Karamoja Resilience Support Unit (KRSU), Uganda

Financial Services in Karamoja
A Rapid Review

July 2017

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The author of the report is Hans Dieter Seibel.

Karamoja Resilience Support Unit

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Implemented by:
Feinstein International Center, Friedman School of Nutrition Science and Policy,
Tufts University
P.O. Box 6934
Kampala
Uganda
Tel: +256 (0)41 4 691251
www.karamojaresilience.org

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Preamble

This report presents the findings of a rapid review of financial services in Karamoja, Uganda, conducted in May and June 2017. The review is an initial exploratory and rapid assessment of financial services in the region and was conducted over a short timeframe. The aim to flag issues for more detailed analysis and follow up, rather than being a comprehensive study on financial services.

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Box 1:

1. Statement of work

The Karamoja Resilience Support Unit is a four-year contract with USAID, and the purpose of the project is to increase the effectiveness and efficiency of development assistance in the Karamoja region through targeted support to improve coordination across projects, activities and agencies active in Kampala. The consultant will conduct situation analysis of microfinance and related approaches in Karamoja to understand "who is doing what" and the quality of the ongoing support to microfinance.

The consultant stayed in Uganda from 28 May to 9 June. 27 May, 30 May, 4 June and 10-11 June were travel days. Interviews were held in Kampala on 29 May (1 day) and in Karamoja on 31 May to 3 June (4 days). This was followed by the preparation of a results-oriented presentation on 5-6 June, and a workshop on 7 June at KRSU in Kampala, comprising two presentations and discussion.

- Pastoralist Areas Resilience Improvement through Market Expansion in Ethiopia (PRIME). Financial services*:* the impact of PRIME's Support
- Financial Services in Karamoja,

Follow-up interviews and discussions were held on 8-9 June. The report was prepared at home desk during the week of 12 June. The work schedule in Uganda was very tight and the available time not sufficient for an in-depth analysis. The consultant was very well received by the KRSU, which provided the necessary logistic support.

2. Financial service providers in Karamoja, an overview: *formal, semiformal, informal*

A source with survey data of financial services and financial service providers in Karamoja has not been available; the information below is indicative, far from being comprehensive.

- Commercial banks:
  Centenary Bank, with branches in Moroto and Kotido since 2013, is the largest financial inclusion bank in Uganda, with 1.5 customers nationwide and about 17,000 customers in Karamoja. All accounts since 2013 come with mobile accounts.

  Stanbic Bank, with branches in Moroto and Kotido, and DFCU Bank with a branch in Abim reportedly do not serve the mass market; they provide financial services to a middle market segment, comprising commercial, government/civil service, and NGO sectors.

- Non-bank credit institutions (Tier 2):
  PostBank is in the process of opening a branch in Moroto; it is expected to take a financial inclusion approach.

- MFIs:
  BRAC (Tier-4) operates 9 branches in Karamoja (out of 138 nationwide); BRAC's Karamoja Initiative (2010-2014) has been supported by USAID.[1]

- MNOs:
  MTN and Airtel provide mobile money services throughout Karamoja.

- NGOs and implementing agencies:
  There are many NGOs in Karamoja some, or many, of which are facilitators of group-based informal financial institutions and, in some cases, also of SACCOs.
  The KRSU Mapping Report 2016 covers 54 implementing agencies and donors, including multilateral and bilateral agencies, international and local NGOs, governmental and private sector agencies. The financial sector is not one of the "major sectors" covered (p. 30); financial services, or the promotion of financial institutions, are not among the key objectives listed, though they may be included in resilience, food security, and other objectives.

- SACCOs:
  Reportedly there are >50 SACCOs (Tier-4) in Karamoja; many are dormant or closed.

[1] The program, in partnership with UNICEF, provided girls with life-skills, financial literacy and a range of livelihood trainings. It also established an income generating fund, a saving scheme, where they have been saving and creating a loan fund that they can subsequently borrow from to establish their businesses.

In Moroto District, 4 SACCOs are operational, 5 have collapsed (*District commercial officer Moroto*)

- VSLAs:
  In numerous local projects of international and local NGOs the facilitation of VSLAs is a cross-cutting strategy. There are more than >5,000 Village Savings and Loan Associations (VSLAs) or, more generally, Savings Groups (SGs) in Karamoja, perhaps many more, though frequently with overlapping identities and changing affiliations which makes arriving at approximate totals difficult.

- Farmers', women's, youth and other groups with VSL activities:
  These are a variant of VSLAs/SGs, typically with multiple affiliations and overlapping identities.

- Indigenous Savings Groups (SGs):
  Most ethnic groups in Karamoja and elsewhere in Uganda have indigenous savings or savings and credit groups of the rotating (ROSCA) and non-rotating or accumulating (ASCA) variety, including burial societies, with local terminology. Originally they have served as a model for the facilitation of VSLAs; they may still serve as a familiar pattern when facilitated SGs are promoted: a framework for institutional ownership (*rather than an alien NGO concept*).

- Indigenous work groups:
  Rotating, hired, or community-wide work groups[2] may be a variant of savings and credit groups, with labor and money as a store of value and obligations possibly interchangeable. Unduly, they have found little attention in development support projects. Historically, rotating and nonrotating work groups have sometimes evolved into corresponding savings and credit groups.

- Institutional innovations:
  Several institutional innovations, and combinations among them, have been observed in Karamoja, cutting across categories of formal and informal financial service providers:

  - SACCOs-cum-VSLAs
  - VSLAs upgraded to SACCOs
  - Mature VSLA-SACCOs and SACCOs with MIS – with the potential of transitioning to "large SACCOs" (Tier-2), which would be eligible for credit linkages with banks
  - Bank linkages (savings- vs credit linkages of VSLAs and SACCOs with banks)

3. Spotlight on financial institutions in Karamoja

3.1 Centenary Bank

Centenary was established as a trust fund in 1983 by Catholic institutions in Uganda "to provide appropriate financial services, especially microfinance, to all people in Uganda, particularly in rural areas", ie, inclusive finance in present day terminology. Centenary was very successful at collecting savings; but borrowers mistakenly considered its loans a form of charity, with dramatic results. In the early 1990s, short of bankruptcy, with German development assistance Centenary was restructured and reformed, in three steps. First it was restructured from a loss-making fund with a limited banking license into a full-service commercial bank operating as a provider of micro and small enterprise finance; next, around 2000, the bank diversified its portfolio by adding agricultural finance to its product range; and finally, in order to increase its outreach and sustainability, it evolved into an MSME bank, adding SME finance. Centenary's success has been guided by five principles:

- business lending to individual enterprises,
- cash-flow lending based on an analysis of the household and its repayment capacity,
- acceptance of unconventional forms of collateral such as land without title, livestock, household items, business equipment and personal guarantees,
- repeat loans and graduation of borrowers with good performance to better credit terms,

[2] A familiar view on the road leading from Kampala to Moroto and beyond.

- computerized loan monitoring, crucial for instant follow-up of delinquents, staff performance analysis, incentives and provisioning.

This has made Centenary the largest financial inclusion bank in Uganda, with 1.5m customers and an excellent commercial performance (*return on assets 2016: 5.1%*), at the same time uniquely suitable for coping with the conditions in Karamoja. Its financial inclusion strategy comprises linkage banking (*first tested in Karamoja 2013-14, rolled out nationwide in 2015*), mobile banking since 2013 (*mobile credit under development*), agency banking (*under development, formalizing POS*), and the establishment of a financial inclusion department (*end-2017*). Linkage banking is the most important innovation for Karamoja, where it has been first tested and rolled out.

Centenary's linkage banking strategy: a lesson in innovation

Well into the 2000s, Karamoja was financially excluded, the SACCOs had collapsed: "a wilderness" in terms of financial inclusion.[3] A big push came at the end of 2012, with an agreement between Centenary and GIZ[4] about a linkage banking pilot in Karamoja, 2013-2014. A joint feasibility study had revealed numerous opportunities resulting from the interventions of INGOs in informal finance, namely VSLAs. GIZ and Centenary agreed on a joint two-year pilot project. African Public-Private Partnership Facility ("the African facility)" of GIZ entered into a contract with Centenary Bank. On the ground it was supported by Financial Sector Deepening Uganda (FSDU) – costs covered 50:50 by Centenary and the African facility.

Establishing branches in Karamoja. At the very start of the pilot, in late 2012, Centenary began preparations for the establishment of two branches. They opened in mid-2013 in Moroto and Kotido, as an integral part of the pilot and the expansion of Centenary's operations into Karamoja. At the same time, as of 2013, all accounts have been connected with mobile accounts, accessible through POS and, in the near future, banking agents. The establishment of the two branches provided the institutional framework for the integration of the linkage pilot and its outcome in the bank from the onset.

The linkage banking strategy and outreach of Centenary in Karamoja are given in Table 1.

Table 1: Linkage banking strategy and outreach of Centenary Bank in Karamoja

Strategy of Centenary Bank	*Outreach in Karamoja*
Institutional savings and credit linkages	7 BRAC branches
Credit linkages with informal groups	0
SACCO savings linkages	>50
VSLA/SG savings linkages	Pilot target: 200 Pilot achieved: 3,000 Apr. 2017: 5,000
Member savings linkages	Many, part of regular operations, not monitored
Member credit linkages (*after training*)	2014: 300 2017: many, not monitored

Establishing branches in Karamoja was a stepping stone for the linkage pilot; but the financial services of the two branches, which serve all districts of Karamoja, serve a broader market, going beyond linkages. As of April 2017, Centenary served 16,902 customers with 15,601 savings accounts and 2,783 loan accounts; average deposit balances amounted to $500, average loans outstanding to $1,044. An overview is given in Table 2.[5]

The deposit balance as of April 2017 amounted to UGX 28.42 billion, loans outstanding to UGX 10.59 billion. The savings surplus amounts to UGX 17.83 billion, which is transmitted to the head office. It is not unusual in rural banking to show a liquidity surplus, paralleled by a liquidity deficit in urban areas. Yet, the huge savings surplus indicates that there is no

[3] Stanbic in Moroto and Kotido and DFCU in Abim catered for the corporate, governmental and INGO sectors, not the bottom-of-the-pyramid.
[4] Based on 30 years of linkage banking experience in Africa and Asia, particularly in South and Southeast Asia.
[5] For a breakdown by branch see Annexes 1.1c and 1.1d.

shortage of loanable funds in Karamoja; rather, within the given framework of interventions, there is a lack of effective credit demand, which would need to be further explored.

Table 2: Outreach of Centenary Bank in Karamoja, April 2017

Customers	16,902		
Savings accounts	15,601		
Loan accounts	2,783		
Microcredit	1,230		
SME >30m UGX	8		
Salary loans	1,544		
In billion UGX:		Mean in UGX	Mean in USD
Deposits	**28.42**	1,821,678	500
Loans outstanding	**10.59**	3,805,246	1,044

The vast majority of the number of loans (89.9%) and amounts outstanding (85.5%) are in microbusiness and salary loans. Agricultural loans account for only 5.5% of the number and 1.4% of the amount of loans outstanding: far below the limit of 20-30% of the portfolio set informally by Centenary for its branches. (Table 3)

Table 3: Loans outstanding of Centenary Bank in Karamoja by loan purpose

Loan purpose	*Number*	Amount *mn UGX*	Mean *UGX*	Mean *USD*
Microbusiness	**1,066**	1,869	1,753,096	**481**
Agriculture	**154**	141.1	916,234	**251**
Housing	88	908.3	10,321,477	2,832
Salary loans	1,436	6,980	4,860,724	1,334
Education	33	27.5	832,303	228
SME	8	140.9	17,612,500	4,832
Leasing	1	94	94,000,000	25,791
Total	2,783	10,346	3,717,571	1,020

The long road toward group credit

2015 marked the start of the roll-out of linkage banking to all branches of Centenary in Uganda, including Karamoja, differentiating sharply between savings linkages and credit linkages:

- Savings and credit linkages with MDIs, MFIs, and big SACCOs
- Savings linkages with VSLAs/SGs, SHGs, and other SACCOs
- VSLA/SG savings outreach: **>10,000**
- VSLA/SG member savings linkages
- VSLA/SG member credit linkages: **an increasing, but not monitored number**
- End-user member outreach: **5.1m** (*Dec. 2016*)

Credit linkages are not available for informal groups. Centenary considers linkages with informal groups a marketing strategy, with a focus on the members of groups. As individuals, they may open savings accounts with the bank and have access to credit.

The roll-out of linkage banking has been a learning process for the bank: nationally and in Karamoja. After the pilot of Centenary in Karamoja, Barclays/CARE, as part of their regional *Banking for Change* program, introduced savings linkages with groups and lending to members in West Nile. Centenary then hired the person who had been in charge of that program in West Nile to roll out linkages country-wide. In the footsteps of Barclays/CARE, Centenary started in June 2015 to introduce its own linkage product in West Nile, an overbanked region where VSLAs had been promoted by NGOs since the early 2000s. This turned out to be a challenging experience. Centenary identified a number of NGOs each of which had promoted >1000 VSLAs. As they had invested in the VSLAs, some felt like owning them and demanded to be compensated in case of linkages; but Centenary was not willing to buy them off. As a next step Centenary brought in sales agents for the linkage program which were not staff of Centenary, but community agents chosen by marketing staff of the bank. They received training and commissions from Centenary to mobilize VSLAs and link them and their members to the bank. Yet, compensations were felt to be too small. Linking being a process, not a one-time contact, the process was not covered by the commission. Also, the agents had no letter of appointment by the bank, they lacked an “ID”. The pilot had had a system with trained staff and a process of maintaining linkages. In the roll-out; this was lacking in the branches: no one was responsible. The policy for commissions had been agreed at the HO, but there was no budget at the branches. In February 2017, the bank finally recognized this, limiting the number of community commissioned sales agents to two per branch, with one bank staff responsible for the sales agents and the linkages. This finally worked.

The remaining challenge has been **linkage as a continual process:** the eventual transition in future from group savings linkages combined with member savings and credit linkages to credit linkages with groups. So far, based on past experience, Centenary has considered credit linkages with individual group members the better alternative. Perhaps Centenary will leapfrog VSLA credit linkages, given two evolving interrelated innovations: VSLAs establishing SACCOs; and SACCOs attracting large numbers of VSLAs as group members (in addition to VSLA individual members). Continual growth of membership might eventually transport some SACCOs into the category of large SACCOs (tier-2), which Centenary considers eligible for group/corporate credit linkages.

3.2 Village Savings and Loan Associations/Savings Groups (VSLAs/SGs)

VSLAs/SGs (tier-4) are by far the largest category of local financial institutions in Karamoja: self-reliant, mostly women-owned informal financial intermediaries, promoted by INGOs as well as LNGOs. These CBFIs/MBFIs have successfully provided their members with facilities to deposit and accumulate their savings and to transform them into small short-term loans and larger annual share-outs. The financial resources generated are used for income smoothing and local income-generating activities, which are closely connected due to the fungibility of money. Attribution problems notwithstanding, this has resulted in somewhat better living conditions, productive resources and moderately higher incomes. Due to upscaling efforts by INGOs, using VSLAs/SGs as a cross-cutting strategy in their various projects, the number of groups and members has been increasing rapidly in Karamoja over the years.

An introduction to VSLAs/SGs

Inspired by the experience of CARE International in Niger in the early 1990s, INGOs have facilitated Village Savings and Loan Associations (VSLAs) in a large number of developing countries, mostly in Africa. As the terminology varies widely, they are generically referred to as Savings Groups (SGs), though the most commonly used term in Karamoja is VSLA. Recorded outreach as reported by VSL-Associates 2015 exceeds 400,000 groups with 10m members in 70 countries; due to a rapid pace of expansion and many unreported replications, the actual number of groups and members might very well be twice that much. Their growth potential seems to be enormous. Geographically facilitation of Savings Groups has concentrated on 40 African countries which account for 87% of the reported outreach. The largest numbers of groups are found in Uganda, Tanzania, Kenya and Rwanda, with around one million members each, followed by Malawi and Ethiopia.

VSLAs, or SGs, have been promoted by INGOs as an improved or upgraded type of traditional savings and credit groups (Roscas and Ascas), with a focus on the poor in remote rural as well as in other areas:

- The Savings Groups are self-reliant savings-led financial intermediaries, mobilizing member savings and allocating them in the form of short-term loans to members according to individual demand; interest-free emergency loans may be obtained from a social fund.
- As the groups incur very low operational cost and virtually no loan losses, earnings from high interest rates on loans generate very high returns on savings, enabling the members to accumulate substantial amounts of resources (or equity, defined by SAVIX, a data bank for SGs,, as savings plus earnings) over the course of a year.

- The groups are highly flexible in that they determine the size of a share according to the economic situation of their members; each member may variably pay in up to five shares at each weekly meeting which in the aggregate constitute the basic loan capital, augmented by earnings.
- Accumulated savings and interest earnings are distributed among the members at a *share-out* according to their share contributions at the end of a cycle, usually one year, after which a new cycle is started.
- The cash flow of a group varies widely over the course of a cycle, starting low at the turn of a cycle, increasing gradually and reaching a peak toward the end of a cycle when all loans are repaid in preparation of the share-out.
- Depending on the demand for loans, there may be a deficit of loanable funds in the group during the first part of a cycle; after the share-out, this is followed by excess funds in the pockets of the members which may not be immediately spent.

There are a number of pervasive concerns among SGs and their members:

1) SGs, particularly in the months before the share out, are concerned about theft or fraud and the safety of the savings kept in the group's box;
2) group members as individuals are similarly concerned about their savings kept in the home after the share-out, before they could be spent on planting, investments or school fees.
3) In addition, there may be a demand among groups and individual members for additional resources, depending on the cash-flow of group funds and the members' economic opportunities.
4) Both demands, for safekeeping of funds and access to additional resources, respectively, can be met by linking SGs to financial service providers such as banks, SACCOs and MNOs.
5) However, linkages have usually not been part of the design of savings group facilitation by INGOs.

The challenge to linkages is three-fold:

1) Linkages with banks/FSPs have mostly not been part of the design and the operational system built into the capacity of participating INGOs, LNGOs, SGs and their members
2) Where INGOs have focused on remote rural areas and the poor, SGs are not immediately seen by banks/FSPs as a business proposition
3) At the same time, digital linkages and mobile banking as new technologies would substantially reduce transaction costs for both FSPs and customers – presumably major field of interventions in the immediate future.

With the spread of mobile phones, the provision of mobile banking services by Centenary Bank and other FSPs including MNOs, and the expansion of POS, mobile money and mobile banking agents, digital linkages are expected to become the most important field of innovation in financial inclusion, particularly in remote areas such as Karamoja.

VSLAs/SGs in Uganda overall and in Karamoja

There is no comprehensive data on VSLAs/SGs in Karamoja. SAVIX[6] is a data bank for SGs; but reporting is haphazard. As of 19/05/2017, the SAVIX reported 24,444 groups with 688,052 members by nine INGOs for Uganda, which is probably less than half the total number existing in the country, and also less than half the known number of VSLA-facilitating INGOs. Eg, ACDI-VOCA and Mercy Corps, two of three facilitating INGOs presented in chapter 4 below, are not among the listed agencies. A breakdown for Karamoja has not been available. (See Annexes 8.1 and 8.2)

Of the three INGOs reported in chapter 4, CARE started facilitating VSLAs in 2006 in Karamoja, with an outreach of 2,700 groups and 68,000 members, predominantly in SUSTAIN and to a moderate extent in the new PROFIRA project. Mercy Corps started in 2010 facilitating VSLAs in the GHG project, reporting an outreach to 283 groups with 6,947 members. ACDI-VOCA started in 2012 facilitating a variety of groups with VSLA-type activities with overlapping identities in the WRANU project, adding up to a gross number of some 3,500 groups with 60,000 members; however, due to overlaps and resulting double counting, the net number of groups is estimated around 1,800 with some 36,000 members. These three organizations alone would thus account for a total of some 4,800

[6] http://www.thesavix.org/

groups with 11,000 members – certainly a fraction of the overall outreach of VSLAs and similar groups in Karamoja. What further undermines any attempt at accuracy (eg, by a random sample or by regular reporting to the SAVIX) is the tendency of groups to either continue operating and possibly expanding after the closure of INGO-supported projects, eg, with the support of village agents turned private service providers (*PSPs, paid for service by the groups*), or to change their identity and submerge in a new project (as reported by ACDI-VOCA in RWANU). Suffice it to conclude that large and increasing numbers of VSLAs and similar facilitated groups with internal financial intermediation activities are being established in Karamoja as a crosscutting strategy of various projects, that this process will continue, and that the potential for group formation is far from being exhausted.

<u>From poorest to richest:</u> Seven VSLAs have been interviewed in the context of this consultancy; details are presented in annexes 4.1-4.7. They cover a wide spectrum, which is best exemplified by the amount of the latest share-out and the number of participating members. In Table 4 below, some key information is provided on three selected VSLAs, ranging from poorest to richest, placing a medium-sized, and more typical, VSLA in the middle. Three metrics related to the latest share-out exemplify the range from poorest to richest:

- Naboko VSLA in Nagapiripirith (Annex 4.3), with a share-out of 250,000 UGX among ten members and an average of **UGX 25,000 (USD 6.86) per member**; record-keeping is done orally.
- Atoinos VSLA in Kotido (Annex 4.6), with a share-out of 12.4m UGX among 35 members and an average of **UGX 354,000 (USD 97) per membe**r; rudimentary bookkeeping is done manually
- Porta VSLA in Moroto (Annex 4.1), with a share-out of 381m UGX among 60 members and an average of **6.35m UGX (USD 1,742) per member**; bookkeeping is done manually, using Excel at share-out.

Table 4: VSLAs – from poorest to richest

	Poorest (Annex 4.3)	*Middle (Annex 4.6)*	*Richest (Annex 4.1)*
Name and place	Naboko, Nagapiripirith	Atoinos, Kotido	Posta, Moroto
Establishment	2014	2014	*2007
Registration	2014, by sub-county	2014	2015 as CBO
		SACCO member, Kotido	
Promoting agency	RWANU/Welthungerhilfe	Mercy Corps	Self-promoted
Start-up assistance	5 goats each, box	Training	None
Members	10	35	60
	100% female, 0% lit	71% female, 23% literate	25% female, 100% literate
Meeting	Weekly	Weekly	Weekly
Share	1,200, irregular payment	5,000	20,000; 3-5 shares/week
Start of cycle	March 2017	Feb. 2017	Feb 2017
Savings	110,000	5m	142m
Profit	0	?	12m
Bank deposits	0	0	24m
Social fund	20,000	0	1.34m
Loans outstanding	Zero loans outstanding	4m (all, rotating)	98m (48 loans)
Loan size	5,000 – 30,000	100,000 - 1.25m	1.5m - 12.0m
Loan terms	1 month, 10% p.m., fixed	Max 3m, 10% flat	2 months, 5% p.m. decl.
Last share-out	250,000	12.4m	381m
Participants	10	35	60
Average UGX	25,000	354,000	6,350,000
Bookkeeping	Oral	Manual, rudimentary	Excel at share-out
Account	None	Lokitelaebu SACCO	Centenary Bank, Moroto

<u>Different approaches for different VSLAs?</u> It appears that the VSLAs around the middle of the distribution (*around and perhaps somewhat below Atoinos*) are probably best served by facilitating NGOs. The special needs, and potential, of those at the far ends might require special attention and a special approach. Eg, Noboko VSLA, together with neighboring Naboka VSLA (Annex 4.2), received five goats per member at the start to enable them to embark on a savings habit, a practice later discontinued as an undue interference with self-reliance. The depth of poverty, in this case, may be indicated by the rate of casual agricultural labor by some members of these two VSLAs, amounting to 1,000 UGX (*USD 0.27*) for a four hour spell of work.

At the other extreme, VSLAs have been observed entering urban and peri-urban markets at markedly higher magnitudes of savings and loans, together with substantially larger investment opportunities of their members. While these are not part of the target group of most interventions, they may present an entry point for banks and

MFIs considering group lending, which would not be feasible for groups with inadequate investment opportunities and effective demand for loans of their members. They also might lend leverage to attempts to create national or regional bodies of representation of VSLAs and coordination of interventions, which are lacking. The question of “different approaches for different VSLAs” would require further investigation, particularly in light of the fact that some INGOs take a broader targeting approach and in their support go beyond savings and credit.

3.3 VSLA-SACCO transformation: an innovation

In its financial inclusion overview, BoU lists 1,795 SACCOS (4%), the largest number next to 41,794 mobile money agents (92%), out of a total of 45,417 access points;[7] 1,275 SACCOs are affiliated with the Uganda Cooperative Savings and Credit Union (UCSCU), a national apex organization. The SACCOs range from a few well performing large institutions like Agaru SACCO in Northern Uganda, with some 30,000 members,[8] to large numbers of dormant institutions many of which have not survived political infiltration[9]: a huge challenge to the credit cooperative movement in Uganda.

Reportedly there are >50 SACCOs in Karamoja; no information is available about the actual active number. The map of access points[10] shows for Karamoja little more than a dozen points, among them four yellow dots for SACCOs. In Moroto District, according to the District commercial officer, four SACCOs are operational, five have collapsed (*see Annex 6.1*). MSC lends to four SACCOs in Karamoja (*see chapter 4.4*). Mercy Corps reports working with four SACCOs, after three out of a total of seven SACCOs had failed (*see chapter 4.2*). We have met two SACCOs (*Annexes 3.1 and 3.2*) and information on four SACCOs promoted by Mercy Corps (including annex 3.2).

Evidently, working with SACCOs is a challenging task. There seem to be three main factors undermining the health of SACCOs:

- Political interference, particularly in the form of politically motivated up-front funding, eg, before elections
- Lack of effective regulation and supervision
- Lack of a computerized MIS, which hinders effective financial reporting in SACCOs which usually have a membership in the hundreds, and more.

VSLAs as founders of SACCOs. Given the destructive impact of political interference, a countervailing strategy would thus be private initiative at the establishment stage, keeping government at bay and politics and politically motivated grants and subsidies out. As political interference and politically motivated upfront funding are (*mostly*) absent in VSLAs, these private organizations may open a way out of the SACCOs’ government interference dilemma.

We have observed an institution building innovation in Karamoja: VSLAs taking the initiative of transforming into a SACCO, thereby establishing a new SACCO which in turn attracts large numbers of VSLAs as well as individual VSLA members.

Lokitelaebu VSLA in Lomudit Village was established in rural Kotido sub-county in 2009, with 30 members, facilitated by Mercy Corps (*Annex 3.2*). The members found a number of attributes of the VSLA model challenging: loans are small, an interest rate of 10% per month is exorbitant, the annual share-out disrupts the course of access to credit for several months and at the same time prevents the continual growth of the loan fund. In 2014 the members therefore decided to transform the VSLA into a SACCO: a local VSLA initiative free of political influence. In 2015 it registered as Lokitelaebu SACCO and joined the Uganda Cooperative Savings and Credit Union (UCSCU), a national apex organization, which provided training to the newly established SACCO. Mercy Corps supported the transformation process, providing a safe, two motorcycles and seed vouchers as well as a computer and a laptop. Bookkeeping is manual on solar-powered computers, using Excel. A request has been submitted to Mercy Corps for a *Community Banking Software* package, an automated MIS, of which Mercy Corps covers the initial cost of UGX 13m; the SACCO covers the maintenance cost.

[7] https://www.bou.or.ug/bou/supervision/Financial_Inclusion/Financial_Inclusion_Overview.html
[8] H. D. Seibel, Agaru SACCO, 11.8.2010; M. Opio Ogal, Agaru SACCO: A beacon for tier 4 institutions, in R. Roberts & R. Ocaya, eds, Agricultural Finance Yearbook 2009, Kampala, BoU/GTZ 2009; FSDU: “prospected by PostBank as a prime linkage banking partner in Northern Uganda” (http://www.fsdu.or.ug/monitoring.htm).
[9] Particularly grants or loans before elections to groups of people sharing the proceeds and disbanding thereafter.
[10] http://www.fspmaps.com/#/Uganda/finance/map@9.31,7.93,z6,dark

Membership grew rapidly, reaching 488 by May 2017, comprising 427 individual members and 61 VSLAs. Of the individual members 25% are female and 15% literate. The 61 VSLAs have a total of 1,525 members of which around 300 are also SACCO members. The board meets quarterly, committees meet monthly, and the member general meeting is annual.

The membership share is set at UGX 5,000; the initial contribution is two shares. The members make individual commitments of a fixed amount of shares per month to which they may add voluntary savings of variable amounts. Share capital is UGX 47.8m, member deposits are 139m, profit of previous year is 17m (31 *May 2017*). Cash on hand is 1.9m; 122 loans outstanding amount to 166m (averaging UGX 1.36m or USD 373), including 44.2m to VSLAs. Maximum loan size is 15m, the maximum loan period is 10 months. The interest rate is 3% per month declining, less than a third of what VSLAs normally charge. Loan appraisal is in the hands of a committee of six.

VSLA-SACCO transformation: an approach promoted by Mercy Corps. All four SACCOs promoted by Mercy Corps under the GHG project in Karamoja follow the approach of either transforming VSLAs directly into SACCOs or incorporating large numbers of VSLAs among the SACCO membership, plus individual SACCO members. The four SACCOs presented in Table 5 have a total membership of 1,373, including 1,168 individual members and 205 corporate members (VSLAs). These VSLAs in turn comprise another 5,420 members, some of which have also become individual SACCO members.

VSLA-SACCO linkages. VSLAs and SACCOs have thus found their own linkage model: linking 205 VSLAs to four SACCOs. Linkages comprise both individual and group savings linkages as well as individual and group credit linkages. Credit linkages of the SACCOs with banks have not yet evolved; this remains an issue for the future once demand becomes strong enough.

Table 5: VSLA-SACCO transformations in GHG under Mercy Corps, 30 April 2017

SACCO	Membership	Individual Accounts	Male	Female	Group Accounts	Male	Female	Total
Thur	459	392	292	100	67	576	1,257	1,833
Lokitelaebu	476	417	295	122	59	422	1,110	1,532
Kitogogong[11]	267	213	133	80	54	348	1,109	1,457
Kawalokol[12]	171	146	96	50	25	239	359	598
TOTAL:	**1,373**	**1,168**	816	352	**205**	1,585	3,835	5,420

VSLAs, a magic bullet for SACCOs? The Daily Monitor (May 14, 2015) suggests that VSLAs may be a magic bullet for Saccos (*Box 1*). We have only one suggestion to add: leave the private sector to the private sector, ie, private VSLAs to private NGOs, and keep the government out, except when it comes to regulation and supervision.

Box 1: VSLAs, a magic bullet for Saccos?

Saccos where formed because of government cash and hence many did not have strong member bonds and institutional structures to hold the Saccos during economic shocks. This would explain the reasons for the majority collapse of Saccos. The magic bullet for Saccos would be the following:

• To continue supporting strong Saccos, especially with technical assistance and provision of management information systems.
• To promote self-help groups (SHGs) countrywide. SHGs in form of village savings and loan associations, rotating savings and credit associations, etc., operate in a rudimentary form across the country but with high success rate since members are usually from the same village and the groups are based on mutual trust.
• Government role in promoting SHGs should be majorly to provide technical assistance in form of training to organise these groups into meaningful social business structures.

[11] Kitogogong SACCO graduated from Kitogogong Women's VSLA that started in Feb 2007 in Entebbe Ward, Kotido town with 30 members. In Dec 2008, after sharing out UGX 4m, they decided to form a SACCO. The rationale was to continue with a pool savings after share-out. In Feb 2011 the SACCO registered officially and in July 2013 launched its office in Kotido town. (Fredrick Mpaata fmpaata@mercycorps.org)

[12] Kawalakol Community SACCO started in 2013 as a result of a recovery process by former members in Kapedo SACCO in Kaabong district who had lost their deposits after its collapse in 2009. The SACCO started with 42 members with support from Mercy Corps, each member contributing UGX 10,000 as a membership fee for 2 shares and UGX 10,000 as a minimum savings balance. It officially registered as SACCO in 2014. (Fredrick Mpaata fmpaata@mercycorps.org)

• The government should have very limited injection of funds into these groups as cash injections will erode the potential and zeal of the groups to effectively mobilise their own savings.
• The SHGs should be encouraged to evolve into Saccos over significant period of time. When this is done, the SHGs with significant experience of challenges and success will have strong members' bonds and institutional structures capable of delivering sustainable Saccos.
• With Saccos as catalyst to poverty eradication; production and marketing should be the core activities for Saccos and SHG members.
• The SHGs should have management structures that should be strengthened in the technical assistance programme of government, especially training them on elementary book keeping, debt management, savings mobilisation, well-structured criteria for loan appraisal, disbursement, loan tracking and recovery.
http://www.monitor.co.ug/OpEd/Commentary/Here-is-the-magic-bullet-for-Saccos-in-Uganda/689364-2715566-10q329uz/index.html

4. Spotlight on interventions in Karamoja

4.1 CARE International

CARE began promoting VSLAs in Uganda in 2006, with an outreach as of 2017 of >40,000 VSLAs and 900,000 members. In 2009 CARE started linkage banking projects with Barclays, PostBank, Bank of Africa and Opportunity Bank as well as Centenary Bank. Barclays Bank was the initiator and strongest banking partner. By 2010 >2,450 VSLAs had been savings-linked (2010) and 670 VSLAs had been credit-linked.[13] All participating banks except Centenary were involved in both savings and credit linkages. Centenary was initially the most promising banking partner, but was only willing to savings-link with groups, confining credit linkages to individual group members. However, the project, with not uncommon conceptual stubbornness, had designed group products and was not willing to accept individual linkages. In 2014 CARE entered into an agreement with Barclays to promote digital linkages, comprising mobile wallets and overdrafts; mobile credit is under preparation.

In 2006, the same year as in Uganda, CARE also began facilitating VSLAs in Karamoja. With the exception of Profira, a new project with IFAD, CARE focused in previous projects with DfiD in Karamoja on establishing VSLAs; a concern for linkages only came with the ongoing Profira project. Total outreach of CARE's interventions 2006-Apr 2017 is 1,108 VSLAs with 29,278 members (67% female). Without the ongoing Profira, total outreach is 898 groups with 23,394 members (66% female). (See Table 6; Annexes 2.1a, 2.1b)

Table 6: VSLA outreach of CARE in Karamoja, 2006–Apr 2017

Project	*Groups*	*Members*	*Female*
SUSTAIN1	*244*	*5,884*	*3,340*
SUSTAIN1	*394*	*10,348*	*8,041*
CAST	*260*	*7,162*	*4,063*
PROFIRA	*210*	*5,884*	*4,167*
Total	***1,108***	***29,278***	***19,611***
		Percent female:	*67.0*

In the ongoing Project for Financial Inclusion in Rural Areas (Profira), 2016-2019, supported by IFAD, a national project in four regions, CARE partners in Karamoja with Karamoja Private Sector Development Promotion Centre (KPSD). The target as of 2019 is 1,000 VSLAs to be established, with 300 bank savings linkages and 35 bank credit linkages. CARE focuses on the mobilization of groups by community agents which, after a year of training, graduate to Private Service Providers (PSPs) paid-for-service by the groups.

KPSD is in charge of capacity building, supporting the formation of clusters with 5-9 mature groups. Clusters are specialized on financial activities, production, or marketing, either separately or in cooperation between clusters (eg, one cluster producing in cooperation with another one marketing). Within a cluster, CARE establishes new groups.

Bank linkages are promoted nationally with a focus on both savings and credit. In Karamoja KPSD is placed as a facilitator at Centenary, in partnership with Southeastern Private Sector Promotion Ltd.,

[13] A performance report by Barclays or CARE on credit linkages would be most welcome.

the national service provider for promoting linkages in Profira. KPSD builds capacity and identifies groups to be linked. As of May 2017, 18 groups are under training. Trained groups will be handed over to Centenary for group savings linkages, potentially combined with credit linkages of individual members.

Linkage partner options include Centenary Bank, PostBank (*in the process of opening a branch in Moroto*), and MSC which looks favorably at group credit linkages (see chapter 4.4, Annex 2.4). Partnership decisions are said to be left to the groups.

Future linkage options will include digital linkages in conjunction with agent banking, particularly in remote areas. Ledger Link, developed by Barclays with CARE (*Banking on Change*), has taken off in West Nile implemented by West Nile Private Sector Development Company (WNPSD); roll-out in Karamoja is expected in July 2017.

Coordination and collaboration are "a very big problem" according to CARE. International and national NGOs in Karamoja compete with each other. Practices like "grants into the box" of VSLAs undermine their self-reliance. Many NGOs "capture and mess up our groups and leave after a year." In 2016 CARE made an attempt at informal coordination among INGOs in Karamoja with a mapping survey; the report is under preparation. At national level, CARE is a member of the Self-help Group Subcommittee established in 2014, with 30 members, which is part of the Microfinance Forum (*2006) under the Ministry of Finance.[14] The subcommittee aims at informal information exchange, coordination and harmonization of approaches to VSLAs and similar types of SHGs. Perhaps an SHG subcommittee could be established in Karamoja, with coordinated donor support?

4.2 Mercy Corps

Mercy Corps began facilitating VSLAs in Karamoja in 2010. From 2012 to May 2017 Mercy Corps was implementing partner of the USAID-funded Growth, Health, and Governance Program (GHG) in Northern Karamoja, in partnership with World Vision, Abim Women's Organisation (AWOTID), Kaabong Peace for Development Agency (KAPDA) and Feinstein International Centre (FIC)/Tufts University.

The approach was one of market facilitation. Mercy Corps started with seven SACCOs, three of which failed[15]. In a first step, the capacity of the SACCOs was strengthened through training by UCSCU in governance, credit management, business development and VSLA methodology[16], as a marketing strategy to attract new members. VSLAs and individual VSLA members may become SACCO members, save in the SACCO and have access to credit: wholesale to the VSLAs or individually to VSLA members.

Core membership of the four SACCOs by the end of the program was 1,373: 1,168 individuals and 205 groups (*see Table 5*). In addition to conventional VSLAs Mercy Corps also promoted Sharia VSLAs and Mother Care Groups+, ie, VSLAs with a purpose. In total the number of VSLAs registered with the four SACCOs was 283 VSLAs with 6,947 members (Table 7).

Table 7: Achievement of VSLA-SACCO linkages in GHG, 2012-2017

Type of VSLA	*Groups*	*Members*	*% female*
VSLAs	205	5,470	70
Sharia VSLAs	5	79	94
MCG+, VSLAs with-a-purpose	73	1,398	100
Total	**283**	**6,947**	**76**

MCG = Mother Care Groups

[14] The subcommittee is chaired by Henry Mutabazi, Financial Inclusion Specialist at CARE (hmutabazi@care.org).

[15] It might be that the three failed SACCOs fell victim to what has been a contagious SACCO disease in Uganda: "The formation of these Saccos have been more of supply driven than demands from Sacco members, as government went throughout the country campaigning for Sacco formation with heavy injection of funds. So many Saccos were formed countrywide as a result of the cash bait from politicians with severe loss of basic principles and values of cooperatives" (http://www.monitor.co.ug/OpEd/Commentary/Here-is-the-magic-bullet-for-Saccos-in-Uganda/689364-2715566-10q329uz/index.html), though the failure of these three Saccos deserves further investigation.

[16] Training SACCO managers to establish new VSLAs and linking them to the SACCOs.

Computerization and bank credit linkages. Two of the SACCOs have been computerized, and an MIS has been installed, namely in THUR SACCO in Abim District and Kitogogong SACCO in Kotido (see Table 5); these SACCOs are also MTN master agents. Mercy Corps has signed an MOU with Equity Bank Uganda, examining the feasibility of wholesale lending to the SACCOs.

Toward mobile money agents and digital linkages. 2016 has marked the transition from a transactional to a financial mobile money platform. Under GHG Mercy Corps has supported >200 mobile money points. This includes SACCOs as Master agents earning commissions directly from MTN and sub-agents such as SMEs and small shops, in future also VSLAs. Digital linkages may eventually be the outcome.

4.3 ACDI-VOCA

Resilience through Wealth, Agriculture and Nutrition (RWANU) (2012–July 2017) is designed to reduce food insecurity among vulnerable people in 16 sub-counties in the districts of Amudat, Moroto, Napak, and Nakapiripirith of South Karamoja. The project is funded by USAID's Office of Food for Peace. Implementing partners are ACDI-VOCA, Concern, and Welthungerhilfe.

VSLA approach: Existing groups were mobilized or new groups formed by PSPs and trained by ACDI-VOCA in the VSLA approach as a cross-cutting strategy, using CARE manuals and employing experienced staff trained by CARE and others in previous projects. The provision of start-up capital, practiced by some organizations in the area, was found to undermine self-reliance and sustainability and was stopped, replaced by internal financial intermediation based on own savings and lending.

VSLAs: members engaged in individual business activities or formed groups with related activities such as bulking centers and collective farming (*10 acre bloc farming*). With VSLA savings and loans and ACDI-VOCA facilitation inputs, they opened individual agro-input shops which were linked to agro-input suppliers. Individual farmers or block-farming groups received seed vouchers from ACDI-VOCA (with an own contribution of 30%) to access inputs from the shops.

Linkage banking was initiated with Centenary Bank in the form of savings linkages of either groups or group members or credit linkages of individual group members. Group credit linkages of VSLAs have generally been precluded by Centenary. However, six mature bulking groups reportedly have been able to borrow from Centenary.

Achievements in terms of groups mobilized or formed as of April 2017 comprise the following:

- >1000 farmers groups (averaging 25 members)
- >1000 women's livestock groups (10-15 members)
- >1000 mother care groups (MCG+, 10-15 members)
- 35 apiary groups (averaging 20 members).

Due to overlapping and multiple memberships, total achievement amounts to an estimated net 1,800 groups with 36,000 members,

Sustainability is assured through internal VSLA savings and credit activities combined with business and thorough training and guidance by PSPs on the basis of fee-for-service. As an exit strategy groups are encouraged to register with District Local Government to benefit from training.

4.4 Microfinance Support Centre (MSC), Moroto Zonal Office

MSC is a government-owned company under the MOFPED; it is not supervised by BoU. Its mandate is the provision of affordable credit to communities. Its approach is forming and training groups and linking them to MSC with repeat loans. (See Annex 2.5)

MSC provides group loans to VSLAs and SACCOs, and individual loans to registered SMEs (*Table 8*). Capacity building for VSLAs is provided by Mercy Corps. In May 2017 Islamic banking has been officially launched, with TA and FA by the Islamic Development Bank; sharia-compliant financial services are not yet operational.[17] Mobile accounts are under consideration. As of April 2017 MSC has 27 loans outstanding to VSLAs, four to SACCOs and ten to SMEs (Table 8).[18]

[17] MSC would be well advised to profit from five years of Islamic banking experience of Somali Microfinance Institution and the support provided by Mercy Corps in the USAID funded PRIME project in Ethiopia.
[18] At this outreach, MSC is unlikely to undermine CBFIs/SGs or disrupt market linkages.

Loan terms: Loan periods to VSLA are three months, to SACCO 3-6 months, and to SMEs up to 36 months. Interest rates p.a. are 13% for VSLAs; 9% to SACCOs for agricultural loans and 13% for on-lending loans to members; and 17% for MSEs. Performance information is not available.

Table 8: Credit record of MSC Karamoja, April 2017

Karamoja	*VSLAs*	*SACCOs*	*SMEs*		*Total*
Active loans outstanding	27	4	10		41
Amount disbursed					2.26 bn
Amount outstanding					1.24 bn
Arrears (recent)					20 m
	No other data available				

5. Recommendations

Savings Groups/VSLAs facilitated by various INGOs have evolved in recent years as the grassroots basis of the financial infrastructure in Karamoja, paralleling similar developments in other parts of Uganda and in other African countries. They suffer from a lack of coordinating structures and cooperation among a multitude of promoting agencies; lack of communication, coordination and continuity of support have been identified as major challenges, disrupting many groups. Their potential in development can only be fully utilized by international and national agencies as well as financial service providers as future linkage partners if supporting agencies cooperate and data is made available. This is a critical issue for SGs/VSLAs, which are informal and have no national, regional or local body of representation. Based on a rapid assessment of the situation in Karamoja, we submit the following recommendations:

Recommendation 1:
Promote a sustainable SG/VSLA support infrastructure

(1) Support a regional secretariat of NGOs and other stakeholders in Karamoja for coordination & collaboration, representation, reporting on SGs/VSLAs and resource acquisition
(2) Assist the regional secretariat in organizing Private Service Providers (PSPs) in networks as promoters and auditors of SGs/VSLAs
(3) Assist the regional secretariat together with the PSP networks in organizing SGs/VSLAs in district associations and promoting transformations into SACCOs as seen fit
(4) Examine the feasibility, and support as seen fit, the establishment of a national secretariat of NGOs for coordination & collaboration on SGs/VSLAs, with regional affiliates including the secretariat in Karamoja; the national secretariat may build on the SHG Subcommittee of the Microfinance Forum (*Chairperson: Henry Mutabazi, CARE*) domiciled at the MoFPED

Note:

For donors, a regional secretariat, the establishment of PSP networks and the organization of SGs/VSLAs in district associations are three sustainability-cum-upscaling exit strategies, beyond the lifetime of local projects of limited scale and duration. The establishment of a regional secretariat requires coordinated support by international agencies with a long-term development agenda. The establishment of PSP networks and SG/VSLA associations requires coordinated action by NGOs.

Recommendation 2:
Support reporting on SGs/VSLAs by the SAVIX

(1) Support an SG/VSLA mapping campaign in Karamoja
(2) Facilitate quarterly reporting on VSLAs to the SAVIX
(3) Add an optional simplified format alternative (number of groups and members, amount of last share-out and number of recipients)
(4) Make data available to promoting agencies, banks, MFIs and MNOs, if feasible through a regional secretariat of NGOs in Karamoja as proposed.

Note:

The SAVIX (http://www.thesavix.org/) is a data bank of SGs/VSLAs with international outreach which in Uganda covers about 25,000 groups with 700,000 members, which I estimate is less than half their actual outreach. In Karamoja, where the importance of SGs/VSLAs relative to other financial institutions is far more pronounced than in the more developed regions of Uganda, the coverage of the SAVIX is very low; it is only IFAD/PROFIRA which has recently started reporting to the SAVIX.

Hugh Allen (hugh@vsla.net), founder and manager of the SAVIX, has just prepared a new SAVIX MIS Mobile application, which builds on the SAVIX MIS 9.5 (both attached). Hugh Allen is "interested in getting involved, especially since (he is] currently on a contract with PROFIRA nationally but with presence in Karamoja". This is a promising opportunity for the SGs/VSLAs in Karamoja, as for the KRSU.

Recommendation 3:
Support linkage banking options with caution

(1) Examine the feasibility of linkages of SGs/VSLAs with banks/MFIs vs SACCOs in Karamoja, based on a pilot project and subsequent interventions by Centenary Bank and on the experience of Mercy Corps/UCSCU with SG/VSLA-SACCO linkages and transformations, an innovation
(2) Examine the feasibility of savings vs credit linkages of SGs/VSLAs with banks, taking into account the limited market opportunities and effective demand for external credit of most SG/VSLA members (international donors beware!)
(3) As an alternative to group credit, examine the feasibility of savings as well as credit linkages of selected individual SG/VSLA members with good investment and marketing opportunities and their need for assistance, eg, in skill and microenterprise training and supply chain marketing
(4) Examine the emerging feasibility of incipient digital linkages through mobile banking/mobile money agents and design strategies of support for financial service providers (banks, MFIs, MNOs), facilitating NGOs and SGs/VSLAs in Karamoja

Note:

Centenary is the largest financial inclusion bank in Uganda. Its financial inclusion strategy comprises linkage banking, initially tested in Karamoja 2013-14 and rolled out nationwide in 2015, mobile banking, and, in 2013, the opening of branches in Moroto and Kotido as an institutional framework for the integration of the linkage pilot in its banking operations. Centenary considers linkages with informal groups a marketing strategy, with a focus on the members who may open savings accounts and have access to credit. The remaining challenge is the eventual transition in future from group savings linkages together with member savings and credit linkages to group credit linkages. Other banks and MFIs moving into Karamoja, with linkage plans take note!

Recommendation 4:
Monitor and support SG/VSLA-SACCO transformations, an innovation in Karamoja

(1) Facilitate private SG/VSLA initiatives and mergers to establish SACCOs owned and managed by SGs/VSLAs and their members
(2) Promote SG/VSLA membership in SACCOs initiated by SGs/VSLAs

Note – SACCOs in Uganda, close them or reform them:

*Any intervention with SACCOs in Uganda has to take into account an overall history of failure, a small number of success stories notwithstanding. The failures have been due to three major factors: m*assive political interference, particularly up-front funding and grants by the government before elections; a lack of effective regulation and supervision by BoU; and a lack of MIS and financial reporting. Interventions of SACCOs and VSLA-SACCO transformations require supporting strategies: keeping the government at bay; emphasizing self-organization and private partnerships; staying away from cheap credit, subsidies, grants and credit guarantees; bringing SACCOs under BoU as supervising agency; strengthening UCSCU and its regional associations with effective auditing functions; facilitating access to MIS on PC (*Community Banking Software); c*losing non-performing SACCOs.