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LIRA SACCOs - SAVINGS AND AGRICULTURAL LENDING

FINAL REPORT



October, 2007

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Rural SPEED

Rural Savings Promotion & Enhancement of Enterprise Development

LIRA SACCOs -SAVINGS AND AGRICULTURAL LENDING

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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EXECUTIVE SUMMARY

USAID/Rural SPEED conducted a value chain analysis to determine an appropriate financing mechanism for sunflower outgrowers servicing contracts from Mukwano Industries around Lira. The analysis revealed real opportunities for sunflower outgrowers to save, borrow and repay based on the forward market for sunflower. Rural SPEED first engaged a consultant to study the feasibility of a SACCO system and to design savings and loan products to support the activity. The formation of four SACCOs was then assisted by a Rural SPEED long term advisor to the SACCOs over a 13 month period.

The advisor conducted multiple support activities for the burgeoning SACCOs including: mobilizing and sensitizing founding members, establishing the SACCO founding committee and ratifying SACCO bylaws, defining management roles and responsibilities, developing strategic plans, broad members mobilization, training of management organs, training in Financial Management, governance and transparency.

In terms of impact, in broad terms, a full 15% of Mukwano's outgrowers have joined these four SACCOs in just 13 months. Out of their own income, one of the four SACCOs has employed professional management and two of the others are engaging in shared professional management. The total membership of the SACCOs is above 3,000 and all members are actively saving with total deposits above UGX 26M. Other local SACCOs have approached the new SACCOs promoted by Rural SPEED for advice. Finally, one of the partners, Iceme SACCO (the oldest and largest) scored very favorably using the Light Due Diligence evaluation (they scored 75% versus an average of 77% for Rural SPEED's other older and more sophisticated partners).

In terms of impact of specific SACCOs, Iceme SACCO now has 1,255 members, a loan portfolio of UGX 8.5M to 71 members, a savings book of UGX 17.9M, members' shares worth UGX 5.4M, a first year profit of UGX 2.2M, 0% Portfolio at Risk and Operational Sustainability above 142%. This is a stellar performance. BAAMO SACCO now has 1,003 members, a loan portfolio of UGX 2.1M to 18 members, a savings book of UGX 3.5M, members' shares worth UGX 2.1M, a first year profit of UGX 1.3M, 0% Portfolio at Risk and Operational Sustainability above 236%. ITAAAO SACCO now has 889 members, a loan portfolio of UGX 6.6M to 65 members, a savings book of UGX 4.6M, members' shares worth UGX 2.7M, a first year profit of UGX 1.3M, 0% Portfolio at Risk and Operational Sustainability above 131%. AMACH SACCO is very young and will register in the coming quarter. It currently has 181 members with no financial intermediation activities yet taking place. The other three SACCOs have agreed to mentor AMACH moving forward.

There were several lessons learned in the process of supporting these four SACCOs. These include: developing fundamentally strong SACCOs is better than trying to regulate weak SACCOs; setting up a SACCO right the first time is better than fixing a SACCO that was poorly formed; external interference into SACCO operations impedes SACCO development; Governance, Checks and Balances, and Transparency are three of the key drivers to SACCO success; low cost training is far more important than subsidizing SACCO start up; strong initial training nurtures strong dynamic leadership within a SACCO; building a SACCO on an existing economic activity facilitates success; SACCO promotion is best handled by SACCOs themselves.

SECTION I

Background

In 2005, at the request of Mukwano Industries, a Uganda based sunflower processor; USAID/Rural SPEED conducted a *value chain analysis* of sunflower production and marketing in and around Lira. The objective of this analysis, as was prioritized by Mukwano, was to identify possible financing mechanisms to support local sunflower out growers in order that they might increase production and productivity. An equally important objective was to enable greater possibilities of generating savings within the local communities to foster growth and development. The value chain analysis conducted by Rural SPEED revealed that there was a high level of short term profitability for Mukwano out growers which could lead to financial products driven by savings and having a low risk profile. Following the analysis, Mukwano shared that they did not want a traditional, high interest charging MFI or MDI because they wanted to improve the savings culture of their out growers while not burdening the out growers with debt.

In response to Mukwano's logic, Rural SPEED sponsored a consultancy in 2006 to investigate the financial viability of setting up a network of SACCOs around Lira, Apac and Oyam to support Mukwano's out growers. The advantage of such a system was that all profits would be accumulated by the community, savings culture would be improved and a management culture would be inculcated within the communities themselves. Following this consultancy, such a system was found to be viable if it was based first on savings and secondly on short term borrowing (to mitigate default risk to the greatest extent possible). Both the local communities and Mukwano embraced the findings of the consultancy at that time and that being the case, Rural SPEED sponsored a long term technical advisor to work with several of the local communities to establish SACCOs¹.

¹ It is interesting and unfortunate to note that the arrival of the long term technical advisor coincided with the Government of Uganda's political campaign touting wealth for all and promising to develop rural SACCOs with the purpose of disbursing credit. While Rural SPEED did not follow this model, fear of the possible negative consequences caused Mukwano to curtail any direct involvement with this project, though Mukwano certainly benefited from their out growers ability to save for inputs, borrow for weeding and harvesting and increase productivity.

SECTION II

Methodology/Activities

As mentioned above, after initial evaluations, Rural SPEED embedded a long term technical advisor with several communities in Lira, Apac and Oyam. These communities were: in Lira, Lira and Amach sub counties; in Apac, Ayer Sub County; in Oyam, Iceme, Otwal, and Ngai sub counties. These were chosen on the basis of the productivity, cash flow and enthusiasm of the communities surveyed. Toward this end, and in consultation with these communities, it was decided that the long term advisor would work to form four new SACCOs. These were: BAAMO covering Lira and Bala Sub Counties; Iceme covering Iceme, Otwal and Ngai sub counties; ITAAAO covering Ayer Sub County; and Amach covering Amach Sub County.

The timing of this long term consultancy was one full year and one month executed in an initial one month engagement in June 2006 followed by two six month engagements running from August 2006 through January 2007 and March 2007 through September 2007, respectively.

The embedded advisor conducted multiple activities to support the development of these four SACCOs essentially comprised of promoting the organizations, training the members and management organs, mentoring the management organs and supporting the organizations through promotion, registration, start up activities and growth. As such the advisor undertook certain key activities:

- Mobilizing and sensitizing founding members

Working with Mukwano's site coordinator and USAID/APEP's Producer Organization Trainer, the advisor called community level meetings with the strongest sunflower out growers and the cluster site coordinators of Mukwano. At these meetings the SACCO concept was reviewed with community leaders stressing cooperative principles, self-determination, transparency and self control. These meetings took place over five days at each of the four chosen clusters.

- Establishing the SACCO founding committee and ratifying SACCO bylaws

Working with the initial out growers who showed strong interest in forming SACCOs, the advisor assisted them to set up a group of founders (the founding committee) and define roles and responsibilities among these founders. Each of the founders contributed UGX 10,000 to purchase their initial share and contributed UGX 2,000 for membership registration (this UGX 2,000/member became the initial income of each SACCO). Upon reaching 40 founding members, model bylaws from the Ministry of Trade Tourism and Industry were reviewed and modified to reflect the proposed operations and goals of each SACCO. Registration was applied for and each new SACCO paid UGX 50,000 to officially register with the ministry (this was one of the members' initial expenses). It is noteworthy to consider that all operational income and expenses were borne by the members themselves.

- Defining management roles and responsibilities

Concurrent with registration, committees were established from among the founding members. These were the Board of Directors, the Control Committee, Education Committee, Loan Committee and Savings Committee. The roles of each committee were discussed and the complete system of checks and balances within the SACCO were introduced. This was slowly accomplished at weekly meetings over the course of several months.

- Developing strategic plans

As membership started to pick up and management organs began to understand their roles and responsibilities, defining each SACCOs mission and vision became essential. This was done over three days with the new Iceme SACCO. With the ITAAAO and BAAMO SACCOs, Iceme was used as a case study to mentor them and the training took only two days for each of them. Amach is the last of the SACCOs to be promoted by Rural SPEED and is currently developing their own strategic plan. To support Amach and others, after the closure of Rural SPEED, all four SACCOs have determined to hold a monthly meeting to harmonize strategic plans and to share lessons learned.

- Broad members mobilization

Working with the SACCOs management organs, the advisor developed two promotional strategies. The first is member to non-member promotion. With this strategy, members each are asked to promote two new members each month and have promised to try and achieve this in accordance with a decision made in each SACCOs General Assembly meeting. The second promotional strategy is to hold a meeting weekly in each parish for each SACCO's catchment area. This activity is coordinated by each SACCO's Education Committee and draws on the members of the other committees as well. Although the aggressive goal (monthly membership doubling) has not been achieved using these two strategies, the effort toward this aggressive goal has resulted in excellent growth.

- Training of management organs

Through a combination of direct training and ongoing mentoring, the advisor covered many topics. This training and mentoring began immediately following initial promotion and continued through the duration of the 13 month consultancy. These trainings/mentoring sessions included the following topics:

- Management Committee

Also known as the Board of Directors, the Management Committee oversees all activities in the SACCOs' strategic and operational plans on the behalf of the membership. Unlike other Ugandan SACCOs, the four promoted by Rural SPEED has a separation between the Board of Directors and the other committees. This is unique to these SACCOs and provides for better checks and balances as the Board oversees decisions rather than both making and overseeing decisions.

- Control Committee

Also known as the Internal Audit Committee, the Control Committee is trained to and charged with ensuring that other bodies in the SACCO conform to Bylaws, Strategic and Operational Plans, Policies and Procedures. Unlike other Ugandan SACCOs, the Control Committee in the SACCOs promoted by Rural SPEED answer only to the General Assembly which provides effective internal controls and checks and balances. In one instance, the Control Committee in Iceme actually overturned a decision by the Board Chairman, exercising their obligation to the general membership.

- Education Committee

This committee was trained to take active responsibility for educating committee members, new members, the community more broadly and promoting new members to join the respective SACCOs. These are active committees with activities taking place practically every week. The growth in membership can be attributed to their success. Unlike other Ugandan SACCOs the Education Committees in the SACCOs promoted by Rural SPEED are effectively targeted, goal oriented and energetic.

- Savings Committee

Many Ugandan SACCOs do not have a Savings Committee. This is a fundamental flaw as the design of savings products, the promotion of savings accounts to members and the savings themselves are both the principle benefit a SACCO offers its membership as well as being the life-blood of the loan able funds. In the SACCOs promoted by Rural SPEED, the Savings Committees work closely with the Education Committees but focus principally on promoting member savings. Almost like loans officers, the Savings Committee members monitor members savings behavior and counsel members on how to save better, the advantages gained by the member and the SACCO through their savings and the relationship between Saving, Shares and Loans and the implications of these relationships on loan values, cost of borrowing, value of dividends, etc.

- Loan Committee

The Loan Committee in the SACCOs promoted by Rural SPEED is a body elected independently of the Board of Directors. The Loan Committees draft loan products and policies for approval by the General Assembly, sensitize members on the SACCOs' lending policies and criteria, appraise and recommend loans to the Board (who are responsible for approval and Asset-Liability Management) and follow up on loans in arrears. Most Ugandan SACCOs draw their Loans Committee from their Board of Directors which results in poor checks and balances as the approving body is also responsible for overseeing what they approve.

- Training in Financial Management

Through a combination of direct training and ongoing mentoring, the advisor covered many topics. Like the training of management organs, this training and mentoring began immediately following initial promotion and continued through the duration of the 13 month consultancy. These trainings/mentoring sessions included the following topics:

- Cash flow

Initially the membership and committee members were trained by the advisor to understand the fundamentals of inflow and outflows as a foundation to later develop skills in accounting and portfolio management. Each SACCO was trained for two days using adult education techniques of trying to quantify the cash flows, seeing what they were doing correctly and incorrectly and then correcting their mistakes. By the end of this training, members understood the differences between income and expense; assets, liabilities and equity; and the importance of timing for cash flow analysis. This formed a powerful basis for developing Income Statements and procedures for cash handling in each SACCO.

- Accounting

Building on the Cash Flow training and day to day experience with managing inflows and outflows, the advisor worked with the members of each SACCO to understand the construction and analysis of Income Statements and Balance Sheets. These financial statements are posted on the walls of each SACCO on a monthly basis. This exercise ensures that all members both see and understand the financial position of their SACCO transparently. Such transparency is not commonly practiced in other Ugandan SACCOs.

- Financial analysis

Building on the Accounting training, the advisor reviewed with the members various ways of interpreting key figures from the Balance Sheet and Income Statement. As such, committee members are capable of not only calculating but also understanding key ratios such as leverage, return on equity, income to expense, quick ratio, Operational and Financial Sustainability and, with portfolio

analysis, Portfolio at Risk. Such analysis has led the SACCOs promoted by Rural SPEED to make critical and intelligent decisions for their management. One such decision was to reject loan offers from three different commercial lenders as such borrowing would encumber their sustainability.

- Understanding interest rates

The advisor, worked with all SACCO members to demonstrate to them the constituent costs which form an interest rate charged to the borrower. This furnished for complete lending cost recovery by the SACCOs when they lend to the members while also diminishing members' complaints about high interest because they understand perfectly what they are paying for. This again, enables strong transparency and is unique to the SACCOs promoted by Rural SPEED.

- Cost-benefit analysis

The advisor trained committee members in each SACCO in methods of cost benefit analysis. This has enabled the committees to understand operationally how best to allocate the SACCOs' scarce resources and also to understand how to choose the best activities to lend for using the SACCOs' credit facilities. These trainings were motivated using actual costs and revenues for the SACCOs and also using actual costs and revenues for members' farming operations. Committee members have further trained the broader membership. These methods are highly valued by the SACCOs as institutions and also by the members as individual business people.

- Operational planning

Building on accounting, financial analysis and cost-benefit skills, the advisor worked with the SACCOs to do rudimentary operational planning. Such planning included loan and savings product development, setting equity, savings and lending goals and setting achievable targets for member numbers and the associated fee income. In Iceme SACCO members contribute UGX 3,900 annually for service fees which resulted in an income of UGX 3.5M in 2007, thus far, to cover ongoing administrative expenses.

- Savings and loan management

The advisor worked with the SACCOs to first develop savings and loan products and then mentored, on a weekly basis, the various committees in managing these products. Members were also educated in the form and function of these products to maintain maximum transparency.

- Governance and transparency

As has been stated in many of the paragraphs above, the advisor worked with each new SACCO to establish and maintain norms of good governance and transparency as a fundamental SACCO value. Clear governance structures exist in each SACCO which provide for flawless checks and balances while always maintaining the broad interest of the membership as a first objective. In terms of transparency, the SACCOs' Education Committees strongly develop members' senses of ownership, rights, responsibilities and roles. Further, all key information is posted. For example, in Iceme the balance sheet, income statement, governance structure, the names of elected officers, rights and responsibilities of members, criteria of membership, lending criteria and product descriptions are all posted in the SACCO banking hall and are updated monthly.

Impact

This section will cover the impact of Rural SPEED's intervention in forming the four SACCOs. Firstly, the broad impact and current situation will be presented and then the specific performance of each SACCO will be analyzed one at a time.

Broad Impact:

The initial intention of forming these SACCOs, other than meeting the Performance Monitoring Objectives of USAID, was to bank, to the extent possible out growers of sunflower supplying Mukwano Industries. At the time of writing this report, Mukwano has approximately 22,000 out growers and the Rural SPEED supported SACCOs count 3,328 of these as their members. In the space of little over a year, these SACCOs have managed to bank 15% of Mukwano's outgrowers and show no signs of slowing their growth.

One critical measure of the sustainability of a new SACCO is its ability to generate adequate income to cover professional staff costs. At the time of writing this report, Iceme SACCO has employed a professional manager for the past five months and BAAMO and ITAAAO SACCOs are in the process of hiring shared management.

Another of Rural SPEED's activities has been the active mobilization of savings in the form of large scale public campaigns. In April 2007, the Rural SPEED supported SACCOs participated in the savings mobilization campaign on equal footing with banks and MDIs. In addition, they have run their own active processes of savings mobilization leading to over 3,000 new savers holding total deposits of over UGX 26M.

In the process of assisting these SACCOs, Rural SPEED's advisor has been approached on multiple occasions by other Lira regional SACCOs and political leaders to replicate this model as local people clearly see that this is a strong, sustainable, member-empowering system, unlike the business as usual SACCOs normally found in rural Uganda. Unfortunately, supporting additional SACCOs was outside of the scope of work for this assignment.

As a matter of course, Rural SPEED normally conducts Light Due Diligence (LDD) reviews of their partner SACCOs to both assess their credit worthiness to other banking institutions and to assess their progress. The LDD itself is a rapid, one day audit, which serves as a very strong proxy for a full audit. The LDD review was done for Iceme SACCO as a precursor for providing them an IT system. Iceme scored 75 points out of 100. When compared to Rural SPEED's other seven partner SACCOs from Western Uganda who are mature institutions that have been in business for many years, Iceme was higher than one of them and only slightly below the average of 77 out of 100 for all seven.

It is noteworthy, in terms of sustainability, to mention that other than the LTTA from the advisor received by the new SACCOs in the first six months they received no other support. All expenses were met out of income. At the time of writing this report, this is still true for three of the four though Iceme recently received a grant from Rural SPEED to outfit their main branch. This grant was made on the basis of their unsubsidized performance (as reflected in the LDD report).

Impact of Iceme SACCO:

Iceme SACCO was the first of the SACCOs to be supported by Rural SPEED and members mobilization began in June 2006. The SACCO itself was registered in September 2006. On the basis of their rapid growth Iceme hired a professional manager in April 2007. Lending operations began in May 2007. Savings mobilization has been strong and highly related to seasonal incomes of the farmer members. Lending has been largely successful. Some few loans have fallen into arrears but it is the

SACCO's policy as a young institution to provision 100% for loans in arrears over 30 days which has effectively lowered the portfolio at risk to zero.

Prior to Iceme's formation, there were no financial service within a 57 kilometer radius. Iceme itself draws its membership from three sub counties and 21 parishes. Savings operations have enabled farmers to save up for inputs, as well as, saving for other household needs such as school fees, medical needs and other emergencies. One member lost his house to a fire in June 2007 and used his UGX 200,000 voluntary savings that was safely held at the SACCO to begin reconstruction of his home. Loans have been given from Iceme at critical times in the sunflower production cycle, such as weeding and harvesting. This has directly increased productivity and member income. The figures below are actual and up to date at the time of writing this report.

Iceme SACCO	Founding Date	Data as of		
Basic Data	7-Sep-06	27-Sep-07	Percent Change	Annualized Percent Change
Number of Members	300	1255	318%	318%
Number of Women Members	64	341	433%	433%
Savings Value	192,500	17,896,300	9197%	9197%
Share Value	1,625,000	5,394,000	232%	232%
Loan Value	-	8,495,000	N/A	N/A
Number of Borrowers	-	71	N/A	N/A
Number of Women Borrowers	-	12	N/A	N/A
Summary Income Statement				
Income	390,000	7,608,906	1851%	1851%
Expense	314,300	5,374,450	1610%	1610%
Profit	75,700	2,234,456	2852%	2852%
Summary Balance Sheet				
Assets				
cash	1,893,200	21,970,906	1061%	1061%
loans	-	5,262,500	N/A	N/A
fixed	-	5,398,000	N/A	N/A
other	-	-		
Liabilities				
compulsory savings	192,500	12,800,500	6550%	6550%
voluntary savings	-	5,095,800	N/A	N/A
other	-	-	N/A	N/A
Equity				
members shares	1,625,000	5,394,000	232%	232%
retained profit	75,700	2,234,456	2852%	2852%
donated equity	-	7,106,650	2852%	2852%
Performance (Most Recent Quarter)				
Portfolio at Risk (30 days)	0%			
Operational Sustainability	142%			
Return on Equity	41%			

Impact of BAAMO SACCO:

BAAMO was the second SACCO to be supported by Rural SPEED and the mobilization of members began shortly after the activity with Iceme in June 2006. Like Iceme, the SACCO was registered in September 2006. Lending began in June 2007. Savings mobilization has been strong and ongoing, and like Iceme again, correlated to the seasonal agricultural cycle. BAAMO also has maintained a portfolio at risk of 0%. Currently, BAAMO SACCO is in the process of hiring a professional manager to work with BAAMO half time. The balance of this manager's time will be spent with ITAAAO SACCO.

Prior to the formation of BAAMO SACCO, there was only a politically motivated SACCO in the area which up until present has not actually begun functioning. Other than this, there was no other financial institution within a 16 kilometer radius. BAAMO currently covers two sub counties and five parishes. Like Iceme, saving has enabled members to save up for sunflower inputs. BAAMO also offers its members a savings product for school fees. Loans have been given for sunflower weeding and harvesting. Again, this saving and lending activity has directly increased productivity and members' incomes. The figures below are actual and up to date at the time of writing this report.

BAAMO SACCO	Founding Date	Data as of		
Basic Data	7-Sep-06	27-Sep-07	Percent Change	Annualized Percent Change
Number of Members	176	1003	470%	470%
Number of Women Members	50	346	592%	592%
Savings Value	184,400	3,520,150	1809%	1809%
Share Value	1,249,000	3,493,000	180%	180%
Loan Value	-	2,064,800	N/A	N/A
Number of Borrowers	-	18	N/A	N/A
Number of Women Borrowers	-	2	N/A	N/A
Summary Income Statement				
Income	352,000	2,306,872	555%	555%
Expense	339,400	977,800	188%	188%
Profit	12,600	1,329,072	10448%	10448%
Summary Balance Sheet				
Assets				
cash	1,446,000	6,806,022	371%	371%
loans	-	1,403,200	N/A	N/A
fixed	-	133,000	N/A	N/A
other	-	-		
Liabilities				
compulsory savings	184,400	2,912,500	1479%	1479%
voluntary savings	-	607,650	N/A	N/A
other	-	-	N/A	N/A
Equity				
members shares	1,249,000	2,064,800	65%	65%
retained profit	12,600	1,329,072	10448%	10448%
Performance (Most Recent Quarter)				
Portfolio at Risk (30 days)	0%			
Operational Sustainability	236%			
Return on Equity	64%			

Impact of ITAAAO SACCO:

ITAAAO was the third SACCO promoted by Rural SPEED. Members mobilization began in October 2006. The SACCO was registered in January 2007. Savings mobilization has also been strong at ITAAAO and, as with the other SACCOs, correlated to the agricultural seasons. Lending operations began in May 2007 at a very ambitious level. Lending at ITAAAO has been successful and only one borrower of 65 fell into arrears. In this case the SACCO provisioned 100% after 30 days and recovered the loan from the member and his guarantors. As mentioned above, ITAAAO is in the process of recruiting a professional manager on a part time basis to be shared with BAAMO SACCO.

Prior to ITAAAO's formation there were no financial institutions within a 28 kilometer radius. ITAAAO serves one subcounties with six parishes. Savings have been mobilized and used for purchase of inputs. Loans have been used, as in the other SACCOs, to facilitate weeding and harvesting of the sunflower crop. One loan has also been successfully extended for upland rice cultivation. As above, the following figures are actual and up to date at the time of writing this report.

ITAAAO SACCO	Founding Date	Data as of		
Basic Data	24-Jan-07	27-Sep-07	Percent Change	Annualized Percent Change
Number of Members	410	889	117%	175%
Number of Women Members	129	303	135%	202%
Savings Value	603,000	4,569,350	658%	987%
Share Value	1,534,500	2,694,500	76%	113%
Loan Value	-	6,646,000	N/A	N/A
Number of Borrowers	-	65	N/A	N/A
Number of Women Borrowers	-	32	N/A	N/A
Summary Income Statement				
Income	634,000	2,964,180	368%	551%
Expense	447,200	1,697,650	280%	419%
Profit	186,800	1,266,530	578%	867%
Summary Balance Sheet				
Assets				
cash	2,324,300	3,984,680	71%	107%
loans	-	4,150,700	N/A	N/A
fixed	-	395,000	N/A	N/A
other	-	-		
Liabilities				
compulsory savings	603,000	4,251,500	605%	908%
voluntary savings	-	317,850	N/A	N/A
other	-	-	N/A	N/A
Equity				
members shares	1,534,500	2,694,500	76%	113%
retained profit	186,800	1,266,530	578%	867%
Performance (Most Recent Quarter)				
Portfolio at Risk (30 days)	0%			
Operational Sustainability	131%			
Return on Equity	47%			

Impact of AMACH SACCO:

AMACH was the fourth SACCO promoted by Rural SPEED. Members mobilization began in December 2006. Unfortunately, AMACH has suffered from various types of interference. The local subcounty government lobbied extensively for a position on the SACCOs Board of Directors (unsuccessfully) invoking the GoU Wealth For All policy as the justification and Mukwano Industries has actually threatened the most economically active of the SACCO's membership with expulsion from the business activities with Mukwano if they work with the SACCO. This is unfortunate and probably related to Mukwano's fear that a governmental SACCO is bad for their growers and bad for Mukwano as a result.

AMACH has not as yet registered due to these issues. It has mobilized members and shares. It has been trained and mentored by the advisor. It is poised, like the other SACCOs to attain short term success and the three other SACCOs have agreed to mentor AMACH on a monthly basis going forward. The performance to date is presented below.

AMACH SACCO	Data as of
Basic Data	27-Sep-07
Number of Members	181
Number of Women Members	55
Savings Value	-
Share Value	558,000
Loan Value	-
Number of Borrowers	-
Number of Women Borrowers	-
Summary Income Statement	
Income	320,000
Expense	101,000
Profit	201,000
Summary Balance Sheet	
Assets	
cash	759,000
loans	-
fixed	-
other	-
Liabilities	
compulsory savings	-
voluntary savings	-
other	-
Equity	
members shares	558,000
retained profit	201,000
Performance (Most Recent Quarter)	
Portfolio at Risk (30 days)	0%
Operational Sustainability	317%
Return on Equity	36%

Lessons Learned

In the past 13 months certain key lessons have been learned or re-proven. These include the following:

- A strong SACCO model goes a long way for compensating for a weak regulatory environment.

There has been a lot of discussion about regulating Uganda's SACCOs which, when looking at the broad picture of their performance (for example FinScope found that 50% of Uganda's SACCO members do not know they own the institution), seems highly justified. However, the short experience captured in this report shows SACCOs that despite being young, novice and rural, have grown quickly, been controlled rationally by the members and have good savings and lending discipline. These strengths are attributable to the quality of the model which is based on international cooperative alliance principles and puts members' rights and responsibilities first. In strongly formed SACCOs external regulation only confirms what they do well; it does not substitute for what they do badly.

- It is easier to start a SACCO in the right way versus fixing a SACCO that has started in the wrong way.

As shown by the comparative LDDs done on Rural SPEED's mature partner SACCOs versus the LDD done on Iceme (which is only a year old), Iceme is practically as strong as any of the others. Rural SPEED has invested exponentially more in refining (sometimes redefining) the operations of large existing SACCOs versus what was invested in Iceme, or any of the others for that matter. This strongly indicates that the existing SACCO practice in Uganda is fundamentally weak and difficult to turn around. It may be prudent for policy makers and donors to concentrate on starting strong, well governed SACCOs versus investing in institutions that have already internalized weak practices.

- Interference in SACCO operations by external parties, governmental or otherwise, does not help the SACCO to develop.

One major negative experience in Rural SPEED's activity was explained under the impact section referring to AMACH SACCO. When the local leadership from the subcounty expressed an unyielding demand to join this SACCO in a senior management role, all interest on the part of the founding members was stifled. As an alternative, the local leaders offered to close AMACH and invite the members to join *their* SACCO formed under the Wealth for All Policy. The simple result to all of this was that the SACCO made practically no progress compared to its peers. Further, Mukwano became very resistant to doing anything with this SACCO's membership. A similar experience happened in BAAMO where the local leaders established their own two SACCOs which both failed to attract members and are not currently functioning. The lesson is simple, SACCOs are meant to be member based, member controlled and member serving. In the absence of this the institution is not a SACCO and is unlikely to meet its perceived goal.

- Governance, Checks and Balances, and Transparency are three of the key drivers to SACCO success.

Rural SPEED witnessed on several occasions members resisting control by elected management organs when they perceived that the elected management was not acting in the best interest of the members. This clearly demonstrated that members, if informed of their interest and with access to the SACCO's operational information (though transparency) will use the embedded checks and balances to keep the SACCO on track. In Iceme, it was discussed above the even the Board Chairman was forced to change a decision taken personally to conform to the SACCO's bylaws because the Control Committee and the membership found him in violation. Also in AMACH, the members changed the

Board Chairman, Accountant and Control Committee Chairman because they were shown to be either under-qualified or disinterested in promoting the ideal of the SACCO to the broader community. This behavior is healthy; it maintains members' control and interest in controlling; and is critical for institutional success. Al

- Subsidies for SACCO start up are largely unimportant when compared to training and mentoring.

It is very interesting to note that none of the SACCOs supported by Rural SPEED received any cash or in kind subsidy during the first six months of their operations. Then, only one, Iceme, on the basis of proving its operational sustainability, received a small grant to furnish the building for operations, the SACCO itself had rented and equipped with basic furniture. All costs of registration, meeting organization, transport of cash, purchase of accounting documents, passbooks, etc., were borne by the members. Rural SPEED contributed only qualified training and mentoring and only at the field level (no one was invited to hotels with meals, transport, etc.). This shows beyond a reasonable doubt that the message and the training are what matter; not subsidies.

- Strong initial training leads to dynamic decision making within the SACCO as it develops.

The basis of the model that Rural SPEED rolled out was building members' capacity. It has been witnessed in each of the partner SACCOs that once trained in the fundamentals, the SACCOs themselves begin to prudently innovate and customize their operations to meet their unique needs. In Iceme, fee income is mobilized to meet the SACCO's annual operations costs; in BAAMO a school fees savings product has been internally developed; in ITAAAO a new loan product targeting the production of upland rice has been developed, piloted and rolled out. The SACCOs' capacities to do these things are based on strong basic education.

- Using a SACCO to support an existing economic activity facilitates SACCO success.

One of the key drivers to ensuring the success of this experience around Lira was the fact that an existing, predictable, value adding enterprise (sunflower production and marketing) was present provide the economic foundation of this activity. Without excess liquidity in these communities no SACCO could have been formed. Further, Mukwano's forward contracted price guarantee, greatly assisted the SACCOs in being able to predict their incomes and make informed cost-benefit analyses.

- The best way to promote the SACCO model is for members, who are pleased, to promote their institution to non-members.

One of the key growth drivers in this experience has been the members themselves. As members join, understand the model, use the services, benefit, and see the changes in their livelihoods they become evangelists for the cause. This is exemplified in all of the SACCOs and their growth in membership. This growth is largely due to existing members promoting the benefits that they receive to the broader community. This cannot be replaced by a donor based or governmental promotional activity.

SECTION III

APPENDICES

Appendix A - List of Persons met During the Consultancy

USAID/APEP

Kenneth Otima

PO Trainer – Lira

Mukwano Group of Companies, Uganda

David Opwonya

Regional coordinator – Lira District

Richard Ogwal

Regional coordinator – Apac District

Appendix B - Monthly Performance of the 4 SACCOs in terms of Income & Expenses

Ser.No	Description	August 31/06	September 23/06	October 28/06	November 25/06	December 31/06	January 27/07
A	Revenue						
	Registration fee	603,000	655,000	958,000	1,591,000	2,184,000	2,526,000
	pass book sales		184,000	420,000	677,000	804,500	1,503,000
	Office Rent fee collected		24,000	43,200	70,800	240,300	407,500
	Bank interest income			13,960	13,960	44,960	83,496
	Other income				1,400	1,900	1,900
	Total Revenue	603,000	863,000	1,435,160	2,354,160	3,275,660	4,521,896
B	Expenses						
	Stationary Expenses	118,700	542,700	621,200	831,550	1,430,400	1,426,314
	Transport Expenses	48,000	61,000	77,000	121,000	228,000	280,000
	Registration of SACCO		100,000	100,000	100,000	100,000	150,000
	Radio announcement		105,000	105,000	10,500	47,500	60,500
	Office Rent			500	205,000	520,000	520,000
	Bank Service Charge				4,000	4,000	10,100
	Other Expense				12,500	12,500	191,200
	Total Expenses	166,700	808,700	903,700	1,284,550	2,335,400	2,615,114
C	Gross Profit	436,300	54,300	531,460	1,069,610	940,260	1,906,782

Appendix C - Monthly Performance of the SACCOs in terms of Asset & Members Growth

Ser.No	Description	August 31/06	September 23/06	October 28/06	November 25/06	December 31/06	January 27/07
A	Asset						
	Cash at hand	639,200	31,100	531,900	479,051	983,900	1,922,987
	Cash in Bank	2,704,500	3,599,100	4,403,460	7,064,060	9,058,060	13,496,096
	Total Asset	3,343,700	3,630,200	4,935,360	7,543,111	10,041,960	15,419,083
B	Liability						
	Compulsory Savings	297,400	442,900	750,900	1,669,300	2,967,100	5,285,400
	Voluntary Savings				284,000	454,100	1,037,400
	Total Liability	297,400	442,900	750,900	1,953,300	3,421,200	6,322,800
C	Capital						
	Members Share Capital	2,610,000	3,133,000	3,548,000	4,520,001	5,687,500	7,212,500
	Gross Profit	436,300	54,300	531,460	1,069,810	933,260	1,883,783
	Total Capital	3,046,300	3,187,300	4,079,460	5,589,811	6,620,760	9,096,283
	Total Liability + Total Capital	3,343,700	3,630,200	4,935,360	7,543,111	10,041,960	15,419,083

Ser. No	Description	August 31/06	September 23/06	October 28/06	November 25/06	December 31/06	January 27/07
	Total Members	438	478	665	1,144	1,593	1,839
	Total Female members	107	115	169	348	433	509

Appendix D - List of Materials used in preparation of Consultancy

1. The group savings resource book, FAO, 2002.
2. Cooperative Promotion & Management manual, RBCDS-Cooperative services, USDA, 1998.
3. SACCO Promotion & Management, by Richard John Perline, Addis Ababa, Ethiopia 2001.
4. 21 Essays on Cooperation & Developments in Kenya, by Sylvester J.Ouma, 1990.
5. SACCO a new Conceptual approach for Poverty eradication, 2005
6. SACCO design study for Sunflower Producers, Lira Region, by Thomas K. Shaw February 2006.
7. *Cooperatives and the Millennium Development Goals*, Dr. Birchall Johnston, Geneva, ILO, 2004.
8. Rural finance from unsustainable projects to sustainable institutions for the poor, IFAD, October 2000.
9. Agricultural lending- self-study guide for loan officers, Rural Finance Learning Centre © 2006, FAO.
- 10.** Interest rate and self-sufficiency- self-study guide for loan officers, Rural Finance Learning Centre © 2006, FAO.

Other attachments

Address of the SACCO Societies

1. ICEME FARMERS SACCO Society (IFS)
Chairperson Name: - Oyena Arwatta Cell phone No. 0782096324
2. BAAMO FARMERS SACCO Society (BFS)
Chairperson Name: - Opio Simon, Cell phone No. 0772586058
3. ITAAAO FARMERS SACCO Society
Chairperson Name: - Adoko Charles, Cell phone No. 0782054774
4. AMACH FARMERS SACCO Society (AFS)
Chairperson Name: -Mr. Charles Okwel, Cell phone No.0772 893883

Appendix E - Background To Savings and Credit Cooperatives (SACCOs)

Savings and credit cooperatives (SACCO) Societies or Credit unions have been developed to meet the fundamental human need to find a way of saving and borrowing methods without taking risks and without handing over too much power to a moneylender. They were invented in south Germany in 1846 at the time of agricultural crisis and continues heavy drought in Europe, by two community business leaders: Frederic W. Reifeisen and Herman schultze- Delitsche, who are considered as the founding fathers of the saving and credit cooperatives (SACCO) movement: Herman schultze-Delitsche, who established a saving and credit cooperatives for minor artisans and the urban middle classes, and Frederic Reifeisen, the founder of the rural saving and credit cooperatives. In Italy, Luigi Luzzatti established saving and credit cooperatives, which combined the principles established by his two German predecessors. Both forms spread rapidly to all over Europe, northern America, Latin America, Asia from 1900 up to 1930th and in Africa by one catholic Bishop for the first time introduced in western Africa Ghana, Today SACCO societies have significant role in empowering their members Socio-Economic Statutes all over the world. To mention some, in Western Europe there are around **11,000 local and regional saving and credit cooperatives banks**, with over **56,000 outlets**, a **33 million strong membership** and a **staff of more than 400,000**. Their market share is **17 percent of savings, ranking third** after the commercial and savings banks.²

The French Savings and credit cooperatives (SACCO) Societies or Credit unions Agricole is the largest bank in the world outside of Japan, the German people's banks have over **28 percent of the savings market share**, Rabobank Netherlands **25 percent**, Ireland has a strong Savings and credit cooperatives (SACCO) Societies or Credit unions movement, with **1.6 million people (44 percent of the population)** in membership.³

Canada has the largest proportion of members of financial Savings and credit cooperatives among its population (over 10.5 million members, or the equivalent of about 1/3 of the total population). In the French-speaking Quebec region, there are **1300 Savings and credit cooperatives (SACCO) Societies or Credit unions**, with five million members and more outlets than the banks, have always held a solid share of the Canadian market for key financial services. In 2003, they held 16% of the volume of total savings and 16% of consumer loans. In English-speaking Canada they have not such a large market share, but in Saskatchewan **57 percent of the population belong to Savings and credit cooperatives (SACCO) Societies or Credit unions**.⁴

² *Cooperatives and the Millennium Development Goals*, Dr.Birchall Johnston, Geneva, ILO, 2004.

³ *Cooperatives and the Millennium Development Goals*, Dr.Birchall Johnston, Geneva, ILO, 2004.

⁴ *WHY WE CAN NO LONGER AFFORD TO IGNORE FINANCIAL COOPERATIVES IN THE EFFORT TO INCREASE ACCESS TO FINANCIAL SERVICES*, by Anne Gaboury and Marisol Quirion, Canada Québec,

In the USA, some very large cooperative banks account for about a quarter of the credit needs of US agriculture. Savings and credit cooperatives (SACCO) Societies or Credit unions are also well established; there are over 18,000 of Savings and credit cooperatives (SACCO) Societies or Credit unions, serving **70 million members and with more than \$300 billions in assets**. They have **13 percent** of the consumer credit market and **eight percent** of consumer savings.⁵

It is not surprising that membership-based businesses have been so successful. Financial services such as savings and loans, lending for house purchase, life and non-life insurance, and pensions provision are all concerned with directing flows of money and spreading risks. They do not really need injections of capital from a separate class of investors. The mutual form, in which members lend, borrow, and agree to insure each other is effective, they do not take too many risks or invest too far from their core business.

In the last decade there has been a wave of demutualization of mutual insurance (UK, South Africa, Australia), building societies (UK), and savings and loans (USA). The reasons given are usually that more capital is needed, or that they need to escape regulatory restrictions, or that they will be more efficient after conversion. There is also a large amount of self-interest among managers who want to enrich themselves with higher salaries and share options, sometimes helped by members who will receive large ‘windfall’ payments on conversion. However, most of the Savings and credit cooperatives (SACCO) Societies or Credit unions sector has stood firm against this trend. In the UK, the building society sector has shrunk to around 30 percent of its previous size, but the remaining Savings and credit cooperatives (SACCO) Societies or Credit unions are outperforming the investor-owned banks and gaining new business. They are also considered by customers to be much more trustworthy than their competitors.

This is happen from the fact that, from the beginning in the above countries they did the promotion of the SACCO Societies or Credit unions with system of building self supporting thinking and voluntary people established their SACCO Societies or Credit unions based on the philosophy of Building self-help society or “people helping people”. They did not expect any thing from the out side to be piped to them as financial resources except technical and training support.

Even if the history of SACCO Societies or Credit unions shows that they were formed critically for the relief of the poverty among the poorer economic classes in Europe, United States, India, etc.

⁵ *Cooperatives and the Millennium Development Goals*, Dr. Birchall Johnston, Geneva, ILO, 2004.

Even they are outperforming well the competitive economic market of the developed world, they were not that much promoted in rural area of Developing countries especially in Africa. Though in some African countries between 1965 and 1989 they were promoted to fulfill the Governments development plan quota with out the members understanding their objective, function, ownership and leadership of the SACCO Societies, with out any capacity building & they were more depended on Government fund and highly insulated by politicians, characterized by miss management, corruption, lack of transparency & lack of members internal control, due to this fact the SACCO Societies lost their nature of democratic organizations, controlled by few active members, members lost their right of setting their policies and making decisions on issues, this condition collapses the SACCO development in Africa.

In recent years, in developing countries the potential of peoples owned saving and credit cooperative (SACCOs) as a tool for poverty alleviation has been increasingly recognized.

Evidence on poverty eradication strategies shows that without empowering the poor by teaching him/her to utilize his/her limited resource in a wise manner & too much focusing on provision of credit led to excessive debt burdens & depressed his/her growth even lays down below the level where he/she was before.

The basic justification, which can be given for this fact, is the rate of return. With almost half of the world's population living on subsistence level and less than 2 dollars a day and 535 million working women and men surviving on 1 dollar a day or less, This is basically happen not because of the absence of resources around them, rather the poor lacks the skill how to utilize his limited resource in a wise manner and build an Asset that can be used as a Collateral and Guarantors for loan, to reinvest for better and more production. Therefore, the introduction of Savings and credit cooperatives (SACCO) Societies or Credit unions to the poor and the need to reach out to the poorest of the poor is still imperative.⁶

Because credit first is more appropriate for high return activities but Saving first is more appropriate for those who live in subsistence agriculture and low-return of activities. International statistics reveal that far more poor people demand savings services than loans.⁷

Hence, to up-lift the poor teaching the proper utilization their limited resource in a wise manner and developing Saving culture is vital, Savings are the prerogative of investment, that generate the start-up capital that invites him to think Saving-driven investments, that may lead him to generate profit and reinvest it again and again. This increases self-financing and self-securing oriented households in the community.

Cooperative banks and Savings and credit cooperatives (SACCO) Societies or Credit unions were initially established to reduce poverty and high indebtedness among small-scale farmers and craftsmen in urban and rural areas of Germany. Savings and credit cooperatives (SACCO) Societies

⁶ Rural finance from unsustainable projects to sustainable institutions for the poor, IFAD, October 2000.

⁷ Rural finance from unsustainable projects to sustainable institutions for the poor, IFAD, October 2000.

or Credit unions continue to serve this mission today, often by providing affordable and equitable access to financial services. UN studies suggest that, by providing improved access to safe, secure place to savings, credit and insurance Savings and credit cooperatives (SACCO) Societies or Credit unions can help poor people to Build their capital, boost their incomes, protect their assets and reduce their vulnerability to crises, because Unlike other financial institutions that operate for profit, Savings and credit cooperatives (SACCO) Societies or Credit unions focus primarily on the provision of services for the benefit and welfare of their members.⁸

Savings and credit cooperatives (SACCO) Societies or Credit unions worldwide play an increasingly significant role in helping these people to find solutions on how to cooperate out of poverty by tapping their own resources, knowledge and strengths. Since, Savings and credit cooperatives (SACCO) Societies or Credit unions are all about teaching how to utilize your limited resource in a wise manner and to develop Saving culture for reinvesting in the future, they are very significant for the poor to run away from where they are now.

SACCO Societies or Credit unions contribute to develop the local economies where the poor live through their unique and strong linkages with the community. They enable poor people to have their voices heard, in addition to improving their daily working and living conditions, Because SACCO Societies or Credit unions are democratic organizations and owned by those who use their services,

SACCO Societies or Credit unions are an ideal instrument to empower the poor in sustainable way. They are participatory, responsive to local needs and able to mobilize communities' fund and help particularly vulnerable groups of people.

For instance, SACCO Societies enable farmers to create economies of scale in bargaining with Urban Banks and other financial institutions; they provide access to sustainable financial services; and they provide low-income families with safe place to save there income at their area or village and reasonable priced loans not cheap loans.

SACCO Societies therefore have an important role to play in reducing poverty & building self-financed society particularly at the community level, if the promotion of the SACCO Societies will be introduced with system of building self support thinking and voluntary people encourage to establish their SACCO Societies based on the philosophy of Building self-help society or “people helping people”. And providing them good technical and training support, without pumping to them unmanageable financial resources at the beginning.

⁸ The Secretary-General, Message on the United Nations International Day of Cooperatives, 2 July 2005.