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About the Author

Dr. Fred K. Muhumuza is a development policy analyst and researcher committed to formulation of public policies and implementation frameworks that ensure inclusive growth. He works closely with Government, Civil Society and Development Partners/Donors. He lectures at the School of Economics, Makerere University.

Copy Editor: **Will Boase**
Design and Illustration: **Ivan Barigye**
Cover Image: **Yoti Gilbert Giyo**
General Editing: **John Bosco Mubiru**

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1

INTRODUCTION



This report presents a review on the functionality and effectiveness of Savings and Credit Cooperative Organisations (SACCOs) as institutions tailored towards reducing poverty and vulnerability among urban communities and ultimately supporting socio-economic transformation in Uganda. SACCOs are considered to be part of the cooperative movement, which describes them as voluntary business organisations formed by a defined group of people who have agreed to associate on the basis of equality for the promotion of their economic interests.

They are expected to follow seven basic principles:

- **Voluntary and open membership**
- **Democratic member control**
- **Member economic participation**
- **Autonomy and independence**
- **Promotion of education**
- **Training and information**
- **Cooperation among cooperatives**

They are primarily focused on the economic development of their members and their communities.

Several projects have focused on increasing the presence and strength of SACCOs across the country in order to promote both savings and credit activities among low-income segments of the population. For example, the Project for Financial Inclusion in Rural Areas (PROFIRA), which was worth US\$ 66.6 million, focused on sustainably increasing access to and use of financial services by the rural poor. The project also provided technical and institutional support to the Uganda Cooperative Savings and Credit Union (UCSCU), which is one of the apex bodies supporting functionality among SACCOs for greater effectiveness. Additional support has come from non-state actors including NGOs such as CARE Uganda and World Vision, as well as from financial institutions that wish to leverage SACCOs in order to pursue new customers in low-income groups and encourage them to bank their savings and to access credit facilities.

The contribution of SACCOs towards empowering communities can clearly be seen in recent statistics captured in 2019/20, which show that the number of households engaged in subsistence livelihoods in Uganda reduced to 39% over the last decade. This included both those engaged in agriculture and in non-agriculture. The reduction for agricultural-based households alone is down from 68% to 25%, which reflects a broad transition into the money economy which is part of the ongoing socioeconomic transformation. However, significant concerns remain with regard to levels of poverty and vulnerability, both of which remain relatively high. The latest household survey report for 2019/20 indicates that poverty declined slightly from 21.4% in 2016/17 to 20.4%, equivalent to 8.3 million people, while vulnerability remains above 40%¹. The bulk (81%) of income-generating activities at the SME level are funded through own-savings or retained profits, with SACCOs contributing only 1.3%. Meanwhile the effects of the COVID-19 pandemic revealed a lot of previously overlooked vulnerabilities among the urban poor, many of whom belong to SACCOs.

1.1 The Problem

The effectiveness of SACCOs in Uganda presents mixed results with regard to reducing poverty and vulnerability and supporting socio-economic transformation. Proposals towards enhancing their effectiveness require a review of both the internal and external factors likely to be affecting their functionality. The internal factors affecting performance relate to the formation, strategy, structure, funding, management, governance and accountability of such organisations. The external factors are often embedded in the broader environment of policies and laws that govern specific aspects of working conditions both for SACCOs and their members. The areas for consideration include aspects of governance and management, structure and volume of funding, accountability and transparency, and political influence.

SACCO growth has generally remained poor even though the government and other stakeholders are addressing the competence and governance challenges in Uganda (Ssekakubo, Ndiwalana., & Lwanga, 2014)².

1 Uganda Bureau of Statistics, 2021. Uganda National Household Survey 2019/2020.

2 Ssekakubo J., Ndiwalana G. and Lwanga F. (2014). Managerial Competency and the Financial Performance of Savings, Credit and Cooperative Societies in Uganda. *Int. Res. J. Arts Soc. Sci.* 3(3):66-74

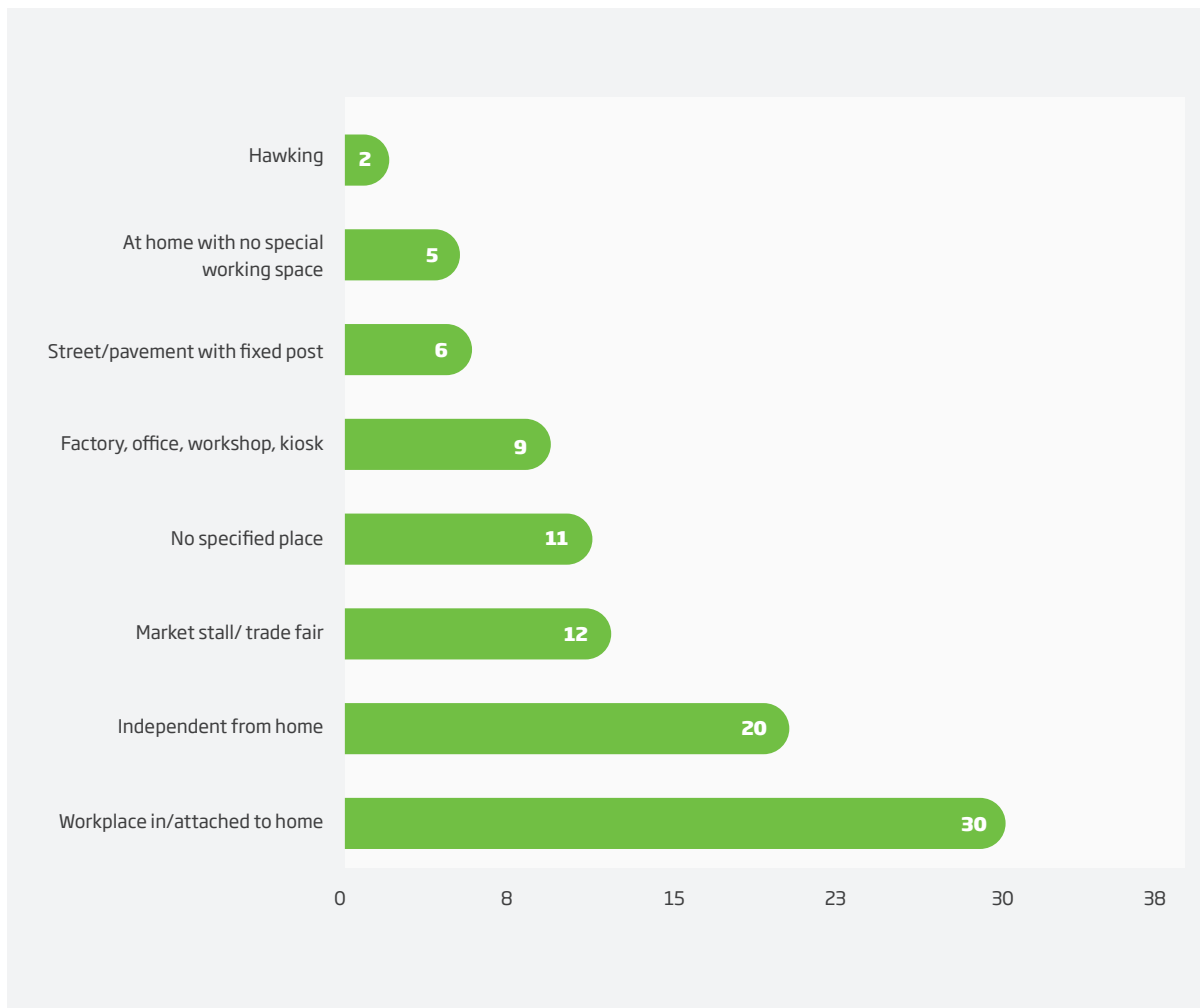
This may be associated with the problem of multiple memberships, which causes individual commitment and contributions to be spread too thinly to secure sustainability. It could also be due to a lack of clear long-term strategies, as well as common inclination by management towards short-term objectives that undermine sustainability. The membership of SACCOs, especially those that serve the very poor at the bottom of the pyramid, quite often present challenges to the process of forming a management team with the required skills and competencies to conduct business in a formal way. SACCOs have often been linked to corrupt leadership and poor governance, and to accountability systems that undermine their mission.

Furthermore, relatively high levels of poverty and vulnerability among their members make these organisations vulnerable to

exploitation by elite populations whose ulterior motives may be rooted in personal politics or economic gain.

Furthermore, the socio-economic and political environment can create unfavourable conditions or result in perverse incentive structures through inappropriate policies and regulations that might make it difficult for individual members or groups to succeed in business. For example, a lack of appropriate laws for the management of street hawkers and vendors continues to expose them to business risks by forcing them into regular confrontation with the authorities, disrupting the business continuity that is so critical for any realisation of the positive impact of SACCOs. Meanwhile the external environment within which both SACCOs and their members must operate is quite informal, and this presents a number of challenges that affect functionality and effectiveness.

Figure 1: Location of Household Enterprise (%)



UBOS, 2021. Uganda National Household Survey 2019/2020

According to a survey by UBOS conducted in 2019/20, a large percentage of household enterprises across the country are located in places that are not formally gazetted for business. The graph (Figure 1) above shows businesses located in places such as on pavements, in homes with no special working area, hawking, occupying temporary market stalls, and even operating from no specified space at all. A business environment of this nature is likely to affect its participants by creating risks and uncertainties given the absence of any institutional structures and systems available for participants to fall back to in case of shocks and stressors such as the recent COVID-19 pandemic. Insurance mechanisms and other bail-out and stimulus plans by the Government and other partners are likely to be difficult to design and implement, which makes it difficult for both businesses and the associated SACCOs to survive.

1.2 Methodology

The study focused on selected groups of informal workers in the trade and transport sectors in the Greater Kampala Metropolitan Area (GKMA). The group selection was informed by the need to target poor and vulnerable households engaged in enterprises that are supported by SACCOs. They included traders (hawkers, street and market vendors) and transporters (Boda boda & taxi operators) within the GKMA, mainly in Kampala, Mukono, and Wakiso/Entebbe. Most SACCOs are organised around the specific activity of the members, and frequently use their place of work as a venue for meetings and other activities.

Given the protocols associated with preventing the spread of COVID-19, the collection of data and information in this study was restricted to two major approaches- a review of relevant documents and literature, and a series of interviews with key informants.

The review of documents focused on reports by Government agencies and by non-state actors including Civil Society and academia. Our search focused on establishing the roles and performance of SACCOs, the legal and regulatory environment in which they

operate, and the suitability of that environment to the current needs of the country. It also examined the types, membership and registration position of various SACCOs, as well as reviewing their management structures.

The interviews with key informants focused on seeking to understand their management and governance structures, as well as asking them to critically reflect on the effectiveness of those structures. In addition, the interviews captured the influence of politics, technology, culture and the COVID-19 pandemic on SACCOs and their participants.

2

THE IMPORTANCE OF SACCOS TO UGANDA



Core reasons for the formation of SACCOs in Uganda include the reduction of poverty by improving their members' economic and social conditions, the provision of opportunities for savings and credit at the grassroots, and the reduction of exploitation of powerless individuals by other individuals or institutions. The Government of Uganda (GoU) and other key stakeholders have promoted SACCOs as part of a strategy for actualising opportunities that improve livelihoods through effective access and usage of financial services for low-income households in both the formal and informal sectors.

SACCOs contribute towards improvements in the welfare of communities by supporting production, processing and marketing of goods and services. They can provide formal and informal rules that enhance business practices including by

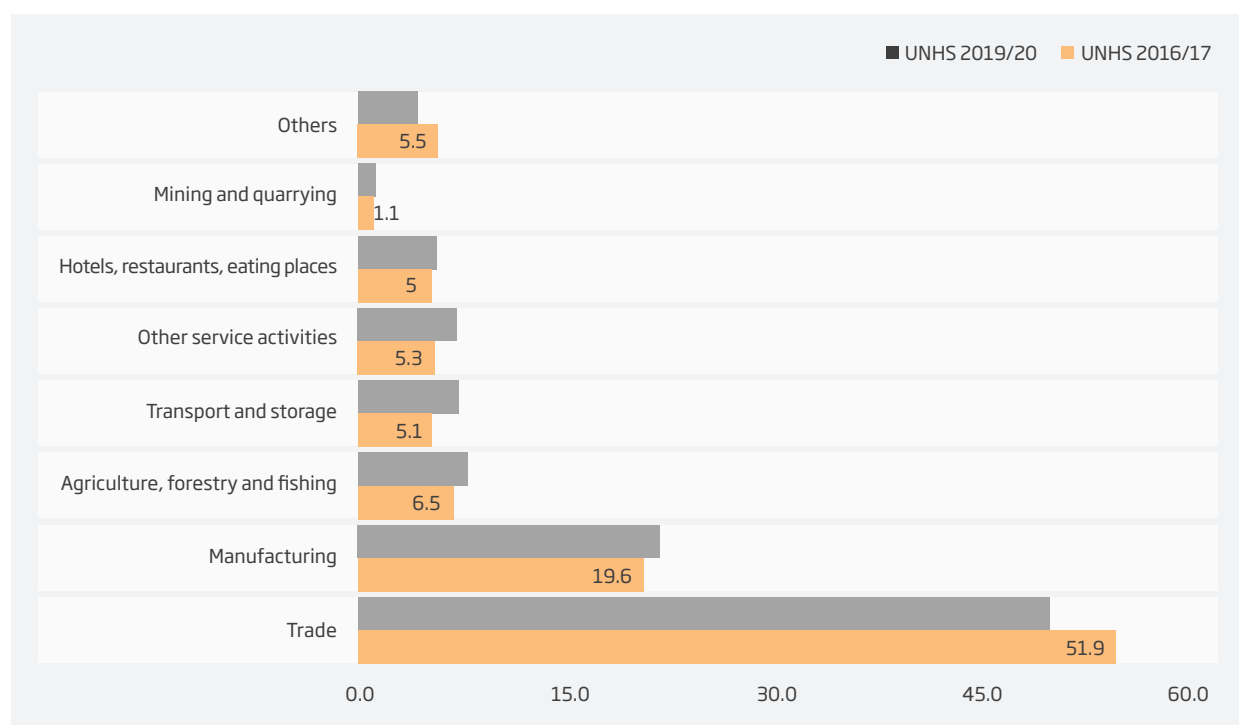
promotion of savings and investments as well as by influencing governments to come up with policies for empowering communities to engage in and gain from socio-economic activities.

2.1 The Contribution of SACCOs to Society

There have been several studies on the impact of SACCOs on improving livelihoods, and these could be considered as a measure of their functionality and effectiveness. While SACCOs provide employment opportunities to many people, their main impact is visible in terms of their contributions to poverty reduction and the strengthening of economic resilience, both achieved by supporting income-generating activities. SACCO members are engaged in business enterprises across many different sectors of the economy. These include trade, manufacturing, agriculture, forestry, fishing, transport and storage (See Figure 2, UBoS 2021).

The corresponding fact that 50% of the economy is under the informal and household sector implies that SACCOs have a big role to play in the development of the economy.

Figure 2: Economic Activities/Enterprises undertaken by Households



Source: UBoS (2021). Uganda National Household Survey, 2019/2020

SACCOs offer a range of financial products and services to their members, including welfare funds, loans, risk management funds and credit facilities (Momanyi and Njiru, 2016). They reduce vulnerability (Pearlman, 2012) by providing special savings instruments designed to provide additional income at critical times such as sickness or bereavement that typically require large amounts of liquid cash to be availed at short notice. Overall, the evidence shows that SACCOs increased household savings, particularly among women, in addition to enabling members to diversify into other economic activities and increase their savings (Igelit 2018)³.

SACCOs in Uganda provide an opportunity to integrate all three of the factors critical for socio-economic transformation⁴. These factors are: (i) technically sound identification of an economic opportunity, by private investors, governments or both; (ii) a conducive pattern of political-economic interests at the sector level; and (iii) the necessary public actions to motivate investors. The fact that SACCOs are based at the grassroots and owned by communities gives them the ability to identify local economic opportunities and leverage support from the private sector as well as government to actualise growth potential. In some cases, SACCOs represent political interest which could be tapped and managed properly for long-term gains rather than short-term political interests.

SACCOs can be strong promoters of organised forms of community-based production initiatives in which members not only share business ideas and work together but also access business knowledge and technical support. A number of SACCOs have been used to leverage learning through workshops and meetings organised by state and non-state actors. The knowledge and skills which are transferred create opportunities for building stronger and more effective businesses amongst poor and vulnerable communities. SACCOs that engaged in the training of members and the increasing of accessibility of their various services were more successful. As a vendor who had been engaged in trainings by the Platform for Vendors in Uganda (PLAVU) based in Bwaise noted, "I have learnt a lot of management and organisational skills from the trainings we receive, which have enabled me to handle my business and family networks in a better way"⁵.

The unity and cooperation of leadership across SACCOs has been strengthened through regular meetings and trainings organised with support from various agencies. Many leaders have come together and gotten to know each other through meetings held for leaders, and have set up a WhatsApp group for effective communication. In some cases, members have been given uniforms, which has enhanced smartness and branding.

2.2 Tangible Benefits for Members

Across the SACCOs we reviewed, it was clear that they had made substantial improvements among their members, with many being able to realise both short- and long-term goals. By extending savings and credit facilities to members whose earnings were ordinarily eaten up by their basic needs such as food and transport, the SACCOs had enabled members to pay for items that require a lump sum of money such as rent for domestic and business premises, purchase of land, bulk stocking of merchandise, and business capital.

For example, a good number of taxi drivers, over 25%, have been able to buy their own vehicles and some had also acquired plots of land or even built houses from their joint savings. Members have been able to access medical insurance on a more regular and reliable basis using their welfare savings account. Vendors on the streets and in the markets increased the stock of their businesses, though diversification remains challenging given the limited working space. In many cases members had acquired land to build homes, educated children and paid medical and other expenses.

A vendor in Wandegeya described her experience and the benefits she has derived from the business, as well as her future aspirations.⁶ She considers herself a vendor since she relies more on clients contacting her through the phone to purchase directly, or selling from a fixed premise owned by her friends, who also keep her stock overnight. She has also diversified her retail outlets by occasionally recruiting new workers to hawk on the streets in return for pay and commission.

3 Igelit, P.M. (2018). Role of savings and credit cooperatives in poverty eradication in Mbale District. Unpublished Masters Dissertation. Makerere University, Kampala, Uganda

4 Neil Balchin, David Booth and Dirk Willem te Velde, (2019). How economic transformation happens at the sector level. Evidence from Africa and Asia, Overseas Development Institute.

5 Nakazibwe Madina, Vendor in Bwaise.

6 Name withheld on request

EXPERIENCE OF A VENDOR

(Key Informant in Wandegeya)

I am happy with my job and do not plan to change to other forms of economic engagement considered by many to be more attractive. The job comes with a lot of relief by way of less costs despite the wide variations in daily income that can range from UGX 10,000 – 250,000. There are no significant costs of rent although I contribute to the tenant who keeps my stock.

I am a member of many SACCOs and makes weekly contributions to each that range from UGX 20,000 to 100,000. The most preferred are the Rotating Savings and Credit Associations (ROSCA), which bring a lump-sum that is used to meet big expenditures such as school fees, home furniture, and other capital goods. I have been able to save and buy land and hope to use the same arrangement to build a house.

I have got training from peers in the industry that is practical in the sense that many start by being employees of more experienced hawkers. There are possibilities of growing the businesses. Quite often depending on the season, I am able to employ other hawkers who are paid UGX 5,000-8,000 per day in addition to any commission they make above the agreed price.

My lack of desire to abandon the business of hawking is largely due to business knowledge I have acquired and lower operational and fixed costs compared to other business ventures.

Sustainability is achieved by ensuring that organisations have access to adequate funds to cover their operating costs, and by helping them to obtain funds at market rates to supplement the savings collected from members. Programmes such as PROFIRA and RFSP (Rural Finance Services Programme) facilitated the strengthening of over 500 SACCOs to make them financially sustainable organisations.

And with support from development partners certain non-state actors, especially NGOs and apex bodies, have worked alongside the government to provide knowledge for the formation and registration of SACCOs, as well as helping participating groups to implement systems for business planning, management, accountability and oversight. To improve their governance, SACCOs were supported to elect Boards that could be trained in matters of corporate governance practices in order to promote accountability, transparency and open leadership.

Programmes such as Financial Sector Deepening Uganda (FSDU), and international agencies such as MasterCard Foundation and the Bill and Melinda Foundation, have all taken advantage of the boom in digital technologies to support linkages with regulated financial institutions such as commercial banks. By making these links such programs aim to deepen financial inclusion through increased outreach, reducing transaction costs, enhancing the pool of available funds and improving formal record-keeping, and consequently helping financial institutions to offer better services and improve effectiveness. A number of SACCOs were given technical assistance to develop proper loan recovery strategies, loan insurance and security for members' savings.

SACCOs' capacity to create impact is partly undermined by a lack of institutional capital and capacity, while the pool of membership's typically low-income levels has the effect of limiting savings mobilisation. Furthermore, there is no cushion to absorb losses and impairment of members' savings in time of crisis, since many of them share the same risks and uncertainties. The case of correlated risks was most pronounced during experiences such as political instability and the COVID-19 pandemic.

2.3 Support to SACCOs

The economic and societal importance of SACCOs, as well as the many challenges that were undermining their functionality and effectiveness, has resulted in a growing supply of technical and financial support from both the state and non-state actors. The Government has focused on streamlining the policy and regulatory environment as well as offering direct support to nurture institutional structures including governance, accountability systems and operational sustainability.

3

THE HISTORY AND LEGAL CONTEXT FOR SACCOS IN UGANDA



Uganda has a long history of groups of people engaged in saving and lending, including the lending of physical items rather than money. Many families still own land communally and provide agricultural inputs such as seed that are supposed to be returned after the harvest. Thus, the expansion of group dynamics to financial savings and credit found a suitable context. It is not clear when SACCOs might have started in the country but their growth was largely driven by NGOs in the 1980s.

3.1 History of Cooperatives and Legal Provisions in Uganda

Cooperatives, which form the overarching umbrella structure for SACCOs, trace their legal and regulatory environment in Uganda back to the early days of the last century. The inherent power of cooperation by the masses has always attracted the interest of politicians and has been a major factor in the formation and management of SACCOs in Uganda. Politicians mobilised less privileged communities and contributed to the formation of cooperatives as a response to the unfavourable terms of trade imposed on peasants by the colonial authorities and their organised local middlemen, primarily Asian traders. In 1920, groups of farmers formed the Buganda Growers Association with the main goal of controlling the domestic and export marketing of members' produce.

The response of the colonial government was to limit their power and influence by undermining the monopoly in both the domestic and export markets, as well as by seeking to control the politically empowering influence of the organised groups. The colonial government enacted laws that made it an offence for any financial institution to lend money to native African farmers. Decisions of this nature triggered discontent and strikes, which led to the formation of many other parallel farmers' associations (Kyazze (2010)).⁷ In subsequent years the 1946 Ordinance and later amendments gave rise to the Cooperative Societies Act 1952, which provided the framework for cooperatives to play a more impactful role in the economic development of the country.

The replacement of the Cooperative Societies Ordinance of 1946 with the Cooperative Societies Act and Rules of 1963 affirmed the control of Societies by the Government through the Registrar.

Later on, the 1970 Cooperative Societies Act gave the Cooperatives Minister direct control over the affairs of registered cooperative societies. As cooperative leaders began to look more to their future in politics than cooperatives, they created a leadership vacuum that has persisted and continues to impact the SACCOs. Thus one of the biggest impacts of the evolution of the legal and regulatory framework for cooperatives was that it was inclined towards strengthening the role of politicians, which in turn created prepared the way for members to lose control of their Cooperatives to managers, politicians and government officers. The legacy of this is that the cooperatives are still seen as conduits for politically-motivated funds, which has paved way for mismanagement, nepotism and corruption.

3.2 The Current Legislative Environment

SACCOs are presently governed by multiple laws. The operations of SACCOs and their related Apex bodies are anchored legally in the Cooperative Statute (1991) cap 112, the Cooperatives Regulations Act (1992), and the Microfinance Tier 4 and Money lenders Act (2016). The Uganda Microfinance Regulatory Authority (UMRA) licenses, regulates and supervises SACCOs, Money Lenders, and Non-Deposit Taking Microfinance Institutions. The larger SACCOs are supervised by the Central Bank.

SACCOs are also licensed under the UMRA Guidelines of 2020 and the SACCO Regulations of 2020. The Ministry of Trade, Industry and Cooperatives (MTIC) is charged with the oversight and coordination of SACCOs in addition to their Apex agencies such as the Uganda Cooperative Savings and Credit Union (UCSCU) and Uganda Cooperative Alliance Limited (UCA). In addition, financial cooperatives can make bylaws as supplementary legal frameworks from which to draw their mandate to operate and serve their members.

⁷ Kyazze M. Lawrence (2010). Cooperatives: The sleeping economic and social giants in Uganda. International Labour Organisation. <https://www2019.ilo.org/wcmsp5/groups/public>

The purpose of these guidelines includes showing the process to be followed when applying for a SACCO License, an indication of the detailed licensing requirements, and guiding SACCOs in meeting their compliance obligations.

The process criteria require an applicant to;

- a. **Be a Cooperative Society registered under the Cooperative Society Act;**
- b. **Have a minimum core capital of not less than 10% of total assets;**
- c. **Have institutional capital of not more than UGX 500m and voluntary savings of not more than UGX 1.5bn;**
- d. **Have a fixed and identifiable place of business that is accessible and is suitable for the business of financial services;**
- e. **Have a management and governance structure;**
- f. **Have had at least one Annual General Meeting (AGM) in the past two years and at least two board meeting in the previous year.**

3.3 Impact of The Legislative Environment

The legal and regulatory framework for SACCOs is a critical component of their functional environment as it determines their ownership, influences management behaviour and offers confidence to the population. When SACCOs are weak or fail due to poor management of operations, they leave people with little or no access to financial services. In addition, fear of unregulated systems can make poor people restrain themselves from using financial institutions, which can entrench financial exclusion, poverty and vulnerability.

3.3.1 Status of Registration

The requirement that SACCOs should only register after at least two AGMs, and the need for capital and voluntary savings requirements, has limited many from transitioning to a regulated space that offers more safety, and means that such participants are likely to remain informal. By 2016, Uganda had close to 8,300 registered SACCOs, although only 2,064 were actively operational and submitted annual performance reports. (MTIC and World Council of Credit Unions Statistical Report, 2016). Over the years many SACCOs have emerged, although many are yet to be registered with any Government agency such as a particular department or formal membership association. This has created an uncertainty around the actual number of SACCOs presently operational in the country, with any estimates likely to be carrying wide margins of error.

By the end of 2019 UMRA had registered over 500 institutions and close to 300 money lenders. The Regulator had only been in operation for about two years and did not have approved regulations at the time.

A lot more progress has been made in using the regulation processes to streamline the market since then, with approved Tier 4 institutions now permitted to carry out lending and savings under the SACCO system but still as non-deposit taking institutions.

The registration of SACCOs has been supported by Government agencies and NGOs operating at the global and local level. For example, the UCSCU and UCA, along with other agencies such as Strategic Initiative for Women in the Horn of Africa (SIHA), have enabled over 400 SACCOs to register, and about 60% of these are "functioning" in one form or another. Registered SACCOs are able to benefit from formal partnerships with agencies that offer technical support and funds for onward lending.

The ongoing process of creating a 'Smart City', one aspect of which is the removal of vendors from the streets, is likely to affect the financial strength of the SACCOs as financially-distressed members fail to make their regular contributions and instead demand support from emergency funds. The process has been made simpler by the longstanding failure to issue them with licenses as demanded by the political leadership. Kampala Capital City Authority's (KCCA) political leadership, through the Lord Mayor, has demanded that the technical staff issue registration and licenses for hawkers on many occasions, but with little success. This introduced an element of risk to contributions from members who were engaged in unlicensed activities, who could be evicted at any time with negative consequences for their SACCOs.

3.3.2 Effects of Regulation

Poor and inadequate regulation of moneylenders has undermined the power and protection of borrowers.



A vendor along Entebbe road described how "some lenders take our National IDs and ATM cards as a form of security or to ensure they recover their money regardless of the situation. This has exposed us to unrealistic risks and deprivation of regular access to our savings."

The hope for such a borrower is that the moneylending business can be brought into the supervision bracket of Tier 4, which should increase standards and curb unlawful lending practices.

The Administrative Secretary of the SACCO belonging to the Association of Taxists also highlighted the challenges posed by lack of registration.



“Prior to 2015, the term SACCOs was just words, and what many understood to be SACCOs either had no certificates or they were expired. The saving culture was very low as each member was only required to do a mandatory saving of UGX 100,000. What is more, the savings would be shared back at the end of every year.”

The members had no basic training regarding the legal provisions and associated practices intended to protect their savings as well as increase benefits from membership, while the act of dividing up and sharing out all savings at the end of the year undermines the requirements of financial and operational sustainability that would require maintenance of any savings and profits across years.

3.4 Implementation of Regulations and Supervision

The Government delegated its supervisory, monitoring and control roles to Local Governments (LGs) through the decentralisation policy, but retained registration as a central government activity to be done by the Ministry of Trade, Industry and Cooperatives (MTIC).

In addition to LGs some of the delegated roles have been taken up by other agencies such as the Uganda Cooperative Alliance (UCA), Uganda Cooperative Savings and Credit Union (UCSCU) and other Non-Governmental Organisations (NGOs). The role of UCA, for example, includes promoting productivity, marketing, training and innovation through ‘Area Cooperative Enterprises’

(ACEs). Similarly, UCSCU is engaged in strengthening SACCOs.

The continued treatment of SACCOs within the broad spectrum of cooperatives presents a challenge as they are treated as being synonymous with producer cooperatives. The legal framework, therefore, combines the Cooperative Act, which is more inclined to production entities, with certain financial aspects that require greater focus on stability, trust by the membership and sustainability of the institution.

4

INTERNAL FACTORS AFFECTING THE FUNCTIONALITY OF SACCOS IN UGANDA



Internal factors arise from the legal aspects that determine the registration and membership of SACCOs, management of operations, governance and oversight. The legal and regulatory framework affects both the external and internal determinants of the functionality of SACCOs.

4.1 Governance and Strategic Management

The nature and quality of the management and governance structures of SACCOs has significant implication on their potential utility for their members. Poor management and governance leads to loss of funds and undermines the commitment of members, who abandon such SACCOs or keep switching from one to another, harming their sustainability and growth objectives. At the strategic level, enforcement should ensure the existence of governance and oversight structures and systems such as AGMs, Boards, and undertake Audits that often raise issues for consideration. The hierarchy of improving institutional performance begins with putting in place the right strategy, policies and business model to be implemented by management, and is a core responsibility of the Board.

A number of SACCOs that we examined displayed evidence of poor governance and a lack of planning and management competencies among the managers that were translating into stagnation or even mortality. Most SACCOs are operated on a voluntary basis by their members, and hence tend not to attract the right competencies and commitment. It was observed that most SACCOs serving lower-income groups met mostly to review operational matters with management rather than to discuss strategic aspects regarding the medium and long-term. This was partly due to the fact that their managers determined the trend of discussion by focusing the documentation on financials rather than compliance to internal policies, regulations and procedures. According to the Administrative Officer for the Taxi Association, most SACCOs do not have internal policies and procedures in place, either to guide management or for use by members in holding managers accountable. For example, according to this source there were no regulations in place to govern insider lending or to control

risk exposure based on credit limits to certain sectors.

The absence of internal procedures and limited oversight by the Board is exposing SACCOs to managerial malpractices and incentivising the underperformance of staff, who do not have clear key performance indicators. An interview with a member of the Board of one of the large SACCOs in western Uganda, who also sits on the Board of a commercial bank, provided insights into the need to resolve management problems at the Board level. He had this to say:

”

I found that the manager was transacting private business in the SACCO by hiring his spouse as a service provider without declaring any conflict of interest. He was also lending money to his private microfinance business at a very low rate, which he would lend onwards at higher rates to the same communities. When the manager was asked to explain the anomalies to the Board, he tried to change the Board by manipulating the AGM process. However, the knowledge of the legal provisions and good governance practices within the Board resulted in his suspension and termination.”⁸

The previous Board had limited exposure to governance and oversight functions as well as the governing laws and regulations.

The lack of a dedicated system to collect and communicate specific research and development (R&D) knowledge and information for the strengthening of SACCOs has fueled the use of generalized information, which can also be less relevant for current needs. This weakness then manifests itself in their limited ability to self-organize their systems, processes, and staff to create innovative practices that foster growth.

8 Respondent preferred to remain anonymous given his position in the community.

As was noted in earlier studies ⁹, support from government and other stakeholders aimed at increasing their competence and governance challenges, which would create an increase in savings, share capital, membership, incomes, and returns to members, has not yielded the anticipated results.

4.2 Equity of the SACCOs

The equity position of a SACCO is critical to its ability to extend credit to its members, covering operational costs and leveraging other resources in case of a need to borrow for onward lending. According to our research the contributions of members, the major source of SACCO equity, was smallest for SACCOs belonging to traders (market vendors and hawkers) with an average value of UGX 10-15 million. They had an average membership of 15-20 people who contributed UGX 30,000-100,000 per week or UGX 8 million per month. The amount is distributed to a selected group of 4-5 members per month who may get between UGX 1.5 million and 2 million each, and disbursements are done three times a year. The majority of users are net borrowers with as few as 10% being net savers.

The SACCOs which we examined in the transport sector (taxi drivers and conductors), were formed on the basis of each stage (defined by the destination point of the journey). These typically had about 100-150 members with a daily contribution of UGX 5,000, equivalent to UGX 750,000 per day or UGX 22.5 million per month. The KCCA has provided a dedicated unit of former staff to support these SACCOs to form structures for governance and management as well as to register with the MTIC. Close to 75% have been registered.

4.3 Politics and SACCOs operations

It was noted that, although the numbers of registered SACCOs has increased significantly, the functionality of many of them remains weak due to the short-term and politically motivated reasons for their formation. Many of them do not operate for more than a year as the initial commitment of members is based on creating an avenue for receiving public funds. In the case of Emyooga ¹⁰, the politicians asked the community to form SACCOs in order to receive government funds, and this therefore

became the core objective of those SACCOs. Once the money was received, the members shared it out between themselves, including their original contribution.

The worst incidences have included the loss of initial mandatory contributions by members as the mobilisers only target unsuspecting communities before taking off with the entire fund.

4.3.1 Experience of Emyooga funds

The Emyooga scheme was introduced by Government in 2019 to offer seed capital to groups of SACCOs across the country. The initiative was implemented by the Microfinance Support Centre Ltd (MSCL) using an initial fund of UGX 260 billion.

It was intended to support groups of individuals engaged in a common economic activity/enterprise, with the target being 18 enterprises seeded in each constituency. Every cluster in a given constituency is supposed to get UGX 30 million as seed capital, and a total of 850 SACCOs were to be formed in Kampala alone because of the large number of expected beneficiaries ¹¹. Unlike previous initiatives such as Entandikwa, the Emyooga funds are not intended to be repaid but to recirculate among the community.

On November 13th 2020 the MSCL started a countrywide training for established SACCOs. The main objective of the training was to help associations understand the principle of savings, group dynamics, credit management, mindset and working in cooperatives as a foundation for job and wealth creation. It was also aimed at preparing SACCOs to facilitate the establishment of structures to effectively manage the Emyooga fund.

However, it was not long before the underlying weaknesses of the system surfaced in the form of corruption, bureaucracy and politics. Thousands of groups that applied for the funds indicated that it was very hard to receive the Emyooga funds.¹² Several small-scale entrepreneurs expressed disappointment at the way the packages are being handled by the responsible government officials, which has seen the beneficiaries either failing to get the funds or receiving less than they expected ¹³.

9 World Council of Credit Unions Statistical Report, 2016

10 Emyooga is a presidential initiative on wealth and job creation. The programme targets Ugandans, especially in the informal sector, that come together in form of savings and credit cooperative societies.

11 These include boda boda riders, women entrepreneurs, carpenters, salon operators, taxi operators and restaurant owners. Others are welders, market vendors, youth leaders, persons with disabilities (PWDs), produce dealers, mechanics, tailors, journalists, performing artists, veterans, fishermen and elected leaders.

12 The Independent, March 7th, 2021

13 Interviews by Uganda Radio Network

There were cases whereby no funds were released under this initiative on account of bureaucratic hurdles, as well as what was alleged to be the personal interests of the responsible officers.

In the words of Specioza, a vendor who trades in foodstuffs,



We contributed UGX 25,000 along with 20 other colleagues to a resident in the area who promised that this would enable us to leverage additional funds from the Emyooga scheme. When asked to refund the money the man said that it had already been deposited into the system and it's now two years [that they have been asking for their money back]."

Agatha Kanyesigye, a micro-businesswoman and the chairperson of Kireka Central Hairdressers Association, which comprises 30 members, explained that they were given UGX 30 million but were told to first raise UGX 10 million from other sources before being allowed to withdraw the cash. To make it worse, they had to register their group under another SACCO of 30 members, and it is the Board of that SACCO that processes the cash.¹⁴

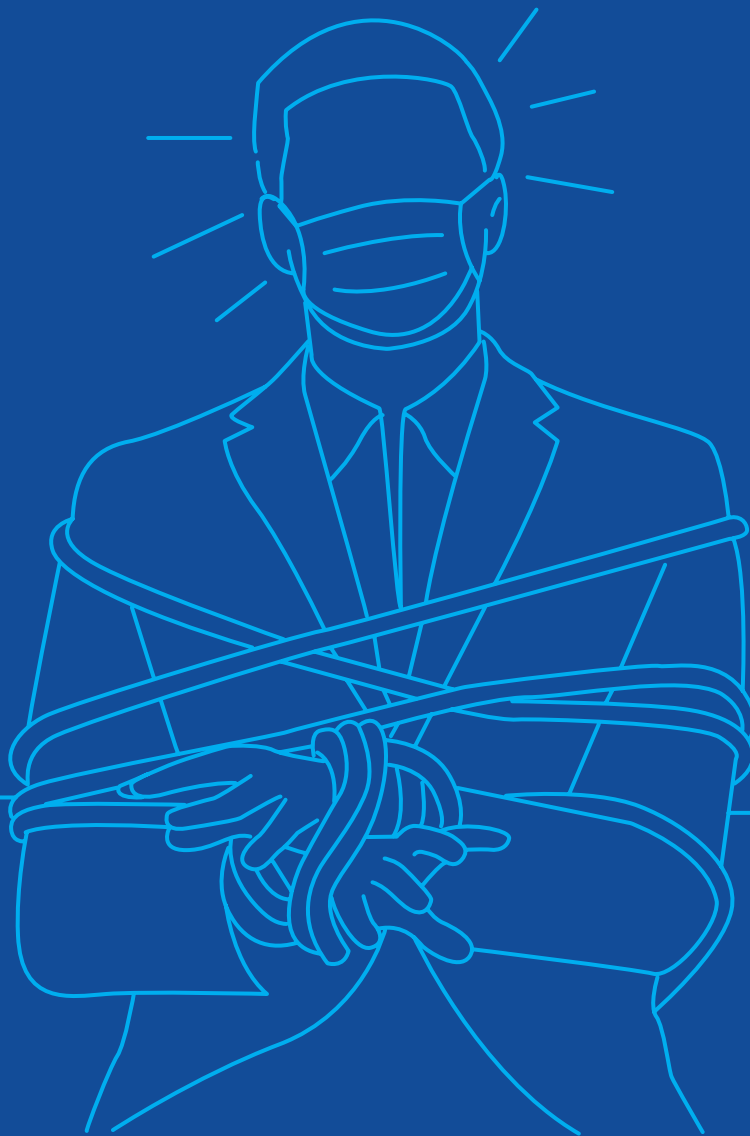
Furthermore, the Emyooga funds did not fully function as seed capital given both the timing and nature of the funding mechanism. First, the initiative coincided with the political season and was considered as part of the facilitation and luring of voters.

Second, there was no adequate training of group members in the management and use of the funds. The team of trainers who were sent from Mbarara to teach the Kampala taxi operators on how to handle the money to achieve the desired objective of poverty alleviation did not fully understand the local context. It was noted that UGX 30 million, when distributed to 300 people, was not a big enough sum to effectively change people's lives.

Third, the money was disbursed during the period of COVID-19 lockdowns and many members have indicated that they will find difficulty in paying it back.

According to members of the Taxi Operators Association, the Emyooga funds were interrupted by the COVID-19 lockdown. This money was distributed to taxi operators, who were banned from operating at the time. They used it to access basic needs during lockdown, leading to its ineffectiveness as a business strategy. They justified their failure to pay back by highlighting the Government's failure to deliver them support from the COVID-19 relief fund. However, Finance Trust Bank, which had disbursed the funds, is still following up with members through phone calls, sensitising them and encouraging them to pay back in instalments. It is too early to tell if these efforts will eventually bear fruit, particularly given the State's history of linking such funds to political support.

5 THE IMPACT OF COVID-19 ON SACCOS



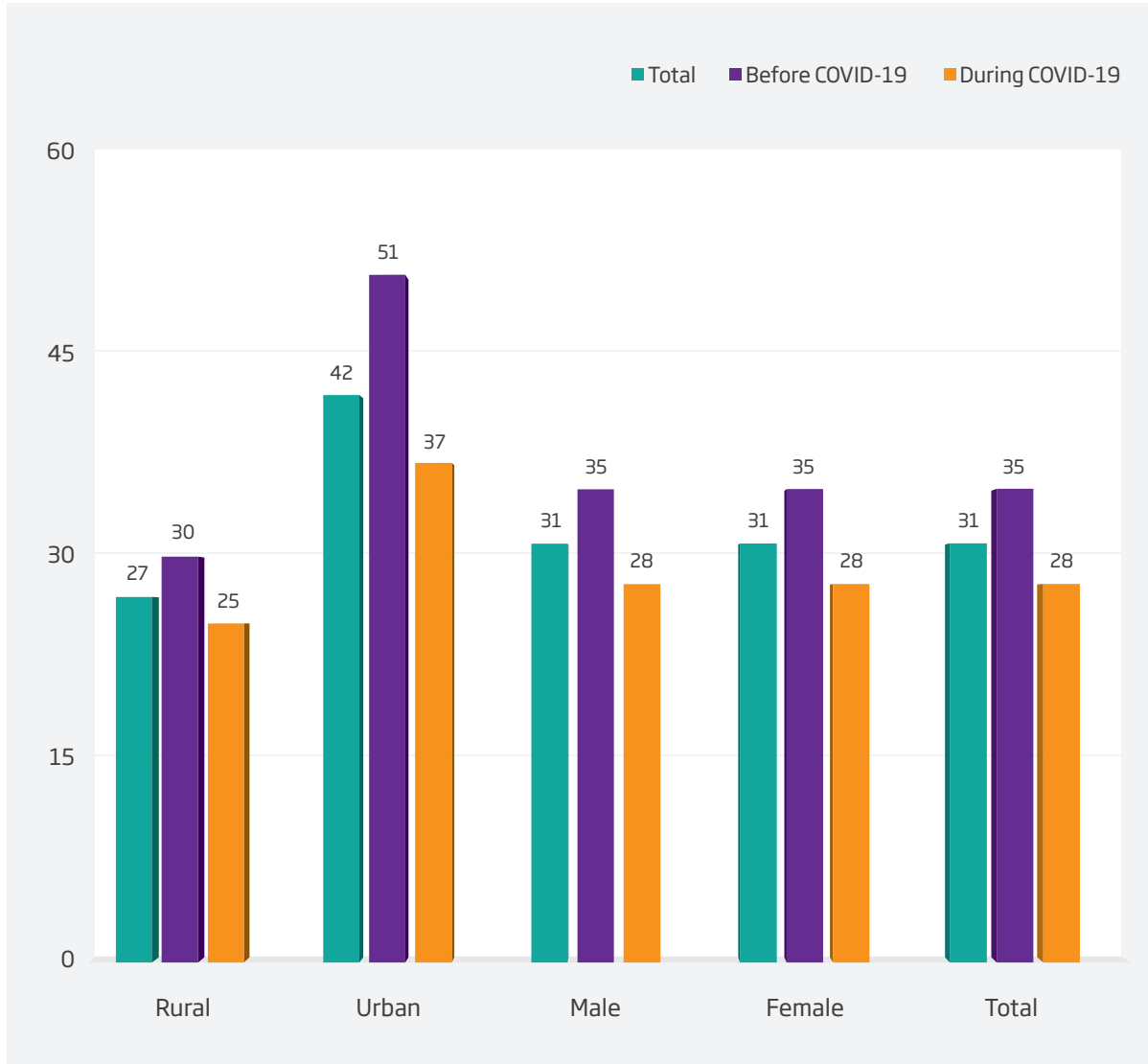
The impact of the COVID-19 pandemic on SACCOs was immediate as well as leaving effects into the medium- and long-term. The immediate was mainly in three forms: reduction in incomes for members of the SACCOs, reducing or wiping out contributions while increasing the pressure on emergency funds. There was a reduction in savings as members focused on meeting their basic consumption needs. Furthermore, the pandemic reduced the opportunities for SACCOs to earn income from lending to members whose businesses were closed. And since members' contributions are deposited on a daily or weekly basis, it was not possible to replenish the savings as members were not actively working or could not come to the office to deposit, given restrictions on travel and the limited use of electronic money transfer systems.

The long-term effects are mainly visible in the form of businesses that may not recover and the members of SACCOs who have permanently changed occupations or places of work by going back to the villages or moving to other parts of the GKMA. The long term will also be impacted by developments at the broader national, regional and global levels, including a slow recovery that will certainly limit opportunities for the target group of this study. The SACCOs and their members continue to struggle with loan defaults and a decline in savings and withdrawals.

Most SACCOs lacked adaptive strategies since their leaderships had not put in place business continuity strategies that would have enabled them to respond to the pandemic. The graph below showing the percentage of households with at least one member operating a business highlights the impact of COVID-19 on businesses. There was a big decline in households operating a business in the urban areas, including the GKMA from 51% before Covid-19 to 37% after.

Furthermore, the Graph shows that businesses owned by both male and female were affected equally, from 35% before and 28% after the Pandemic. Although some rural areas were less affected by the lockdowns, they were still impacted by the economic distortions on demand for their products, which is largely driven by consumption in urban areas.

It's worth also noting that rural households frequently rely on support from relatives and friends in urban areas for items such as school fees, medical, and basic needs.

Graph 5.1: Households with at least one member operating a business

Source: UBoS 2021. UNHS 2019/2020

In the absence of adequate internal measures and given the magnitude of the disruption by the Covid-19 Pandemic, UCSCU provided guidelines to the leadership of SACCOs to help them cope and continue to serve their members.

The guidance included the following:

- a. **Comply with the Standard Operating Procedures in place and those to be issued in future in order to prevent or reduce the spread of Covid-19.**
- b. **SACCOs should as much as possible avail members' savings to those who need to access them, but continually advise them to avoid unnecessary withdrawals.**
- c. **Disbursement of loans should be restricted to emergency sums and small amounts with short-term repayment periods. SACCOs should also encourage their members to pay what they can in order to reduce the future burden of their loans.**
- d. **SACCOs should encourage their members to stock enough food for at least a month**
- e. **SACCOs can now apply the concern for the community principle by providing vulnerable individuals in the society with basic necessities.**
- f. **SACCOs should also limit expenses and avoid cash outflows that can be avoided or deferred as a means of managing operational costs.**

The long-term changes are likely to have a significant impact on the underlying social, cultural and geographical factors that unite the membership. The membership of SACCOs is heavily influenced by members' knowledge and trust of each other, which in turn is rooted in historical relationships built through tribes, business similarity and geographical proximity. These factors influence the dynamics of forming a group or SACCO. Steven, who is involved in identifying partnerships that support vendors under PLAVU, noted that "a number of business actors, including market vendors and hawkers, are attracted by or to their own peers from the countryside or within the urban areas as this gives them

a 'soft landing' both in accommodation and business. As soon as they join the business, they are compelled to join the SACCO of their peers". However, the disruptions due to COVID-19 scattered many memberships, to the extent that some SACCOs cannot find the minimum number of people who trust each other.

According to the Administrative Secretary for the Taxi Association, COVID 19 has had a significant negative impact on the taxi business as money was withdrawn from savings and welfare funds and used to support members in meeting their basic needs. The government's delay in releasing relief funds meant for their members during the lockdown, which only became available after 30 days, necessitated the drawdown of savings. What is more, those funds did not cover all the members due to inefficiencies in the process of compilation as the public officers involved failed to submit correct lists of those people who needed the relief support. Nevertheless, efforts have been put in place to rebuild the savings and to revive the efforts of achieving the goals and objectives of the SACCOs.

6

CHALLENGES, RISKS AND OPPORTUNITIES FOR SACCOS



Future economic trends appear to hold a number of challenges, risks and opportunities for SACCOs, which, if well managed, will increase their ability to deliver their desired goal of reducing poverty and vulnerability as well as causing socio-economic transformation. The biggest aspects for consideration lie in political and economic systems. Other concerns arise from the legal, and technological trends in the country.

6.1 Political Trends, Risks and Opportunities

The political environment is likely to continue being disruptive as SACCOs are often used to fulfil short-term goals of channelling money to poor and vulnerable voters in return for political gains. As noted under the initiative of Emyooga, most of the involvement of government is often undermined by political interest or by a lack of adequate guidelines and enforcement mechanisms. The ongoing design of the Parish Development Model offers some hope as it is expected to be rooted in the Local Government (LG) system at the Parish level, with the participation of local leaders and opinion makers. It is still too early to tell the trend of this nascent idea that is making slow progress on the development of common guidelines for all the seven pillars, as well as operationalisation of various administrative structures including recruitment of the Parish Chiefs. Otherwise, the President's promise to provide UGX 100 million per Parish per year on a revolving basis is a great opportunity to counter any political disruptions based on political cycles.

6.2 The Economic Situation

The economy that was growing at 6.8% in FY 2018/19 before the COVID-19 pandemic and slowed to 2.9% in FY 2019/20. Its recovery will be key to the revival of the SACCOs and the business of their members. The health and functionality of SACCOs is directly linked to wider economic trends as most businesses are owned by members who depend on the short-term economic situation. The lockdowns related to the COVID-19 pandemic exposed the vulnerability of SACCOs and their members as savings got depleted given the disruption of regular contributions that come from the day-to-day activities of members. The transport SACCOs in Kampala indicate a big dent in savings and contributions following the lockdown of public transport.

6.3 The legal and regulatory framework

The legal framework for SACCOs continues to evolve slowly, with a lot of fragmentation visible across various jurisdictions. The multiple registration of SACCOs, first under the MTIC as cooperatives and later under UMRA as financial institutions, makes it hard to harmonise strategies and enforce regulations. Rapid changes in the associated technologies and innovations, as well as the emerging risks and opportunities that they engender, require a common reference point within government. The potential for limited efforts to proactively adjust the legal and

regulatory framework in a way that is specific to the challenges of SACCOs may not support the required adaptation to the dynamic conditions. Exposure to financial technologies without adequate training and protection of the users may create room for fraudulent behaviour, particularly in concert with poor governance and administration.

6.4 Technology: Challenges, Opportunities and Remedial Strategies

Over the last two decades, digital technologies have presented the greatest impact on the financial sector, with their integration being led by what has come to be termed as FinTech. Leveraging appropriate ICT applications has effectively created individually tailored solutions ranging from online banking, cashless transactions, and automatic messaging that have enabled individuals to gain confidence in the financial sector. ICTs have enabled MFIs to reduce operational costs and to offer lower rates or more affordable and flexible loan products to customers.

Unfortunately, a number of these benefits are yet to be realised by the members of various SACCOs in the country. Many SACCOs are still using manual and paper-driven processes that are prone to abuse, inefficiency and inherent high costs of operation. They have not fully integrated their operations with other elements of the financial system, thus limiting the synergies available from electronic financial systems. Technology would provide practical solutions to SACCOs by enabling them to enjoy linkages to the wider financial infrastructure.

Digital technologies have enhanced efficiency and reduced operational costs of access by members of SACCOs through introduction of Point of Sale (PoS), Automatic Teller Machines (ATMs), Agent Banking, and use of Smartphones.

In addition, ICTs have potential to enable SACCOs to manage information with higher levels of accuracy, safety and efficacy. The SACCOs and their partners in the wider sphere of MFIs can collect more information quickly, reliably and neatly, thereby facilitating faster and more precise decision making and communication both within and outside the institutions.

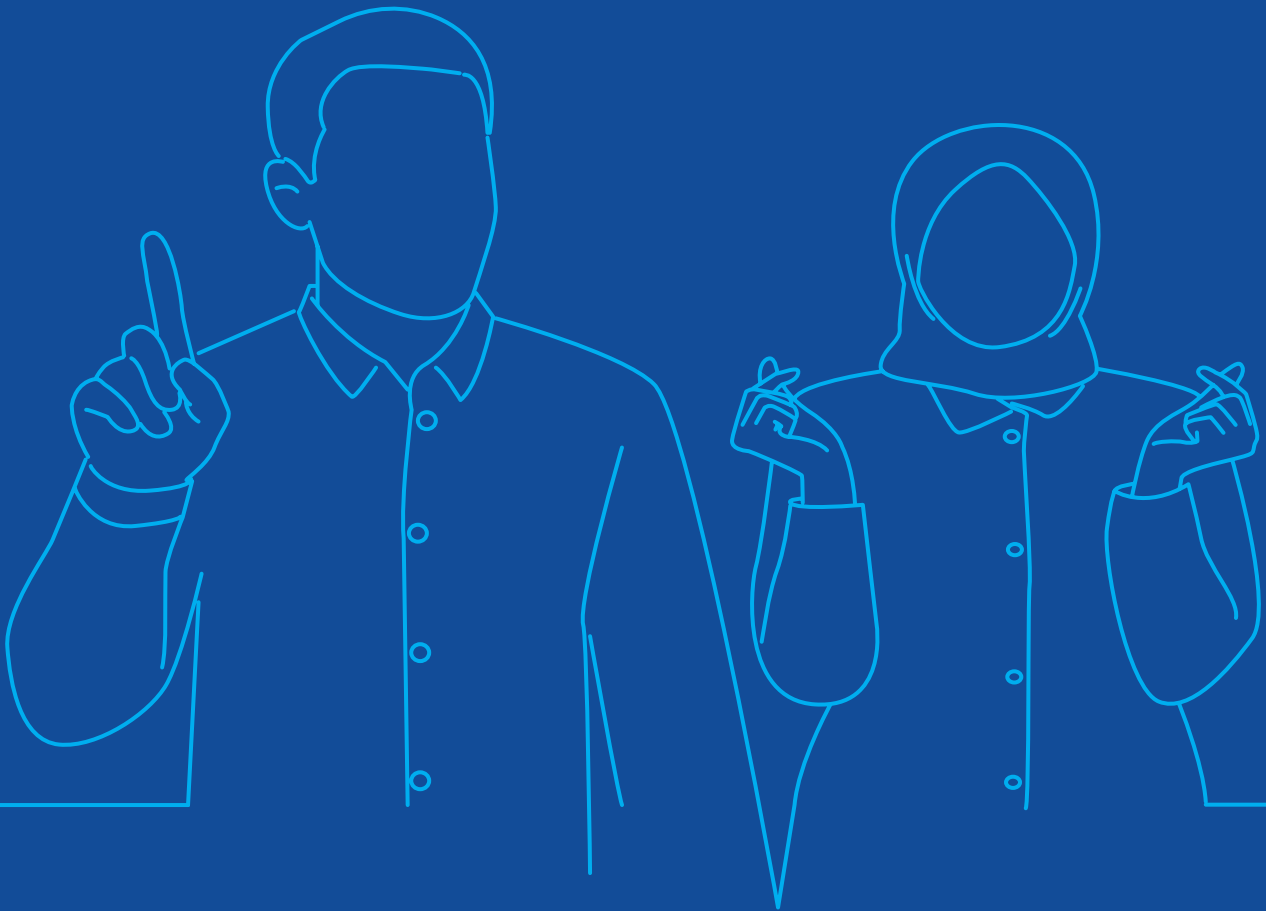
By leveraging a versatile existing ICT infrastructure, it is possible to enable members to track withdrawals from the SACCO account through instant messages to members.

This provides a welcome additional layer of scrutiny and ensures that managers stick to whatever transactions the membership have agreed to during their weekly meetings.

Finally, SACCOs should benefit from Government plans to set up e-government information structures as this would enable them to align their business strategies to other public initiatives such as the transfer of funds for inputs, as well as allowing managers and loan officers to serve their customers more efficiently. The efficiencies gained from better information management and ease of redesigning products and services would create additional resources for SACCOs to invest in other ventures that serve their members better.

7

CONCLUSIONS AND POLICY RECOMMENDATIONS



Uganda's SACCOs have had mixed results in their quest to facilitate the socio-economic transformation of their members by way of increased household incomes and the creation of resilient livelihoods. Their results were influenced by factors that are both internal to the SACCOs as well as external, arising from the broader socio-economic and political environment.

This report confirms the fundamental role of SACCOs to the economy, households and individuals. They have had a positive impact on reducing poverty and vulnerability among low-income earners by encouraging groups of people to save from their daily incomes for future investments and to build capital to increase production. In addition, they have acted as sources of credit for low-income earners to cater for payment of school fees at a low interest rate, and payment of emergencies like sickness, which has eventually improved their social welfare.

7.1 Conclusions

The report observed the following critical factors affecting the functionality and effectiveness of SACCOs in Uganda:

Weak registration and adherence to basic norms of institutional management. Most SACCOs have no basic registration beyond an administrative requirement that is perceived by their members as 'imposed' rather than need. Registration under the Cooperative Act, which was most common, is not specific to the demands and requirements of financial institutions that typically require high levels of regulation and governance. Moreover, cooperatives are required to be registered for at least two years before seeking regulation under Tier 4 framework for financial institutions. Many SACCOs were formed with the short-term goal of accessing public funds during political seasons, making this requirement hard to achieve.

The governance and management of SACCOs is quite poor, in part due to inadequate training of members as well as the lack of dedicated leadership teams. The members of most SACCOs were unable to hold leadership accountable due to social, cultural and political influence, as well as a lack of

formal processes such as AGMs and democratic practices such as holding regular elections.

Weaknesses in the legal and regulatory framework lead to a reliance on informal processes and practices and undermine the formalisation of practices. The need to comply with laws and regulations often puts pressure on management to adopt good practices as such a responsibility would involve external parties such as government rather than just members alone. Thus, the inadequate application and enforcement of laws and regulations has exposed members to potential bad practices by the management of SACCOs.

The external aspects of the environment, especially economic and political, pose several complications for SACCOs. Economic downturns resulting from systemic shocks such as the COVID-19 pandemic or specific disruptions of the business of members have resulted in inadequate reserves for savings and operational funds.

7.2 Recommendations

These recommendations relate to the core challenges affecting the SACCOs with regard to functionality for greater effectiveness. These include registration of both institutions and members, poor governance and management, limited coverage and enforcement of laws and regulations, informality, volatility and less diversified nature of businesses, and political interference.

7.2.1 Registration of Both Institutions and Members

The majority of SACCOs have received formal registration as cooperatives but not the extra level that would effectively make them financial institutions. Quite often the registration was done by an agent on behalf of the SACCO either as a requirement for receipt of financial resources from Government or because of proactive efforts by legal practitioners who stood to benefit from such a process. In most cases there was no formal list of members besides the listing of individual contributions. While this would not undermine the functionality of the SACCO, it presents risks including making legal claims more complicated in case of the death of a member or the mismanagement of funds.

It is recommended that Government puts more effort into activating the provisions within policy and the law to ensure registration of SACCOs and their members. There is limited involvement of Government officials in the registration and supervision of SACCOs.



Government officials remain in their offices and have not conducted any outreach programmes to meet the members and management of the SACCOs. In many cases, the management has entrusted the processes of registration to legal teams that charge high prices in the range of UGX 3 million to 4.5 million (US\$ 800-1200)¹⁵.

7.2.2 Poor governance and management

The governance and management of many SACCOs is undermined by weak internal systems as well as by external factors largely related to political influence. Many SACCOs are formed to support the saving and borrowing needs of low-income people, most of whom operate in the informal sector and have low levels of education and exposure to governance practices in the formal sector. Accordingly, they have limited exposure to formal governance and management practices in business, knowledge that would influence their input on the management and administration of SACCOs. It was noted that the SACCOs owned by elite groups organised either on the basis of where they work or other criteria such as faith, culture or family had better governance and management practices.

It is recommended that the leadership of SACCOs should be trained in key aspects of governance and management. Specifically, there is need to reaffirm the cooperative principles and values. These principles include:

- **Member democratic control**
- **Open and voluntary memberships**
- **Member economic participation**
- **Autonomy and independence**
- **Training, education and information**
- **Cooperation among cooperatives**
- **Concern for the community.**

Adherence to these principles will enhance the sense of ownership and drive for the common good by all including the leaders.

In addition, adoption and adherence to the values of self-responsibility, self-help, solidarity, democracy, equity and equality will strengthen internal processes and resilience to external influences and shocks. For example, solidarity, self-help and responsibility will mitigate the unwarranted leveraging of external support that often comes with political objectives by non-members.

7.2.3 Limited coverage and enforcement of the laws and regulations

A number of SACCOs were still registered as Cooperatives under the Cooperative Act, which is not designed to enforce the sorts of good practices required for financial institutions. The UMRA requirement is that any institution to be registered for financial regulation should have existed for at least two years. The relatively large number of SACCOs, a majority of which are small in terms of contributions and membership, makes effective enforcement of the laws and regulation by UMRA difficult.

Government should initiate processes towards self-regulation by supporting training of both members and management to more effectively play their roles in enhancing proper governance and management practices. In line with the values of self-help, SACCO members and the broader cooperative system should be

able to hold accountable any member of the leadership and management teams who engages in unprofessional behaviour, as well as practicing democracy in changing leaders.

The legal system should promote the independence of SACCOs by demanding proper accountability of all donations, especially those that come from politicians. Such monies should be treated as grants by management to avoid disrupting accounts based on the regular business of their members.

The regulation mechanism should be inclined more towards nurturing fledgeling SACCOs to enable them to mature, rather than weeding out the non-compliant ones. Well-designed regulation should promote innovation and adapt to emerging good practices even when they might not be provided for in the current laws.

Laws that cannot be easily adapted to emerging realities should be replaced by regulations that are more flexible. Enabling growth of SACCOs as well as the businesses and livelihoods they support should be the core objective of any intervention.

7.2.4 Informality, Volatility and Less Diversified Nature of Businesses

The nature of businesses owned of members of the SACCOs covered by this study are largely informal, which exposes them to many risks. Reviews indicated that a majority of informal sector activities in the GKMA are based on trading and services (56%), followed by hotels, bars and restaurants (26%), manufacturing (13%) and agriculture (4%). The poor or basic nature of organisation of these informal businesses, with no underlying fundamentals such as business plans, risk management, limited diversification, and a lack of record-keeping and review, creates a lot of uncertainty in the livelihoods of individual participants. Business owners are forced to rely on their small incomes to meet all of their basic needs for both their short and long-term aspirations.

It is recommended that members should be given additional training not just for business management but also in livelihood strengthening and improvement. Their savings should be used to diversify their businesses as part of a broader plan for building a long-term trajectory of sustainable livelihoods and a transition from small- to medium-scale enterprises. The majority of the members of the SACCOs covered by this study were engaged in the same activity for more than five years. Only a few had transitioned to more diversified forms of livelihood.

7.2.5 Political interference

SACCOs belonging to people in the lower income categories were seen to be the most prone to political influence, mainly on account of their weak management and governance systems as well as a deliberate targeting of members who are often politically active during elections.

It is recommended that SACCOs be protected against windfalls of political money by requiring that only mature SACCOs that have been in existence for at least two years, and which are therefore registered with UMRA, should be eligible to receive such funds. A simple rule of this nature would do away with much of the short term thinking that pervades the sector and encourage SACCOs to focus on the core business of improving the livelihoods of their members.

8

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FRIEDRICH-EBERT-STIFTUNG

Kampala, Uganda

5B John Babiha (Acacia) Avenue

P.O Box 3860

www.uganda.fes.de

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