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# SACCO UNION FEASIBILITY STUDY ANKOLE REGION

FINAL REPORT



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This publication was produced for review by the United States Agency for International Development. It was prepared by Bob Barigye, Billy Butamanya, Ingrid Fischer, Paul Wambua for Chemonics International Inc.



# Rural SPEED

Rural Savings Promotion & Enhancement of Enterprise Development

## **SACCO UNION FEASIBILITY STUDY ANKOLE REGION**

FINAL REPORT

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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## Acronyms

AMFIA	Ankole Microfinance Institutions Association
GOU	Government of Uganda
MCAP	Matching Capacity Building Grant
MDI	Micro Deposit Taking Institution
MFI	Micro Finance Institution
PEAP	Poverty Eradication Action Plan
Rural SPEED	Rural Savings Promotion and Enhancement of Enterprise Development
SACCO	Savings and Credit Cooperative
UCA	Uganda Cooperative Alliance
UCSCU	Uganda Cooperative Savings and Credit Union Limited
UGX	Uganda Shillings
USAID	United States Agency International Development

## Executive Summary

Rural Savings Promotion and Enhancement of Enterprise Development (Rural SPEED) engaged a team of local and international consultants to carry out a feasibility study on the formation of a Savings and Credit Cooperative (SACCO) Union in the Ankole region for the purposes of providing support and improving sustainability of its' Partner SACCOs in the region. The consulting team was also asked to perform an institutional assessment of the Ankole Micro finance Institutions Association (AMFIA).

The work was carried out through a series of interviews and surveys with SACCOs in the region and other stakeholders to judge effective demand for a SACCO union. SACCOs in the region feel the need for a great many support services but effective demand is very low. It is believed that the main reason for low effective demand is that there are multiple funders directly and indirectly supporting SACCOs in the region and so the SACCOs can access the most critical services with little or no cost.

In addition to the lack of effective demand for services, the study team encountered substantial distrust among SACCOs of each other, of leadership quality within their movement, and of government support for the movement. Past failures of cooperative unions contributed to the overall sense of distrust.

SACCOs in the Ankole region are on average quite weak, with poor balance sheet structures, inadequate human resources, inability to effectively mobilize savings, inefficient operating systems, and inappropriate products. While funders are working hard to strengthen SACCOs by providing training on a broad range of topics, direct technical assistance and mentoring, automation, introducing basic accounting and monitoring systems and other resources they are also contributing to the problems. Easy access to support services, including training but especially funds for on lending, reduces the need for SACCOs to be self reliant and accountable to members.

The donor community is focusing on a small group of larger SACCOS and providing them with a wide variety of critical support services at little or no cost. So the SACCOs that have the greatest capacity to support a Union have the least incentive to do so. The wide range in maturity, size, and sophistication of SACCOs would present another challenge to a nascent Union.

The study concludes that formation of a regional SACCO union is not feasible at this time. Weak primary institutions lead to weaker secondary institutions. Lack of effective demand, lack of trust in the sector, proliferation of donor services and hyper activity in the sector all suggest that Union formation is premature.

AMFIA embodies all of the challenges identified in forming a union. In as much as a Union is premature, supporting AMFIA to become a Union is equally premature.

The consulting team recommends that Rural SPEED continue to strengthen primary societies to lay the groundwork for organic Union development when SACCOs are more mature, the environment stabilizes and donor support is not as readily available. Rural SPEED and other funders should also work with primary SACCOS to increase understanding of the role of a Union and factors to consider in establishing such an institution.

In addition funders should coordinate their activities in the sector with credible local agencies to avoid harm, wean primary SACCOs from cheap or free services and funds, and deliver services through networks rather than encouraging the formation of an unsustainable institution.

Failure of an apex organization based on weak primary SACCOs would weaken the SACCOs further and set back development of the movement.

## Background

Since 1987, the Government of Uganda (GOU) instituted major economic policy reforms; the financial sector has become increasingly efficient, productive, and competitive. Uganda is well on its way to a vibrant financial services sector, with 15 commercial banks, seven commercial credit institutions, four licensed and one potential micro-deposit taking institutions (MDIs), and numerous micro finance institutions (MFIs) and member-owned organizations. However, despite recent growth and liberalized economic policies, only 10 percent of rural population has access to basic financial services and the formal and informal financial sectors still require some structural changes to provide the range of financial services that individuals and businesses require. Commercial lending and the majority of micro finance activities remain confined to urban and peri-urban areas due to the high cost and low return of rural outreach. In addition, interest rates remain high, adequate forms of collateral do not exist due to continuing disorganization within the land registry system and there is little sustainability of Tier 4 institutions such as SACCOs and savings and loan associations.

The USAID/Uganda's 2002-2008 Strategy calls for expanded sustainable economic opportunities for rural sector growth, promoting a connection between productive strategies by the private sector in rural areas and expansion of financial services sector. Rural SPEED was designed to help meet this goal.

The objective of Rural SPEED is to deepen and strengthen Uganda's financial sector in response to the rural sector demand for financial services. Increased provision of financial services should leverage economic activity to complement other Mission's programs in rural areas. The resulting increase in economic activity should help Uganda achieve the economic growth rates proposed in Uganda's Poverty Eradication Action Plan (PEAP). The project is supporting and executing activities in the key areas of:

1. Institutional Capacity Building, including:
  - a) Savings Mobilization;
  - b) Agricultural Finance;
  - c) Non-agricultural Finance;
  - d) Bank/MDI/MFI/SACCO Linkages; and,
2. New Product Development and Service Delivery.

Underpinning all of Rural SPEED's strategy to achieve its key activities in rural areas are Uganda's numerous, but, weak, SACCOs. Rural SPEED, other donor programs, and the GOU all view SACCOs as a critical element for extending financial services to rural people, multiplying and expanding rural savings and credit transactions through formal wholesale borrowing and depositing with commercial banks, and providing a locally- based, locally-knowledgeable rural financial intermediary capable of prudently lending for agricultural activities.

Rural SACCOs in Uganda are still young and weak and have widely disparate organizational forms, governance structures, management styles, policies and procedures, and financial systems. Rural SPEED contracted this feasibility study to determine whether the formation of a SACCO Union may be an alternative to address these issues through which systems and structures could be standardized, training regimens could be tested and made uniform and that members' strengths and weaknesses could be offset to ensure the wider integrity of the system.

## National Environment

SACCOs have been operating in Uganda since the early 1970s. During the early years of SACCO formation, SACCOs were primarily employee based with most members working in the public sector or for para-statal organizations. Government restructuring and privatization of para-statals during the 1990s resulted in retrenchment of many employees with negative knock on effects on the SACCOs to which these employees belonged. In addition to employee based SACCOs, many producer and marketing cooperatives (multipurpose cooperatives) were offering savings and credit services to members but there were few community based SACCOs. Since 1996 community based SACCOs have been gaining popularity with the Ugandan public and attracting the attention of donor organizations and more recently the GOU.

In July 2003 the Bank of Uganda (BOU) issued a directive that effective July 1, 2005 all MFIs must be licensed as MDIs or cease accepting deposits from the public. SACCOs, as member owned organizations, were exempted from the prohibition. Due to the difficulty in obtaining an MDI license, many MFIs are converting into SACCOs. While these MFIs are taking on the legal structure of a SACCO they are not necessarily taking on the governance and operating structure of a SACCO. That is, lip service is paid to democratic governance by members and control of the organization remains in the hands of the founders.

The Registrar of Cooperatives reports that in 2000 there were 400 SACCOs registered with the Department. As of January 31, 2006 the Department records showed 700 probationary SACCOs and 1481 permanent SACCOs. This rapid growth of SACCOs is occurring in a largely unregulated and unsupervised environment as the Department does not have the resources to appropriately supervise SACCOs and there are no SACCO specific regulations against which to supervise.

Growth in the number of SACCOs is likely to continue as the GOU is promoting a program to establish one SACCO in each subcounty and has entered into an agreement with the Uganda Cooperative Alliance (UCA) to implement this program. There are two apex organizations at the national level representing SACCOs, UCA and the Uganda Cooperative Savings and Credit Union Limited (UCSCU). UCSCU has been seriously weakened and is undergoing internal restructuring due to financial and political damage caused by mismanagement and the impact of economic restructuring and privatization on its members. UCSCU reports that it has 600 registered members of which 102 are active but only 34 are in good standing and receiving services from UCSCU. While UCSCU is struggling, SACCOs and other organizations are looking to UCA to fill the gap, which is creating some tension and confusion in the movement.

## Ankole Region

Ankole is home to about 2.4 million people most of who are engaged in agriculture. There is no single or definitive source of information about SACCOs in the region, however it is believed to have the highest concentration of community based SACCOs in Uganda. Basic financial and membership statistics as at December 2004 were collected from UCA, AMFIA and Rural SPEED. On a consolidated basis these agencies report the existence of 65 SACCOs<sup>1</sup>, with total membership of almost 51,000, savings mobilization of 3.3 billion UGX, share capital of 2.7 billion UGX and loans of 5.9 billion UGX. Total asset statistics are unavailable but it is clear the sector suffers from liquidity shortages.

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<sup>1</sup> Nineteen of these organizations were registered as other forms of MFI's in 2004 but most have converted to SACCOs since then due to a Bank of Uganda prohibition on mobilizing public savings by unlicensed institutions.

The Commissioner for Cooperatives estimates that SACCOs are growing, in number and in size, by 30% per year. This supports AMFIAs perception that there are 100 SACCOs in the region. Growth of Rural SPEED's partners is substantially greater than the average as shown in the table below.

**Table 1.0 Growth of Rural SPEED Ankole Region partners**

	2004	2005	% Change
Members	10,577	17,058	61.27
Shares	442,153	768,600	73.83
Savings	732,168	1,397,951	90.93
Loans	1,370,157	2,288,701	67.04

## Objective

The objective of the mission was to determine the feasibility of supporting the formation of a regional SACCO union based on the willingness and capacity of the SACCOs in the Ankole region to form such a Union. Secondary objectives were to determine the feasibility of AMFIA becoming a Union or whether it could be absorbed into a SACCO Union.

## Methodology

The feasibility study was based on conducting interviews with individual Rural SPEED partners, a group meeting of SACCOs in Ankole region, reviewing limited financial statements and interviews with other stakeholders. However due to unreliable financial data, a perceived bias of SACCOs toward any initiative that might provide access to donor funding and the lack of a coordinated information database, the conclusions and recommendations herein rely heavily on the experience of the consultants with cooperative movements in the region and elsewhere.

Indicative financial analysis was carried out but forecasting financial capacity in this environment is largely guess work. The results should be viewed with the same skepticism that was employed in making the financial projections. However, the gap between financial capacity and willingness for financial commitment, and need is so great that more precise projections are a frivolous exercise.

The consulting team conducted individual interviews with each of Rural SPEEDs' Partner SACCOs and MFIs, as well as convening general meeting to which 24 non Rural SPEED partners SACCOs of the Ankole region were invited. The meeting attracted considerable interest and 34 SACCOs and MFI's attended in addition to other invited guests including, District Cooperative Officers from Mbarara, Bushenyi and Ntungamo, and AMFIA and Ankole Region Private Sector Promotion Center (APROCEL). The purpose of the interviews and general meeting was to gauge the SACCOs understanding of the role of a regional Union, determine the services they envisioned a Union would provide and gauge their willingness and capacity to support a Union.

The institutional assessment of AMFIA was conducted through interviews with the General Secretary, Chairman of the Board, Vice Chairman, Treasurer, Secretary, and a member at large. The team also reviewed two versions of AMFIA's three year business plan and budget, proposed bylaws for AMFIAs conversion to a SACCO Union, annual report and financial statements for fiscal 2004, quarterly reports for the last two quarters of 2005, an audit manual prepared by AMFIA and other incidental documents. The institutional assessment of AMFIA can be found in Appendix 3.

In addition to field investigations in Ankole region, stakeholder interviews were conducted with the Commissioner for Cooperatives, UCA, UCSCU, Canadian Cooperative Association (CCA), Stromme

Foundation, TRIAS, PostBank, Association of Micro Finance Institutions of Uganda (AMFIU), Rural SPEED, and Member of Parliament, Professor Ephraim Kamuntu.

To assess the feasibility of a regional SACCO Union it was also necessary to determine the competitive market for SACCO Union services. In this case the main competitors for a regional SACCO Union are international funders that are channeling funds into the SACCO sector directly through projects such as Rural SPEED or indirectly through sponsorship of government programs such as the Micro Finance Support Centre. (MSCL), or local NGOs, such as UCA. Market penetration was determined through interviews and surveys of SACCOs.

The consulting team was mindful that while their scope of work was regional, the findings and recommendations would have national implications.

## Activity Summary

### Rural SPEED partners

Rural SPEED has seven partners in the Ankole region, one in the adjacent region of Masaka, and two in Rukungiri. Eight of the ten partners are SACCOs and the remaining two are still converting to SACCOs in order to continue mobilizing savings from members. Although only seven of Rural SPEED's partners would be geographically eligible for participation in an Ankole region SACCO Union, all ten partners were interviewed. Rural SPEED believes that its partners are among the strongest community based SACCOs in Uganda, so getting a sense of their capacity would provide a basis for the best case scenario of a SACCO Union. In most cases the SACCOs<sup>2</sup> were represented in these discussions by their Manager, Chairman and Treasurer.

SACCOs were asked to provide basic balance sheet and membership statistics. They were also asked to identify which micro finance support organizations are currently providing support to them, what services they are receiving from those organizations and to what extent the SACCO is cost sharing in the provision of services. SACCOs were then asked to envision what types of services a regional Union should provide, prioritize those services and indicate their willingness to pay for services.

On average, each Rural SPEED SACCO is receiving support from three other agencies in addition to Rural SPEED, for a total of four support agencies per SACCO. (See Figure 1.1) Support ranges from training, to provision of equipment and motorcycles, to stationery and safes, to salary subsidies and concessional funds for on lending. (For details on services provided by support agencies see Appendix 4)

In most cases support is at no cost to the SACCO, some organizations require that the SACCO cover transportation costs for training participants. Funding proposals to Matching Capacity Building Grant (MCAP) requires matching funds from the SACCO but there is no mechanism to prove the SACCO's financial participation. MCAP merely reduces its contribution to project proposals by the amount of investment declared by the SACCO. UCA and AMFIA both have a membership requirement that includes capital investment, entrance fees, and annual dues. APROCEL and AMFIU both require annual dues. All of the support organizations are channeling funds from international donor projects; some are channeling funds from several funders simultaneously. The level and type of support SACCOs receive from an organization are based on performance criteria so benefits received from any one organization differ from SACCO to SACCO.

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<sup>2</sup> For the purposes of this feasibility study there will be no differentiation between SACCOs and MFIs with respect to Rural SPEED's Partners as only two had not yet changed their legal registration but will be doing so within the next few months.

**Figure 1.1 SACCO use of Service Providers**

	UCA	UCSCU	AMFIA	AMFIU	APROCEL	MSCL	MOP (MCAP)	SUFFICE	Rural SPEED
SACCO									
Rubabo									
Kamukuzi									
Muhame									
Rusca									
Kyamuhunga									
Kitagata									
Nyarwanya									
Ankole				withdrawn					
Shuuku									
MAMIDECOT									

The services SACCOs expect a Union to provide are based on current experience with donor funded services and topical issues for individual SACCOs, such as a recent legal problem. Although a desire for a central financial facility was expressed by a majority of Rural SPEED partners, it was not a high priority. Rural SPEED partners have been able to source external funds for on lending as indicated by a consolidated net borrowing position for Rural SPEED partners. While this may be a positive trend in terms of economic impact at community level in the short term, it reduces self reliance of SACCOs and in turn their capacity of to financial support apex structures.

Rural SPEED partners are receiving most of the services they expect a union to provide from a variety of funders at no cost. As Rural SPEED partners are perceived to be the strongest SACCOs, under normal circumstances they would be the strongest members of a Union as well. However there is no incentive for them to support a Union, invest capital and pay for services that they now receive for free. In the short to medium term this situation is unlikely to change as funders routinely seek the strongest players as implementation partners to improve the funders’ achievement of performance targets.

The current popularity of SACCOs with the donor community and GOU, unless carefully coordinated, is a major threat to cohesion and self-reliance within the SACCO sector in Uganda. It is not in the short-term interest of SACCOs to reveal the extent to which they are receiving support from multiple funders. SACCOs that receive multiple support have less interest in working with each other or through networks than SACCOs that have less access to external resources.

SACCOs are accessing external funds for on lending rather than mobilizing members savings. SACCOs are oriented toward borrowing members rather than saving members. This imbalance is aided by relatively easy access to external funds. Some SACCOs are paying no interest or very uncompetitive rates on deposits, which discourages member savings. Ability to access external funds also results in reduced product innovation, accountability, and service to members.

**Table 2.1 Services Requested By SACCOs<sup>3</sup>**

<i>Type of Service</i>	<b>Rural SPEED partners</b>		<b>Other SACCOs</b>	
	Times Requested (Max 10)	Top 5 Ranking	Times Requested (Max 4)	Top 5 Ranking
Training for staff, directors, committees	6	1	4	1
Technical Support and Consulting Services, Member/Consumer Education	6	3	1	
Internal audit	6		2	
Bulk purchasing, stationery and supplies	7	4	2	
Legal Services	4		1	
HR support	4		1	
Advocacy and representation	4		1	
Risk Management – insurance services	6		3	5
Marketing, research and development	1		1	
Cash and transit services	2		1	
Central Financial Facility	0			
Credit investigation/credit bureau	7	5	3	4
Data processing	6		1	
Mobilize external resources	1			
Networking, Information Sharing, hub	4		1	
Supervision and Monitoring	5	2	1	
Standardization of accounts	2		4	2
Investment Consultation	2		1	
Benchmarking	1			
Conflict Resolution	2		1	
Equipment & Materials			4	3
Deposit Protection			1	

**Other SACCOs**

Information on non Rural SPEED SACCOs (other SACCOs) was obtained from participants of a one-day meeting held in Mbarara town. Twenty-one SACCOs individually completed questions 1 – 17 and 27 – 30 of the survey tool (Appendix 5) used in Rural SPEED partner interviews. The SACCOs worked through questions 18 – 26 in break out groups facilitated by members of the study team. On average other SACCOs are less than half the size of Rural SPEED partners. Ten of 21 other SACCOs receive support from 1 organization, mostly UCA, 8 receive support from two organizations, mostly UCA and AMFIA, and 3 receive support from 3 or more organizations. The net borrowing position of other SACCOs is less than 25% of Rural SPEED partners. Not surprisingly, other SACCOs ranked a central financial facility as a higher priority than Rural SPEED partners.

**Table 3.1 SACCO Statistics December 31, 2004 (000 UGX)**

	<b>Rural SPEED partners</b>	<b>Other SACCOs</b>
Average Shares	6,664	2,957
Average Savings	7,994	3,658
Average loans	16,795	7,052
Ave Shares + Savings	14,658	6,615
Ave Shares + Savings – Loans	(2,137)	(436)
Average Members	2,891	1,217

<sup>3</sup> Ranking was determined by the importance SACCOs placed on the service rather than the number of requests for the service.

The majority of these SACCOs viewed the Union as a means of gaining access to badly needed services but did not equate control of the organization with the need to take ownership and to support it financially.

Sixteen SACCOs responded to the question of how much they would be willing to pay for services. Of those one was willing to pay more than 50%, two were willing to pay 50%, five were willing to pay 30-50%, two were willing to pay 15 –25%, and one was willing to pay 10-20% of the cost of services. Three SACCOs felt the amount to be paid should be determined after the union was established. Two SACCOs were indicated willingness to pay but did not specify the amount.

**Table 4.1 Amount SACCOs are Prepared to Contribute to the Cost of Services**

	>50%	50%	30-50%	15-25%	10-20%	Unspecified
Number of SACCOs	1	2	5	2	1	5

For both Rural SPEED partners and other SACCOs there is a large gap between the services they would like to receive and the services they are willing to pay for. Many SACCOs identified capacity building (provision of furniture, equipment and vehicles) as a service they expected from a Union. As the implications of this request were explained to Rural SPEED SACCOs the request was dropped from the list, the nature of gathering information from other SACCOs did not allow for in-depth discussion and it remains a prominent request.

**Table 5.1 Willingness to Pay for Services**

Type of Service	Rural SPEED Partners (10 Respondents)		Other SACCOs (16 Respondents)	
	Willing to Pay	Have Budget Now	Willing to Pay	Have Budget Now
Training	9	7	9	6
Audit Services	9	8	12	9
Legal Services	5	4	2	0
Shared Data Processing	1	1	0	0
Purchasing	5	3	0	0
Information Exchange	2	0	2	0
Research & Marketing	3	1	0	0
HR Support	2	1	4	3
Member Education	5	3	1	1
Technical Advisory	1	0	0	0
Supervision			7	1
Equipment			6	1
Central Financial Facility	0	N/A	6	N/A
Advocacy/Representation	0	0	0	0

It is perhaps indicative of the ease with which Rural SPEED SACCOs can access services that there is a lower stated willingness to pay for highly ranked services than there is by other SACCOs. A minority of Rural SPEED SACCOs indicated a willingness to pay for information exchange and technical advisory services even though they rate these services of secondary and tertiary importance to them.

Other SACCOS indicated strong willingness to pay for the three services they identified as most important to them. Six other SACCOS indicated they were willing to pay interest fees for a central financial facility but two mentioned that they wanted concessional rates which do not bode well for sustainability of such a facility.

Although all SACCOs ranked advocacy and representation highly as a needed service none of them indicated a willingness to pay for it. On the other hand, all SACCOs have internalized the need for audit services, are willing to pay for it and most budget for the expense. However, SACCOs also indicated that they are not happy with the quality with audit services they receive.

SACCOs identified 23 services they expect a Union to provide. Rural SPEED partners are only willing to pay for 8 of those services while other SACCOs are only willing to pay for 6 of those services. A further indication of lack of effective demand for a Union is that even when they are prepared to pay for services they expect heavy subsidization with only one SACCO stating that it was willing to pay at least 50% of cost, the rest preferred a far smaller percentage of costs.

**Table 5.1 Willingness to Pay for Top Ranked Services**

	Rural SPEED partners (10 Respondents)			Other SACCOs (16 Respondents)		
	Requests	Willing to pay	Rank	Requests	Willing to pay	Rank
Training	10	9	1	16	9	1
Information Exchange	6	2	2			
Technical/ Advisory Services	6	1	3			
Audit	9	9	4			
Central Financial Facility	8	N/A	5	16	N/A	4
Supervision				15	9	2
Equipment				8	7	3
Advocacy				11	0	5

### Financial Capacity

All of the SACCOs expressed great enthusiasm for the concept of a member owned, member controlled, member managed union but there is little real understanding of what that means. This is exemplified by the gap between expectations of a Union and their willingness to fund such an organization. SACCOs were not able to clearly differentiate between establishing a Union and operating a Union. In addition to shares, entrance fees and donor funding, annual dues and profits from operations were also frequently cited as means of funding the establishment of a Union. Profits

were also identified as one of the means of funding the unions operations, yet the range of willingness to pay for services ranged from 10 – 50% of delivery costs. At the same time some SACCOs indicated that they expected to earn a dividend on their share investments in a Union. This lack of understanding of fundamental business principles indicates a lack of management capacity within the system to operate a Union as a business.

SACCOs would like to receive the services they believe a Union should offer them but they are unwilling to take real ownership of a Union. They agree with the concept of a bottom up organization in terms of control but would prefer that it be funded by a benevolent external source.

For the purposes of illustrating the funding gap, financial projections were made based using AMFIA's 2006 budget for staff and overhead only, and revenue based on their contribution agreement with members. AMFIAs operating costs are not extravagant and provide a reasonable basis for projections.

The projections were extrapolated to include 31 SACCOs from whom the team was able to collect basic financial and membership statistics. The resulting projections should be viewed as optimistic and contain the following weaknesses;

- a. Many SACCOs indicated that AMFIA's minimum share requirement of 200,000 UGX is too high,
- b. SACCOs are suspicious of share requirements and dues allocations based on assets and/or membership;
- c. The projections assume a SACCOs assets are 65% of stated loan portfolio to account for under reported non performing loans. However, since on a consolidated basis these SACCOs are net borrowers, the asset base is still overstated;
- d. AMFIA has only managed to get 20% of its membership to contribute the required shares, as these are some of the stronger SACCOs; share investment by the 31 SACCOs in the sample is likely to be much lower.
- e. A flat member based capital requirement would result in a differential of 26 times between the smallest and largest SACCO. Flat rate asset based dues would result in the largest SACCO paying almost 138 times as much in dues as the smallest SACCO. There would need to be minimum and maximum parameters on the investment of individual SACCOs for a share and dues based financing structure to be effective.
- f. Assumes that Union would prudently invest member shares into regulated financial institutions rather than in other business opportunities or loans to members.

**Figure 2.1 Financing Core Costs of Regional SACCO Union**

	UG SHSX	USD
<b>What SACCOs are prepared to commit</b>		
Capital 200,000 per SACCO	6,200,000	3,444
Income at 8% of Capital (a)	496,000	276
Annual Dues 100,000 Per SACCO (b)	<u>3,100,000</u>	<u>1,722</u>
Potential annual income (a+b)	3,596,000	1,998
AMFIA's Overhead Cost Budget ©	<u>78,944,000</u>	<u>43,858</u>
Surplus/(Deficit) (a +b –c)	<u>(75,348,000)</u>	<u>(41,860)</u>

**Figure 2.2 Financing Core Costs of a Regional SACCO Union**

<b>What SACCOS need to commit</b>		
Capital at 1,000 per PS member	16,946,000	28,243
Income potential at 8% of capital		<u>753</u>
Net asset base 65% of loan portfolio	1,563,783,000	868,768
Annual Dues at 5.0% of assets		
Income potential	<u>78,189,150</u>	<u>43,438</u>
Total Income	<u>79,554,830</u>	<u>44,191</u>
Less Overhead Costs	<u>78,944,000</u>	<u>43,858</u>
Surplus/(Deficit)	<u><u>600,830</u></u>	<u><u>334</u></u>

Based on the agreement that AMFIA has with its members, SACCOs are only prepared to meet 12% of the capital required to fund a Union and 4% of the dues required to fund the core costs of operating a Union. These calculations are based on a skeletal staff of three, rent, and office operating costs. The calculations do not consider staff expansion or any actual service delivery.

### Challenges

All SACCOs and other stakeholders were in agreement about the many challenges facing formation of a SACCO Union. Failure of cooperative unions in the past, including UCSCU's present difficulties, has left a strong element of distrust. There is a strong concern that SACCOs will adopt a wait and see approach before joining a Union. They will want leadership and management to prove themselves reliable and worthy of their trust before they are willing to commit financially to supporting a Union.

At the regional level this general distrust is manifested in expressions of concern about attracting qualified and competent leadership and, especially in emphatic declarations of the need for a fair and representative board of directors that is politically neutral. The undercurrent of this discussion reveals concern not only about political partisanship on a national or local level but sector politics addressing issues of asset size, membership, institutional maturity, financial commitments, local economics, and board control.

This situation is complicated in Uganda by the significant number of SACCOs that are conversions from MFIs where traditionally the manager has considerable authority and control. These SACCOs are not comfortable with member control in their own institutions and are equally uncomfortable with member control of a service organization. A number of original SACCOs suffer from similar tensions although it is more likely to come from dominant directors.

SACCOs are concerned about the governance structure of a Union. They are not sure whether a Union is a service organization that is a servant of the movement or whether it is an apex organization. The reality is that because of the dual roles of service provision and advocacy Unions have a tendency to become insubordinate servants. This can be a source of great tension in the governance structure of the Union and in the SACCOs who provide directors to the Union. As a service organization, it should have significant representation from management who understand the day to day operating needs of a SACCO, as an advocate it must have representation from directors. Given the immaturity and resource constraints of most of SACCOs there is not a clear line between administration and governance. The line becomes even more blurred when a SACCO manager acts as a director at the Union level, or a SACCO director takes a greater functional role at the Union level. Neither managers nor directors are comfortable with these role reversals when they come back to their SACCOs.

SACCOs feel that unpredictable government policies are a threat to sustainability of a Union. Currently the government views SACCOs very favorably but within recent memory the government has taken diametrically opposed positions with respect to cooperatives. From initiating and running cooperatives, to gutting and advocating against cooperatives and now back to encouraging SACCOs

as a major vehicle in its PEAP strategy. SACCO leaders are fearful that a change in government or in government policy could put the cooperative movement at a disadvantage again.

The legal environment for SACCOs has not kept pace with their popularity and growth. The regulatory framework for SACCOs is weak and there is little discussion of the special legal and environment for secondary and tertiary cooperatives in the Co-operative Societies Statute, 1991 or in the Co-operative Societies Regulations, 1992. The legislative environment as exists is still heavily biased toward agriculture and productive cooperatives rather than SACCOs. This legislative vacuum is amplified at the secondary and tertiary level. Legislative reform is under discussion but is lacking forward momentum at present.

Inability and unwillingness to financially support a Union, as evidenced by low willingness to pay for cost of services, is the most tangible challenge. Based on financial data and survey responses of SACCOs in the Ankole region there is clearly insufficient financial capacity in the region to support the formation of a Union, much less the operation of a Union. Any initiative to form a Union at this time would need to be heavily subsidized from external sources, resulting in a top down initiative. The Ugandan, and international cooperative landscape is littered with the wreckage of externally motivated apex organizations.

These organizations have failed because they did not get buy in from primary societies and when funded by external funders, the funding was too rich, resulting in bloated institutions, and too short term to achieve critical mass internally. When the external funder pulls out the primary members are unable to sustain the infrastructure. AMFIA is an example of an organization that is struggling from insufficient buy in from members and loss of short term external funding. National or regional apex organizations usually require 15-20 years to achieve self sustainability, far longer than the two to five year time frames that most international donor projects operate on.

Financial statistics provided by SACCOs from the Ankole region indicate very weak primary institutions. They are heavily dependent on external sources for on lending funds and operational support. In addition to being financially weak the SACCOs are operationally weak with inefficient systems, and inadequate human resources. The consulting team is of the opinion that the financial and operational information provided understate the weakness of the movement. Weak primary institutions will result in a weak apex organization.

Formation of an independent regional Union also presents problems for a vibrant national SACCO movement and increases fragmentation already existing in the movement. In the current environment both UCSCU and UCA are representing SACCOs but are in some ways are competing voices rather than a unified voice as both have direct primary membership, their roles are no longer clearly defined and they are competing for external support. In an ideal cooperative structure, a regional Union would be a member of UCSCU, which is in turn a member of UCA and thus provide a strong and consolidated voice to government and other agencies. A regional Union that is not aligned with either of those organizations would add a third voice.

UCSCU has been badly damaged financially and politically by the impact of economic restructuring and privatization on its primary members, and mismanagement which led to losses for some of its members. While UCSCU is seriously addressing these issues and has made inroads, there is still much work to be done and it will be a long time before UCSCU recovers its image and public confidence. UCSCU's public image is a challenge for any new SACCO Union as it will suffer from reputation spillover.

Their own issues aside, neither UCA nor USCUC supports the idea of regional Unions at this time. There is concern that it is premature to support or encourage the formation of a Union at this stage of SACCO development. Were a Union established and then fail, it would not only hinder further development it would set the movement back several years.

Perhaps counter-intuitively, the present popularity of SACCOs with funders and GOU are a major challenge for the formation of a Union. SACCOs are being killed with kindness. Some are receiving multiple services from multiple funders at no or little cost undermining the principle of self reliance. Rather than offering cost driven interest rates on loans and savings or re-investing profits into institutional strengthening, SACCOs are paying out (or capitalizing) large dividends, sometimes in

contravention of the regulations. At the same time they are asking funders and government for equipment and training that many of them can afford. They are lending external funds instead of mobilizing savings with members. While these services are readily provided there is no need for SACCOs to look to themselves or each other for development.

In the same vein, governments and funders select the strongest SACCOs as recipients of support because it increases the reach, efficiency, effectiveness, and success rate of their projects. So the SACCOs that have the greatest capacity to support a Union have the least incentive to support it. In some cases funders and GOU are working with individual SACCOs causing competition between SACCOs which weakens their willingness to work together. As such funders and GOU are direct competitors of a potential Union and it is not a level playing field.

Maintaining relevance with its membership is a challenge for any Union. The needs of the larger and more mature SACCOs are different from those of the smaller and new SACCOs. The needs of SACCOs located in district or regional centers are different that those in sub-counties. This disparity of needs places huge demands on a nascent Union and support will drop off very quickly if needs are not met.

AMFIA's existence and its stated intention to convert into a SACCO Union is a complication for development of the movement in the Ankole region. The chances of success of a regional Union are greatly enhanced if its formation is an organic process. AMFIA does not have organic roots. AMFIA will face all the challenges previously enumerated for Union formation. It is not a question of whether AMFIA should form the basis of a regional Union or whether a different institution should be encouraged. It is a question of whether the time is ripe for any formal regional institution.

AMFIA's recent experience is an illustration of the challenges of a Union. AMFIA exists and has demonstrated that it is capable of channeling resources to members in the form of equipment and training. AMFIA enjoys popular support among members and non-members. Even so, it is unable to get all of its members to meet their modest financial commitments to the association. AMFIA has lost a member, Ankole Farmers SACCO due to unease about representation and transparency. Ankole Farmers SACCO has taken action where other SACCOs express vague concerns about representation and leadership of a Union. Should AMFIA register itself as a Union and be unsuccessful in getting the support it needs the consequences are not just the failure of the Union, it will reverse the development of the entire SACCO movement, not just in Ankole but nationally.

## Conclusions and Recommendations

Rural SPEED contracted this feasibility study to determine whether formation of a SACCO Union would help achieve the overall objective of increasing the level of efficiency and effectiveness of its Partner SACCOs to increase access to financial services in rural areas of Uganda. The findings of the study are that a regional Union is not feasible from the perspective of ability and willingness of the SACCOs to support the organization, nor would such an organization achieve Rural SPEEDs objectives.

SACCOs in the region express great interest in receiving support from a SACCO Union but interest in providing support to a SACCO Union is far less. SACCOs do not fully appreciate that a Union is not something separate but a part of them, and that their weaknesses are amplified when they are consolidated at a higher level.

The consulting team feels very strongly that encouraging the formation of an institution is premature based on the capacity of SACCOs in the region, the lingering distrust from past institutional failures, hyper activity in the sector, and the disparity in development between SACCOs.

A key question in the feasibility study was whether a Union could ‘offset the strengths and weaknesses of the members to ensure wider integrity of the system’. There are few strengths in the system today that could offset the many weaknesses. The main strength in the system is that the SACCOs recognize their weaknesses, inadequate human resources, poor balance sheet structure, poor credit culture among members, inefficient systems, and lack of management experience.

Considerable work needs to be done to strengthen primary societies and to enhance their understanding of the role of a Union before such an initiative should be supported and any supporting agency should be prepared for a long term commitment. Financial incapacity of primary SACCOs was identified as a major and tangible challenge. The temptation to resolve this obstacle with external funding should be resisted.

There are other interventions that Rural SPEED and other actors in the sector can undertake to improve sustainability of SACCOs in the region and thereby increase access to financial services in those areas.

1. Field work to support this feasibility study inevitably raised expectations despite great care taken by the consulting team to inform stakeholders that the study was not an indication of Rural SPEEDs intentions. Rural SPEED should host an information seminar to disseminate the findings of the feasibility study. The seminar should include region’s SACCOs, the Commissioner of Cooperatives, AMFIA, UCSCU, UCA, District Co-operative Officers and other funders active in the sector.
2. Continue to strengthen its SACCO partners so that by the end of the project they are able to stand on their own and serve as models for other SACCOs. Rural SPEED should expand the range of training it presently offers these SACCOs from technical issues to strategic system issues.
3. Establish audit standards for SACCOs. SACCOs are unhappy with the quality of the audit services they are receiving but they don’t know how to ask for better audits. They realize that they don’t know what they don’t know and they want to be enlightened.
4. Sensitize SACCOs to the issues of Union formation and management including discussion of alternate governance structures such as proportionate voting, cross sectional representation models, equitable funding structures as compared to equal funding structures, managing expectations, and planned and strategic development.
5. Facilitate a network<sup>4</sup> within its SACCOs and other SACCOs to provide information exchange and services without the burden of a formal institution. Networks can have immediate practical

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<sup>4</sup> The network would differ from the Microfinance Forums in that it would be made up of practitioners rather than a mix of bureaucrats and practitioners.

effects such as negotiating for quality audit services for example as well as provide the basis for organic development of a formal institution as SACCO capacity catches up to SACCO needs.

6. Continue to engage policy makers to strengthen legislation for primary SACCOs as well as secondary and tertiary cooperatives.
7. Facilitate discussion between AMFIA, its members and the Commissioner of Cooperatives about the future, structure, and role of AMFIA and its implications on the SACCO sector.
8. Provide technical assistance to AMFIA to improve its internal governance and develop a reasonable business plan with realistic, probable, revenue forecasts so that it can become a credible service provider.
9. Assist the Commissioner of Cooperatives to develop criteria for establishing any SACCO Union. The criteria should include the following:
  - (a) A feasibility study based on broad consultation with potential members and all major stakeholders. The feasibility study should include a market and financial analysis.
  - (b) Clearly defined functions of the Union
  - (c) A three-year timeline and implementation plan to roll out services, including financial implication to member SACCOs. This step is necessary to manage expectations of members and member input should be sought in its preparation.
  - (d) Clear by laws that address;
    - i. Equitable representation,
    - ii. Equitable and progressive capital structure to ensure that the Union grows with its members and is able to maintain services,
    - iii. Equitable and progressive dues structure to ensure that the Union grows with its members and is able to maintain services,
    - iv. Dispute resolution mechanisms,
    - v. Minimum qualifications for directors and senior officers,
    - vi. Maximum terms of office for directors that are long enough to ensure value and continuity but short enough to avoid excessive control or stagnation. This may require requesting an exemption under the current regulations. Maximum periods of service of six to 9 years with a recess of one term before re-eligibility for election are more reasonable than the current two, two year terms permitted,
    - vii. Staggering terms of election in the first annual general meeting to ensure continuity and mentoring of new directors,
    - viii. Relationship of the Union with other players in the sector and industry
  - (e) Resolution of the membership of the primary SACCOs to join the union, approved through AGMs or SGMs to ensure that their members are fully aware of their commitment, and
  - (f) Minimum share capital subscribed and fully paid by all founding members before seeking approval for registration.
10. Establish a forum for consultation between international and local agencies involved in the SACCO sector to reduce duplication, ensure 'no harm', standardize tools, and increase funders appreciation for the difference between SACCOs and other forms of MFIs. The Commissioner for Cooperatives should be involved in the forum.

The consulting team feels that Union formation, whether in the form of a new organization or support for AMFIA as a Union, is premature and the risk of failure is very high. Should AMFIA register itself as a Union and be unsuccessful in getting the support it needs, the consequences are not just failure of the Union but it will reverse the development of the entire SACCO movement, not just in Ankole but nationally. An institutional analysis of AMFIA and recommendations for potential interventions by Rural SPEED, or a different agency, are included in Appendix 3.

A Union will emerge organically as SACCOs mature and funders withdraw from the sector. Raising awareness among SACCOs and other funders of the commitment and forethought required for such an undertaking will enhance the chance of success of the Union when it does emerge.

## Appendix 1 Ankole Region SACCO Statistics.

**Table A.1 Growth of Selected Rural SPEED partners (000's UGX)**

	Kamukuzi	Muhame	Kitagata	Kyamuhunga	Ankole Farmers	Shuuku	Total
<b>No. of Members</b>							
Dec 2004	1,806	1,238	1,301	350	3,436	2,446	10,577
Dec 2005	2,099	2,697	1,600	4,498	3,646	2,518	17,058
% Change	16.22	117.85	22.98	1185.14	6.00	2.94	61.27
<b>Share Capital</b>							
Dec 2004	28,000	97,145	76,297	104,000	6,500	130,211	442,153
Dec 2005	64,375	212,800	130,100	157,065	36,460	167,800	768,600
% Change	129.91	119.05	70.52	51.02	460.92	28.87	73.83
<b>Total Savings</b>							
Dec 2004	42,000	142,000	160,251	195,000	6,200	186,717	732,168
Dec 2005	15,521	403,000	215,500	300,808	261,822	201,300	1,397,951
% Change	(63.31)	183.80	68.17	54.26	4122.94	7.81	90.93
<b>Total Loans</b>							
Dec 2004	138,000	330,352	192,113	354,000	100,000	255,692	1,370,157
Dec 2005	218,489	620,200	355,700	418,950	252,462	422,900	2,288,701
% Change	211.66	87.74	85.15	18.35	152.46	65.39	67.04

**Table A.2 Selected Statistic of Rural SPEED partners as at Dec 2005 (000 UGX)**

	Kamukuzi	Muhame	Rusca	Kitagata	Kyamuhunga	Ankole Farmers	Rubabo	Mamidecot	Nyarwanya	Shuuku
# of Members	2,099	2,697	1,429	1,600	4,498	3,646	2,054	5,359	3,008	2,518
Share Capital	64,375	212,800	147,450	130,100	157,065	36,460	94,400		193,324	167,800
Total Savings	15,521	403,000	229,700	215,500	300,808	261,822	170,000	618,144	74,131	201,300
Total Loans	218,489	620,200	290,000	355,700	418,950	252,462	394,000	751,564	266,489	422,900
Arrears	32.20%	10.00%	17.24%	10.00%	5.00%	17.00%	8.12%	8.30%	5.50%	10.00%
Av Shares/Memb	31	79	103	81	35	10	46	0	64	67
Av Savings/ Memb	7	149	161	135	67	72	83	115	25	80
Av Loans /Member	104	230	203	222	93	69	192	140	89	168
Av Shares + Sav/ Member	38	228	264	216	102	82	129	115	89	147
Net Borrowings/ Member	-66	-2	61	-6	9	13	-63	-25	0	-21
Borrowings as % Of Investment <sup>5</sup>	-173%	-1%	23%	-3%	9%	15%	-49%	-22%	0%	-15%

<sup>5</sup> This illustrative calculation does not consider institutional capital as that information was not furnished by SACCOs

## Appendix 2 Willingness to Pay for Services

Type of Service	Rural SPEED partners (10 Respondents)			Other SACCOs (16 Respondents )		
	Willing to Pay	Have Budget Now	Rank	Willing to Pay	Have Budget Now	Rank
Training	9	7	1	8	7	1
Audit Services	9	8	4	14	11	
Legal Services	5	4		2	0	
Shared Data Processing	1	1		0	0	
Purchasing	5	3		0	0	
Information Exchange	2	0	2	2	0	
Research & Marketing	3	1		0	0	
HR Support	2	1		5	4	
Member Education	5	3		1	1	
Technical Advisory	1	0	3	1	0	
Supervision				9	3	2
Equipment				7	1	3
Central Financial Facility	0	N/A	5	6	N/A	4
Advocacy/Representation	0	0		0	0	5

## **Appendix 3 Institutional Analysis of (AMFIA)**

### **Background**

Ankole Micro finance Institutions Association (AMFIA), was formed as a regional network of micro finance institutions in the districts of Mbarara, Bushenyi and Ntungamo in 2004 as a company limited by guarantee, with financial and technical support from PUM. Its' genesis was 30 Village "Bank" clients of the Bushenyi District Private Sector Promotion Centre. AMFIA was registered in September 2003 and began operations in April 2004. At the end of 2004, AMFIA had 55 members, of which 36 were SACCOs. Client/member statistics for AMFIA's membership are incomplete but it reports that members reach 42,282 clients, who have invested 2.3 billion UGX in shares, mobilized 3.2 billion UGX of savings and have outstanding loans of 6.0 billion UGX.

Due to a prohibition against MFI's mobilizing deposits from the public effective July 1, 2005 many of AMFIA's members are converting to SACCOs. As of February 2006, AMFIA's membership consisted of 47 SACCOs and 8 other MFI organizations, most of which were in the process of converting their legal structure. In March 2005, the board of AMFIA began discussing its' conversion to a SACCO union so that it's legal structure would be in keeping with that of its members. In November 2005, AMFIA's membership approved a motion to seek registration as a regional SACCO union. Seventy percent of AMFIA's members were represented at the Special General Meeting convened to approve the conversion. MFI's that do not convert to a SACCO will be asked to withdraw from membership of AMFIA.

AMFIA is now awaiting a financial audit to complete the documentation required for filing for registration with the Registrar of Cooperatives.

While AMFIA has drafted new bylaws to reflect conversion to a Union, its vision, mission, and objectives remain unchanged.

### ***Vision***

A strong Regional Network of Micro finance Institutions fostering Unity and Coordination of member activities for sustainability of the Micro finance Industry.

### ***Mission***

To coordinate and strengthen activities of member organizations to enable them meet the needs of their clients on a sustainable basis.

### ***Objectives***

- To play an advisory role in micro finance sub-sector, government as well as other related bodies.
- To provide a common voice for member organizations
- To collect and disseminate relevant information, to encourage the publication of books and papers on micro finance.
- To build capacity of micro finance institutions through training, workshops, seminars and exchange visits within and outside Uganda.
- To create a forum for member organizations for coordination and dialogue.
- To create and mainstream prudential standards.
- To establish a code of conduct for member organizations, and
- To establish an appropriate regulatory framework for micro finance institutions and their clients

## **Institutional Review**

### **Board**

The current structure is constituted of General Meeting, Board of Directors, Supervisory Committee, and the Executive Secretary.

Each member nominates two delegates to attend the General Meeting. Ten delegates are elected to the Board of Directors. The Chairman, Vice Chairman, Treasurer and Secretary are elected 'on merit' by the General Assembly. Six directors are elected by their respective districts to represent them on the board. Each district, Mbarara, Bushenyi and Ntugmao, elects two directors. Members of the board are then appointed to standing committees of human resources and finance and administration.

The Audit committee, composed of three members, is elected directly by and reports to the General Assembly.

### **Reporting and Transparency**

An institutional review normally includes analysis of financial statements and performance. As AMFIA does not prepare internal financial statements, the team was only able to review the audited statements for the year ended June 30, 2004. AMFIA's 2003/2004 Annual Report indicates that while AMFIA was registered in September 2003 it really began operations on April 1, 2004 after the staff was recruited and an office was established in Mbarara Town. The Report does not present a very clear picture of AMFIA's financial status as it is outdated and effectively reflects only three months of operations.

The narrative report also does not present a very clear picture of AMFIAs operations as it seems to include many activities for the fiscal year 2004/2005 and cannot be easily related to the financial statements. Given AMFIA's late start to operations, it is appropriate that the annual report discussed financial and operational activities of the fiscal year. However the presentation of financial activities is in a format that is not appropriate for an institution whose objectives are among other things,

- To create and mainstream prudential standards
- To establish a code of conduct for member organizations and
- To establish an appropriate regulatory framework for micro finance institutions and their clients.

AMFIA should model the behavior it wishes to encourage with its members and therefore financial reporting must be much more transparent, detailed, and up to date. As with the narrative of the 2003/2004 Annual Report, the third and fourth quarter reports for 2005 summarize receipts and expenditures as totals without breaking down the source or use of funds. There is no indication to what extent AMFIA is being funded by members and to what extent it is relying on external sources, or whether expenditures are being used to support overheads or for service delivery to members.

Annual and quarterly reports can be tools for learning, generating action as well as informing members. The quarterly report covering October to December 2005, only very briefly mentions two pivotal events that have changed the direction and even sustainability of organization, the loss of 70% of its financial support and the decision to convert to cooperative union. Greater explanation of the causes, effects and impacts of these events were an opportunity to educate and get greater support from its membership. Inadequate financial reporting and discussion of significant events causes distrust and results in reduced commitment and support from members.

AMFIA's business plan is based on attracting considerable support from funders. To attract such support AMFIA will have to significantly improve the detail and transparency of its reporting.

**Management**

AMFIA has three staff members, the Executive Secretary, Finance and Administration Manager, Office Administrator and Office assistant. The staff is inadequate to implement AMFIA's mandate today, let alone a Union with expanded responsibilities.

Management lacks the requisite skills necessary for a technical service oriented organization like a Union. AMFIA relies on contracted trainers for service delivery at the moment and this can be a cost effective delivery model but it requires greater management to ensure consistent quality.

In addition, the quality of internal reports and the business plan raise some concerns about management skills and capacity.

**Business Plans**

AMFIA has developed a very ambitious business plan for the period 2005 to 2007 with the assistance of technical support from APROCEL and One World Management Consult. The plan was prepared in January 2005. AMFIA admits that this plan is inappropriate for a Union. It is of some concern that AMFIA has not updated this plan when the loss of support from its main donor signaled that urgent action was required. Reluctance of members to meet their annual dues and commitments should also have induced the Board and Management to reconsider the business plan.

Similar to the annual and quarterly reports, the business plan is short on critical analysis. The plan does contain a SWOT analysis but there is no discussion of how threats and weaknesses will be addressed or opportunities and strengths will be exploited. Many of the threats AMFIA identified are the same as those indicated by the feasibility study team to be challenges for a SACCO Union.

**SWOT Analysis of AMFIA 2004**

<p><b>STRENGTHS</b></p> <ul style="list-style-type: none"> <li>• AMFIA has built strategic partnerships with existing institutions like APROCEL, PUM, SUFFICE, AMFIU and MOP.</li> <li>• A strong existing network of SACCOs and MFIs useful for reaching the wider rural populations in the region.</li> <li>• A clear mission and vision</li> <li>• A committed and experienced board of directors</li> <li>• Experienced, knowledgeable, professional and committed staff</li> <li>• Dedicated and supportive member institutions</li> <li>• Existence of basic infrastructure</li> </ul>	<p><b>WEAKNESSES</b></p> <ul style="list-style-type: none"> <li>• Limited internal capacity (number of staff, financial resources and equipment e.g. computers, vehicles, etc)</li> <li>• Vast area of coverage making it difficult to effectively monitor the activities of the member institutions</li> <li>• Weak regulatory and supervisory operating environment</li> </ul>
<p><b>OPPORTUNITIES</b></p> <ul style="list-style-type: none"> <li>• Goodwill and trust of the members, funders and government.</li> <li>• Potential willingness for funding by the funders and government</li> <li>• An enabling legal and economic environment for MFIs and SACCOs</li> <li>• Strong government and international support for private sector institutions</li> <li>• High demand for SACCO and MFIs services</li> <li>• Increasing potential for business partnerships with emerging and growing MFIs and SACCOs</li> <li>• Growing economic activities within area of operation</li> </ul>	<p><b>THREATS</b></p> <ul style="list-style-type: none"> <li>• Potential competition from other similar institutions</li> <li>• Vulnerability as a result of dwindling donor and government support</li> <li>• Weak governance and management systems of member institutions</li> <li>• Weak financial capacities of member institutions to support the Union</li> <li>• Proliferation of similar donor-supported initiatives in the region</li> <li>• Lack of an effective regulatory framework for tier 4 level institutions</li> <li>• Negative perception of Cooperative Unions as a result of failed attempts in the past.</li> </ul>

While the plan is heavily dependant on external funders it does not include a realistic assessment of which external funders might be prepared to support and to what level they might support. There is no evident rationale for the financial projections. For example they project a decline in commissions in year three, and a decreasing rate of contributions from loan portfolio based dues in year three. These projections suggest that rather than AMFIA increasing its capacity to deliver service and subsequently strengthen its members, its capacity to deliver or demand for services is declining and the growth rate of members is also declining. These projections indicate a lack of faith in the market it is hoping to serve and its ability to attract customers for those services. If these projections do indicate a lack of faith in itself, it begs the question of why bother to continue the association? It is, however; more plausible that AMFIA lacks the skills to do proper business planning and this skill must be strengthened in order for AMFIA to be of benefit to its members.

### AMFIA's Income Projections

	Year 1	Year 2	% Year on Year Change	Year 3	% Year on Year Change
Annual Subscription Fees	5,000	10,000	+100	10,000	0
1% net loan portfolio Contribution	55,000	80,000	+45	100,000	+25
Grants and Donations	204,000	176,000	-14	144,500	-18
Consultancy Fees	9,000	20,500	+128	33,500	+63
Sales of Publications & Bulletins	1,600	2,000	+25	2,000	0
Commissions	5,600	11,000	+96	9,000	-18
Other Income	1,200	1,300	+8	1,250	-4
Total	281,400	300,800	+7	300,250	-.2

In addition to a business plan, AMFIA has prepared a proposal for a Bankers' Bank or in SACCO terminology a central financial facility. The proposal makes no effort to determine start up and operating costs, staffing requirements or effective demand. In short, there is no business case. The plan identifies concessional loans as a significant funding stream but it also identifies lack of security as an obstacle to accessing loans. This obstacle is not removed by converting to a Union. It also identifies excess liquidity of members as a source of funds; however, analysis of AMFIAs own statistics indicates that excess liquidity is an ephemeral phenomenon.

### Conversion to a Co-operative Union

Although 70% of AMFIA's members attended the General Meeting to approve the change in legal structure from a company limited by guarantee to a cooperative union, there is no indication that there was broad based consultation with the members of the primary SACCOs. Given AMFIA's present legal structure it not necessary for AMFIA's members to engage in broad based consultation and seek approval from their own members before taking such a move; however, to gain commitment and build trust it would have been prudent to do so.

It is not clear that the decision to transform from a company limited by guarantee without share capital to a cooperative union limited with share capital was a fully informed decision of the membership as there is no evidence that a feasibility study or business case was presented to the membership. It is also not clear what the motivation or perceived benefit of being a co-operative union versus being a company limited by guarantee are. While a co-operative union is prohibited from providing services to any entity other than a cooperative society, a company limited by guarantee has no such restrictions. The significant advantage that a co-operative society has over a company limited by guarantee is the ability to offer financial intermediation without being licensed. AMFIA's proposed bylaws are biased toward financial intermediation so this appears to be the main motivation for conversion.

However, financial intermediation is a complex business and brings a new level of risk to AMFIA's members who already have difficulties in managing risks in their own societies. The proposed financial structure of the union, with a nominal share ownership of 200,000 UGX and limited liability of 600,000 UGX does little to encourage accountability from its members.

The Executive Secretary indicated that as a Union, AMFIA would open its membership to all cooperatives but would focus on SACCOs. This is a deviation from an international trend that appears to resonate with GOU for financial cooperatives to be distinctly separate from other types of cooperatives.

AMFIA should be encouraged to step back and engage in broader consultations with its membership and other stakeholders to gain the genuine commitment required to ensure a successful venture. AMFIA's proposed bylaws contain a number of weaknesses and contradictions;

- (a) Article 2.ii is the primary intent here to be a financial institution or a Union that provides services to members, some of which may be financial?
- (b) Article 2.v The Union intends to build capacity for Micro Finance Institutions yet it is being registered as a SACCO union.
- (c) Article 7.a Definition of a member is not clear.
- (d) Article 16 specifies that each society shall be represented by 2 delegates but does not address voting authority. Does each delegate have a vote, or does each society have a vote? The issue is not clarified in Article 22.
- (e) Article 29 The functions of the board are deemed operational rather than policy formulation and oversight
- (f) Article 33.i The tenure of office is in contravention of Section 24.3 of the Cooperative Societies Regulations, 1992
- (g) In general the proposed bylaws are more appropriate for a primary SACCO than for an effective Union.

AMFIA should be encouraged to revisit its proposed bylaws to ensure that they are suitable for a Union, as the bylaws set the tone and basic operating principles of the organization. Laying the groundwork for a solid Union should include the following steps;

- (a) A feasibility study based on broad consultation with potential members and all major stakeholders. The feasibility study should include a market and financial analysis.
- (b) Clearly defined functions of the Union
- (c) Three year timeline and implementation plan to roll out services, including financial implication to member SACCOs. This step is necessary to manage expectations of members and member input should be sought in its preparation.
- (d) Clear bylaws that address
  - i. Equitable representation,
  - ii. Equitable and progressive capital structure to ensure that the Union grows with its members and is able to maintain services,
  - iii. Equitable and progressive dues structure to ensure that the Union grows with its members and is able to maintain services,
  - iv. Dispute resolution mechanisms,
  - v. Minimum qualifications for directors and senior officers,
  - vi. Maximum terms of office for directors that are long enough to ensure value and continuity but short enough to avoid excessive control or stagnation. This may require requesting an exemption under the current regulations. Maximum periods of service of six to 9 years with a recess of one term before re-eligibility for election are more reasonable than the current two, two year terms permitted,
  - vii. Staggering terms of election in the first annual general meeting to ensure continuity and mentoring of new directors,
  - viii. Relationship of the Union with other players in the sector and industry
  - ix. Resolution of the membership of the primary SACCOs to join the union, approved through Annual General Meetings (AGMs) or Special General Meetings (SGMs) to ensure that their members are fully aware of their commitment, and
  - x. Minimum share capital subscribed and fully paid by all founding members before seeking approval for registration.

## Conclusions and Recommendations

AMFIA is the embodiment of all of challenges identified by the study team with regards to the feasibility of establishing a regional Union. It is formed on the back of weak institutions, it was formed too soon, and it is in competition with its main source of funding, donors. It is not any more feasible to AMFIA to become a Union than it is for a new organization to be established to take on that role.

However, AMFIA exists. It has a level of popular support, it has established networks, it has basic infrastructure and these are all useful as a channel for delivering services to SACCOs in the region. In order for Rural SPEED or any other organization to utilize AMFIA, AMFIA would need to make significant improvements in its management capacity, transparency, and accountability. These are not issues which require additional financial resources but they are issues which require increased understanding of AMFIA's role, image and impact on its members.

AMFIA's board needs to understand how failure to be accountable and transparent reduces commitment from members, drives away potential supporters and impacts negatively on the image of individual members.

In as much as AMFIA exists, it should be discouraged from taking the final steps to convert to a SACCO Union at this time. AMFIA can provide all the services it wants to provide to its members and even an expanded market without changing its legal structure, except financial intermediation. It can play a significant role in SACCO development without financial intermediation and this is a service that should not be shelved until the SACCOs and AMFIA are much stronger institutions.

Rural SPEED can strengthen AMFIA in its current role and mitigate the potential harm of the premature creation of a Union by providing technical assistance to work closely with the AMFIAs Board of Directors, members and management to;

- (a) Realistically assess AMFIAs operating strengths and weakness;
- (b) Increase the board's understanding of the need to demand accountability and transparency from its management and its members, and why failure to do so weakens the organizations in the eyes of its members and potential supporters;
- (c) Improve AMFIA's internal reporting requirements;
- (d) Strengthen AMFIA's relationship with its members to increase their commitment and support of the organization in tangible ways,
- (e) Develop a realistic business plan based on identified and effective demand;
- (f) Facilitate broad based consultation with members and other stakeholders to understand the reputation and indirect financial risk of establishing a union without careful thought to its structure, financial feasibility and implementation;
- (g) Facilitate discussions between member SACCOs to increase their understanding of why trust and transparency amongst each other is a critical component of establishing a strong Union;
- (h) Demonstrate how SACCOs can work together informally to increase efficiencies without the need for creating an expensive institution;
- (i) Coordinate donor interventions with its members to reduce duplication and increase effectiveness of donor programmes/ support.

With more experience, more commitment from members, greater transparency and improved management capacity, AMFIA may evolve into a Union over time.

## Appendix 4 Micro Finance Support Providers in Ankole Region

MFI Service Providers	Services Provided
<b>Uganda Co-op. Alliance</b>	Community mobilization and sensitization for formation of SACCOs
	Guiding communities in the process of forming and registering SACCOs
	Training SACCO leaders in SACCO governance, supervising and directing operations, membership mobilization, etc.
	Training SACCO management staff in handling operations of SACCOs, record keeping, producing SACCO financial and operating reports, customer care, and general SACCO management
	Training members in how to own, use, control and benefit from their SACCOs
	Providing young SACCOs with start up support kits like safe, filing cabinet, refurbishing and securing premises, one years rent, cashier and manager's salaries and stationery
	Providing technical support / advisory services e.g. preparing standard operating and management information systems, lending policies and guidelines, backstopping and follow up.
	Internal audit and supervision
	Keeping Data on SACCO operations and availing it to other stakeholders and development partners.
	Lobbying, advocacy and Representing SACCOs
<p><i>UCA provides most of these services free of charge although SACCOs cover their participants' transport and accommodation expenses (whenever training programs are conducted in their local areas). Effective 2006, SACCOs above 1 year of operation will start contributing towards the direct costs of some of the services with a view to covering all the costs by the end of the fourth year. Those below 1 year will be fully subsidized.</i></p>	
<b>Micro Finance Support Centre Ltd.</b>	Commercial loans (12 – 14%) repayable over 2 years with a grace period (principal) of 3 – 6 months (negotiable).
	Pre-MSCL 3 year Loans (small loans given to young but well performing SACCOs which are not yet able to borrow on their own capacity (up to maximum of Shs. 5 million at 9% p.a. with one years grace period on principal and interest)
	Pilot agricultural loans (9% p.a.) for up to 3 years with a grace period of one year on interest and principal
	Training SACCO managers and leaders in SACCO governance and management
	Training SACCO managers and leaders in loan management and bookkeeping.

<b>MFI Service Providers</b>	<b>Services Provided</b>
<b>SUFFICE</b>	Provision of logistical support e.g. computers, motor cycles and furniture to well established and performing SACCOs.
	Training SACCO managers and leaders in SACCO governance and management
	Training SACCO managers and leaders in loan management and bookkeeping.
	Training SACCO members in SACCO ownership, usage and control.
<b>Stromme Foundation</b>	Wholesale loans to well established and performing SACCOs
	Training borrowing SACCOs' leaders and management staff in SACCO governance, loan operations and management and, record keeping.
	Provision of computers and computer software (to SACCOs borrowing from them)
<b>AMFIU</b>	Advocacy, lobby and representation
	Developing and providing the performance monitoring tool
	Receiving data from MFIs and availing it to stakeholders.
	Training its member SACCOs leaders and management staff in governance and management
	Creating District Micro Finance Forums which help MFIs in a district "network their operations" ( <i>most of them are new and are not yet effective</i> )
<b>AMFIA</b>	Provision of logistical support e.g. computers to its members
	Training its members managers and leaders in governance and management
	Training its members' managers and leaders in loan management and bookkeeping, membership mobilization, etc.
	Training SACCO members in SACCO ownership, usage and control.
	Mobilizing and channeling some training programmes from other providers like FSDU to its members
	Receiving data from its members and availing it to stakeholders
	Representing its members at different for a.
	Developing benchmarks for its members
	Providing technical and advisory services to its members on a demand/need basis
<b>MCAP</b>	Has provided matching capacity building grants for furniture and bicycles. Other approved matching grants for training leaders, management staff and members have not yet been disbursed.

<b>MFI Service Providers</b>	<b>Services Provided</b>
<b>Rural SPEED</b>	Training SACCO leaders and management staff in governance and management and loan operations
	Conducts off site monitoring (through SACCOs submitting monthly reports to it)
	Logistical support approved has not yet been provided.
<b>District Private Sector Promotion Centre (UNDP and Ministry of Finance, Planning and Economic Development)</b>	Provided start up support kit to 3 SACCOs in the region
	Used to train SACCO leaders in SACCO governance, supervising and directing operations, membership mobilization, etc
	Used to train SACCO management staff in handling operations of SACCOs, record keeping, producing SACCO financial and operating reports, customer care, and general SACCO management
	Used to train SACCO members in how to own, use, control and benefit from their SACCOs
<i>(They have since scaled down their services due to funding constraints and changing the legal form. They now have to recover full costs for the services they render).</i>	

**Appendix 5 SACCO Union Survey**

**RURAL SAVINGS PROMOTION AND ENHANCEMENT OF  
ENTERPRISE DEVELOPMENT**

**FEASIBILITY STUDY FOR  
A SACCO UNION IN ANKOLE REGION**

- 1. Name of SACCO .....
  - 2. Registration No. ....
  - 3. Date of Registration .....
  - 4. Location/ Address .....
  - 5. Sub-County .....
  - 6. District .....
  - 7. Area of operation .....
  - 8. Contact Persons & Tel. Nos. ....  
.....
  - 9. No. of Members (31 December 2005) .....
  - 10. Value of Share Capital (31 December 2005) .....
  - 11. Net Saving Deposits (31 December 2005) .....
  - 12. Loans Outstanding (31 December 2005).....
  - 13. Level of Arrears .....
  - 14. Organizations to which the SACCO is presently affiliated:
    - i) Name .....
    - a) Membership Fees ....., Annual Subscription .....
- Share Capital .....
- b) Services provided.....  
.....  
.....
  - c) How are these services financed?  
.....  
.....  
.....

d) Adequacy of the Services provided:

.....  
.....

ii) Name .....

a) Membership Fees ....., Annual Subscription .....  
Share Capital .....

b) Services provided:

.....  
.....

c) How are these services financed?

.....  
.....

Adequacy of the services provided:

.....  
.....

iii) Name .....

a) Membership Fees ....., Annual Subscription .....  
Share Capital .....

b) Services provided

.....  
.....

c) How are these services financed?

.....  
.....

d) Adequacy of the services provided:

.....  
.....

iv) Name .....

a) Membership Fees ....., Annual Subscription .....

Share Capital .....

b) Services provided

.....  
.....

c) How are these services financed?

.....  
.....

d) Adequacy of the services provided:

.....  
.....

15. Services required by the SACCO, which are not provided by the organizations to which the SACCO is affiliated:

.....  
.....  
.....  
.....

16. How else can these services be provided?

.....  
.....

17. What other organizations are providing the SACCO with Micro finance support services?

a) Name .....

Services provided .....  
.....  
.....

b) Name .....  
Services provided .....  
.....  
.....

c) Name .....  
Services provided .....  
.....  
.....

18. Would the SACCO be interested in forming / joining a SACCO Union in your region?

.....

19. Give Reasons for your answer in No. 18 above.

.....  
.....  
.....  
.....

20. If your answer to No. 18 above is yes, suggest how:

i) Its establishment costs should funded .....  
.....  
.....

ii) Its operating costs should be funded .....  
.....  
.....

21. What services should such a SACCO Union provide? (*Rank them in order of your priority*

*No. 1, 2, 3, 4, 5, .....*)

a) ..... *Ranking* .....

- b) ..... *Ranking* .....
- c) ..... *Ranking* .....
- d) ..... *Ranking* .....
- e) ..... *Ranking* .....
- f) ..... *Ranking* .....
- g) ..... *Ranking* .....

22. List the services you would be prepared and willing to pay for.  
.....  
.....  
.....  
.....  
.....

23. Does your SACCO budget for these services?  
.....  
.....

24. How much would you be able to pay for the services provided by the SACCO Union?  
.....  
.....  
.....

25. What challenges would a SACCO Union face in its formation processes and operations?  
.....  
.....  
.....

26. How would these challenges be overcome?  
.....  
.....  
.....

27. Name(s) of the commercial bank (s) where you have your bank account (s)

.....  
.....

28. List the services your commercial bank provides the SACCO with:

.....  
.....

29. What services would you wish your commercial bank to provide you with?

.....  
.....  
.....

30. Give any other suggestions regarding the formation and operations of a SACCO Union in your area.

.....  
.....

## Appendix 6 Documents Reviewed

<b>LAWS AND BYLAWS</b>		
Co-operative Societies Statute	GOU	1991
Co-operative Societies Regulations	GOU	1992
Co-operative Savings and Credit Society Limited – Model Bylaws	GOU	
Guidelines for Converting from a Company to a Savings and Credit Cooperative	GOU	2005
<b>SACCO Information</b>		
Financial Statements of Rural SPEED partners	SACCOs	2004/2005
Due Diligence of Reports of Rural SPEED partners	FRIENDS Consult Ltd.	2005
Due Diligence Tool for Savings and Credit Co-operative Organizations	FRIENDS Consult Ltd.	2005
SACCO Statistics	UCA	2004
Developing Credit Unions In Western Uganda Project Evaluation	UCA	2004
<b>AMFIA</b>		
AMFIA Cooperative Union Limited – Draft Bylaws	AMFIA	2005
AMFIA Three Year Business Plan January 2005 – 2007	AMFIA	2005
Proposal for AMFIA’s Bankers Bank	AMFIA	2005
AMFIA Annual Report 2003/2004	AMFIA	2004
AMFIA Quarterly Report July – Sep 2005	AMFIA	2005
AMFIA Quarterly Report Oct – Dec 2005	AMFIA	2005
AMFIA Operational Manual Handbook	AMFIA	2005
<b>Other</b>		
Study on Governance Needs of Ugandan Micro-Finance Institutions (MFIs)	AMFIU	2005
AMFIU Profile 2005	AMFIU	2005
AMFIU Capacity Building Plan 2006 Workshops and Trainings 2006	AMFIU	2006
Sound Practices in Microfinance – A Compilation of International and Ugandan Good Practices for Microfinance Stakeholders	AMFIU	2005
Screening Form – MCAP Funding Application	GOU	2004

## Appendix 7 List of People and Organizations Met

<b>Name</b>	<b>Title</b>	<b>Organization</b>
1. Ms. Fera Agricola	Micro Finance and Business Development Advisor	TRIAS
2. Mr. David Baguma	Executive Director	AMFIU
3. Mr. Fred Mwesigye Development	Commissioner for Cooperative and Industry	Ministry of Trade, Tourism
4. Mr. Stephen Musemakweli	Managing Director	Post Bank
5. Mr. Paul Mayanja	CEO	Stromme Foundation
6. Mr. Frank Tumuheirwe	Executive Secretary	AMFIA
7. Mr. Wilson Kabanda	General Manager	UCSCU
8. Mr. Sam Kahindi	Chairman	AMFIA
9. Mr. John Mugisha	Board Member	AMFIA
10. Mr. N. Karooco	DCO	Ntungamo District
11. Mr. Francis Atukunda	DCO	Mbarara District
12. Mr. L.D. Byamukama	DCO	Bushenyi District
13. Mr. Patrick Bakunda	Regional Coordinator	UCA
14. Mr. Deo Twinomuhangi	CEO	APROCEL
15. Mr. Leonard Msemakweli	General Secretary	UCA
16. Prof Ephraim Kamuntu	Member Of Parliament	Shema County
17. Mr. Geza Radu	Field Manager	CCA

**LIST OF SACCOs****Mbarara District** (*Including the newly formed districts*)

- |    |                |                           |
|----|----------------|---------------------------|
| 1. | Ankole Farmers | 10.Kibaya                 |
| 2. | Kamukuzi       | 11.Bukanga                |
| 3. | Rwebihuro      | 12.Abatatina              |
| 4. | Rugando        | 13.Ebirungyi              |
| 5. | Mwizi          | 14.Isingiro               |
| 6. | Nyakashashara  | 15.Ndaija                 |
| 7. | ISSIA          | 16.Mbarara District Youth |
| 8. | Kambaba        | 17.Kakoba Women           |
| 9. | Kateshani      |                           |

**Bushenyi District**

- |    |            |                        |
|----|------------|------------------------|
| 1. | Kyamuhunga | 8. Bugongi             |
| 2. | Muhame     | 9. Bitereko            |
| 3. | Kitagata   | 10.Mitooma             |
| 4. | Shuuku     | 11.Bushenyi Devt Trust |
| 5. | Kyabugimbi | 12.Bushenyi Peoples'   |
| 6. | Rukoma     | 13.Kyangyenyi          |
| 7. | Mushanga   | 14.Kashenshero         |

**Ntungamo District**

- |    |   |            |
|----|---|------------|
| 1. | RUSCA (Rubare Savings & Credit Association) | 6. Itojo   |
| 2. | Bwongyera                                   | 7. Ruhaama |
| 3. | Nyabushenyi                                 | 8. Kajara  |
| 4. | WEMIFA                                      | 9.Nyakyera |
| 5. | Muntuyera                                   |            |

**Others**

- |    |           |   |                      |
|----|-----------|---|----------------------|
| 1. | MAMIDECOT | - | Masaka District)     |
| 2. | Rubabo    | - | Rukungiri District   |
| 3. | Nyarwanya | - | Rukungiri District - |