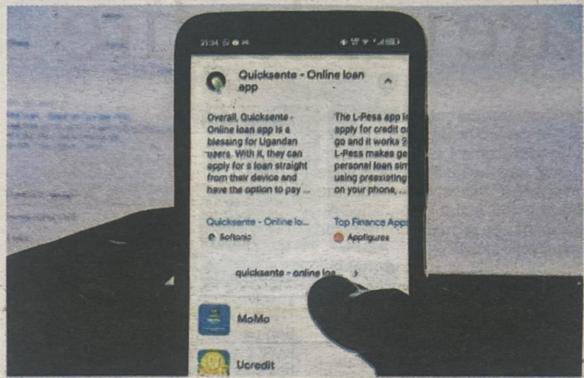
DEBT

EMMY ODOCH

Escaping the debt trap



According to Bank of Uganda, as of December last year, personal and household loans were valued at Shs6.29 trillion, accounting for almost 25 percent of all outstanding credit. PHOTO/MICHAEL KAKUMIRIZI

If you have ever pretended not to see a friend at an outing because they lent you money three months ago, you are not alone.

If you are now living beyond paycheque to paycheque, your only bridge to the next salary is that quick money lender who owns your credit card. If your lender's contact now is a trauma trigger every month's end, you are in very good company.

If the end of the month now feels less like payday and more like the start of a negotiation you are unprepared for, then you are part of a reality many Ugandans share—though few openly acknowledge it.

Given the high cost of living, debt now arrives quietly. It starts with a small mobile money loan to cover transport when the salary is late. Then a SACCO advance for school fees. Then a friend is generous enough to bail you out with rent after a bad month. Before long, the list has gotten longer with every attempt to climb out.

Uganda's digital lending market has made credit easy to access. Credit institutions aside, lending apps like Wewole, Quick Cash, and Zenka put cash in your pocket within minutes, with interest rates that seem small until they are too many to handle. According to Bank of Uganda, as of December last year, personal and household loans were valued at Shs6.29 trillion, accounting for almost 25 percent of all outstanding credit. The report flagged the rapid growth of unsecured digital lending as a concern, particularly among low and middle-income earners who use new loans to repay old ones, a cycle financial advisors have described as a trap.

But traps can be escaped, according to financial advisors, not through luck or a windfall. They require grit and strategy.

Face the reality, note your debts down

Ms Flavia Nabukwasi, a financial literacy coach and strategic support officer at the Uganda Bankers Association, says most people avoid confronting their debts—not because they don't understand them, but because debt carries something deeper: the fear of judgment, the weight of shame, and the painful confirmation of truths they already suspect about their financial reality.

"Many clients spend months, even years, refusing to total their debts. But you cannot fight an enemy you refuse to name," she argues.

She points out that the first step is to write down every debt: the mobile money loan, the SACCO balance, the bank overdraft, and the money owed to a colleague. Creditor, amount, interest rate, due date.

"The day someone lists down all their debts on a page, writing down, not just listing in their head, something shifts. If you avoid that, then you end up stressing yourself," she advises.

Borrowing is not always reckless. Sometimes, it is simply survival. School fees do not wait. A sick child does not care about your budget. The funeral contribution is not optional if you want to remain part of your community. But Nabukwasi says that there is a thin line between borrowing out of a genuine emergency and borrowing out of habit.

"Borrowing becomes a trap when you take a loan not to solve a problem but to postpone it," Ms Nabukwasi says.

"When you start borrowing to repay another loan or to cover daily costs like food and transport, the ground beneath you begins to sink."

According to Ms Nabukwasi, the journey requires a bold step, no new borrowing unless faced with a genuine crisis. Every new debt taken while repaying old ones is like pouring water into a leaking jerrycan. The effort is real. The progress is not.

Budget like your life depends on it

Nabukwasi recommends the 50-30-20 rule adapted to Ugandan realities. 50 percent on essentials such as food, transport, and school fees; 30 percent on lifestyle and community obligations; and 20 percent on savings and debt repayment. But this, she says, is not without limits.

"Most people fail because their essentials alone exceed 80 percent of their income," she says. "Budgeting is not a math problem. It is an income problem."

A written budget forces an honest conversation between what you earn and what you spend. Nabukwasi says when that conversation happens before the month begins—rather than in the midst of financial difficulties at the end of the month—it becomes the starting point of financial recovery.

Belief

'The most dangerous financial belief is that as long as I can afford monthly instalments, I am okay.'

Use the snowball method

Most Ugandans in debt are not carrying one debt. They are carrying several. The snowball method says: pay minimums on all, then attack the smallest debt first with everything you have. When it is gone, roll that payment onto the next.

"When a whole debt disappears, even if small, it injects strength into someone who felt powerless. Success becomes motivation and motivation becomes momentum," Nabukwasi says.

Patrick (not real name), a boda boda rider along Kamuli Road in Kampala, had six debts totaling Shs3.7 million, and his daughter was sent from school for fees.

Patrick (not his real name), a boda boda rider in Kampala burdened with six debts totaling Shs3.7 million, watched helplessly as his daughter was sent home from school over unpaid fees. His smallest debt was Shs80,000, which he cleared within a week. By the fourth month, he had eliminated five of his six debts.

By this, Ms Nabukwasi notes that the mathematics is not the point, the psychology is, with one less dreadful phone call.

Negotiate with your creditors

Nabukwasi advises that banks and SACCOs regulated by the Bank of Uganda prefer cooperation over default. A loan can be restructured. Penalties are sometimes waivable for borrowers who engage early. She adds that a loan that has become impossible to repay at the current rate can be restructured.

"Approach your lender with honesty and a clear plan. Once you speak openly, you discover that negotiation is far easier than running," Ms Nabukwasi says.

But not all lenders are reasonable. Patrick had an aggressive money lender who had inflated a Shs1 million motorcycle debt to Shs3 million. Ms Nabukwasi advised him to walk away and start afresh. But for regulated institutions, Nabukwasi says the conversation is worth having.

Resist lifestyle pressure

Ugandans are generous people, a trait that is financially dangerous for anyone trying to get out of debt. Weddings, kwanjulas, burial fundraisers, clan contributions, the social calendar extracts a relentless toll from people who cannot afford it but cannot afford to be seen not contributing.

"Many people borrow money not for their needs, but for their reputation," Ms Nabukwasi says. "My cousins are contributing Shs500,000 at a wedding. I also want to contribute Shs500,000, so I end up borrowing.

"You are not financially literate if you keep borrowing to please other people," Ms Nabukwasi says. "Create firm boundaries and practice delayed gratification," she adds.

Build a safety net

Clearing debt is only half the battle. Without an emergency fund, one hospital bill sends you straight back to square one.

"Most people return to debt because they cleared the loan but never built a safety net," Ms Nabukwasi says.

The only way to break the cycle, according to Ms Nabukwasi, is to build an emergency fund and automate it.

Start small, even Shs20,000 a month set aside builds a buffer. Invest in financial knowledge.