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Savings and Credit Cooperative Societies (SACCOS) As a Source Of Financing Agriculture. Challenges and Lessons Learnt

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RATIONALE

There is growing urge by farmers to form Savings Credit and Cooperative Societies (SACCOs) in Uganda and Mbarara District is no exception. There are over 100 registered SACCOs (District Commercial officer- Mbarara District). Majority of the members of these cooperative societies are farmers who have savings and in most cases do not have collateral to stake in commercial banks and other financial institutions to access Loans. The paper seeks to discuss the contribution of SACCOs as a source of financing agriculture, challenges faced by the SACCOs, lessons learnt and the way forward.

This is an empirical study that will be based on what is on ground. It will use some empirical data and will rely mostly on primary data other than secondary data.

Agriculture is a back bone of Uganda's Economy. Almost 70% of Uganda's exports are agro-based (The New Vision) and the agriculture sector employs 73.3% of the active labour force compared to services which employ 22.5% and industry only 4.2%.

There have been concerted efforts by government to improve agriculture and make the agriculture sector more attractive. The many strategies employed by government to make agriculture more attractive include, mechanization, improved seed distribution, farmers education and provision of soft loans. In a bid to finance agriculture, the government of Uganda has encouraged and promoted cooperative societies as an engine to accelerate the accessibility of loans from these cooperative societies which in this case are SACCOs. The aim of promoting these SACCOs is because in developing countries like Uganda, there are low levels of saving culture owing to poor underdeveloped stock markets, dominance of urban based commercial banks, Micro Deposit Taking Institutions (MDIs) and non regulated Micro finance institutions in the financial markets as vehicles for savings. Hence Savings and Credit Cooperatives (SACCOs) are intended to offer an alternative to improve the above un- desirable situation in low income countries especially helping members who in most cases are farmers.

Savings and Credit Co-operatives (SACCOs) are community membership-based financial institutions that are formed and owned by their members in promotion of their economic interests. These institutions mobilize and intermediate savings exclusively with in their membership under the co-operative statute 1991. Furthermore, they are one of the several types of cooperatives that are unique micro finance institutions categorized under tier four in the financial market and therefore not regulated by Bank of Uganda.

Therefore, Savings and Credit Co-Operatives (SACCOs), one of the several types of co-operatives are unique, legal, member-based Micro-Finance Institutions (MFIs) and unlike many other Micro-Finance Institutions, SACCO owners are also the users of the service that the SACCOs offer.

HISTORICAL PERSPECTIVE OF COOPERATIVES IN UGANDA

The formation of the Savings and Credit Cooperatives in Uganda had three main influences according to Lubwama (1995):

These were Campbell, the Church and the Government.

CAMPBELL INFLUENCE

Mr. Campbell drafted Uganda's cooperative ordinance 1946, together with the rules and bye laws. He had been a registrar of cooperatives in Srilanka, his experience in that country influenced the formation of SACCOs in Uganda. He initiated a departure from general impression by the colonial government and other opinion leaders that debt didn't constitute a serious problem in Uganda. It should be pointed out that, the title THRIFT and LOAN rather than Savings and Credit was originally used until the late 1960s (Kabuga and Batarinyebwa 1995:230)

Lastly the Campbell influence led to the formation of first Savings and Credit Cooperative. This was the African Civil Servants Co-operatives Thrift and Loan Society Limited of Kampala.

THE CHURCH INFLUENCE

The growth and rapid expansion of SACCOs was by the efforts of church clergy especially the Catholics who got involved in encouraging their followers to actually participate in the Programme. The idea was to help people establish lasting socio-economic structure and to encourage self- help, self -reliance and initiative (Kabuga and Batarinyebwa, 1995:232)

THE GOVERNMENT INFLUENCE

When the department for cooperative development launched the Agricultural cooperative credit scheme in 1961, consideration was given to the introduction of the rural savings scheme. This was based on the rationale that credit without savings is of little value. It is like putting a cart before the horse (Kabuga and Batarinyebwa, 1995:232.).

ORGANIZATION OF SACCOs

SACCOs are organized and operated according to seven basic co-operative principles:

The seven basic principles of SACCOs:

i. Open membership to interested people from designated area of operation,
ii. Democratic member control; one member one vote in all matters of decision making,
iii. Member economic patronage,
iv. Autonomy and independence,
v. Promotion of members' education and awareness through constant education, training and information,
vi. Cooperation among cooperatives,
vii. Concern for community development i.e. corporate social responsibility.

From the above, it can be seen that a SACCO or any other type of cooperative has four basic characteristics namely, Member owned, Member used, Member controlled and Benefits member (UCA-Accounting and operational manual for SACCOs, 2002:3-4).

CHARACTERISTICS OF SACCOs

According to UCA\Cooperative Rural Financial Services Unit (2003**),** Co-operatives all over the world have common characteristics such as:

i. Clients tend to come from low income and lower middle – income groups.
ii. Services are almost exclusively financial in nature.
iii. They provide Self generated capital, typically without any dependence on outside funding to cover operating costs which are generally kept low. This is because they are always started on self-help philosophy.
iv. Members are united through at least one common interest.
v. Members pursue the goal of improving their economic and social situation through joint actions.
vi. Members use jointly owned and operated unit which provides them with services or goods regardless of its physical size and activities, the units purpose is to use joint resources of the members to produce or obtain goods or services for members (Kabuga and Batarinyebwa, 1995)
vii. Have common bond as a result of single employer, community based bond, professional bond for example teachers.
viii. Mutual self help group - where members have joint action which is geared towards the attainment of the group's objectives through mutual self help.

METHODOLOGY

An interview schedule was used to obtain relevant data from some 10 Selected SACCOs. These respondents were selected because of the constraints of time. These SACCOs were the ones considered

because they have been in existence for more than 10 years and have members ranging from 10,000 to 20,000.
The questions asked were varied and were interested in finding out if these SACCOs do finance Agriculture, the challenges they face, whether there is Value Chain Financing and the Lessons learned.

FINDINGS

The findings revealed that Agricultural loan products offered by the SACCOs can be subdivided into 4 categories

1. **SPECIFIC ENTERPRISE AGRICULTURAL LOANS**
   This involves financing things like Pineapple growing, banana growing, cow fattening and Tea growing. Some of the SACCOS visited included, EBO which emphasizes cow fattening as it is in a cattle area, KYAPS for tea farming and Kashongi Peoples SACCO for banana planting. The managers of the SACCO explained that the Loan covers all activities involved in production and getting produce to the market.
2. **AGRICULTURAL INPUT LOANS**
   This is a loan intended to help the farmer to purchase agriculture in-puts like fertilizers. It is a loan for farmers involved in crop production and wants to enhance productivity. The loan is supposed to be repaid monthly since they expect the farmer to be earning.
3. **GENERAL AGRICULTURE LOANS**
   As the name suggests, it is a general purpose loan that is intended for activities like Crop growing, Fencing of farm land, Dam construction, Livestock rearing, and Agriculture inputs.
4. **AGRICULTURAL ASSET LOANS**
   This is a loan intended to enable farmers acquire assets like tractors, ox ploughs and milking machines. However, all the SACCOs Visited explained that they have not financed such venture as it is very expensive. Some SACCOs explained that some members have asked for such loans but the SACCOs are not in position to handle.

All the SACCOs agreed that they finance agriculture. The reasons given for financing agriculture is that majority of the members are semi-illiterate people who are majorly farmers. These members require loans to improve on their agric practices and look at these SACCOs where they are members as a best source of financing them.
The other issue the researcher wanted to find out was how these SACCOs finance agriculture. The findings revealed that 8 out of the 10 SACCOs normally give cash which is specifically to finance Agriculture especially animal farming. The members ask for loans to buy better breeds of the animals. In some SACCOs, they were very strict that they do not give hard cash. The only provide in-puts. The inputs provided include things like fertilizers, archaracides, Sprayers and at times Seeds which items are monetized. The rationale for SACCOS Funding agriculture in kind stems from the fact that some of the members are not trustworthy. The moment they are given hard cash, they mis-use it.
On the issue of security when advancing Loan to farmers, all the SACCOs agreed that they do not ask for security. That the collateral is the shares of the member. The argument is that if you ask for security, these members at times have security that is hard to liquidate. For example, that a member would say he has his cows as security.
On the loan period, different SACCOs had differing loan periods given to members depending on the character of each member. Those members who were found to be paying well and promptly were given loan periods ranging from 24-36 months, whereas, whose payment character was questionable and not good at honouring their obligations on time, they were given a shorter loan period of 6-12 months.

CONCEPT OF VALUE CHAIN

A value chain is often defined as the sequence of value-adding activities, from production to consumption, through processing and commercialization.
Value chain finance refers to "the (financial) relationship between two or more actors within the value chain" (Neven, 2008). There are two types of value chain finance, direct and indirect:
Direct value chain finance is finance that one value chain actor provides to another.

Indirect value chain finance is provided from outside the value chain (usually by a financial institution) based on the borrower's value chain activities (e.g., purchase contracts, advance contracts, promises to buy, or transaction history).

Agricultural value chains have increasingly become complex over time. Market requirements rapidly change driven by increasing demand, changing lifestyles and government policies. In response to these changing market requirements, value chains have become more coordinated leading to more integration and concentration to achieve efficiency and minimize risks.

Value chain concepts are important in understanding the business competitiveness, risks and improving transaction efficiencies.

The role of financial institutions is critical not only in providing access to finance to develop supply chains but also in ensuring that disadvantaged actors in the supply chains like small farmers are not left out.

SACCOS FINANCING ALONG THE VALUE CHAINS

The few SACCOs identified reported that they have done some Financing along the value chain. The contributions along the value chain include; Credit screening, Credit provision, storage, identification of markets and buyers, and technical assistance.

CHALLENGES IN VALUE CHAIN FINANCING

Value chain finance can provide many opportunities. Yet, in order for the financial industry to be able to take full advantage of its opportunities there are many challenges to address, especially in serving smallholders in the villages. Some of the challenges include but are not limited to;

1. Required bundle of services for investment in value chains is lacking. This is evidenced by:

- Small, unorganized productive capacity of many producers
- Missing physical and financial infrastructure

2. Capacity, understanding and hence commitment are missing. This is evidenced by

- Small farmers lack capacity and often production competitiveness
- Agribusiness and finance institutions lack experience and tools
- Governments lack understanding and supporting policies

3. Required investment and support services are not available. These are manifested by

- Enabling policies and conditions not in place in many Uganda.
- Fear of unknown for long-term investment

4. Livelihoods are at risk for those excluded as shown by;

- Social exclusion of small producers
- VCF benefits for actors integrated into chains; but many are not in chains

The researcher further wanted to find out the Challenges faced by the SACCOs in financing Agriculture. The managers and the Loans officers highlighted the different challenges and included;

• Lack or inadequate vital non-financial support to Agriculture-borrowers. Apart from the SACCOs other financial institutions were reluctant to finance agriculture. The managers and loans officers revealed that there is too much unpredictability in the agriculture sector as compounded by the gambling weather hence there is increased risk.

• Sparse populations in rural areas. The population in most agriculture areas is so sparse that where you want to involve the concept of value financing may not work. For example the managers from Kashongi and EBO SACCOs which are predominantly in the cattle area had a problem of sparse population especially when it comes to Value chain financing it becomes hard to incorporate the different farmers together.

• Poor infrastructure. Both social and physical infrastructures are lacking or poor. The SACCOs management agreed that at times the people who take the loans fail to back on time citing the problem of lack of market because their products cannot be bought because of poor accessibility. Equally, social infrastructure is a problem in a sense that that these members are not grouped together so as to apply for group loans.
• Scarcity of working agricultural knowledge and skills at the SACCOs. Majority (8) of the SACCOS agreed that they do not have competent staffs in the fields of agriculture to advise the clients who are applying for agriculture loans. This leads into members getting loans without due diligence hence resulting into inability to pay.
• Temporary and / or informal land ownership. Some of the members of these SACCOs who access loans are not the bonafide owners of the land on which they are practicing agriculture. They are mere squatters. They come up with good ideas when applying for loans but in the process of utilizing the loans for agriculture purposes, they are stopped by the land owners hence a loss to the institution and the member.
• Perish ability of commodities. Agricultural products world over are perishable as they cannot be stored for a long time. This has made some SACCOs no willing to finance e them hence no or low value chain financing.
• Unpredictable/ gambling weather. All the SACCOs agreed that Value chain financing in Agriculture is a problem because of unpredictable weather. Some people fail to repay the loans claiming that the weather was bad hence they didn't get any returns.
• Insider dealing within the SACCOs. Some members of the SACCOs confided in me saying that there is a serious problem of insider dealing whereby some board members colludes with loan supervisors to advance themselves loans which they later claim they were unable to collect and are written off.

LESSONS LEARNED

PUBLIC AWARENESS EFFORTS WORK

SACCOs saving awareness activities are important to encourage savings which savings can again be used to finance the members in form of loans. Both the national campaign and partners' are important to encourage many members to come in become members. There is however skepticism as regards the safety of members funds as many members had nasty experiences of losing their funds to quack organizations. However the SACCOs identified revealed that they have come up with activities to educate the members. These activities demonstrated that appropriate messages delivered in a relevant, entertaining, and educational way through the right media can positively influence the behavior of even relatively isolated and uneducated populations. Financial institutions need to embrace the philosophy that an informed consumer is their best asset.

POOR PEOPLE CAN AND SHOULD SAVE

The government of Uganda through the Cooperatives inspectorate has initiated programs to encourage people to save especially the rural folk. Uganda's rural poor are inclined toward saving despite the country's low formal savings rate. The vast majority make at least some effort to set aside money, often hiding it in mattresses or burying it in the garden. The public awareness campaign has shown that rural residents can be motivated to move their savings into the formal sector. Saving is the best method for meeting daily needs and achieving future goals. The recent DFID study indicated that many rural Ugandans are borrowing money, mainly from informal sources, for household consumption purposes, emergencies, and school fees. Saving is a far more cost-effective way to finance these day-to-day needs.

VALUE CHAINS ARE VITAL

Value chain mapping proved to be a highly effective platform for engaging farmers, agribusinesses, and a range of financial institutions in creative, collaborative financing efforts to the benefit of all parties. Working within value chains is an active tool in supporting production and marketing provided there is a built-in structure that facilitates moving financing opportunities from paper to reality.

THE RIGHT PRODUCTS ENSURE SUSTAINABILITY

When most SACCOs began, they were offering savings and credit products based essentially on a "best guess" approach to market demand and pricing. There was little market research and no scientific method for determining costs and setting prices in many cases. As a result, there was a substantial gap between what rural Ugandans wanted and what they could find at their local financial institution, especially when it

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came to financing agriculture related activities. The enthusiastic market response to the range of innovative and appropriate new products launched with many SACCOs suggests that development of demand-driven products based on sound financial analysis is a successful approach to assuring financial institution sustainability.

TECHNOLOGY IS IMPORTANT

There is need to invest in technology by the SACCOs. Most of the SACCOs visited were not conversant with information technology. The study findings showed that there is need to invest in technology especially loan tracking which can enable the SACCOs to tell when a member is supposed to re-pay the Loan. Market needs must remain the driver of efforts to harness new technology to deliver rural financial services.

Lessons Learnt Continued.

- Experience of the farmer paramount in financing success
- Matching loan sizes needs helps repayment performance. with client
- Farming cycle and activity plans should be documented to inform monitoring visits
- Loan officers need to master farming seasons
- Lender should ensure borrowers purchase good quality inputs
- Farmer/ borrower needs secondary cash flow streams
- Farmers need extension services for technical production aspects
- MFIs need beneficial collaborations
- Crop patterns and phased planting can reduce risks
- Farmers need good storage to minimize deterioration of produce
- Land ownership affects effectiveness of agricultural lending
- The loan structuring should be flexible in terms of repayment
- Use graduation principle to allow for MFI experience and knowledge of enterprises to grow

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