drop-in center were relatively open about their reluctance to leave the streets. They talked about abuse they had suffered at home, from not being given food to being beaten to sexual assault. They didn’t want to return to a situation where they were dependent on their abusers. CRO staff social workers believe the children’s preference for street life arose directly from poverty and abuse so CRO also manages several projects aimed at reducing poverty and abuse in order to cultivate a preference for family life. Vincent, however, saw additional social components in children’s move to the streets, many of which were by-products of the very initiatives designed to reduce poverty and, therefore, the incidence of street children.

“Here in Uganda, we are in transition,” Vincent said. “We are transitioning to a capitalist society. We are moving from a communal society to a more individualistic one. But we are not finished transitioning. We are trying to understand what capitalism is in Uganda. Ugandans don’t know yet what it means to be capitalist, how to run a capitalist business, how to succeed through capitalism. We want development and increases in our quality of life. But many things are being lost as we become capitalist.” Things like family structure, community cohesion, and cultural values – things that Vincent felt previously prevented children from going to the street.
Vincent’s observations resonated strongly with the hypothesis I was developing through my research. A year earlier, I had attended a two-month seminar in Uganda on post-conflict development. Then, I had participated in a discussion with a group of elders in the northern region of the country who had all voiced concern with the trajectory of development in their area. They spoke of unwelcome changes in their local culture and a shift from “socialism, where our neighbors’ problems were our problems” to “capitalism, where we benefit from our neighbors’ misfortune.” However, my time in the North was limited and I had to leave before I could thoroughly research the direct implications of their statements. I designed this project to address the question raised by that discussion and by my subsequent observations in the country: how does the current development landscape of Uganda shape shifts in the social and cultural norms that provide the foundation of social capital formation in the country?

With generous funding from the Wesleyan’s Davenport Committee and a Wesleyan University Summer Experience Grant, I conducted a second research trip to Uganda during the summer of 2012. The first trip, as mentioned, was part of a structured seminar on post-conflict development, but I was also able to conduct some preliminary research in Gulu Town, the largest urban area in the North. For the second trip, the primary research location was Masaka Town and nearby rural areas near the shores of Lake Victoria, with additional research conducted again in Gulu.

Gulu and Masaka are representative of only two of the more than 60 unique ethnic traditions in Uganda, but research from the two towns provides substantive insight into overall origins and trends of shifting cultures and norms. As discussed in Chapter 1, there is sufficient overlap in values and traditions between ethnicities for
some general discourse on national trends in culture and tradition, and the consistent results from both Gulu and Masaka, despite their vastly different ethnic compositions, confirms that.

The data in this study are a compilation of original survey, interview, and experiential research conducted during both trips, as well as information gleaned from scholarly literature on development and Uganda. To protect the identity of my research subjects from any potential repercussions for their critical views on established organizations and practices, I have changed some names and refer generally to my “informants” in the field.

Chapter 1 examines the overall development landscape in Uganda in relation to the cultural landscape. It details some of the most common elements of local culture – norms of community and cooperation – and their relationship to social capital formation. The chapter establishes that social capital formation mechanisms based on these norms have changed as monetization and commercialization spread through the country, and that the mechanisms continue to change as development progresses further.

Chapter 2 scrutinizes the history of extractive institutions in Uganda, and demonstrates that the continuing extractive institutional framework limits the set of economic opportunities available to Ugandans seeking income growth. As a result, Ugandan economic actors have been pushed into a small set of market sectors. Those market sectors have become so saturated that competition between firms has become internecine, extending beyond the economic realm and negatively impacting interpersonal relations and social stability. Norms of community and cooperation
have begun to decline, and the social capital formation they enable has been disrupted.

Chapter 3 demonstrates that microfinance – a development strategy often hailed as a “silver bullet” to eradicating poverty and providing for economic growth – contributes to the internecine competition in communities, exacerbating the disruption of social capital formation and jeopardizing future growth. Microfinance banks have increasingly employed “best practices” imported from around the globe to maximize loan repayment rates and bank profits. As a result, they only grant loans to economic projects deemed “viable,” further restricting the set of opportunities available to Ugandan entrepreneurs. Their formulaic prescriptions stifle innovation and cooperation within communities, create incentives for individuals to abandon social norms foundational to social capital formation, and prevent meaningful, large-scale growth.

Chapter 4 analyzes the practices and procedures of Caja Laboral, the primary financial institution behind the successful Mondragon Corporation, and demonstrates their applicability in the Ugandan context. Caja Laboral takes a very active role in shaping the businesses it services, integrating them into a dense network of intermediate and final goods producers, thereby preventing sectors from becoming oversaturated and preventing ruinous, internecine competition from consuming local communities. Applying similar procedures at Ugandan microfinance banks could provide for more significant, meaningful growth while protecting norms of community and cooperation, and the social capital formation mechanisms built on those norms.
Modern development initiatives are generally focused on so-called “sustainable” development, broadly defined by the World Bank as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (2001). The World Bank, IMF, USAID, IFAD, and other major development interests all employ a wide range of colorful flow charts, complicated formulas, and congenial rhetoric to demonstrate their commitment to development that provides for economic and social advancement without endangering the environment. This study shows, however, that development in Uganda is not sustainable. A key element of social vigor and collective societal worth – social capital – has been overlooked. As a result, economic growth and many of the social achievements development actors widely promote (such as increasing gender equality and access to education), are entirely jeopardized by shifting social and cultural norms that disrupt the process of social capital formation. It is true that culture, social norms, and social capital are difficult to quantitatively measure and encapsulate in an indicator, but they are just as important to tangible indicators of community vitality – like street children – as income.
Chapter 1: Uganda in Transition

Modern day Uganda is in transition. It is a palpable intersection of old and new: of stereotypical, traditional “Africa” and foreign-influenced lifestyles and infrastructure, slowly incorporated into the country over the course of its centuries-long history of interaction with outsiders. For example, most non-tourist restaurants offer menus full of traditional foods – from matooke, the staple green banana varietal common in the Buganda Kingdom of central Uganda and surrounding areas – to pest – a groundnut-based dish popular in the North – to cassava, yams, and whole, dried fish. Yet, at every restaurant, whether serving traditional local fare or global dishes like burgers and French fries, one can find an abundance of bottled industrial beer and soda – Coca-cola, Sprite, and Fanta are some of the most popular – all served with a red-striped plastic straw reminiscent of 1950’s Americana.

As new products like glass bottles, soda pop and plastic straws are introduced, local society evolves to accommodate them. As a product becomes available, shops
begin to stock their shelves with it, and people begin incorporating its use into their daily routines. The same holds true of new ideas, like the idea of private enterprises such as shops and restaurants themselves – which spread during colonization – or ideas concerning sanitation, education, or market capitalism, imported more recently. For example, plastic straws were brought to Uganda as a way of preventing the spread of disease, and have been widely adopted as essential for safe drink consumption. While educating the Ugandan public as to the precise vectors of disease transmission is still an ongoing process, there is some widespread awareness of the concept of germ transmission. Concern was raised over the possibility of microorganisms passing from one person to another via a bottle of soda or beer, and straws were promoted to prevent mouth-bottle contact and minimize the possibility of disease transmission. Gradually, plastic straws became commonplace sanitary instruments. And, as sanitary, individually wrapped plastic straws became increasingly available, they were adopted to replace traditional grass straws in ceremonies, healing rituals, and everyday life.

The everyday use of plastic straws constitutes a fairly minor societal evolution. Straws require very little capital to procure, and their use requires no major reorganization of social norms or the social strata. More significant processes of development, such as the adoption of monetized trade and the expansion of free market capitalism, however, require far more consequential social accommodation.

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3 Glass bottles are thoroughly sanitized before being filled (and re-filled, as bottles are collected and re-used), but the cap only covers a small part of the lip of the bottle – far less than comes in contact with a consumer’s mouth when drinking from the bottle. Concerns over the possibility of the uncovered remainder of the bottle becoming contaminated in transit pushed the adoption of straws as sanitary devices.
Norms shift to incorporate commercial competition and profit seeking. Social hierarchies reorganize as successful entrepreneurs challenge and supplant the influence of traditional positions of power. Frameworks for interpersonal interaction and cooperation change as new opportunities for personal advancement become available. The development landscape, often only considered in relation to the economic landscape, comes to affect the social landscape as well.

This chapter will examine the Ugandan development landscape in relation to social evolution. Ugandan society has strong traditional norms of community and cooperation. As monetization and commercialization have spread as a result of economic development, those norms have changed. Communal, cooperative behavior has been confined to increasingly small subsets of society. Of course, as any society evolves, the mechanisms of social capital formation embedded in the social structure also change, and such changes are not inherently negative. In Uganda, however, the social shifts resulting from economic development have destabilized local communities to such an extent that future development may be in jeopardy.

The Intersection of Local and Global

In Uganda, urban areas, especially, are a cacophony of change. Traditional melodies, recorded over low-fidelity electric piano, synthesized drum rhythms, and bass guitar blast out of some storefronts, while American, Kenyan, and Nigerian hip hop artists stream from the speakers of adjoining shops. *Boda-Bodas* – motorcycle taxis imported from India – crowd every available inch of road not already occupied by cargo trucks, *Mutatus* – minibuses – and imported Japanese and European private cars. The vibrant oranges, blues, yellows, and greens of elder women’s traditional
dresses clash brilliantly with the secondhand Levi’s jeans and stylish t-shirts of younger generations and the neat, almost colonial uniforms of school children. The air is thick with wood smoke, vehicle exhaust, cooking aromas, and the sound of conversation. It seems every urban Ugandan owns a mobile phone (or two or three) and enjoys using it.

The visual landscape, too, encompasses the intersection of the local and the global. Within the capital, Kampala, traditional mud-brick houses, cement stores and shantytown lean-tos are interspersed with elegant colonial mansions and modern high rises. The 235-room, 24-floor Kampala Hilton, which will open in 2013 and would not look out of place sitting next to the ultra-modern luxury hotels of Dubai, dominates a hilltop overlooking several slum areas, a testament to the uneven development the country has experienced. While Kampala is home to several modern buildings like the Hilton, the construction techniques used to build them are still very much in line with traditional methods. Because there are few capable local producers, steel beams and glass panels are imported from the same producers that supply commercial builders in Europe, Asia, and the Middle East. However, they are assembled essentially by hand, using unprocessed Eucalyptus trunks for scaffolding and support in accordance with local construction techniques. Watching a modern high rise emerge from what seems like a pile of sticks defies every Western notion of contemporary, regulated construction.

There is also visible evidence of the continuing dominance of domestic and international elites in the Ugandan economy. Commercial buildings are almost always painted as advertisements for a mobile phone provider; a paint or cement manufacturer; or a bank, soda or beer – the largest, most powerful firms – because
few property owners can afford the cost of paint. Regardless of which large company paid for the paint job, a single commercial building will house a huge diversity of local stores and microenterprises inside. An internet café, barber, traditional healer, fresh dairy, and small food shop (with goods ranging from maize to matooke to fruits, vegetables and bread) may share a single building, painted the bright yellow of MTN, the largest mobile phone provider in the country. Next door, an almost identical arrangement of shops (although perhaps with a pharmacy instead of a dairy) may all operate within walls painted Uganda Telecom’s baby blue, or Coca-Cola’s ruby red.

The country’s physical infrastructure reflects a mosaic of local and international technologies, interests, and development priorities. The grid of paved roads remains almost identical to that of the colonial era, despite massive population growth. (Some seem to have not been re-tarred since colonial rule, either). Most post-colonial roads are little more than dirt tracks worn through the bush, connecting the veritable flood of new residences and shops to the few arterial highways connecting the country (and its neighbors) to Kampala. A few major roads have been rebuilt or improved with Chinese assistance and labor, exchanged for business contracts and trade agreements. What few paved sidewalks that exist across the country are remnants of the British; local residents, left to their own devices, simply forged dirt footpaths everywhere – alongside roads and between buildings, even between many of the most modern structures in Kampala.

4 Paint constitutes a major cost of construction: labor is cheap and, with the exception of high-rises in Kampala and other urban areas, most commercial buildings are made of relatively inexpensive bricks or concrete. Few property owners forgo paint, however, as the torrents of the rainy season and inconsistencies in cement and brick quality make the protective layer of color essential.
Central water and sewage pipes exist only in certain urban centers. Nearly all are products of colonial investment or internationally funded development initiatives. Most safe water access points and other sewage disposal facilities are also of foreign origin – even the common construction and use of pit latrines originated from the concerted efforts of colonial agents to improve sanitation, hygiene, and health (Nakazzi, 2009).

Electricity is distributed through lines tangled on unfinished Eucalyptus poles, although some metal poles remain from British rule. However, many more are currently being installed as part of a national investment push to expand electricity access and improve grid efficiency. Nearly all electricity is hydropower, generated in dams designed and constructed by international firms and financed by a combination of domestic and donor sources. In July 2012, the new Bujagali dam and hydropower station was completed, giving Uganda enough electric generation capacity to satisfy the entire domestic demand for the first time in over a decade, a huge priority of the national government (Doornebal, 2012). An Italian contractor, utilizing primarily international subcontractors and a mix of international and local laborers, developed the project, while a consortium of international partners provided a significant amount of the funding. Completed years behind schedule, over budget, and riddled by corruption throughout the planning and construction phases, the dam nonetheless constitutes a significant step forward for the country’s development. Within two years, however, electricity demand in Uganda is forecasted to surpass the new capacity, forcing the national electricity company to reinstate rolling blackouts to prevent catastrophic grid failure (Kasita, 2012a and 2012b). Another planned dam project, the 600-megawat Karuma Falls Power Station, would expand generation capacity
and avoid the blackouts, but the project has not yet even broken ground on the six-year construction process, despite being a government priority since 1995 (Maseruka and Natukunda, 2005).

The Bonds of Community

Physical infrastructure is not the only part of Uganda that reflects the country’s “developing” – or “transitioning” – status. Ethnic, community and family structures are also changing.

Ethnic identity is of the utmost importance to individual identity for most Ugandans. When asked to describe her identity, a Ugandan will almost never identify herself as “Ugandan,” unless, of course, the national soccer team happens to be playing that day. First, she will identify her ethnicity and then often go on to detail her clan or family group within that ethnic heritage. For Ugandans, ethnic identity carries indications of everything from geographic and historical origins to dietary preferences and moral values. A 2005 constitutional amendment brought the total number of legally recognized ethnic groups in Uganda to 65, each with its own traditions, values, and social structures (CDRN, 2007, v).

Respecting this diversity and its importance is critical; however, there are strings of commonality between ethnicities that allow for some general discourse on traditional “Ugandan” culture. Community and cooperation are two of the most dominant, common themes within the many ethnic traditions of Uganda. Despite complaints from many community elders that “traditional values” and “traditional
culture” are on the decline, the fundamental importance of community and cooperation remain evident.

For example, among the Baganda,\(^5\) the largest ethnic group in the country, weddings and funerals are two of the most culturally significant events, and require the participation of entire communities. Weddings are elaborate, multi-day affairs, first consisting of an “introduction” ceremony and then later the actual marriage ceremony. When a couple decides to wed, the entirety of the groom’s family – extended relatives, neighbors and friends included – assembles and goes to the family of the bride’s house to meet the entirety of the bride’s family for a formal introduction of the wedding party. Beyond its role in reaffirming the local bonds of community, introduction ceremonies originally were sometimes the first place the bride-and-groom-to-be met, and provided an opportunity for each party’s respective family to provide input on the proposed marriage.\(^6\) The ceremonial “haggling” over the size of the dowry\(^7\) (which the groom presents to the bride’s father) and other demands made of the groom-to-be during the ceremony granted the bride’s family an opportunity to ensure the groom could provide adequately for their daughter. On the surface, modern introduction ceremonies remain very similar to historical ceremonies. However, as marriages are now most often the product of a longstanding romantic relationship, as opposed to prior arrangement, so introduction ceremonies are no

\(^5\) Members of the Buganda Kingdom are called the Baganda, and their language is Luganda. The Acholi, who will be discussed later, live in Acholiland and speak Acholi.

\(^6\) Arranged marriages were common in pre-modern Buganda.

\(^7\) Dowries, in Buganda, are presented to the family of a bride before she weds and can range in magnitude from a few jerrycans of local beer and some livestock to luxury cars, tracts of land, and expensive jewelry.
longer a “test” of the groom. Rather, according to my informants, they are a “show.” Grooms-to-be still perform the same ritual activities – including haggling over dowry size – with equal vigor, but the ceremony’s role in reaffirming social bonds by far supersedes its relevance to the actual matrimony. It is an opportunity for the two families to interact, engage with their community and cultural roots, and “grow together,” as they are to become one (Ibid).

The wedding ceremony itself, which typically occurs well after the introduction ceremony, is also a lavish, all-community affair. Any community members not present at the introduction are usually welcomed to the wedding itself. And, although modern weddings are sometimes criticized as simply opportunities for wealthy families to display their riches, the ceremonies remain an important facet of community life.

Similarly, funerals are important reaffirmations of the bonds of community. When a community member passes, relatives, friends and acquaintances of the deceased, if physically able, will drop what they are doing and travel long distances to attend the ceremony. Entire villages gather at the home of the deceased, assisting the family in their chores and in providing for all of the guests, and celebrating the contributions the deceased made to the community. It is not uncommon for attendance to number well into the hundreds – particularly notable community members occasionally attract into the thousands. Weddings and funerals are also important to many other ethnic communities across Uganda, but no institution is as unilaterally sacred – and indicative of both the communal and cooperative aspects of Ugandan culture – as the extended family.
The proverb “it takes a village to raise a child” aptly encompasses traditional village social structure. Most villages are composed of a few closely intertwined family groups. There are usually a small number of elders, often related as siblings or cousins, and increasingly larger populations of younger generations. Younger generations, however, refer to all members of older generations as if they were directly descended from them: the youngest generation greets all members of their parents’ generation as their mothers and fathers, all members of their grandparents’ generation as their grandmothers and grandfathers, and so on.\(^8\) It’s not uncommon for a single child to have dozens of parents and grandparents, each of whom participate to some extent in the raising of that child. Any of a child’s parents – birth or family – can punish the child, teach the child, and fulfill other parental duties. Birth parents, if able, play the most dominant role in raising their children, but the entire community participates cooperatively in the process. Additionally, should one community member find himself or herself coming into a position of power or wealth, he or she will often “adopt” poorer community members’ children, providing for their school fees and allowing them to live with him or her provided the children contribute back to the household through chores and good behavior.

Traditional community cooperation extends beyond parenting. In many ethnic traditions throughout Uganda, including the Acholi in the North and the Buganda in the South, community members with resources help those without. Subsistence agriculture is still the most common economic activity across Uganda,

\(^8\) This “family recognition” extends beyond intergenerational contact. Community and clan members of the same generation refer to each other as brothers and sisters regardless of their actual biological relationships.
especially in rural areas, and those enjoying large harvests often help those in their local community suffering through poor harvests with sufficient foodstuffs to last until the next harvest (Gollin and Rogerson, 2010, 1). Those members of a family, village, or extended ethnic sub-group that own businesses – even those who have relocated to an urban center – will often offer employment to family or community members before attempting to find workers from the general population. There are certainly exceptions, as family and interpersonal dynamics certainly affect the generosity of one community member towards another just as they do in any other society, but the bonds of community provide a strong foundation for the cooperative behavior dominant in most ethnic traditions across the country.

Monetization, Commercialization, and Social Capital

Collective, cooperative norms are gradually shifting as the free market economy develops. Within many communities, the practice of sharing food with community members in need has been increasingly interpreted as selling food at a discounted price, instead of lending it free of charge.\(^9\) According to my informants, as recently as 20 years ago any person could freely consume the fallen fruit of avocado trees that grow in abundance across the country, regardless of property ownership or permission. Currently, however, fruit is considered the property of the landowner; truly free fruit is only available to some close family and community members given explicit permission to take it. All others must now buy it at a price. Prices are still low,

\(^9\) As detailed later, food sharing constituted a form of lending as there was a mutual expectation that, eventually, the value of the goods given would be repaid back to the “giving” family.
even by Ugandan standards: most rural community members can buy two large avocados for about 100 UGX – about 4 cents – while outsiders are charged twice that, but the size of the “family” sharing unrestricted access to family resources like food is shrinking.

Poverty, and the new economic structures and systems ostensibly arising to combat it, are the most obvious sources of these cultural shifts. As concerted efforts to expand markets and extend access to finance have been made to move people out of subsistence agriculture and into higher income sectors like small business, a commercial mindset has begun to infiltrate every aspect of both rural and urban Ugandan life. This mindset often conflicts with traditional communal values. The monetization and commercialization of formerly non-monetary and non-commercialized sectors, a natural outgrowth of Ugandan economic development, has impacted local interpretations of value and exchange, and the cultural traditions built on them.

Monetization refers to the move from barter to fiduciary currency, while commercialization refers to the “pervasiveness of the behavioral assumption of profit maximization” (Chandavarkar, 1977, 668). In pre-modern Ugandan communities, trade was conducted on the basis of goods- or labor-exchange without a monetary intermediary. Additionally, as there were no set units of value, trade was hugely informal and subjective. A unit of maize, for example, would be exchanged for a variety of other goods or amounts of labor depending on the needs and preferences of the involved parties. Additionally, exchange often occurred over a far longer period of time and was based in the common values of community and cooperation. For example, the food- and resource- sharing mentioned earlier was still, in essence, an
action of exchange. Although it was rare for a family to demand goods and services in the immediate in exchange for food shared with another family, there was a general, bilateral expectation that the value of the shared goods would eventually be repaid in some form or another.

“When someone shares their food with you, you share your food with them,” one of my informants explained. “If you do not have food, then you do some work for them in their gardens or at their house.” The exchange could happen over a period of months or years, but eventually the value of the shared goods is paid back.

As pre-modern Ugandan trade was primarily barter, value maximization manifested differently than the commercial pursuits of a monetized economy. Under pre-modern, subsistence circumstances, risk and uncertainty are high due to the perishable nature of available resources of value – seeds, food, and the like. In these circumstances, individuals exhibit “survival algorithms,” and channel any surplus into the safest possible option for it so as to preserve the value of that surplus (Lipton, qtd in Chandavarkar, 1977, 672). In the case of Uganda, surpluses were channeled into the community. A family sharing food with another family was not simply being altruistic; they were actively preserving the value of their produce. The “giving” family typically only shared surplus goods they didn’t need for their own survival – goods whose value could not be otherwise used or invested. If the family could not find some outlet for the sustenance or utility value of that produce in a given year, then its value would be completely lost to spoilage. As there were few urban markets and long-distance trading networks in pre-modern times, there were few options but to give surpluses to a local family in need. Additionally, as there was no monetary intermediary, there was no way for the “giving” family to immediately harness and
invest the value of their surplus produce; a unit of beans represented a unit of beans, not a certain amount of money that could then be immediately invested in some other activity to generate further produce. The most “maximizing” action any family or individual could take with a surplus was to put it into use in the wider community with a shared expectation that the utility value of their produce would eventually be repaid. The value of a good was directly related to the sustenance it could provide, and allowing another to consume the good in the immediate, allowing another to harness its sustenance value, in return for a debt of sustenance (like food) or some other good (like labor) ensured the long-term utility value of the good would not be lost to spoilage. Thus, a culture of communal giving and cooperation was cultivated to insure community members against spoilage and to maximize the community’s ability to harness the value it produced.

The community, in essence, constituted its own bank. It acted as a value-storage institution, allowing families to preserve the value of their perishable goods. Community members could give their produce to the community with the mutual understanding that eventually, the value of the produce would be returned. The community, to some extent, also acted as an abstract credit-access institution, allowing families in need access to others’ surpluses. The community even aggregated and diffused risk to some extent: repayment wasn’t necessarily expected to originate exclusively from the family originally receiving goods, value-paid and repayment were aggregated through the entire community to ensure that every member received the value they produced. The dominant cooperative and communal cultures in many ways served to protect the collective value stored in the community, while the community value-storage mechanism itself constituted a solid foundation for building
social capital – value realized through “the network of associations, activities, or relations that bind people together as a community via certain norms and psychological capacities…essential for civil society and production,” perhaps more eloquently stated as the consequences of social organization (Farr, 2004, 9).

The importance of the community as a value-storage institution, however, has been radically reduced by the monetization and commercialization of the Ugandan national economy.

Generally, monetization is considered an “evolutionary process,” naturally expanding as the efficiencies and opportunities of a money-based economy are realized (Chandavarkar, 1977, 695). In some less developed countries (LDCs) in tropical Africa, however, the genesis of monetization required some institutional push (Ibid). The introduction of cash cropping – specifically the cultivation of coffee, cotton, and sugar for export – in colonial Uganda provided such a push, beginning the process of both monetization and commercialization of the agricultural sector. As monetization and commercialization have been linked to higher rates of economic growth, large-scale contemporary development projects have pushed commercialization of the agricultural sector even farther (Laumas, 1990, 377-378). For example, the United States Agency for International Development (USAID)...

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10 Some of this growth is simply the result of the widening of the monetized sphere; as formerly non-monetized transactions become monetized transactions, it becomes easier to capture them in various economic indicators, lending an illusion of growth that is, in fact, simply the absorption of non-monetized trade into the monetary sector. Some of the growth, however, is a true deepening of the monetized economy, representing organic growth in already monetized sectors. Various indicators have been developed to measure widening versus deepening, and there is a general consensus that monetization does promote economic deepening (Chandavarkar, 1977 and McLoughlin and Kinoshita, 2012)
“flagship” agricultural project from 2003 to 2008, the Agricultural Productivity Enhancement Program (APEP), aimed to facilitate the expansion of monetized, commercial farming in Uganda by strengthening the “viability” of certain cash and food crops (USAID, 2008, 1-3). APEP’s approach created a “critical mass of capable local producers (smallholder farmers) and support industries, such as input suppliers, and [linked] them to local, regional, and international markets” (Ibid, 3). The project – like many before it – aimed to integrate local subsistence producers into a larger market economy, giving them access to markets outside of their home community through which to sell their produce and purchase materials required for growth. Local producers gained options for how to best utilize their surpluses: they could still invest them into their local community value-storage mechanism, or they could sell them on the open market for a profit. Trade on larger markets required the adoption of a currency within communities in order to standardize and facilitate exchange between communities, reinforcing the process of monetization itself. Generally, exploiting open market opportunities was more lucrative, and communities adopted money as a means of trade to facilitate market exchanges.

The impact of initiatives targeted to monetize and commercialize sectors and industries – from colonial projects to modern development programs – was amplified by the natural evolutionary components of the monetization and commercialization processes. As money allows for far more efficient, standardized trade, and opens opportunities for investment and exchange not available in predominantly barter economies, preferences for monetized trade grows. The monetized, commercial systems of exchange necessary for intercommunity trade were gradually adopted for
intracommunity trade as well. What was a value-preserving action – food sharing – became a profit-maximizing pursuit – food selling – albeit at a discounted rate.

There are limited data available on the full extent of monetization in Uganda, but growing evidence suggests monetization and commercialization are higher in areas proximate to Kampala and other main urban markets, and lower in more rural areas, as evidenced by higher rates of subsistence agriculture (for home consumption or barter) as a result of poor transportation infrastructure limiting rural access to monetized urban markets (Gollin and Rogerson, 2010, 6, 53-54). Despite these variations, however, the 2007 national development goal of opening at least one government-supported, fully functional savings and credit cooperative (SACCO) – essentially a community bank – in every sub-county indicates the increasing dominance of monetized trade and emerging necessity of access to modern financial services (Levinson, 2012, 35). Monetization and commercialization are exemplary of broader development trends in Uganda.

Development is uneven and relatively concentrated in urban areas, but widespread enough that remote, rural areas of the country have developed beyond traditional subsistence-barter lifestyles – from adoption of monetized trade to advancements in sanitation to expanding access to electricity, clean water, health services, and mobile phone networks. The nationwide geographic extent of

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11 The rapid expansion of mobile phone money transfer services, like MTN Mobile Money and Warid Pesa, are quickly reducing the urban/rural monetization and commercialization disconnect, however.

12 A small administrative unit; Uganda is divided into four administrative regions, which are divided into districts (of which there are over 120 across the four regions), which are divided into counties, which are then divided into sub-counties. Sub-counties are farther divided into parishes and villages. There are over 1,000 sub-counties across the country (UBOS, 2012).
development matches a near unanimous perception among my informants of the nationwide geographic extent of cultural shifts, like those related to food sharing. Additionally, the geographic variations in development – the higher levels of development in areas proximate to urban centers and trading networks – match the perceived variation in the extent of cultural shifts; the perception that traditional cultural practices and values are much stronger in rural villages less impacted by development than urban areas.

Any change in dominant social structures will modify local culture accordingly. In a social exhibition of Schumpeterian creative destruction, as an area develops and adopts new technologies, lifestyles, and systems of economic interaction and organization, local culture will doubtlessly evolve to accommodate the new modes of existence. The gradual monetization of the English countryside resulting from the outgrowth of urban markets in the fifteenth, sixteenth, and seventeenth centuries led to changes in peasant mentality, work relations, and all cultural rites built on those institutions (Braudel, 1979, 59). The gradual concentration of land ownership in the hands of a small elite during the same time period forced the vast majority of Basque peasants (in what is now Spain) off of their land and into urban labor markets, again resulting in large, irreversible changes to Basque peasant culture (Ibid). More recently, the dramatic price increases of quinoa resulting from its unexpected popularity in the United States and Europe along with increased global market access due to several development initiatives led by the Bolivian government, has resulted in indigenous populations consuming far less of the grain in the Andean highlands of South America (Flores, 2013). The grain, held sacred by the Incas, was the dietary staple of the region and the foundation of many cultural rites and
ceremonies. However, due to its high price, wheat and rice have been adopted as substitutes for quinoa, and much of the culture associated with its consumption has been abandoned or adapted to fit the new diet (Philpott, 2013).

Cultural shifts imply alterations in the mechanisms of social capital formation. As social structures and cultures evolve, the network of interpersonal relations and associations within communities that builds social capital also changes. While it is exceedingly difficult to measure quantitatively, social capital and the mechanisms of its formation play a significant role in shaping a community’s successes and failures in economic development (Woolcock, 1998 and Woolcock and Narayan, 2000). Alterations in the mechanisms of social capital formation do not inherently imply changes in the collective worth of a community’s social capital or lead to economic development failures, but they can. The significance of social capital to development cannot be overlooked. Within the Ugandan context, it appears exceedingly likely that cultural and social shifts spurred by rapid development are having a destabilizing effect on local communities, disrupting social capital formation and, given the extractive institutional framework under which Ugandan development is advancing, jeopardizing the ability of Ugandan communities to sustainably and successfully develop long-term.

The expansion of sophisticated, monetized markets and trade, for example, has decreased the economic relevance of the community value-storage mechanism in Uganda. Selling surplus produce for the cash value of the goods allows sellers immediate access to the exchange-value of their produce, and greater agency in determining what to spend it on, whereas the community value-storage system forces sellers to wait for repayment and somewhat reduces their agency in determining how
to spend their surplus. Additionally, before monetization and market expansion, varying community needs, preferences, and available surpluses led to considerable unpredictable fluctuations in actual value of whatever surplus sellers held. The use of a monetary intermediary and access to expanded markets also stabilized, to some extent, the value of a surplus. The value of a unit of beans, for example, is still subject to fluctuations in prices based on variations in supply and demand, but due to the expanded size of the market (regional or national as opposed to village or town), one person’s or one family’s preference for groundnuts over beans has far less impact on the exchange value of beans. Thus, there is little practical, financial value to producers in the community continuing to serve its role an abstract value-storage and credit-access institution. More and “better” opportunities for value maximization are available via the open market. However, the community value-storage mechanism hugely shaped the networks of interpersonal interactions within Ugandan communities fundamental to the formation of social capital. As money has come to replace the intrinsic trust between community members that the community will act together and provide for the value of the goods placed into it, individuals have begun to separate from their communities. Communal and cooperative norms are being replaced with individualism and self-interest. Interpersonal trust, one of the foundational components of social capital, has decreased, and all functions of it have changed. Social capital stemming from interpersonal trust and community coherence has weakened.

These types of development-related transitions in social capital formation, by themselves, are not inherently problematic. As a country develops, its social structures will change, sometimes even benefitting social capital formation. Generally, beneficial
– or at least non-negative – development-related shifts in mechanisms of social capital formation are the result of conscious substitution of certain social norms, political structures, or elements of traditional culture for economic development and the new social structures associated with it. Such substitutions aren’t necessarily undertaken enthusiastically – or even willingly – as poverty, oppression, or some other social ill often propagates them, but those affected by the shift typically maintain some agency in the process.

In the Ugandan context, however, alterations in the mechanisms of social capital formation are decidedly negative. Ugandans are increasingly adopting competitive capitalist business as their primary livelihood, but the process has been fundamentally flawed, effectively constricting individual and community agency. As the following chapters will show, an extractive macro-institutional structure and problematic commercialized procedures employed by the microfinance banks designed to guide and facilitate the adoption of free-enterprise have distorted the development process and negatively impacted the evolution of social capital formation mechanisms. These suboptimal conditions of development severely hamper the ability of Ugandan communities to successfully, sustainably, and productively transition out of subsistence lifestyles. They threaten the future viability of free enterprise and small business in the country. Ugandan communities face social destabilization to such an extent that the added value of further development and expansion of free enterprise seems increasingly less likely to offset the disruptions in social capital formation caused by shifting social structures and cultural values. More than the value gained by additional development is lost through changes in local cultures and social structures.
Critics may point out that, regardless of the suboptimal circumstances, development has led to a tangible and sustained increase in income for the majority of the Ugandan population, and higher incomes are typically associated with a higher quality of life (Ahuvia and Freeman, 1998). However, the work of Kenneth Boulding and Charles Kenny – among others – has demonstrated that the link between income and “subjective wellbeing”\(^{13}\) is far weaker than many scholars presume, especially once a certain level of development providing for the most basic needs has been reached (Boulding, 1984, 1985a and 1985b, Kenny, 1999 and 2005, and Easterlin, 1995). “Goodness,” as Boulding labels overall quality of life, is a function of its “relevant universe,” which certainly includes income, material consumption and other quantitative economic indicators but extends well beyond pure economics into social and personal indicators, habits, and beliefs (1984, 3, 11-33). An increased material standard of living is not necessarily correlated to increased satisfaction and personal happiness, especially once a certain base income to provide for necessities has been sustained. Although Uganda is only just now approaching the income level Kenny identifies as necessary for the correlation between income and subjective wellbeing to break down, the future subjective wellbeing of the Ugandan population hinges on factors outside pure income (World Bank, 2012 and Kenny, 2005, 215). To that extent, it is exceedingly unlikely that continuing development initiatives focused

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\(^{13}\) Subjective wellbeing is measured through direct polling, asking some variation of the question “taking your life as a whole, would you consider yourself very happy, somewhat happy, or not happy at all” (Kenny, 2005, 200). Poll results tend to be relatively consistent over time, suggesting that they do not simply capture momentary emotions but viable trends in personal life satisfaction (Ibid, 201-202).
exclusively on increasing incomes without addressing the current sub-optimal conditions for development itself will lead to a higher quality of life for all Ugandans.
Chapter 2: The Institutional Push

A key input to economic growth and development is a large financial system, capable of providing for the needs of rapidly growing firms and expanding market opportunities. However, financial sector development varies widely across countries. While there is a consensus among scholars and development experts alike that financial sector development facilitates economic growth, there is some disagreement as to why levels of financial sector development vary so widely.

Some scholars argue the reasons behind such variation lie in a country’s colonial and legal heritage. The British common law system, applied in all of Britain’s colonies, offered better protection for minority shareholders and thereby cultivated more advanced financial markets than those in French colonies, operating under the French Civil Code (Haber, North, and Weingast, 2008, 1). Post-independence, the legacy of these legal systems hindered financial development in former French colonies and promoted it in those countries with a British colonial legacy – their
common-law financial markets were less vulnerable to state misguidance than the bank-based systems the French Civil Code cultivated.

This “legal-origins” argument may be useful in explaining variations in development in other parts of the world, but it bears little relevance to contemporary Uganda. Whatever legacy of British common law that could have provided for sustained development was completely disrupted by Uganda’s experiences with absolutism, beginning with President Milton Obote’s consolidation of power and ban on opposition parties in 1969 and continuing through the regimes of Idi Amin, Obote II, and Tito Okello.14 Throughout these regimes, the legal and judicial systems established under British rule that provided for the exercise of common law continued to exist in name and technical function, but all decisions ultimately came from the executive. Due process, equality under the law, and all other aspects of a British common law system that could have facilitated financial sector expansion and subsequent economic growth were subverted by neopatrimonial interests in regime protection.

An alternative argument focuses on politics and political institutions. This explanation acknowledges the state as “inexorably intertwined” with economic institutions, enforcing law and order, protecting private property and upholding contracts, and that financial development is therefore “an outcome of specific laws and regulations” as produced through politics and political institutions (Ibid, 2 and Acemoglu and Robinson, 2012, 76). Regardless of the origins of a country’s legal

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14 Obote returned to office in 1980, following the ousting of Idi Amin in 1979 by Tanzanian military forces and Ugandan exiles. Obote’s second term in office is popularly referred to as “Obote II” in contemporary Uganda.
system, there is an inherent conflict of interests when financial sector development is dependent on a government to objectively enforce financial contracts, and that government then relies on the financial sector to provide it with access to funds for its operations. Without strong, “self-enforcing” political institutions limiting a government’s ability to govern a financial system for its own benefit at the expense of the development of the banking systems and securities markets needed for widespread growth in the private sector, a strong incentive exists for the government to govern for its own regime stability and political survival (Haber, North, and Weingast, 2008, 2). To that extent, reforming legal codes without the proper political-regulatory framework could worsen a country’s situation, as the process of reform could allow elites and vested interests to embed protectionist agendas into the legal framework (Ibid).

This “political institutions” argument is far more relevant to the Ugandan situation than the “legal-origins” view. This chapter will show that, as Uganda’s absolutist rulers consolidated power, the existing political, legal, and economic institutions were melded to benefit the ruling elite. Political dissent was closely monitored, and violent campaigns to eradicate opposition and intimidate the population into submission were undertaken with vigor (Rice, 2009, 57-60).

Extractive economic institutions, “designed to extract incomes and wealth from one subset of society to benefit a different subset,” were built and expanded, dangerously altered incentive structures and encouraging people to engage in certain economic activities outside their best interests (Acemoglu and Robinson, 2012, 73-74, 76).

Following current-President Yoweri Museveni’s successful rebellion and seizure of power in 1986, gradual reforms were undertaken to reduce the overall
extractive nature of Ugandan economic institutions and promote more widespread
development. These reforms provided for some progress, but have not fully rectified
the extractive framework of the Ugandan economy. Importantly, however, these
reforms have been accompanied by only marginally successful efforts at decentralizing
and reforming the political system – some of which have subsequently been reversed
or fallen victim to corruption. Without active political reform and consistent efforts to
create and maintain truly self-enforcing political institutions, the additional
economic reforms necessary to remediate the lingering extractive framework of the
Ugandan economy will be impossible.

This chapter will outline the ways in which the legacy of extractive institutions
continues to impact prospects for Ugandan development and will highlight the
negative impacts of extractive frameworks on social capital formation. First, it will
explore the historical roots of Uganda’s current institutional framework and
demonstrate how the long history of government extraction and abuse have
reinforced the importance of traditional mechanisms of social capital formation –
those based in the communal, cooperative norms detailed in Chapter 1. Extractive
institutions and government abuses served to strengthen local bonds of community.
Next, this chapter will examine the reforms of the Museveni regime, which reduced
the apparent extractive orientation of Ugandan economic institutions, but have left
extractive political institutions relatively unchanged. As a result, the overall
institutional makeup of the country remains extractive – even in the economic sphere.

15 “Self-enforcing” political institutions are pluralistic, distributing power broadly
across the social spectrum, employ systems of checks and balances to maintain
government efficiency while preventing abuses of power (Acemoglu and Robinson,
2012, 79-81).
Through manipulating incentives, extractive economic institutions restrict opportunity sets, pushing individual actors into economic activities and transactions that cultivate ruinous, internecine competition within local communities.

The strength of communal, cooperative social norms, reinforced through decades of hardship, makes the expansion of competitive free market capitalism difficult, even under perfect institutional conditions, as there is very little social space for competition in traditional culture. Concerted development initiatives designed to accelerate the development process hasten the natural, development-related evolution of social capital formation mechanisms. However, when occurring under an extractive institutional framework, that natural evolution becomes distorted. As a result, social capital formation is disrupted, and social destabilization and unrest ensue.

_The Political Roots of an Extractive Economy_

Calls for Ugandan independence from Great Britain began soon after the conclusion of the Second World War. However, unlike other independence movements across East Africa that exhibited remarkable degrees of national cohesion and unity, calls for independence in Uganda were complicated by separate calls for the secession of the Buganda Kingdom – the wealthiest, most populous, and largest kingdom in the Ugandan Protectorate – and for the establishment of an independent Buganda (Maxon, 2009, 236-240). A compromise was reached that granted Buganda a federal relationship with the central government, thus giving the kingdom greater autonomy in its own affairs and an ability to directly select its own representatives to
the central government, but that also maintained the original protectorate borders. The initial general election in 1962 determined that the new government would be a coalition government composed of the Uganda Peoples Congress (UPC), led by Milton Obote from the Lango sub-region of Northern Uganda (outside Buganda), and the Kabaka Yekka (KY), led by the Buganda kabaka (king), Mutesa II (Karugire, 1980, 188).

As the UPC won the largest percentage of any party in the 1962 elections, Obote assumed the position of Prime Minister and, therefore, the power to set the government’s agenda. Protecting Buganda interests remained of the utmost importance to Mutesa and the KY delegation. In an effort to appease KY traditionalists following the switch to republican governance in 1963, Obote made Mutesa Uganda’s first president (although the presidency was largely a ceremonial post and held little real power), and married a Baganda woman (Maxon, 2009, 282). Unfortunately, the partnership did not last. By the end of 1964 KY withdrew from the coalition government over a dispute with Obote regarding the geographic authority of the Kingdom. Simultaneously, enough members of Parliament switched their affiliation from KY and other parties to join the UPC, ensuring Obote would maintain power for a time (Ibid, 283). By 1966, however, Obote’s broad parliamentary support had eroded. This followed a series of allegations of corruption and theft against some of Obote’s deputies – particularly his army’s second-in-command, Idi Amin Dada – indicating the extent to which Obote’s elite already leveraged their positions for their own economic benefit (Ibid, 284). Parliament subsequently passed an order suspending Amin and launched an investigation into Obote’s regime. There is evidence to suggest that the ministers and members of
Parliament leading the effort to defame Obote were motivated by their own political ambitions (Karugire, 1980, 189-190). As a result, and with popular support in the north in addition to support from the army, Obote ordered the arrest of the most vocal advocates for suspending Amin and investigating his presidency.

Following the arrest order, Obote declared a state of emergency and suspended the constitution, which had been passed with broad popular support well before independence. Subsequently Obote, with the strength of the army at his back, accused Mutesa of planning a coup against him and assumed the presidency (Kasozi, 1994, 83-84). In 1967, Obote introduced a new constitution, which not only ended Buganda’s federal relationship with the central government, but also formally abolished the Buganda Kingdom and all other pre-colonial ethnic-state apparatuses in the country (Maxon, 2009, 285). The constitution also granted the president extensive new powers, including the power to legislate independent of parliamentary involvement (Ibid).

Obote’s consolidation of power was framed as a fight against Buganda “monarchism and subnationalism” that would have jeopardized national stability (Kasozi, 1994, 82). What should have been a peaceful political conflict within the UPC was jeopardized by Obote’s personal ambition and financial dependence on power. “Peaceful [solutions] meant political solutions that involved the risk of losing at the ballot box,” and, with no local economic base outside of politics and nothing to fall back on, losing at the ballot box was a dangerous prospect for Obote personally. It was also a very real possibility – especially with lingering, widespread Buganda separatist sympathies among the large Buganda population (Ibid, 83). Instead of taking the risk, Obote re-designed the government structure to strengthen his grip on
the reins of power. Although it would be difficult to classify Ugandan political institutions at independence as truly “inclusive” – those that are pluralistic and “distribute power broadly in society and subject it to constraints” – they certainly exhibited a higher degree of inclusivity than those outlined in the 1967 Constitution (Acemoglu and Robinson, 2012, 80). Obote’s maneuvering firmly “concentrate[d] power in the hands of a narrow elite and place[d] few constraints on the exercise of this power,” solidifying the extractive foundation of the Ugandan political system (Ibid, 81).

Following an assassination attempt at a UPC conference in December 1969, Obote banned all opposition parties, effectively making Uganda a one-party state. Additionally, Obote introduced a new electoral system to promote “national rather than tribal or sectional interests” (Maxon, 2009, 286). Masked as a response to threats to the nation’s security, these additional political reforms were clearly designed to further control opposition to Obote’s rule and further concentrate power in his hands. Strong discontent among the Baganda resulting from Obote’s ousting of Mutesa II, abolition of the Kingdom, and general handling of issues related to Buganda continued to constitute a legitimate threat to Obote’s power. The new election format nullified that threat by ensuring a candidate would have to garner support outside of their home constituency in order to win an election – no Baganda politician could succeed without broad support outside of Buganda, which was unlikely.

Simultaneously, Obote announced a “move to the left,” nationalizing most economic interests and securing state control of economic resources (Kasozi, 1994, 90). Nationalization was portrayed as a legitimate move to appease rural populations, perhaps inspired by the Arusha Declaration and the contemporaneous Tanzanian
successes with socialism. However, it was not comparable to the Tanzanian system: instead, it effectively limited participation in economic affairs to state and foreign actors in order to further insulate the regime against the Baganda, excluding the vast majority of the Ugandan population; “no Africanization of the economy was permitted if it might benefit the Baganda” (Ibid, 91). In essence, Obote utilized the extractive political system he had created to build an extractive economic system designed to concentrate economic power and resources in the hands of his elite and prevent assets from being accumulated in Buganda. The state assumed 100 percent control of all non-fuel import and export trade, as well as 60 percent ownership of all “companies, industries, and financial institutions operating in the country” and over 60 percent of all mines (Ibid, 90). The previous owners retained 40 percent ownership and were tasked with running the firms on behalf of the government. Government interests similarly controlled the financial sector (Ibid). The government-owned Uganda Commercial Bank (UCB), set up in 1965 to provide credit for business expansion and facilitate government development projects, was subject to increasing political pressure to restrict loans to politically convenient projects and government officials, and, later, to forgive those debts (Brownbridge, et. al., 1998, 129-130). Additionally, the central bank, Bank of Uganda (BoU), officially tasked with regulating the financial sector and extending liquidity support to UCB (and a few smaller private banks in the country), had only weak regulatory authority and was controlled by political interests, often reneging on its regulatory responsibilities to advance the interests of the Obote regime (Ibid, 131-134). The overall effect of the nationalization of industry and political control of the financial sector was increasing market exclusivity for the elite.
Extraction and Violence as Reinforcers of Communal, Cooperative Norms

Ugandans were told that Obote’s nationalization efforts were socialist programs designed to improve the plight of the poor and create a more equitable wealth distribution in the country. Yet, it became almost impossible for Ugandan farmers and entrepreneurs to conduct profitable trade. The prices and marketing for coffee and cotton – the two dominant cash crops in the country – were controlled by state agencies. Even transporting crops domestically required written permission from a district officer, a lengthy process that necessitated hefty bribes (Kasozi, 1994, 92). Corruption flourished. The only successful economic actors were state agents, who could engage in opportunism, leveraging their positions of power for bribes, access to special deals, and ownership of what few resources and firms that did not already belong to the state, and the primarily foreign minority shareholders of nationalized firms. The only avenue for accumulating wealth became political participation, but even that was becoming “increasingly ethnicized and militarized,” only accessible to a select few (Ibid). The Baganda were successfully blocked from accumulating wealth and power, along with the rest of the Ugandan population.

Following nationalization, there was little incentive for subsistence farmers and traditional communities to embrace new modes of economic organization and activity and move out of subsistence lifestyles. A network of government import/export authorities controlled prices and access to international markets,16 dictating terms of trade that eroded local income from cash cropping (Ibid, 92 and Library of Congress, 16Such import/export authorities were granted a monopoly in international trade, representing the only legal avenue to the international market. Producers would sell their produce to the authority for a fixed price, and the authority would bundle and export produce abroad, often realizing a large profit for the government.)
As a result, coffee, cotton, tea, and tobacco output began a gradual decline in the 1970s, as small-scale producers abandoned the cash crops introduced by the British during colonization and switched back to traditional food crop production to better provide for their immediate needs (Library of Congress, 1990). This move away from commercial agriculture also constituted a move away from monetized trade, reinforcing pre-colonial norms of community and cooperation, as well as the communal value-storage mechanism detailed in Chapter 1. Entire communities were excluded from the market, which prompted a turn inwards for survival. Community members traded food, labor, and local artisan goods among themselves, only interacting with the monetized market for goods of absolute necessity not available locally. This communitization of trade reinforced mutual trust within the community, as community members were increasingly dependent on each other for survival. The community became more than simply a value-storage institution, it became a literal means to survival – often the only means to survival.

Social capital formation under these circumstances became closely intertwined with physical asset production. An individual’s relationship with their community granted access to both community surpluses and the value-storage function of putting individual surpluses into the community, which were especially important given the declining performance of the Ugandan formal economy after nationalization and continuing through the regime of Obote’s successor, Idi Amin. Simply being a part of a community ensured some access to food and social resources. There was significant, tangible value in simply belonging to a community.

The brutal, tyrannical regime of Idi Amin reinforced the extractive structure of Ugandan institutions and strengthened further the local bonds of community.
Amin, commander of the Ugandan armed forces under Obote, seized power in a coup in January, 1971. Under Obote, Amin’s soldiers were used liberally across the country to brutally silence opposition voices and intimidate dissenters through arrests, beatings, and killings. Following the coup, however, violence intensified. Amin had a network of secret prisons and torture chambers constructed around the country, including a secret prison built on the grounds of the kabaka’s palace in Kampala and torture chambers held at the ready in several rooms of the prominent Nile Hotel (Rice, 2009, 57-58). The notorious State Research Bureau (SRB) was specially tasked with eliminating Amin’s opponents. In response to even the smallest rumor of opposition to Amin’s rule, the SRB would visit the area where the rumor originated, often with the army in tow, to silence any outspoken voices and intimidate the local residents back into obedient acceptance of his rule. Beginning with Obote’s Langi people and the northern Acholi, “Amin’s regime killed thousands of Ugandans” to mitigate any possible threats to Amin’s power (Maxon, 2009, 287). Politicians and intellectuals disappeared. The safest place for most Ugandans to be, it seemed, was in their home communities, concerning themselves with only local issues, and providing for themselves through subsistence agriculture.

Under Amin, both the state and formal economic institutions could not have been more extractive: the only Ugandans with any access to political power, the political process, or economic power were members of Amin’s elite. Beyond intimidating Ugandans out of private market activities, Amin also consolidated and abused the banking sector, casting out foreign banks and strictly controlling access to finance. Amin’s government seized all foreign-owned bank assets in 1972, subsequently giving UCB control of their branch networks and solidifying UCB’s near
monopoly on all financial transactions outside of Kampala and giving the bank control of well over 50 percent of all commercial deposits in the country (Brownbridge, et. al., 1998, 130-134). Amin’s government essentially treated the UCB as their personal reserve, all but bankrupting the institution because of the scope of “politically influenced lending” and corruption (Ibid). As a result, there were no lines of credit available to private citizens seeking to grow their own businesses. Additionally, political pressure on BoU prevented any regulatory intervention from the central bank. The financial system was entirely devoted to supporting the Amin regime, further isolating everyday Ugandans from the formal economy and reinforcing norms of community cooperation.

In 1978, Amin launched an ill-fated invasion of Tanzania, which was not only repelled by the Tanzanian army, but prompted a Tanzanian counteroffensive that toppled his regime in 1979. Following a disputed and fraudulent election in 1980, Obote regained the presidency. While Obote was able to address some of Uganda’s economic problems with the help of the World Bank and the International Monetary Fund, the reversal of almost a decade of GDP contraction was achieved primarily through raising producer prices and taking small steps to control inflation by reining in government spending in other areas – no major institutional reform was forthcoming (Ibid, 289). Furthermore, the political violence and intimidation continued, with killing, abduction, and torture used to silence dissent. Community remained an essential facet of Ugandan life, safeguarding individuals from the abuses of the state. Ongoing government maltreatment and extraction continued to reinforce the importance of community to individual actors and social capital formation.
Museveni’s Reforms

Following the 1980 election, Yoweri Museveni – a young radical whose party, the Uganda Patriotic Movement, claimed to have lost its majority to fraud in the election – launched a guerrilla war against the second Obote regime. Museveni’s campaign was not successful at toppling Obote – that feat was achieved by a coup led by General Tito Okello in 1985. In 1986, however, Museveni’s forces captured Kampala, deposed Okello, and established a new government with Museveni as president. Museveni almost immediately began the process of reforming the extractive Ugandan political and economic institutional framework into a more inclusive one.

Museveni established the National Resistance Council as an interim-advisory legislative body, set up a hierarchy of Resistance Committees organized from village to district levels, and appointed individuals from a wide range of interest groups and political backgrounds to cabinet positions (Ibid, 291). Museveni’s National Resistance Movement (NRM) government originally scheduled general elections and a return to democracy in 1989, however lingering violent resistance movements in the North and disagreement over the preparation of a new constitution delayed elections until 1996. Museveni achieved what was widely considered a legitimate victory in the 1996 elections, securing over 70 percent of the vote, although his campaign was greatly aided by his use of the state apparatus to make his case (Ibid). Although there was much reform still needed before the Ugandan political system could truly be considered “inclusive,” Museveni’s construction of a new democratic system and his victory within that system indicated to much of the world that the days of Ugandan authoritarianism were over.
Encouraged by the new government’s conduct, the IMF, World Bank, and prominent western donor-nations took a renewed interest in Uganda. Structural Adjustment Programs were implemented under Museveni in 1987 and 1991. These were designed to control skyrocketing inflation, improve the balance of payments, increase domestic revenues, liberalize trade, and create an economic landscape conducive to investment and growth (Uganda SAPRI, 2001, 12-13). In 1990, the NRM government legalized the parallel exchange rate in 1990, allowing the official exchange rate to fluctuate with the actual market rate. In 1991, the government liberalized the coffee trade – which accounted for almost 80 percent of Ugandan exports in the late 1980s and contributed 50 percent of the country’s revenues – by disbanding the coffee import/export authority, reducing tariffs and allowing private firms to take over coffee exports (Kuteesa, et. al., 2010, 5-6). Both of these reforms were designed to reduce barriers to market participation and trade for the majority of the Ugandan population so that private actors and firms could manage their own trade relationships for their own benefit as opposed to the benefit of the sitting elite, arguably reducing the extractive framework of the Ugandan economy. Privatization of formerly state-owned firms was also undertaken ostensibly for the same reasons; however, control of most firms remained with government officials – although no longer through the formal state bureaucracy (Uganda SAPRI, 2001, 17). Early reforms did achieve an increase in coffee and other cash-crop production and slightly higher incomes for rural farmers. Nonetheless, the severely skewed wealth distribution in the country ensured that most benefits of reform – especially privatization –
remained with the government elite (Ibid, 15-19). Thus, early reforms did not achieve much actual reduction in the extractive orientation of the Ugandan economy; they simply shifted extraction to the private sphere whereas previously it had occurred directly through the state apparatus.

Subsequent NRM reforms focusing on the financial system achieved a more significant move away from extraction. In 1992, a major restructuring of UCB was undertaken with World Bank financial backing (Brownbridge, et. al., 1998, 135). While UCB remained state-owned initially, reforms restructuring its balance sheet and reorganizing its lending processes made it viable for privatization, which was deemed the most effective strategy to insulate the bank from political pressure (Ibid, 136). Additionally, legislative reforms liberalized the financial sector, allowing rapid expansion of private, primarily international financial institutions in the country. Concurrently, the supervisory role and regulatory framework of the central bank were strengthened to provide sufficient oversight of private financial sector growth (Uganda PRSP, 198). Securities exchanges and capital markets were opened and expanded in the mid 1990s, granting firms access to additional resources to sustain growth. In 2002, UCB was privatized. The South African Standard Bank Group bought majority ownership and integrated the bank into its existing Stanbic Bank (Uganda) Limited network. Other existing private financial institutions purchasing the

17 State-owned firm operations, by and large, had been run by their previous (primarily foreign) owners, who had retained 40 percent ownership, and were therefore more viable than the state-owned firms of Eastern Europe (Kasozi, 1994, 90-91). Foreign business interests were expelled under Idi Amin, with a decisively negative effect on state-owned firm profitability, but were re-admitted under Obote II. The re-admission of foreign business interests allowed many state-run firms to regain viability, thus rendering considerable benefits to their new owners following privatization.
remaining shares (Ibid, 196-197). Following the privatization of UCB, the government of Uganda no longer held any stake in banking firms; all banking was conducted by private banks, regulated and licensed by the BoU, providing services and capital based on market demand as opposed to political desires.

IMF-led Structural Adjustment Programs, like the ones that jumpstarted Museveni’s economic reforms, have been criticized for their focus on rapid liberalization and creation of free market institutions without any concern for the political institutions that govern the economic ones. Even the most seemingly inclusive economic institutions can be manipulated and turned extractive by an unchecked, authoritarian regime. The same criticism can be applied to the post-structural adjustment reforms implemented by Museveni’s NRM regime. Museveni, initially hailed as a “new breed” of African leaders, truly interested in building a prosperous Uganda (as opposed to a prosperous elite), has crafted reforms to create a comparatively inclusive economic-institutional framework, considering what was there before, but has paid little attention to reforming political institutions in meaningful ways to support the economic framework.

The 1995 constitution, drafted by the National Resistance Council, established a seemingly strong democratic framework for the country’s political processes. However, much of its promise gradually succumbed to corruption and special interests. Museveni handily won a second term in internationally sanctioned elections in 2001, but it would be his last legitimate victory. Prior to the 2006 elections, Museveni successfully led an effort to amend the constitution and remove the two-term limit he had originally incorporated as a safeguard against overlong, abusive regimes so he could pursue a third term. Additionally, while the ban on
opposition parties was lifted for the first time since Obote’s first term in preparation for the elections, several prominent opposition leaders were arrested before the election, including Museveni’s strongest challenger, Kizza Besigye. Besigye’s arrest – on “politically motivated” charges of treason, concealment of treason, and rape – sparked riots in the capital and prompted several prominent donor nations to withdraw their support of the NRM government (UNHCR, 2007). Besigye was subsequently released, and all charges against him dropped. After the election, the international observers and the Supreme Court of Uganda ruled that the election was marred by intimidation, voter disenfranchisement, and violence, among other irregularities (Ibid). Nonetheless, Museveni remained president. The 2011 elections, in which Museveni won a fourth term, were similarly marred by corruption, intimidation, and severe irregularities and were disputed by international observers (EU Election Observation Mission, 2011).

Corruption and irregularities also occur on the local level. There was a widespread perception among Ugandans I spoke with that nearly all – if not all – politicians, from local sub-county representatives to Members of Parliament are in some way corrupt or “in Museveni’s pocket.” Supporting this, Uganda has scored poorly on both the Corruption Perceptions Index and Failed States Index: in 2012, Uganda was the most corrupt nation in East Africa and the 20th most failed state in the world out of 177 assessed (Transparency International, 2013 and Foreign Policy Magazine, 2013). The current structure of Ugandan political institutions concentrates power in the sitting elite, preserving Museveni’s presidency and skewing the seemingly

18 Previous elections had been conducted under a “movement” system.
inclusive economy towards those with political connections and importance. Ultimately, this dangerously distorts incentive structures and negatively impacts the evolution of social capital formation mechanisms as development progresses.

Very few economic benefits realized by the political elite are secured via legislative protections. Instead, they come primarily through Museveni’s expert manipulation of the national budget. Decentralization efforts undertaken in the mid 1990s gave significantly more agency to local representatives in determining budget priorities, however the actual flow of funds is strictly controlled by the national government. In 1997, a mid-term expenditure framework (MTEF) was incorporated into the budget planning process, in order to provide a hard budget constraint and allow budget planners to allocate scarce resources without jeopardizing macroeconomic stability (Kuteesa, et. al., 173-174). The international community hailed the implementation of the hard budget constraint as a major step to ensure fiscal responsibility. However, the MTEF has effectively been utilized to mask the political motivations behind the allocation process.

According to my informants, certain parts of Uganda, most notably the home districts of Museveni’s Bayankole ethnic group in the far southwest of the country, the industrial areas around Kampala and Jinja home to many politically powerful foreign and domestic firms, and other areas in the south and central regions of Uganda most favorable to Museveni’s rule, have received the majority of public investment throughout Museveni’s regime, a fact visibly confirmed by superior networks of roads, schools and public services and higher levels of development in the south – especially the southwest – parts of the country. Even in those areas the public allocations process is politicized, though. For example, a project to pave the road linking the Bukakata
Ferry to Ssesse Islands and Masaka Town has been a local priority for over a decade, as the fisheries near the Ferry on the shores of Lake Victoria and on Ssesse Islands are an important economic driver in the region. According to my informants, the project has been included in the national budget since 2009. However, work has yet to begin due to a “lack of funds.” While the Bukakata paving project is in a district favorable to Museveni, its lack of actual funding is widely perceived to be the result of the low political significance of the area: there are few major power players in the vicinity of the road, and the area is already relatively supportive of Museveni. There is little value to the regime – and those closely associated with it – in additional investment in the region.

In other regions, especially Acholiland and other northern areas historically hostile to Museveni’s regime, the politicized budgeting process has isolated entire communities from access to roads, education, electricity, and health, sanitation, and security services, and has dramatically limited the economic opportunities available to those communities. While financial services have been expanded across the country, through both organic growth and government projects to found new SACCOs and expand access to credit in even the most rural areas, and while campaigns have been launched to help urban and rural Ugandans start small businesses and grow their incomes, the actual opportunities for small business growth are severely limited. Although official barriers to business growth – from the time it takes to clear goods through customs to the time spent obtaining operating licenses and dealing with officials to the cost of business start-up procedures – have been significantly reduced under the Museveni regime, entire sectors remain effectively inaccessible to the vast
majority of Ugandans (World Bank, 2013). Access to those sectors remains exclusive to the sitting elite.

In essence, the Ugandan economy remains extractive despite the many economic reforms undertaken by the Museveni regime. As a result, Ugandans seeking to increase their incomes and secure higher standards of living have been pushed into only a limited set of economic activities, like small store ownership and small-scale commercial agriculture. As sectors have become socially saturated, with large numbers of competing firms, competition between individual community members has reached a socially unsustainable level, given the conflict between competition and established norms of community and cooperation.

*Cultivating Internecine Competition*

As communities develop, transitioning out of the informal barter system and into a formal, monetized system of economic activity, formal institutions providing for increased transaction stability and growth replace the informal institutions that governed exchange and provided frameworks for commitment, enforcement, and coordination of economic contracts in the barter system (Meier and Stiglitz, 2001, 271-272). Interpersonal trust, governed by – in the Ugandan context – local norms of cooperative, community activity, is being replaced by formal contracts enforced by financial institutions and legal processes. This process by itself is destabilizing and radically impacts social capital formation. Social norms change, interpersonal interactions take on new forms and significance; the “consequences of [one’s] social position” change dramatically (Farr, 2004, 9). However, given Uganda’s institutional
framework, the destabilization resulting from the process has been augmented and is
decidedly unsustainable.

Any development-initiated evolution of social capital formation mechanisms is
shaped by the institutional framework in which it occurs. In an inclusive framework,
where political and economic power are broadly disseminated and there are no
artificial constraints on opportunity or sector entrance, individual actors are able to
accommodate changing social capital formation in the decisions they make regarding
which opportunities to pursue, which markets to participate in, and which sectors to
enter. This is not to say that individual actors are able to precisely predict the impact
their economic decisions have on social capital formation and therefore consciously
choose the most optimal outcome in terms of social capital. Individuals are unlikely to
be able to assess the precise impact of a purchase on interpersonal trust in their
community, for example. However, individual actors are capable of assessing when a
certain opportunity is less optimal than an alternative – and can, to some extent,
perceive outcome optimality in relation to social capital. Should an individual actor
perceive a sector, market, or opportunity to already be saturated to a point where
their participation would cause unnecessary or unproductive competition or social
strife with others operating businesses in that area, the actor can choose to pursue a
different activity to avoid that strife and associated loss in social capital. In an
extractive framework, however, like that of Uganda, opportunities are constricted,
making such activity-substitutions impossible. Individual actors can only feasibly
participate in a limited subset of sectors, opening redundant businesses that have little
or no actual competitive advantage over others. As a result, sectors have become
socially oversaturated and competition internecine.
Typically, an oversaturated market is characterized by a rate of diffusion beyond profitable demand. This usually leads to cut backs in supply to maintain producer profitability. Firms active in an oversaturated market often merge, close, or exit the market in pursuit of opportunities in other sectors. In Uganda, markets are saturated, but not oversaturated, in terms of profitability. Although there is growing evidence that profits at new firms are effectively transfers from existing firms – new firm profits are matched by decreases in the profits of existing firms – new firms have been able to grow due because population growth and local income growth have increased the overall size of the market (Bateman, 2010, 64-68). In terms of the number of firms operating in any one sector, however, sectors are oversaturated. There are too many competing firms for the cooperative and communal social structures upon which Ugandan communities are built to withstand.

Classic liberal economic theory holds that the only upper limit on the number of firms in any sector is demand. Until the demand limit is reached, where there is not sufficient demand to provide for profitable operation of all sector participants, the addition of new firms to the sector improves market efficiency and lowers prices through competition. When demand is fully met, firms that cannot compete do not survive: they either close, exit the sector, or are bought by competitors. However, in Uganda, firms cannot exit markets to pursue growth in other sectors due to capital constraints and difficulty in getting a loan. Closing is only an option of last resort, as business owners often have no other means of sustenance to turn to and, while some wealthy business owners can and do purchase competing firms, in general Ugandan microentrepreneurs do not have the resources necessary to acquire competitors. Ugandans are locked into sector participation by poverty and, as long as participation
remains even slightly profitable, more and more Ugandans will seek to enter the market.

Beyond the institutionally crafted limits on viable sectors for local enterprise, there are only a limited number of products available in the Ugandan national marketplace, and that number decreases dramatically outside of Kampala. The sheer number of small businesses in every community ensures that most products are available at more than one store. As a result, markets are replete with duplicate firms, offering the same products at essentially the same prices due to the fierceness of competition between individual businesses. Profit margins are often so low on individual transactions that any additional, meaningful reduction in price would result in a loss. As no further competitive advantage can be gained through products or prices, competition manifests through interpersonal interactions and behavior contradicting established social norms and destabilizing community social structures. Ultimately, such competition is detrimental to all involved.

In Acholiland and other northern parts of Uganda, the effects of the nearly 25 year long conflict with Joseph Kony’s infamous Lord’s Resistance Army (LRA) compounded the effects of development under an extractive regime. The war severely restricted public investment in schools, roads, and other essential infrastructure to levels far lower than even the politicized budgeting process intended. Even the expansion of financial service providers and other concerted efforts to spur development in other parts of the country regardless of political significance were severely hampered by the war. However, following the end of hostilities with the LRA in 2006, the North experienced a phase of rapid development. Access to financial services expanded as existing banks opened new branches and expanded services, and
a slew of new SACCOs and other credit institutions opened in communities across
the region. Additionally, government-, bank-, and NGO-sponsored programs training
locals on the procedures and advantages of building small businesses resulted in
tremendous growth of small business activity, and an increase in local incomes (World
Bank, 2013). Just as in the rest of the country, the limited opportunity set for new
businesses pushed northern entrepreneurs into forms of economic activity directly
contradicting local standards of cooperation and community partnership, with
devastating impacts on social capital. However, because of the war, the expansion of
new business and commercial attitudes occurred more recently – and rapidly – than
other parts of the country. This heightened the visibility of development-related social
destabilization and disruptions in the formation of social capital.

Like their counterparts in other parts of across the country, most northerners
seeking to establish businesses encounter institutional barriers to entry in many
sectors. They are limited to opening small shops selling essentials, investing in higher-
income farming activities – such as poultry or livestock – or going into construction,
or automobile and bicycle mechanics. Consequently, the streets of Gulu, the largest
town in the North, and other population centers are lined with duplicate shops.
According to my informants in Gulu, important traditional social norms have always
dictated that neighbors and community members should share resources: sharing
food in times of scarcity, sharing knowledge when needed, and sharing assets in times
of sickness (i.e. assisting with medical bills if a community member cannot pay).
Currently, however, if one shop owner is starving or falls sick, her ability to conduct
business is reduced and neighboring shop owners benefit. If she lacks knowledge in a
certain area relevant to her business, her business suffers and her competitors benefit.
There are now direct incentives to ignore established communal norms in the pursuit of self-interests, amplified by the poverty of the region making even the smallest increase in sales significant. As a result, communal and cooperative norms are being abandoned, and local people reported feeling uncertain about their social roles and uncomfortable in their communities.

Throughout all parts of the country, the socially-destabilizing impacts of limited opportunity due to the extractive institutional framework are amplified by Uganda’s history of violence and corruption, although nowhere so much as the North. Community experiences nationwide under the brutal, authoritarian regimes of Milton Obote and Idi Amin Dada meaningfully strengthened norms of community and cooperation beyond their local economic significance nationwide. Community membership offered sanctuary from the abusive regimes’ impacts on food security and other threats to survival. It offered solace and stability in the face of rampant unpredictable violence. Given these preconditions, the process of transitioning into a formal economy would radically alter social capital formation and impact social stability, even under the best circumstances. The North, however, did not share in the easing of violence, intimidation, or institutional predation that the rest of the country experienced following Museveni’s rise to power. Civilian abuses and increasing atrocities committed by both the LRA and government forces continued throughout the war and continued to strengthen bonds of community, even as local residents were forced out of their traditional communities and into Internally Displaced Persons (IDP) camps. In the camps, members of the same traditional communities – from villages to ethnic subgroups – bonded together to protect themselves from LRA attacks and abuse from the government soldiers stationed in the camps (Komakech).
When residents could finally return home after the end of the war in 2007, the communal, cooperative bonds among them were exceptionally strong. Development then accelerated under Uganda’s extractive institutional framework and those bonds have begun to fracture. The limited opportunity sets available for new businesses promote internecine competition, straining bonds of community, disrupting the formation of social capital, and destabilizing the social order.

In Masaka, and other areas outside of the North, redundant businesses are just as plentiful and ruinous, internecine competition just as prevalent. While most of the country has enjoyed relative peace and stability since 1986, easing the reinforcement of communal, cooperative norms in local communities that violence and instability provoke, development – and associated social impact – has nonetheless occurred over an only slightly longer period of time than the North.

As the next chapter will detail, the explosion of microfinance in Uganda over the last decade and a half has triggered rapid growth in microenterprise that constitutes a major challenge to existing mechanisms of social capital formation. Coupled with the economic opportunity limitations imposed by the overall extractive institutional framework, the social order has been significantly destabilized.

At this point in Uganda’s transition to a developed economy, there is no way to predict what the ultimate outcome of such social destabilization will be. Given Uganda’s history of guerrilla campaigns and violent uprisings, violence is certainly not out of the question, although there is not much indication of brewing violent conflict as of now. That said, the problematic implications on social capital formation and the organic limitation of opportunity that extractive institutions imply places continuing, sustainable, equitable economic growth in jeopardy.
Chapter 3: The Microfinance Push

Active efforts at poverty alleviation and growth should not – and, fortunately, do not – wait for a perfect institutional environment. Such efforts are certainly aided when inclusive institutions maximize the real impact of investments and campaigns geared towards helping the poor and they are hampered when extractive institutions divert resources away from the poor. However, the needs of the poor are immediate, immense, and cannot be ignored while institutional reforms are pursued. Within Uganda, microsaving and microlending have become widely used tools to facilitate growth and meet the immediate needs of the poor.

Microsaving and microlending (subsequently referred to generically as microfinance) refer to the practice of offering and maintaining small savings accounts for the poor and granting small loans to the poor for use in establishing or expanding income-generating activities. Microfinance cultivates microenterprise, thereby facilitating income growth and an eventual escape from poverty (Bateman, 2010, 1). Microfinance transactions can occur between individuals and a whole range of
microfinance institutions (MFIs), from formal commercial banks with large asset portfolios and extensive membership bases to small charitable organizations with only a few resources to disburse. For example, even CRO – the street child rehabilitation organization in Masaka – maintains a small microfinance program, granting loans to families of at-risk children, in addition to their primary programs providing services for children living on the streets.

The diversity of organizations engaging in microfinance has led to varying definitions of which organizations constitute MFIs. The Ugandan government distinguishes between commercial banks, credit institutions, micro-deposit taking institutions, SACCOs, and other MFIs based on capitalization, services offered, membership structure, and various other regulatory criteria even though all of the organizations conduct microfinance transactions (Kalyango, 2005, 8). For the purposes of this chapter, MFI will refer to any organization conducting microfinance transactions unless otherwise specified. A distinction is drawn here between informal moneylenders – private, single lenders that operate independently of any organizational structure – and MFIs. Loans from moneylenders are often of comparable amounts to those from MFIs but interest rates are far higher, lending procedures are radically different, and informal moneylending is older than banking itself. Similarly, moneylending is utilized for a wide range of applications whereas commercial microfinance is a relatively new invention geared specifically towards development.

Within the past decade, microfinance access and use has exploded across Uganda, arguably bringing with it some real growth in local incomes. Although microfinance programs have been employed by NGOs in Uganda since the early
1990s, the number and magnitude of MFI operations in the country only started to reach significant levels in the early 2000s. By 2011, GDP per capita (constant 2000 dollars) had reached nearly 400 USD, up from just over 250 in 2000, maintaining constant growth throughout the 2008 global financial crisis and subsequent recession (World Bank, 2012). Household final consumption expenditure per capita (constant 2000 dollars) increased from 198 USD in 2000 to 277 in 2011, with most of that growth occurring after 2005, the period with the most explosive growth in the number and scale of MFIs in the country. Concurrently, absolute poverty in the country decreased. The percentage of the population living on 2 USD per day or less decreased from 83 percent in 1999 to 65 percent in 2009; the percentage of population living on 1.25 USD per day or less decreased from 60 percent in 1999 to 38 percent in 2009. These achievements in poverty reduction and economic growth suggest that programs specifically targeting income growth for bottom earners, such as microfinance, achieved some success (World Bank, 2012).

Not all income growth and poverty reduction, though, was a direct result of microfinance. Multitudes of other contemporaneous reforms and programs designed to stimulate growth and reduce poverty arguably each played a role, as did the conclusion of the more than two-decade long civil war in the North which released pent-up demand in the region and allowed development momentum to spread northward across the Victoria Nile. The vast majority of international development “experts,” along with some scholars, hail microfinance as a significant contributor to this growth and improvement (Uganda PRSP; 2010, Morrison, 2011; Gutiérrez-Nieto, et. al., 2009; and Vatta, 2001). Some scholars, on the other hand, debate the overall effectiveness of microfinance in poverty alleviation and challenge the notion

68
that microfinance truly empowers the poor and contributes to sustainable improvement in their condition (Bateman, 2010; Carlton, 2001; and Karim, 2011). They provide evidence that microfinance tends to benefit the moderately poor more than the poorest – as the moderately poor are more willing to take entrepreneurial risks and can better afford interest on borrowed funds – and does little to empower poor communities and individuals to move into truly middle-class lifestyles. It is difficult, therefore, to discern precisely the extent to which the explosion of microfinance in Uganda has led to income growth and poverty reductions. However, MFIs have come to occupy a central role in local communities and the country’s national development strategies, the extent to which they have already contributed to growth is less important than their potential contributions in the future. As this chapter will demonstrate, Uganda’s institutional framework, outdated education system, and poverty all point to a net negative impact for future microfinance operations under the current operational paradigm. Microfinance pushes local communities into ruinous, destabilizing interpersonal competition and conflict.

The Current Microfinance Paradigm

Uganda’s institutions and education system impel MFIs into operational procedures that cultivate internecine competition amongst businesses and individuals in communities – competition with a negative net impact for all parties involved. This contributes to the destabilizing shifts in social capital formation and subsequent weakening of community social structures while the still-rampant national poverty pushes more and more Ugandans into utilizing microfinance, amplifying its
problematic effects. Outdated and underequipped Ugandan schools have forced many MFIs into an educational capacity well beyond the bounds of banking: they conduct classes and information sessions to educate communities in financial and business management (specialized for different sectors like farming certain crops, raising livestock, or operating a hotel or shop), innovation, and growth strategies. Due to increasing expectations for MFIs to maintain financial sustainability, most organizations have adopted formulaic, “best-practice” techniques to educate local community members on the strategies that have proven most successful across Africa and around globe hoping to maximize the likelihood that loans will be repaid and savings balances maintained. As the institutional structure of Uganda has effectively limited access to many economic sectors, however, MFI recommendations for new business startup operations and growth strategies are constricted to a very limited set of opportunities. MFI-conducted education and training classes therefore prescribe the same formulas for success to everyone, cultivating redundant businesses and stifling truly innovative ideas and firms before they even get off the ground.

In effect, microfinance contributes to oversaturated markets where competition manifests through interpersonal conflict as opposed to competitive advantage in terms of product or service offerings or prices. Communities may have been made richer, but they are now less stable and satisfied. More value has been lost in social capital than has been gained in income. Additionally, a small but growing body of research suggests that, because of the increasing oversaturation of the markets and sectors in which MFIs encourage business expansion, the actual contribution microfinance makes to income growth may be limited beyond even what “microfinance skeptics” – those scholars already contesting microfinance’s
contribution to growth – suggest (Bateman, 2010). As more and more firms engage in the same activities, income in new microfinance-enabled firms tends to be transferred from existing firm income as opposed to being accumulated through genuine market growth. To that extent, the current standards for MFI operation are not only detrimental to social capital formation in Ugandan communities, but may also have far less to contribute to future income growth than much of the development literature suggests.

**Origins and Growth: From Bangladesh to Uganda**

Primarily a result of the pioneering work of the Grameen Bank in Bangladesh and its founder, Muhammad Yunus, microfinance schemes have been promoted as capable and worthwhile economic development tools by NGOs and by powerful donor agencies like the World Bank, USAID, UNDP and IFAD. They have been implemented by developing nations around the globe.

Yunus began researching the mechanisms preventing the poorest households in the area from emerging from poverty while working as the head of the Economics department at Chittagong University in Bangladesh in 1976. He found that a brutal norm of usurious interest on raw materials loaned to the poorest producers ensured survival in a tight cycle. In other words, borrowing materials from and selling finished goods back to traders for only enough profit to afford absolute essentials fundamentally trapped the poorest in poverty. One bamboo-stool maker Yunus interviewed borrowed enough bamboo from a trader to make one stool each day, which she would then sell back to the trader for 24 cents (Yunus, 1999, 47). The
trader charged the stool-maker 22 cents for the loaned bamboo, well above the actual purchase price of the bamboo (interest rates on similar loans across the country averaged over 100 percent), effectively reducing the stool-maker’s real income to only two cents per day (Ibid, 47-49). Such a small profit margin ensured she could never accumulate enough capital to purchase her raw materials outright (Ibid). Yunus compiled information on 42 producers like the stool maker, and realized their collective borrowing – the obstacle preventing their escape from the usurious cycle – totaled just 27 USD (Bateman, 2010, 8). Yunus then lent the 42 producers 27 dollars out of his own pocket, to be repaid, free of interest, “whenever it is advantageous for them to sell their products,” (Yunus, 1999, 50). Thus, the seed for the Grameen Bank and later microfinance explosion was sewn.

The lending model Yunus developed for the Grameen Bank, which he founded in 1983, did charge interest on its loans, but interest rates – usually around 20 percent annually – were far below rates from informal moneylenders or nontraditional lenders like the bamboo trader (Ibid, 68). Additionally, the lending model differed from commercial banks in several important ways in order to ease the process of securing a loan for the poor. Yunus instituted a weekly payment program to overcome the psychological barrier of parting with a large lump-sum loan payment, and made payments small “so that borrowers would barely miss the money” (Ibid, 61, 68). Additionally, instead of requiring collateral to secure loans – commonly identified as one of the largest barriers to accessing finance – Grameen utilizes peer pressure to ensure loan repayment, requiring borrowers to organize themselves into five person groups and making credit dependent upon the entire group’s performance (Sengupta and Aubuchon, 2008, 11-12). Loan disbursement is staged across the
group, with two members receiving their loans first. As long as the first two borrowers make their weekly payments for a certain period of time, loans for two more members are delivered, with the final person’s loan receipt dependent upon the other members continuing to meet their repayment schedules (Ibid). So long as the entire group repays their loans on time, access to credit in the future is assured for the entire group. However, should even one member begin to miss payments, credit for the entire group is suspended, thereby creating a strong incentive for the entire group to ensure all members are making on-time payments (Ibid, 12). A cultivated sense of inter- and intra-group competition motivates every borrower to achieve and repay (Yunus, 1999, 62).

As the Grameen bank gained notoriety for its successes, organizations began mimicking its model around the globe. Prior to Yunus’ work (for which he received a Nobel Prize in 2006), the poor – especially the rural poor – were considered a “risky, unbankable clientele” (Kalyango, 2005, 3). However, the Grameen Bank proved that the poor were more bankable than had been assumed, self-reporting repayment rates around 98 percent throughout the first decade of the bank’s operations (Mourduch, 1999, 231). While subsequent analysis has uncovered an unconventional accounting methodology that led to an overstatement of Grameen’s repayment rates – actual rates closer to 92 percent – there is nonetheless a consensus based on high repayment rates that the poor are, indeed, bankable and worthy of efforts to spread banking services to them (Ibid, 232).

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19 Borrowers also must undergo an extensive training and testing period, which includes both individual and group components, to ensure every borrower is familiar with the lending process and aware of “best-practices” for making money, saving, and repaying loans (Yunus, 1999, 63-64).
Most MFIs established in the 1980s and early 1990s were modeled on the Grameen bank and designed to operate as non-profit NGOs, leveraging public and private subsidies to cover operating costs and keep interest rates low (Bateman, 2010, 12). The Grameen Bank itself pioneered the model, receiving nearly 175 million USD in subsidies between 1985 and 1996 from local governments and international development actors to cover operational expenses and ensure the bank remained “profitable” (Mourduch, 1999, 230).

Early MFIs in Uganda utilized this model. In the 1980s and early 1990s, as commercial banks contracted their branch networks and reduced services due to Uganda’s IMF-led structural adjustment, international and domestic NGOs began operating small microfinance schemes across the country to “fill the gaps” (Carlton, et. al., 2001, 15). These operations were few in both number and magnitude, but began to expand as ongoing weakness and turmoil in the formal banking sector limited growth in the commercial banking sector (Ibid, 13-15).

In the 1990s, a “new wave” of MFIs began to spread. These organizations sought to attain true profitability, independent of subsidies and other outside help, by tailoring interest rates and loan programs to maximize income and minimize risk. Many of these organizations abandoned the “no-collateral” group-membership norm set by the Grameen Bank for many of their loans (especially larger loans). They began allowing individuals to access credit without being associated with a group of similar

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20 Although, as Mourduch details, the achievement of “profitability” is certainly debatable given the extent to which Grameen operations were subsidized. In general, it appears Grameen used the subsidies to downplay losses arising from sunk loans and to burnish their reputation (and the overall reputation of microfinance) for success (1999, 235-243).
borrowers, but implemented more stringent collateral and eligibility requirements, such as opening savings accounts and maintaining certain balances in them, and set interest at market rates in order to maintain profits (Bateman, 2010, 14). In essence, MFIs became more conventional, private financial businesses, focusing primarily on profit and institutional sustainability through a neoliberal conception of banking the poor. Development professionals saw such microfinance as a win-win strategy: banking the poor would allow the poor access to credit and other financial services needed for sustained growth, while building profitable, private MFIs would allow free market mechanisms of supply and demand to ensure the spread of microfinance services (Kalpana, 2005, 5400-5401). Powerful development agencies capitalized on the promise of poverty alleviation through private enterprise, and promoted microfinance around the world as a silver-bullet to solving poverty (Ibid, 5401).

This “new wave” of microfinance and its promising potential in the 1990s led to active efforts to expand microfinance operations in Uganda that continue to this day, although subsequent experience has proven that microfinance is no silver bullet. The 1993 Financial Institutions Statute and subsequent legislative efforts to reform and regulate Uganda’s financial system largely ignored microfinance operations to avoid restricting microfinance growth through regulation (Kalyango, 2005, 2-3). MFIs were classified in the “informal” sector, to be regulated later (Ibid). In 1996, USAID sponsored seminars promoting best practices in MFI management and operation, and

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21 Subsequent research has found that the promotion of microfinance schemes through agencies such as the World Bank, IMF, and USAID may have had underlying political significance beyond its allure as a strategy for actually helping the world’s poor, primarily in containing popular discontent and social violence related to Structural Adjustment and other neoliberal reforms (Weber, 2001 and Mayoux, 2002)
highlighted the role MFIs can play in providing finance to the poor and securing private-sector growth (Cartlon, et. al., 2001, 16). At that time, the national government began to increase their emphasis on private-sector growth as the means to prosperity, and focused on expanding access to finance as a key strategy (Ibid).

As mentioned, financial reforms enacted by Structural Adjustment in the 1990s sparked a massive contraction of financial service availability. The reorganization of UCB prompted a significant contraction in its branching network, leaving most rural districts without any formal access to finance (Kalyango, 2005). The formal financial sector remained weak until the turn of the 21st century, undergoing a serious crisis between 1997 and 1999 that saw five major commercial banks cease operations due to internal financial issues and ongoing branch closures. Huge swaths of the country were left without any access to financial services, right as the government was seeking ways to improve access to finance (Carlton, et. al., 13). “Informal” MFIs, operating outside of the then-tumultuous Bank of Uganda regulatory framework, became increasingly promoted as a way to provide financial services across the country despite formal sector weakness (Ibid, 17). In 1997 a “strong collaborative effort” emerged between the government, international donors and consultants, MFI operators, and the central bank to promote microfinance sector growth, evolving into the Microfinance Forum in 1998 (Ibid). The forum met monthly to exchange ideas, coordinate projects, and confront issues facing the sector (Nannyonjo and Nsubuga, 2004, 16).

By 2003, after years of annual client and total-sector-asset growth rates as high as 70 percent, some 1,400 MFIs were in operation across the country serving some 900,000 active savers and 340,000 active borrowers with a collective active loan
portfolio estimated at 53.3 million USD (Nannyonjo and Nsubuga, 2004, 9-10). The vast majority of these institutions were small, community-based organizations locally founded under the guidance of international NGOs and not yet concerned with operational self-sufficiency or Grameen-style expansion of services (Ibid, 10). To that extent, while most of these organizations had begun at least in part through efforts to spread the “new wave” of neoliberal microfinance, few of them actually constituted financially sustainable – let alone profitable – MFIs. They were too new, too small, and too informal, primarily consisting of village lending cooperatives that would pool local resources (sometimes supplemented by small amounts of development NGO seed money) and lend to individual community members to maximize local growth (Ibid). Initially, these organizations could often only afford to give one or two loans at a time. However, as they matured and grew, many adopted more traditional banking procedures and practices to expand their services and achieve operational sustainability. In 2007, recognizing the achievements of the existing microfinance industry in building a seemingly stable framework to expand financial services across the country and widely promoted opportunities for widespread growth through microfinance, President Museveni announced his goal of having at least one fully operational, sustainable SACCO in every sub-county. Subsequently, the microfinance industry in Uganda has continued its rapid growth.

Commercial “Mission Drift”: Practices for Profit Maximization

As new wave microfinance has spread across Uganda and the globe, many researchers have documented “mission drift” – shifts away from stated MFI goals of
servicing the poor and alleviating poverty in favor of increasing emphasis on profitability (Bateman, 2010, Von Pischke, 2008, and Cull, et. al., 2007). The microfinance industry in Uganda is still seen as one of the most active globally in terms of “social performance management” but it has not been immune to mission drift (Mixmarket, 2012). According to the Bank of Uganda, inflation-adjusted MFI interest rates have stabilized between 24 and 36 percent. While this is near the upper limit but potentially still within the range that poor borrowers can afford, microfinance loans remain “prohibitively high” for most of the poorest families (Uganda PRSP, 2010 and MFTransperancy.org, 2011). Other sources have highlighted that, with fees and other hidden costs, effective interest rates on small loans to the poor can often exceed 100 percent (Levinson, 2012, 44). Additionally, many institutions have adopted the practice of raising interest rates to maintain profitability instead of pursuing larger client bases or offering new products to maintain the accessibility of their services to the poor, further limiting access to finance (MFTransperancy.org, 2011).22 Despite strong rhetoric to the contrary, increased focus on attracting clients with adequate repayment capacity and the absence of “poor-friendly,” less profitable savings products often exclude poor Ugandans from MFI programs (Carlton, et. al., 2001, 20).

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22 Additionally, interest rates are rarely fixed. Some potential borrowers are dissuaded from seeking loans as stories of perpetually-increasing interest permeate communities. For example, one of my informants in Gulu secured a loan to build a new hotel. Both he and the bank knew construction process would be lengthy, and interest on his loan was set at a low rate to facilitate repayment. However, the bank, concerned for its own profits, raised the interest on the loan as construction progressed. My informant was forced to sell his other businesses to stay current on his payments and avoid having to abandon the hotel project. However, soon after the hotel was completed, the bank raised the interest rate again – to over 40 percent. My informant fell behind on his payments and was forced to sell the hotel to avoid a bank seizure.
Microfinance has ceased to be a service aimed exclusively at helping the poor out of poverty: instead practices more in-line with “commercial enterprises whose main objective appears to be earning large profits” have been adopted (Yunus, 2007, 68). The focus of this chapter is not to lament mission drift among Ugandan MFIs, however. It is to examine the ways in which microfinance impacts social destabilization and changing social structures arising from development. Importantly, though, commercialization and mission drift have defined many of the MFI procedures and practices that contribute to local community destabilization and social capital formation disruption. The strategy so widely praised for its ability to empower local communities, in its current Ugandan context, actually disempowers communities and stifles innovation.

The increasing emphasis on profitability has driven most MFIs to implement “best practice” procedures imported from around the globe. In Uganda, best practice adoption began after the 1996 USAID-sponsored conference and primarily consisted of organizational reforms to improve bookkeeping, safeguard client deposits, and streamline service provision and organizational efficiency (Carlton, et. al., 2001, 16). As the microfinance sector has matured, new best practice adoption has included the provision of financial and business literacy training courses for MFI clients, and more strict criteria for and examination of loan applications. Loan applications are closely analyzed to minimize risky lending, while trainings are conducted to educate and sensitize clients in methodologies for operating their businesses and managing their personal assets to maximize personal success and loan repayment – certainly sound strategies for maintaining MFI organizational sustainability, but problematic for promoting innovation and growth.
Uganda’s education system is impoverished and outdated. MFI-led trainings are often the only relevant business education microentrepreneurs receive, and these are a poor substitute for deep and critical engagement with business and financial management. The topics covered are important, but basic. They include savings strategies, basic bookkeeping, proper and improper use of loaned funds, and sector-specific strategies such as planting schedules and animal husbandry for agricultural enterprises and customer service for the service industry. The trainings prescribe formulas for success in each of the topics they cover, and clients are discouraged from deviating from them. MFIs will often conduct assessments of how well a client has applied the material covered in trainings, and will sometimes make future credit or even already-granted loan disbursement dependent upon the implementation of strategies suggested through trainings. While this does provide a cost-effective way to limit lending risk for MFIs, strict adherence to pre-set formulas effectively limits local entrepreneurs’ capacity for innovation.

Innovation is also stifled through MFIs’ lending criteria. Beyond commercial banking asset/collateral requirements or Grameen-style social requirements, access to microcredit is dependent upon the quality of the loan proposal as assessed by the lender, just as is the case with formal financial institutions around the globe. MFIs assess proposals based on the likelihood of loan repayment. Given the high cost of entry to many market sectors there is only a small set of market sectors and business opportunities considered viable by MFIs. According to my informants in Masaka and

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23 Barriers to entry arising from the national institutional framework that effectively limits participation in those market sectors to those with sufficient means or political prestige, as detailed in the previous chapter.
Gulu, a loan to establish a small shop or to buy a pair of goats for breeding is much more likely to be approved than a loan to start a small manufacturing operation because the loans are a) smaller and b) are perceived as having a much higher likelihood of being repaid. Manufacturing isn’t a field MFIs perceive as viable for local entrepreneurs, even though a manufacturing venture (or venture in some other sector outside the norm) could actually prove higher-profit in the long term. In effect, MFIs corral burgeoning Ugandan entrepreneurs into participating in only a few market sectors by only granting loans to proposals for businesses in those sectors. The standardized training curriculum and formulas required of entrepreneurs farther limit opportunities for innovation within the few sectors deemed viable.

“Silver Bullet” to What?

The overall effects of the rapid growth of commercial microfinance have been an increase in the social oversaturation of the market sectors seen as most viable for microenterprise, further fueling the ruinous, internecine competition amongst businesses and community members detailed in the previous chapter.

Limitations on access to microfinance created by MFI “best practice” procedures have created an incentive structure that not only pushes Ugandans into a small set of oversaturated sectors; it pushes them away from established cultural practices and social structures essential to the formation of social capital. Communal,

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24 Most “viable” business opportunities fall into one of two sectors: small-scale agriculture and unskilled service industry (such as a small shop). MFIs prefer those few clients do have skills that would allow them to enter a different industry outside of those sectors, but options are similarly limited: auto and bicycle mechanics, barbers/hairdressers, builders and computer services encapsulate the majority.
cooperative norms do not provide a framework for the vicious competition
commonplace between redundant firms within the impoverished framework of the
Ugandan situation. As social capital formation mechanisms are disrupted, social
stability and community cohesion decline, leading to potentially ruinous interactions
between individuals and businesses and jeopardizing future growth.

For example, about 30 minutes outside of Masaka Town lies Ssunga Parish, a
small collection of settlements along Bukakata Road. Most of the businesses in the
area were built with the help of microloans, and many of the local business owners I
interviewed were vocal in their displeasure with the changing values of their
community. One shopkeeper detailed how her competitors “don’t want to see me
prosper,” engaging in verbal disputes regarding her business and treating her and her
family members poorly when they are out in public. Another detailed how “there
can’t be any cooperation when you’re competing in the same field with many
people.” A third talked about how individualistic people were becoming because of
their businesses, and how “selfishness is now more important than the community.”
Of the 15 microfinance clients I interviewed in Ssunga, 12 were concerned with the
changes in community values and behavior they had witnessed in connection with
business interests and competition. I found similar rates of concern in the other rural
areas I visited around Masaka.

In the North, I found even stronger levels of discontent with social changes.
“People have become greedy; their mentality is wrong,” Tony, a local businessman in
Gulu Town, told me. “They don’t care if you’re dying or what, as long as they are
making money. Business has taken over and the community is failing.” Tony’s
sentiments were echoed by most of the other community members I spoke with.
Additionally, several community members – on separate occasions – detailed how the most significant change they’ve noticed locally since the end of the war with the LRA is the shift in culture away from mutual cooperation and care towards competition and self-interest. They all linked the changes to the increasing importance of commercial business – as opposed to subsistence agriculture and artisanal craft – to survival.

In Masaka Town itself, I documented less concern with norms of competition and self-interest. About 45 percent of the people I surveyed in town were overtly alarmed and uncomfortable with shifting culture, as opposed to rates approaching (and sometimes exceeding) 80 percent in the rural areas and Gulu. Masaka Town is far more representative of a typical urban area in the country than Gulu Town, as most Gulu residents moved to the town to escape the war with the LRA while most Masaka residents moved there for the more promising economic opportunities available in a city. In other words, Masaka residents came to the city expecting to conduct business, and were therefore arguably more amenable to the different social and community norms related to business than Gulu residents, who primarily came to the city to protect themselves and their families from war. Gulu may then be an outlier. Future research is necessary to investigate whether there is a consistent divide in concern for competitive cultural norms between urban areas like Masaka – that have experienced relative stability throughout the last few decades and attracted residents for commercial opportunities – and rural areas like Ssunga, where residents are more invested in their traditional culture.

One important distinction between Masaka and Ssunga is that nearly all adult Masaka residents moved to the area, making a conscious decision to leave their home
communities in pursuit of economic advancement. The less collaborative and communal norms associated with urban business and city living were accepted via the conscious choice of relocation. In rural areas, however, changes in culture have essentially been imposed by the changing business and development landscape facilitated by MFI operations. As the majority of Uganda’s population remains both rural and poor, the key to Ugandan development lies in building the economic capacity of rural communities. Doing so sustainably, however, requires that any changes in social and communal norms related to development are readily adopted by such communities, as opposed to imposed upon them.

Internecine competition and its problematic social consequences are not de facto cultivated by access to finance and banking services, but only by the current “best practices” employed by Ugandan MFIs that push entrepreneurs into the very small set of already-oversaturated market sectors. Informal moneylenders, for example, have been lending money on an individual basis far longer than formal banking has existed, without contributing to similarly dangerous social and cultural shifts (Graeber, 2011). As Rachel Levinson argues, moneylenders are community members who typically only lend to other community members they know (2012). Moneylenders contribute to social capital production through high levels of trust between themselves and the rest of their community, and through their own, individual community membership and familiarity (Ibid). Additionally, moneylenders’ lending procedures are less formulaic and far more flexible, giving borrowers

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25 Urban growth in Uganda is a relatively new phenomenon; most urban adults moved to urban areas as young adults in pursuit of superior schools (providing they could afford school fees) and then stayed urban to pursue the economic opportunities of the city or, if they couldn’t afford school fees, they moved simply in pursuit of work.
additional agency in determining where to invest borrowed funds (Ibid). Finally, moneylender interest rates are far higher than those of modern MFIs, which constitute a problematic barrier to finance access, but also serve to limit the number of new firms entering any already-saturated sectors defined by macro-institutional frameworks. Ultimately, moneylenders operate independently within their communities, and do not coordinate “best practices” locally or internationally. As a result, traditional informal moneylenders – who are often accurately described as predatory lenders due to the high interest they charge – do not contribute to shifting norms of culture and society in the ways modern MFIs do.

An unwanted and unexpected imposition of new social and cultural norms is rarely a recipe for social stability. New norms clash with established mechanisms of social capital formation, and social capital declines as a result. Individuals become socially disoriented, unfamiliar with their own communities and how to act in them. A whole host of problematic outcomes can then arise, from the relatively minor – local unhappiness and discontent – to the catastrophic – a potential breakdown of social structures leading widespread violence and economic failure. Such a calamitous breakdown is unlikely but that doesn’t lessen the failure of MFI operations in Uganda to fulfill mandate of helping the country develop and improving the overall plight of the poor. Incomes may benefit from microfinance, but an increase in income doesn’t necessarily translate to an increase in overall life satisfaction or subjective

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26 There is increasing evidence against the assumption that microfinance actually contributes to sustained long-term growth, but the assumption has not yet been conclusively disproven in Uganda (Carlton, et. al., 2001, 9).
wellbeing. The current paradigm of microfinance operation weakens and destroys community social structures by pushing aspiring microentrepreneurs into internecine competition with their neighbors. Social capital formation mechanisms, and “important reserves of solidarity, mutuality, and cooperation,” are ravaged by the “best practices” employed by MFIs in pursuit of profit and operational sustainability (Bateman, 2010, 2). This is not what sustainable development looks like.
Chapter 4: The Case for Local Planning

As previously discussed, a key portion of President Museveni’s 2007 Bonna Bagaggavale (Prosperity for All) initiative was facilitating the establishment of at least one fully functioning SACCO in every sub-county. Ensuring each sub-county has a functioning, government-supported SACCO was meant to promote broad access to the most basic financial services, cultivate a culture of savings, and facilitate development and independent economic growth. Typically, services are limited to simple, non-interest-earning savings accounts, simple loan services, and basic business and financial literacy training classes. However, continuing the current paradigm of MFI operations will not sustainably develop the Ugandan economy. Unreformed, modern Ugandan microfinance will only lead to the founding of additional simple microenterprises. It will contribute little of real substance to the national economy, and will continue cultivating internecine competition that weakens and destroys local communities. Independent of macro-level institutional reforms required to alleviate the problematic institutional structure of Uganda’s national economy, existing MFIs
can implement procedural reforms providing for improved social stability locally as areas develop, while simultaneously solving some of the most binding constraints to development identified by the national government and IMF. The case of Caja Laboral, the primary financial institution behind the hugely successful Mondragon Corporation – a densely integrated network of producer-cooperatives in the Basque region of Spain – offers ideas for such reform. This chapter will examine the policies of Caja Laboral and demonstrate their applicability in the Ugandan context.

Implementing similar policies to transform MFIs into more active supervisors of local growth will help MFIs solve some of the biggest obstacles to development while protecting the formation of social capital.

There is both legal and social space for SACCOs to play a more significant role in helping their local communities manage the changes in social capital necessary to support the new, developed economic order. This chapter will examine some of the cooperative social norms tantamount to most Ugandans’ traditional lifestyles, and demonstrate how they can be leveraged within existing MFI banking structures to prevent disruptions in social capital formation and to provide for more meaningful, larger-scale economic growth. Additionally, this chapter will scrutinize the current, and proposed future, regulatory structure for SACCOs and most other MFIs, which does not constrain a more central role for MFIs in coordinating local development.

A key assumption in this analysis is that knowledgeable, capable staffs genuinely interested in the advancement of their local communities operate existing MFIs (in other words, that these banks are not corrupt institutions driven exclusively by self interest). Within the current Ugandan landscape, there are a significant number of corrupt firms seeking only to maximize benefits to stakeholders, no matter
the cost. The spread of “new wave” microfinance primarily concerned with institutional sustainability has allowed many corrupt institutions to disguise their profiteering operations as legitimate; however, it has been my experience that the majority of MFIs and MFI operators are genuinely interested in advancing the economic performance of the communities in which they operate. Nonetheless, the recommendations for reform contained within this chapter would not be successful if applied at firms where this is not the case.

*The Cultural Foundations for a Community Planning Apparatus*

Community and collective identity are, of course, integral to most cultural traditions in Uganda. Specific rituals and values vary greatly from tradition to tradition, but communal deliberation and action have traditionally occupied the predominant position in social navigation. That is, most Ugandan ethnic groups utilize guidance from their community, and its collective knowledge and experience, in everything from mundane day-to-day tasks to exceptional moments of decision. The northern Acholi, for example, employ a wide range of communal rituals to navigate war, justice, family and community dynamics, and other complex subjects with wide-ranging social implications.

For example, one of the most pressing local issues in the North, following the decades long conflict with Joseph Kony’s Lord’s Resistance Army is rampant Post Traumatic Stress Disorder (PTSD). Kony’s LRA fighters were infamous for their brutality and often-unspeakable acts of gruesome violence. All civilians in the conflict area were forced to live in Internally Displaced Persons (IDP) camps, ostensibly for
their protection. However, conditions in the IDP camps were poor and living in the camps was often as traumatic as direct interactions with LRA fighters. Even now, very limited infrastructure is available in the North to treat local PTSD to Western standards. However, among local Acholi healers and diviners, the western PTSD diagnosis is actually a well-known and treatable war malady: cen (Finnström, 2008, 159). *Cen* has been translated as “vengeance ghosts” or “ghostly vengeance,” a kind of shadow existence of people who died violently, and affects those proximate to such killings (Ibid, and p’Bitek, 1971). Strong communal input is central to successfully curing *cen*.

The process of “capturing” *cen* and healing those it affects involves the entire community, both living and deceased. The “healing session” is a public event, involving local residents and the relatives of the person suffering from *cen* (Finnström, 2008, 160-161). It is not only a session of individual healing, “but also a process of socialization in which the victim is incorporated and reconciled with the community of both living and dead” (Ibid, 161). Healers negotiate with the *cen* spirit to understand its origins and possible ways to capture it. Ancestors and living clan elders are consulted, mostly about the local sociohistory leading to the infection (Ibid, 160). Other conflicts and issues in the community – old and new alike – are often aired and incorporated into the ritual to promote a more complete healing. In the international development community, there is widespread skepticism of local traditions such as those surrounding *cen*, however, World Vision – an organization that administered one of the largest relief operations in Northern Uganda – concluded that Acholi practices like the *cen* ritual are “very effective in dealing with trauma problems” (Ibid, 162).
Other Acholi rituals, with roots in community action, are similarly hailed by unexpected outside groups for their effectiveness (Afako, 2006). *Mato oput*, a traditional Acholi forgiveness ritual involving community consumption of a bitter root, for example, has been widely used to promote reconciliation between former rebels and their home communities. There are less formal rituals, such as those surrounding *wang oo* (the outdoor fire). *Wang oo*, traditionally lit nightly in Acholi villages, serves as a gathering place for community members to tell stories, discuss issues, and convey moral teachings to younger generations (p’Bitek, 1962). The foundation of all of these rituals is communal discourse and action. A hierarchy of importance does exist, typically on the basis of age or spiritual connection, but community has still been an extremely valuable resource for navigating everything from crisis to everyday life throughout Acholi history. The Baganda, along with virtually all other Ugandan ethnic groups, have similar – although often less formal – norms of communal discourse and action (some detailed in Chapter 1). SACCOs and other MFIs can and should leverage these norms to solve contemporary issues of development.

*Contemporary SACCOs’ Community Involvement*

Despite being communally owned collectives, SACCOs currently only serve a limited role as intermediary between capital and need. SACCOs pool member assets together to make loans and use the interest from the loans to pay staff salaries and other expenses. In assessing loan applications, SACCOs typically only look at the viability of the loan proposal with one question in mind: will the loan be paid back? Various SACCO staff members explained to me that the trainings and other services
SACCOs offer are designed to maximize the success of member projects and businesses, but primarily in order to maximize loan repayment. Some SACCOs recommend certain trainings and classes for individual members based on the services those members want to utilize. For example, Masaka Elders – the SACCO I examined most extensively in the field – recommends trainings on how to save for all of its members, and additional product- or industry-specific trainings to clients who will benefit from such material. When member businesses succeed, loans are repaid, savings deposits are increased, and the SACCO can expand the range and quality of services it offers.

Very little – if any – assessment is done on the overall impact a specific project will have on a community. For example, Masaka Elders granted two loans to two women in Luvule, a small village about fifteen miles outside of Masaka Town. One woman applied for the loan to open a small shop selling essentials – bread, sugar, soap, mobile phone calling credit, and the like. The other applied for her loan to open a tailor shop. The essentials shop owner successfully opened her shop and now earns a modest living from it – she is still very much impoverished, although certainly in a better financial situation than she was before she opened her store. The tailor shop owner, however, was hugely successful. She now employs several young girls as seamstresses in the shop and has expanding her business into catering. She has also invested in water-harvesting projects to improve the yield in her garden and save money on food, and made significant improvements to her house. She has successfully emerged from poverty, while the essentials shop-owner has not.

The two women did not come from identical backgrounds: the tailor shop owner was better educated and owned a sizeable plot of land she was able to use as
collateral on a much larger loan than the other shop owner. Additionally, tailoring is a more lucrative field in the area than essentials shop-owning. Yet, there is no doubt that the tailor received a far greater return on investment than the shop owner.\textsuperscript{27}

While her education may have helped her identify the lucrative opportunity a tailor shop represented in her community, the tailor’s success was due in large part to the fact that there was limited competition in the area. The essentials shop owner, by contrast, opened a shop with nearly identical product offerings and prices as multiple other shops within a quarter mile radius. There is nothing inherently problematic about opening a shop near competitors – indeed, additional competition is often beneficial to communities as it lowers prices and expands available products. However, in this case the shop was established in an area already saturated with identical businesses. The essentials shop owner faced animosity from some of her community members, despite having living cooperatively together before she started her business. “There are some people who do not want me working here, they do not act well towards me,” she said, referring to her competitors. The animosity the shop owner experiences as a result of her business made her life challenging, and caused a rift in the local community. “Community is very important,” she said. The animosity and discord in her community has left her feeling isolated, alone, and uncomfortable in her surroundings.

SACCOs currently have essentially no direct involvement with resolving these social issues, or attempting to prevent them from arising in the first place; SACCOs

\textsuperscript{27} The tailor shop owner was not comfortable revealing the size of her loan and her income, but bank officials confirmed that her loan was more “productive” than the shop-owner’s.
act simply as banks. Some SACCOs and other MFI s do slightly more assessment of the social landscape before granting a loan but they do not typically involve themselves significantly in the social dynamics of a given community. For example, CRO sends representatives to the home community of any person requesting a loan from their small lending operation (aimed at keeping street children off the street) in order to evaluate that person’s skills and knowledge, help them determine a business activity in which the individual could be successful, and to briefly assess the community to ensure that there is a demand for the goods and services of the proposed business. CRO goes farther than some other organizations in that they do make site visits for assessment but, like most other organizations engaged in microfinance, they are focused on connecting people in need with the capital necessary for self-advancement. Even the most involved organizations – those that still operate group-lending schemes or hold events specifically to promote community cohesion – ultimately fail to rebuild the social capital lost through intracommunity confrontation and competition (Feigenberg, et. al., 2010). SACCOs fail to address the connection between their needed services and the social destabilization free enterprise development can bring to a community unfamiliar with it. They fail to appreciate the potential that importation of new methods of economic being has to undermine the foundations of traditional social capital formation, and to replace financial poverty with social poverty. And, they fail to exploit the positive potential for the social communities that exist within the organizations themselves to serve as the strong base of a new social and economic order, helping physical communities navigate the transition of development.
Community has been the foundation of Ugandan ethnic traditions since pre-history, it can also be the foundation of their development.

**Basque Spain: A Model for Ugandan Development**

Like Northern Uganda, the Basque region of Spain was best known as the home of a violent separatist organization, *Euskadi Ta Askatasuna* – better known by its acronym, Eta – until very recently. In September, 2010 Eta announced a new ceasefire and, despite its history of breaking ceasefires shortly after announcing them, Eta honored the agreement and announced in November, 2012 that it was interested in establishing a “definitive end” to its operations and disbanding entirely (BBC, 2012). As violent attacks ceased, news reports coming out of the region shifted to its remarkable economic achievements over the past sixty years despite the history of violence: namely, that Basques contribute nearly ten percent of Spanish exports despite only constituting five percent of the population, that unemployment in the four Basque provinces averages about half that of the rest of Spain, and that many companies based in the region are forecasted to grow substantially throughout 2013 and beyond, despite expectations for the overall Spanish economy to shrink by two percent (Frayer, 2012). Eta activity in the region did not impact the local economy nearly to the extent that LRA activity paralyzed Northern Uganda. The Basque region was relatively prosperous and productive economically throughout the rebellion, while Northern Uganda was paralyzed by LRA attacks and the conditions in the IDP camps. However, Basque economic viability was built out of the ruins of the Spanish Civil War, and successfully integrated Basque collective self-identity with
competitive economic activities viable on the global market. One bank in particular, Caja Laboral Popular (popularly shortened to Caja Laboral), filled a role in the Basque community that is exemplary of the role Ugandan SACCOs can play in helping Ugandan communities navigate the adoption and expansion of free enterprise.

Caja Laboral is part of the Mondragon Corporation, a hugely successful network of producer-cooperatives. Caja Laboral is the primary financial services provider for the cooperatives within Mondragon. It coordinates cooperative activities and supervises the incorporation of new cooperatives. Caja Laboral’s comprehensive involvement in the cooperatives it serves helped the Basque people develop a vibrant economy and preserve the collective self-identity that, like Ugandan cultural traditions, is tantamount to social capital and social stability in the region. Since its founding, the bank has grown into one of the most profitable savings institutions in Spain. It is so robust that it was far less affected by the global financial crisis of 2008 than most other Spanish banks, remaining profitable throughout (Whyte and White, 1991, 68 and Mondragon, 2010). To that extent, a successful implementation of procedures and policies similar to those of Caja Laboral in Ugandan MFIs would not necessarily decimate the “new wave” neoliberal emphasis on organizational sustainability.

**Building Local a Local Planning Apparatus**

The Basque region of Spain was slow to recover economically from the devastation of the Spanish Civil War and Spain’s post-war discrimination against the
Basque people. In the mid 1950s, five graduates of the only technical school in Mondragon, a small town in the predominantly Basque Guipuzcoa province, solicited investments from local residents to open a new manufacturing operation nearby and provide for expanded employment and local growth (Molner, 1984, 264). The five graduates had spent several years working at the local steelworks, the primary employer in the area, but were frustrated by the static working environment and internal resistance to innovation and improvement (Ibid). They sought input from their former schoolmaster, Father Jose Marcia Arizmendi, who helped them design the new firm. Father Arizmendi had previously sought and received community investment to expand the technical school in Mondragon, and was confident that the local community would buy into this project with the same zeal as they had bought into his – nearly a quarter of the town’s population contributed to his project (Loveman, 1982, 36-37). Father Arizmendi and the five graduates were interested in building a firm structured as a cooperative, due to potential benefits of local employment and reducing residual local poverty from the war (Molner, 1984, 263-265). Convinced the project was promising, local community members committed as approximately 11 million Pesetas (approx. 425,000 USD in 2010 dollars) with no security beyond “personal commitment” as starting capital for the venture (Oakeshott, 1978, 174 and Loveman, 1982, 37).

The five graduates then purchased a bankrupt manufacturing operation in nearby Vitoria, moving the business back to Mondragon in 1956 (Loveman, 1982, 36-37). The cooperative structure of the operation, UGLOR, granted all workers membership and fractional ownership in the firm, and shared net income and control of the firm with all workers via a one-member-one-vote system (Ibid, 2). By the end of
1958, the workforce had expanded over sixfold, from 23 to 143, and two other traditionally structured capitalist firms in the area had converted to cooperatives and been annexed to UGLOR (Oakeshott, 1978, 174). Additionally, a chain of consumer cooperative stores was established in Mondragon town that would later be incorporated into the system. By 1959, the five ULGOR founders also established five other separate industrial cooperatives, creating a reliable network of intermediate-good producers for ULGOR’s primary production of butane and oil stoves (Ibid).

Despite the rapid growth and early success of the cooperatives, Father Arizmendi voiced a strong concern over the ability of the existing co-ops to survive long term without secure and stable access to capital (Loveman, 1982, 38). Father Arizmendi found that Spanish law allowed for the establishment of credit cooperatives that act similar to commercial banks, and allowed such cooperatives to pay depositors interest rates up to one full percent over the established legal maximum for other banks (Oakeshott, 1978, 175). In 1959, Father Arizmendi and the five UGLOR founders incorporated Caja Laboral Popular to mobilize members’ savings (utilizing the higher interest rates allowed by law as an incentive to save with the bank), secure capital access for the growing network of cooperatives, and provide a “central social insurance service” for all members, as Mondragon worker-owners were technically self employed under Spanish law and therefore ineligible for the national insurance programs (Loveman, 1982, 38). The insurance responsibilities were later spun off into a separate co-op, allowing Caja Laboral to focus exclusively on its banking and capital-securing responsibilities.

The Mondragon cooperative network was one of the first experiments in social entrepreneurship, where business activities are conducted not only to create a
profit but also to provide for some larger social benefit. In the case of Mondragon, the larger social aim was (and still is) to provide widespread, quality employment in the Basque region (Whyte and Whyte, 1991, 70). Caja Laboral remains integral to Mondragon’s ability to remain profitable and fulfill its social mission. All cooperatives within the Mondragon system are required to conduct all of their banking through Caja Laboral and to contribute to the bank’s capital (Ibid, 69). Additionally, worker-owners of the various cooperatives use Caja Laboral for their personal banking needs, and Caja Laboral is authorized to audit any member cooperative to ensure that they are adhering to proper financial discipline and to monitor other “social and entrepreneurial aspects” (Ibid). Perhaps most significantly, and most relevant to Ugandan MFIs, Caja Laboral actively directs the establishment and growth of new cooperatives as well as interactions between the various individual cooperatives that compose the Mondragon system. As a result, existing cooperatives’ activities are carefully coordinated. Workers or community members interested in establishing a new cooperative and contract with the bank are “not free to organize in any form they wish,” (Ibid). Caja Laboral carefully analyzes such proposals to ensure they will contribute productively to the overall system. Because of Caja Laboral, individual Mondragon cooperatives are tightly bound together, contributing to each other’s successes as opposed to engaged in the vicious internecine competition that exists in Uganda. It is precisely this model that can provide for both increased success in individual Ugandan firms and reduce social destabilization in Ugandan communities.

Mondragon Corporation is a network of interdependent cooperatives. Many cooperatives supply primary or intermediate goods to other cooperatives, which then produce a finished product. Other cooperatives are responsible for educating a skilled
workforce that can then be tapped by the other cooperatives and enhance overall productivity. There are no redundant or unnecessary enterprises within the network. New enterprises are carefully crafted to contribute to the system, not take away from it. Caja Laboral used to wait for a group of workers to submit a proposal for a new cooperative enterprise however, as the growth in profits and deposits outpaced demand for loans in the 1980s the bank has been able to take a more proactive role in developing new enterprises (Whyte and Whyte, 1991, 72). Now, there is a sizeable subdivision of the bank responsible for the development and expansion of a “product bank” – essentially a database of potential new enterprises and products they could produce to contribute to the overall network (Ibid, 73). Many ideas in the “product bank” are primary or intermediate goods that would streamline production at existing cooperatives, while others are entirely new product areas that the bank has analyzed and determined there is significant demand for a new enterprise (or chain of enterprises) to be feasible in that area. In essence, Caja Laboral proves some level of local central planning to limit local competition while enhancing the competitiveness of the Mondragon Corporation writ large in the national and international marketplaces.

When a proposal for a new cooperative is submitted to the bank (either spontaneously or in response to solicitation from the bank), bank employees rigorously analyze the application to determine its feasibility as an individual enterprise and its productivity within the broader Mondragon system.\(^\text{28}\) If the project is determined to

\(^{28}\) Caja Laboral consists of two main divisions, the economic division – responsible for operating the savings bank – and the empresarial division – responsible for “management and professional consulting services for all member coops, for the
have the potential to contribute productively to the overall system (in terms of both profit and social benefit), the proposers have to nominate a manager whose capacities are rigorously assessed by the bank before the proposal moves forward. If the manager fails assessment, a better-qualified replacement must be selected (Ibid, 73). Once a capable manager has been selected, the bank grants the new cooperative a loan to cover the manager’s salary for 18-24 months – the initial period of enterprise construction (Ibid). A Caja Laboral staff member is assigned to the prospective manager to assist in a more formal feasibility study, the development of a business plan, and the initial phases of opening the enterprise (Ibid). Caja Laboral has determined that it usually takes at least three years before a new enterprise is profitable, and it covers the losses during the time through loans that will be paid back with future enterprise profits. During the initial years of enterprise operation, the bank monitors and provides input but rarely interferes significantly with the process. However, when a firm fails to reach its breakeven point on schedule and its existing structure or operations do not look promising, Caja Laboral will enforce a major intervention, often entirely redesigning the firm’s structure or operations. In one such instance, the bank intervened and entirely changed the product line for the firm: workers were furloughed while the old machinery was replaced with new machines for the production of an entirely different product (Ibid, 75). It is through maintaining such close involvement with member institutions that Caja Laboral has achieved an promotion and development of new coops, and for the integration of the group’s activities at the macro level” (Loveman, 1982, 43). The empresarial division manages proposals for new cooperatives, while the economic division manages the everyday financial needs of its members.
almost perfect track record for building new cooperatives: the empresarial division has supported just three failed cooperatives in the bank’s more than five decades of operation (Bateman, 2010, 174).

Applying Caja Laboral to Uganda

Ugandan MFIs have a much less successful record in new ventures they support than Caja Laboral. High MFI loan repayment rates are often sustained by group or family members paying for an individual’s default, or by the defaulter taking out a larger loan from a different institution, and thereby do not encapsulate the real rate of enterprise failure (Carlton, et. al., 2001 and Bateman, 2010). Precise data are unavailable on the failure rate for new firms, either in Uganda or around the globe, but the rate is generally considered “high” (Bateman, 2010, 74 and Karnari, 2007). Additionally, every single person I interviewed in Uganda had numerous stories about failed microfinance-funded businesses either they personally had operated or run by someone close to them.

Adopting an operational model built on the example of Caja Laboral would allow Ugandan SACCOs to actively contribute to the solution of at least two momentous obstacles to development: the social destabilizing resulting from the expansion of free enterprise in a culture unaccustomed to it and the general limitation of the Ugandan national supply chain and market structure due to the nation’s endemic poverty. Let us examine the supply chain implications first, after which we will examine the implications on social stability.
In its Poverty Reduction Strategy Paper delivered to the International Monetary Fund in 2010, the government of Uganda identified “limited access to critical production inputs” as one of the most binding constraints on development in the country (Uganda PRSP, 2010). These production inputs include basic goods such as concrete, iron, paper, sand, and fertilizers that have to be imported large-scale from nearby countries, and also goods that are widely produced in the country but are not optimally used due to inconsistency in production, inconsistency in demand, and the poor physical infrastructure that impedes trade (Ibid). For example, many of the various Ugandan ethnic traditions have long and rich histories of raising cattle; leather making is a strong industry in parts of the country. However, unstable supplies of lime and kaolin used to tan hides, coupled with inconsistent hide availability make it difficult for any small-scale tanning operations to survive – despite abundant demand for leather goods both domestically and via export (Ibid). Importantly, Uganda has abundant reserves of most of the raw materials that compose these “critical” inputs – including both lime and kaolin (Mathers, 1994). However, capital constraints and supply chain inefficiencies prevent such resources from being fully utilized around the country.

29 There are many large-scale cattle operations in Uganda, however they are scattered across the country. Many families will invest in a single cow as a form of savings in poor, rural areas as well, making for a relatively wide availability of cattle, beef, and hides. However, it is difficult for small-scale tanning operations to secure consistent access to hides as the large operations are so scattered (and often get a better price from the larger operations in urban areas), and there is no way to predict how many cattle hides will be available from individual families. Availability varies greatly depending on the season, the number of families owning cows in a given area, the financial situations of families owning cows, and the uneven age distribution of cows.
By taking a more proactive interest in their members’ existing firms and loan proposals for new firms, local SACCOs could coordinate local supply chains and maximize the mutual-productivity of the communities in which they operate. For example, many SACCOs already provide agricultural loans for livestock purchases, but they do not coordinate purchases between individual members. If SACCOs monitored the existing stocks of cattle owned by their members, for example, and coordinated loan disbursements for new cattle purchases to ensure a steady supply of cattle ready for slaughter, they would have solved one of the primary inhibitors of growth in the tanning industry: inconsistent supply of a critical production input. The amount of capital necessary to begin a single, large-scale cattle operation to support a tannery is immense, well beyond the total resources of a typical SACCO. However, more active involvement in member firms and precisely calculated capital injects could enable a level of coordination to be reached within the community that would sustain cattle production collectively throughout the community and thus support a profitable tannery operation.

The potential economic impacts of increased SACCO involvement in member firms are not limited to cattle and leather. Some communities are better suited for fishing, farming, lumber, or even simple mineral extraction – lime for a tannery, perhaps (and, potentially, associated secondary products). One can easily conceptualize a gradual streamlining of supply chains and growth of capital stocks to the extent that SACCOs could begin enticing members into more advanced fields of mineral extraction (perhaps lime to facilitate leather production or iron ore to support the fledgling Ugandan steel industry) or heavier manufacturing (bicycles and motorcycles are always in demand, as is steel, although the capital required to open a
steel mill is significant). Caja Laboral coordinated and facilitated a similar streamlining, allowing Mondragon corporation to expand from a single stove manufactory to an intricate network of intermediary and final goods producers.

Widespread community engagement in more advanced economic activities is certainly still several years away, and will require some importation of knowledge – at least in the initial phases. Importantly, though, SACCOs already have an intimate knowledge of the particular strengths and weaknesses of the communities in which they operate; dozens of community members I interviewed during my field research felt their local SACCO was best equipped to facilitate development locally due to their intimate knowledge of community issues (as opposed to a larger commercial bank with more assets but less community connection). The drastic interventions of Caja Laboral to prevent firm failures are not inherently necessary to provide for development in Uganda. Simply adopting Caja Laboral-like procedures for assessing new and existing firm proposals for possible contributions to the existing economic framework of the community has significant potential for expanding access to critical supply inputs and sustainably increasing economic development countrywide, independent of infrastructure improvements and macro-level institutional reforms.

Famed development economist Ha Joon Chang demonstrated that more basic microenterprises engaged in basic goods commerce and embodying a ‘buy cheap sell dear’ ideology do little to meaningfully develop African economies (2008). However, a firm base in light manufacturing and other, more complex, higher income sectors can provide for significant growth. In growing local businesses and coordinating community resources, SACCOs can ease capital restraints in communities – another
“most binding constraint” – and overcome some of the institutional hurdles preventing local penetration of and growth in such sectors (Uganda PRSP, 2010).

In terms of social capital and the social stability inherently connected to its production, an expansion of SACCO involvement with its members presents an opportunity to mitigate the potentially destabilizing effects of the growth of free enterprise in communities culturally unaccustomed to it. In coordinating member firms, streamlining supply chains, and maximizing collective community productivity in the vein of Caja Laboral, SACCOs could end up limiting redundant firms and increasing local cooperation, thus the types of confrontational interactions that divided the Luvule community and caused the shop-owner to be less successful in her business. Additionally, by helping tailor new firms to exploit local community strengths and economic opportunities, SACCOs could coordinate and, arguably, expand the resources and opportunities available to the community, actively contributing to social cohesion and stability.

Member communities within SACCOs themselves represent another significant resource for navigating issues of development and social cohesion. We have established that both the Acholi and Buganda have a tradition of communal discourse and action that serves as a foundational pillar of their respective cultures – most other Ugandan cultural traditions share this trait. The Basque culture has a similar – but not as strong – tradition of communal self-identity. This tradition helped strengthen the cooperative, owner-worker institutional structure of Mondragon cooperatives, including Caja Laboral (Sperry, 1985, 345). Mondragon cooperatives are democratic, where each member has a vote in matters of company control equal in weight to that of other members. This democratic process in additional to the communal ownership
structure, seems to have been sufficient to preserve the communal elements of Basque culture. However, the Basques had far more familiarity with free-market capitalism than the people of Uganda have. Due to the comparative geographic ease of trading with Britain instead of Spain or France, the Basques’ rich history of trade with the British introduced them to industrial-age forms of economic organization early on (Frayer, 2012). Additionally, the Basques have born witness to and participated in centuries of European capitalism. Ugandans – from all ethnic heritages – require an opportunity to familiarize themselves with the particulars of a free-market economy, and it is here that SACCO member-communities can play an important role.

SACCOs are a source of information about capitalism and capitalist development. Members look to bank employees and educators for information on how to be capitalist; how to save, run a business, expand their capital. Members also have the most comprehensive knowledge of their own community traditions, relationships, heritages, cultural rites, and other mechanisms for social capital formation. In facilitating community discussion amongst their members, SACCOs can provide a space for members to integrate new economic activities and economic ways of being into their cultures and community. SACCOs can promote conversations – perhaps similar to those held around the wang oo in Acholiland or those over shared gourds of local beer in Buganda – to allow community members to assert their own individual agency in process of development, integrating their own cultural traditions and voices into the new economic order. Change is inevitable as a community develops. Mechanisms for social capital formation will change. Social norms will shift. Culture will evolve. SACCOs can help ensure that cultural evolution preserves those elements of local culture most important to social stability and social
capital formation by promoting the same types of community discourse and action about economic evolution that have provided the backbone of societal evolution across Ugandan ethnic traditions.

The subject matter of these conversations will vary between communities and between SACCOs. In some, it may be optimal to have numerous community meetings spanning a wide range of subjects, from the merits of individual proposals for the incorporation of new businesses to ways to incorporate saving into everyday life. In others, community input may only be needed to define what sectors the community wants the SACCO to promote growth in – perhaps the community wants to expand the opportunities for cattle and leather production, but feels comfortable allowing the SACCO staff to determine the viability of individual proposals. In some, it may be appropriate to establish a hierarchy in voting, giving more weight to bank staff or community elders’ votes – similar to the hierarchy that exists within the communal traditions of the Acholi and Baganda. In others, the one-person-one-vote system of Mondragon may be perfectly suitable. Each SACCO will arrive at the best-suited structure through the collective input of its member community. Regardless of the specific structure and guidelines of member-community meetings, maximizing the cooperative aspects of these Savings And Credit Co-Operatives will facilitate the integration of competitive capitalist business and market based growth with the decidedly communal cultures of Uganda, maximizing the ability of the Ugandan people to sustain economic growth and development.

There is legal space for Ugandan SACCOs to adopt policies and procedures modeled on Caja Laboral. Currently, the BoU regulatory structure places no restrictions on SACCO operations. The Ugandan financial sector is divided into four
tiers, demarcating different regulatory standards and capitalization requirements for organizations depending on their activities. Tier 1 designates commercial banking, subject to strictest capitalization requirements and oversight and allowing the greatest range of services as well as the ability to trade in foreign currency. Subsequent tiers each demarcate less stringent capitalization requirements and also more restrictions on activities (Kalyango, 2005). SACCOs, credit-only NGOs, and other member-based organizations constitute Tier 4 organizations, and are entirely unregulated with the exception of a prohibition on holding public deposits (Ibid). The prohibition on public deposit holding has proven to be inconsequential for most organizations, as they are still able to offer a full range of services – including deposit holding – to members. There are very lax guidelines as to what constitutes membership. Membership at most SACCOs only requires prospective clients purchase a share of the organization, which not only grants them access to the SACCO’s entire product range but also varying levels of ownership and control of the institution itself. So long as SACCOs only hold member deposits, they are legally free to engage in any activity they wish, and to implement any policy they would like (Uganda PRSP, 2010). While there are ongoing efforts to design and implement a regulatory

30 Membership at Masaka Elders, for example, costs UGX 35,000 (~14 USD), of which UGX 10,000 is converted into an opening balance for the member’s new savings account and cannot be withdrawn unless the member cancels their membership, UGX 5,000 is applied to cover an administrative fee, and the remaining UGX 20,000 represents the actual value of the share of the bank. Membership at Masaka Elders grants access to a wide range of savings and credit products, from savings plans specifically designed for future school tuition to loans for business creation, expansion, and/or diversification. Additionally membership grants access to the full range of training workshops and fractional ownership of the institution, although members only have limited input into company decisions (most decisions are made by the board of directors).
framework for Tier 4 institutions, all proposed regulations are aimed at limiting risky lending strategies, poor management, and predatory behavior in Ugandan MFIs through solvency and transparency requirements (AMFIU, 2005 and Uganda PRSP, 2010). There are no proposed regulations as of yet that would limit the applicability of Caja Laboral-style coordinative policies in Ugandan MFIs.

Expanding direct SACCO involvement with and coordination of member businesses could be considered an expansion of planned economics within the liberalized Ugandan national economy. After such a long and painful process of market liberalization through IMF Structural Adjustment Programs and other reforms, it may seem nonsensical that Ugandan SACCOs would embark on a program of planning the Ugandan economy. However, there are currently over 1,200 registered SACCOs in Uganda, and hundreds more non-SACCO MFIs (Levinson, 2012, 43). Expanding SACCO coordinative activities within the local communities in which they operate would not result in a regression towards central planning; but rather, at most, a locally planned economy that mitigates the social perils of rapid economic transition, improving the competitiveness of communities in the national and international marketplace and maximizing the economic benefit communities receive from engaging in capitalist trade.

Such local level planning would not threaten the overall free market viability of the national economy. While the Bonna Bagaggawale initiative called for at least one fully operational SACCO in each sub-county, sub-counties are extremely small administrative divisions. Each encompasses only a few villages and small towns. Additionally, due to their small size and the general geographic orientation of Uganda’s cultural demographics, sub counties tend to be very homogeneous areas.
with most residents sharing a common cultural heritage.\textsuperscript{31} Even the perfect coordination of an entire sub-county’s economic activities (orienting all members of the sub-county towards a common output) would have a negligible impact on domestic economic competition. The geographic operations of Mondragon extend over an area equal to dozens of Ugandan sub-counties and, while its operations actively limit competition in parts of Basque Spain, overall market efficiency is assured through its competition with other firms both domestically and internationally. Because SACCO service areas often overlap, with multiple operating in the same sub-county or town, competition between SACCO networks will still occur. Inter-network competition would ensure market efficiency and prevent stagnation. Finally, as supply chains are streamlined and larger firms are cultivated locally, the large monopolistic and oligopolistic firms that dominate the national Ugandan marketplace will be subject to increased competition, and market efficiency will increase in that way too.

Representatives of Caja Laboral have reported that it is “generally much more difficult to effect” a transition within an existing firm from a capitalist structure of operation and ownership to a cooperative structure (Whyte and Whyte, 1991, 75). The problem, according to Caja Laboral, “is not so much the material resources as much as the difficulties of resocializing managers and workers to the culture” of cooperation (Ibid). In Uganda, the culture of communal cooperation has a long and rich history as the backbone of social functioning. In emulating the procedures of

\textsuperscript{31} This shared heritage extends beyond macro-level ethnic identities such as Acholi or Baganda. Most sub-counties often consist of members of a single (or select few) clan(s) or extended family group(s) within the larger ethnic orientation.
Caja Laboral and integrating local communal traditions into their operational structures, SACCOs can provide for economic growth while preserving social stability. Just as China’s experiment with gradualism helped avoid the dramatic and unsteady transitions into free market structures of Eastern Europe, SACCOs can facilitate a smoother, more gradual embracing of the economic opportunities offered by participation in the dominant global system.
This thesis is built on the premise that development, when realized properly, contributes positively to subjective wellbeing. Grounding this, nearly all Ugandans I spoke with over the course of my field research held the prospects of development in a positive light and expressed desires to see development increase:

“We want development in our community,” one of my informants told me.

“Development is good,” another said. “It helps our community grow.”

“Development is important to us,” said another. “We want it here.”

While positive attitudes towards development were almost unanimous among the Ugandans I interviewed, their conceptions of what development actually meant were less uniform, and less concrete. When asked what development means to them, most of my informants responded something about an increased ability to provide for their families and communities.

“Development helps me buy enough food for my family,” one said.
“It means families can pay school fees and their children can go to school,” said another. “Also, that community health will be better.”

“Development will help our community with food and clean water. Survival will be easier for us and our children.”

Others responded that development means capacity building, although answers were far from precise:

“As development comes to our community, we will be able to achieve more,” said one.

“Development means we will be able to take care of ourselves. We will be less dependent on the NGOs to help us,” said another.

While many of the “achievements” locals saw development enabling can be realized through higher incomes, only a few responded directly that development meant an increase in income. Some mentioned business growth, but the vast majority were concerned with the effects of income and business growth on their quality of life instead of the growth itself. When questioned further, many of my informants said directly that they weren’t concerned with the income growth component of development so long as standards of living improved. Many said they would be willing to forego income entirely if doing so would still allow for the increases in life satisfaction, happiness, and general wellbeing they saw development bringing. This is not to suggest that a return to a nonmonetary barter economy could better provide for the needs of modern Ugandans – it won’t. Money – income – is the most efficient means by which individuals can exchange what they have for what they need to provide for their wellbeing, so it is unlikely that non-monetized development could realize more improvements than monetized development. The apparent disregard for
income my research uncovered illustrates that development, for Ugandans, extends beyond purely economic development. Ugandans see development as improvement in their subjective wellbeing. Economic growth can certainly lead to improving subjective wellbeing, but it is certainly not the only input for it.

Human development, the end-goal of development processes according to the international development community, is seemingly similar to subjective wellbeing. The United Nations and World Bank define human development as a measure of “all aspects of individuals’ well-being, from their health status to their economic and political freedom” (World Bank, n.d., 7). Economic development is considered a means to that end, and most human development programs have an economic focus (Ibid). Importantly, however, external actors assess human development quantitatively, whereas individuals assess their own subjective wellbeing qualitatively. Despite the increasing consideration of environmental and social issues resulting from increasing focus on “sustainable” development, quantitative assessments do not fully capture all elements of subjective wellbeing.

Subjective wellbeing is just that – subjective. There is no necessary correlation between subjective wellbeing and the quantitative indicators international development agencies use to measure human development. Subjective wellbeing is provided for through the mechanisms encapsulated by “human development” – income, access to formal education, availability of health services, etc. – but it is also provided for through other means – like culture, religion, and social structures. This is not to say that subjective wellbeing cannot be improved through human development – it can be – but that human development initiatives must be conscious of the way wellbeing is maintained within the existing societal framework. Without such
consciousness, human development initiatives risk undermining existing mechanisms providing for local subjective wellbeing, potentially resulting in a net-negative contribution of development to subjective wellbeing.

The situation in Uganda exemplifies the importance of considering existing wellbeing-support mechanisms in development. Tied with Haiti, Uganda is ranked 161st out of 186 on the UN Human Development Index, encapsulating the low quantitative indicators of human development in the country (UN, 2012). However, while the strongly expressed desire for development suggests that Ugandans believe their subjective wellbeing can benefit from development initiatives, that is not to say subjective wellbeing in the country is at a zero point. Development can certainly contribute positively to subjective wellbeing, but it can also take away from it. As this paper has argued, the current trajectory of development contradicts local culture, undermines social capital formation, and destabilizes local communities. Given this, an overwhelmingly positive impact of development on subjective wellbeing in Uganda is difficult to conceive.

Within Uganda, most development programs are designed towards facilitating the development of a high-growth capitalist economy. Globally, capitalism has provided for the largest sustained improvement in material standards of living in the history of humanity, so it makes sense that both domestic and international development initiatives in Uganda have been geared towards allowing Ugandans to realize the benefits of capitalism as well. However, capitalism is an inherently competitive economic paradigm, contrasting with the primarily cooperative paradigm of traditional culture. In order for market and enterprise development to contribute
positively to subjective wellbeing, their potential to undermine local culture and social structures must be carefully assessed.

The current development landscape of Uganda limits available opportunities for burgeoning Ugandan entrepreneurs, pushing them into a small set of market sectors and cultivating ruinous, interpersonal competition between them that directly contradicts strong cultural traditions and deeply embedded social structures, disrupting the formation of social capital.

As this thesis has demonstrated, Uganda’s history of extractive economic and political institutions served to reinforce the strength of communal and cooperative cultural norms, and the social structures built on them. As economic institutions have been reformed over the course of President Yoweri Museveni’s regime, more Ugandans have gained access to market opportunities, however those opportunities are severely limited by the lingering extractive institutional framework. The lack of meaningful political reform along with Museveni’s expert manipulation of the national budget ensure that access to many of the most lucrative market sectors remains exclusive to the sitting elite. Ugandans seeking to enter the market are penned into participating in only a few market sectors, such as sales or small-scale commercial agriculture. As there are so many actors participating in these sectors, and only limited opportunities available within them, many businesses are redundant – offering the same products at the same prices as their competitors. Redundant businesses have reached a point where they can no longer compete through purely economic competitive advantage; prices cannot be lowered without risking significant losses, and product substitutions are impossible because of how few products are available on the Ugandan national marketplace. As a result, economic competition
has morphed into interpersonal competition, significantly destabilizing local communities and challenging established norms of community and cooperation.

The current paradigm of neoliberal microfinance also contributes to the internecine competition weakening local communities and jeopardizing social cohesion. “Best practice” MFI lending procedures, imported from other parts of the globe, favor proposals for business expansion the already-saturated market sectors seen as the most “viable” for loan repayment and ensuring MFI profits. Entrepreneurs seeking to participate in new, unsaturated market sectors are prevented from doing so by MFI refusals of their “risky” loan proposals. Additionally, the formulas for success most existing MFIs impose upon their client businesses further stifle innovation. Not only are Ugandan entrepreneurs unable to penetrate new sectors due to difficulty in getting alone, they can only utilize “best practice” business practices and procedures in the sectors they can enter or risk losing access to future credit. The result has been an undermining of cultural norms foundational to the formation of social capital.

The value of social capital to any community is not encapsulated by quantitative indicators. Like subjective wellbeing, social capital is built with both tangible and intangible inputs. International development indicators have failed to capture the extent to which development has negatively impacted social capital and social stability in Uganda, despite the importance of social stability to future development success.

There is no necessary link between the expansion of capitalist markets and trade and social destabilization in Uganda. Traditional culture and capitalism can coexist. Anyone who has seen a Ugandan villager fix a flat tire with a knife and a
piece of cloth or transport a king-sized bed via motorcycle knows Ugandans are naturally innovative people and that there is no limit to the benefits such innovative tendencies could realize on the open market. There is, however, a contradiction between local culture and the interpersonal competition the current Ugandan development landscape has cultivated. To that extent, this paper has proposed an alternate system of capitalist organization that would allow Ugandans access to the opportunities of the free market, but that ensures local economic activities do not jeopardize social capital production through active coordination of local economies. By instituting a system of local planning, Ugandan communities can not only preserve their culture, protect the formation of social capital, and realize the opportunities and efficiencies of the open market, they can solve some of the most binding constraints to future development as well.
Works Cited


