The Effects of Wholesale Lending to SACCOs in Uganda

Alexandra Fiorillo

Results of a study carried out in Uganda in 2006 by AMFIU, CCA, DFID, FSDU, GTZ/SIDA, MOP, MSC, SUFFICE, UCA, UCSCU and USAID/Rural SPEED
FINAL REPORT

THE EFFECTS OF WHOLESALE LENDING TO SACCOS IN UGANDA

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KAMPALA, UGANDA
SEPTEMBER 2006
# Table of Contents

List of Abbreviations ........................................................................................................ 4
Acknowledgements ............................................................................................................. 5
Summary ............................................................................................................................... 6
Introduction.......................................................................................................................... 7
  Background ....................................................................................................................... 7
  Arguments for Wholesale Lending to SACCOs ............................................................. 9
  Arguments against Wholesale Lending to SACCOs .................................................. 9
  Objectives of the Study ................................................................................................ 9
Methodology ....................................................................................................................... 11
  Preparations ................................................................................................................... 11
  Sacco Selection ............................................................................................................... 11
  Data Collection Instruments ....................................................................................... 13
  Field Research ............................................................................................................... 14
  Focus Group Discussion ............................................................................................... 14
Findings ............................................................................................................................... 16
  General Findings ........................................................................................................... 16
  Changes in Policies ....................................................................................................... 20
  Changes in Practices ...................................................................................................... 23
  Member Perceptions ...................................................................................................... 26
  Financial Performance ................................................................................................. 28
  Additional Findings ...................................................................................................... 32
Conclusions ......................................................................................................................... 37
Recommendations ................................................................................................................ 39
  Guidelines for Lending to SACCOs ............................................................................ 40
Appendices .......................................................................................................................... 43
  Appendix I: Matrix of SACCOs Visited ........................................................................ 43
  Appendix II: Steering Committee Members and Field Research Team .................... 44
  Appendix III: Sources Consulted on Wholesale Lending to SACCOs ....................... 45
  Appendix IV: Interview Guide – SACCO Members .................................................... 48
  Appendix V: Interview Guide – SACCO Board of Directors ...................................... 50
  Appendix VI: Interview Guide – SACCO Management ............................................. 52
  Appendix VII: Interview Guide – SACCO Financial Data ......................................... 54
  Appendix VIII: Bunyaruguru SACCO Growth Graph .............................................. 58
  Appendix IX: Bushenyi People’s SACCO Growth Graph ......................................... 59
  Appendix X: Kajara People’s SACCO Growth Graph .............................................. 60
  Appendix XI: Bugongi SACCO Growth Graph ......................................................... 61
# List of Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADF</td>
<td>African Development Fund</td>
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<tr>
<td>AfDB</td>
<td>African Development Bank</td>
</tr>
<tr>
<td>AGM</td>
<td>Annual General Meeting</td>
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<tr>
<td>AMFIU</td>
<td>Association of Microfinance Institutions of Uganda</td>
</tr>
<tr>
<td>BOD</td>
<td>Board of Directors</td>
</tr>
<tr>
<td>BoU</td>
<td>Bank of Uganda</td>
</tr>
<tr>
<td>CCA</td>
<td>Canadian Co-operative Association</td>
</tr>
<tr>
<td>DFID</td>
<td>UK Department for International Development</td>
</tr>
<tr>
<td>FGD</td>
<td>Focus Group Discussion</td>
</tr>
<tr>
<td>FSDU</td>
<td>Financial Sector Deepening Project Uganda</td>
</tr>
<tr>
<td>GoU</td>
<td>Government of Uganda</td>
</tr>
<tr>
<td>GTZ</td>
<td>Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH (German Technical Cooperation)</td>
</tr>
<tr>
<td>LC</td>
<td>Local Council</td>
</tr>
<tr>
<td>MFI</td>
<td>Microfinance institution</td>
</tr>
<tr>
<td>MFPED</td>
<td>Ministry of Finance, Planning and Economic Development</td>
</tr>
<tr>
<td>MOP</td>
<td>Microfinance Outreach Plan</td>
</tr>
<tr>
<td>MSC</td>
<td>The Microfinance Support Centre Ltd.</td>
</tr>
<tr>
<td>MTTI</td>
<td>Ministry of Tourism, Trade and Industry</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-governmental organization</td>
</tr>
<tr>
<td>PAP</td>
<td>Poverty Alleviation Project</td>
</tr>
<tr>
<td>PAR</td>
<td>Portfolio at risk greater than 30 days</td>
</tr>
<tr>
<td>PMT</td>
<td>Performance Monitoring Tool</td>
</tr>
<tr>
<td>PSPC</td>
<td>Private Sector Promotion Centre</td>
</tr>
<tr>
<td>SACCO</td>
<td>Savings and credit co-operative society</td>
</tr>
<tr>
<td>Sida</td>
<td>Swedish International Development Agency</td>
</tr>
<tr>
<td>Rural SPEED</td>
<td>Rural Savings Promotion and Enhancement of Enterprise Development</td>
</tr>
<tr>
<td>SUFFICE</td>
<td>Support to Feasible Financial Institutions and Capacity-Building Efforts</td>
</tr>
<tr>
<td>TOR</td>
<td>Terms of reference</td>
</tr>
<tr>
<td>UA</td>
<td>Unit of Account</td>
</tr>
<tr>
<td>UCA</td>
<td>Uganda Co-operative Alliance</td>
</tr>
<tr>
<td>UGX</td>
<td>Ugandan Shillings</td>
</tr>
<tr>
<td>UCSCU</td>
<td>Uganda Co-operative Savings and Credit Union</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
</tr>
<tr>
<td>WOCCU</td>
<td>World Council of Credit Unions</td>
</tr>
</tbody>
</table>

**National Currency = Ugandan Shillings (UGX)**

1 UA = 1880.64 UGX
1 UA = USD 1.36421
ACKNOWLEDGEMENTS

This report summarizes the findings of the research project on “The Effects of Wholesale Lending to SACCOs in Uganda.” The work was carried out from May to August of 2006 in a joint effort by several stakeholders from the microfinance industry in Uganda. Though the members of the Steering Committee take responsibility for all of the opinions expressed in this final report, I could not have completed this study without the assistance of the many people who provided guidance as I proceeded. I must first recognize the enormous contribution made by representatives of certain stakeholder institutions – apex institutions, donor agencies, wholesale lenders and other interested organizations – who volunteered representatives to sit on the Steering Committee for this study. These individuals generously provided time, advice and guidance throughout the research period. The Steering Committee members are: David Baguma (AMFIU), Godfrey Okello-Omooding (MOP), Richard Pelrine (USAID/Rural SPEED), Geza Radu (CCA), Paul Rippey (FSDU), Richard Roberts (GTZ/Sida), Angeyang Rose (UCA), Adrian Stone (DFID), Dickson Turyahabwe (UCSCU), Tumushabe Bahigwa Prossy (MSC), Daniel Sentumbwe (Stromme Foundation), and Henk von Oosterhout (SUFFICE).

In particular, I would like to thank Charles Byanyima, Lucy Businge-Kugonza, Wilson Wamatsebume and especially Tumushabe Bahigwa Prossy of the MicroFinance Support Centre, Ltd. for their candidness and willingness to share institutional knowledge, policy decisions and information about partner organizations. Dickson Turyahabwe and Angeyang Rose made a number of contributions to the study and provided much-needed local knowledge and SACCO expertise during the field visits. I would like to thank Isaac Galwango for his thoughtful work conducting focus groups during the field visits and Henk van Oosterhout, Jackie Mbabazi, Agnes N. Mugwanya and Bob Barigye for supporting my field visits on various occasions. The report could not have been completed without the help of Billy Butamanya (UCA), Wilson Kabanda (UCSCU) and Fred Mwesigye (MTTI), who all volunteered their time for individual interviews and countless consultations.

A special note of gratitude should be extended to Godfrey Jjogga Ssebukulu, Luke Okumu, Sarah Roberts, Robert Ssetuba, and Grace Ninsiima at FSDU for their hospitality and support during the three-month research period. Christopher Musoke was especially supportive and helpful during the research process. Finally, I would like to thank Paul Rippey for providing me with the great opportunity to work for FSDU and conduct this research. His consideration, guidance, hospitality, continuous support and friendship were indispensable during my stay in Uganda.
SUMMARY

This report presents the results of a study of the effects of wholesale lending to SACCOs in Uganda, carried out by AMFIU, CCA, DFID, FSDU, GTZ/SIDA, MSC, Rural SPEED, SUFFICE, UCA, and UCSCU. The objectives of the study were to: 1) review the experiences of Ugandan SACCOs with wholesale lending; 2) determine the factors that influence whether an external loan will have a positive or negative impact; and 3) give practical advice and provide guidelines for wholesale lenders and potential borrowers. The study consisted of: a desk review of existing documents; interviews with wholesale lenders, apex institutions and government officials; and field visits to fifteen SACCOs in four regions of Uganda, conducted between 5 July and 4 August 2006.

Six principal findings emerged from the study.

1) **External funds will not help a weak SACCO become strong.** In fact, wholesale lenders risk doing more harm than good when they lend to SACCOs with weak management, ineffective governance or poorly performing portfolios.

2) **Wholesale loans to a SACCO can impact the savings culture of the institution positively or negatively.** In the weak SACCOs studied, external credit changed the orientation of the institution from savings-led, to being simple mechanisms for the disbursement of external funds, resulting in a deterioration of loan portfolio quality and amounts of member savings. However, the change in a SACCO's savings rate depends more on the quality of management and governance than on anything else. The strong SACCOs studied retained their saving orientation after receiving external loans.

3) **SACCOs can be very successful without accessing external funds** if they have qualified and dedicated management and governance teams, sensitized members, good policies, and effective capacity building from outside sources. Two SACCOs in this study have shown sustained growth over time without any external funds.

4) **Efficient capacity building is crucial,** since the success of wholesale lending is largely dependent on the quality of governance and management. Unfortunately, there is much anecdotal evidence of inequalities in the amount of assistance given; redundancies, overlaps and contradictory messages in the assistance given by different providers to the same SACCO; poor timing of interventions; lack of accountability and conditionality; and a mismatch between institutional assessments and the assistance given.

5) **Monitoring and reporting requirements imposed by wholesale lenders, in particular requirements to age and provision the portfolio, can lead to improvements in management practices of great value to the SACCO.** Unfortunately, most SACCOs studied do not recognize the value in these requirements.

6) **Many SACCO members were negatively influenced by politicians who presented the external funding as a government grant.** In those cases, delinquency rates increased after the loan. SACCOs that sensitized their members about the need to repay the loan were more successful in maintaining high repayment rates.
INTRODUCTION

BACKGROUND

The expansion of cooperatives in Uganda, like in other East African countries, has been a substantial component of rural development over the last forty years. Cooperatives developed to support farmers involved in the production and marketing of cash crops like coffee, cotton and tobacco. Many rural cooperatives received subsidies from the GOU throughout the 1970s but trade liberalization, increased competition in world markets, and corruption caused the collapse of many of these producer cooperatives. In Uganda, only a small number of cooperatives survived and many rural farmers and workers were devastated by the failure of the cooperative movement.

After almost a decade of recovery, local communities began forming savings and credit cooperatives (SACCOs) in rural and urban areas. The new generation of cooperatives has been guided by several institutions and agencies including the two Ugandan apex institutions: Uganda Cooperative Alliance (UCA) and the Uganda Co-operative Savings and Credit Union (UCSCU). The creation of SACCOs has gained momentum in the last several years as small-scale farmers and microentrepreneurs are becoming sensitized to the potential benefits of savings and credit. The GOU has recently shown its support for SACCOs by calling for the creation of a SACCO in every sub-county as part of its rural development initiative.

Currently, Uganda has about 628 operational, registered SACCOs with permanent fixed locations. In recent years, a number of agencies (donor-funded, governmental and private) have made lines of credit available to member-owned, savings-led institutions for the purpose of on-lending to SACCO members. The GOU has publicly supported this type of intervention in order to facilitate the development of rural regions by giving the rural poor increased access to financial services.

In 1993, the African Development Fund (ADF) financed Uganda’s Poverty Alleviation Project (PAP) to support income-generating activities of the poor. Upon successful completion of the PAP in 1998, the Government of Uganda (GOU) requested further funding to continue the efforts initiated during the 1990s. In 2000, the ADF extended UA 14.94 million to the GOU to support the Rural Microfinance Support Project (RMSP), a five-year project designed to increase the rural poor’s access to microfinance services and to provide appropriate capacity building and technical assistance. The GOU contributed additional funds to RMSP in the amount of UA 4.6 million.

RMSP has three project components: 1) the extension of micro-credit and savings mobilization services via partner organizations in Uganda; 2) the provision of capacity building for microfinance clients and project implementation staff; and 3) the creation of Microfinance Support Centre, Ltd. (MSC), a company limited by guarantee and owned by the Government of Uganda. MSC’s primary objective is to bring financial services to the rural poor through the extension of wholesale loans to microfinance institutions (MFIs) and other partner organizations for the purpose of on-lending to rural clients.

This number is based on fieldwork of the Census of Tier 4 MFIs being carried out by MSEPU and FSDU. There are about 1300 registered SACCOs but many are not operational or do not have fixed locations.
MSC receives funding for its projects from three sources. The RMSP receives money from ADF in collaboration with the GOU. ADF also funds the Northwest Small Holder Agriculture Development Project (NSADP) to assist partner organizations in the West Nile with agriculture development. Finally, the GOU has committed funds to MSC for the creation of new SACCOs in every sub-county in the country.

Several other institutions have made lines of credit available to SACCOs in the past several years. SUFFICE extended wholesale loans to two SACCOs in 2001-2001 totalling UGX 59 million. Both SACCOs defaulted on these loans and the institutions eventually collapsed. In June 2006, SUFFICE lent a total of UGX 90 million to two more SACCOs. Both loans are currently outstanding. The Stromme Foundation also provides wholesale loans to SACCOs; currently, Stromme Foundation has two outstanding loans worth a total UGX 175 million. There are a number of other institutions in Uganda that have reportedly extended lines of credit to SACCOs across the country but, at the time of publication, these agencies had not responded to requests for information. Our research also uncovered a little known development in the Ugandan microfinance industry: SACCOs extending on-lending funds to one another. We visited several SACCOs with outstanding loans to other SACCOs for the purpose of on-lending. The information on inter-SACCO lending is limited and the scale of SACCO-to-SACCO lending is unknown.

In summary, while there are a number of institutions extending credit to SACCOs for on-lending, the ADF and GOU-funded MSC is the primary wholesale lender in the country.

![Picture 1: Bugongi SACCO](image)

Local and international SACCO experts with long experience in the matter have cautioned the industry that imprudent on-lending to member-based, savings-led institutions can have a deleterious effect on the financial performance and organizational culture of such institutions. Most prominently, Brian Branch, then Chief Operating Officer and Interim CEO of the World Council of Credit Unions, in the 25th April 2005 Microfinance Forum Informal Information Exchange, suggested that while lending to SACCOs was not always harmful, it should be done in small amounts to strong institutions for specific purposes, in particular to address the period mismatch between members’ savings and their desire for longer term loans.
ARGUMENTS FOR WHOLESALE LENDING TO SACCOs

The case for lending to member-based institutions is supported by at least three arguments:

1. Young member-based institutions often struggle to reach a critical size at which they can sustain themselves. Carefully dosed outside capital can be a helping hand, enabling the institution to gain scale more quickly.

2. Many institutions are simply unable to meet the demands of their members for loans. Outside capital can help them do that. Because it is able to satisfy the thirst for loans, the institution gains the confidence of its members.

3. Most institutions have a healthy spread between the rate they borrow at, and the rate at which they lend to their members. A strong institution should easily be able to pay the interest on borrowed money, cover any loan losses, and still make a profit, which then can be added to the balance sheet as retained earnings, or distributed to members.

ARGUMENTS AGAINST WHOLESALE LENDING TO SACCOs

The arguments against lending to SACCOs are at least four:

1. The character of the SACCO as a member-owned and run institution can change if it receives substantial outside funds. Members are less likely to think they are borrowing their own, their neighbour’s, or their family’s money; instead, they are likely to think they are borrowing the government’s, or a donor’s, funds instead, and thus assign a lower priority to repaying loans, and to insisting that other members repay. The principle of self-help, by mobilizing member savings for on-lending, can be undermined, and that can lead to lax repayment discipline and eventual collapse of the SACCO.

2. The sudden infusion of substantial new funds can overwhelm the existing loan appraisal capacity of the institution or the borrowing capacity of its members, and may lead the SACCO to make bad loans in a scramble to place its excess liquidity. In some cases, when SACCOs get credit funds the boards and management loosen the controls and this leads to fraud and eventual losses.

3. Management will have less incentive to encourage members to save when the institution’s coffers are full of external funds.

4. If the institution has weak baseline portfolio quality, the repayment of the external loan can decapitalise it, as liabilities to external sources usually have contractual priority over the institution’s own funds, and external lenders usually do not share in the repayment risk. The result is that all loan losses, whatever the source of the loan, must be paid out of the institution’s capital, or out of members’ savings.

OBJECTIVES OF THE STUDY

While there is mixed anecdotal evidence about the results of wholesale lending to SACCOs, to our knowledge no serious study has previously been carried out on this question in
Uganda. In early 2006, FSDU circulated a concept paper to a number of institutions and agencies involved with SACCOs in Uganda about the effects of wholesale lending to SACCOs. Several institutions provided comments and agreed to support the study. AMFIU, CCA, DFID, FSDU, GTZ/SIDA, MSC, Rural SPEED, SUFFICE, UCA, and UCSCU agreed to collaborate on a study of the effects, positive and negative, of external wholesale lending to SACCOs. The objectives of the study are to:

- Review the experiences of Ugandan SACCOs with wholesale lending;
- Determine the factors that influence whether a loan from a credit wholesaler will have a positive or negative effect on a SACCO; and,
- Give practical advice for on-lenders and for potential borrowers, and provide guidelines on the following topics:
  - Maximum desirable ratio of wholesale loan sizes to equity and total assets;
  - Conditions that borrowers should meet before accessing wholesale credit, including portfolio quality, administrative and control systems and MIS; and,
  - External, exogenous factors that might determine the absorptive capacity of a SACCO for new funds, including the economic dynamism of the region, and the competition.
Methodology

The study was carried out by a group of microfinance and SACCO experts in Uganda representing all the principle agencies working in SACCO promotion and support, under the direction of a Steering Committee made up of AMFIU, CCA, DFID, FSDU, GTZ/SIDA, MSC, Rural SPEED, SUFFICE, UCA, and UCSCU. Alexandra Fiorillo, a graduate student at Columbia University, served as Principal Researcher and secretary to the committee, coordinated the field research and took part in all field missions, and drafted the final report. FSDU housed the secretariat and hosted Steering Committee meetings. Committee members hired a local consultant to conduct focus group discussions with SACCO members. The study consisted of the following components:

- a literature review of comparable studies conducted elsewhere and other relevant documents;
- interviews with wholesale lenders, SACCO support organizations, apex institutions and other relevant stakeholders;
- in-depth field visits to eight SACCOs that have borrowed external funds from wholesale lenders\(^2\);
- field visits to three SACCOs that have not borrowed external funds from wholesale lenders;
- field visits to five SACCOs that have borrowed external funds but otherwise fell outside of the study's parameters; and,
- analysis of data collected from the 16 SACCOs for the preparation of a final report and presentation of the findings.

Preparations

The Principal Researcher carried out an initial literature review and preliminary interviews with stakeholders during the first two weeks. Also during that time, the SC created two task forces to conduct the SACCO Selection and design the Data Collection instruments. The SC supported and guided both task forces during SC meetings and informal meetings throughout the course of the study.

SACCO Selection

The sampling method used in this study was chosen to allow for certain desired geographic representations and to avoid any bias in the selection process, while allowing the research team to control, as much as possible, for differences in geographic regions and SACCO membership size. The sample was limited by certain constraints including the necessary small sample size limit due to logistical difficulties including the financial budget and time availability and the inadequacy of quantitative data of SACCOs.

SACCOs to be studied were chosen randomly from a list prepared by MSC after stratification for geographic region and membership size. Eight SACCOs that have borrowed external funds from MSC were selected for in-depth field visits. These SACCOs were selected based on a set of criteria developed and approved by the SC. The SACCOs

\(^2\) See SACCO Selection section for more information on the selected institutions.
represent four rural regions of Uganda with a high number of SACCOs that have borrowed from MSC:

- East (Iganga)
- Southwest (Mbarara)
- West (Kabarole)
- West Nile (Arua)

Two SACCOs were selected from each of the four regions. Each pair of SACCOs contained one “success” and one “challenge.”

- The SACCOs selected as “successes” have repaid or are in the process of repaying a wholesale loan on time with no late payments.
- The SACCOs selected as “challenges” have repaid or are in the process of repaying a wholesale loan and have experienced at least one late payment of more than 30 days.

The SACCOs selected for this study have completed at least one year of borrowing from a wholesale lender and, according to the wholesale lender, are:

- True SACCOs. A true SACCO is one that was founded with the intended purpose of operating as a village bank or SACCO. A true SACCO may have been primarily registered as a company but functioned as a SACCO and eventually changed its registration status to SACCO.
- Community-based rather than employee-based SACCOs.
- Operational at the time of the study. The selected SACCOs are not necessarily active clients of a wholesale lender at the time of the study but still operate as a savings and credit cooperative.
- Medium sized SACCOs with memberships of between 200 and 1000 members.

The control group was made up of three SACCOs. The SC had originally intended to choose one control SACCO from each of the four regions represented in the study, but could only identify four previously established and mature SACCOs that had not received external credit: two in the Southwest region, a peri-urban SACCO in Wakiso, and one in the North. The SACCO in the North was located in remote Pader district, and the principal representative in Kampala of the SACCO was away on mission at the time of the study, so the SC chose to eliminate it from the study.

Four additional SACCOs were selected for rapid field visits. These SACCOs fell outside the parameters of the study and did not comply with the SACCO Selection Criteria enumerated above because of membership sizes far above the 1000 maximum. These SACCOs were proposed by MSC as successful partner organizations, some of which have participated in the pilot projects for agriculture and solar energy loans.

The final SACCO selected for a site visit was proposed by members of the SC. This SACCO borrowed external credit from two wholesale lenders, successfully repaid both loans, and is not currently accessing funds for on-lending. The research team included this SACCO in the field visit programme for its unique nature: no other SACCO was identified as a past, but not current, borrower of wholesale credit.
Table 1: SACCOs Visited for Study

<table>
<thead>
<tr>
<th>SACCO Name</th>
<th>District</th>
<th>Membership</th>
<th>Wholesale Lender</th>
<th>Number of Wholesale Loans Received</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SAMPLE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bunyaruguru SACCO</td>
<td>Bushenyi</td>
<td>978</td>
<td>MSC</td>
<td>2</td>
</tr>
<tr>
<td>Bushenyi People's SACCO</td>
<td>Bushenyi</td>
<td>1,040</td>
<td>MSC; Muhame SACCO; Mutara SACCO</td>
<td>4</td>
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<tr>
<td>Buzaaaya SACCO</td>
<td>Kamuli</td>
<td>276</td>
<td>MSC</td>
<td>1</td>
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<tr>
<td>Ikongo SACCO</td>
<td>Kasese</td>
<td>1,200</td>
<td>MSC</td>
<td>1</td>
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<tr>
<td>Kigulu Development Group</td>
<td>Iganga</td>
<td>NA</td>
<td>MSC</td>
<td>2</td>
</tr>
<tr>
<td>Kijura SACCO</td>
<td>Kabarole</td>
<td>895</td>
<td>MSC</td>
<td>2</td>
</tr>
<tr>
<td>Panyimur SACCO</td>
<td>Nebbi</td>
<td>605</td>
<td>MSC</td>
<td>2</td>
</tr>
<tr>
<td>ZEU SACCO</td>
<td>Nebbi</td>
<td>545</td>
<td>MSC</td>
<td>2</td>
</tr>
<tr>
<td><strong>CONTROL GROUP</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bugongi SACCO</td>
<td>Bushenyi</td>
<td>1,703</td>
<td>No</td>
<td>0</td>
</tr>
<tr>
<td>Kajara People's SACCO</td>
<td>Ntungamo</td>
<td>1,230</td>
<td>No</td>
<td>0</td>
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<tr>
<td>Focused Community SACCO</td>
<td>Wakiso</td>
<td>231</td>
<td>No</td>
<td>0</td>
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<tr>
<td><strong>ADDITIONAL SACCOs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kyamahunga SACCO</td>
<td>Bushenyi</td>
<td>5,229</td>
<td>MSC</td>
<td>7</td>
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<td>Muhame SACCO</td>
<td>Bushenyi</td>
<td>3,925</td>
<td>MSC</td>
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<td>Nyaravur SACCO</td>
<td>Nebbi</td>
<td>2,242</td>
<td>MSC</td>
<td>5</td>
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<td>Pakwach Nam SACCO</td>
<td>Nebbi</td>
<td>2,568</td>
<td>MSC</td>
<td>7</td>
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<tr>
<td>Shuuku SACCO</td>
<td>Bushenyi</td>
<td>2,700</td>
<td>MSC Stromme Foundation</td>
<td>2</td>
</tr>
</tbody>
</table>

**Data Collection Instruments**

The SC designed three formal instruments to be used during interviews and field visits. These instruments were:

- SACCO Members Interview Guide
- SACCO Board of Directors Interview Guide
- SACCO Focus Group Interview Guide
- SACCO Management Interview Guide
The data collection instruments are included in Appendices IV through VII. In addition, the research team designed a list of relevant questions to be asked of wholesale lenders, apex institutions and other stakeholder organizations.

FIELD RESEARCH

The field research team consisted of the Principal Researcher, a local consultant with expertise in conducting focus group discussions, and additional researchers from the SC who joined each field mission to conduct interviews with management and Boards of Directors.

In total, 15 of the 16 selected SACCOs were visited between 5th July and 4th August. The research team conducted seven in-depth qualitative and quantitative field visits of SACCOs that borrowed external funds. The field visits included:

- An interview with the Manager and other management staff;
- An interview with the Board of Directors;
- One or two focus group discussions with randomly selected SACCO members; and,
- An examination and data capture of the SACCO’s audited financial statements, portfolio reports and membership ledgers and documents.

In addition, the research team interviewed the management team, and in some cases members of the SACCO and members of the Board of Directors, of the five additional institutions selected for rapid field visits.

The eighth institution selected for an in-depth field visit, Kigulu Development Group, refused to participate. This institution was to be the “challenge SACCO” in the Eastern region. The manager and BOD of the institution declined to make a formal comment for the study.

The field visits to the control group SACCOs included interviews of the management team and, in some cases, members of the Board of Directors. The research team collected financial data for two of the three control SACCOs.

FOCUS GROUP DISCUSSION

The research team compiled a list of research questions regarding members’ perceptions of the SACCO for institutions that received external funds. In particular, the researchers wanted to know if the following things changed after a SACCO accessed external credit: members’ perceptions of the ownership of the institution; members’ attitudes towards debt and towards savings; members’ perceptions on the repayment of loans from outside sources; and, their attitudes toward loan repayment to the SACCO.

The FGDs had an average of six participants, both men and women. The consultant used an interview guide prepared for him by the Principal Researcher and also employed Participatory Rapid Assessment tools including brain storming and preference ranking to

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3 In some instances, the SACCO was not able to produce the requested statements and documents to the research team. In these cases, the research team collected copies of the statements and documents available.
help participants express their views of wholesale borrowing and its effect on the performance of SACCOs.

In total, the consultant met with 78 SACCO members in 12 FGDs.

Table 2: Focus Group Discussion Schedule

<table>
<thead>
<tr>
<th>SACCO</th>
<th>Date</th>
<th>Respondents</th>
<th>Groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kijura SACCO</td>
<td>5th July 2006</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>Ikongo SACCO</td>
<td>6th July 2006</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>Buzaaya SACCO</td>
<td>11th July 2006</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>Zeu SACCO</td>
<td>26th July 2006</td>
<td>17</td>
<td>2</td>
</tr>
<tr>
<td>Panyimur SACCO</td>
<td>27th July 2006</td>
<td>14</td>
<td>2</td>
</tr>
<tr>
<td>Bunyaruguru SACCO</td>
<td>2nd August</td>
<td>16</td>
<td>2</td>
</tr>
<tr>
<td>Bushenyi Peoples SACCO</td>
<td>3rd August</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>78</td>
<td>12</td>
</tr>
</tbody>
</table>
FINDINGS

The findings presented in this section result from our experience in the field and from interviews conducted with various SACCO experts, wholesale lenders, apex institutions and donor agencies in Uganda. In many instances, the data collected in the field were inconsistent and inadequate. Generally, the financial data kept by SACCOs proved to be the most unsatisfactory. While the financial records kept by many individual SACCOs are inaccurate and incomplete, we were able to fill gaps and test conclusions by conducting multiple interviews within SACCOs, and compare records kept by the SACCOs with those of the wholesale lenders. Also, some SACCOs have consistently kept good records over several years. For this reason, the research team is confident that the findings presented in this section are reasonably reliable and apply broadly to most institutions.

The findings show that wholesale credit affects SACCOs in a variety of ways. This section will present the range of experiences observed in the field in order to provide a detailed understanding of the effects of wholesale lending to SACCOs. The section also details illustrative experiences of individual SACCOs.

The findings refer to the seven in-depth field visits conducted with Bunyaruguru SACCO, Bushenyi People’s SACCO, Butaaya SACCO, Ikongo SACCO, Kijura SACCO, Panyimur SACCO, and ZEU SACCO. Where relevant, we include findings from the control group visits to Bugoni SACCO, Focused Community and Kajara People’s. Further information gathered in the five additional field visits to Kyamulungu SACCO, Muhame SACCO, Nyaruvu SACCO, Pakwach Nam SACCO and Shuuku SACCO is presented in text boxes where relevant.

GENERAL FINDINGS

Introducing the SACCO to Wholesale Lending

In four of the seven SACCOs visited, the regional staff of the wholesale lender visited the SACCO to introduce the concept of wholesale borrowing to either the SACCO manager or Board of Directors. The representative explained the wholesale lender’s operations and invited the SACCO to apply for a loan. Bunyaruguru SACCO’s BOD told us that if the wholesale lender had not visited the SACCO, they would not have considered borrowing external funds.

In the remaining three instances, the regional Private Sector Promotion Centre (PSPC) introduced the idea of wholesale borrowing to the SACCO management or Board of Directors. Each of the SACCOs we visited maintains a partnership with the PSPC and the PSPC is often acknowledged for helping the SACCO form years earlier. The regional PSPCs have formed relationships with MSC to help the latter promote wholesale borrowing among the SACCOs.
Reasons for Accessing Wholesale Loans

The most common reason SACCOs had for accessing wholesale loans was simply to increase capital for lending. Many SACCOs insisted the client demand for loans far exceeded the accessible supply of loan funds. The manager of Kijura SACCO believed a wholesale loan would help ease cash flow management since members could preserve their savings balance while still accessing loans from the external credit fund. Ikongo SACCO and Kijura SACCO both admitted it would be better to lend the SACCO’s funds but when they did not mobilize sufficient savings and shares to satisfy the growing demand for loans, they applied for wholesale loans from MSC.

In addition to using wholesale funds to help satisfy the demand for loans, SACCOs accessed external credit to generate more institutional income. Buzaaaya SACCO anticipated the external credit would improve the SACCO’s income earned from interest on new loans and membership fees from new members. Other institutions borrowed wholesale funds in order to increase membership since individuals would be drawn to an institution with accessible funds for loans. Several managers informed us that the majority of SACCO members joined the institution with the intention of accessing loans and if the supply of loans does not satisfy the demand, members withdraw their savings and move to a SACCO with excess liquidity.

SACCO Repayment to Wholesale Lender

Of the seven SACCOs we visited, three have paid back or are currently repaying the wholesale loan well, with no late payments. These SACCOs (Bunyaruguru SACCO, Ikongo SACCO, and Panyimur SACCO) have repaid the interest on the wholesale loan using interest earned from the disbursement of the external credit to their members. Bunyaruguru SACCO clearly monitors the interest earned on the wholesale loan as well as the costs incurred to manage the credit. The SACCO calculates the interest earned on the wholesale loan separately from interest earned on loans made from savings deposits and share capital in order to track how profitable the external loan has been for the SACCO.

Kijura SACCO, considered a success since it promptly repaid both loans to the wholesaler has, in fact, used share capital to repay several loan installments. The members have been informed of this. While the SACCO is uneasy with using member share capital to repay the wholesale loans, the manager was clear that he does not want to default on an external loan because having access to wholesale funds allows the SACCO to grow.
At the time of SACCO selection, Buzaaya SACCO was considered a success because of its prompt repayment to the wholesale lender. Despite serious long-term management and governance issues, the SACCO repaid interest and principal for several months. However, the SACCO has fallen into arrears on its external loan since the time of SACCO selection. During our visit with the manager, she explained that share capital had been used to pay the initial instalments. Members are not aware that this was done. Two members of the BOD have outstanding loans, both of which are in default. The wholesale lender has denied the application for a second loan until the Portfolio at Risk (PAR), currently 57%, improves and the Board Members return to good standing.

Bushenyi People’s SACCO completed repayment of both wholesale loans disbursed by MSC. The manager of Muhame SACCO, a SACCO located in Bushenyi District, informed the research team that Bushenyi People’s SACCO borrowed UGX 10 million from Muhame SACCO in order to finish its repayment to MSC. Bushenyi People’s SACCO concluded the second MSC loan four months after its scheduled termination date. The SACCO BOD has been accused of improper financial practices by the members and management. MSC has refused subsequent loan applications from the institution because of the dishonest record keeping, lending policies, and governance procedures.

As of March 31, 2006, ZEU SACCO had repaid 81% of its commercial loan and 56% of its agriculture loan, both from MSC. Unfortunately, it has not been making regular interest and principal payments and is currently experiencing arrears rates on its loans from MSC of 64% (commercial loan) and 78% (agriculture loan). The SACCO’s BOD is committed to repaying both wholesale loans in their entirety and has put pressure on the management team to recover the delinquent portfolio. The SACCO recently began seizing members’ collateral in order to make payments to the wholesale lender.

The eighth institution chosen for in-depth field visits, Kigulu Development Group, received two loans from the wholesale lender. Kigulu Development Group received two loans from MSC in July 2001. The institution made several payments of principal and interest but defaulted on the remaining balance.

Sensitization of Members Regarding the Source of the Funds

All of the SACCOs interviewed expressed concern regarding the source of the funding and their members’ perceptions of the external supplier. In anticipation of potential problems of members misunderstanding their obligations to repay the funds, several SACCOs implemented consumer education and member sensitization programmes. Ikongo SACCO conducted workshops with members to explain the relationship of the wholesale lender to the GOU and the need for the SACCO to repay the external funds in full. In February 2006, representatives from MFPED visited the SACCO to offer the SACCO an additional UGX 5 million. Because of the impending elections, the SACCO manager and BOD declined the
funds, explaining to the governmental officials that the members of the SACCO might perceive the funds as *entandikwa*.4

The management of Buzaaya SACCO did not sensitize members prior to disbursement of the wholesale loan to its members. The SACCO discovered many of its members considered the loans to be *entandikwa* or government handouts and as a result members have generally not repaid those loans disbursed after the external funds came in. Buzaaya SACCO’s management has struggled post-disbursement to educate members on the differences between RMSP and previous government lending schemes and other social programs.

The Chairman of the BOD of Panyimur SACCO voluntarily submitted his business, a hotel in Nebbi, as collateral for the wholesale loans in the hopes it would demonstrate his confidence in the SACCO and his commitment to full repayment. He and the BOD members continually sensitize members about the source of the external credit during church meetings and local council meetings, at social events, and in the waiting room of the SACCO.

**Box 1: The Experience of a SACCO that Ceased Using Wholesale Credit**

Shuuku SACCO accessed two wholesale loans in 2002 from two different lenders: MSC and the Stromme Foundation. While the SACCO did not plan on administering two external credits at the same time, it accepted and managed to repay both without difficulty. The BOD decided there was no longer need for additional loan funds because the SACCO had mobilised enough savings and share capital. The SACCO has seen considerable growth over the past four years, pays 2% annual interest on deposits and offers loans at 2.5% per month declining balance – a lower interest rate than all the other SACCOs we visited. Since 2004 the SACCO has not used external funds and does not plan on accessing wholesale credit in the near future.

*Future Wholesale Loan Access*

Only one SACCO, of seven, expressed reservations about accessing future funds from the wholesale lender. The BOD and management team of Ikongo SACCO debated whether the SACCO needs access to more external funding. The manager expects to apply for additional funding from MSC but members of the BOD admit they would prefer the SACCO lend available savings and share capital. To date, Ikongo SACCO has not applied for an additional wholesale loan.

The remaining six institutions have completed applications for future loans or have expressed interest in accessing loans. ZEU SACCO plans to apply for additional loans in the future but at the moment, the SACCO is focusing on recovering bad loans. The remaining five SACCOs have all completed applications for subsequent loans.

Bunyaruguru SACCO has received two loans. One loan was completed in June 2004 and the second loan is expected to be completed by March 2007. The SACCO’s third loan application was recently approved by MSC and the SACCO is awaiting disbursement of UGX 30 million. The manager explained the SACCO’s intention is to be self-reliant and the AGM recently resolved not to rely solely on external funds. As a result, members are required to purchase

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4 *Entandikwa* means “start up.” The Ministry of Gender, Labour and Social Development (MGLSD) lent UGX 9.92 billion to thousands of poor people with the announced intention of improving their economic status. However, this lending scheme was marred by corruption and non-repayment of loans.
more shares every time they apply for a new loan so the SACCO can expand its share capital and, thus, available loan funds.

Bushenyi People’s completed two wholesale loans, applied for a third loan and expected to receive the loan shortly after the application was submitted. When the third external credit was not approved, because the repayment rate declined to 60% and because the SACCO does not use the PMT, the BOD applied, and received, two loans from other SACCOs in Bushenyi District. The Chairman of the BOD maintains the third loan from the wholesale lender will be approved but, in the meantime, the SACCO can expect funding from the GOU. He explained, “During the elections, the Government promised rural microfinance institutions government money. We are waiting for that.”

Buzayya SACCO’s application for a second loan was declined because of the SACCO’s weak management and governance structures and poor portfolio performance. Buzayya SACCO has maintained communication with the wholesale lender and anticipates approval for the second loan, though MSC said it has no immediate plans to approve Buzayya SACCO’s loan request.

Kijura SACCO applied for a third loan of UGX 30 million. The demand for loans continues to exceed available capital and members are continuing to increase their voluntary savings. The SACCO is committed to growth through savings and plans to repay the third loan using interest earned from disbursed loans and not member share capital.

Panyimur SACCO currently has two outstanding wholesale loans and applied for a third loan on 3 July 2006. The manager believes the first two wholesale loans were too small and the SACCO needs a larger loan to accommodate all the members who demand loans. The SACCO is planning for future financial sustainability and believes a larger external loan will help them attain their goal.

**Changes in Policies**

*Change of Orientation of SACCO*

Several managers observed a change in the orientation of the SACCO after the injection of external credit. Prior to accessing external funds, ZEU SACCO focused its initiatives on mobilizing voluntary savings and share capital from members. However, the institutional orientation changed to disbursing loans and collecting compulsory savings after the injection of wholesale credits. In a similar way, Buzayya SACCO was savings-oriented prior to receiving a wholesale loan but then focused its attention on disbursing loans to old and new members. This change was due in part to the increase in membership and the demand by new members for loans and not savings products.

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**Box 2: Change in Savings Culture**

“People have been encouraged to save. At first we were saving at home and we could use the money because it was all the time available. But now when it is in the bank you can have an excuse of not using it. Before this bank was here I had never touched UGX 200,000 at a go as my money. I was encouraged to save and one time I was told I had UGX 300,000. I was so happy that the following day I prepared and withdrew UGX 250,000 and took it home as a blessing because this was the highest amount ever in the house. The following day I brought it back for safe custody in the bank. Now I think I have about UGX 470,000 or more but I don’t know exactly. I am waiting until they will tell me that I have UGX 1 million and then I will take blessing this time as a millionaire.”

-- Female Member, Panyimur SACCO
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While the weaker institutions we visited experienced this shift from savings to credit, the stronger SACCOs, like Panyimur SACCO, maintained a focus on savings before and after the injection of the wholesale loan. This is not to say, however, that the stronger SACCOs do not also focus on loan disbursement, but the importance of a strong savings culture has not changed as a result of the wholesale loan.

Changes in Reporting Requirements

The major institutional policy changes were a result of the reporting requirements for the wholesale lender. Wholesale lenders, like donor agencies, require a recipient to monitor its institutional performance on a regular basis. In most cases, the SACCO produces monthly or quarterly statements that illustrate the financial condition, portfolio quality and growth of the SACCO. One monitoring requirement for SACCOs that have received wholesale credit is an appropriately aged portfolio according to PMT standards. Some wholesale lenders also expect borrowers to provision for loan losses.

None of the SACCOs we visited except for Ikongo aged the loan portfolio or provisioned for loan losses prior to accessing external wholesale credit. Four SACCOs of seven began to age the loan portfolio after receiving a wholesale credit. In several of these instances, it was the wholesale lender who trained the SACCO management to do this.

Most SACCOs in Uganda do not provision for loan losses according to the aged portfolio, a practice that is necessary to provide management and members with an accurate picture of the profitability and worth of the SACCO. Instead, SACCOs that do provision for bad loans tend to provision a fixed percentage of the total loan portfolio or a fixed net amount (i.e. 500,000 UGX per year). The only two SACCOs to provision for loan losses according to the aged portfolio are the two that have not borrowed external funds: Kajara People’s SACCO and Bugongi SACCO. UCA trained the managers on this topic and supported managers in both institutions to improve the aging and provisioning systems.

Three of the SACCOs we visited provision a fixed percentage of the loan portfolio for loan losses once a year. The loan loss provision percentages range from 2% to 5%. Panyimur SACCO provisions a somewhat arbitrary fixed amount of money (UGX 1,000,000) for loan losses that is not dependent on the loan portfolio or its quality. Finally, Ikongo SACCO, the only institution to age the loan portfolio prior to accessing a wholesale loan, does not provision for loan losses at all. Of the four that provision for bad loans, two did so prior to accessing external credit and two implemented the practice subsequent to the receipt of the wholesale loan and acquiring training on the subject.

Change in Loan Products

All of the SACCOs that received wholesale credit continue to offer the same loan products as previously. The majority of loans disbursed before and after the injection of the external funds is to individual members while groups and institutions also receive loans from SACCOs.
Panyimur SACCO has offered, and continues to offer, both individual and group loan products. Prior to receiving a wholesale loan, individual loans accounted for the majority of the loan portfolio but demand for group loans has been increasing. Demand for group loans now exceeds the demand for individual loans and so the SACCO has decided to begin targeting more groups for loan products. While the individual loan will continue to exist as an available loan product, the manager revealed the policy decision to focus on providing groups with credit and other financial services.

*Change in Collateral Requirements*

Most of the seven SACCOs interviewed for this study did not change the collateral requirements for members. However, after the injection of the wholesale loan, the management of Bunyaruguru SACCO intensified the collateral requirements for all members and members. While the loan appraisal process has not changed, stricter collateral is required to access larger loans.

*Change in Share Capital, Savings and Loan Linkages*

Several SACCOs revised their financial policies in the years since receiving external credit. While the impetus for these changes was not necessarily attributed solely to the wholesale loan, several SACCOs changed the relationship between members’ share capital, savings and approved loan amount. In Bunyaruguru SACCO, for example, members are now required to purchase an additional share every time they apply for a loan. This deliberate increase in share capital is used to increase resources for on-lending as well as to increase members’ sense of ownership and investment in the institution. Bunyaruguru SACCO sees this new initiative as a way to reach self-sufficiency and sustainability, although it increases the effective cost of borrowing substantially.5

Several SACCOs have instituted new policies whereby the amount of shares one owns directly relates to the size of the loan the member may receive. This policy, observed in Ikongo SACCO and Panyimur SACCO, as well as several of the additional SACCOs we visited, also

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5 Bunyaruguru SACCO changed the interest rates for its retail loans after receiving a wholesale loan. Prior to the external credit, interest charged was 5% per month flat. Currently, the interest rate is 4% per month on declining balance, approximately half the previous effective rate. So even though the interest rates were reduced, members are now forced to purchase additional shares, thereby offsetting the reduction in interest rates described above.
helps the SACCO expand its capital base for the purpose of increasing the loan fund.

**Changes in Practices**

Several SACCOs changed managerial practices after receiving wholesale credits from external sources. At times, these changes were implemented by choice to improve the efficiency or growth potential of the institution. In other instances, changes in practices were results of external factors or pressures.

*Changes in loan amounts*

There has been an increase in the average loan amounts among the more successful SACCOs. In the past, the maximum loan sizes of Ikongo SACCO, Kijura SACCO, Panyimur SACCO and Bunyaruguru SACCO were UGX 1 million, 300,000, 1.5 million, and 1 million, respectively. Currently, members can access loans of up to UGX 2 million in Ikongo SACCO, 2 million in Kijura SACCO, 3 million in Panyimur SACCO, and 5 million in Bunyaruguru SACCO. The managers reason that the increase in available loan size is a direct result of the increased loan capital brought in by the external credit.

**Table 3: Changes in Loan Amounts, Before and After Wholesale Credit**

<table>
<thead>
<tr>
<th>Changes in Loan Amounts</th>
<th>Before Wholesale Loan</th>
<th>After Wholesale Loan</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bunyaruguru SACCO</td>
<td>1,000,000</td>
<td>5,000,000</td>
<td>400%</td>
</tr>
<tr>
<td>Ikongo SACCO</td>
<td>UGX 1,000,000</td>
<td>UGX 2,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>Kijura SACCO</td>
<td>300,000</td>
<td>2,000,000</td>
<td>567%</td>
</tr>
<tr>
<td>Panyimur SACCO</td>
<td>1,500,000</td>
<td>3,000,000</td>
<td>100%</td>
</tr>
</tbody>
</table>

Surprisingly, the maximum loan amount decreased in several institutions, and in some instances, SACCOs temporarily suspended offering loans to members after the injection of the wholesale loan because of deterioration of the quality of the loan portfolio. It goes without saying that a SACCO that suspends its lending operations will immediately deprive itself of its principal source of income, and will soon lose the confidence of its members. Restriction of the credit operation, even if temporary, can be a severe negative outcome of wholesale lending.

The maximum loan amount in Bushenyi People’s SACCO prior to accessing external funds reached UGX 1,000,000; currently, the maximum loan disbursed does not exceed UGX 300,000. Buzaaya SACCO, which accessed a wholesale loan in May 2005 and has experienced considerable trouble repaying the credit to the wholesale lender, has suspended lending to members indefinitely. The SACCO allows members to deposit savings in the hopes it can rebuild its capital base, but the risk that depositors will lose their savings in this case is great. A similar situation is true in ZEU SACCO where the SACCO continues to take savings deposits but has only disbursed two loans with a total loan balance of UGX 600,000
in 2006. ZEU SACCO is focusing on recovering bad loans while slowly restoring its voluntary member deposits and share capital stock.

Changes in loan approval processes and quality of loan appraisal

Almost every SACCO we visited maintained its method of conducting loan appraisal and loan approvals. Generally, members are required to complete a loan application form and meet with the loans officer to appraise the member’s income generating activity, repayment potential, collateral options, and standing with the SACCO. Most SACCOs employ a fairly traditional loan appraisal process for each of the loan products they offer. However, two SACCOs experienced difficulties with specific agriculture loans they received from the wholesale lender for different reasons.

In the first case, Panyimur SACCO said MSC did not provide the promised capacity building or training to the SACCO and its members when it received an agriculture loan. The SACCO had selected and pre-approved members to receive training and subsequent agriculture loans but when the training was not offered before the loan was disbursed to the institution, the SACCO says it was forced to change its lending procedure. Before accessing the wholesale loan, the SACCO had not issued agriculture-specific loans to its members. The manager, therefore, hired a service provider to train the potential agriculture members. Those members that attended the training session were eligible to receive an agriculture loan from the wholesale funds. While the training was not comprehensive and only lasted one day, it did allow the SACCO to disburse loans from a new loan product with some confidence.

In a similar situation, ZEU SACCO received an agriculture loan from MSC without the accompanying training. The manager of ZEU SACCO said he was pressured by the wholesale lender to disburse the agriculture loan quickly. This external pressure, he said, led the SACCO to do poor appraisal of members and, as a result, to make several bad loans. The management team cites the inadequate loan appraisal and disbursement process as the cause of ZEU SACCO’s poor loan portfolio and troubled repayment to the wholesale lender. The BOD of this institution and the wholesale lender attribute the poor performance of the agriculture loans to inadequate and possibly dishonest client appraisals done by the loans officer.

Changes in loan repayment to SACCO

Overall, the available loan repayment data of the SACCOs is inadequate. The majority of SACCOs in this study, as explained above, did not keep
portfolio quality and aging reports prior to accessing wholesale loans. While some of the institutions now track delinquency and repayment of loans from members, there is little quantitative data to confirm the change in loan repayment to SACCOs. The available information on this topic is anecdotal.

Three of the seven SACCOs interviewed in detail for this study claim that repayment rates improved after the institution accessed external funds. These SACCOs cited several different reasons for the improved portfolio quality:

1. The SACCO did not inform members whether loans accessed were from external credit or member savings and share capital. This unknown led members to repay well so as to avoid losing their personal investments.
2. The SACCO sensitized the members regarding the source of the funds. The external borrowing was transparent and members understood the loan conditions. Members improved their repayment rates for fear that the SACCO would collapse if they defaulted, causing the SACCO to default on its repayment to the wholesale lender.
3. Because of the external funds, some SACCOs were able to disburse larger loans to stronger members, thereby improving portfolio quality.

In some instances, loan repayment worsened after the injection of the wholesale loan. Panyimur SACCO, a generally well-performing SACCO, noted a decline in its repayment rate and an increase in the portfolio at risk (PAR). The repayment rate decreased from approximately 85-90% to 75-80% while the PAR increased from 5% to 7-10%. The manager noted that the large increase in the SACCO’s loan portfolio occurred too quickly. This rapid increase in loan portfolio made manual loan tracking difficult.

ZEU SACCO had a strong repayment rate prior to accessing wholesale loans. But member attitudes changed after the injection of the wholesale loan and default rates increased. The manager said that people who had previously taken four loans and repaid them without a problem took a fifth loan and suddenly defaulted after the wholesale loan arrived.

The loan default rate of Buzaya SACCO also increased after loans were disbursed from the external credit fund. Several members of the BOD took loans from the wholesale credit fund and defaulted. At the same time, no client sensitization was done and many members perceived the new funding as a government grant.

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Some portfolio quality data was available for these three SACCOs. The financial records of one of the SACCOs contradicted management’s claim that its repayment rate improved after the injection of the wholesale loan: in fact the client default rate increased by almost 15% after the wholesale loan was accessed.
MEMBER PERCEPTIONS

These findings result from the FGDs conducted by the Isaac Galiwango, a MicroSave trained Ugandan consultant.\(^7\)

Ownership

The FGDs found that prior to accessing external funds for on-lending, members perceived the SACCO to be theirs. However, members’ perceptions of ownership after the SACCO accessed an external loan changed depending on the success of the SACCO. The SACCOs using interest earned from the external credit to maintain on-time repayment to the wholesale lender have members with a strong sense of ownership. These members are proud of the institution and its financial success. Members in these institutions (Bunyaruguru SACCO, Ikongo SACCO, and Panyimir SACCO) continued to invest in the SACCO by depositing voluntary savings and purchasing shares.

The SACCOs having difficulty in repaying the wholesale loan to the lender or that use share capital or savings to make on-time repayments to the wholesale lender have members that often feel as though the SACCO belongs to those in positions of leadership or control. The members of Bushenyi People’s SACCO clearly explained that the SACCO “no longer serves its members”; instead, the members believe the BOD and a select group of their “comrades” benefit from the services of the financial institution. Several members stated that to access a loan from the SACCO, one has to receive approval from a member of the BOD. Members of this institution no longer have a sense of ownership and many of them have moved their personal finances to other SACCOs in the District.

In Busaaya SACCO the FGD participants explained that since receiving a wholesale loan, teachers have taken over the SACCO so they can manage it differently and shift the focus from rural peasant farmers (the founding members) to teachers. Members are not aware that the wholesale loan is being repaid using share capital yet they still feel as though the SACCO currently belongs to the BOD and close associates.

Demand for Loans

In each of the SACCOs visited, members commented that the demand for loans prior to accessing external funds exceeded the available supply of loan funds. Members explained they could access small loans for short periods of time but it was often common for members to wait long periods of time between loan approval and loan disbursement. Members reported that demand for loans increases after a SACCO receives a wholesale loan because members are aware there is more accessible capital. As a result of the external funds,

\[\text{Box 4: Savings Mobilization as a Path to Increasing Loan Funds: Part I, Ikongo SACCO}\]

In 2006, Rural SPEED collaborated with Ikongo SACCO on a savings mobilization campaign. Of the UGX 37 million given to Ikongo SACCO by Rural SPEED as institutional support, UGX 26 million was spent on the savings mobilization program. Within four months, the SACCO raised 1,000 new members resulting in increases in savings of UGX 25 million and share capital of UGX 14 million.

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\(^7\) A detailed report of the FDG findings is available from the author of this report.
members increase their requested loan amounts. In general, the number of loans demanded increases in addition to the sizes of loans requested.

Savings

For some SACCOs, external loans have been an important force behind increased savings mobilization. In Bunyaruguru and Panyimir SACCOS, for example, members reported an increased community interest in saving personal funds. Members said the increased savings rate was most often a result of the improved confidence in the institution. After a government agency (MSC) identifies and selects a SACCO as a partner organization for wholesale loans, members of the community have added trust in the institution. A member of Bunyaruguru SACCO commented, “if the government has trusted this institution and put there 10 million, why should you fail to trust it with your 1 million shilling... and if individuals of 1 million can save here why not me of one hundred thousand…” In this way, members see the wholesale loan as an important campaigning tool for savings mobilization of current and new members.

<table>
<thead>
<tr>
<th>Box 5: Savings Mobilization as a Path to Increasing Loan Funds: Part II, Kajara People's SACCO</th>
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</thead>
<tbody>
<tr>
<td>In 2003, Kajara People’s SACCO completed an application for a wholesale loan from MSC. The then loans officer encouraged them not to because she was concerned about the potential effects of the credit on the SACCO. Entandikwa had already been disbursed in the region and she was convinced members would see a wholesale loan as a form of Entandikwa. At the time, savings and share capital were increasing, members were paying back loans on time, and members were “smart and using fixed deposits.” The loans officer asked the manager for four months to improve and grow the SACCO more. She focused on recovering loans and sensitizing members to save more and purchase more share capital. Total savings grew by over 100%, share capital increased by over 150% and membership grew 80%. Because of the large increases in savings and capital, the SACCO did not need to access a wholesale loan. The loans officer was promoted to manager and Kajara People's SACCO continues to be highly capitalized. The SACCO has no intention of borrowing external credit in the future. Instead, it plans to satisfy loan demand through member savings and share capital.</td>
</tr>
</tbody>
</table>

Loan Repayment

Loan repayment was a highly discussed topic during the FGDs. Members in more successful SACCOs were motivated to repay by the belief that good repayment would lead their SACCO to access larger loans from outside. Similarly,

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8 Members of several SACCOs mentioned the FOCCAS failure in Mbalé and expressed concern that a similar situation could happen in their SACCO. The collapse of FOCCAS was widely publicized in the media.
some members improved their repayment rates in order to help the SACCO avoid problems with the wholesale lender.

Kijura SACCO did not inform members whether their loans were disbursed from the institution’s capital base or the external loan. This ambiguity motivated some members to repay the loans well or better than in the past because they were uncertain whether the loan came from their personal savings or the external funds. Members wanting to maintain the strength of the institution by preserving the voluntary savings repaid loans thoroughly.

Bunyaruguru SACCO informs its members of the source of the loans disbursed. According to the members, the result is that they repay better than previously. Those members that accessed loans from the external credit source maintained superior loan repayment because they believed good repayment of loans from the wholesale loan would lead to future funding for the SACCO. At the same time, the members accessing loans from the share capital and savings funds improved their repayment rates because they also believed this would help the SACCO access additional funds in the future.

**FINANCIAL PERFORMANCE**

The effect of wholesale lending on the financial performance of the institution is important to note but difficult to determine. Many of the SACCOs we visited keep inconsistent financial and portfolio records that vary in quality from year to year. In addition, many of the SACCOs we visited did not keep reliable statements prior to accessing wholesale loans, and ascertaining the effects of the wholesale loan on the SACCO is difficult in the absence of baseline information. To the best of our abilities, we have analyzed the effects of the wholesale loan on the financial performance of the institution based on a number of indicators. Where relevant, we compare the changes in the six SACCOs that have received external credit and provided financial data to the two control SACCOs that provided financial statements.

The effects on financial performance relate to the change over the 12 month period from the last financial end-of-year before the SACCO accessed its first wholesale loan to the first financial end-of-year after the loan was disbursed. Note that SACCOs received wholesale loans in different years from 2001 to 2005. The changes in financial performance for the control group of SACCOs relates to the 2002-2003 financial year. In an attempt to compare like institutions, the research team decided to use 2002-2003 data for the control SACCOs. At this time, the membership sizes of the control SACCOs were similar to the sizes of the SACCOs that received external funding.

![Picture 5: Tracking Performance, Bugongi SACCO](image)
Membership

All SACCOs, both those that received an external credit and those that did not, experienced a growth in total membership over a one-year period. Percentage increases of membership ranged from 24% (ZEU SACCO) to 274% (Ikongo SACCO). The average increase in membership over the defined period for SACCOs that accessed external credit was 87% while the average for the control group was 60%. The average increase in membership for SACCOs receiving loans was 548; the average increase for the control group was 708.

Total Assets

WOCCU recommends SACCOs experience a growth in total assets that is more than the inflation rate. Over the last six years, the inflation rate has fluctuated between -.32% and 7.83%. In general, total assets increased for the SACCOs. However, Bushenyi People’s SACCO experienced a 23% decrease in total assets and Bunyaruguru SACCO saw a 4% decrease in its total assets from the year before the external loan was accessed to the subsequent year. The remaining SACCOs that accessed wholesale credit saw increases in total assets of between 95% and 229%. The average change in total assets was 91%. The control SACCOs, Kajara People’s and Bugongi, saw increases in total assets of 140% and 162%, respectively. The average increase in total assets for SACCOs receiving loans was UGX 24,492,855; the average increase for the control group was UGX 101,413,794.

Total Savings

The majority of total savings increased during the period. Bushenyi People’s SACCO saw a 87% decrease in savings while Bunyaruguru SACCO experienced an increase in savings of 29%, the lowest positive figure, and Kijura SACCO’s total savings increased by 401%. The average increase in savings for the SACCOs with wholesale funding was 57% while the control group saw an average increase of 121%. The average increase in total savings for SACCOs receiving loans was UGX 11,354,271; the average increase for the control group was UGX 46,702,614.

Member Shares

Member shares of the SACCOs with external credit did not increase across the board. Kijura SACCO experienced a decrease in member shares of 10%, although this was due to a non-standard accounting practice, and does not accurately reflect the evolution of the SACCO’s assets. Bunyaruguru SACCO only saw an 8% increase in member shares while Panyimur SACCO’s member shares increased by 74%, the largest increase. The control group SACCOs experienced a much larger increase in member shares: Kajara People’s SACCO had an increase of 152% while Bugongi SACCO saw a 209% increase. The average increase in share capital for SACCOs receiving loans was UGX 2,740,082; the average increase for the control group was UGX 31,523,682.

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**Total Outstanding Loan Balance**

Only one SACCO experienced a decrease in its total outstanding loan balance: Bunyaruguru SACCO (-31%). The remaining five SACCOs with external funds saw increases in total outstanding loan balance. Ikongo SACCO, Kijura SACCO and Bushenyi People’s SACCO experienced huge increases of 504%, 598%, and 906%, respectively, while ZEU SACCO and Panyimur SACCO saw more modest increases of 81% and 89%, respectively. The total outstanding loan balances of the control SACCOs, Kajara People’s and Bugongi, grew 159% and 170%, respectively. The average increase in total savings for SACCOs receiving loans was UGX 22,417,176; the average increase for the control group was UGX 75,131,332.

**Overall Growth**

While expansion of individual statistics like total assets, savings and outstanding loan portfolio may give the impression of growth, it is important to consider the collective change of statistics over time. For example, an increase in membership may appear a good indicator of strength but is it as strong if total savings simultaneously decreases? The following graph shows the average growth in total outstanding loan balance, total savings and share capital for the six SACCOs that received wholesale credit and were able to produce some financial information. The graph also presents the same statistics for the two control SACCOs that produced financial data. While the average changes for all the SACCOs are positive, over the one-year period the control SACCOs show a larger increase in total outstanding loan balance (170%), total savings (121%) and member share capital (172%).

**Figure 1: Average Changes in SACCO Statistics Over One Year Period**

![Chart showing average changes in SACCO statistics over one year period.](chart.png)
We cannot, however, rush to argue that absolute growth is always a sign of strength and viability. In some instances, stability may indicate institutional strength.

WOCCU recommends growth in the loan portfolio should keep pace with the growth in total assets. If these maintain a similar rate of growth, WOCCU suggests that the SACCO will be able to maintain profitability. The following table indicates that varied relationships between loan portfolio and total assets.

**Table 4: Change in Loan Portfolio and Total Assets Over One Year**

<table>
<thead>
<tr>
<th>SACCOs</th>
<th>Loan Portfolio</th>
<th>Total Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bunyaruguru</td>
<td>-31%</td>
<td>-4%</td>
</tr>
<tr>
<td>Bushenyi People's</td>
<td>906%</td>
<td>-87%</td>
</tr>
<tr>
<td>Ikongo</td>
<td>504%</td>
<td>131%</td>
</tr>
<tr>
<td>Kijura</td>
<td>598%</td>
<td>229%</td>
</tr>
<tr>
<td>Panyimur</td>
<td>89%</td>
<td>117%</td>
</tr>
<tr>
<td>ZEU</td>
<td>81%</td>
<td>95%</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>358%</strong></td>
<td><strong>80%</strong></td>
</tr>
<tr>
<td><strong>Control SACCOs</strong></td>
<td><strong>Loan Portfolio</strong></td>
<td><strong>Total Assets</strong></td>
</tr>
<tr>
<td>Bugungi</td>
<td>110%</td>
<td>140%</td>
</tr>
<tr>
<td>Kajara People’s</td>
<td>46%</td>
<td>162%</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>78%</strong></td>
<td><strong>151%</strong></td>
</tr>
</tbody>
</table>

The increase in Ikongo SACCO’s loan portfolio did not coincide with the increase in its total assets, thereby violating WOCCU’s guideline. This may indicate future challenges for Ikongo SACCO if the management does not have the capacity to monitor and control the rapidly increasing loan portfolio or if the loan portfolio quality deteriorates. Kijura SACCO may have similar future challenges as its loan portfolio and total assets continue to increase at divergent rates.

Bunyaruguru SACCO, interestingly, experienced a decrease in loan portfolio and total assets in the first year after accessing external funds. During this year, total savings and membership increased. In the second year after having access to an external credit the SACCO had an even smaller loan portfolio but total assets were higher than ever. Total savings and membership also increased during this second year. While the data was not clear about why these changes occurred, the manager explained that a principal member of the SACCO had voluntarily saved a great deal of money in the SACCO in order to help stimulate the SACCO’s growth. When the SACCO was approved for an external credit, the member withdrew his savings. There was a significant time delay between the withdrawal of the member’s money and the disbursement of the wholesale loan to the members. During this period, new members joined the SACCO in anticipation of the new loan funds and deposited compulsory and voluntary savings in the institution. Therefore, total assets increased with the new savings deposits but the loan portfolio continued to shrink as the SACCO awaited the disbursement of the wholesale loan. Refer to Appendix VIII for a graph representing Bunyaruguru SACCO’s individual growth over the two years after it accessed wholesale funds.
Bugongi SACCO, on the other hand, saw similar increases in both loan portfolio and total assets. According to WOCCU’s recommendations, Bugongi SACCO is generally on target. However, the faster growth rate of total assets might indicate that potentially less profitable assets are growing faster than the loan portfolio.

The most important factor to consider, however, is the quality of growth. Increases in loan portfolio or total assets are not indicators of strength and viability if the quality of the portfolio is poor. If the increase in loan portfolio is due to many new loans or larger loans being disbursed to inferior members, the results will be serious.

**Quality of Portfolio**

As mentioned earlier, the quality of the loan portfolio is one of the most important indicators of financial performance and future profitability. Many of the SACCOs we visited began using the PMT after accessing wholesale loans, often because of the wholesale lender’s requirements. Unfortunately, though, many SACCOs do not have portfolio reports for the financial years before the injection of the first wholesale loan. Much of the information about the effects of the wholesale loan on the quality of the SACCO’s portfolio is anecdotal, and there are frequently differences in the opinions given by the BOD and management. The effects of wholesale lending on present and future loan portfolio are generally more difficult to measure than the effects on savings culture, profitability, and member attitudes.

**Additional Findings**

**Inter-SACCO Wholesale Lending**

The research team discovered a surprising development while in the field. Several large, liquid member-based institutions have extended lines of credit to other SACCOs in the region. For example, Muhame SACCO lent UGX 10 million to Bushenyi People’s SACCO in 2004 even after MSC denied Bushenyi People’s third loan request and advised Muhame to do the same. Bushenyi People’s SACCO used this loan to repay the final instalment of its wholesale loan to MSC. Muhame SACCO also extended credit to Kamkuzi SACCO and Rwebihuro SACCO. Bushenyi People’s SACCO was one month late on each payment to Muhame SACCO and repaid the final interest payment and principal four months late. Rwebihuro SACCO defaulted 100% on its loan to Muhame and relinquished the loan collateral to Muhame SACCO.

A number of other SACCOs are lending to one another. Shuuku SACCO, currently not borrowing external funds because of excess liquidity, extended a “social service” 12-month loan to Kyamuhunga SACCO with a 1.4% per month declining balance interest rate. While several of the SACCOs have maintained good repayment to the SACCO lenders, this practice is not endorsed by many as it is seen as risking member savings, especially when the SACCO borrower has already been refused loans from other prominent lenders.

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10 Normally, Shuuku SACCO charges 2.5% per month reducing balance to its members.
Capacity Building and Training

Many SACCOs receive capacity building and training of varying quality from multiple donor agencies, apex institutions and service providers. Unfortunately, the institutions providing the training do not often collaborate, resulting in SACCOs receiving training in the same areas from multiple sources. Often, the training is redundant or, worse, contradicts previous training SACCOs received on the same topic from a different service provider. Some institutions receive a large amount of training and capacity building while others receive very little. Frequently, the trainings are held for several days far from the SACCO’s location and distract the management and BOD. Additional capacity building constraints include a mismatch between prioritized needs and training, a lack of planned sequencing of trainings, a lack of accountability, and a lack of transparency and dissemination of results and findings.

Ikongo SACCO reports that it is now receiving support in the form of training, advice, fixed assets or grants from AMFIU, District Microfinance Committee, MSC, PRISEC (the PSPC serving its region), Rural SPEED, SNV, SUFFICE, UCA and UCSCU. While the abundance of assistance has been welcomed by the SACCO, the manager admitted that the training the SACCO receives from different institutions often overlaps. Other SACCOs said the trainings often required travelling to Kampala for several days and distracted the managers and BODs from SACCO activities.

Positive and Negative Effects of the Wholesale Loan

During the field visits with SACCOs that have accessed external funding, the research team asked SACCO managers, BOD, and members what the positive and negative effects of the wholesale loan(s) have been. Respondents gave a variety of answers, several of which recurred in each of the interviews. The following lists present the common positive and negative effects of wholesale lending as defined by the SACCO managers, BOD and members. Effects are presented in order of frequency of the response.

The positive effects are:
1. The loan portfolio increases, generating more income for the SACCO
2. Demand for loans is temporarily satisfied as more members can access larger loans
3. Membership increases, causing an increase in SACCO income from membership and entrance fees
4. Outreach expands as SACCOs serve new sub-counties, populations and markets
5. Share capital increases because new members join the SACCO hoping to access loans and because members are forced to
purchase additional shares for every submitted loan application
6. Community businesses see improvements and increases in business operations since entrepreneurs are able to invest in the business
7. Voluntary savings increase because people feel more confident in the institution
8. Loan sizes increase
9. Training from wholesale lender helps improve capacity and ability of institution and members
10. More individuals in the community are able to attend school and some attend higher levels of education as incomes and access to new or improved school fees loans increase
11. Professionals learn new skills because they, too, can borrow school loans to pay for institute courses, workshops or higher education
12. SACCO staff expands and management salaries increase because of new business/members

The negative effects are:
1. A misperception of the money source causes an increase in delinquency on member loans, especially when members view the external funds as political or government grant money
2. The SACCO’s costs and expenses increase because of the additional management needs associated with the wholesale loan
3. The SACCO conducts poor loan appraisal because of pressure from wholesale lender to disburse the loan to members quickly
4. The management of external funds and required performance monitoring and reporting to the wholesale lender requires extra time, effort and abilities
5. SACCO must spend additional time recovering new loans and especially agriculture or solar energy loans, which distracts management from necessary day-to-day activities
6. Members misuse funds when they do not receive training, sensitisation and capacity building to support the disbursed loan
7. Voluntary savings decrease because people have less confidence in the SACCO if it defaults on repayments to wholesale lender
8. The disbursement of the wholesale loan often occurs long after the application was submitted and does not always coincide with the business cycles of the SACCO members
9. Record keeping suffers because of the rapid increase in number of members and the lack of a computerized system
10. If the wholesale loan is smaller than current demand for loans from members, some members are left out and lose a sense of ownership of the institution
11. Interest rates charged to members increased

*Perception of Wholesale Lender*

While the SACCOs visited for this study differed on many levels, they all shared the opinion that MSC as a wholesale lender prioritizes repayment over development and growth. The SACCO managers we interviewed said MSC provides little training and advising for long-term sustainability. MSC lends funds to rural SACCOs and expects 100% repayment (principal plus interest) from the institution. These external funds are frequently disbursed...
without capacity building or training and, at times, are not very closely monitored. The SACCO managers said they would prefer if MSC worked with them on long-term planning and growth, specifically of membership, savings, and share capital. Several SACCO experts we interviewed shared this thought and explained they would like to see MSC and the other wholesale lenders assume more development institution roles.

Impetus for creation of SACCO

Given MSC’s recent initiative to financially support start-up financial institutions through the Government Plan to Enhance Rural Financial Services in Uganda, many SACCOs are being formed in order to access external, wholesale funds. Often these SACCOs are opportunistic and lack the core principles necessary to be a strong SACCO. SACCO experts are nearly unanimous in cautioning the government that SACCOs created in response to the availability of government funds are very likely to fail, and urge the government to concentrate on the creation of SACCOs using proven methods of SACCO formation, relying on training, membership consciousness raising, and savings.

Outgrowing the Need for External Funds

The research team only identified one SACCO in Uganda that borrowed wholesale funds and, upon completion of the loan, decided not to access subsequent loans for on-lending. Shuuku SACCO accessed two wholesale loans in 2002 from two different lenders: MSC and the Stromme Foundation. While the SACCO did not anticipate administering two external credits at the same time, it accepted and managed to repay both without difficulty. Upon completion of both loans, the BOD decided there was no further need for external loan funds because the SACCO mobilised sufficient savings and share capital. The SACCO has seen considerable growth over the past four years, pays 2% annual interest on deposits and offers loans at 2.5% per month declining balance – a lower interest rate than all the other SACCOs we visited. Since 2004 the SACCO has not used external funds and does not plan on accessing wholesale credit in the near future.

Control SACCO Planning to Borrow

Focused Community SACCO is a relatively young, small SACCO in Kawempe, a peri-urban area outside of Kampala. To date, it has not borrowed external funds for on-lending but the manager plans to submit an application to MSC next year. The SACCO faces enormous competition in the area as six other SACCOs serve the same parish and Stanbic Bank, FINCA, Faulu and several other financial institutions operate in the area. The manager and her team are trying to design new ways to mobilise savings but the SACCO is wary about recruiting new members, as “people just want credit.”

Picture 7: SACCO Sign, Focused Community SACCO
Focused Community SACCO attributes its high PAR (20%) to a demanding repayment schedule (weekly) and high interest rate on loans (7% per month declining balance.) The SACCO is receiving training from UCSCU in order to streamline operations and reduce administrative and operational costs but it sees external credit as a possible solution to its problems. A wholesale loan, according to the manager and members of the BOD, will not only provide capital for on-lending but will also attract new customers and potential members. An increasing membership means increasing membership fees and compulsory savings – both useful for on-lending and generating a larger portfolio. The SACCO does not acknowledge any potential hazards associated with wholesale borrowing except for the high interest charged by MSC.
CONCLUSIONS

Several principle findings emerged from the study.

1) **External funds will not help a weak SACCO become strong.** In fact, weak institutions that access wholesale credit for on-lending can potentially become weaker as a result of the external loan. Wholesale lenders risk doing more harm than good when they lend to SACCOs with weak management capacity, ineffective governance structures or a poorly performing portfolio. On the other hand, external credit, when used responsibly, may help a strong SACCO become stronger. If a SACCO shows good growth potential in addition to strong management and governance structures, external funds may help to improve the institution's performance.

2) **The injection of wholesale loans into a SACCO can impact the savings culture of the institution positively or negatively.** However, the use of external credit is not the only cause of an acceleration or deceleration in the savings rate. The change in a SACCO's savings rate (whether positive or negative) is more dependent on the management and governance structures and on the capacity building and support given to the SACCO by external agencies than the injection of external funds. In the weak SACCOs in this study, external credit changed the orientation of the institution from a savings-led SACCO to a loan disbursement institution resulting in a deterioration of the quality of the loan portfolio and amount of member savings. In stronger SACCOs, the orientation of the institution remained savings mobilization and the SACCOs demonstrated continued good portfolio quality and an increase in member savings.

3) **SACCOs can be quite successful without accessing external funds.** Two SACCOs in this study have shown sustained growth over time without the use of external funds. The success in both of these institutions comes from dedicated management and governance teams, sensitized members, strong financial policies, and consistent capacity building and training from outside sources. Neither SACCO plans to borrow external funds in the near future; instead, both SACCOs plan to continue mobilizing savings from their members and increasing the share capital in order to satisfy demand for loans.

4) Since problems in wholesale lending are closely tied to issues of governance and management, **the resources that are available for capacity building need to be used as efficiently as possible.** There is considerable anecdotal evidence of a lack of coordination among service providers leading to inequalities in the amount of technical assistance, redundancies and overlaps, contradictory messages, a mismatch between needs and assistance given, a lack of planned sequencing, lack of accountability and conditionality among recipients, and a disconnect between institutional assessments and assistance given. Just as certification is required for any activity where there is potential risk, whether for surgeons, drivers or airplane pilots, certification of some type should be required of management and governance bodies who take on the risks to their institutions, to their members and to wholesale lenders involved in wholesale debt.

5) **The wholesale lender requirements can lead to improvements in management practices, which can be of great value to the SACCO.** As a result of the need to
produce regular performance reports to the wholesale lender, many of the SACCOs have implemented monitoring and evaluation practices. Unfortunately, most SACCOs do not see the inherent value in these procedures for the enhancement of the SACCO. The aging of loan portfolios and provisioning for loan losses, for example, are seen as tedious or adding further costs and not improving the capacity and performance of the institution.

6) **SACCOs that sensitized their members about the non-political source of the external credit and the need for the SACCO to repay the loan were more successful in maintaining high repayment rates.** Unfortunately, some SACCO members who did not benefit from sensitisation programmes were negatively influenced by government politicians who presented the external funding as a government grant. In the cases where SACCOs did not sensitize their members, delinquency rates increased among the members who took loans from the external funding source.
RECOMMENDATIONS

This study led to seven principal recommendations:

1) **The wholesale lender should be more focused on helping the SACCO plan for the future so it can avoid having to rely on external funding for the long-term.** The wholesale lender whose responsibility is to “contribute to the social economic livelihood of the poor in Uganda” and to “assist them in generating income and employment opportunities” should assume a role more akin to an apex institution or development agency. A SACCO should see growth in share capital, savings and membership as a result of the injection of wholesale loans. The SACCO should be closer to self-sufficiency and sustainability because of the investments made with the external funds. However, this research team witnessed SACCOs with shrinking savings balances, stagnant share capital and disappearing members. The research team would like to see the wholesale lenders give more attention to the development and long-term growth of each of their partner organizations.

2) **Wholesale lenders should not lend to weak SACCOs as doing so is likely to do more harm than good.** Instead, wholesale lenders should identify strong institutions with growth potential and a need for external credit. As part of their initial due diligence work, wholesale lenders should identify areas where SACCOs (even “strong” SACCOs) need assistance improving management, systems and procedures and governance structures. Lenders able to provide grant funds for capacity building should ensure that these are directed to address a prioritized list of needs. Lenders without such complementary grant programmes should consider making approval of the loan conditional upon commitment by the SACCO BOD and management team to address these issues and monitor steps taken to honour that commitment.

3) **SACCOs and their partners should continue to encourage and promote a strong savings culture.** Increasing member savings over time is the surest way to attain sustainability. This recommendation can be realized through consumer education, incentive programmes, promotional campaigns and improvement and innovation of savings products and services.

4) **Wholesale lenders should not urge institutions with excess liquidity to borrow external funds.** SACCOs that can satisfy the demand for loans with savings and share capital should continue to do so. Lending member savings requires less administrative costs (both financial and human) than borrowing wholesale credit, and recourse to external loans carries substantial risks that the SACCO should not take on unnecessarily.

5) **Better coordination of technical assistance will improve wholesale lending performance.** We believe that better coordination is possible but will require a substantial investment. Development agencies have shown that they are willing to surrender some autonomy in exchange for greater efficiency in the case of steering

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12 Please see *Guidelines for Lending to SACCOs* below for our definition of a strong SACCO.
committees now successfully coordinating assistance in transformation, rating, VSLAs, and consumer education. However, in all these cases, volunteer labour of member organizations is insufficient to bring about effective coordination; full time professional staff reporting to the steering committees are necessary.

6) **Wholesale lenders should require regular performance monitoring and industry accepted reporting practices.** Wholesale lenders, in collaboration with apex institutions and donor agencies, should educate SACCOs that monitoring and reporting are more than just requirements for the wholesale lender; they can be beneficial tools for management. Wholesale lenders, apex institutions and donor agencies should also continue to coordinate to share and standardize the reports required of the SACCOs they lend to, in order to reduce SACCO administrative costs.

7) **Prior to accepting a wholesale loan, the SACCO should undertake a wide member sensitization programme about the source and implications of the funding.** SACCOs should clearly explain the origin and purpose of the wholesale loan so members understand the objectives and expectations. This also should be coordinated with various consumer education efforts already in place.

**GUIDELINES FOR LENDING TO SACCOs**

Wholesale lenders should not lend external funds to SACCOs with weak management capacity, ineffective governance structures and poorly performing portfolios. Strong SACCOs are identified by a number of characteristics. The research team has attempted to delineate these features in a short list. The seven items in this list should be seen as the links of a chain, in that weaknesses in any one of them can lead to SACCO failure. Lenders, in their rush to move money to SACCOs, should not be satisfied with positive indicators in some but not all of these areas.

1) **Strong Leadership.** It is no secret that a successful SACCO depends, to a large extent, on strong and dedicated leadership. Leadership refers to both the management team (manager, loans officers, cashiers, and accountants) and the BOD. The BOD is elected by the general assembly to represent the members and guide them to sound policy decisions. The management team implements policy decisions and monitors the performance of the institution. For these reasons, the members of the BOD and management team must possess a the following qualities:
   a. trustworthiness
   b. motivation
   c. accessibility
   d. technical capacity
   e. respect from the community

2) **Member education.** Members should be continuously educated about their rights and duties as SACCO members and informed of the performance of the institution in terms they can understand. Knowledgeable and involved members insure good governance, and only they can replace a poorly performing BOD.

3) **Consistent Performance Monitoring.** Strong SACCOs consistently perform institutional performance monitoring. International microfinance agencies and organizations have collaborated to develop several sets of microfinance performance
standards and benchmarks. In particular, the Performance Monitoring Tool (PMT), designed specifically for Ugandan institutions, focuses on institutional performance and allows the institution to produce report with relevant performance data. Lenders should be very cautious of any institution that is unable or unwilling to prepare and submit PMTs, and should periodically check to make sure that information being submitted correctly reflects the performance of the Sacco. Note that the frequency of reports varies; here are our recommendations for the frequency of reports.

a. **Daily Monitoring**. Portfolio and client monitoring should take place on a daily basis. Whether the loan tracking process is done manually or electronically, a member of the Sacco management team should produce daily internal reports on the quality of the loan portfolio.

b. **Monthly, quarterly and annual monitoring**. SACCOs should continuously review their institutional performance and produce regular income and expenditure statements, balance sheets, trial balances, and monthly portfolio reports. Auditing should be a regular component of the Sacco’s monitoring system. An elected internal audit committee made up of Sacco members not already sitting on the BOD should conduct monthly internal audits of the financial statements and an impartial third party should conduct the external audit annually. Larger SACCOs should seriously consider accessing the Local Rating Service, which provides comprehensive reviews of all aspects of the Sacco’s performance and structure. SACCOs should track portfolio quality indicators such as on-time repayment rate, portfolio at risk, loan loss reserve ratio and loan loss ratio on a regular basis. While there are various methods of calculation for these ratios, SACCOs should use these ratios as they are defined in the PMT.

4) **Clear, Transparent Policies**. SACCO policies should be clearly presented in written manuals and guides. Members should be made aware of financial policy changes at AGMs and by way of notices posted at the SACCO branch offices. All members should have equal access to policies regarding loan appraisal and disbursement, repayment procedures, savings accounts, interest rate calculations and other financial policies. Key documents should be translated into local languages, where those languages are widely read.

5) **Portfolio Quality**. SACCOs should have strong, well-performing loan portfolios prior to accessing external funds. A SACCO with a poorly performing portfolio will often experience more difficulties after receipt of an external loan. Important to note in this recommendation is that all SACCOs should age the loan portfolio and provision for loan losses according to the aged portfolio. These practices help reduce financial risk for the SACCO and allow the loans officer to track his portfolio. The practice of responding rapidly (within 24 hours) to late payments from members should be practiced by all SACCOs to ensure a strong portfolio.

6) **Membership in Apex Institution**. Apex institutions support SACCOs through informed advice and ample training on management, governance and other relevant topics. UCA and UCSCU are two well-established apex institutions in Uganda and both provide assistance to SACCOs, often through training and sometimes, in the case of UCA, through provision of fixed assets. SACCOs in Uganda should take advantage of the resources available at these institutions.
7) **Effective Expense Control.** A SACCO should have controllable and sensible expenses. SACCO management and leaders should work to keep the operational costs as low as possible so as to maximize the availability of funds for recapitalization.
## APPENDICES

### APPENDIX I: MATRIX OF SACCOs VISITED

<table>
<thead>
<tr>
<th>SACCO Name</th>
<th>District</th>
<th>Membership</th>
<th>Wholesale Lender</th>
<th>Number of Wholesale Loans Received</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SAMPLE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bunyaruguru SACCO</td>
<td>Busenyi</td>
<td>978</td>
<td>MSC</td>
<td>2</td>
</tr>
<tr>
<td>Bushenyi People’s SACCO</td>
<td>Busenyi</td>
<td>1040</td>
<td>MSC</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Muhame SACCO</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Mutara SACCO</td>
<td></td>
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<tr>
<td>Buzuaya SACCO</td>
<td>Kamuli</td>
<td>276</td>
<td>MSC</td>
<td>1</td>
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<tr>
<td>Ikongo SACCO</td>
<td>Kasese</td>
<td>1200</td>
<td>MSC</td>
<td>1</td>
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<tr>
<td><strong>CONTROL GROUP</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kigulu Development Group</td>
<td>Iganga</td>
<td>NA</td>
<td>MSC</td>
<td>2</td>
</tr>
<tr>
<td>Kijura SACCO</td>
<td>Kabarole</td>
<td>895</td>
<td>MSC</td>
<td>2</td>
</tr>
<tr>
<td>Panyimur SACCO</td>
<td>Nebbi</td>
<td>605</td>
<td>MSC</td>
<td>2</td>
</tr>
<tr>
<td>ZEU SACCO</td>
<td>Nebbi</td>
<td>545</td>
<td>MSC</td>
<td>2</td>
</tr>
<tr>
<td><strong>ADDITIONAL SACCOs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kyamuhunga Sacco</td>
<td>Busenyi</td>
<td>5229</td>
<td>MSC</td>
<td>7</td>
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<tr>
<td>Muhame SACCO</td>
<td>Busenyi</td>
<td>3925</td>
<td>MSC</td>
<td>3</td>
</tr>
<tr>
<td>Nyaravur SACCO</td>
<td>Nebbi</td>
<td>2242</td>
<td>MSC</td>
<td>5</td>
</tr>
<tr>
<td>Pakwach Nam SACCO</td>
<td>Nebbi</td>
<td>2000</td>
<td>MSC</td>
<td>7</td>
</tr>
<tr>
<td>Shuuku SACCO</td>
<td>Busenyi</td>
<td>2700</td>
<td>Stromme Foundation</td>
<td>2</td>
</tr>
</tbody>
</table>
APPENDIX II: STEERING COMMITTEE MEMBERS AND FIELD RESEARCH TEAM

STEERING COMMITTEE

David Baguma, Chair, AMFIU
Alexandra Fiorillo, Secretariat and Coordinator, FSDU
Rose Angeyang, UCA
Wilson Kabanda, UCSCU
Henk van Oosterhout, SUFFICE
Richard John Pelrine, rural SPEED
Geza Radu, CCA
Paul Rippey, FSDU
Dr. Richard Roberts, GTZ/Sida
Adrian Stone, DFID
Tumushabe Bahiigwa Prossy, MSC
Dickson Turyahabwe, UCSCU

FIELD RESEARCH TEAM

Alexandra Fiorillo, FSDU
Rose Angeyang, UCA
Bob Bariyo Bariyge, Rural SPEED
Isaac Galiwango, Consultant
Agnes N. Mugwanya, SUFFICE
Henk van Oosterhout, SUFFICE
Paul Rippey, FSDU
Dickson Turyahabwe, UCSCU
Jackie Mbabazi, AMFIU
## APPENDIX III: SOURCES CONSULTED ON WHOLESALE LENDING TO SACCOS

### INDIVIDUALS CONSULTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Institution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rose Angeyango</td>
<td>Head of Microfinance</td>
<td>UCA</td>
</tr>
<tr>
<td>David T. Baguma</td>
<td>Executive Director</td>
<td>AMFIU</td>
</tr>
<tr>
<td>Andrew Baluka</td>
<td>Staff</td>
<td>FORMA</td>
</tr>
<tr>
<td>Bob Bariyo Barigye</td>
<td>Rural Finance Specialist – Linkages</td>
<td>Rural SPEED</td>
</tr>
<tr>
<td>Amos Bazageza</td>
<td>Staff</td>
<td>MSC-Mbarara Regional Office</td>
</tr>
<tr>
<td>Lucy Businge-Kugonza</td>
<td>Operations Manager</td>
<td>MSC</td>
</tr>
<tr>
<td>Billy Butamanya</td>
<td>Deputy General Secretary</td>
<td>UCA</td>
</tr>
<tr>
<td>Charles Kulibanza Byanyima</td>
<td>Executive Director</td>
<td>MSC</td>
</tr>
<tr>
<td>Pius Ichariat</td>
<td>Finance and Admin. Manager</td>
<td>West Nile Private Sector Development Promotion Limited</td>
</tr>
<tr>
<td>Joseph Okello</td>
<td>Credit Supervisor</td>
<td>MSC-Kabarole Regional Office</td>
</tr>
<tr>
<td>Godfrey Okello-Omoding</td>
<td>Monitoring and Evaluation Officer</td>
<td>MOP</td>
</tr>
<tr>
<td>Akello Immaculate Okurut</td>
<td>Credit Supervisor</td>
<td>MSC-Iganga Regional Office</td>
</tr>
<tr>
<td>Wilson Kabanda</td>
<td>General Manager</td>
<td>UCSCU</td>
</tr>
<tr>
<td>Godfrey Mangeni</td>
<td>Credit Supervisor</td>
<td>MSC- Arua Regional Office</td>
</tr>
<tr>
<td>Samuel Mayanja Ssekajja</td>
<td>Projects and Finance Manager</td>
<td>Share an Opportunity</td>
</tr>
<tr>
<td>Agnes N. Mugwanya</td>
<td>Administrator/ Rating Fund Manager</td>
<td>SUFFICE</td>
</tr>
<tr>
<td>Innocent Muhereza</td>
<td>Project Co-ordinator</td>
<td>UCA</td>
</tr>
<tr>
<td>Isharaza Musiime</td>
<td>Capacity Building Manager (Grants)</td>
<td>SUFFICE</td>
</tr>
<tr>
<td>Christopher Musoke</td>
<td>Deputy Manager</td>
<td>FSDU</td>
</tr>
</tbody>
</table>
Fred E.G. Mwesigye  Commissioner for Co-operatives  MTTI
Henk van Oosterhout  Programme Manager  SUFFICE
Richard John Pelrine  Rural Finance Advisor  Rural SPEED
Geza Radu  African Region Programme Manager  CCA
Paul Rippey  Manager  FSDU
Dr. Richard Roberts  Agricultural Finance Advisor  GTZ/Sida
Adrian Stone  Private Sector Development Advisor  DFID
Tumushabe Bahiigwa Prossy  Research & Development Officer  MSC
Dickson Turyahabwwe  Manager Technical Services  UCSCU

SACCOs

Eight SACCOs:
- Bunyaruguru SACCO
- Bushenyi People’s SACCO
- Buzaaaya SACCO
- Ikongo SACCO
- Kigulu Development Group (This institution refused to participate in the study)
- Kijura SACCO
- Panyimir SACCO
- ZEU SACCO

Three Control SACCOs:
- Bugongi SACCO
- Focused Community SACCO
- Kajara People’s SACCO

Five Additional SACCOs
- Kymahunga SACCO
- Muhame SACCO
- Nyaravur SACCO
- Pakwach Nam SACCO
- Shuuku SACCO
DOCUMENTS CONSULTED


APPENDIX IV: INTERVIEW GUIDE – SACCO MEMBERS

INTERVIEW GUIDE: SACCO MEMBERS

1. General information about the members
   a. What economic activities do the members engage in? What purposes do members use loans for? What is the wealth level of the members? What is the general profile of members (occupations, location, gender, wealth level, age, ethnicity, religion, nationality)?

2. Institutional history and management
   a. When and where was the SACCO formed? Has the SACCO undergone any major changes in the past? Does the SACCO employ open membership? Are the members aware of technical assistance or capacity building that the SACCO receives from other institutions, agencies, projects or companies?
   b. How do the members think the SACCO is managed? Do the members perceive any challenges to the SACCOs management? Has the SACCO experienced any major challenges? Successes as a SACCO?

3. Member perceptions of the institution
   a. Before the SACCO accessed outside funding, was the SACCO able to meet the demand for loans? Were the SACCO members satisfied with the operations of the SACCO prior to outside funding?
   b. Have member perceptions of the SACCO changed at all since the institution received substantial outside funds? Is the SACCO better able to meet members’ demand for loans? Do members perceive the SACCO as “better” or “stronger” or “healthier” now that outside funds have been accessed? Do the members perceive the SACCO as “worse” or “weaker” now that outside funds have been access?
   c. Do members perceive the ownership of the institution as different after outside funding is accessed? Do members’ attitudes towards debt and towards savings change? What are the members’ perceptions on the repayment of loans from outside sources? What are their attitudes toward loan repayment to the SACCO? What are the member attitudes toward loan repayment to the wholesale lender?

4. Financial Processes (Borrowing and Saving)
   a. Since receiving outside funding, have the day-to-day operations of the SACCO changed? Has the delinquency rate on member loans changed after outside funds obtained? Has the average loan amount increased since external funds were obtained? Has the number of individual member loans increased? Have the members changed their borrowing practices? Do they borrow more or less? Are members more or less willing to pay back loans knowing the funding comes from outside sources?
   b. What change, if any, is there in members’ savings behaviour when the institution receives substantial outside funds? Are there any changes in the amount of share capital, or in trends in the purchase of share capital?

5. Transparency
   a. Were the members consulted when the SACCO began to obtain outside funding? Did the members vote on whether or not to access outside funding? Did the management consult the Board of Directors? When the SACCO received outside funding, were the members made aware? Did the members
receive loans soon after the SACCO received the external funds? Did anyone receive priority in the borrowing process?
APPENDIX V: INTERVIEW GUIDE – SACCO BOARD OF DIRECTORS

INTERVIEW GUIDE: BOARD OF DIRECTORS

History of the SACCO
--The existence and function before SACCO registration
--Why was the SACCO formed
--Date of registration as SACCO; who registered it
--Who formed it; who designed the structure
--Profile of members (occupations, location, gender, wealth level, age, ethnicity, religion, nationality)
--Does SACCO hold AGM regularly?
--Mission statement
--Vision
--What are the core values of the SACCO?

The board of directors
--How many members on board? how many members are founding members?
--How long have members sat on board?
--How often does board elect new members?
--How are new board members nominated? When?
--How often does board meet?
--How does board work with manager?
--Are all of the board members shareholders? How many shares?
--Do board members take loans from SACCO? Do any currently have loans out?
--If board members have loans, are they repaying on time?
--Do board members receive same loan products as members?
--Is the chairman of the board the CEO or director of the SACCO?

The External Funds
--Has the SACCO taken external loans? From where? Why?
--How many loans has the SACCO taken?
--Whose idea was it to access outside capital?
--Did the wholesale lender approach the SACCO? Or did the SACCO seek out external funds?
--Was the idea presented to the board? Members? Manager?
--Did the members vote on this issue? Did the management make the decision? The board?
--Were these discussions minuted? Was there significant dispute?
--What have been the positive effects of the outside capital? (review areas of study: financial, ownership, repayment culture, loan size, lending procedures.)
--What have been the negative effects of the outside capital? (as above)
--Does the SACCO intend to borrow more external funds?
--Before the SACCO took a loan, how did the SACCO satisfy the demands for loans of its members? Was the SACCO able to meet all the members’ requests for loans?
--What was the main focus of the SACCO prior to the period when it borrowed external funds? (credit, savings, other)
--After the loan came in, what was the SACCOs main focus? (credit, savings, other)
--How did the SACCO mobilize savings from its members before the loan?
--Does/did the SACCO mobilize the same level of savings from its members after it took an external loan?
--Does/did the SACCO mobilize the same level of savings from its members after it took an external loan?
APPENDIX VI: INTERVIEW GUIDE – SACCO MANAGEMENT

INTERVIEW GUIDE: MANAGEMENT

General Information
--District, County, Sub-county, Parish
--Address of SACCO
--Additional branch offices?
--Certificate/License number:
--Date of registration:
--Registered under Cooperatives Societies Statute, 1991? Other?
--When did the SACCO begin to operate?
--Has the SACCO changed legal status at any time?
--Does the SACCO own the building/property?
--Is the office different from the residence of the owners/board/members/etc.?
--What is the current number of registered shareholders (fully paid as of 31 March 2006)?

<table>
<thead>
<tr>
<th>Male shareholders</th>
<th>Female shareholders</th>
<th>Total of male and female shareholders</th>
<th>Group shareholders</th>
<th>Institutional shareholders</th>
</tr>
</thead>
</table>

--Area of operation (what sub counties, etc.)
--Open membership?

Governance
--Employment status of manager
--Highest level of education of manager
--Years of experience in microfinance or banking of manager
--Years in current position of manager

--Other employees and staff (paid)
--How often does the manager meet with the board of directors?

--What affiliations does this SACCO have? (AMFIU, AMFIA, UCSCU, UCA, Private Sector Foundation, other)
--How often does each of those institutions visit the SACCO?
--What services are provided to the SACCO by each of the institutions?
--Does the SACCO receive capacity building or technical assistance from other institutions?
--Does the SACCO receive CB or TA in the form of financial assistance from any institution? (e.g. grants for CB)
Portfolio
--What lending methodology does the SACCO employ?
--What is the nominal interest rate charged on loans?
--What is the nominal interest rate paid on deposits?
--Method of interest calculation on loans
--Minimum and maximum loan period:
--Minimum and maximum loan sizes:
--Does the SACCO age the portfolio?
--What kind of accounting system does the SACCO have?
--What kind of loan and savings tracking system does the SACCO have?
--How often does the SACCO produce financial statements? What kinds of financial statements?
--Are the statements audited? How often are statements audited? By whom?
--What are the three economic activities in which most of your members engage?
--What do the majority of your members use loans for? (e.g. Loan purpose)

The External Funds
--Has the SACCO taken external loans? From where? Why?
--How many loans has the SACCO taken?
--Whose idea was it to access outside capital?
--Did the wholesale lender approach the SACCO? Or did the SACCO seek out external funds?
--Was the idea presented to the board? Members? Manager?
--Did the members vote on this issue? Did the management make the decision? The board?
--What have been the positive effects of the outside capital?
--What have been the negative effects of the outside capital?
--Does the SACCO intend to borrow more external funds?
--Before the SACCO took a loan, how did the SACCO satisfy the demands for loans of its members? Was the SACCO able to meet all the members’ requests for loans?
--What was the main focus of the SACCO prior to the period when it borrowed external funds? (credit, savings, other)
--After the loan came in, what was the SACCOs main focus? (credit, savings, other)
--How did the SACCO mobilize savings from its members before the loan?
--Does/did the SACCO mobilize the same level of savings from its members after it took an external loan?
**APPENDIX VII: INTERVIEW GUIDE – SACCO FINANCIAL DATA**

<table>
<thead>
<tr>
<th>SACCO Profile</th>
<th>External Funds</th>
<th>External Grant For On-Lending</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Institutional Data</strong></td>
<td><strong>Before External Funds</strong></td>
<td><strong>Current</strong></td>
</tr>
<tr>
<td>Name of SACCO:</td>
<td><strong>External Loan:</strong></td>
<td><strong>Membership Profile:</strong></td>
</tr>
<tr>
<td>* Date loan received:</td>
<td><strong>Lender:</strong></td>
<td><strong>Men:</strong></td>
</tr>
<tr>
<td>Location of SACCO:</td>
<td>* Date grant received:</td>
<td><strong>Women:</strong></td>
</tr>
<tr>
<td>Name of Manager:</td>
<td>* Lender:</td>
<td><strong>Other members:</strong></td>
</tr>
<tr>
<td>Mobile Number of Manager:</td>
<td>* Amount of loan:</td>
<td><strong>Total membership:</strong></td>
</tr>
<tr>
<td>Name of Chairperson:</td>
<td>* Interest rate charged:</td>
<td><strong>Staffing:</strong></td>
</tr>
<tr>
<td>Date of most recent audit:</td>
<td>* Amount of grant:</td>
<td><strong>Was additional staff hired due to the external funds? No_____ Yes_____</strong></td>
</tr>
<tr>
<td>Who completed audit:</td>
<td>* Interest rate structure:</td>
<td><strong>If yes, Title(s):</strong></td>
</tr>
<tr>
<td>Date of last AGM:</td>
<td>* Main purpose of loan:</td>
<td><strong>Current staffing by titles:</strong></td>
</tr>
<tr>
<td># of people attending AGM:</td>
<td></td>
<td></td>
</tr>
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</table>
## 2. General Portfolio Data

<table>
<thead>
<tr>
<th>Last Financial Year Before External Funds</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Period Ending:</strong></td>
<td><strong>Period Ending:</strong></td>
</tr>
<tr>
<td>Loan balance to members:</td>
<td>Loan balance to members:</td>
</tr>
<tr>
<td>Interest rate</td>
<td>Interest rate</td>
</tr>
<tr>
<td>* Total loan balance:</td>
<td>* Total loan balance:</td>
</tr>
<tr>
<td>* Number of borrowers:</td>
<td>* Number of borrowers:</td>
</tr>
<tr>
<td>* Main purpose of loans for members:</td>
<td>* Main purpose of loans for members:</td>
</tr>
<tr>
<td><strong>Delinquency:</strong></td>
<td><strong>Delinquency:</strong></td>
</tr>
<tr>
<td>* Loans 1 day past due:</td>
<td>* Loans 1 day past due:</td>
</tr>
<tr>
<td>* Loans 90 days past due:</td>
<td>* Loans 90 days past due:</td>
</tr>
<tr>
<td>* Loans 180 days past due:</td>
<td>* Loans 180 days past due:</td>
</tr>
<tr>
<td>* Loans 1 year past due:</td>
<td>* Loans 1 year past due:</td>
</tr>
<tr>
<td>* Overall % delinquency rate:</td>
<td>* Overall % delinquency rate:</td>
</tr>
<tr>
<td>Loan balance to board and cmte members:</td>
<td>Loan balance to board and cmte members:</td>
</tr>
<tr>
<td>Interest rate</td>
<td>Interest rate</td>
</tr>
<tr>
<td>* Total loan balance:</td>
<td>* Total loan balance:</td>
</tr>
<tr>
<td>* Number of borrowers:</td>
<td>* Number of borrowers:</td>
</tr>
<tr>
<td><strong>Delinquency:</strong></td>
<td><strong>Delinquency:</strong></td>
</tr>
<tr>
<td>* Loans 1 day past due:</td>
<td>* Loans 1 day past due:</td>
</tr>
<tr>
<td>* Loans 90 days past due:</td>
<td>* Loans 90 days past due:</td>
</tr>
<tr>
<td>* Loans 180 days past due:</td>
<td>* Loans 180 days past due:</td>
</tr>
<tr>
<td>* Loans 1 year past due:</td>
<td>* Loans 1 year past due:</td>
</tr>
<tr>
<td>* Overall % delinquency rate:</td>
<td>* Overall % delinquency rate:</td>
</tr>
<tr>
<td>Savings/deposit balance:</td>
<td>Savings/deposit balance:</td>
</tr>
<tr>
<td>Interest rate</td>
<td>Interest rate</td>
</tr>
<tr>
<td>* Total savings:</td>
<td>* Total savings:</td>
</tr>
<tr>
<td>* Number of savers:</td>
<td>* Number of savers:</td>
</tr>
</tbody>
</table>
### 3. Balance Sheet

<table>
<thead>
<tr>
<th>Last Financial Year Before External Funds</th>
<th>Last Financial Year Before External Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Period Ending:</strong></td>
<td><strong>Period Ending:</strong></td>
</tr>
<tr>
<td><strong>Balance Sheet:</strong></td>
<td><strong>Balance Sheet:</strong></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td><strong>Assets</strong></td>
</tr>
<tr>
<td>Loans to members</td>
<td>Loans to members</td>
</tr>
<tr>
<td>Cash on hand/current account</td>
<td>Cash on hand/current account</td>
</tr>
<tr>
<td>Savings with bank</td>
<td>Savings with bank</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>Fixed assets</td>
</tr>
<tr>
<td>Other assets</td>
<td>Other assets</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>Total Assets</strong></td>
</tr>
<tr>
<td><strong>Liabilities:</strong></td>
<td><strong>Liabilities:</strong></td>
</tr>
<tr>
<td>Member savings/deposits</td>
<td>Member savings/deposits</td>
</tr>
<tr>
<td>Loans from external sources</td>
<td>Loans from external sources</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>Other liabilities</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>Total Liabilities</strong></td>
</tr>
<tr>
<td><strong>Capital/Equity:</strong></td>
<td><strong>Capital/Equity:</strong></td>
</tr>
<tr>
<td>Member shares</td>
<td>Member shares</td>
</tr>
<tr>
<td>Reserves</td>
<td>Reserves</td>
</tr>
<tr>
<td>Retained earning</td>
<td>Retained earning</td>
</tr>
<tr>
<td>Grants from external sources</td>
<td>Grants from external sources</td>
</tr>
<tr>
<td>Other</td>
<td>Other</td>
</tr>
<tr>
<td><strong>Total Capital/Equity</strong></td>
<td><strong>Total Capital/Equity</strong></td>
</tr>
<tr>
<td><strong>Total Liabilities &amp; Capital/Equity</strong></td>
<td><strong>Total Liabilities &amp; Capital/Equity</strong></td>
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</tbody>
</table>

The Effects of Wholesale Lending to SACCOs in Uganda
### 4. Income Statement

<table>
<thead>
<tr>
<th>Last Financial Year Before External Funds</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Period Ending:</strong></td>
<td><strong>Period Ending:</strong></td>
</tr>
<tr>
<td><strong>Income:</strong></td>
<td><strong>Income:</strong></td>
</tr>
<tr>
<td>Interest earned from loans</td>
<td>Interest earned from loans</td>
</tr>
<tr>
<td>Loan processing fee</td>
<td>Loan processing fee</td>
</tr>
<tr>
<td>Entrance, ledger fee, other income</td>
<td>Entrance, ledger fee, other income</td>
</tr>
<tr>
<td>Interest earned on bank deposit</td>
<td>Interest earned on bank deposit</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>Total Income</strong></td>
</tr>
<tr>
<td><strong>Less Cost of Funds:</strong></td>
<td><strong>Less Cost of Funds:</strong></td>
</tr>
<tr>
<td>Interest paid on savings/deposits</td>
<td>Interest paid on savings/deposits</td>
</tr>
<tr>
<td><strong>Total Cost of Funds</strong></td>
<td><strong>Total Cost of Funds</strong></td>
</tr>
<tr>
<td><strong>Total Income Less Cost of Funds</strong></td>
<td><strong>Total Income Less Cost of Funds</strong></td>
</tr>
<tr>
<td><strong>Expenses:</strong></td>
<td><strong>Expenses:</strong></td>
</tr>
<tr>
<td>Salaries</td>
<td>Salaries</td>
</tr>
<tr>
<td>All other operating expenses</td>
<td>All other operating expenses</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>Total Expenses</strong></td>
</tr>
<tr>
<td><strong>Income Over/Under Expenses</strong></td>
<td><strong>Income Over/Under Expenses</strong></td>
</tr>
<tr>
<td>Less provision for bad debt</td>
<td>Less provision for bad debt</td>
</tr>
<tr>
<td><strong>Operating Profit/Loss</strong></td>
<td><strong>Operating Profit/Loss</strong></td>
</tr>
<tr>
<td>Less dividend paid to members</td>
<td>Less dividend paid to members</td>
</tr>
<tr>
<td><strong>Remaining</strong></td>
<td><strong>Remaining</strong></td>
</tr>
</tbody>
</table>
APPENDIX VIII: BUNYARUGURU SACCO GROWTH GRAPH

Bunyaruguru SACCO Growth
Over Two Years After Accessing Wholesale Loan

- Total Assets
- Total Savings
- Total Loan Balance
- Share Capital

Injection of Wholesale Loan

Appendix VIII: Bunyaruguru SACCO Growth Graph

The Effects of Wholesale Lending to SACCOs in Uganda
APPENDIX IX: BUSHENYI PEOPLE’S SACCO GROWTH GRAPH

Bushenyi People's SACCO Growth: Before and After Wholesale Credit

- Total Assets
- Total Loan Balance
- Share Capital
- Member Shares
- Total Savings

Time
- 2000
- 2001
- 2002
- 2003

Amount (UGX)
- 0
- 20,000,000
- 40,000,000
- 60,000,000
- 80,000,000
- 100,000,000
- 120,000,000
- 140,000,000

Injection of Wholesale Loan
APPENDIX X: KAJARA PEOPLE’S SACCO GROWTH GRAPH

Kajara People’s SACCO Growth from 2002 to 2004

- **Total Loan Balance:**
- **Total Savings:**
- **Member Shares:**

The Effects of Wholesale Lending to SACCOs in Uganda
APPENDIX XI: BUGONGI SACCO GROWTH GRAPH

Bugongi SACCO Growth From 2002 to 2004
MICROFINANCE OUTREACH PLAN

Stromme Micro Finance East Africa Ltd.
Financial Services for the Poor

UGANDA COOPERATIVE ALLIANCE

UGANDA COOPERATIVE SAVINGS AND CREDIT UNION

DFID
Department for International Development

The Republic of Uganda

GTZ

SIDA

STRÖMME FOUNDATION
Help for Self Help

The Microfinance Support Centre Ltd.

USAID
From the American People

RURAL SPEED
Rural Savings Promotion & Enhancement of Enterprise Development