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Poverty eradication and wealth creation: The role and challenges of savings and credit cooperatives (SACCOs) in Uganda

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In the last decades, Uganda has been aligning her poverty reduction and wealth creation strategies with the global goals in the Millennium Development Goals (MDGs) and, of late, the Sustainable Development Goals (SDGs). These have been mainstreamed through the annual plans, the National Development Plan (NDP) and Vision 2040. Through these, Uganda has planned to be a modernised economy by 2040. Many poverty reduction and wealth creation programmes have been in place, especially under the National Resistance Movement (NRM) government, but despite a significant reduction of the incidence of poverty from 31.1% in 2006, 19.7% in 2013 to 21.4% (8 million) in 2018, the poverty figure is still a cause of great concern to many politicians and policymakers. It is common knowledge that Savings and Credit Cooperatives (SACCOs) have been used by the NRM government since its launch in 2005 to fight poverty. Through interviews with 19 respondents and document analysis, it has been established that SACCOs have contributed to poverty and wealth creation in many ways: Through the provision of employment, imparting skills to the members, and enabling access to loans, among others, all of which have helped households to improve their welfare. However, it has also been established that these SACCOs have faced several challenges, emanating from governance and management and other environmental issues. It is recommended that, with the renewed commitment of the government to increase the scope of SACCOs to fight poverty and create wealth, these challenges be addressed and government also show more commitment to ensure that SACCOs' activities are explicitly discussed and included in annual budgets.

Key words: SACCOs, poverty, wealth, development, Uganda.

INTRODUCTION

Poverty reduction *per se* is on the international agenda and explicitly expressed through the first goal of the Sustainable Development Goals (SDGs). The background to this is that, despite halving the population

of the world living in extreme poverty by 2015 as targeted through the Millennium Development Goals (MDGs) in 2000, at the launch of the SDGs, about 800 million people were still surviving on less than \$ 1.25 per day

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(United Nations Development Programme, UNDP, 2016). Reducing this number remains a daunting challenge to all governments. The entire world has recommitted itself to building on what they learnt from the MDGs and to eradicating poverty in all its forms by 2030.

UNDP is one of the leading international organisations partnering with other agencies to ensure that poverty is eradicated by 2030. The 2019 Human Development Report focuses on examining and understanding the dimensions of inequality that has the most impact on people's well-being, and what is behind them. The report goes beyond the dominant discourse focused on income disparities to considering inequalities in other dimensions such as education, health, access to technologies, and exposure to economic and climate-related shocks (UNDP, 2019). In all societies, the report indicates that long-standing forms of inequality persist while gaps are emerging in new aspects of life. Inequality is a measure of poverty in societies. Uganda is one of the 193 countries that have recommitted themselves to ensuring that poverty is entirely eradicated among its citizens by 2030.

Over the years and under the National Resistance Movement (NRM)¹ government, Uganda has had programmes to address poverty. The first such comprehensive programme was the Poverty Alleviation Action Plan (PEAP), which was initiated in 1997. It had four distinct pillars and was aimed at transforming Uganda into a modern economy in which people in all sectors would effectively participate in economic growth by 2017 (Government of Uganda [GoU], 2000). Its preparation followed a consultative process involving the central government and other key stakeholders. Alongside this, there have also been other planning formworks, such as Uganda Vision 2025, now 2040, the National Development Plans (NDPs) I, II and III (GoU, 2010; GoU, 2015). Others include Sector Investment Plans (SIPs), Local Government Plans (LGPs), and annual work plans and budgets that have significant components of poverty alleviation activities and programmes (GoU, 2015). All these are designed to fulfil Vision 2040, which aims to modernise Uganda by engaging in sustainable wealth creation, which directly addresses the challenges of poverty. Specific programmes that have been implemented to alleviate poverty and create wealth are SACCOS (Savings and Credit Cooperatives), the Youth Capital Venture Fund (YCVF), the Youth Livelihoods Programmes (YLP), Uganda Women Entrepreneurship Programme (UWEP) and Operation Wealth Creation (OWC) (Luwemba, 2019). For example, UGX 265 billion (USD 72 million) was provided by the Government of Uganda to run YLP in 112 districts for five years – 2013/2014-2017/2018. Since the inception of OWC, a total of 119,857 youths (55% male and 55% female) have directly received technical and

financial support for 9,438 projects worth UGX 68.4 billion (USD 18+ million). Under OWC, some youth leaders were given heifers as start-up capital. A war-ravaged region such as northern Uganda had a special programme – the Peace, Recovery and Development Plan (PRDP), which was launched in 2007. The strategy is not only a comprehensive response to immediate post-conflict challenges, but also to bridge the persistent development gap between the northern and the southern parts of the country. PRDP has been implemented in this region alongside Northern Uganda Social Action Fund (NUSAF), a community-driven development initiative meant to guide development in this region. Besides the aforementioned interventions, other reforms, such as the shift to constitutional democracy, including the promulgation of a new constitution in 1995 (amended in 2005), decentralisation and the devolution of administrative, political and financial powers to local governments, the reinstatement of a multiparty dispensation, and the creation of new districts have all set the stage for participation and local ownership of issues and solutions to developmental challenges in Uganda. All these were meant to create a socio-economic and political environment conducive to wealth creation and poverty reduction.

Problem description

As observed above, the Government of Uganda has initiated several attempts to alleviate poverty in the last three decades, with some significant reduction in the poverty level. In Uganda, the causes of poverty have widely been known to primarily include a slowdown in agricultural growth due to climatic change, declines in farmers' prices reflecting world market conditions, insecurity, a high population growth rate and morbidity related to HIV/AIDS, malaria and now COVID-19 Pandemic (GoU, 2000). From the second half of the 1980s when the NRM government came to power, the Ugandan economy moved from recovery to growth based on short to medium-term planning when the country implemented a number of economic policies, including the Structural Adjustment Programmes (SAPs), the Economic Recovery Programme (ERP) and the Poverty Eradication Action Plan (PEAP), with specific strategies such as SACCOS, YLF, etc. Consequently, by the early 2000s, GDP growth was sustained at an average of 6.4% (GoU, 2015). Because of the economic reforms, for the next 10 years, the economy grew at an average of 7.0% per year, and the proportion of Ugandans living below the national poverty line declined from 31.1% in 2006 to 19.7% in 2013 (UBOS, 2018). However, the proportion of people living in poverty now stands at 8 million and over 80% of these are based in the rural areas and are engaged in peasant agriculture. In percentage terms, that means 21.4% (8 million) of Ugandans are living in absolute poverty (GoU, 2015; UBOS, 2018) and this is a

¹ The ruling political party in Uganda that has been in power since 1986, under the leadership of President Yoweri Museveni.

significant proportion of the population. This is the concern of many stakeholders. Yet in Vision 2040, the government intends to transform Uganda into a modern and prosperous country and this aspiration is expected to change the country from a predominantly low-income to a competitive upper middle-income country with an annual per capita income of USD 9,500 (GoU, 2015). Unfortunately, the per capita income by 2020 still stood at USD 757, in sharp contrast to the predicted 1,039 by 2020 when Uganda is projected to have become a middle-income country (UNDP, 2018). This prediction has not been realised due to, amongst others, the outbreak of COVID-19 pandemic, the locust's invasions and unusual climatic change experienced in the first half of 2020. The question that keeps on lingering in the minds of politicians and policymakers is: How can this aspiration of Ugandans expressed through Vision 2040 be achieved within the timeframe? It is in the search for a better option to confront this question that many options are being explored – to alleviate poverty and create wealth among Ugandans.

Accordingly, the cardinal aim of the paper is to explore how SACCOs (Savings and Credit Cooperatives) can be used as a strategy to contribute to development and indeed boost the income of beneficiaries. The author thus explored the role of SACCOs in poverty alleviation and what challenges SACCOs is facing which are inhibiting their optimum operations in the fight against poverty and to create wealth.

Conceptual issues

SACCOs are common in the world over. Many European countries simply call them credit unions, while others refer to them as popular or people's banks or *Cajas*, with the last being the common term in Latin America (Tumwine et al., 2015). A SACCO is a democratic, member-owned, self-help financial organisation whose goal is to mobilise savings for members and provide them with the opportunity to access the loans on a competitive basis. It is an organisation for people who live in the same community and have a common purpose in life, e.g. agriculture, business etc. Membership of a cooperative is open to all in the community without any discrimination. Members elect their board and committee members, who govern them guided by the policies, practices, philosophy, fundamental principles and values of the cooperative movement (Abebe, 2016). For example, a loan policy stipulates lending guidelines and identifies the preferred loan qualities and establishes procedures for granting, documenting and reviewing loans (Tumwine et al., 2015). SACCOs were invented in South Germany as early as 1846, and spread to the rest of Europe and Australia by 1885 and, later, to the Americas. By the 1970s when the invention was widespread, it worked like magic; people worked hard and the savings and credit society proved successful

(Conning and Udry, 2007). It is because of this success that many developing countries, including Uganda, are trying to reinvent the wheel, hoping that it will still resolve their quest for poverty eradication and wealth creation.

The definition of poverty is dependent on the context of application. The World Bank, for example, defines poverty in absolute terms. In its definition, extreme poverty is living on less than USD 1.90 per day, basing on purchasing power parity (PPP). To the bank, moderate poverty is living on less than USD 3.30 per day.² The United Nations (UN), on the other hand, defines poverty in non-monetary terms as a denial of choices and opportunities, a violation of human dignity.

It means lack of basic capacity to participate effectively in society. It means not having enough to feed and clothe a family, not having a school or clinic to go to; not having the land on which to grow one's food or a job to earn one's living, not having access to credit. It means insecurity, powerlessness and exclusion of individuals, households and communities. It means susceptibility to violence, and it often implies living on marginal or fragile environments, without access to clean water or sanitation (World Bank, 1999).

Coudel et al. (2002) subsequently added other non-monetary dimensions of poverty, such as low self-esteem and insufficient outcomes with respect to health and nutrition.

Wealth creation in Uganda is a concept used to describe interventions intended to create a system that facilitates effective national socio-economic transformation with a focus on raising household incomes for poverty eradication and sustainable development.³ It is undertaken through various approaches and involves the roles of the various stakeholders. Many countries apply the concept in a similar manner.

Theoretical underpinning of SACCOs in poverty eradication and wealth creation

SACCOs can be understood through a cocktail of theories

Theory of financial intermediation: Many commentators have agreed that SACCOs significantly play the role of financial intermediation. The work of Schumpeter (1934), Goldsmith (1969), McKinnon (1973) and Shaw (1973) all strongly emphasis, the role of financial intermediation in economic growth. They all contend that efficient financial intermediation contributes to economic growth by channeling savings to high productive activities and reducing liquidity risks. In this regard, economic growth can't be achieved without

²The World Bank Group. <https://www.worldbank.org>. Retrieved August 26 2019

³<http://operationwealthcreation.org/about.html>. Retrieved on October 23 2019

poverty reduction, which is the purpose of the research.

Neoclassical growth theory: Neoclassical growth theorists such as Harrod-Dommar and Robert Solow contend that savings mobilisation is not an end in itself, but it simultaneously plays an important role in sustaining growth and development in an economy. They contend that through savings, there will be capital accumulation leading to investments, hence economic growth and ultimate development. A high-saving economy accumulates assets faster, and thus grows faster, than does a low-saving economy (Lipsey and Chrystal, 1995). According to this theory, therefore, SACCOs can provide an avenue for saving, capital accumulation and investments that foster economic development in a developing economy such as Uganda and thus reduce poverty.

Agency theory: SACCOs are run on the basis of agency theory (Panda and Leepsa, 2017), in which there is a complex relationship between agents and principals. In this case, the principals are the members and the agents are the managers and the board, who are tasked to perform on behalf of the members to achieve the set goal. The incentives for the agent are the delegated authority and status among the members. The idea of the relationship is to align the interest of members of both parties with the business goal, which is giving money to the hands of members that could therefore be used to access services/goods, hence contributing to poverty reductions in households. The members are interested in the accumulation of their capital, and managers who have a surplus of ideas effectively use it for the growth of the business. Since the owners of capital who are the members have neither the requisite expertise nor time to effectively run their SACCOs, they hand them over to the managers for control and day-to-day operation, hence the separation of ownership from control (Torgerson Randall et al., 1997). Cooperatives show that democratic governance within the firm can contribute significantly to the socio-economic well-being of members (Altman, 2009).

Marketing theory: SACCOs capture a large share of industry earning for membership but, additionally, contribute to market or industry efficiency. SACCOs, specifically farmers-based ones, are formed so as to market the members' produce in order to benefit from economies of scale. SACCOs, especially those that deal in marketing, guard the members against the product type, quality and price. The exploitation of markets for the cooperative produce guarantees the survival of a cooperative. The cooperative provides a good marketing channel and an instant payment system to farmers, which payment is instrumental to enhance other forms of investments that may directly or indirectly lead to the fight

against poverty. It, for instance enables farmers to buy inputs and other needed resources on time (Tewari, 2011).

Experiences of SACCOS in other contexts

Many empirical studies have established that SACCOs make a significant contribution to the economic development in countries where they are being implemented. Muyombano and Mbabazize (2016:178/9) found that the Umwalimu Teachers of SACCO had a significant impact on socio-economic development. They found that it is "...contributing to teacher retention, effective curriculum instruction in school and is a causing multiplier effect in the community through business interactions and joint ventures with the community". Despite this positive contribution, the study found that the culture of saving among members was low and, also, that there were gaps that could hinder the effective engagement in entrepreneurship initiatives. However, what is commendable about this initiative is the fact that having teachers' SACCOs is a very impressive innovation that can significantly supplement their meager income, which is known to be low in many developing countries. A study of 35 Umurenge of SACCOs in Rwanda by Karekezi and Butera (2018) still underscore the importance of SACCOs in development. This study also established that there was a strong positive relationship between credit risk management and the loan performance of Umurenge SACCOs ($r=0.704$, $p=0.000$). The same study also reveals that credit risk management influences loan performance ($R^2=0.548$). This suggests that for SACCO members to reap from their savings there must be consistent adherence to credit risk management portfolio.

Odhiambo (2018) undertook a study of 32 SACCOs in Nakuru town in Kenya to investigate the determinants of financial performance. One key finding was that SACCOs enhance economic growth and development by making funds available to members that enable them to engage in viable business ventures. However, he found that for economic growth and development to be reaped fully, there is need for good employment management practices, since he found that there is a strong correlation between management practices and financial performance.

Table 1 shows that though not much impact was detected in both dividends paid and loan deviation, management practices impacted positively on the expenditure. Committees, elsewhere, are a significant policy organ and provide oversight on activities that go on in the SACCOs. It is not the committees *per se* that matters, but the quality and the extent to which they are guided by the laws; and policies of the SACCOs are equally important. Other good financial management practices are proper loan appraisals, timely reminders

Table 1. Regression coefficient estimates for the effect of employment management practices on financial performance; dividend paid (%), loan deviation (%) and expenditure deviation (%) in sample SACCOS (n=32) within Nakuru town, Kenya.

Employment management practices	Dividend paid (%)	Loan deviation from actual applied (%)	Expenditure deviation from budgeted estimate (%)
Constant	2.75 ± 1.01	27.08 ± 4.44	15.43 ± 6.40
SACCO have employment committee	0.58 ± 2.93	-0.63 ± 12.96	35.79 ± 18.68*
Advertisements made when vacancies arise	3.44 ± 2.62	-10.83 ± 11.56	15.90 ± 16.67
Committee always employ the best candidate	-1.60 ± 2.93	-0.04 ± 12.96	-3.39 ± 18.68
Model p value	0.458	0.551	0.293
F value	0.91	0.715	1.303
Adjusted R square	0.011	0.028	0.029

* P<0.1; ** P<0.05; ***0.001.

Source: Odiambo, 2018.

about repayments by loan beneficiaries and timely follow-up on loan defaulters (Mitei et al., 2016). Odiambo (2018), found that there was a positive and statistically significant correlation between the membership size and financial performance in terms of dividends ($r= 0.564$; $p<0.001$). This should not be surprising as there is power in numbers, a fact well known to military generals.

In a study by Mitei et al. (2016) which covered 39 SACCOS in Baringo in Kenya, they acknowledged that SACCOS play a critical role in economic development by facilitating funds to segments of low-income earners who cannot meet the required standards of commercial banks. However, they came up with findings that are crucial for emerging and existent SACCOS – on social, economic and terms of payments.

In Table 2, the regression coefficients indicate that the relationship between social factors such as age, education and gender and loan repayment is negative and insignificant. This is surprising, because one would imagine that age, as the saying goes “contributes to wisdom” would contribute to some discipline in financial

management. Education, no doubt, should lead one to financially manage in a more informed and equally disciplined manner. No wonder, other studies, such as that by Aghion and Morduch (2005) and Arminger et al. (1997) found that social factors determine loan repayment, though the statistical details are not known. As noted above, the economic factors, such as other sources of income of a member, have a standardised beta coefficient of -0.266 ($\beta_2=-0.266$, $P<0.05$), suggesting that a unit increase in economic factors leads to 0.266 units increase in loan repayment because a member can repay a loan from the multiple available sources of income. The effect is significant and implies that economic factors determine loan default. In addition, the multiple regression results indicate that terms of loan factors such as loan size, loan use and the repayment period have a standardised beta coefficient of 0.419 ($\beta_3=0.419$, $P<0.05$), implying that a unit increase in terms of the loan factors leads to 0.419 units increase in loan repayment. Indeed, loan repayment terms, economic and social factors are essential for

SACCOS that strive to contribute to the economic empowerment of members and to contribute to national development.

In a study by Magali (2013) on 37 rural SACCOS in Morogoro in Tanzania, the key conclusion was that 73.5% of the members ($P<0.01$) realised improvement of their households on education, health, physical assets, crop yields and business capital. In fact, the paired t-test found a significance differences on the changes of income, yield, business capital and number of meals of rural SACCOS' borrowers before and after taking loans as shown in Table 3. Indeed, it would have been better if the test was carried out on essential social services such as education, health and other physical assets. Besides, future studies could perhaps proceed to measure the improvement in non-tangible assets such as the level of happiness or contentment since these are critical measures of well-being. In many cases, people may have a significance crisis.

In a cross-sectional study that interviewed 780 gain in physical assets, yet are psychologically in

Table 2. Model summary.

Model	R	R Square	Adjusted R square	Std. error of the estimate		
1	0.582 ^a	0.339	0.327	2.17184		
a. Predictors: (Constant), terms of the loan, social factors and economic factors						
Coefficients ^a						
Model	Unstandardised B	Coefficients Std. error	Standardised coefficient Beta	T	Sig.	
1 Constant	4.085	1.314		3.110	0.002	
Social factors	-0.107	0.085	-0.083	-1.265	0.208	
Economic factors	0.29	0.058	0.266	3.790	0.000	
Terms of the loan	0.221	0.037	6.028	6.028	0.000	

a. Dependent variable: Loan repayment, $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \epsilon$.
 Source: Mitei et al. (2016).

Table 3. Paired T-test coefficients.

Paired variable	Paired difference							
	Mean	Std. Deviation	Standard error mean	99% Confidence Interval of the difference		T	df	Sig. (2-tailed)
				Lower	Upper			
Pair 1 Income before and after receiving loan	-755986	1299740	81713.8	-968073	-543900	-9.252	254	0.000
Pair 2 Yield before and yield after loan (kg)	-1695.27	3076.16	234.56	-2306.26	-1084.28	-7.228	171	0.000
Pair 3 Business capital before and after loan (TSh)	-1165690	1970460	149811	-1555910	-775478	-7.781	173	0.000
Pair 4 Number of meals before and after loan	-1.01	0.66	0.06	-1.16	-0.87	-17.93	134	0.000

Source: Magali (2013).

clients of Amanah Ikhtiar Malaysia (AIM), a microfinance institution in Selanyor and Melaka states, the finding of multinomial logistic regression reveals that there is a positive impact on household income of members who spent three years in the scheme compared to new members who have not received funds (Sayed et al., 2015). The microfinance institution operates on Islamic principles and targets only women. It is not clear to what extent religion and gender factors played in this finding.

METHODS

This is a purely descriptive and qualitative study. It was based on document analysis and interviews of 19 master’s students who are knowledgeable about SACCOs and were offering a course leading to a degree in Social Sector Planning and Management at Makerere University, where the author is in the faculty. The class had 29 students (2019/2020 intake) but screening was first done to identify students using three questions: 1) Those who are in a SACCO or who have ever been in a SACCO; 2) Those who are resident in a community where there is a SACCO or SACCOs and they know how it/they operate(s); and 3)

Those who don’t belong to either 1 or 2. In the end, 10 students were screened out because they belonged to neither category one nor two. The 19 students were, therefore, subjected to in-depth interviews basically focusing on two guiding questions: the role of SACCOs in Uganda in poverty alleviation, and the challenges being faced. They come from the different regions of Uganda (7 from Central, 5 from Western, 4 Eastern and 3 Northern) so their views are considered to be nationally representative. There were 11 females and 8 men. To ensure anonymity, they were given codes – female (F1 – 11) and male (M1 - 8) - after arranging their names in alphabetical order. Documents were also analysed.

Thematic and content analyses were used to derive meanings that then constituted the findings on the said questions. This is a descriptive investigative study that is intended to prepare the ground for a future mixed method approach that would blend in the quantitative component that will look into the relationships among SACCOs variables.

FINDINGS

SACCOs in Uganda: Contribution to poverty eradication and wealth creation

The World Bank has commended Uganda for having the fastest rate of poverty reduction in sub-Saharan African countries, with the population living on \$1.90 PPP (purchasing power parity) per day or less dropping from 53.2% in 2006 to 19.7% in 2013 (UBOS, 2017). However, there is fear that, with the current aforementioned and other development challenges, if nothing more is done; the Vision 2040 aspiration may not be achieved. SACCOs have been one of the strategies for poverty reduction. In Uganda today, it is recognised that the rapid expansion of SACCOs has played a significant role in fighting poverty. SACCOs are entities registered under the Uganda Cooperative Statute of 1991 and the Cooperative Societies Regulations of 1992 and the minimum number of members required to register a SACCO is 30 people. In 2005, the Government of Uganda introduced the “prosperity for all” programme, also commonly known locally as *Bonabagaggawale*. Its major objective was to extend financial inclusion through the creation of SACCOs, especially in rural areas (Lutaaya, 2017). The programme was intended to have one SACCO per sub-county to channel both agricultural and commercial loans to potential borrowers at below-the-market rates. The government has greatly subsidised the funding of new SACCOs all over the country. Newly established SACCOs are now required to apply for a start-up grant from a government-owned apex institution, known as the Micro Finance Support Centre (MSC). This MSC plays many roles: giving out interest-free loans or other subsidised loans to the SACCOs; giving operational support to the SACCOs; or paying rent and salaries for new SACCOs for the first two years of the start-up (State House, 2007). Interviews yielded the following as some of the key products of SACCOs in Uganda: deposits/saving products; non-withdrawal savings; withdrawable savings; holiday savings; Christmas savings; school fees savings; retirements savings; and investments savings. Others are fixed deposit savings; funeral savings; and benevolent savings.

Access to credit from non-bank financial institutions varies across the country, with it being highest in western Uganda, standing at 14%, followed by central Uganda at 5%, and northern Uganda at 3% (UBOS, 2014). Most of these financial institutions are SACCOs. SACCOs have,

in particular, contributed to the fight against poverty and the creation of wealth as examined below.

For access to borrowing and small loans of one respondent (F1) stated:

SACCOs have developed the agricultural value chain in Uganda by facilitating access to safe borrowing. Most SACCOs in Uganda lend money to members at an interest rate as low as 3%. In western Uganda, cattle keepers have utilised SACCOs services and these have increased their production of milk and beef, which they sell to meet their family household needs.

SACCOs have been found to advance small loans, from USD 50-100, to every poor person, especially women, for starting or augmenting business in the hope of increasing profit. One respondent (F5) cited the scope of loans in their area thus:

For example, Mukono and Kayunga Teachers SACCO Ltd provide a loan to teachers at a 2% interest. One of the major barriers to escaping from poverty and its crippling effect is the lack of access to credit. So, a safe and available small loan is believed to bring significant improvement in the lives of the poor by increasing their productive capacity.

Some of the big loans are used to acquire assets such as tractors, ox ploughs and milking machines (Nuwagaba, 2012; USAID, 2006).

Another respondent (M4) argued that “lack of adequate access to credit for the poor has a negative consequence for various household-level incomes, including technology adoption, profitability, food security and nutrition and overall welfare of the family members”. This finding is similar to that of Mitei et al. (2016) in Kenya, when they acknowledged that SACCOs play a critical role in economic development by facilitating funds to segments of low-income earners who cannot meet the required standards of commercial banks.

Flexible loans portfolio

Most respondents indicated that the loans available to members serve different purposes in the fight against poverty and in wealth creation. This flexibility allows members to invest where they have a comparative advantage. One respondent (F6) succinctly summarised this thus: “The loans can serve different purposes: The loan can be used for purchasing agricultural inputs, investing in any type of crops, value addition or gaining access to the market”. In line with this, another respondent (M1) added that the loan can be used for capital development, such as acquiring fencing materials for farmland, for dam construction or to acquire assets like tractors, ox-ploughs and a milking machine. Such capital development and assets are critical for generating

short-term and long-term benefits that are critical for creating wealth and improving livelihoods. This is confirmed by another respondent (F11), who opined that such assets can "...generate income that can support livelihood needs, including food purchases, insurance and emergency health care." The flexible loans portfolio, therefore, ensures that services to the poor are blended with service to a broader spectrum of the local population. Magali's study (2013) in Morogoro in Tanzania similarly concluded that 73.5% of the members ($P < 0.01$) realised improvement in education, health, physical assets, crop yields and business capital in their households.

Employment opportunities

Many respondents agreed that SACCOs are a source of employment to both the rural and urban dwellers. They also agreed that the small- and medium-scale enterprises associated with SACCOs come with employment opportunities. One respondent (M3) observed:

Many rural micro-projects such as restaurants, taxis, salons, handicrafts, shops and kiosks have been started by loans taken from SACCOs and these have provided employment to the individual and family members. Through these investments, they have been able to build low-cost housing units, buy essential household items and afford to put their children through the school system.

Some SACCOs members, however, have been known to waste their funds on social conventions such as lavish funeral rites, parties and weddings, and thus leading to the collapse of their businesses. However, generally, it is documented that SACCOs are a great source of economic empowerment (Muzigiti and Schmidt, 2013).

Risk pooling and management

Many respondents agreed that SACCOs in the country act as a medium for risk pooling. They agreed that in the rural areas SACCOs are particularly used to organise vulnerable people to access social and economic benefits that would otherwise be impossible to achieve individually. Socially, it has been ascertained that SACCOs protect individuals by providing funeral and insurance protection, protecting consumers from adulterated commodities, and taking other social actions, such as care of the aged, children and the handicapped. Economically, SACCOs make the production and consumption of credit available to members who would otherwise not benefit from them if they acted alone. Investigations of the effect of risk pooling show that groups exploit scope and scale of economies of risk through the intergroup pooling of risky assets. Risks can also be spread by investing savings through various

sectors of business. Diversification also allows SACCOs to allocate assets and bear risks more efficiently. One respondent (M8) summed it up this way: "SACCOs do risk screening, risk monitoring and risk evaluation. It is more efficient for institutions to screen investment opportunity on behalf of individuals than for all individuals to screen the risk." Proper risk pooling and management have a direct bearing on the investment output, which directly tackles issues of poverty and vulnerability at both household and community levels. This finding is consistent with that of Muyombano and Mbabazize (2016:178/9), who also established that there was a strong positive relationship between credit risk management and the loan performance of Umurenge SACCOs in Rwanda ($r = 0.704$, $p = 0.000$).

Skills and capacity of members

The training given to SACCOs members, especially at the onset of gaining membership, is important for skills development. Training is also intended to help members avoid bad debts. This training, coupled with the SACCOs governance mechanism, increases business knowledge and how to prioritise the members' investments (Muzigiti and Schmidt, 2013).

Promotion of a saving culture

The interview established that belonging to a SACCO helped the poor save up and invests in their future as well as withstand emergency needs for cash without depleting their assets. Increased saving is noted to increase capital accumulation, and this directly contributes to poverty alleviation and wealth creation. One respondent (M1) confirmed that by saying, "Once given a savings account, women invest a huge percentage of their money in their businesses than women who are not account holders." It is for this reason that USAID SACCOs support targets the promotion of saving mobilisation in Uganda (USAID, 2006; Ssengendo, 2016).

Economic empowerment benefits

Generally, belonging to a SACCO is found to economically empower members and this, in turn, enhances the growth potential of members' enterprises and incomes (Muzigiti and Schmidt, 2013). The level of savings is an important determinant of the overall level of investment in an economy, and this is directly linked to growth at both household and national levels.

Financial sustainability

Financial sustainability enables SACCOs to cover their

operating and financial costs from internally generated revenue (interests and commissions). SACCOs with high repayment rates are also noted to be financially sustainable. SACCOs with financial sustainability and viable outreach have a greater likelihood of having a positive impact on poverty (Ssengendo, 2016).

Public awareness and information dissemination

SACCOs have been known to conduct some mobilisation campaigns to enable non-members to join so as to help them fight poverty. They have also been known to disseminate information to members on how to invest, manage and market their investments.

Regarding this, one respondent (F7) said:

“Wazalendo SACCO carries out public awareness on numerous channels of communication like local radios, television in Uganda.” There is evidence that such appropriate messages have helped members productively run their enterprises and use the proceeds for meeting their basic needs.

This finding is consistent with that of Yacob et al. (2018), who found that imparting adequate knowledge about the cooperative to the cooperative's members is very important in making members trust the society. Although this study was generally about cooperatives, the same principle applies to SACCOs.

Much as it has been acknowledged that SACCOs in Uganda play a role in the poverty reduction arena, commentators agree that they would do better if the existent challenges were removed. The following are the key challenges they are noted to be facing today.

Poor management and governance structure

It has been observed that among the many challenges, the poor governance system and structures have, to a large extent, made many SACCOs unable to meet the expectations of members in terms of access to financial services (AMFIU (Association of Microfinance Institutions in Uganda), 2005). As respondent F2 reported:

Despite the fact that they have attracted much attention in both the political and development circles due to their big numbers, very few have developed strong governance and management structures good enough to benefit their entire membership.

Relatedly, another respondent (F5) concurred with this view:

Despite their vitality in helping the poor to meet their essential needs, some SACCOs lack effective financial and administrative systems to manage potential frauds and proper credit delivery systems. Consequently, there are high risks of default and mismanagement of funds

and this has caused some SACCOs to collapse, for example KIDEA SACCOs in Kikuube district and Najembe SACCOs in Lugazi.

Alut Kot SACCO in Oyam district, was reported to have loaned out UGX 841,000,000 (USD 230,00+) from 2002, but had recovered only 26% of the amount by 2010 (Okwee, 2011). Corruption has been reported within some SACCOs where some board members reportedly collude with loans supervisors to advance themselves loans which they later claim they were unable to collect and are written off. It was also reported that “Kiryansaka SACCO in Masaka obtained a capacity-building grant from government but was diverted to purchase land that was fraudulently registered in the name of the SACCO treasurer” (F2).

Lack of competent human resources

Inadequately skilled personal and management with insufficient experience to run microfinance operations were found to be a common challenge across many SACCOs (USAID, 2006). For example, it was reported (F1) that Kaiffe Brokers SACCO in Kamuli was dormant for eight years following the death of their charismatic founder and sole vision bearer. The SACCO reportedly eventually collapsed due to loss of morale among members and lack of direction.

Political influence

One respondent (M6) observed that though SACCOs present the best potential means to reach the poor households in the remotest locations, “...they seem to be more susceptible to manipulation by politicians and local elites eager for votes and influence.” Some politicians think that the funds are actually donations from the government. For example, “...in Amuria district about five years ago, the RDC borrowed from Asamuk SACCO and was not willing to refund because of the false perception that these are government funds⁴.”

Limited financial involvement on agricultural activities

It was found that most SACCOs are not keen to finance agricultural activities especially production, yet agriculture is the major informal employment sector in Uganda today. Most of the SACCOs are found to lack the right products and policies for agricultural financing and only try to do so on an *ad hoc* basis and, moreover, they focus on the trade component. This is evidence of poor

⁴ Resident District Commissioners are district political appointees, appointed by the President in exercise of powers conferred on him by Articles 99 and 203 of the 1995 Constitution of the Republic of Uganda

sensitization of members. Most SACCOs also decry the insufficient support and lack of extension services to the agricultural sector as the main demotivators in this sector. These are partly attributed to the ineptness from government, evidence of poor governance and regulation of the cooperatives (AMFIU, 2005).

Technical capacity at the district level

The commercial officers at the districts are supposed to guide SACCOs and recommend them for registration to the Registrar of Cooperatives at the national level. Unfortunately, in most cases "...the capacity of the Commercial Officers in this regard is lacking and as a result a number of SACCOs have been rendered inactive or have died out altogether" (M4). It has been discovered that the Commercial Officers are among the least facilitated in the districts, and this greatly cripples their capacity to collect and manage information on SACCOs, supervise them and strengthen them to diligently serve their members. This lack of technical support sometimes leads to members getting loans without due diligence being done, resulting in inability to pay back the loans (USAID, 2006).

Location and outreach

One of the challenges with SACCOs in Uganda is that most are urban-based. In the rural areas, which have the bulk of the population, the outreach is poor owing to poor methods of communication and the sparse population that render membership costly. In rural areas, the transport costs are a barrier to movement by the poor and, in most cases; the free time available may coincide with the operating hours for their other side business. For example, it was reported (M2) that the managers of Kashongi and EBO SACCOs, which are predominantly in the cattle areas in western Uganda with a sparse population, always find it difficult to coordinate the members.

Land ownership

It was learnt that some of the SACCOs members who access loans are not the bona fide owners of the land on which they are practising agriculture; they are squatters (Ssengendo, 2016). They may come up with feasible ideas when applying for loans for agricultural purposes, only to be prematurely stopped by the landowners during the implementation process.

Gender bias

Discouragement of the vast majority of women from

taking loans through creating strict entry requirement for them, through very prohibitive collateral requirements has been reporting amongst some cooperatives. Because of this, some have suggested the use of inclusive group lending methodology as a practice to ensure gender balance in the sector (Muzigiti and Schmidt, 2013).

DISCUSSION

National investment in SACCOs for development is not misplaced. The investment has led to members benefits through: access to borrowing, employment opportunities, risk pooling and management, skills and capacity development. Others are economic empowerment, financial sustainability and public awareness and information dissemination. Uganda's SACCOs are all operating within the theoretical framework commonly applied in the sub-sector: theories of financial intermediation (Schumpeter, 1934; Goldsmith, 1969); the neoclassical growth theory (Lipsey and Chrystal, 1995), agency theory (Panda and Leepsa, 2017) and marketing theory (Altman, 2009). SACCOs fit within Uganda's NDP III goal of improving household incomes and quality of life (NDP III, 2019). The NDP II was designed to usher Uganda into middle-income status with a per capita income of USD 1,039 by 2020, but this has not happened as the income by 2020 stood at only USD 757. It is projected that the target set in NDP II will be reached by 2025 (Oketch, 2019). Accordingly, in the 2019/2020 financial year, the President of Uganda announced that his government would support the creation of SACCOs across the country as part of the wealth creation effort to fight poverty. The President's announcement is premised on the fact that interventions through SACCOs channels savings to productive activities that contributes to economic growth and also lead to capital accumulation, thus agreeing with the key tenets espoused in the theory of financial intermediation (Schumpeter, 1934; Goldsmith, 1969) and Neoclassical theory of growth (Lipsey and Chrystal, 1995) respectively. He said that this time around the SACCOs would target the elected leaders of local governments, who to him are not paid well. To this effect, he promised to give youth councillors UGX 3.42 billion (USD 950,000+) as capital for their individual projects, and UGX 10 million to each of the 342 councillors he met. He assured them thus: "I have the money, but I want a better way of how to help the youth. I want to support all youth in their SACCOs" (Kiirya, 2019). Other categories targeted for inclusion under this State House support includes *boda boda* (motorcycle) riders, women entrepreneurs, carpenters, salons, taxi operators and restaurant associations (*New Vision*, 2019a:16).

Others he mentioned are: welders, market vendors, produce dealers, mechanics, tailors, fishermen, artistes and visual artists. He emphasised that focusing on talent and sector specific SACCOs under the poverty

eradication scheme would be better than the previous and existing ones that were numerous and not covering specific geographical areas (*Daily Monitor*, 15 Thursday August, 2019:4).

However, commentators are skeptical that these new SACCOs will not lead to any meaningful poverty eradication but would simply be a waste of taxpayers' money. They assert that previous efforts in poverty reduction similarly failed, including the previous SACCOs, for many reasons (*Daily Monitor*, Thursday 15 August, 2019). First, they argue that many of the groups to be funded are not registered associations, but rather operate as individuals. So, it is most probable that they will only come together for the purpose of attracting the funds, and once the funds are provided, they will share out the money and dissolve the groups. Second, there is no money in the current budget, according to the Ministry of Finance, to fund this presidential initiative. This has also been worsened in the 2020/2021 financial year already dogged by many challenges- COVID-19 pandemic, locust's invasion and extreme weather condition that has resulted in flooding in many parts of the country.

This means that the SACCOs activities will not be funded, but if at all they are, this might translate into drawing the funds from the budgets allocated to other soft sectors, such as education, health, water and sanitation, thus crippling social investments in those sectors, with the result that the very essence of poverty alleviation will be defeated. This reallocation of budgets, to cater for emergencies or to address emerging unplanned political agenda, contradicts Section 13(6) of the Public Finance Management Act, 2015, which provides that the budget should be consistent with the NDP, the Charter of Fiscal Responsibility (CFR) and the National Budget Framework (Oketch, 2019:21). This inconsistency in the budgeting with respect to national plans was experienced in NDPI and II. Third, like in the previous SACCOs and other poverty alleviation programmes, such as YLP, there are no eligibility criteria for membership, so money can be sunk into these new SACCOs sector but without any positive outcomes.

If the government plans to see success in implementing this phase of SACCOs, it should also not lose sight of cross-cutting issues and the associated complexities that affect human welfare, household earning patterns and overall social development. Why not give similar priority to issues of fighting HIV/AIDS and corruption, which are persistently a great liability to the economy? Why not address the challenges of environmental and climatic variability that are increasingly making investment in agriculture very risky? What is the potential for the markets locally, regionally and internationally?

The emphasis on a wider market base would enable farmers' produce benefit from economies of scale, and insure members against product type, quality and price, all pertinent issues critically raised in the Marketing theory (Tewari, 2011). It would also be advisable that, in

the face of limited resources for funding the public service and the fight against poverty in particular, the government could adopt the Bangladesh model of development. For example, it is reported (*New Vision*, 2019b:17) that Bangladesh's economy grew at a rate of above 7% over the last five years with a GDP per capita of \$1,827 (June, 2019) largely because of the role of the private sector in the economy, and key among them in this regard is BRAC. What Uganda could learn from this is that poverty reduction can be private sector-led, with the government focusing on the legal framework, the regulatory framework and infrastructure development.

The extant challenges facing the current SACCOs should be addressed if they are to bear fruit in the fight against poverty. Issues to do with governance and management, the capacity of members, limited finances for agriculture, gender bias and political influence need to be addressed. Governance and management – which consist of managers and board members of SACCOs are primarily responsible for information dissemination, mobilisation and accountability.

Agency theory (Panda and Leepsa, 2017) stipulates that these two agents work on behalf of members and should therefore be prioritised for reform. However, it should be appreciated that the challenges being faced by the SACCOs in Uganda are not unique to Uganda. The socio-economic factors have in particular been cited with regard to Kenyan SACCOs (Mitei et al., 2016).. What Ugandan SACCOs stakeholders can capitalise on are three critical areas since they represent opportunities for engaging SACCOs more in the process of poverty alleviation and wealth creation. First, at 21.4% (8 million), the number of people living in absolute poverty is still high. This provides a huge investment opportunity to the government and other stakeholders to transform this invaluable human asset into agents of fighting poverty. Second, the SACCOs and non-members should take advantage of the government's current commitment to empower SACCOs as a strategy for fostering sustainable growth and eliminating poverty. Third, the global commitment to the eradication of poverty as expressed through the SDG 1 is another added impetus. Uganda should continue to closely align its annual plans, NDP and Vision with this global goal and its targets and indicators. For a new pandemic such as COVID-19, Uganda needs to unequivocally invest in research and innovations to critically determine how it is affecting poverty eradication and specifically its impact on cooperatives so that evidence-based interventions are undertaken de novo.

The greatest limitation of the study is that it relied only on the qualitative approach, thus missing out on the quantitative data that could have best illuminated certain pertinent aspects of the study by use of regression and correlational analyses, and applying a wide range of variables as in other previous studies (Magali, 2013; Mitei et al., 2016; Odhiambo, 2018). Future studies in this

direction could attempt to overcome this limitation. However, the study met its set objectives.

Conclusion

SACCOs are playing a significant role in empowering members by making financial resources and services available to them. In this way, households and communities are alleviating poverty and improving their welfare. Though faced by a myriad of challenges, they still have opportunities for contributing to national development through poverty alleviation and wealth creation.

Recommendations

The following are some key recommendations that, if implemented, could help improve the SACCOs sector and enable them to be on course in the process of poverty alleviation.

- 1) The SACCOs themselves should build their internal capacity, especially of the managers and the board to address the managerial and administrative challenges. The government, in particular, should ensure that all SACCOs leadership is trained in some basic leadership and financial management skills before accessing funds.
- 2) All SACCOs leadership should follow the adage: "An informed customer makes for a better bottom line". Clients or members should regularly be taught about good money management practices in connection with aspects such as earning, spending, saving and borrowing. All these help to improve on the profits and returns to members.
- 3) SACCOs should adopt the microfinance discipline of maintaining minimal loan loss and being accountable at all levels.
- 4) SACCOs should take advantage of the current government and global commitments in the fight against poverty and embrace all initiatives geared towards bringing them on board the government should increase commitment to the cause of SACCOs by ensuring that SACCOs services comprehensively cover all areas of the country, including the sparsely populated areas. The commitment should also be seen in the government's annual budgeting for SACCOs funding, but not to be handling its financing in an *ad hoc* or knee-jerk manner.
- 5) As a strategy to mobilise the poor to fight poverty, the government should initiate sound dissemination of SACCOs opportunities through the mass media, and in the local languages. Doing this helps communities to be knowledgeable about SACCOs opportunities and benefits, and they can be encouraged to form groups and access SACCOs services in their communities. Through this dissemination, the purpose of SACCOs should be made clear, to prevent political interference and

manipulation, in particular.

6) The government could also liberalise the SACCOs sector, like in the case of BRAC of Bangladesh. This could bring in competition that will lead to high-quality services and also the possibility of extending the geographical coverage, while the government focuses on major infrastructural investments that support poverty alleviation.

7) Government should invest in cross-cutting development sectors/services and research and innovations in a gender sensitive manner, to confront new development challenges such as the COVID-19 pandemic. In this regard, membership eligibility criteria should be made clear, to avoid the repeat of past failures of some of the SACCOs.

CONFLICT OF INTERESTS

The author has not declared any conflict of interests.

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