

# Gatsby in Africa: building local capacity for enterprise and income generation



# Acknowledgments

## Acknowledgments

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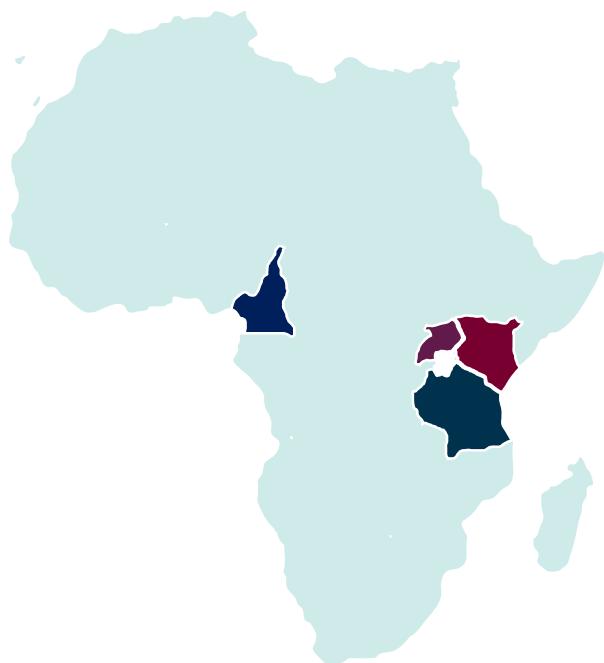
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Mary Paul, a farmer from Kilifi, makes a point at a village meeting with Kenya Gatsby Trust members.

# Foreword

By Lord David Sainsbury of Turville,  
Settlor of the Gatsby Charitable Foundation



Lord David Sainsbury



Alan Bookbinder

The publication of this Occasional Paper comes at a time of intense interest in approaches to development in Africa, as a growing number of Sub-Saharan countries establish a pattern of stable growth and economic diversification, showing real progress in reducing poverty. Real GDP growth across the continent averaged 5.4% in 2006, and even in per capita terms it rose by 3.4%, highlighting the scope for genuine improvement in raising living standards.

It therefore seemed appropriate to produce a fresh analysis of the work of the Gatsby Trusts in Cameroon, Kenya, Tanzania and Uganda. They have shown themselves to be effective innovators in opening up new market opportunities and providing financial and technical support to small businesses and grassroots producers.

We felt it would be timely to assess the progress the Trusts have made since the last overview of their activities was published in 2000 in the Gatsby Occasional Paper entitled *Building from the Base: The Work of the African Gatsby Trusts*. This report also complements the publication *Raising Yields, Creating Partnerships* (2003), which reviewed our work in the agricultural sector in Africa.

We also felt that from Gatsby's own point of view now was a good moment to commission this review. Alan Bookbinder took over in late 2006 as our new Director while I, having recently stepped down from government, will have more time to concentrate on Gatsby's activities.

Management and staff at the African Trusts have been characterised by great dedication to the task of livelihoods development and grassroots economic development. They have not been afraid to explore new ways of delivering services and engaging with communities; ambition has been supported with immense hard work, technical skill and understanding of local social and economic complexities.

The work of the African Trusts has been ably supported by the team at Gatsby in London. But there has been no 'top-down' externally driven plan. The Trusts are indigenous organisations that are largely independent in deciding strategies appropriate to their specific local needs. Their paths have been evolutionary ones in which they have tested, and often pioneered, a wide range of approaches.

We believe that the experience of the Trusts analysed in this paper will have a wider relevance to the discussion of development approaches for Sub-Saharan Africa. We hope that this will provide useful food for thought – and argument – and that it may also suggest some ideas and models that other partners will find interesting.

Development is a complex process for which there is no simple 'right answer'. But we hope that this outline of the African Gatsby Trusts' experiences will be appreciated as a worthwhile contribution to the debate.



Top: Numa Feeds Ltd, a Gatsby club member based near Mbarara, Uganda has extensively mechanised its grain processing, but some elements still have to be done by hand.

Bottom right: Students learn the ropes at the tailoring school established at Jobe Fashions, another Mbarara Gatsby club member.



# Introduction

The African Gatsby Trusts have been forged in response to the specific development challenges presented by their respective countries

The Cameroon, Kenya, Tanzania and Uganda Trusts have crafted individual strategies for developing their countries' hitherto untapped economic potential, focusing on the SME sectors. Their broad objectives have been to promote self-employment, provide loan finance to support micro-businesses and underpin grassroots economic activity.

Underlying all is a focus on assisting entrepreneurs to find new market opportunities through the provision of financial and business development support.

The Cameroon Gatsby Foundation (CGF) is implementing a new strategy which has been adapted to the needs of a country that is recovering from a sustained economic crisis. CGF's provision of microcredit has long been critical in supporting rural communities. A new strategic plan will seek to extend marketing and business link support to small enterprises and village groups, while rolling out new specialist financial products. As the range of activities supported by CGF widens, it is becoming better positioned to broaden its support for poor communities – while taking care not to over-extend its financial exposure.

The Kenya Gatsby Trust (KGT), the first Trust to be founded, confronts a more complex challenge. Operating in East Africa's most developed economy, with a relatively advanced agricultural and industrial base, the Kenya Trust has targeted many of its programmes at rural communities where there is a strong requirement for livelihood development. It has refined its strategy over the years, developing a portfolio that seeks to fill the gaps left by other donors and non-governmental organisations. The Trust's focus on improving and diversifying incomes and trade opportunities for farmers, craftsmen and entrepreneurs has seen it concentrate substantial efforts on the coastal region – an area of deep deprivation that sits cheek-by-

jowl with the tourist industry of Mombasa and Malindi.

Like Kenya, the Tanzania Gatsby Trust (TGT) has evolved a diversified portfolio of activities. The Trust's General Manager, Olive Luena, likens the Tanzanian Trust's strategy to a spoke and wheel; if one spoke is taken out, the wheel itself becomes unstable. The Trust's ultimate aim is to support the sustainability of Tanzanian SMEs, providing all the tools an entrepreneur would need to build and grow a business. But rather than focus on one area, the Trustees from the outset believed that the diversity of Tanzania's economy necessitated a wider footprint. This has taken TGT from the provision of microfinance through to technology development into housing. The strategy has also meant forging relationships with a series of partner organisations.

The focus for the Uganda Gatsby Trust (UGT) is geared towards SMEs, and close cooperation with the Faculty of Technology at Makerere University in the capital, Kampala. The initial remit was simple: to enable the transfer of useful technologies from the campus to small industries throughout the country. From this acorn, a more ambitious strategy has germinated, affording more generalised support for SME growth. UGT targets a range of sectors, from metal fabricators to food processors and office services, whose annual sales may only scrape together a few hundred dollars a year, but who still form the lifeblood of the Ugandan economy. All along, the creed has been to do the small things that can still have a long-term impact.

These snapshots of the Gatsby Trusts provide a glimpse of how a London-based Trust can work with Sub-Saharan counterparts – assisting the creation of a grassroots 'bottom-up' development strategy, mobilising African economies' latent managerial talent.



Effective governance requires community level liaison. (Left to right) Tanzania Gatsby Trust Credit Officer Hajiri Kapinga with members of a savings and loan group in Morogoro; Angelina Bahemuka runs a cake baking

business; fish trader Josephine Mongo and construction materials entrepreneur Esther Ambrose Mokoko have used credit funded by Gatsby to develop their activities. Mokoko used to earn just TSh300 (30

US cents) a day carrying mountain rocks to building sites in town. Now she employs staff at her own business, using machinery to break up the rocks.

# Doing the right thing

## The promotion of indigenous governance and management capacity is fundamental to the purpose of the African Gatsby institutions

Since their establishment in the mid-1990s, the three Trusts in Kenya, Tanzania and Uganda, and the Foundation in Cameroon, have been run by managers and boards of Trustees from these four countries. The London-based Gatsby Charitable Foundation has just one representative on each board.

In a continent where international donors and non-governmental organisations are the main external development partners, the Gatsby approach stands out from the norm.

Gatsby set up the Trusts to help foster grassroots economic activity and small business. But within these broad parameters, it left each of the four institutions to decide how this task could most effectively be tackled.

And over the past 13 years, each has responded by developing a distinctive approach of its own. There are significant variations in the range of services offered and the way they are delivered, and in the structures developed to engage with communities and clients. These individual national strategies are examined in depth in the four country chapters in this report. But certain principles of governance and management apply everywhere:

- Governance by a board of voluntary Trustees, all locally recruited except for the Gatsby representative;
- Management and service delivery entrusted to a locally recruited staff team; and
- Transparent accountability through the publication of annual accounts and detailed operational figures.

This approach also reinforces the Trusts' flexibility and awareness of specific national and regional conditions and thus makes the most effective use of their distinctive position as public good organisations that are neither conventional NGOs nor part of government and/or international official

structures. They can, for example, make specific business contacts on behalf of SMEs and farming communities.

Institutional independence has also proved to be a valuable feature for organisations that are operating in countries that have sometimes undergone periods of political tension, economic crisis or concern over transparency in public finances.

### Careful changes

Inevitably, the development over the past 13 years of a governance and management culture, has been a gradual process. Internally, the Trusts had to evolve a balance between the oversight and strategic role of board members and the operational autonomy of the managers running activities day-to-day.

The management teams in Dar Es Salaam, Douala, Kampala and Nairobi feel that poverty reduction – through the development of grassroots economic activity – is a fundamental goal of their work, which needs to be well understood. Gatsby personnel have to work within highly specific social and economic contexts; development progress is not always measurable through basic statistics and accounts.

Collectively each board of Trustees represents a wide range of business and development experience and, in some cases, public office. Even so, some staff feel that Trustees – who, after all, take the key decisions over strategy – should make more personal visits to individual projects, to listen to community views and deepen their understanding of needs and problems at the local level.

But responding to this demand from the grassroots could require a rethink of the way that Trustees are recruited so that they are formally remunerated for spending some of their time on Trust affairs.

Already, procedures have been put in place to ensure that the boards are 'refreshed' with new membership: in some cases, term limits govern the number of years that members can serve, and in all Trusts there has been a conscious effort to broaden the skills basis and professional backgrounds of the board.

In Kenya, a council of elders has been created to provide a forum through which former Trustees can continue to contribute advice even after their term of office has expired.

Although it poses some organisational challenges, the distinctive Trustee structure developed by Gatsby has a number of virtues.

The system gives each national Trust a wide degree of independence in setting strategy and taking operational decisions. It also ensures that the organisation is, essentially, part of the national development community in its country, rather than simply an offshoot of some international grouping whose strategy is set elsewhere.

But the arrangement does impose considerable demands on the Trustees as individuals: although they are compensated for expenses incurred in the course of their work for the Trusts, they are not actually paid any kind of salary or directors' emolument. This means that Trustees have to be drawn from a pool of individuals whose businesses or employers will permit them to take some time out for Gatsby activities.

Trustees have mainly been recruited from a mixture of business, professional and public sector backgrounds. Most have held senior positions in a range of organisations and each board thus has connections in business and government circles; giving it a voice in wider national discussions over development issues.

So far the system has worked well, although the Trusts may have to look at whether any adjustments

to terms and conditions would be needed to allow them to recruit future board members from a wider pool of expertise or backgrounds; for example, only Uganda's board has a member drawn from the users of Trust services.

Tanzania has been a leader in developing rigorous principles of corporate governance, with a strict separation of powers between Trustee board and management, and a detailed code of conduct for Trustees and tough rules on conflict of interest. For example, when the Trust debated whether to provide emergency aid for an area affected by famine, one of the Trustees was required to abstain from the discussion because his business was one of the potential suppliers.

### The right balance

The Trustees' status outside the management structure is a key asset, especially when the time comes to set budgets and strategic goals. Board members must, for example, balance the need to ensure staff are properly rewarded and supported with adequate information systems, office space and means of transport against the cost constraints imposed by limited financial resources. When substantial sums are spent, this is considered within the context of the Trusts' status as development organisations rather than profit-making commercial businesses.

Another issue that confronts all the Trusts is the question of how they should deliver services themselves and how far they should rely on partner organisations, over which they cannot exercise direct control.

This is a particularly serious challenge when it comes to financial products, where reliance on partners has not always proved a happy experience. Today, increasingly, lending operations are handled by specialist departments or offshoot organisations



Tanzania Gatsby Trust (L to R):  
General Manager Olive Luena briefs  
Trustees Epaineto Toroka (Chairman),  
Hon. Kate Kamba and BK Tanna.

of the Trusts themselves – except in Cameroon, where credit is the Foundation’s main activity.

But, overall, partnerships will remain a key tool, because the African Gatsby Trusts are leanly staffed and must operate within carefully managed budgets. In any case, they are not seeking to build operational empires; they aim to promote local communities’ own capacity for initiative and self-reliance.

### London calling

The role of Gatsby in London is a dual one: both concerned with broader strategic issues such as mentorship, facilitation, enabling, advocacy and monitoring development thinking across Africa but also intensely practical, in the form of finance and technical and managerial support. For example, Gatsby arranges training courses for Trust personnel or by commissioning outside reviews and specialist consultant advice.

Long-term, the aim is that eventually the African Trusts should become financially independent, by developing income-generating activities and broadening the range of donor support for those operations that cannot sensibly be carried out on a financially self-supporting basis. As this process develops, the African Trusts will become less dependent on funding from Gatsby in London.

This development in itself poses governance and management challenges, as Trust activities become more diverse and complex.

There is already a broad-based management team in Kenya which ensured that capable and experienced executives were already onhand to pick up the baton when the then Chief Executive left for a new job elsewhere in late 2006. Meanwhile, the Ugandan Trust has recruited an Operations Manager, to free the Chief Executive to spend more time on strategic development. However, Tanzania

Gatsby Trust and Cameroon Gatsby Foundation have yet to expand their management structure.

In Cameroon a slimline approach has been viable up to now because activity has been focused mainly on micro-lending, with business development services a secondary sideline. But the CGF is now preparing to diversify and this raises the question of whether management will have to be expanded to oversee the widened range of operations.

In Tanzania, with operations right across a large country, the Trust remains nimble but small and must therefore operate mainly through intermediaries.

This is efficient in cost terms but also creates challenges, as its capacity to exert direct influence at the local level is limited.

### Diverse approach

Management talks of a ‘spoke and wheel’ concept; but the diversity of the Trust’s portfolio does raise challenges about the speed with which it can act and the level of impact it can achieve in each case. Thus, in formulating management and governance structures appropriate to the countries where they operate – and then adapting these in response to changing circumstances – each of the African Gatsby Trusts contributes to a crucial but often neglected facet of development: the building of institutional capacity.

This phrase may be technical jargon, but it translates into a hard practical need. The growth of indigenous development institutions, able to produce and manage programmes suited to local conditions, will be crucial to the success of Sub-Saharan countries’ drive to reduce poverty and diversify enterprise and sources of livelihood. The Trusts’ role in this process may be their greatest contribution.



Tunnel cultivation of seedlings, Tree Biotechnology Project, Karura nursery, Kenya.

# Eucalyptus reproducing conservation and prosperity

Gatsby has been closely involved with the development of clonal tree production across East Africa

In seven years of production, more than 10 million hybrid eucalyptus seedlings have been cloned for sale by Kenya's Tree Biotechnology Project (TBP).

Based at the Karura nursery just outside Nairobi, this Gatsby-supported venture represents an innovative attempt to combine conservation of the environment with income generation for poor rural communities.

Quick-growing species of eucalyptus are distributed to communities all over the country, where they are planted as a source of firewood and construction and scaffolding timber, thus also helping to protect natural forest cover from further destruction. Kenya's TBP has proved so effective that it is now being adopted in Uganda and Tanzania.

The basis of the scheme is the extraordinary capacity of the eucalyptus to flourish in the wide variety of climates and soil conditions to be found in Kenya and the use of cloning technology developed by South Africa's forestry company Mondi Business Papers (formerly Mondi Forests).

Of course, trees can be raised from seed. But if they are propagated – raised as cuttings from existing hedges – it is possible to ensure uniformity from generation to generation; having developed a species with characteristics suited to particular growing conditions it is possible to produce more seedlings with the same qualities.

This is much more reliable than cultivation from seed, which produces less consistent results.

More than 100 species of eucalyptus, all but one Australian in origin, are grown from seed in Kenya, but the TBP does not attempt to grow such a wide variety. It has 12 varieties actually in production at the Karura nursery, with a further seven on trial at 18 sites around the country. But even this range already offers Kenyan villagers a wide choice of trees to suit local conditions.

“We have species that can grow in low rainfall,

such as *Eucalyptus camaldulensis*. We have species that can grow with plenty of rain – an example is *Eucalyptus grandis* – and species that can grow at high altitudes, above 8,000 feet or 2,500 metres, where there is frost,” explains Muraya Minjire, General Manager of clonal production.

It was a decade ago that development of the scheme first began, with the import of Mondi's eucalyptus clones. After several years' development, in 2001 Karura began large scale production of seedlings for sale to small farmers around Kenya.

TBP advises farmers to resist the temptation to use seeds from the trees they grow, because these are exposed to the vagaries of natural pollination and cannot be relied upon to produce new plants that retain the preferred species' characteristics. Instead, farmers are advised to buy new cuttings from the project.

Of course, village communities do not have the technical and financial resources available at Karura. So one of TBP's priorities is to adapt its science to the realities of rural life; it has, for example, developed systems for raising seedlings in natural sub-soil plastic tunnels, with minimal watering – a technique that even low income small farming communities can afford.

The project is also adapting its own methods to become more environment-friendly. Clonal cultivation can already be carried out on a natural basis and TBP is now phasing out the use of plastic seedling pots in favour of biodegradable paper containers.

Another area of development is the application of cloning techniques to native Kenyan plants such as *Prunus Africana*, *Warbugia ugadensis* and *Trichilia roka* – which all have commercial value for the production of medicines – and *Markhamia lutea*, which is suitable for use in construction and furniture. Eventually, villagers will be able to farm

clones of these as an income sideline.

There are plans to use cloning to develop improved species of mango tree, a key earner for farmers in Kenya's coastal regions.

Benson Kanyi, who manages TBP, says: "It was originally conceived as a commercially viable project but one with a particular purpose. Both are being fulfilled at present."

The project's finances are managed under contract for the Kenyan authorities by KGT. Now the next phase of its outreach work is being supported by the Kampala-based Kilimo Trust, a sister organisation that focuses on agriculture and forestry activities in East Africa.

However, some uncertainties currently hang over the financial future of TBP, because the Kenyan government is restructuring the forestry sector and individual projects may need to assume a greater share of their own development costs – such as land acquisition – that have hitherto been treated as a public goods investment.

### Uganda and Tanzania follow suit

The process of transplanting the success of the Kenyan tree project to Uganda has its origins in 2002, but has really gained momentum since 2006.

The focus is on producing cuttings of eucalyptus, pine and K-apple, all of which are fast-growing timber providers. A main clonal nursery has been established in Kifu, near Kampala, supplying regional nurseries at Fort Portal in the west of the country and Mbale in the east.

Nine nurseries outside Kampala produced seedlings during the June–October 2006 growing season, selling more than 300,000 seedlings between them and generating sales of some ush30 million. With output expanding rapidly at these nurseries, plans to increase the total to most of the 21 Gatsby clubs by end-2007 and the inclusion of

the main growing season of March, sales can be expected to rise steeply.

These in turn supply local nurseries and it is at this level that UGT can make use of its unique network of Gatsby clubs (*see Uganda section, page 54*) to market and sell seedlings. The clubs themselves establish and run these local nurseries, selling initially to an already-established market of club members.

The customer base can then be broadened to non-members by word of mouth and sometimes by carefully targeted advertising. For example, the Gatsby club at Masaka, a small town between Kampala and Mbarara, is among those that use radio advertising slots to promote the trees from its nursery, as radio has a much greater reach among the population than the written press, which is relatively expensive and so only tends to be read by the better off.

Gatsby's existing clients have shown considerable interest in the tree project, but UGT staff concede that more still needs to be done in terms of a marketing drive. Abubaker Mwima, recruited from Uganda's National Forestry Authority in January 2007 to manage the Gatsby tree project, says he is prioritising the promotion of the benefits of using the more expensive but higher quality seedlings produced by the Gatsby nurseries over more widely available cheaper plants.

"People are planting trees, but the wrong ones," he says. "They don't realise they can get bigger returns in a quicker time."

The eucalyptus clones being grown by UGT in Uganda are sourced from South Africa, as are those in Kenya, but differ from most Kenyan stock in that they need to be suited to Uganda's wetter climate and do not need to be drought-resistant. There are also variations within Uganda – for instance, the eucalyptus seedlings sold in parts of the north of



Simon Ogwal Byenek, Manager of the Kifu Tree nursery (right) with Uganda Gatsby Trust General Manager Joseph Byaruhanga.

the country are better suited to a hotter climate.

Mwima says concerns sometimes voiced in Uganda over thirsty eucalyptus trees draining the water from crop land are misplaced in a country with ample rainfall. He notes that, in any case, eucalyptus are intended specifically to be grown around the periphery of farmers' land rather than interspersed with the crops – something that is possible with pine.

Tanzania's tree biotechnology project dates back four years, when Tafari, the Tanzania Forestry Research Institute – with support from TGT – introduced clonal forestry.

The ambitious eucalyptus project is designed to provide a new income-earning potential for rural Tanzanians. "We are talking about commercial farming, with the entry point being the eucalyptus," says Teonas Msangi, Tafari Project Manager.

Gatsby assisted the introduction of 15 clonal demonstrations and screening trials, designed to test the effects of genotype by environmental interaction.

After four years of trials, the best three or four hybrids from each zone are selected for mass production in a central clonal nursery. The elite plants are then distributed to a number of grow-

out community centres developed close to targeted zones and farmers. The selected clones are raised in the central clonal nursery for distribution to farmers at a cost.

The early field results at three selected sites at Lushoto, Mombo and Kwamarukanga showed that in high evaluation areas with fertile soil and good rainfall, the *Grandis x camaldulensis* (GC) hybrids adapted well and outperformed local eucalyptus species. The hybrids have also proved less susceptible to disease.

The nursery target is to start propagation of 1 million clonal plants, rising to about 3 million clonal plants.

The ultimate aim is to enable the coppicing of indigenous tree species for income-generation. However, Tafari says the main challenge is the need to create awareness after the initial development phase. Says Msangi, wider awareness of the potential of the tree species would help to promote commercial production of improved trees among resource-poor groups.

### Promote the products

Another key aim is to promote drip-irrigated tree production during dry months and harvesting and marketing forest products within five and 10 years. Farmers will also be encouraged to undertake commercial clonal tree planting in order to conserve natural vegetation. The aim is also to encourage the marketing of forest products developed by local entrepreneurs.

The tree projects will form an increasingly important part of TGT's portfolio, given their potential to transform rural livelihoods. Funding is being provided to complete the establishment of the clonal nursery at Kwamarukanga. Other activities financed by TGT include the operating of water supply systems, training, and research.



From top, left to right: Telecoms arrive in the Kenyan islands: Rukia Awesso checks her messages in Mokokoni; Hilda Olomi, whose Asilia Fruit Products business in Dar es Salaam was developed with Gatsby financing support; The Miller's Tale: Medi & Sons is one of the most active companies in the Uganda Gatsby clubs; Alex Katana Charo shows Jennifer Mbuvi the cashew oven he built to a Trust design; Members of a Gatsby women's group in Kumba Town, Cameroon, check their business records.



# Cameroon

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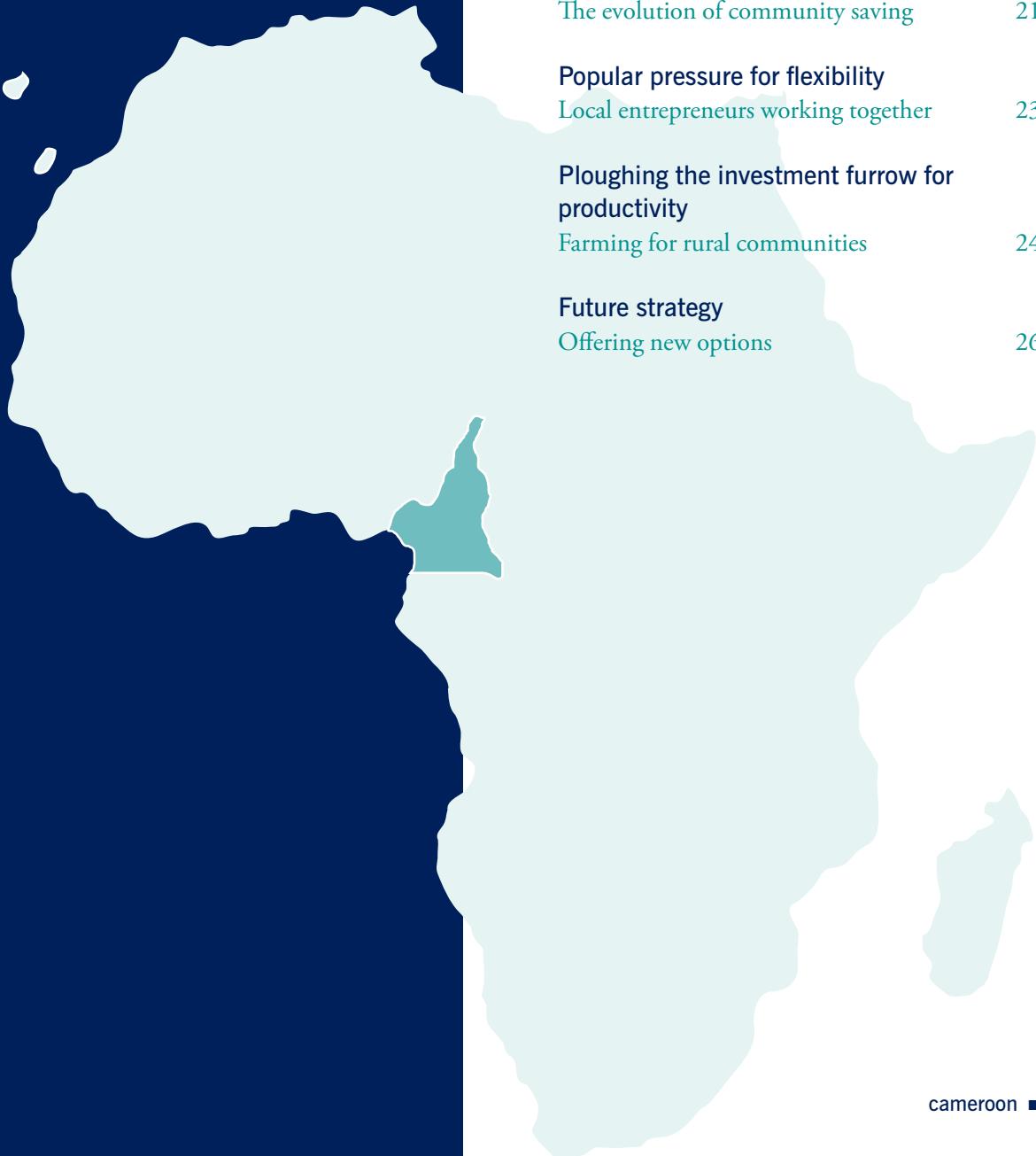
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Main picture: Members of the Gatsby Women's Association, Loum, Littoral province.

Bottom (left to right): Dorothy Awung makes duvet covers and baby clothes at her shop in Kumba market; with CGF funding, textile designer Mark Ngwa Suh (left) has developed a workshop and shop in Buea.



# Plotting an affordable path to new services

Through business development services, Cameroon Gatsby Foundation aims to broaden its support for poor communities without over-extending its financial exposure

Opportunity beckons for the Cameroon Gatsby Foundation (CGF) as it prepares to implement a new strategy tailored to the development needs of a country that could be amongst Africa's most prosperous, but is only now recovering from a prolonged economic crisis. Reinvigorated growth, a richer diversity of resources and a big debt write-off have created the chance to launch a sustained assault on poverty, boosting rural incomes and improving basic services.

With fertile soils, a wide variety of climates and products, and macro-economic stability, Cameroon has key ingredients for success. But getting finance and business support to farmers and small entrepreneurs will be crucial if the country is to make the most of today's opportunities.

The CGF is well placed to help, because of its expertise in providing micro-credit services to rural communities, particularly women, who play a vital role in the economy. But the Foundation's Trustees have concluded that, to respond effectively to evolving popular needs, CGF will have to broaden

the base of its activity, expanding the business support operations that have hitherto been merely a complement to its core financial services.

A new strategic plan stresses the need to provide small producers with more support in marketing and the development of links to large business. Foundation Chairman, Alamine Ousmane Mey, also envisages new specialist financial products such as factoring and a move into areas such as housing development.

Such an evolution would ask tough questions of any non-governmental body, especially one that has prided itself on the leanness of its cost-base and staffing.

## The right place

In the communities where it operates, the role of CGF is well understood and appreciated. And this gives the Foundation a strong base of contact and support among the public.

Moreover, in economic terms, it is pushing at an open door. With a well-watered equatorial climate, good communication links to Europe and a populous regional market near at hand, Cameroon has the scope to further expand its already broad base of agricultural exports and open up wider markets for its still little-known craft and light industrial products. As part of the euro-linked CFA franc zone, the country can boast a reliably low rate of inflation and stable macro-economic environment.

So the wider economic prerequisites for growth in output and incomes are there. The challenge for CGF is to deliver the financing and practical trading assistance that will enable small producers to take advantage of these opportunities.

Ruth Eni, group President of the Ebonono women's group.



Key data on pages 66–67

## Credit has been the focus

Over the first 10 years of operation the Foundation made 35,000 loans, totalling CFA2.4 billion (US\$4.98 million) to beneficiaries organised through 554 local groups.

There is a clear development rationale for this: “A major element in our economy is our women,” explains Foundation Chairman, Alamine Ousmane Mey. But, he adds, the Cameroonian woman “often lacks the capacity to improve her resources; she is held back because of cultural constraints on owning property. Women are not getting financial support; they have problems getting access to land. All these things taken together mean that we do not benefit from the valuable input of women.”

The Foundation has targeted provinces within a few hours’ drive of its headquarters in the coastal city of Douala. It operates in both the English-speaking provinces, North West and South West, and two franco-phone provinces, Littoral and Ouest.

## Credit matters

In all these regions it has developed networks of women’s groups, organised into local associations in towns and villages.

Through this structure, it extends loans to local populations, on a collective basis; the associations then allocate credit to member groups – each formed of a handful of individuals – and these then lend the funds on to their individual members according to need and capacity to repay.

Foundation General Manager, Susan Elango, spends several days each week on the road, touring local groups to discuss their needs, and any problems they may have, and signing new loans.

This direct personal contact with the mass membership is a key task.

Elango is backed up by a network of provincial coordinators, who are officials seconded from the agriculture ministry to work directly for GCF, and

who have accumulated experience of the social and economic issues affecting development in rural Cameroonian communities.

Technical and business advice services play an increasing role in the portfolio of CGF – which used to be perceived essentially as a credit organisation.

Funding still comes mainly from Gatsby in the UK – but, of course, that is also supplemented by income from loan repayments.

Ensuring reliable repayment of the loans has been a serious challenge. Although some groups and associations have repaid their loans in full and on time, the average rate of repayment has now slipped to 95%.

Absolutely fundamental to the operation of CGF is its close working partnership with Afriland First Bank, Cameroon’s third largest bank and the parent institution of the MC2 community banking network.

## The long haul

In his ‘day job’, Foundation Chairman Mey is General Manager of Afriland First Bank, an institution that believes it has a long-term business interest and a social purpose in extending financial services to the wider community rather than concentrating on services for the corporate market and urban middle class personal clients.

Coming from this working background, he is naturally a strong believer in CGF’s drive to reach out into the grassroots economy.

“It is a structured system today. There is a clear target and a clear set of instruments to deliver financial and non-financial services, with a clear goal of fighting poverty,” Mey stresses.

The big challenge now is to extend the range of support that CGF provides to target populations, but in a viable manner that does not overburden the Foundation’s infrastructure and capacity to effectively manage its activities.

# Today's local finance structures build on a strong tradition of grassroots mutual action

Community savings and credit networks are rooted in Cameroonian culture – and this is reflected in the institutions that have evolved over the past 15 years to service individuals and small businesses.



CGF borrower Marie Nkewemo, of Neshar Fashion in Buea, checks up on the work of trainee Jean Enuel.

Particularly significant in relation to CGF are the Mutuels Communautaires de Croissance (MC2s), local community banks, now present in towns across much of the country and the Mutuelle Financière des Femmes Africaines (MUFFA) network: savings and loan outfits that cater specifically for women in urban areas. The latter provide a safe and discreet home for the money that women manage to set aside from their farming and small business earnings and act as a source of credit when clients need extra funds for new ventures or emergency family needs.

Women often come under pressure from husbands and other family members to hand over the cash that they have. Alice Tchepannou, founding Managing Director of the MUFFA network, explains how her member institutions provide women with a safe place to deposit their savings and other items of importance.

She points out the individual secure deposit boxes that line the walls of the main branch in the Cameroonian capital, Yaoundé. In these, women can store key documents or other valuables. The MUFFA network thus offers a key support to women's financial and economic independence.

The network is not yet extensive – encompassing only Yaoundé, Douala, Bafoussam and, in 2007, a new establishment in the mountainside university town of Buea, in South West province.

The group has just 5,000 clients but is set to grow steadily as a close partnership with CGF develops. The possible creation of a new MUFFA in northern Cameroon may offer CGF a viable way to deliver services to a region where it lacks the local presence to directly manage operations itself.

But it is set to grow steadily, particularly as a close working partnership develops with CGF. Indeed, the possible creation of a new MUFFA in northern Cameroon may offer CGF a viable way to deliver its services to a region that is not easily accessible by road from the south and where it does not have the local presence to manage operations day-to-day itself.

The MUFFA network, like the MC2s, has been developed under the wing of Afriland First Bank, the third largest commercial bank in Cameroon.

Tchepannou, originally a history and geography teacher who retrained in finance at Afriland First Bank, conceived the institutions as a complement to the MC2 network which had grown up in the 1990s.

Many of those associated with MC2s are men. So in small communities they do not provide women with the protective discretion that ensures a measure of economic independence from husbands and families. The growth of MUFFAs should help create a micro-finance structure that better caters for the needs of the population as a whole.

Because, in regulatory terms, they are empowered to collect savings and hold them on deposit, the MC2s and the MUFFA network are an essential complement to the work of CGF, which is licensed only as a lending operation and is not entitled to hold money on deposit for its members. Both the MUFFA network and MC2s act as receiving institutions for members of CGF groups and associations repaying CGF loans.

Afriland First Bank is not the only commercial bank to have been involved in the development of community financial services. Union Bank of Cameroon has set up the Cameroon Cooperative Credit Union League (CAMCCUL), while Banque Internationale du Cameroun (Bicec) has links to the Caisses Villageoises system.

### Business a boon

The strength of the grassroots and small business financial system is a major economic asset for

Cameroon – and for CGF in particular. It means that the Foundation has like-minded institutions with which it can cooperate – and that options are available for borrowers who outgrow CGF’s capacity to meet their needs but who still fall short of the criteria required to interest the big commercial banks.

### Working together

CGF has been in close discussion with Mitfund, a venture capital operation which takes equity stakes in small businesses and is also able to provide medium-term funding for borrowers whose investment needs cannot be satisfied directly by standard CGF loans (which have a repayment period of only 10 months).

Set up in 2000, Mitfund has now financed 343 businesses. A typical client might be a craftsman or a woman food processor who works on their own but hopes to expand and recruit new staff.

### Creativity born of financial disaster

The genesis of Cameroon’s extensive grassroots financial sector lay in the country’s banking and economic crisis of the 1990s.

Dr Justin Bomda, Executive Secretary of both the Association of MC2 and MUFFA Microbanks and the Appropriate Development for Africa Foundation (ADAF), explains that struggling state banks were forced to lay off huge numbers of staff. This coincided with the passage of a law liberalising the legal framework for cooperative activities.

With little prospect of finding new jobs in existing institutions, many trained bankers decided to set up savings and loan cooperatives. Professionally managed, but with no hope of subsidy from a cash-strapped government, the new entities had to survive by efficiently meeting popular needs.

The MC2s proved to be one of the most dynamic groups to emerge. But it gradually became clear that, in traditionally male-dominated local communities,

they were not effectively meeting the needs of most poor women. ADAF then stepped in directly, with a line of credit to support funding for women. And the first MUFFA, specifically targeted at their needs, was set up in 1999, in Yaoundé, by a team led by Alice Tchepannou, working under the aegis of Afriland First Bank. She came to see the need for a specialist institution that could cater for the needs of urban women, who had been left in an awkward position as the economic crisis forced Cameroonians to fall back on the traditional *tontine* savings and loan groups.

The latter are generally organised on family or ethnic lines. In largely homogenous rural communities, tontine culture did not pose serious constraints, but it risked excluding women in cities such as Yaoundé and Douala, where households from Cameroon’s 200 ethnic groups live jumbled together and where traditional patterns of community organisation are weaker.

The MUFFA network was therefore set up initially to respond to the needs of urban women.

# Popular pressure for flexibility

Under rain-heavy skies the hills of Haut Nkam look almost cold by African standards. The rugged terrain does not make for easy cultivation. Yet on ridges and outcrops perch the lavish homes of prosperous businessmen who grew up in this area before making their fortunes in the cities; the prosperous small mountain village of Bana has a grandiose new town hall.

This is the country of the Bamiléké, whose vigorous entrepreneurial tradition has provided a favourable context for the growth of CGF associations and groups.

The Bangangté Women's Association now has 23 groups, each with half a dozen or so members. Members are engaged in farming and livestock herding, textiles, craft and tool making, trading and even catering. They got their first CGF credit in 2004 but are now pressing the Foundation to adapt loan structures to the needs of individual sectors and businesses.

“We share the profits among the group members, while the capital is used to repay CGF. What we earn from it perhaps adds 10% to our family revenues. But it is still only a little money and is not, for example, enough to buy a motor pump to irrigate our farmland,” she says. “Whilst CGF is not insignificant, our biggest wish is for CGF to bring more, with less interest, and give special loans for certain groups.”

So far her group has only been able to take out loans large enough to buy 10 sheets of metal – each of which can be turned into 25 small hoes. But it is hardly any more business than the members can cope with anyway.

Such concerns are a recurring theme among the local CGF groups in Haut Nkam; everyone wants more and cheaper credit. Members do not always appreciate that CGF has to control its costs and risk exposure.

Those engaged in trading or artisanal manufacture and craft often want to borrow more,



General Manager, Susan Elango, visits handcraft makers in Bangangté.

because their raw materials are costly; but they may not need a long credit period because they can rapidly sell the goods that they produce and thus earn the cash to repay a loan.

On the other hand, farmers growing crops that require a long growing season sometimes feel constrained by the standard 10-month CGF credit term. Gabriel Deupi wants to expand his plantain farm in Bana but says he would need a lengthier loan period.

Group members repeatedly press CGF to introduce a grace period before repayments must begin. But Susan Elango (pictured above), General Manager of the Foundation, stresses the importance of the first few, admittedly difficult, repayments in getting groups into a pattern of regular debt service.

“The women are really struggling,” says Comfort Ndjozeka, a community worker in Bangangté. She would like CGF to organise some trade fairs and agricultural shows to promote local output.

“My group recently asked CGF for a second credit. We are very pleased with what we have been able to do,” explains Chantal Nouyajap Sidjou, from Bana. “We would like more money and a lower interest rate. But what we would really like is for CGF to help us sell our products, because we have great difficulty in finding buyers.”

# Ploughing the investment furrow for productivity

When the women of Santchou heard that the government had tractors to donate to rural communities with a convincing plan for their use, they surprised everyone by putting in a successful application.

Just months later, the machine is now at work, cultivating farmland in the fertile alluvial plain that surrounds the town and holding out the prospect of a decisive transformation in local productivity and income generation.

When the 220 members of the Santchou CGF Federation first decided to bid for one of the tractors, their ambition met with all-round scepticism, especially as government bidding rules required them to chip in 10% of the CFA35 million cost.

How would they learn how to make best use of it? Who would pay for spares if it broke down? What would happen to the people who had earned their livelihood through traditional manual cultivation? Who, indeed, would drive it?

There was concern that the Association would be taking on a costly financial commitment that threatened to erode the base of their slender but healthy financial base as the repair bills rolled in and the production boost proved short-lived.

But the Association stuck to its guns, borrowing CFA2 million from CGF and adding a further CFA1.5 million from the savings they have built up (and which are normally lent out to new member groups too inexperienced to qualify for CGF loans of their own).

## Value first

It is too early to seriously assess the long-term performance of the venture. But already the women have shown a capacity to work closely together in planning ahead to limit the risks and costs, and extract the maximum possible value from the scheme.



Santchou farmers show off the produce from their fertile plains.

The Santchou Association has set up a small committee to manage the use of the tractor on a day-to-day basis. They have hired a professional driver and they have divided his workload between cultivating the land of their own members and contracting out his tractor services to till the fields of other farmers, generating a fee income that is being set aside in a special fund to pay the driver's salary and save up a reserve fund to meet the cost of spare parts and repairs.

Now new opportunities are opening up, although finding time and money for the extra inputs and planting is imposing some initial strain, until the Association starts receiving income from the sale of its increased output. They have expanded the area for cassava from just four hectares to 50.

Santchou is in a geographically isolated corner of Littoral province, occupying the floor of a river valley, with forested mountains and hills rising on three sides. But the land around the town itself is rich, and flat – ideal tractor terrain; indeed, it was formerly the site of a major commercial rice project.

Visiting the Association recently, CGF General Manager, Susan Elango, has suggested the women set up a cooperative to market their produce jointly and achieve the economies of scale that would persuade wholesale buyers to send trucks up to Santchou to collect it.

## Finding the key to self-confidence

Manual work in the fields and craft workshops of villages and country towns is not the best preparation for encounters with the hard-headed commercial markets of Douala and Yaoundé.

But needs must – and if rural producers want to broaden their sales outlets and bolster their incomes, they have to find ways to engage with urban trading opportunities and, potentially, make the contacts to market some of their output to buyers abroad.

Still, the task is not easy. Urban buyers often have their own established sources of supply, and they are looking to purchase in bulk, for a discount; this poses real challenges for individual small growers, as the women who farm flowers, fruit, vegetables and cocoa in Loum, two hours' drive north of Douala, have found out.

One grows high quality and distinctive, almost sculptural, blooms, well-suited to gracing the homes, offices and hotels of the prosperous. However, Douala's hoteliers have got suppliers lined up already, while the city's flower market is dominated by big dealers who have the strength to force individual farmers to settle for low prices.

Rural groups are often unaware of the opportunities to be explored and they lack the technical and commercial expertise and contacts to navigate the urban economy. CGF is therefore recruiting a Projects Officer, to open commercial doors for rural producers.

But marketing is only part of the challenge. Organisation, the strength of local leadership and the social dynamics within local groups and associations are also critical in determining the success with which projects are developed, loans repaid on time and business opportunities opened up, explain Bernard Kamtsa and Hans Ngwane, provincial coordinators for the Foundation in Littoral and Ouest.

After a CGF visit to Loum in March 2007, local association members formed a committee to plan a possible roadside shop. The Foundation had



Gatsby Association meeting in Kumba.

suggested the idea but left the women to decide whether to take it up.

One of the crucial factors in determining success – or failure and repayment problems – is the internal cohesion of local groups and associations and the capacity of their leaders to give a sense of direction and inspire enthusiasm and a cooperative effort among their members.

In Littoral, three chairwomen have failed to repay loans, setting a poor example for their local members. In some groups, community or family tensions undermine such cohesion and the capacity for change is affected by personal differences.

In other places, by contrast, the mood of common purpose and positive determination is palpable. For example, the mountain village of Bana, the rich alluvial fields around Santchou and the urban trading bustle of Kumba Town represent widely differing economic and social circumstances. But all three communities can boast some of the most dynamic and internally united local Gatsby Associations in the country (see above).

Ngwane and Kamtsa suggest ideas for incentive arrangements that encourage local leaders to set a strong example and give group members an incentive to repay on time. One option could be to officially pay group chairs a small remuneration – say 1% of a loan – if repayment was made on time; alternatively groups that repaid on time could be given preferential access to expert marketing advice.

# Future strategy: response to the demand for business services

‘Credit’ has always been the core activity for CGF. But the focus is now on expanding into fresh service areas, while exploring ways to extend financial support to new clients and communities by working in partnership with other institutions.

Two contrasting factors lie behind the decision to adopt this approach.

Successful management of lending and credit exposure is a labour-intensive task, requiring regular engagement at community level with the associations and groups that borrow money, as General Manager, Susan Elango, points out.

While this has been possible in the southern and western regions within easy driving distance of head office in Douala, the costs of extending this direct approach nationwide could well prove prohibitive. Development needs in the north are intense; but if CGF wants to help out there it would almost certainly need to work through partner organisations.

So much of the future expansion of loan services may take place increasingly on an indirect basis, or even take the form of technical support rather than actual lending, such as a MUFFA.

At the same time, there is clearly strong community demand for CGF to get involved in the provision of services other than finance – which will help poor communities diversify their economic output and increase their revenues.

“If we begin to look for partners like MC2s and MUFFAs it’s because we are hoping we can shift the lending to wholesalers, who would serve the same population; this would liberate us for more intensive business development activities,” says Elango.

Although women’s groups always press for more credit, this may not be the most effective means of helping them.

“If resources are limited, I would prefer to invest

in marketing and personnel. Subsidised interest rate credit is a very weak tool... CGF should have more workers skilled in marketing, communications and information technology,” says Joyce Endeley, Associate Professor of Agricultural Extension and Gender Studies, and a Foundation Trustee. “I don’t think we should think narrowly.”

At present, she believes, there are ‘missing links’ in the system of production in rural areas. “We are dealing with people who do not understand the markets. You can export to Gabon and Nigeria. But you need to master the market.”

In expanding business development support to help tackle this lack of commercial expertise, CGF will be able to learn from the experience of the Gatsby Trusts in Kenya, Tanzania and Uganda, which have been active in this area for years.

## What CGF can do

In certain specialist cases, such as housing development or agricultural technology, CGF would have to collaborate with other expert organisations. But when it comes to business development, CGF has come to the conclusion that it should take a direct role in the provision of marketing support and other ‘linking up’ services to help poor communities raise their productivity and open up new markets for their output.

The Foundation is recruiting a Projects Officer, whose role will be to work with the local women’s associations and CGF’s regional coordinators – rural development specialists seconded from the agriculture ministry – to develop business schemes and sales links. For example, they could assist in the formation of a local sales cooperative, that would help villagers work together to produce crops that were in demand, of a consistent quality and in a sufficient quantity to attract commercial buyers. The Projects Officer would also be able to look at

ways of funding small specific investments, such as new fish-drying ovens for women in coastal areas (see picture on page 28).

### Forward thinking

Another avenue for potential development is specialist business finance.

Techniques such as factoring or trade finance could be helpful, especially for small entrepreneurs or women's groups seeking to sell abroad or to large companies.

But it remains unclear whether it will be practicable for CGF itself to get directly involved in providing specialist business finance services, which

are normally run by specialist bankers. It would need to have specialist trained staff to provide such services – as is already the case in KGT – or perhaps arrange for the services to be provided by a partner institution such as Afriland First Bank.

The case for developing specialist financial products and non-financial business support services is also linked to the challenges that face CGF's core lending activity.

When loan repayment rates declined after 2001 – sinking to 95% today, from 97–98% a few years ago – the Foundation commissioned Joyce Endeley and Dr Suma Molem, head of the economics department at Buea University, to study the causes.

### Bananas: how science can add value

"We have one of the biggest collections of bananas in the world – more than 80 cultivars," says Dr Kodjo Tomekpé, Director of the Centre Africain de Recherches Sur Bananes et Plantains (CARBAP) and one of the newer recruits to the board of Trustees of CGF.

In his dual role, Tomekpé now hopes to assist CGF's expansion of support for farmers.

In the shape of CARBAP's Djombe research station, in western Cameroon, CGF clients have on their doorstep one of the world's leading centres of knowledge about banana and plantain. Over the past 15 years, the centre has developed four or five major technologies and Tomekpé is now keen to disseminate them to the grassroots level, to help farming communities develop the quality and volume of their production.

CGF, with its network of clients in villages across four provinces, offers an ideal avenue for doing this. Indeed, the research centre and the foundation have already developed one cooperative partnership, financed by USAID: CGF's local extension workers were trained in new techniques which they were then able to teach to women in local village groups.



### Key role

Banana/plantain is a particularly important sector, because the crop is cultivated in most regions of Cameroon and has so many uses. Moreover, it is used both as a local food crop and as an export commodity, for which there is demand both in neighbouring African countries and in overseas markets. Although CARBAP is essentially a scientific institution, one of its main financiers, the European Union, is keen to see it do more to help growers improve their competitiveness and access new markets. One such emerging opportunity is the growth in European demand for organic and Fairtrade products.

Tomekpé points out that one of the major French companies that buys Cameroonian bananas has just set up a specialist subsidiary to source organic fruit – and that CARBAP has the scientific standing to oversee the certification of produce as meeting organic standards.

Wearing his CGF Trustee hat, Tomekpé believes CGF should introduce its clients to such marketing opportunities.

"We need to diversify. I can imagine increasing or improving the loans. But we need to provide more support in association with the loans," he says. "We should offer business opportunities to people who come to borrow money, so they can make better use of the loan."

The Foundation now faces strong competition from other financial institutions that are licensed to take savings as well as make loans. Molem believes that CGF – as an organisation that is not entitled to take deposits – needs to reinforce the loyalty of clients by providing other services.

At present, the greatest loan repayment incentive offered to local associations is the prospect of a new and larger loan to follow. But this process gradually increases the Foundation's risk exposure.

Through an offer of business development services, CGF would be offering an alternative incentive.

Molem believes that services such as marketing would be attractive to women's groups, and would help the drive to reduce poverty.

"The rate of repayment would be most effectively boosted by giving clients other services to make CGF more important and more valued by the women," he argues. "The repayment rate will not collapse. But you need to get better development results, to maintain the value of CGF as a development tool."



Liwah Fish Company hopes to build more drying kilns such as this.

### Housing: starting small

Habitat for Humanity knows how to build houses. CGF is seeking ways to broaden its assistance to the poor. The two organisations are now looking at how they might collaborate.

Habitat has so far arranged the construction of 172 homes in Cameroon and it is seeking to help at least 100 families a year, providing new houses or improving existing buildings. But resources are limited, as is Habitat's capacity to monitor the repayment of the loans through which families pay for the properties, which are basic units with two bedrooms and a modern toilet. The organisation is therefore seeking partners that can contribute the funding for new houses, while it contributes expertise in design and construction management.

Under the Habitat scheme, over time, each household repays the full CFA1.1 million cost of their house. But lending requires careful management.

That is the attraction of CGF as a partner; Habitat's Cameroon Country Director, Roch Souabet, is hoping that the Foundation will establish housing loans for its members.

CGF has been looking at both grants and low interest loans, as alternative possible options for intervention. It will be able to learn from the experience of TGT, which has already cooperated with Habitat to build loan-funded homes in Zanzibar.

Habitat currently plans to build 425 houses in Cameroon by 2011. But Souabet says that it has the technical and management capacity to develop 1,000 homes over that period if the funding support can be put in place.

For CGF, the partnership would offer the chance to make a vital development contribution without the need to recruit expert staff for this new specialist area.



# Kenya

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Handicrafts are fashioned from plastic sandals washed up on beaches near Kiwayu, north-east Kenya.

# Enterprise and livelihoods the heart of the Kenyan agenda

Supporting productivity, trade and income growth at the grassroots, KGT has built up a regional programme at the coast to complement the services provided from its Nairobi base

First to be founded and facing the complex challenges posed by East Africa's most developed and diverse economy, the Gatsby Trust in Kenya has had to carve out a path of its own.

It operates in a country that is home to both advanced financial, agricultural and industrial projects and a large rural and low-income urban population whose need for better incomes and wider opportunities are acute.

The modernity and international connections of central Nairobi are only part of the Kenyan picture. Venture into the countryside, or the grassroots city economy, and the requirement for livelihood development support of the most pragmatic kind, in finance, technology and commercial expertise is all too evident.

## Looking forwards

In its first decade, Kenya Gatsby Trust (KGT) exploited its independent status outside government and traditional donor structures to test ways of supporting micro-enterprise and enhancing the livelihoods of the poor. Says former Trustee and senior civil servant Harris Mule: "KGT was very flexible, even eclectic. Because we did not fit into some fixed donor approach, we could experiment and see what worked and what didn't."

This entailed pursuing some avenues that the Trust eventually decided were best left to others, such as bulk lending to micro-credit institutions and an attempt to set up a crafts market (Soko).

But gradually, KGT refined its strategy, beefing up the head office management and technical team and developing programmes to support small business and grassroots livelihoods in different ways, using its own commercial, technical, financial and development skills to respond to gaps in the types of support available from other official and non-governmental players.

KGT has sought to help potentially viable economic activities to become commercially sustainable and thus generate incomes for the poor. Today, the key elements in its service portfolio are:

- Measures to improve the quality of small farmers' production, processing and marketing and help small urban entrepreneurs to access markets;
- Factoring finance for small business;
- Working with the technology faculty at Jomo Kenyatta University of Agriculture and Technology (JKUAT) to bring practical innovations to small businesses and help entrepreneurs meet technical regulatory and commercial standards;
- Project management for other organisations, such as the Ethical Tea Partnership (ETP) and the Kenya Tree Biotechnology Project (TBP); and
- Policy intervention by lobbying central and local government for policy and regulatory changes, or project approvals, that would benefit small-scale producers.

In organisational terms, these are delivered through a series of specific sector or product programmes managed by head office specialists, and through a regional strategy to support the development of livelihoods in a range of communities in central, western and north-eastern regions, and particularly in the coast region.

The focus is on achieving impact at the practical grassroots level, improving and diversifying incomes and trade opportunities for small entrepreneurs and some of Kenya's poorest rural communities.

KGT acting Chief Executive, Constantine Kandie, explains that to support these operations, the Trust uses funding from Gatsby UK but is aiming to become self-sufficient over the long-term.

Key data on pages 68–69

# Technology adapts to today's reality

JKUAT is not short of ideas – or ambition. It is working on plans to transform the whole of Juja district, home to its leafy campus outside Nairobi, into a new university city.

JKUAT's technologists have designed a succession of prototype products – tractors and bicycles, termite-resistant paint made from herbs, solar banana chip driers and even machines for extracting honey from combs. But linking academic originality to practical small business relevance is an altogether more challenging task.

“One of the challenges is to avoid developing a technology that people don't need,” admits Samuel Mokaya (pictured below), Assistant Registrar of Research, Production and Extension and Joint Co-ordinator of a programme developed in partnership with KGT in 2004 to mobilise technical know-how in support of micro-enterprises. The scheme has been in development since 2004.

A pilot phase, which saw 21 technology students sent on attachment to small firms, to assess their needs and see how the university could assist, has helped JKUAT's academics adjust their theoretical laboratory approaches to the practical demands, and operating constraints, of small traders and workshops. An ice-cooled bicycle delivery trolley designed for market juice-seller Naomi Wairimu was one of the first innovations to find a viable use in the real economy (*see panel, right*).

“I believe there could be very many ways that the project could expand,” says Muchai Mbugua, Registrar of Research, Production and Extension.

The programme is not just about channelling technology into small businesses. It also aims to help graduates find jobs in small business. Several of the companies collect the output of large numbers of small producers – 1500 coastal farmers producing seeds, 250 handicraft makers and more than 2750 small dairy farmers.



Samuel Mokaya (JKUAT) believes technology must be relevant to the practical needs of entrepreneurs.

## Lubricating the juice business

Naomi Wairimu's day begins at 5am, when she loads a 20-litre pack of home-made fruit juices onto her back and sets off to cover the almost 3km distance to the roadside halt where she can catch a *matatu* minibus to downtown Nairobi and her stall in the central City Market.

"After 11 or 12 hours on the stall, working with my husband Moses Ndungu and our staff, selling juice and cutting up newly brought fruit to sell to office workers as lunchtime fruit salad snacks, I set off on the return journey at about 6pm," says Wairimu (pictured below).

Thanks to the gridlocked state of Nairobi's rush-hours highways, it is only at 8pm that she disembarks at the *matatu* stop and begins the hour-long walk home.

"After a wash and supper – prepared by my sister – I get out my small household blender and start making juice for the next day. This takes till midnight."

But now Wairimu can look forward to a less back-breaking routine, with the prospect of a possible leasing arrangement with KGT, to spend KSh200,000.

(US\$2,909) on a second-hand car. She also hopes to invest KSh40,000 on a big commercial blender.

Then she could produce 50 litres of juice each day, and deliver it to hotels which expressed interest in placing bulk orders that she has not been able to accept up to now.

KGT facilitated Naomi's training, costing KSh36,000, to meet the tough health and quality certification tests of the Kenya Bureau of Standards and it funded her KSh55,146 acquisition of a bicycle distribution trolley – designed by technologists at JKUAT – that uses ice cubes rather than electricity to keep juice fresh. She is steadily repaying the trolley loan at KSh2,000 a month.

This exemplifies the Trust's ability to bring together various types of business support – training, technology and finance – to help an entrepreneur develop from artisanal self-employment into the operation of a registered business with half a dozen employees.

She is, in fact, one of 10 juice processors helped by the Trust to meet safety standards and build direct links to the farmers who produce the fresh fruit.



Naomi Wairimu and her staff prepare fruit at her Nairobi market stall.

# Factoring: Credit for SMEs beyond the reach of banks

Faced with a sudden quadrupling of supermarket orders for its production of cakes and madazi Kenyan snacks, Gal Baking – already struggling to cope with the strains of growth – faced a painful dilemma.

“We could not afford to buy enough raw materials to make the volumes required, and then sit out the months until payment finally arrived,” recalls John Murerwa, an accountant who runs the company with his caterer wife Jaclyn Wanja. Once, they had struggled to win business. Now, lack of working capital threatened to force them to turn orders down.

Because their premises were rented, Wanja and Murerwa could not pledge the property as collateral to secure bank finance. Then the chief accountant at the Nakumatt supermarket group – one of their main clients – suggested a way out.

“Nakumatt was not going to make an exception to its normal financial procedures, just to help us out. But it did put me in touch with the finance department at KGT, which offers a factoring service,” explains Murerwa.

## A little security

Factoring is a technique for advancing money to small businesses against the security of the orders they have invoiced, thus growing the volume of finance in line with a rise in trade. Lending decisions are based on the strength of the business flow rather than its property assets.

Beatrice Obara, Manager of Financial Services at KGT and a career specialist in small business banking, says that during 2006 the Trust advanced ksh39.6 million in factoring credit to 11 companies, mainly in the agro-processing, food or craft industries – for which it charged almost ksh2.9 million, plus interest, in administration fees.

The service does not come cheap, but it does



KGT's Henry Kang'ethe' (right) in discussion with Gal Baking Director, John Murerwa.

make money available to businesses that are solidly rooted, yet have problems accessing bank finance.

Obara's Deputy, Henry Kang'ethe', studied Gal's bakery business in detail and then checked with Nakumatt to make sure the firm was regarded as a reliable supplier. The Trust knew that the supermarket group itself represented a good payment risk, and it therefore felt able to advance the funds that Wanja and Murerwa needed. In 2006 Gal borrowed almost ksh2.3 million under the arrangement.

KGT's development of factoring emerged from a careful review of its financial services. Bruised by repeated payment failures during Kenya's late 1990s banking crisis, the Trust has been winding up its book of wholesale micro-finance lending and switching to the direct provision of business finance for individual entrepreneurs.

Factoring, and new pre-order finance and micro-leasing services currently being piloted, are based on analysing specific trade risks that KGT can assess directly, using its own knowledge of small business economics and buyer credit risks in the Kenyan economy.

# Coastal impact: supporting growth at the grassroots

Few areas of Kenya present such contrasts as the Coast region. The resort hotels of Malindi and Mombasa tell a story of investment and international contact; but this coexists alongside deep deprivation in rural areas and small towns.

At the grassroots, the region has often been on the fringes of development. Professor Mohammed Hyder, a KGT board member, former Principal of the University of Nairobi, and now Chairman of the Mombasa-based Muslim Civic Education Trust points to “an attitudinal gulf” between the capital and coastal populations. But he feels that the Trust’s development activities in his home region are helping to bridge this gap: “KGT is opening up a new vista of progress both economically and in terms of a rapport between an up-country organisation and coastal people here.”

Hyder sees scope for the Trust to cooperate with the official Coastal Development Authority – of which he is also a board member – and the Kenya Agricultural Research Institute (KARI).

## Making the change

Jane Mung’oma (pictured overleaf) – Head of KGT business development services and Manager of programmes for the region – has gradually introduced a series of schemes in response to the issues and opportunities that face the varied communities along the coast:

- The Good Woods project initiated with Akamba Handicrafts in Mombasa in 2002 and extended to Malindi, benefits 4,000 craftsmen carvers and farmers, working with sustainable species certified by the Forest Stewardship Council (FSC);
- Support for 475 mango growers around Malindi began in 2004; a further 61 youths were trained in private extension service provision;
- Technical and commercial assistance for 100

cashew semi-processors around Kilifi;

- Support for a Mombasa engineering incubation workshop began in 2005;
- A joint project with WWF to build 400 South Coast growers’ capacity to market neem and aloe herbal products was launched in 2006;
- In 2006, in response to a request from WWF, the Trust also began to help women in the villages of Kiunga expand their production and marketing of craft items made from recycled flip-flops.

KGT reckons that its livelihood development activities in the coast and other regions bring benefit to about 37,000 people.

## Convincing industry

The scale is tiny – a crowded backstreet Mombasa workshop employing just five people – but the significance as a precedent is considerable: with KGT support, Anthony Ndeveni has developed a business supplying parts for kerosene lamps to Cook & Light, which is run by one of Kenya’s leading industrialists, Manu Chandaria.

Trust Engineer, Francis Muema, has designed the manual vices that Ndeveni’s staff use to make metal parts for the lamps, at a cost and quality that has persuaded Cook & Light to expand the list of items it subcontracts the workshop to produce.

The project is also important because, after KGT start-up support, Ndeveni’s business will become commercially viable and independent, operating in the tax-paying sector economy. And in a city with high unemployment, its most skilled staff earn KSh250 per day, a useful living wage.

# An improbable route out of island poverty

Palm fronds rustling in the breeze, sunlight glistening on the waves, the lush greenery of mangroves fringing the water's edge, the triangular sails of fishing dhows dotted across the horizon.

The Kiunga region on the far north-east of Kenya's coast could hardly appear more idyllic for the tiny band of upmarket tourists who can afford to be flown direct into this remote region, alongside the Somali border. But the reality for its inhabitants is rather more harsh and prosaic.

The soil is in fact arid, sandy and infertile; communications are difficult and modern services are almost totally absent. It can take hours to travel between island villages by local boat, and all day to

reach Lamu, the nearest town with a bank or strong central government presence.

This is one of Kenya's poorest regions, and one of the most difficult to develop. Fishing – an activity restricted to men, and one that produces wild fluctuations in income, depending on the day's catch – has been the sole source of cash income for the region's population of around 180,000.

## Independent living

Kiunga women have had no independent source of revenue. But the past few years have seen this situation transformed by the women's development of a cottage industry making beads, bracelets and

## New horizons

The arrival of mobile phone coverage, with the erection of a Safaricom relay mast on Ndau island in December 2006, has transformed communications in Kiunga and opened up the prospect of new business ties.

Some villagers now talk of arranging sales trips to Lamu or even using an internet connection to take orders for their crafts.



KGT's Jane Mung'oma (right) puts an idea to Kiwayu group Chairwoman, Bihawa Mwalimu (left).

More formalised arrangements might also help curb the risks of non-payment. The money really matters. In Ndau village, 90% of children do sufficiently well to qualify for entry to state secondary schools. But these charge fees equivalent to US\$500 per child per year – a sum beyond the reach of many families. At Chandani, perched on an arid wind-blown ridge overlooking the Indian Ocean, farming options are limited. But with the flip-flop earnings now in circulation, Umi Devo is even planning to open a restaurant to serve her fellow villagers.

At Mkokoni, on the mainland and within reach of a few salaried hotel jobs – which, at around KSh6,000 per month, give them a benchmark of comparison – the 23-strong women's group now hope to earn KSh10,000 per month each and they have talked about getting one of the younger and better educated villagers to handle administration and contacts with buyers.

carved animals from discarded plastic flip-flop which have drifted across the Indian Ocean from south-east Asia and the Indian sub-continent to wash up on the local beaches. For the first time, local women have a cash income of their own.

The environmental conservation organisation WWF operates a marine conservation project to help the Kenya Wildlife Service (KWS) manage the Kiunga Marine National Reserve (KMNR), whose shores are a key breeding ground for green marine turtles.

These were hunted by locals for meat, oil, traditional medicines and eggs.

But WWF sought to change traditional attitudes and win local populations around to the cause of conservation and wildlife monitoring by supporting community development.

### Using their initiative

For some years, village women had been cutting up old flip-flops to make decorations and toys for their children.

WWF realised that this could be developed commercially; it would also clear up the plastic debris which risks poisoning turtles that mistake it for food.

So KGT took on the task of transforming an experimental craft activity into a viable business, developing new production tools and opening up links to sales opportunities within Kenya and abroad.

In early 2007, the US retail network Ten Thousand Villages placed a major order.

### New deals

KGT also seeks to bolster the women's capacity to do business themselves, arranging meetings with wholesale buyers, with whom they can strike deals directly.

Women's newfound access to earning power has been welcomed by their menfolk, who now bring home the flip-flops they find while they are out fishing. Communities are gaining in self-confidence and the capacity to take on initiatives.

Right: Cultivation in the arid conditions facing villagers in Chandani.

### A crucial boost to tight budgets

The injection of commercial expertise and connections into the flip-flop craft industry has had a dramatic impact on the lives of Kiunga women.

In the island village of Kiwayu, there are 70 now engaged in the project. Their chairwoman, Bihawa Mwalimu, explains that when there are no regular orders, a woman typically earns a mere KSh100 per month from occasional sales to tourists. But when there is a steady flow of commercial orders, a group member can make KSh5,000 worth of crafts in a month.

This is life-transforming for someone who never previously had a cash income. Water must be carried by donkey from the nearest clean well an hour's walk away; villagers have to pay KSh1 per litre and a typical family uses 160 litres a day.

They also have to buy kerosene as there is no electricity on the islands, save for the occasional small solar generator. Rent for a mud and thatch house is KSh600 per month.

Primary school is free, but each child needs a new uniform, usually once a year – and that costs KSh1,000. A few basic cosmetics and washing items may cost KSh200–500 per month. Some 30 women also try to chip KSh20 a day into the Kikundi Communal Savings Scheme, while the cash also offers the chance of an occasional treat. "I only had one *kanga* (robe) before; now I have three," says one group member.

When there is a steady flow of craft orders, all of these items are just about affordable. If business dries up, many families have to scrape by on the minimum essentials that can be paid for with the cash men earn from fishing.



# Helping small growers into commercial realms

A team travels around the small mango farms of Malindi, spraying trees against pests, to help growers compete with the big commercial plantations. Some 61 youths have been trained by the East Africa arm of Bayer, the agro chemicals supplier, the District Agricultural Office and Kenya Agricultural Research Institute (KARI) under an arrangement negotiated by the local office of KGT. Farmers get advice on pruning and techniques to minimise the risk of infection. Altogether, some 475 Malindi mango farmers benefit from Gatsby support and from JJ Charitable Trust, one of the Sainsbury Family Trusts.

KGT has also collaborated with the Nairobi-based International Centre of Insect Physiology and Ecology (ICIPE), which has been developing an alternative spray based on natural ingredients such as peppers and elements of the indigenous neem tree. Funding for the partnership with ICIPE was procured from Bio-Vision.

The project could eventually allow growers to satisfy organic standards while still protecting their crops.

The old trees that tower over James Ngala's house in Gahaleni provide shade from the midday heat but are hard to prune and spray; fruit is bruised when it falls to earth before it can be picked. Gatsby is introducing Ngala to shorter cultivar trees that will be easier to care for. For two decades, Ngala thought this was the normal way to grow mangoes. Then a few years ago a local chief heard that KGT could help with new techniques and marketing support.



## Early morning advice before a day in the fields

The sun is just up and children are making their way to school as Jennifer Mbuvi, Malindi-based rural Projects Officer, and Jane Mung'oma, Coast Programmes Manager, arrive to visit the farmers of Dzinule.

It was in 2004 that KGT first contacted these mango growers in the lush Galana river valley, encouraging them to engage in common marketing efforts and learn improved techniques. Local plantations date back to the 1960s, yet insect infestation had gradually worsened, undermining the sales value of a fruit that is a luxury item when exported. KGT arranged for both Bayer and the International Centre of Insect Physiology and Ecology (ICIPE) to provide advice, and worked with Nairobi-based wholesaler Jonrocks to open up domestic sales opportunities.

Margaret Tabu (pictured below) – whose husband, Justin Mwagona, is Treasurer of the Dzinule farmers' group – gets up at 6am every day to water her crops for three hours. After a breakfast of tea and *ugali* (porridge), she works all day on the farm; her daughter-in-law – who is looking after a small child and takes care of domestic matters – brings her a lunch of maize cake and vegetables in the fields. Farm work concludes with a further hour and a half of watering banana trees before Margaret comes home. Almost everything she eats is home produced, from coconut milk to fish caught in the Galana during periods of high water. When the river is low, fish are hard to find, while meat is a rare luxury reserved for Christmas and New Year.



# Kilifi:

## adding value to boost slender incomes

Just a couple of hours north of Mombasa, Kenya's second city and hub of the country's seaside tourism industry, Kilifi seems a world away. This district of quiet farming villages along dusty side roads contains 540,000 people – and 68% are living in poverty.

Living standards have not improved for a decade, according to Jacob Karisa, Executive Director of Community Based Development Agency (COBA), a local non-governmental organisation now coordinating efforts to draft a poverty reduction strategy for the surrounding villages.

COBA sees KGT as a key partner in developing new and better paid sources of livelihood in an area where exploitation of the rich agricultural potential has been set back severely by the closure of a cashew nut processing factory.

### The long-term

One of the new themes to pursue is the use of organic techniques, which can be cheaper and,

in the long-term, are more environmentally sustainable, argues Rasto Mikaya, an agro-environment specialist and COBA board member.

At Dindiri, Mwanakombo Paul persuaded 19 fellow villagers to join her in a project to grow vegetables for the local market, opening a bank account at the Kilifi Teachers Cooperative to make payments and collect sales revenue. After rent, ploughing and input costs are deducted, the group earns KSh14,000 a year from this market garden, supplemented with KSh27,000 from 10 coconut trees that they rent.

These common projects earn each member KSh2,050 a year to supplement family income (which averages KSh35,000).

KGT brings small growers face to face with trading realities. Projects Officer, Jennifer Mbuvi, arranged for the Dindiri group to meet a commercial cashew buyer, but then had to persuade them to accept his price: he would only pay half what they could sell for (locally) in Kilifi, but would purchase 20 times the quantity.

### Hard practicalities

Artisanal cashew production is an almost literally hand-made business. Eric Kenga Karisa shells the nuts by breaking open each one individually, with a short wooden stick. It is a draining task: working from 6am to 6pm, he can shell just 20kg of nuts. Traditionally, farmers in the Kilifi area have sold cashews raw, for export to India. But at just KSh30–50 per kilo, it is hardly a remunerative business for such labours.

KGT, working with 100 processors around Kilifi, in a project funded by the Agricultural Business

Development (ABD) component of Denmark's DANIDA, is helping farmers develop processing techniques so that they can earn more from added value. Nuts that have been shelled, peeled and dried can fetch KSh600–800/kg. Even so, it still takes a week to produce 50kg of dried and peeled nuts.

The Trust works on improvements to processing. It has developed a design for a kiln, built from local materials, to dry nuts more effectively than the open fires used hitherto; Alex Katana Charo, of the Mozongoloni youth group, has already built one.

# Crafting a path to sustainability



When it was launched two decades ago, the Malindi Handicrafts Cooperative had just 30 members. Today there are 600 – and there is a modern warehouse piled high with carvings, tableware and items produced by the woodworkers who sell their output through this lively marketing forum.

As in other coastal projects, the role of KGT is to link this local source of livelihood with the realities of the commercial marketplace.

KGT's contribution is know-how, contacts and flexibility, rather than large volumes of funding. The latter came from the European Union, which chipped in KSh7.4 million for the land and buildings.

Gatsby's task has been to help the Cooperative cope with the challenge posed by the reform of the world wood trade, as efforts are made to protect threatened tropical species from extinction.

Traditionally, the carvers of Malindi – most originally migrants from the inland region of Akamba, where there is a strong indigenous tradition of woodworking – have used valuable hardwoods such as ebony, mahogany and rosewood. But their survival became threatened, both by the ongoing process of deforestation in a country where the population is rising and fuel wood is in short supply and also by the demands of craftsmen catering for the growing number of tourists visiting Kenya.

## Wood works

Over the past eight years KGT, WWF and Oxfam have backed the Good Woods carving project – switching craft production to the use of quick-growing species

that can be sustainably grown and harvested, such as jacaranda, neem, mango and coconut, and certified by the Forest Stewardship Council. Initially working with Akamba Handicrafts in Mombasa from 2002, this has now been extended to the Malindi Cooperative.

The project funded the building of kilns in Mombasa and Malindi. Meanwhile, the US Peace Corps has supplied an export marketing specialist to support the Malindi Cooperative's marketing efforts.

## New challenge

The switch to different woods has posed technical problems. It was only in 2007, after extensive experimentation, that the Malindi team came close to refining techniques that would ensure that carvings did not dry out and split.

Such quality improvements are vital once craftsmen begin to look beyond the sale of goods to tourists seeking souvenirs. Consumers making their purchases in boutiques in Europe or the US are more demanding, comparing Kenyan products with other hand-made crafts imported from other parts of the world.

KGT's task is to help Malindi's carvers understand this more discriminating domestic consumer market in Western countries that most of the craftsmen have never visited, but the carvers are willing to adapt. "We will make whatever the demand is," says Paul Kimundo, Vice-Chairman of the Malindi Cooperative.

# Tanzania

A diverse response to Tanzania's  
myriad challenges

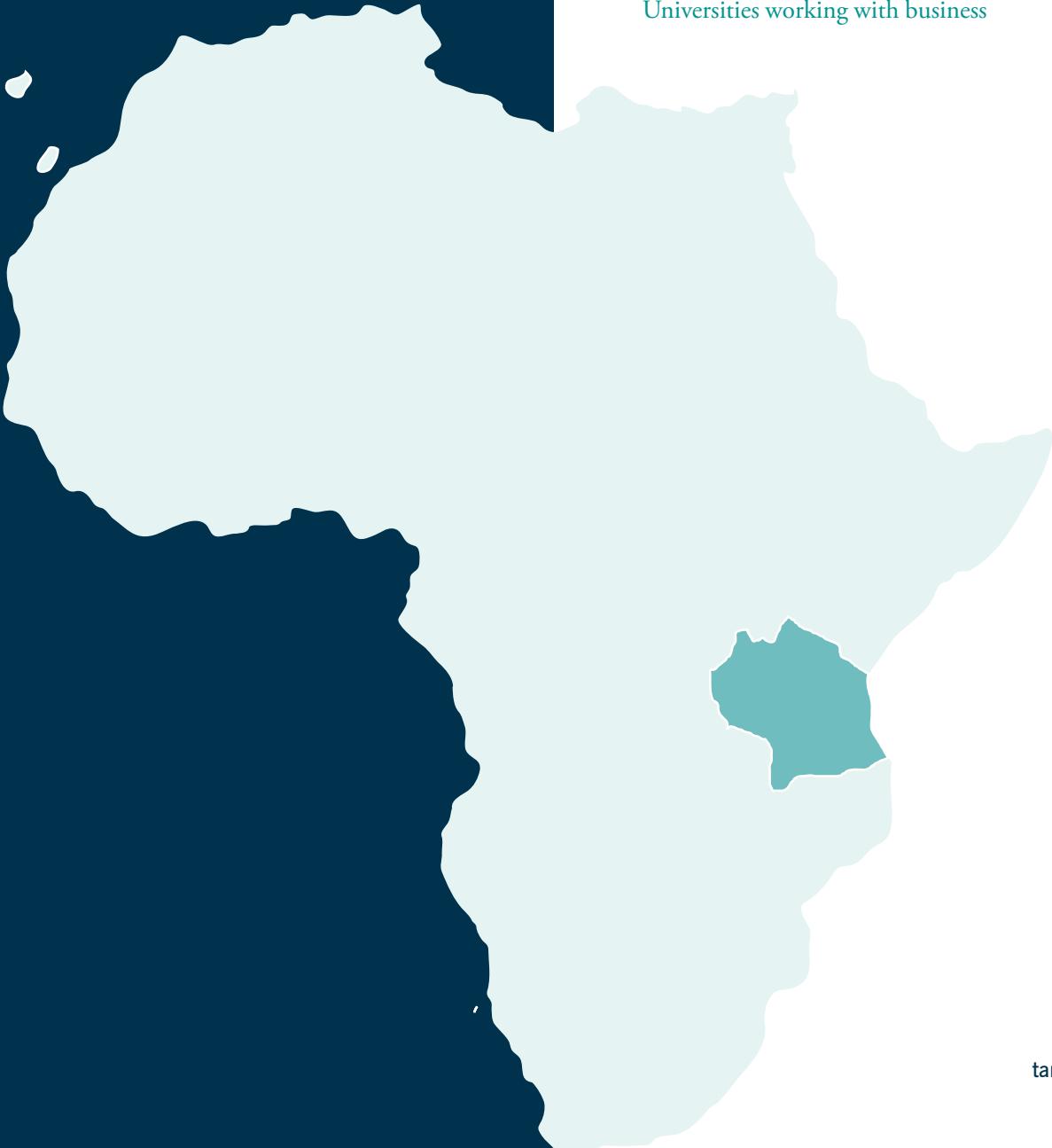
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Clockwise from top: Mount Kilimanjaro, Tanzania's – and Africa's – highest peak; a historic carved door from Zanzibar; Zanzibar village women engage in pottery-making, an activity supported by TGT.



# A diverse response to Tanzania's myriad challenges

From the snowy-capped peak of Mount Kilimanjaro to the mesmerising spice island of Zanzibar, Tanzania boasts a rich seam of economic activity

Though trumpeted internationally as an African success story, with a strong measure of political stability and a commitment to economic reform that has delivered economic growth upwards of 6% in recent years, Tanzania remains a very poor country. Per capita incomes in 2005 were estimated to be at about US\$350, compared with a sub-Saharan average of US\$568. Life expectancy is in the region of 51 years.

For the Tanzania Gatsby Trust (TGT), this presents a stiff challenge. Founded in 1992, the Trust has spread its focus widely, developing a varied portfolio that reflects the diverse activities engaged in by the country's burgeoning small and medium-sized enterprises (SMEs). While spreading

staff, including an accountant ably supported by committed partners, from microfinance retailers to scientific research centres.

"Some people asked us why we didn't just focus on one area – microfinance or technology, for example," says the new TGT Chairman, Epaineto Toroka, an expert on SMEs and former Director-General of Small Industries Development Organisation (SIDO). But we felt that the way the Trust could best make an impact was through a blend of activities that reflects the variety of the country." Olive Luena sees the variety as essential to the Trust's overall impact. "It's like a bicycle wheel. If you remove one of the spokes, the whole thing is destabilised." This wide footprint necessitated



Current and past TGT Chairmen, Epaineto Toroka (left) and Ibrahim Seushi (see biography, page 44)

the range of its activities, TGT has refined its services to concentrate on those development areas where it has the right skills to make a useful contribution.

## Experience matters

It is a highly active Trust, managed by the energetic Olive Luena – a well-connected and experienced Tanzanian NGO leader. Its team of credit officers and project officers are supported by a board comprising seven Trustees. It is also a very lean organisation, with just six project management

a different approach to some of the other Gatsby Trusts in Africa; TGT by itself does not have the resources or capacity to be omnipresent. Consequently, TGT, under the long-time Chairman Ibrahim Seushi – who retired in 2006 – set about forming relationships with a series of cherry-picked partner organisations.

First and foremost, TGT interventions aim to support the sustainability of SMEs, says Luena. "It is with this in mind that the TGT approach to poverty alleviation through entrepreneurship is holistic, in

that it provides all the tools that an entrepreneur requires to build and sustain his or her enterprise for growth and profitability,” she says.

### Making a house a home

TGT recognised that better housing can bring noticeable results to the poor and the marginalised. An improved home has a direct and positive impact on health, security and self-esteem of homeowners and their families – and in the final analysis, the ultimate benchmark of TGT’s success is its ability to effect a dramatic improvement in people’s livelihoods.

Tanzania’s post-colonial history has also imprinted itself firmly on TGT’s strategic world-view.

Avoiding the tribal and inter-ethnic conflicts that have undermined many other African countries, its home-made brew of African socialism – the legacy of the country’s founding father, President Mwalimu Julius Nyrere, who resigned in 1985 – underscored the country’s stability and ensured some positive development indicators in health and education. But it did so perhaps at the expense of a functioning market economy.

Unlike neighbouring Kenya, where an entrepreneurial culture has existed for much longer, TGT has to operate in a context where the capitalist ethos has enjoyed a far shorter gestation period. But that hasn’t meant a wholesale ditching of the legacy of the past. “If you look at the Millennium

#### Ibrahim Seushi: “TGT should be a catalyst”

Ibrahim Seushi, Director of the public sector group at PricewaterhouseCoopers in Tanzania, and former Chairman of the TGT Trustees, has a better claim than anyone to have fashioned the Trust we know today. His 14-year stint as Chairman saw the Trust evolve into an entity with more than 10,000 clients, and an annual loan portfolio of TSh525 million (US\$425,093).

“When we first had the chance to configure it, the first thing I said to [founder Trustee] Laurence Cockcroft is that I’d like to see true ownership of the development agenda,” he says.

Too many people, says Seushi, have seen the development challenges facing Africa from the supply side rather than the demand side.

Seushi was responsible for the Tanzanian Trust’s distinctive focus. “My vision for TGT at the outset was that it should be a catalyst – to be seen to be helping solve people’s problems, rather than be directly responsible for problem-solving,” he says. “In each area we want our focus to organise people to form institutions that would bring them together and collate their needs.”

He started in Mwangi, near his hometown in

Tanzania’s northern uplands, joining forces with local women’s associations. “We found that the Mwangi district had a strong tradition of community bank services, and small agriculture credit organisations. We encountered growing demand for credit, with many entrepreneurs requiring market access – so we then went on to develop a district trade fair.”

From there, it started networking and formed a strategic alliance with AMKA – a fair-trade promotional organisation – producing lines for foreign markets. This eventually led to the formation of the Mwangi Rural Community Bank (see *Microfinance section overleaf*).

Much of the focus has been trained on the Trust’s structure, with a strict demarcation between the Trustees – who must be the ones who pick programmes for the value of their contribution to the mission of the Trust – and the management team. “The separation of duties is absolutely critical,” says Seushi.

Getting the right management team in place is fundamental to the Trust’s success, given its lean nature. “Getting Olive Luena was critical,” says Seushi. “You need strong management – and if it’s competent and understands leadership, this is what generates success.”

Development Goals (MDGs), they are very similar to what Mwalimu was trying to achieve,” says Trustee Kate Kamba, a member of the East African Legislative Assembly.

Neither does it mean scaling back ambitions. TGT’s aim is to assist in making Tanzania a middle-income country by 2025, a national economic goal. With an endowment of untapped natural and human resources, TGT aims to unleash this latent energy, working from the grassroots up.

Looking at the low-level activities that TGT is involved in – wine-makers working from their front rooms, handicraft makers using surplus waste products – such a transformatory role may seem ambitious. Transport infrastructure is in a parlous condition, less than 15% of the population has access to potable water and less than 10% of rural communities have access to electricity. Malaria, cholera and HIV are having a noxious effect on productivity levels.

Yet TGT Trustees are adamant that the kinds of activities it is supporting provide the building blocks of a successful economy, and are fundamental to any hopes of Tanzania meeting MDG targets in the long-term.

### Challenges ahead

TGT still faces a series of challenges. Its relatively small size – a quality that also affords its nimble-footedness – means it sometimes has limited resources to meet the demand for TGT services. The large geographical gap between its client base in rural areas and the Dar es Salaam HQ can occasionally prove an obstacle. Operating through intermediaries also presents its own difficulties. Many of its collaborator organisations also have limited institutional capacity.

Many of TGT’s clients have to operate in trying circumstances. Some have to compete against cheap imports and harsh weather conditions for agro processing entrepreneurs – the 2005–2006 drought was devastating for Tanzania’s rural economy – don’t make things any easier. Poor roads and neglected infrastructure are a given.

SMEs suffer from the heavy costs incurred by those clients with a small turnover, while other constraints include a lack of workspace – aggravated in 2007 when Dar es Salaam city council removed a large number of informal business premises from

the centre of town.

Demand for capital is enormous, as small entrepreneurs attempt to keep up with consumption levels fuelled by strong economic growth. TGT’s ability to respond to that call for capital is circumscribed. Neither does TGT wish to be seen as an unending fount of cash for small businesses to tap.

Luena acknowledges that many clients still look to TGT to resolve funding gaps. “It’s a long learning curve, but we are adamant that we are not simply there to provide capital – we want to promote independence, not dependence,” she says.

TGT provides capital to enable SMEs to invest in enterprise development, helping them to become self-sustaining.

### Self-reliance

The need to become self-sustaining now informs every strategic initiative undertaken by the Trust so that it provides a return that will allow it to continue to operate for many years.

To support this aim, TGT has developed a 20-year strategic endowment plan that is a result of a two-year participatory planning process, coupled with peer learning and exposure programmes by both the Trustees and the management. The aim is to raise US\$10 million. It has also put in place endowment governance tools through a special arrangement, for which Gatsby UK has so far provided Tsh207.7 million over five years (around 60% of funding).

Luena acknowledges that operating as both donor and deliverer is a challenge, given that there are some elements of grant-making in TGT’s operations, such as the provision of business development support, based on the charitable nature of the Trust.

“As we are associated with Gatsby, some perceive TGT as a donor, especially at international level when we seek funding for some of the programmes we support,” says Luena. David Irwin, an SME consultant to the Gatsby Charitable Foundation, argues that as a development organisation, TGT should be prepared to go slightly beyond commercial norms in taking risks to support new business and the development of community livelihoods.

Key data on pages 70–71

# Microfinance: credit where it's due

TGT's microfinance activity is a defining component of its creed to support enterprise development. Though microfinance has a relatively short history in Tanzania, stretching back to its establishment when the savings and loans cooperatives (Saccos) were established, uptake has been relatively swift, encouraged by government policies.

TGT's microfinance interventions have had to navigate difficult conditions. About 75% of TGT's loans are wholesale – a small amount is extended directly to individuals – in line with TGT's mission to work through intermediary and partner organisations.

To build on the current credit activities and expand credit provision to new UPATU groups – village-based rotating savings and credit associations – and other intermediaries, TGT has set aside a portfolio of Tsh585 million.

## Forward planning

The Trust has continued to extend support for institutional development by extending credit through intermediary institutions for on-lending and support in creating people-owned community financial structures, such as rural community banks, by taking equity and facilitating financial assistance.

TGT has also helped to establish a Community Banks Association to spearhead coordination of the activities to the people-owned community cooperative banks and financial institutions.

These groups comprise the Small Enterprise Development Agency (SEDA), FINCA Tanzania, the Presidential Trust Fund (PTF) and Mufindi Community Bank (Mucoba). Of the total Tsh1.3 billion of TGT credits disbursed in the 2003–2006 period, PTF took 41%, SEDA 38%, FINCA 11% and Mucoba the remaining 10%.

TGT has assisted the creation of two community

banks, Mwanga Community Bank and Tandahimba Community Bank, investing Tsh20 million of equity in each.

## Credit boost

TGT's key microfinance aims are to increase the credit portfolio from Tsh120 million in 2005 to Tsh473 million by end-2008. By that year, through the provision of capital and financial services to SMEs, the aim is to achieve an annual increase in its loan portfolio from Tsh1.3 billion to Tsh2.4 billion.

TGT does not provide concessionary terms. Government regulations prevent MFIs from offering interest rates below the commercial banks. Government regulations prevent microfinance institutions (MFIs) from offering interest rates below the commercial banks. TGT cannot go lower than the Central Bank rate.

This can create tension between client and lender, acutely felt by those intermediating bodies through which TGT disburses loans. "As an institution, we have to pay TGT back on time," says Husna Maghembe, Chief Accountant of the Presidential Trust Fund for Self-Reliance (PTF) – which extends capital in the form of loans and technical advice on micro-enterprise development to targeted people in the urban and rural areas. "But sometimes our clients are not able to keep up with payments," she points out.

PTF is not alone among TGT's credit partners in wanting to seek a reduction in the interest rate and longer repayment schedules – though TGT points out that its ability to respond is limited by resources and regulations.

"We'd like to see a wholesale repayment rate as TGT is charging the same as commercial banks," says Maghembe. "Our main challenge is that we don't have enough capital and the cost of funds is high."

What PTF likes about TGT – a constant refrain



Processing a new US\$6,000 loan facilitated by TGT, Moshi-based Shah Industries which will use it to target the Chinese market, where the company's products are in strong demand.

among its clients and partners – is that it can get the funds quickly. “There’s no bureaucracy,” says Maghembe. For many this is the key attraction: TGT provides for an efficient and timely loan processing mechanism.

This means that TGT can pull in some unlikely customers, such as the long-established Moshi-based Shah Industries – which produces leather goods and handicrafts for the tourist market, employing many disabled local people.

This company is far removed from most of TGT’s client base, which have usually started as single operator outfits.

Shah has been around for more than half a century, yet looks to TGT to provide continued credit facilities. TGT has helped with getting us access to trade fairs, says Director Himat Shah. “But it is the speed with which it can provide credit that makes the difference,” he says.

### Mwanga Rural Community Bank

Travel down one of Mwanga’s main, potholed arteries, and you will come to one of the town’s largest buildings, guarded by a sole armed security guard: this is Mwanga Rural Community Bank (MRCB).

Its Managing Director, Abby Ghuhia (*pictured*

#### TGT’s credit finance

TGT operates various credit schemes aimed at providing capital to SMEs, categorised into three types:

- Wholesale: funds are provided through intermediary MFIs for on-lending. TGT supports the creation of people-owned community financial structures such as rural community banks by taking equity and facilitating technical assistance;
- Group lending: funds are provided to groups based on the traditional savings and credit societies, popularly known as UPATU; and
- Individual loans: extended to those who have graduated from the group loan schemes and whose enterprises demand larger loans. These must be fully licensed and registered with the relevant authorities.

#### TGT’s microfinance goals

- To provide on-lending facilities to/and channel funds for credit to intermediary MFIs;
- To encourage women to build saving habits as well as formulate viable income generating projects;
- To link up with Saccos as possible outlets of the wholesale credit scheme and create new areas of UPATU credit scheme to increase outreach;
- Work with AMKA in the areas of credit for pre-export financing for confirmed orders to SMEs and in marketing;
- To upscale the TGT microfinance activities into a subsidiary company; and
- To support the Community Banks Association for effective capacity building of community banks in Tanzania.

## Microfinance in Tanzania

In 2001, a National Microfinance Policy was implemented – the point at which microfinance was officially recognised as a tool for poverty eradication. Even so, microfinance still accounts for a small proportion of total bank credit. An IMF study from 2003 found that Tanzanian microfinance still accounted for less than 5% of all bank credit.

The main providers are the microfinance NGOs, some Saccos and a few commercial banks. Outreach is limited, with the outstanding microcredit portfolio representing less than 0.4% of GDP (around US\$35.3 million). Credit from the Saccos and the NGOs only amounted to 0.25% of GDP. MFIs still serve less than 2.5% of total Tanzanian households.

### New access

Extensive bureaucratic and non-transparent procedures and corruption have obstructed further access to finance. Many microfinance NGOs were heavily reliant on donor funding, while financial institutions are usually reluctant to lend to donor-dependent NGOs.

In Tanzania as a whole, the banking system has limited penetration. Only about 6% of the population has a bank account (4% in rural areas).

The Saccos remain the primary source of microfinance with a total of 130,000 members. Three commercial (or deposit-money) banks – the National Microfinance Bank (NMB), Cooperative and Rural Development Bank (CRDB) Ltd, and Akiba Commercial Bank (ACB) – are relatively new entrants in the microfinance sector.

Some of the rural banks engaged in deposit-based microfinance operations have been constrained due to a lack of a branch network.

The countrywide programme to mobilise people to form Saccos – the conduits for loans disbursement – is a concern for MFIs, given Saccos' legacy of fraud and the poor repayments rates of other politically motivated credit schemes.

*below*), has overseen the bank's rapid growth in the past seven years, servicing its mainly agricultural customer base. The bank opened its doors in 2000, with TGT providing part of the capital to meet its capitalisation requirements. Once licensed, it immediately started taking deposits and extending loans. Its current capital is near US\$400,000 and assets exceed US\$3 million.

TGT has a 12% stake in MRCB's share capital, but the vast majority are individual shareholders – more than 73% according to Ghuhia. It is now one of the main exit mechanisms for TGT's credit programmes.

Focusing on Mwangi's predominantly rural population – a mainly subsistence economy with few cash crops produced at low outputs and with low yields – the bank started to turn a profit by 2003, and by 2005 was paying dividends to shareholders worth TSh13 million. Total deposits now reach TSh2.5 billion, with loans totalling TSh1.5 billion.

### A fine balance

MRCB, like TGT itself, straddles the divide between development and commerce, says Ghuhia: "Our mission is to develop the Mwangi economy, providing financial services and credit – but our aim is also to make a profit," says Ghuhia. "We develop the economy and at the same time the bank makes a profit, and the community gets a return on its investment."

Abby Ghuhia, Managing Director of MRCB.



The current three-year business plan envisages 21% growth in total assets to TSh3.5 billion, with profit growth at about 30%.

Women are the key to MRCB's success, says Ghuhia. "We started out with women's groups, with TGT providing facilitation. We were also very well supported by the Community Banks Association that was funded by the Gatsby Charitable Foundation." Targeting women is critical because they're seen as a safer bet; they have stronger family ties and greater roots in the community. The bank's main selling point, compared to other MFIs, is the speed with which it can mobilise its credit programme.

"We have a much shorter loan-processing time – a maximum two weeks," says Ghuhia. This sets it apart from the competition.

Its link to TGT will continue. "We have a strong relationship with TGT which we see continuing. For example, we are trying to secure funding from TGT to increase our liquidity."

The bank has only TSh296million in core capital and it cannot lend more than 25%. Nor can it pool financial resources as demand deposits, as it is not able to issue cheque books to current account customers. But it has applied to convert from a non-bank financial institution to commercial bank status, which would allow it to offer such products.

### SEDA: enterprise in action

Thaddeo Mashera's career path is indicative of the rapid development of Tanzania's microfinance sector. Until 2004, the Executive Director of the Small Enterprise Development Agency (SEDA) worked in Tanzania's state-owned banking sector.

Making the move to the NGO sector presented a big change in working cultures. "We saw the need to strengthen the management. Most of the people working here were from NGOs without specific banking knowledge – they needed to have a partner who did."

Since its formation in 1996, SEDA has been funding services for micro enterprises – what Mashera calls the productive poor. From seven branches, it has a client base reaching nearly 19,000, introducing financial services to rural communities. SEDA's loan portfolio has grown from about US\$200,000 in 1997 to US\$2.9 million today.

The donor community provided initial funding – USAID was a prominent backer, as well as the US World Vision International, which continues as a key partner and its major shareholder.

### Key roles

TGT is another key partner, with 38% of its TSh1.3 billion credit facility disbursed through SEDA in the 2003–2006 period. "Our turnaround was made

possible through TGT," says Mashera.

Mashera's focus has been strategic – how to change SEDA from an organisation dependent on its foreign donors into a sustainable organisation providing credit for its mainly rural customers. Having obtained funding from the UK's Department for International Development (DFID), SEDA is undertaking a five-year transformation programme that will eventually see it turn from a charitable trust to a limited liability company – a change that SEDA believes will enable it to grow its capital base by attracting more investors, whether in equity or debt.

The aim is to transform it into a regulated microfinance company that would enable it to expand its product profile to include deposit-taking products and services. "We are highly leveraged – we have more debt than equity," says Mashera. "We want to change this lopsided ratio – and we will approach TGT to see if some of the debt could be turned into equity," he says.

Mashera's ambition is typical of the new class of Tanzanian business leaders. He moved the organisation's offices to the top of an office block in downtown Arusha, arguing that clients need to perceive SEDA as a professional outfit. He believes TGT will remain central to SEDA's future growth plans.

# The appliance of science

“It started small,” says Dr Hassan Katalambula, the energetic head of Dar es Salaam University’s pioneering College of Engineering & Technology (COET). “But it’s turned out big.”

The variety of machinery on display in COET’s vast workshop – from milling machines to more advanced agro technology – is testament to the college’s enthusiastic focus on marrying technology to economic need.

Katalambula, a graduate of Dar es Salaam University, has overseen a transformation in his centre’s activities since it first collaborated with TGT in 2001. Then, the focus was on food processing, but it has since expanded its range of activities.

The relationship with TGT started with a small cash injection, reflecting the modest ambitions of the original MOU signed in 2002: to assist SMEs to access technologies developed by COET’s in-house team of engineers and scientists.

COET, under the Principal, Professor Burton Mwamila, submitted a proposal to TGT in May of that year for Tsh290 million in funding for extended support for SME performance enhancement. It didn’t get the full sum it wanted, but still secured financing of Tsh167 million, covering a three-year period. Now the college occupies a central position in TGT’s efforts to support SME growth through the provision of access to technology, training and entrepreneurship.

Based at Dar es Salaam University’s leafy campus, the centre’s objective is to develop and disseminate technologies that have direct relevance to Tanzania’s socio-economic needs and which directly impact on the development of SMEs.

From this seed, COET has now developed a robust range of activities that have helped SMEs in a number of different ways. A number have been supported by TGT:

- Student projects that have relevance to SMEs;
- Technology development and transfer workshop;
- Country-wide SME survey;

- SME stakeholder workshops in four zones;
- Establishment of a national technology-based SME incubator programme;
- Feasibility study on shelter/housing in Zanzibar, Rukwa and Mtwara regions; and
- Establishment of the Tanzania Gatsby clubs.

The objective of the collaboration is to encourage the interface between academia and business, dispelling the ‘ivory tower’ image that some scientific centres are still encumbered by.

## SME efforts

The centre aims to further the exposure of engineering students to the issues and problems facing SMEs, providing assistance to undergraduate students to undertake final year projects which have a direct relevance to identified SMEs, and to facilitate the development of business plans for specific SMEs tapping university expertise.

More than 70 student projects have been supported, with a series of material improvements clocked up – for example, a reduction of the loss in maize flour by 20%, improvements in the quality of soya foods and solar dried fruits, and production of coco peat for tree planting.

The largest project in the TGT-COET collaboration is the technology incubator scheme, now co-financed by TGT and the US-based Carnegie Corporation.

Three incubators at Kibaha, Morogoro and Lushoto started operations in January 2006. These “incubators without walls” have led to 57 incubator clients or tenants – some 4,500 individuals – in the three localities to gain access to some incubator services, including training, expert advice or linkages to microfinance.

The incubators have key staff employed to provide support and training in specific technology issues, such as the processing of cassava, fruits, vegetables and cashew nuts.

COET’s Technology Development and Transfer

Centre (TDTC) provided equipment for cashew and cassava processing. Installation of a type of cashew nut processing plant is now complete at a cooperative society in Kibaha called UVUK – a central facility that will cover all clients in Kibaha involved in the processing of cashews. Equipment for cashew nut processing has also been installed at Tanga.

Now COET is preparing to establish a ‘with walls’

### Capital constraints

Fatima Mohammed, Chairwoman of the Nyanagana Gatsby Club in Mwanza, is adamant that the Club has made a material difference to her roadside furniture business.

Operating out of the distinctive boulder-strewn landscape of the Western lake town, she says the Club has made her products – armchairs and sofas – much more visible as a result of the joint showroom in the centre of town.

“The showroom is on a busy street and more people can see the products – as a result, business is growing.”

### More clubs

Following a template successfully established in Uganda, CoET has assisted in the setting up of six Tanzanian Gatsby clubs – pilot clubs owned by members who pay entry and annual fees, and who each run their own business.

This is being implemented in the western and Lake Zones regions – Mwanza and Tabora. The six clubs are Nyanagana, Ilemela, Sengerema and Sengerem small traders, Nzega and Sikonge.

### Close ties

The Gatsby clubs are another intervention supported by the TGT-CoET collaboration, and if they prove successful, will be rolled out across the rest of the country as well.

More than 150 Gatsby club members have started to access services – technology advice, training and showrooms and trade fairs have had a material impact on members’ sales.

incubator, to be located near the university. This will serve as an ‘incubator hub’, offering services to all the incubators without walls as well as the SMEs or Gatsby clubs. COET has already submitted a proposal to the World Bank for financing the hub.

“Incubation has assisted in at least two sub-sectors,” says the head of COET’s incubator programme, Osman. “The cassava is a food crop and the cashew is a cash crop. But cassava is also a cash crop in a way, as it is a potential source of starch and biofuel.”

### Protecting interests

Yet most of the fruits are lost during harvest and in transport to Dar es Salaam. Packaging is also a problem. “This is very important. We teach them how to improve packaging, so it doesn’t damage the product inside,” says Osman.

This still leaves a series of issues for COET to resolve, running from the use of inappropriate technologies, through low productivity, to lack of access to markets and capital.



One of CoET’s machines for producing coco peat – an example of the application of technology supporting Tanzanian enterprise.

In Kibaha, cashew nuts comprise 90% of all crops sold on the market. “We looked at the total picture,” says Osman. “We saw that if you could change the grade of the cashew you could increase its value ten-fold. For example, half a kilo sells here for around Tsh4,000. But in the US it would sell for US\$20,” says Osman.

In order to produce quality cashews, Osman saw that they would have to use another technology. This would mean steaming the nut, rather than burning it. “This improves the technology, and the wholesale price value addition starts to go up.”

## Bricks and mortar

Zaliha Mohamed has been in her house in the northern Zanzibar village of Chaani Masingi for nearly a year. “Life is better,” she says. “The mosquitoes don’t get in any more. And when there are heavy rains, the water no longer drips down into the house.”

Her new home – a simple two-room construction in traditional Swahili style – is the end-result of TGT’s new focus on low-cost housing. This has come to take on an increasingly important role in TGT’s work.

Its origins date back to 2002, when TGT and College of Engineering and Technology joined forces to assist TGTs construct and own low-cost houses. The project started with with three regions – Zanzibar, Rukwa and Mtwara.



A new house – TGT has made a direct impact on Zanzibar village women’s lives through its housing scheme.

The UN-backed NGO, Habitat for Humanity, was brought in as a collaborator, having worked on a number of other housing schemes in Zanzibar. The TGT Habitat for Humanity Tanzanian Housing (HFHT) scheme was duly born.

## Health risks

In most Tanzanian villages, families live in *tembe* or *mbavu za mbwa* houses, which are basic wooden frames covered with mud. Almost 80% of the population lives in houses with bare earth floors. These are poorly suited to the way people live, with leaking roofs leaving pools of water inside the house, providing localised breeding grounds for mosquitoes. Most houses are cramped and leave families exposed

to a number of health and safety risks, especially from ticks and insects concealed in unfinished mud walls and earthen floors.

Since May 2006, 10 of the new build houses have been in use in Zanzibar, based on two simple designs. Houses consist of two or three rooms and are built with walls of burnt bricks, sand/cement blocks or stabilised soil. Solid structures are a key feature of design, with sand cement block walls, stone foundations and corrugated iron sheet roofs.

Enjoying high ceilings, the houses are sufficiently big to accommodate typical family sizes of six to 10. A latrine is included.

In Zanzibar, TGT chose the beneficiaries from members of its women’s groups – with whom it established relations at the outset in 1992, supporting their pottery and poultry processing activities in the rural community. Continuing the holistic approach, TGT saw the opportunity to deepen the relationship. “Since they already had business activities, they were able to generate income,” says TGT’s Zanzibar Branch Manager, Teddy Kunulilo.

A revolving fund was set up, managed by HFHT, which was used to finance the construction of housing for the beneficiaries within TGT’s target communities. The average loan’s size worked out at TSh1.8 million, about TSh1 million higher than originally anticipated for a one-room house.

The sense of pride that the Zanzibar women feel in the houses is evident. The solidity of the new constructions imbues a greater sense of confidence, “It’s a matter of status – mentally they feel stronger,” says TGT Zanzibar Trustee, Ali Khalil Mirza.

The new houses have another advantage, as they could become a capital asset to provide collateral for business loans. TGT will also seek to look for more links between housing development and economic development – combining entrepreneurialism with bricks and mortar.

# Uganda

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# Building trust on new foundations

## Gatsby's Uganda operation is revamping its activities to better serve its target clients in the country's small firms

Uganda Gatsby Trust (UGT) is unique among the four Gatsby Trusts in its focus on the development of small- and medium-sized enterprises (SMEs) and in its links with the Faculty of Technology (FOT) at Makerere University in Kampala, where it is based.

The Trust was conceived in 1994 to build a link for technology transfer between the FOT and small industries around the country, which would help those firms to grow and work more efficiently, while enabling university students to gain valuable experience in the business community. However, while technology transfer and student education remain important activities, the Trust has broadened its remit considerably over the years to encourage SME growth more generally.

A few big (often foreign-owned) state utilities and financial services, phone and consumer products companies may have the marketing clout to make their presence known on billboards along the highways of Uganda, but it is local small businesses that provide the lifeblood of the economy.

### Targeted approach

UGT targets its services at a wide range of sectors from metal fabricators and timber firms to textile manufacturers, food processors, millers and even small office services set-ups. These companies usually have just a handful of employees, often working in cramped conditions and making annual sales from a few hundred dollars a year in the smallest cases to a few tens of thousands at the top end. However, they are part of sectors that account for more than 30% of employment (second only to agriculture) and around 80% of manufactured output. So there is a strong argument for saying that SMEs are the key to the country's future prosperity – if they are able to grow.

Ugandan firms have benefited substantially

from the relatively stable political and economic backdrop since President Yoweri Museveni assumed power in 1986 and, to an extent, from state support. But a lack of adequate financial backing, business and skills training and technical support have prevented many small companies from growing much beyond their initial size.

### The long haul

As an organisation with limited resources, UGT has focused on trying to do small things that make a long-term difference. While small business loans play an important role in its operations, their disbursement is closely tied to other activities such as enabling companies to develop coherent business strategies, providing staff training and improving marketing skills.

Central to the UGT strategy has been the idea that small companies can achieve more by pooling resources and sharing knowledge. This collaborative approach also helps to overcome the attitude, still evident among some of Uganda's small business owners, that the cards are stacked against them and that surviving at their current modest level is all they can expect – except, perhaps, if handouts or heavily subsidised loans from international donors come their way.

These concerns are not without some foundation. Government support for SMEs has been erratic at times and private sector lending is not as developed as in neighbouring Kenya, for example. Infrastructure is very patchy; erratic electricity supply blights the life of many a business person whose workers may be forced to down tools for hours on end during outages, roads can be poor and phone and internet services expensive. Bureaucracy at many levels of society is frequently viewed as overly complex and inefficient. And in some parts of the country, notably in parts of the

north, violent unrest has hampered economic development.

However, for all the disillusionment evident in some quarters, there are also small company owners who have confidence in the future and are able to act as beacons for the rest of the business community. One of UGT's most notable successes has been to tap into their enthusiasm and ability for the benefit of all through the innovative development of Gatsby clubs – regional centres through which UGT's services can be channelled.

### Clubbing together

UGT has now established 21 active clubs, based in the bigger towns around the country, where more than 1,500 companies have signed up for membership. These are vibrant hubs for local businesses to exchange ideas and to work with UGT to develop business services of use to the membership.

As Dr William Kalema, Chairman of UGT's board of Trustees, explains, the clubs also play an important part in forging trust among businesses – something which does not come automatically, even nearly three decades after despotic former President Idi Amin was forced to flee the country.

“A big problem in Uganda is that there is generally a low level of trust. People only trust those they have grown up with, so you can get tribalism, nepotism and corruption,” he says. “The clubs play a role in developing an enterprise family in which you can trust.”

The clubs have also proved to be ideal mechanisms for UGT to promote its other objectives, such as strengthening the ties between Makerere University and business and developing Gatsby's tree nursery programme (see *Tree section, page 12*), which is marketed via the clubs.

Activities centre on a local Gatsby club office where members meet and, in some towns, a showroom, which provides space for them to display their products in a central location: in practice, the office and showroom often share the same premises. Each club has its own board, headed up by a chairperson elected by local members, and a paid administrative assistant who handles the bureaucracy associated with the club and liaises with UGT in Kampala.

Although UGT pays the rent, or provides a loan



### Fruits of the Nile

Dried fruit exporter Fruits of the Nile is a Ugandan small business success story and one in which UGT has played an important role.

Founded in the early 1990s by its Managing Director, Angello Ndyaguma, and British fairtrade products entrepreneur, Adam Brett, the company sought to develop a way for Uganda's small farmers to boost income from their products. This involved firstly designing cheap, easily constructible solar driers for the farmers to dry their fruit and then building up an export business. Fruits of the Nile bought, processed and packaged the dried fruit for export to UK company Tropical Wholefoods, created by Brett and his partner, Kate Sebag.

Tropical Wholefoods has now merged with fellow fairtrade specialists FM Foods and is based in Sunderland in north-east England.

The natural produce of Fruits of the Nile, which includes pineapples, bananas, papayas and a range of other fruit, is now to be found in a host of items in large British supermarkets and elsewhere.

The firm's promotion of local rural drying technology rather than imported machinery caught the eye of UGT, which provided loan funding for its expansion in the 1990s and then helped to secure the land for the company's new packaging warehouse (see above), next to Gatsby's Victoria Business Park near Jinja. The presence of this thriving company there has also proved advantageous to UGT, as it has acted as an anchor investor, encouraging others to move to the park.

for the office/showroom, the onus is placed on the local club to find the premises and keep its books and membership in order. UGT can provide a wide range of services to club members, but will usually do so only if members request them. In short, the clubs are encouraged to be as autonomous as possible.

Members must pay a joining fee of US\$100,000 (US\$57) and then a US\$50,000 subscription annually after that. Joining is the only way to gain access to Gatsby club services and borrow money from UGT, which not only helps to bolster UGT finances, but also ensures commitment from new members. However, the fees mean local businesses, used to ticking along by themselves, sometimes need considerable persuasion about the benefits.

This made for a tough assignment for UGT General Manager, Dr Joseph Byaruhanga, and his small team when they toured the country in the mid-1990s to set up the first clubs.

When they held a series of seminars and visited firms in each town, they often found themselves explaining the concept to a sceptical audience. “For the first few clubs, it was more like a wooing exercise to get rid of the suspicion that we were going to ‘steal’ their knowledge,” he recalls. However, Byaruhanga says the task became much easier once the first clubs were established and news of Gatsby’s reputation as a service-provider spread.

Although UGT’s mission is to help SMEs with many aspects of their development, it isn’t surprising that initial interest from potential members usually centres on the prospect of a loan from UGT, which small businesses with very limited assets would have considerable difficulty securing anywhere else in a country with a small – if growing – financial sector.

Gatsby staff go to great lengths to stress to companies that UGT services such as the development of business plans, training and trips to trade fairs can make as much impact on their businesses in the long-run as a loan to buy new equipment – and that UGT saves the company money by providing them.

Some club members are returning home from Gatsby-sponsored journeys to trade fairs in Uganda and the wider East African region with tales of new contacts made, fresh industrial techniques acquired and export contracts agreed.



Others tell of efficiency gains from modifications to their machinery and working practice made in conjunction with the FOT at Makerere. Then there are those who have benefited from UGT assistance to move up a notch to become well-established medium-sized companies with an international profile (see *Fruits of the Nile*, page 55).

But perhaps most telling are the growth statistics for companies working with Gatsby: a survey of 51 clients borrowing a total of US\$515 million from the Trust’s loan fund between 1999 and 2004 revealed average annual rises of 14% in job creation, 18% in profitability and 20% in fixed asset values over that period.

### Next stages

In the bustling town of Mbarara, 260km south-west of Kampala, the 60 active members of the Gatsby Club have moved beyond the standard package of UGT assistance. They have collaborated with the Trust on the construction of an industrial park on the outskirts of town, providing much improved working conditions for members. A similar, though smaller, project serving the Jinja/Njeru district has also developed and should be followed by another one in Mbale in north-eastern Uganda (see *Park life*, page 64).

### Room for improvement

In some areas, good relations have some way to go. For example, Gulu Gatsby Club’s relationship with UGT has been erratic. Prolonged unrest around the northern town, linked to the guerrilla campaign of the Lord’s Resistance Army (LRA), has frequently prevented UGT staff from going there in recent years for reasons of safety. Relative calm after a truce was signed in mid-2006 has cleared the way for UGT to take a more active interest in the club and for SMEs there to adopt a more positive attitude to the development of their businesses.

Key data on pages 72–73

## Flour power

A visit to the factory of Medi and Sons in Mbale, north-east Uganda reveals a vibrant and prospering maize milling operation. But owner Mohammed Tongi says it wasn't always like that.

Back in 1993, he was working in his uncle's mill and growing rice on five acres of land. A bumper rice harvest that year provided enough cash for him to consider opening his own mill in a region where there were few.

This he did, but he was immediately faced with problems familiar to many Ugandan entrepreneurs – a lack of commercial, fiscal and marketing knowledge, the high price of raw materials, a landlord unsympathetic to the ups and downs of business and an untrained and unmotivated labour force used to employment through nepotism rather than on merit.

The enterprising Tongi wasted little time seeking advice from the Uganda Small Scale Industries Association (USSIA), which helped him to register the company and sent him on a financial management training course.

In the mid-1990s, a damaging shift in local millers' relationships with their suppliers left the company in need of more extensive support. Until then grain suppliers had been happy to receive payment after local millers had processed and sold their output. But now they wanted cash up front. UGT, which had just established its Mbale club, agreed to lend him US\$5.3 million. UGT already knew him from its training courses in the area and saw his business as a solid bet.

The timing of the loan, in December 1996, proved fortuitous. A pre-Christmas dip in grain prices enabled him to buy supplies at a good price, which he was then able to process and sell at a time of higher prices a couple of weeks later when other mills, devoid of stock, had closed for the Christmas break. He paid the loan off and was able to buy a plot on which he planned to build a new factory to replace his rented premises.



Owner Mohammed Tongi (standing, second right) with workers at the Medi and Sons factory in Mbale, with Ibrahim Kasule, UGT's Operations Manager (right).

From there the relationship between Medi and Sons and UGT went from strength to strength. On top of further training, Tongi joined UGT-sponsored visits to trade fairs around Uganda, Tanzania and Kenya, meeting new customers and picking up tips on how to improve packaging and marketing. The quality of his products – and his sales – improved as a result, he says.

In 1999, another UGT loan, this time for US\$6 million, provided the funds to build on the new plot, where Medi operates today. The Trust also put Tongi forward to train as a consultant on the Master Craftsman Programme of the UN Industrial Development Organisation (UNIDO). Now he acts as an advisor to other small companies feeling their way through Uganda's business jungle.

UGT itself is now also benefiting from the skills and experience of the businessman whose company it was able to assist a decade ago, having co-opted him on to the board of Gatsby Uganda Limited (GUL).

Meanwhile, the company is flourishing, producing 2,400 tonnes of milled products per annum, generating sales of around US\$80million and profits of some US\$15 million.

# A productive partnership between campus and commerce

The relationship between UGT and the FOT at Makerere University has been crucial in shaping the Trust's present day operations.

From its inception, UGT has incorporated technology and know-how from the university into its mission to assist Uganda's small manufacturers, tapping into the resources of the faculty and playing host to 2,500 of the 35,000 students that attend Makerere, the region's biggest academic institution. Meanwhile, UGT provides the FOT with a conduit from academia to the highly practical world inhabited by Gatsby Trust members – a world in which Makerere students may well end up working and indeed one in which many will need to work if Uganda's SME sector is to grow.

"UGT has become the main link between the university and the private sector," says Barnabas Nawangwe, Dean of the FOT and member of UGT's board of Trustees.

UGT's offices are housed in the FOT building, its garage – a vehicle workshop – is based nearby and its foundry project (*see right*), recently relocated to the town centre, was originally situated on the campus. The Trust incorporates the faculty's teachers, students and facilities into its operations, provides scholarships to talented but poor students and has a strong representation of university personnel on its board of Trustees. Qualified engineers are also to the fore in UGT's structure. General Manager, Dr Joseph Byaruhanga, is a Makerere graduate and respected metallurgist, who ran his own metal fabrication firm for a number of years before he joined the Trust.

While UGT's activities have extended considerably to include many aspects of small-scale enterprise (SME) development, the FOT relationship remains central.

The faculty participates in training courses, introducing SMEs to new skills and working

## Gatsby Foundry

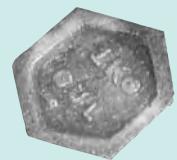
UGT's foundry, like the Gatsby garage, is revamping its operations to put it on to a commercial footing, laying the foundations for challenging times ahead.



Located in the heart of central Kampala's small business district, behind the city's Gatsby club office, the foundry underwent substantial renovation in 2006, following two years of idleness. The small staff produces a range of cast products made from iron,

aluminium, copper brass and bronze for some notable customers. These include brake blocks and further parts for Uganda Railways, quarrying firms and others with their own rail operations. Other products include manhole covers, weights (*see photo*) and industrial-sized saucepans.

Now part of GUL, the foundry must balance its original focus on training for small-scale foundry operators and providing hands-on experience for Makerere University students, with boosting its cash-generating activities. This means expanding the operation, so UGT has been beefing up staff numbers. It has also been training



personnel

on how to administer the business and better compete for orders in a crowded marketplace.



practices and helps to develop technology tailored for local businesses. The importance of such technology transfer both for Gatsby club members and to UGT and the FOT – especially if it results in new commercially-viable products – has led to the creation of a new innovations department at UGT to act as a technology development hub.

### Work together

The university is also playing a major role in UGT's workspace project, with the FOT's design business, Technology Concepts, currently working on the design of UGT's Mbarara industrial park.

Some Makerere students are assigned to Gatsby club member companies to gain experience of working in a small business. This can be illuminating for engineering and technology students, many of whom see large private companies and the state utilities as being their career destinations, overlooking the potential of growing small firms.

"Students want to go to big enterprises, but SMEs are where it all starts," says Badru Kiggundu, former Dean of the FOT, who worked closely with UGT in its early days and remains a board member. He says input from graduates can help take a small firm to a higher level, where its products become more saleable to big industry.

Discussions with a class of first and second-

year Gatsby scholarship students in early 2007 revealed that many still needed to be convinced that starting small is beautiful. Although one or two thought they might join or launch a small firm on graduation, the majority were hoping for jobs with the likes of Uganda Telecom and other big companies. However, these students had yet to do their work experience, so they may yet develop a taste for SME culture.

In place since 2004, the scholarship scheme provides 16 scholarships a year to children from poor families, with UGT funding covering tuition, accommodation, industrial training and other fees. Joseph Byaruhanga says the scheme provides a good platform to change attitudes and he believes that FOT students would benefit greatly from further work experience with small industry. To this end, he is considering proposing that all scholarship graduates should work for one year in a small-scale industry at the end of their course, perhaps producing a thesis based on it.

Meanwhile, UGT-Makerere cooperation is set to move up a gear, if the go-ahead is given for a new building complex on the campus, housing much-needed larger offices for the Trust, a technology transfer and innovation centre and incubator workspace. The university has said it will donate the land.

### Innovations at Makerere

Robert Semukaaya (right), UGT's Innovations Manager, holds paper products made from banana fibre.

The machinery that manufactures the paper – and the associated training for university staff and students – has been provided through the Japan International Cooperation Agency (JICA) as part of a US\$91,200 demonstration project to enable UGT and Makerere University's Faculty of Technology to build a stripped-down version of their own.

The local machine is expected to cost a tenth of the price of the Japanese original and will be made mainly from local resources. Tonnet Enterprises, a member of the Kampala Gatsby Club, will carry out the metalworking on the new equipment.

Once it is built, the innovations department will investigate possibilities of marketing the new technology. UGT hopes this will be the first of many similar projects.



# The challenges of scaling-up

All of Gatsby's African Trusts are now working on how to ensure their future sustainability. At UGT, this thinking has already triggered a substantial overhaul of its operations to make them more efficient and to generate sufficient income to finance its future plans.

## New strategies

Much effort was expended to produce the Trust's 2006–09 strategic plan, published in June 2006, which provides a detailed conceptual and financial assessment of how UGT wants its activities to develop over that period, including the building of internal capacity and sustainability. This marks a shift in gear for UGT, whose previous three-year plan was described as reading "more like a progress report than a strategic plan", by David Irwin, of Irwin Grayson Associates, a UK-based consultancy on small business development brought in by UGT to advise on its restructuring.

In fact, the Trust has had a framework for offering paid-for services in place since its inception. The Gatsby garage (*see right*), foundry and the loans division, have all generated revenue, even if that income did not necessarily translate into consistent profits. Now the pressure is on for these operations to generate regular cashflow for the Trust, to be combined with income from relatively new operations, such as Gatsby's fast-expanding tree nursery programme and the opening of the new industrial parks.

This move towards greater profitability has triggered a major restructuring at UGT, partly necessitated by the legal requirement under Ugandan law for NGOs to form distinct registered companies to operate profit-making activities.

This means that since 1 April 2006 the credit operations of UGT have been incorporated separately into Gatsby Microfinance Ltd (GMFL),

while Gatsby Uganda Ltd (GUL), formed in 2002, now runs the operations of the garage, foundry, industrial parks and other workspace.

## New roles

The revised structure has also led to a revamp of staff responsibilities and the creation of new posts. In 2006, Charles Mulagwe brought his experience of working for the United Nations to the post of GUL Business Manager, while Barbara Kayanja has continued to lead UGT's credit operations, becoming Chief Executive of GMFL. Ibrahim Kasule, previously a Senior Executive with Shell in the East Africa region, filled the new post of Operations Manager in early 2007. He supervises day-to-day running of UGT activities, freeing General Manager, Joseph Byaruhanga, to focus on strategic issues.

Expansion has meant finding more office space. The Operations Manager, GUL, GMFL and the tree nursery project management are now located on a floor of another building in central Kampala. UGT is also considering investing in a new building to house its office on the university campus (*see previous article, page 58*).

## Strong lines

The clear delineation between UGT's constituent parts resulting from the restructuring should help with the process of developing workable future strategies and of improving accountability among its staff.

GUL and GMFL have their own boards to oversee operations and strategy, distinct from that of UGT itself – though with some overlap, including the presence of the UGT General Manager on all three. Specialists with in-depth knowledge of the regional financial and commercial sectors have been appointed to the boards, bringing much needed specialist expertise to strategy sessions.



### Garage gets overhaul

Gatsby's training garage (see above), close to UGT's offices on the Makerere University campus, provides vehicle workshops for mechanics and work experience for students, who complete three-month vocational assignments there.

Handling all types of vehicles up to 10 tonnes, staff carry out the full gamut of tasks, including servicing, chassis work, body sprays and electrical repairs. In early 2007, five permanent staff were complemented by around 15 casual workers, five trainees and some students.

Previously run on informal lines, the garage is now required to improve its profit-making ability, having been incorporated into Gatsby Uganda Limited (GUL) in 2006. This switch to formal business operation has proved a challenging one for staff, who must now grapple with detailed accounting, the imposition of VAT – not always popular with clients – and other administrative necessities. A temporary coordinator was hired in December 2006 to help with the change-over.

Improving facilities, increasing the number of customers – currently mainly people working on the campus and their friends – and improved debt collection are now priorities.

### Different views

The discussions leading up to the publication of the 2006–09 strategic plan highlighted differing shades of opinion among board members and the Trust's advisors over whether a radical expansion of its activities is practical or desirable.

Consultant David Irwin indicated that UGT should beef up its portfolio of activities considerably, to expand its client base and move towards sustainability. "UGT is doing a great job with the clients that it supports but needs to look for ways of reaching many more. The team has some great ideas for expanding UGT's work, but need to be more ambitious and more impatient about bringing them to fruition," he concluded in his 2006 strategic review of the Trust. The UGT is already reviewing this.

Irwin favours pushing ahead with plans to develop a new UGT building at Makerere containing offices and workspace, expanding the Trust's role in fostering the development of new manufacturing technology at the university, perhaps with a view to generating income from licensing it and generally expanding its services as rapidly as possible to a wide range of clients.

While many of these suggestions were welcomed by the UGT staff and board, some suggest the pace of change may need to be measured, given UGT's limited resources and the fragile local business environment.

### Moving forwards

William Kalema, UGT's board Chairman and one of the country's best-known businessmen, is pushing staff to maximise the potential of the Trust's activities by increasing Gatsby club membership and increasing its loan portfolio. But Kalema, who was also a member of the UK-backed Commission for Africa, sounds a note of caution. "In Uganda, life is unpredictable and we welcome a bit of stability," he says. "Gatsby is not going to cause a revolution and we can't cater for everyone – we can only demonstrate the possibilities."

Whatever the differences of opinion over the pace and extent of change, there is no dissension from the view that the Trust must change and that those changes outlined in its strategy plan currently being implemented are necessary if it is to survive in the long-term.

# Separating wheat from chaff

Barbara Kayanja, Chief Executive of UGT's loan division Gatsby Microfinance Limited (GMFL), says she is always the one who is asked the most questions at the Gatsby club meetings she attends around the country. Whatever else may be on offer to members in the way of business-improving technology, marketing advice and so on, it is the prospect of finance that gets top billing for Uganda's cash-strapped small firms. "The demand is overwhelming," she says. "We always have more requests than we can meet."

This, of course, makes Ugandan companies no different from small firms the world over. The benefits of a cash injection to buy equipment, purchase supplies or hire more staff are more tangible and more readily appreciated than advice on business strategies that might produce gains several years later.

It is also little surprise that hundreds of companies of varying levels of stability apply for GMFL loans because there are few, if any, other sources where they can expect to obtain funding. UGT has positioned GMFL to occupy the space between traditional microfinance, on the one hand, which might, for example, provide a few tens of dollars on a short-term basis for a market stall owner to buy fruit from farms to sell on and, on the other hand, making available commercial bank lending of, say, US\$10,000 to medium-sized firms. Between these two points are thousands of businesses receiving little support from either the state or commercial institutions.

## Where it counts

GMFL fills the gap by offering loans of US\$3 million (US\$1782), US\$6 million, US\$10 million or US\$15 million for periods of one or two years at interest rates slightly below those offered by commercial banks. Successful first-time loan applicants are offered US\$3 million initially and can then work their way up through the larger amounts

on offer, if they need them, as they pay off their existing loans. By the time a company has paid off a US\$15 million loan, the assumption is made that it should now be able to borrow from the regular commercial banking sector, although GMFL is now considering whether it should offer higher amounts to its best clients. GMFL grants a grace period of two months on working capital loans and 2–4 months on loans for machinery, giving borrowers time to reorganise their business before starting to pay GMFL back.

Where GMFL's service really differs from that of other institutions is in the way its lending is channelled through the Gatsby club network to highlight the other benefits on offer. Borrowers must also show some financial commitment themselves, by paying for a club membership and making a loan application, and they must use the business development services offered through the clubs by UGT.

This strict approach leads to disappointment for those loan applicants who haven't produced a plausible business plan and may even be expectant of a *carte blanche* on how to spend the money – something which is definitely not part of the UGT package. GMFL currently has 400 loan clients out of a total club membership of 1,500 companies.

## Balancing the risk

Lending to small businesses with few tangible assets is a risky business for any institution – hence the dearth of lending to this sector – but it is one for which GMFL is well-suited, according to UGT board Chairman, Dr William Kalema. "Our collateral is that we know the borrower," he says, arguing that few people in a tightly-knit local business community linked through a Gatsby club want to lose face by defaulting on a loan.

Gatsby has capitalised on this by adopting a peer group approach to its lending, which means that loan recipients are usually put together in groups of



One of LEEM's employees at work (see page 65).

four companies from the same Gatsby club, none of which will be able to get a further loan from Gatsby until all the firms in the group have paid off their loans. Good payers will put pressure on the slackers to pay what they owe, to further their own relationship with Gatsby and the Trust can be more confident of getting its money back. This system has proved successful enough to remain central to GMFL's lending strategy, though, in practice, some companies with a long and successful relationship with UGT can apply for loans independently of the peer group process.

### Riding the storm

Despite some eye-catching successes, Gatsby's loans business has had occasionally suffered from a combination of unforeseeable circumstances, the perils of working with financially fragile companies and, in some cases, lending misjudgements.

Its biggest setback was the collapse, in the late 1990s, of Uganda's Cooperative Bank, through which UGT had channelled its lending by acting as guarantor on a section of the bank's loan portfolio targeted at small firms. Outstanding loans dating back to that period still create a blot on GMFL's performance record, having cost US\$157 million in unrepaid loans.

### Standing firm

GMFL's five-year business plan, compiled with independent consultants Friends Consult and published in January 2007, showed the proportion of its portfolio classified as being at-risk had fallen sharply over the preceding few months. However, GMFL admits this was in large measure due to the diluting effect of a recent increase in lending, rather

than improved arrears collection. Wiping out these longstanding debts is now a priority for the organisation.

Since UGT created its credit department in 2000 after the Cooperative Bank episode, the Trust has lent US\$1.1 billion. In March 2007, GMFL had 396 clients on its books, of which 68 were regarded as slow payers.

Barbara Kayanja says the situation should continue to improve given GMFL's tighter operating framework. As an independent entity with its own board, including experts on the local finance sector, loans procedures are expected to remain strict and closely scrutinised, even as GMFL plans to more than double its outstanding loan portfolio to over US\$3 billion in the year 2011–12, from the US\$1.4 billion projected for 2007–08.

### On its own feet

GMFL is now viewed as a pivotal part of the effort to bring UGT closer to financial self-sufficiency. It was making a small loss in late 2006, in terms of net income, but staff are confident that once new procedures were bedded in, the financial situation would improve markedly.

New services planned for the next few years, driven by demand from club members, will be important in achieving this. They include factoring, machine leasing, sub-sector company loans (where GMFL helps a group of similar firms to pay for services and items that they could not afford individually), tender-support loans, tree planting loans and asset acquisition loans (for good clients needing high value loans).

For this diversification to be successful a big marketing effort will be required that seems to have been missing in some areas of the country. Some Gatsby club members say feedback from UGT on why loan applications have failed is limited, leaving them with little idea of what they need to do to secure a loan next time they apply – an issue UGT staff say is being addressed.

Much has been done already to make operations more efficient. For example, GMFL has grouped its branches into four operational regions as a precursor to decentralising many of its functions to offices that are more in touch with their client bases and that are better able to handle the increased workload as GMFL expands its portfolio and services.

# Park life: a new business environment

The industrial parks being developed by UGT around Uganda for its club members are the most visible signs of the Trust's activity, so their success is crucial if UGT is to maintain its good reputation in the business community.

After a difficult gestation period in a country where such schemes are rare, units in the two parks now under construction at Mbarara and Jinja are now starting to fill up. For most of the small firms involved, moving to a park is a revolutionary step, taking them from what are often confined and rudimentary back street premises with high rents in the town centre to spacious, solidly built units on the edge of town, with the prospect of a more secure electricity supply, internet provision and other communal facilities.

## Sharing resources

Also of benefit is the ability to share business resources, especially with companies from the same sector – in fact, at Mbarara, the blocks of



A block at CGF's Mbarara Industrial Park nears completion. Behind it on the hill is UGT's new regional tree nursery.

units will each be dedicated to one sort of activity where possible, including garage workshops, metal fabricators, food processors and woodworkers, to capitalise on the advantages of clustering.

But perhaps the most important advantage is that park occupants who could previously only afford to rent their premises, will eventually own their units, once they have paid-off 12-year loans provided by GMFL. This will give them a solid asset on which to build their businesses.

## Unit trust

At the Victoria Business Park near the adjoined towns of Jinja and Njeru, the main block is now complete, providing 13 units, mostly of 52 sq metres, and a park office. By March 2007, one occupant – GT General Producers, a small wine-making business – had moved in, occupying two units, while two others were on the point of doing so. Mbarara is a more ambitious scheme, occupying a five-hectare site. Six blocks of 12 units each constitute the first phase, with more planned. Each unit covers 60 sq metres inside and a frontage of 120 sq metres. Two blocks were inaugurated by Gatsby staff in November 2006, with the rest of the first phase and the associated infrastructure scheduled to be completed in 2007.

## From the ground up

In keeping with UGT's ethos, local Gatsby club members were heavily involved in the projects, firstly needing to show there was sufficient demand among them for the parks and then being set the task of finding the land on which to build them.

However, coordinating the initial funding of such an expensive project has necessarily been the responsibility of UGT. In the case of Mbarara, this has involved putting together a multi-party financing package of a type which is likely to

become commonplace as the Trust's activities become more ambitious. The Gatsby Charitable Foundation put in £150,000 (US\$0.51 billion), the UK's Department for International Development (DFID) contributed £120,000 via its Business Linkage Challenge Fund and local Gatsby club members added nearly £7,000.

This was complemented by a loan of US\$1.09 billion from the East African Development Bank (EADB). Charles Mulagwe, Business Manager at GUL, which is responsible for building the parks, says this financing marks a new departure for EADB, whose

### Surging sales

In a country infamous for its power surges and 'load shedding' blackouts, Kampala-based Lwanga Electrical & Electronic Machines (LEEM) has no shortage of customers for its products. Voltage stabilisers, transformers and systems that switch instantly between the grid and locally generated power supply are in heavy demand.

Charles Lwanga, the firm's Managing Director, knows he has his work cut out to compete with cheap imports from the Far East, but believes his customers prefer locally made equipment because it is more reliable and spares are more readily available.

"We have good quality, otherwise we wouldn't be able to compete with the bigger companies," he says.

LEEM's operation remains a relatively small one, employing 10 people. But its sales have doubled to around US\$100,000 between 1999 and 2006 and its profit margins are high. Now Lwanga wants to increase production and cut margins so he can sell at more competitive prices.

UGT has supported LEEM over the last decade or so, providing three one-year loans of increasing size to provide working capital used mainly to import components – the last one paid off was for US\$10m. "Gatsby could see I was able to pay, so they gave me more," he says. "Now I can think about going to a bank because I have collateral."

previous involvement in similar schemes had been based on returns from rental income, rather than what are effectively mortgages. "They were hesitant to start with, but now they can see they won't lose their money," he says.

The same might also be said of the businesses in Jinja/Njeru and Mbarara themselves. While a hard core of club members could immediately see the benefits of a move to the parks, others regarded it as an overly expensive gamble. However, now the first occupants are moving in and the long-term benefits have become clearer, others are queuing up to take units. Mulagwe says that even if some club members who initially expressed interest fail to follow through on it, the demand from elsewhere in the local business communities should ensure a rapid take-up of units – and reinforce the active membership of the Gatsby clubs.

### The bigger picture

Assuming his optimism is vindicated, the parks should also be a valuable revenue generator for UGT, given the role of GMFL as chief lender to unit-holders. While a unit at Mbarara costs around US\$30 million, the total paid out to GMFL over the 12 years of the loan, given a 24% fixed interest rate on the declining balance, would be around US\$70 million.

The idea is to expand the network of industrial parks around the country with others in Mbale, Lira and Arua planned for the next five years, but much hard work will be needed to get them off the ground.

The Mbarara park, while on track now, took several years to get going. There were problems obtaining land before the present site, next to the town's other prominent industrial establishment – the Coca-Cola plant, was secured. At Mbale, 20 acres of land for a proposed park has been provided by the government, but internal differences among local Gatsby club members and other businesses over how it should be developed has hampered progress.

However, UGT and club members have patiently overcome such problems in the past and they will have a huge advantage in the future of being able to show potential occupants and funding partners their existing industrial parks as proof of what can be achieved.

# At a glance

## Cameroon Gatsby Foundation

### Origins

The Cameroon Gatsby Foundation (CGF) was set up in 1994, with the goal of helping groups of women farmers and entrepreneurs, particularly through the provision of finance and building on the country's strong indigenous micro-credit culture. Business development services were gradually built up as a complement to the lending activities.

### Vision

That by 2010 all women are empowered, through access to, ownership of and control over productive resources, to start and grow a business.

### Mission

CGF's purpose is to empower low-income women to help themselves out of poverty through the provision of microfinance and business support to women's entrepreneurship.

### Activities

Headquartered in Douala, CGF activities have so far been dominated by grassroots lending. The Foundation is not licensed to take savings deposits. Business development support plays a secondary role, but is now set to expand:

- Clients are organised through local groups, typically numbering a handful of members; these in turn belong to local associations in villages and towns scattered across the anglophone provinces of South West and North West and the francophone provinces of Ouest and Littoral;
- Crucial to CGF operations are its close partnerships with the MC2 local banking network of Afriland First Bank and the MUFFAS women's savings and loan institutions; repayments on Foundation loans are collected through MC2 and MUFFA offices; and
- The Foundation maintains an intensive



Members of the Gatsby Women's Association, Bangangté, Haut Nkam (Ouest province).

programme of visits by head office staff and provincial coordinators – government officials seconded to work for CGF – to local associations, to discuss local needs and encourage reliable repayment of loans.

### Future strategy

CGF's strategic plan for 2007–10 envisages the reinforcement of business development services, in response to the demand from women's groups for more assistance with marketing and the development of sales opportunities; a study of repayment rates concluded that the strengthening of non-financial services would also help to encourage clients to repay their loans on time. The Foundation is recruiting a Projects Officer to handle the business development work.

It is also intensifying its partnerships with other Cameroonian grassroots financial institutions such as Mitfund and the MUFFAS; the latter could offer a route for the provision of CGF support in regions where the Foundation lacks an on-ground presence of its own.

Partnership with Habitat for Humanity, to support housing development, and with the Cameroon-based African Research Centre on Bananas and Plantains (CARBAP) has also been under consideration.

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## Key personnel

**General Manager:** Susan Elango

**Finance Manager:** Marcous Dajeu

## CGF Board of Trustees

**Alamine Ousmane Mey** (Chairman): General Manager, Afriland First Bank

**Hon. Dr. Jacob Ayuk-Takem:** Chairman, National Institute of Cartography

**Dr Paul Fokam:** President, Afriland First Bank

**Laurence Cockcroft:** Representative of Gatsby Charitable Foundation

**Dr Kodjo Tomekpe:** Director, Centre Africain de Recherche sur Bananiers et Plantains

**Dr Joyce Endeley:** Head of Department, Women and Gender Studies, University of Buea

## Financial highlights

	2005	2006	2007 ( <i>est</i> )
	CFA	CFA	CFA
	('000s)	(000s)	(000s)
Profit & Loss			
Grants (GCF)	172	145	145
Interest on loans	74	83	113
Other interest	12	20	21
Other income	18	4	4
TOTAL	276	252	283
Expenditure			
Running Costs	73	192	148
Loan Losses	9	8	9
Depreciation	8	6	10
To Endowment	25	22	55
TOTAL	115	228	222
Operating Surplus	161	24	61
Loans disbursed during year	678	787	933

CFA 500=US\$1

**Note:** the accounting for financing and income flows is being revised under new systems; for 2007, the CGF is budgeting on the basis of its own income – projected at CFA138 million – and a grant of CFA145 million from the Gatsby Charitable Foundation.

# At a glance

## Kenya Gatsby Trust

### Origins

Kenya Gatsby Trust (KGT) was established in 1991 to facilitate the development of the micro- and small-enterprise sector. During the 1990s, it explored a number of approaches to accomplishing this; since 2000 it has refined its approach, withdrawing from wholesale microfinance to concentrate on support for the development of small businesses and livelihoods at community level, specialist SME finance and trade support and project management.

### Vision

To become a leading institution playing a facilitative role in the development of innovative business development and microfinance services.

### Mission

KGT is a non-profit organisation that supports the micro and small enterprise sector to grow and increase productivity for wealth creation.

### Activities

KGT has sought to help potentially viable economic activities to become commercially sustainable and thus generate incomes for the poor. Today, its service portfolio encompasses a number of elements.

- Measures to improve the quality of production, processing and marketing by small farmers and craft workers and to help small urban entrepreneurs to access markets;
- Factoring finance for small and medium businesses; other specialist small business finance products, such as leasing, are under development;
- Working with the technology faculty at Jomo Kenyatta University of Agriculture and Technology to bring practical innovations to small businesses and help entrepreneurs meet



Mwana Haja Shee (left), Chair of the women's group at Ndau (Kiunga archipelago), jokes with a fellow villager.

technical regulatory and commercial standards;

- Project management for other organisations, such as the Ethical Tea Partnership (ETP) and the Kenya Tree Biotechnology Project (TBP); the latter has been expanded into a nationwide programme to help villages take up community forestry as a source of income and to reduce pressure on the environment; and
- Policy intervention work, lobbying central and local government for policy and regulatory changes, or project approvals that would benefit small-scale producers.

In organisational terms, these strategies are delivered through a series of specific sector or product programmes managed by head office specialists, and through a regional strategy to support the development of livelihoods in a range of communities along the Kenyan coast.

The focus is on achieving impact at the practical grassroots level, improving and diversifying incomes and trade opportunities for small entrepreneurs and some of Kenya's poorest rural communities.

## Head Office

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## Key personnel

**Constantine Kandie:** Acting Chief Executive  
**Beatrice Obara:** Head of Financial Services  
**Jane Mung’oma:** Head of Business  
Development Services:  
**Peter Githinji:** Head of Project Management,  
Finance & Administration  
**Tom Were :** Head of Policy, Fair Trade &  
Consultancy

## Financial highlights

Kenya shillings	<b>Inflows</b>
Grants, loans and loan reflows	40,670,511.00
<i>including: GCF grant for 2005–06</i>	33,383,205.00
Operating income	10,807,803.15
<b>Total inflows</b>	<b>51,478,314.15</b>
<b>Outflows</b>	
Staff and administration costs	30,180,366.61
Fixed assets costs	4,039,369.00
<i>including: motor vehicle</i>	3,477,110.00
<i>furniture, training equipment</i>	562,259.00
Programme administration, technical support, MicroSave, TBP, IFAD, DFS	273,569.00
Business development services	11,973,628.00
<i>including: fair trade policy &amp; advocacy</i>	1,182,083.00
<i>natural resource products</i>	3,561,668.00
<i>linkages, regional market access, subcontracts</i>	1,011,978.00
<i>food processing/agribusiness</i>	3,399,990.00
<i>technology trade and transfer</i>	2,817,909.00
FSD programme	3,878,324.00
<i>including: factoring loans for disbursement</i>	2,550,942.00
<i>product design, refinement, documentation</i>	65,268.00
<i>marketing material, development, promotion</i>	538,769.00
<i>monitoring, recovery of old loans</i>	350,550.00
<i>portfolio management of new loans</i>	12,700.00
<i>factoring management software</i>	4,350.00
<i>internal capacity building</i>	352,229.00
<i>collaboration with others /Ashden</i>	3,516.00
<b>Total programme costs</b>	<b>16,125,521.00</b>
Investment in endowment fund	3,037,500.00
Prior year adjustment /gratuity	—
<b>Total outflows</b>	<b>53,382,756.61</b>

# At a glance

## Tanzania Gatsby Trust

### Origins

The Tanzania Gatsby Trust (TGT) was first registered in 1992 as a charitable organisation for poverty alleviation by enabling hundreds of SMEs to carry out productive and profitable enterprises.

### Vision

The vision of TGT is to work in partnership with others striving towards an enterprising Tanzania in which prosperity is widely distributed.

### Mission

The mission of TGT is to harness, channel and unleash human energy to build social, financial and physical capital through entrepreneurship development, technology transfer, training and poverty alleviation.

### Activities

TGT has developed a wide portfolio of activities for SMEs, reflecting the wide diversity of small-scale business activity in Tanzania. Its services stretch from the provision of credit finance, marketing support – aiming to assist SMEs in the manufacturing sector to access local and international markets primarily through trade fairs and exhibitions – training, technology support, low-cost housing, and endowment and asset building.

- Provision of credit finance: TGT operates various credit schemes aimed at providing capital to SMEs. Categorised into three types: wholesale, group lending and individual loans;
- Marketing support: TGT marketing strategies aim to assist SMEs in the manufacturing sector to access local and international markets primarily through trade fairs and exhibitions;
- Training: TGT has developed tailor-made training programmes to build the capacity of the clients in the areas of skills development, and business management;
- Technology support: TGT's technology support to SMEs primarily takes the form of training in solar drying technology, food processing, leather tanning technology, woodworking, textile technology, and renewable energy;
- Low cost housing: The initiative of responding to the housing needs of TGT beneficiaries dates back to 2002, as part of its efforts to help poor people acquire physical capital/assets; and
- Endowment building and asset development for sustainability and greater output.



A tree nursery in northern Tanzania: an example of TGT's support for biotechnology projects.

## Head Office

Tanzania Gatsby Trust  
Samora/Morogoro Road  
3rd Floor PPF House  
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Tanzania

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## Key personnel

Mrs Olive D. Luena: General Manager

## TGT Trustees

Epaineto Toroka: Chairman of the Board of Trustees

BK Tanna: Trustee

Ali Khalil Mirza: Trustee

Hon. Kate Kemba: Trustee

Laurence Cockcroft: Trustee

Mrs Ndema Mbise: Trustee

Mrs Consolata Ngimbwa: Trustee

## Financial highlights

Income and expenditure statement (tsh,000)			
Year	2006	2005	2004
Income	1,258,883	1,228,473	836,861
Expenditure	989,379	936,357	500,948
Surplus	269,504	292,116	335,913
<b>Balance sheets</b>			
As at 31 December	2006	2005	2004
	Shs'000	Shs'000	Shs'000
Capital employed			
Retained surplus	<u>1,937,131</u>	<u>1,603,455</u>	<u>1,196,633</u>
<b>Represented by</b>			
Fixed assets	18,477	22,949	19,788
Investment	280,445	40,000	20,000
Endowment fund	<u>444,310</u>	<u>366,961</u>	<u>297,579</u>
	<u>743,232</u>	<u>429,910</u>	<u>337,367</u>
<b>Current assets</b>			
Debtors	900,186	871,985	586,341
Withholding tax deducted			
Cash and bank balances	<u>366,763</u>	<u>415,956</u>	<u>301,987</u>
	<u>1,266,949</u>	<u>1,287,941</u>	<u>888,328</u>
<b>Current liabilities</b>			
Accruals and provisions	73,050	114,396	29,062
Net current assets	1,193,899	1,173,545	859,266
Net worth	<u>1,937,131</u>	<u>1,603,455</u>	<u>1,196,633</u>
Increase (decrease) in net worth	<u>333,676</u>	<u>406,822</u>	<u>219,435</u>
Increase (decrease) in net worth	<u>(21%)</u>	<u>34%</u>	<u>22%</u>

# At a glance

## Uganda Gatsby Trust

### Origins

Founded 1994 as a non-governmental organisation with seed funding from the Gatsby Charitable Foundation (GCF), which continues to support the Trust through grants.

Initially focused on promoting cooperation between Kampala's Makerere University and industry, it has now broadened the scope of its activities to provide a range of support for small firms.

### Vision

To become a model of group-based small enterprise development in Uganda and beyond.

### Mission

To enhance competitiveness and growth of small enterprises by providing access to know-how productive capacity, finance and markets.

### Activities

UGT is more oriented towards developing the local small business sector than its counterpart Trusts in Cameroon, Kenya and Tanzania. It operates in a way that is unique in the region, having set up a network of 21 Gatsby Enterprise Clubs in Uganda's main towns, which local small- and medium-sized enterprises (SMEs) must join in order to gain access to UGT's services.

These operations to assist SMEs include:

- Training in business, technological and other skills;
- Access to business development services (BDS);
- The development of industrial parks to improve the working environment and opportunities for SMEs.
- Helping firms to promote their goods around Uganda and elsewhere in East Africa at trade fairs and by other means;
- Providing loans to facilitate business growth;
- Using UGT's close ties with Makerere's FOT to



Gatsby garage, Uganda.

strengthen ties between the faculty and SMEs and enabling technology transfer to SMEs via its Gatsby Centre for Enterprise Promotion (GCEP). UGT also supports students in the FOT by exposing them to the potential of the SMEs sector, enabling them to gain work experience with SMEs, providing scholarships to talented but poor engineering students and by giving students the opportunity to develop innovative technology.

The Trust aims to strengthen its links with the government, financial institutions, larger companies and development partners.

### Reorganisation

In line with the need to move on to a sustainable footing, UGT has revamped its activities to generate more of its own income to fund expansion of its client services. This has resulted in the creation of two registered companies to house its loans business (Gatsby Microfinance Ltd) and a range of other potentially profitable activities, including industrial parks and its foundry and garage (Gatsby Uganda Ltd). UGT is also fast-tracking its tree nursery project, which offers the prospect of improved timber yields for customers and increased revenue for the Trust.

## Head Office

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[gatsby@tech.mak.ac.ug](mailto:gatsby@tech.mak.ac.ug)

## Key personnel

*(all contactable through switchboard)*

### UGT

General Manager: Dr. Joseph Byaruhanga

Operations Manager: Ibrahim Kasule

### Gatsby Microfinance Ltd

Chief Executive Officer: Barbara Kayanja

### Gatsby Uganda Ltd

Business Manager: Charles Mulagwe

## UGT Board of Trustees

**Dr. William Kalema (Chairman):** Director,  
UMACIS Consulting

**Prof. Livingstone Luboobi:** Permanent Trustee/  
Vice Chancellor, Makerere University

**Laurence Cockcroft:** Permanent Trustee/  
Gatsby representative

**Dr. Badru Kiggundu:** Chairman Electoral  
Commission of Uganda

**Dr. Frank Sebbowa:** Chief Executive, Energy  
Regulatory Authority of Uganda

**Ivan Kayayonka:** Chief Executive, Shell Uganda Ltd

**Geoffrey Bikwatsizehi:** Retired banker/Owner KMF  
(metal fabricator)

**Irene Matumba:** Management Consultant/  
Operations Manager, Kilimo Trust

**Dr. Barnabas Nawangwe:** Dean, Faculty of  
Technology, Makerere University

## Financial highlights

### Income and expenditure statement (Ush)

*Year to 31 March 2007*

**Income** 1,402,232,181

Including *(among other items)*:

Grants 1,352,531,415

Revolving loan interest 16,675,015

Tree Planting project Income 16,002,060

Membership fees 5,390,000

Expenditure 1,077,334,459

Including *(among other items)*,

Tree planting project expenses 342,413,000

Banana paper project expenses 185,527,020

Gatsby scholarship expenses 114,576,000

Gatsby club expenses 73,605,000

**Surplus** 324,897,722

### Selected items from balance sheet

Investment in GUL 513,470,527

GUL expenses 176,124,175

Investment in GMFL 61,619,956

**Total assets** 2,106,048,508

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